



USAID | **UKRAINE**
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE

UKRAINE & MOLDOVA



THIRTEENTH QUARTERLY REPORT – UKRAINE

FIFTH QUARTERLY REPORT - MOLDOVA

October 1, 2007 – December 31, 2007

February 1, 2008

This report was produced for review by the United Agency for International Development. It was prepared by the USAID Access to Credit Initiative implemented by The Pragma Corporation.

ACCESS TO CREDIT INITIATIVE
UKRAINE & MOLDOVA

THIRTEENTH QUARTERLY REPORT - UKRAINE

October 1, 2007 – December 31, 2007

Contract Number: 121-C-00-04-00713

CTO USAID/Ukraine: Rick Gurley
Project Manager: Mohammad Fatoorechie
Chief of Party: David Lucterhand

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

TABLE OF CONTENTS

UKRAINE (Thirteenth Quarterly)	7
A. PROJECT OVERVIEW - Ukraine	1
I. PROJECT DESCRIPTION – Executive Summary Ukraine	1
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Executive Summary Ukraine	1
III. PROJECT EXECUTIVE SUMMARY – Executive Summary Ukraine	2
IV. PROJECT STAFFING – Executive Summary Ukraine	8
V. ADMINISTRATIVE ISSUES – Executive Summary Ukraine	8
B. MORTGAGE - Ukraine	10
I. COMPONENT DESCRIPTION – Mortgage Ukraine	10
II. SIGNIFICANT EVENTS – Mortgage Ukraine	10
III. EXECUTIVE SUMMARY – Mortgage Ukraine	11
IV. ADMINISTRATIVE ISSUES – Mortgage Ukraine	13
V. DESCRIPTION AND STATUS OF TASKS – Mortgage Ukraine	13
C. FIXED INCOME - Ukraine	18
I. COMPONENT DESCRIPTION – Fixed Income Ukraine	18
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Fixed Income Ukraine	18
III. EXECUTIVE SUMMARY – Fixed Income Ukraine	18
IV. ADMINISTRATIVE ISSUES – Fixed Income Ukraine	20
V. DESCRIPTION AND STATUS OF TASKS – Fixed Income Ukraine	20
D. MUNICIPAL – Ukraine	23
I. COMPONENT DESCRIPTION – Municipal Ukraine	23
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Municipal Ukraine	23
III. EXECUTIVE SUMMARY – Municipal Ukraine	24
IV. ADMINISTRATIVE ISSUES – Municipal Ukraine	25
V. DESCRIPTION AND STATUS OF TASKS – Municipal Ukraine	26
E. LEASING - Ukraine	28
I. COMPONENT DESCRIPTION – Leasing Ukraine	28
II. SIGNIFICANT EVENTS – Leasing Ukraine	28
III. EXECUTIVE SUMMARY – Leasing Ukraine	29
IV. ADMINISTRATIVE ISSUES – Leasing Ukraine	30
V. DESCRIPTION AND STATUS OF TASKS – Leasing Ukraine	31
F. CREDIT BUREAU/CREDIT RATING AGENCY - Ukraine	33
I. COMPONENT DESCRIPTION - Credit Bureau Ukraine	33
II. SIGNIFICANT EVENTS - Credit Bureau Ukraine	33
III. EXECUTIVE SUMMARY – Credit Bureau Ukraine	34
IV. COMPONENT DESCRIPTION - Credit Rating Ukraine	35
V. SIGNIFICANT EVENTS - Credit Rating Ukraine	36
VI. EXECUTIVE SUMMARY - Credit Rating Ukraine	36
VII. ADMINISTRATIVE MATTERS – CB/CR Ukraine	38
VIII. DESCRIPTION AND STATUS OF TASKS – CB/CR Ukraine	38
G. GENDER - Ukraine	43
I. COMPONENT DESCRIPTION – Gender Ukraine	43
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Gender Ukraine	43
III. EXECUTIVE SUMMARY – Gender Ukraine	44
IV. ADMINISTRATIVE ISSUES – Gender Ukraine	44
V. DESCRIPTION AND STATUS OF TASKS – Gender Ukraine	44
MOLDOVA (Fifth Quarterly)	47

A. PROJECT OVERVIEW - Moldova	47
I. PROJECT DESCRIPTION – Executive Summary Moldova	47
II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – Executive Summary Moldova	49
III. PROJECT EXECUTIVE SUMMARY – Executive Summary Moldova	50
IV. PROJECT STAFFING – Executive Summary Moldova	54
V. ADMINISTRATIVE ISSUES – Executive Summary Moldova	55
B. MORTGAGE LENDING - Moldova	57
I. COMPONENT DESCRIPTION – Mortgage Lending Moldova	57
II. SIGNIFICANT EVENTS – Mortgage Lending Moldova	57
III. EXECUTIVE SUMMARY – Mortgage Lending Moldova	58
IV. ADMINISTRATIVE ISSUES – Mortgage Lending Moldova	60
V. DESCRIPTION AND STATUS OF TASKS (RELEVANT TO WORK PLAN THIS QUARTER) – Mortgage Lending Moldova	60
C. FINANCIAL LEASING - Moldova	69
I. COMPONENT DESCRIPTION – Financial Leasing Moldova	69
II. SIGNIFICANT EVENTS – Financial Leasing Moldova	69
III. EXECUTIVE SUMMARY – Financial Leasing Moldova	70
IV. ADMINISTRATIVE ISSUES – Financial Leasing Moldova	72
V. DESCRIPTION AND STATUS OF TASKS – Financial Leasing Moldova	72
D. FIXED INCOME	77
I. COMPONENT DESCRIPTION – Fixed Income Moldova	77
II. SIGNIFICANT EVENTS – Fixed Income Moldova	77
III. EXECUTIVE SUMMARY – Fixed Income Moldova	77
IV. ADMINISTRATIVE ISSUES – Fixed Income Moldova	81
V. DESCRIPTION AND STATUS OF TASKS – Fixed Income Moldova	81
E. DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING - Moldova	86
I. COMPONENT DESCRIPTION – DCA Monitoring Moldova	86
II. SIGNIFICANT EVENTS – DCA Monitoring Moldova	86
III. EXECUTIVE SUMMARY – DCA Monitoring Moldova	86
IV. ADMINISTRATIVE ISSUES – DCA Monitoring Moldova	87
V. DESCRIPTION AND STATUS OF TASKS – DCA Monitoring Moldova	87

TABLE OF ATTACHMENTS

Attachments – Ukraine

- ATTACHMENT 1:** ATCI / SSMSC workshop “Mortgage Covered Bonds: Responsibilities of Auditors and Bond Managers” on November 27, 2007: Agenda
- ATTACHMENT 2:** Raiffeisen Bank Aval round table “The market of mortgage lending: world events and the impact in Ukraine” on October 18, 2007
- ATTACHMENT 3:** ATCI / World Bank response to the Ministry of Finance
- ATTACHMENT 4:** ATCI / WB Reform Plan
- ATTACHMENT 5:** MOF Concept Note
- ATTACHMENT 6:** OECD Debt Management Forum in Amsterdam, December 11-13, 2007 – Agenda, Registration Form
- ATTACHMENT 7:** ATCI MFF presentation to the Ministry of Economy
- ATTACHMENT 8:** Success story Lugansk
- ATTACHMENT 9:** Success story Berdyansk
- ATTACHMENT 10:** Plan for the Leasing Manual
- ATTACHMENT 11:** 2nd All-Russian Conference on Credit Risks, October 10-13, 2007, Agenda

Attachments – Moldova

- ATTACHMENT 1:** Access to Credit Initiative/Moldova (2nd Year) Work Plan, Updated as of December 31, 2007
- ATTACHMENT 2:** CML Training Reports Course 1, Program II
- ATTACHMENT 3:** CML Training Reports Course 2, Program II
- ATTACHMENT 4:** CML Training Reports Course 3, Program II
- ATTACHMENT 5:** Impact Statements, Comments Course 1, Program II, CML Training
- ATTACHMENT 6:** Impact Statements, Comments Course 2, Program II, CML Training
- ATTACHMENT 7:** Report on Proposed CML Training
- ATTACHMENT 8:** Floating Charge Presentation
- ATTACHMENT 9:** Leasing Problems and Possible Solutions
- ATTACHMENT 10:** Agenda Bond Conference
- ATTACHMENT 11:** Report on ATCI Moldova Bond Conference
- ATTACHMENT 12:** Embassy Letter of Recommended Provisions for Amendments to Securities Market Law
- ATTACHMENT 13:** FAQ Brochure on Fixed Income
- ATTACHMENT 14:** ATCI Moldova PowerPoint, October 2007
- ATTACHMENT 15:** Steve Moody's Report, October 22-26
- ATTACHMENT 16:** FAQ Brochure re: Floating Charge
- ATTACHMENT 17:** Legal Climate for Companies Coming to Moldova
- ATTACHMENT 18:** General Assessment on TN Law on Mortgage
- ATTACHMENT 19:** Opinions of Legal Team on Regulating Capabilities of the NCFM
- ATTACHMENT 20:** Letter of Appreciation to ATCI/Moldova from Chairman Cibotaru

UKRAINE (Thirteenth Quarterly)

A. PROJECT OVERVIEW - Ukraine

I. PROJECT DESCRIPTION – EXECUTIVE SUMMARY UKRAINE

ATCI is tasked with developing the primary and secondary mortgage market with its associated infrastructure; increased capacity for the leasing industry including the development of certified leasing professionals; the ability for municipalities and utilities to use debt instruments to modernize vital infrastructure, and a credit bureau to facilitate the growth of credit for mortgages and other retail lending. While the credit bureau/credit rating component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation. The preliminary work plan was presented and accepted by USAID in November 2004. In October 2006, the ATCI contract was amended to include development of fixed-income operations in Ukraine. Additionally, ATCI activities were expanded to include Moldova.

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

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

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

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – EXECUTIVE SUMMARY UKRAINE

- ANNUAL RATE OF INFLATION REACHES 16.6%
- PROGRAMATIC TECHNICAL ASSISTANCE PARTNERSHIP (PTAP) INITIATED WITH WORLD BANK
- COP BRIEFS NEW OEG OFFICE DIRECTOR SARAH WINES ON PROJECT RESULTS AND PLANNED ACTIVITIES
- MOF PRESENTS CONCEPT NOTE FOR DEBT MANAGEMENT
- ATCI / WB PRESENT REFORM PLAN BASED ON CONCEPT NOTE
- ATCI FORMALLY RESPONDS TO MOF REQUEST FOR TA ON DEVELOPMENT OF DOMESTIC GOVERNMENT DEBT MARKET
- UNIA FORECASTS OUTSTANDING MORTGAGE ORIGINATION AT \$10. 4 BILLION

- PRESENTED THE MUNICIPAL FINANCE FACILITY CONCEPT TO AN INTER-MINISTERIAL MEETING ON EURO-2012 PREPARATION, CHAIRED BY MINISTER OF ECONOMY MR. KINAKH.
- ADVISED THE CITY OF LVIV ON DEVELOPING THE DOCUMENTATION FOR UAH 42 MLN. SERIES B ISSUE. THE ISSUE WAS SUCCESSFULLY PLACED ON DECEMBER 27.
- ASSISTED THE CITY OF LUHANSK ON DRAFTING THE SECURITIES COMMISSION (SSMSC) SUBMISSION FOR UAH 29.3 MLN. BOND REGISTRATION AND PROSPECTUS. THE ISSUE WAS SUCCESSFULLY PLACED ON NOVEMBER 5.
- ADVISED THE CITY OF BERDYANSK ON DRAFTING THE DOCUMENTS FOR SUBMISSION TO THE SSMSC. THE UAH 10 MILLION ISSUE WAS SUCCESSFULLY PLACED ON DECEMBER 28.
- SEVENTH EXAMINATION SESSION FOR THE LEASING SPECIALISTS CERTIFICATION PROGRAM WAS HELD. 16 PERSONS PASSED ALL THREE EXAMS SUCCESSFULLY TO OBTAIN CERTIFICATES OF LEASE SPECIALISTS (THE AWARD CEREMONY IS PLANNED IN THE FIRST QUARTER 2008). END 2007 SEES 67 CERTIFIED LEASING SPECIALISTS.
- FNBCH HAS DATA PROVISION AGREEMENTS WITH 42 BANKS. IBCH EXPECTS 1 MLN. CREDIT HISTORIES IN ITS DATABASE BY THE END OF 2007.

III. PROJECT EXECUTIVE SUMMARY – EXECUTIVE SUMMARY UKRAINE

This Report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Access to Credit Initiative, as implemented by consultants for The Pragma Corporation (the Project), for the period from October 1 through December 31, 2007. The report is comprised of four components: Mortgage, Fixed income with a subordinated Municipal Finance component; Leasing and Credit Bureau / Credit Rating. Each component section of the report will have a summary with specific activity tasks identified and the status of each task with appropriate commentary, relevant attachments, and reference to administrative issues, if any.

Mortgage

Primary

To date, CML trained personnel now comprises ninety-eight certificate holders: forty-three of whom (44%) are women. The number of banks whose personnel have been trained totals thirty-six. During the eleventh quarter, ATCI completed training a cadre of professional trainers who can ensure sustainability of the CML program. During the twelfth quarter, ATCI and UNIA prepared a curriculum that included risk management as an adjunct to the core components that constitute the CML designation in order to

broaden its appeal to banks. This will be the first CML certification course offered on a pay basis. The next CML course is expected to be offered late first quarter/early second quarter 2008.

Mortgages outstanding are projected to be \$10.4 billion by the end of the 2007 year.

Secondary Market

Covered Bond Regulation Completed

During the previous quarters, ATCI completed drafting the mortgage pool monitoring regulations for the SSMSC. The regulations included provisions that were drafted to remedy deficiencies in the original law. The draft was reviewed by the SSMSC and sent to the Ministry of Justice for registration. Unfortunately, the Ministry determined that the regulations did not comport with the law and reworked them so they did. Subsequently, the Ministry registered regulations that are defective and while they will not impede a pilot issue, the regulations are sufficiently impaired to preclude development of a robust secondary mortgage market. Consequently, the mortgage covered bond law needs to be amended. To this end, ATCI and UNIA worked closely to arrive at a common position for submission to the SSMSC.

None the less, there still appears to be a divergence of opinion between the SSMSC and ATCI and UNIA as to what the final amendments should look like. Consequently, ATCI continued to work closely with UNIA to reach a common position with SSMSC regarding the final version for submission to the Rada.

Pilot Issues

ATCI continued to work with Khreschatyk Bank regarding their plans for timing, size, currency composition etc. to issue a pilot mortgage bond and conducted a portfolio review of mortgages to determine the suitability of individual mortgages for inclusion. During the quarter, Khreschatyk Bank engaged Fitch ratings to rate its covered bond issue. ATCI worked extensively with Bank staff to prepare answers and formatting of the fields of data necessary to respond to Fitch analytic requirements. SMI continued to reorganize itself in response to the change in supervision from the Cabinet of Ministers to SAll. Consequently, preparations for issuance of a pilot mortgage bond have been delayed.

Associated Market Infrastructure

ATCI's third direction of activity in mortgage is development of associated market infrastructure. ATCI cooperates with the International Real Property Foundation (IRPF) to bring about necessary changes.

Within this context an IRPF consultant George Badescu, an appraisal expert, has traveled to Ukraine and met with the Ukrainian Association of Appraisers. Mr. Badescu also met with ATCI's COP and outlined the issues facing the appraisers and offered a plan of action that would result in their certification and increase in professional

standards. ATCI intends to prioritize appraisal certification in development of associated market infrastructure.

ATCI's COP has followed up by meeting with UTO and the Association of Bureaus of Technical Inventory (BTI) – the registry for all real estate transactions. BTI has concluded an agreement that could make it possible for appraisers to access real estate sales information. ATCI's COP verified that this agreement was in place and that the access would be limited to members of UTO and not the general public.

ATCI second area of concentration is on the development of a unified methodology for certification of real estate practitioners. Impeding progress, however, has been a schism between the two leading real estate organizations, the Ukrainian Association of Realtors, and the Union of Real Estate Practitioners. To remedy this situation, Norm Flynn, IRPF President, came to Ukraine during the quarter and met with both parties in an attempt to foster a merger. The result was an agreement in principle to proceed in this direction but subject to the approval of both boards. ATCI COP is following up with both factions in order to cement the arrangement and arrive at common ground regarding certification of practitioners. These meetings are expected to continue over the course of several quarters.

Fixed Income

In February 2007, ATCI co-sponsored with the Ministry of Finance a debt management forum. The program was designed to explore what steps the Government of Ukraine should take to manage its debt requirements efficiently; to examine the role *domestic* government debt markets play in efficient capital allocation; to analyze the institutional framework requisite for market development such as the role of primary dealers, use of pre-announced auction calendars, development of a debt management strategy, mitigation of risk in debt management, establishing a debt management office (DMO) and comparisons to how debt management offices (DMOs) are organized and work in other countries.

Consequently, a technical note summarizing conclusions and recommendation was prepared by ATCI with conclusions and recommendations presented to the First Deputy Prime Minister for consideration. Specifically, the note was accompanied by a transmittal letter asking for a meeting with the GOU to discuss the conclusions and recommendations especially the one that calls for the establishment of a working group to implement a plan of action. In August, ATCI received a request from Deputy Finance Minister Kravets asking for ATCI assistance in developing the domestic government debt markets.

In October, ATCI, in cooperation with the World Bank, prepared a response that encompassed a reform plan that laid out a timeline for implementation of those areas in which each organization can best address the technical needs of the Ministry. This was in response to a draft debt management strategy, Concept Paper prepared by the Ministry of Finance that provided the context for targeted technical assistance. The

next PTAP Mission is expected to be in Kiev during the 14th quarter (first quarter 2008) to meet with the Ministry of Finance for agreement on the Plan of Action.

ATCI also worked with Lease IT to structure a corporate bond using a dynamic pool SPV to manage the lease assets for the benefit of investors. The issue is expected to come to market during the ATCI fourteenth's quarter (or the first quarter of 2008).

Municipal Finance

Pilot Bond Issues

Lviv

Following the successful placement of Series A bond of UAH 50 mln. in July 2007, the city requested ATCI to assist with documentation for the Series B bond issue of UAH 42 mln. The MinFin approval has already been provided for both Series A and Series B and was valid for the 2007 budget period. ATCI advised Lviv on draft city council resolution, the Series B credit rating documentation, issuance schedule, documentation for the SSMSC registration.

On December 27, VAB Bank, the underwriter and a payment services agent of the issue, placed the second series of the municipal bond in the amount of UAH 42 million for 5 years at 9.95%.

The proceeds of the bond will be used for energy saving, reconstruction of roads, utilities and street lightening.

Berdyansk

Following submission of documents to the SSMSC (ATCI advised the city on the drafting of the document submission to the SSMSC as well as provided the city with the draft issue prospectus) and bond registration, Alfa Bank, the underwriter and a payment services agent of the issue, placed the municipal bond on December 28 in the amount of UAH 10 million for 5 years at 11.5%.

The city will use proceeds of the bond for main roads and residential housing reconstruction, and city lighting improvement.

Lugansk

Following submission of the documents to the SSMSC (ATCI advised on documentation package and provided the city with the draft issue prospectus) and bond registration, Ukrgazbank, the underwriter and a payment services agent of the issue, placed the municipal bond on November 5 in the amount of UAH 29.3 million for 5 years at 10.4%.

Lugansk is using proceeds of the bond for construction, technical equipment purchasing, reconstruction of heating, street lightening, and green plantations.

Ivano Frankivsk

ATCI continued advice to the City of Ivano-Frankivsk at the request of the city on the second bond issue and associated legal and financial issues. The city has obtained a preliminary rating of B+/uaA for the expected 5 year UAH 7.5 mln. issue from Standard and Poor's, but has decided to postpone the issue to 2008

MFF

ATCI presented the Municipal Finance Facility concept to an inter-ministerial meeting on Euro-2012 preparation chaired by Minister of Economy Mr. Kinakh. Participants of the meeting (Minister of Communal and Housing Economy, Deputy Finance Minister, Deputy Head of the State Agency for Investments and Innovations, other Ministries' representatives) supported the idea of MFF creation and its necessity for Ukraine's municipal infrastructure development.

Leasing

At the end of this quarter, ATCI established, using data supplied by the Government of Ukraine, that the "penetration rate," (defined as the rate at which financial leasing is used as a method of acquiring capital equipment) has increased from 0.09% in 2004, to 11.5%.

The penetration rate is a major indicator of the success of ATCI's Financial Leasing Component, because it measures the increased use of leasing as a means to modernize plant and equipment in Ukraine.

In this Quarter, Auditing and Consulting Company "Kompas," under their contract with ATCI, continued to offer CLS training sessions to Industry participants. A new training session began in September consisting of 45 participants, the largest training class to date: of the 45, 35 participants sat for the CLS exams with 16 passing all exams successfully to be added to the CLS total in Ukraine. There are currently 67 certificate holders.

More information on seminars, cooperation with IFC, and individual company consulting success may be found in the Leasing Component section.

Credit Bureau/Credit Rating

Credit Bureau

ATCI continues to interface on a regular basis with FNBBCH and other interested parties, including foreign credit bureau operators. By the end of the 4th quarter 2007, FNBBCH has concluded cooperation agreements signed with 42 banks. FNBBCH also plans to

introduce subscription fee for its banks depending on the size of bank assets. There will be 4 categories of subscription fees, the highest is related to the size of assets, therefore the greater the assets, the higher the fee. This decision was adopted by FNBSCH Supervisory Board to get banks “psychologically” accustomed to paying for FNBSCH services.

By the end of the 4th quarter 2007, IBCH has 35 partners, about 1 million credit histories in its database, and has started commercial sales of credit histories.

Russian Bureau of Insurance Histories, jointly with Ukrainian League of Insurance Organizations, opened its representative office in Ukraine. At this stage, 32 Ukrainian insurance companies joined the project to exchange information about their clients. In terms of further development of credit bureaus, this is bad, since to some extent it can be considered as further fragmentation of credit bureau market if most of insurance companies (who are prospective credit bureau clients) choose to cooperate with the bureau of insurance histories.

ATCI continues to work in the area of consolidation of information/credit bureau activities.

Credit Rating

As discussed last quarter, early in January 2007, rating agency “Expert Rating” was officially registered as a business entity and entered the Ukrainian ratings market. This rating agency was established as a division of rating center “Expert Ukraine”, which publishes the leading business periodical “Expert”.

On January 22, 2007 the SSMSC held the first round of the tender for selection of authorized rating agencies. During the first round the Tender Committee considered the documents submitted by applying rating agencies. A total of 7 Ukrainian rating agencies applied. As a result of the first round, the Tender Committee short listed 4 rating agencies: “Expert-Rating”, “IBI-Rating”, “Ryurik” and “Consulting-Gamma”.

“Credit-Rating” remained the only domestic rating agency authorized to assign mandatory ratings. At the end of 2006, the SSMSC granted to “Credit-Rating” the status of authorized rating agency without any tender.

In May 2007, the Cabinet of Ministers of Ukraine approved the revised National Rating Scale. As mentioned above authorized Ukrainian rating agencies (so far “Credit-Rating” only) must use this scale.

ATCI continues to work toward eliminating the mandatory credit rating requirement for new issuances, and is striving to set up a work group to implement this activity.

Otherwise, there has been no change during the quarter.

Gender

ATCI conducted training activities in one of its four major components while striving for gender balance.

Other

The ATCI COP participated in a roundtable on land reform issues with U.S. Ambassador Taylor and USAID Mission Director Earl Gast.

The ATCI COP attended the OECD Debt Management Forum in Amsterdam in December (*see Attachment 6*). The focus was the use of primary dealers in placement of treasury securities.

The ATCI COP was a speaker at the joint ATCI / SSMSC roundtable on covered bonds

IV. PROJECT STAFFING – EXECUTIVE SUMMARY UKRAINE

The following personnel were engaged in project activities this quarter:

- David Lucterhand, Chief of Party
- Barry Pitts, Deputy Chief of Party/Senior Advisor
- Steve Moody, Senior Advisor, Mortgage
- Norman Flynn, IRPF consultant

V. ADMINISTRATIVE ISSUES – EXECUTIVE SUMMARY UKRAINE

ATCI concludes a new two - year lease that reflects stepped increases due to inflation.

Deputy Chief of Party and Senior Advisor Barry Pitts resigns to become Chief of Party of the Capital Markets Project

Sergey Kysil. Legal Advisor, resigns to join commercial entity

Denis Gaiovy, Mortgage and Municipal Advisor, resigns to join the EBRD as municipal advisor.

Maxim Chebataryov, Lead Translator, resigned to pursue private sector opportunities.

Olena Kozyaruk is promoted to Head of Translation

ATCI hires Iryna Postinikova as mortgage advisor to work on Realtor certification and appraisal issues.

Alina Chernomaz, newly designated as a Certified Leasing Specialist, is promoted to Leasing Assistant Advisor

Due to massive inflation on 06 and 07, ATCI is requesting that USAID approve a 30% increase in base pay for local employees. The justification memo is being prepared. In addition to the 30% increase request, specific requests for additional salary increases are being prepared for Victoria Buchynska and Alina Chernomaz who currently daily rates are significantly below market.

ATCI COP commenced negotiations to reassign Rick Dvorin, Moldovan Country Director, to become Deputy Chief of Party, and to assign Steve Moody, ATCI Senior Advisor, to become ATCI Country Director in Moldova.

LIST OF ATTACHMENTS – Executive Summary Ukraine

NONE

B. MORTGAGE - Ukraine

I. COMPONENT DESCRIPTION – MORTGAGE UKRAINE

This Report provides details on the events and activities relating to the Mortgage Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from October 1 through December 31, 2007.

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

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

II. SIGNIFICANT EVENTS – MORTGAGE UKRAINE

- COP PRESENTS AT ATCI / SSMSC COVERED BOND SEMINAR
- DISCUSSED DRAFT AMENDMENTS TO THE MORTGAGE BOND LAW WITH SSMSC SENIOR OFFICIALS.
- COMMENCED PREPARATION OF AMENDMENTS TO SSMSC REGULATION 1528 ON AUDIT REPORTS
- ADVISED KHRESCHATYK BANK ON RESPONSE TO FITCH RATING REQUEST RE: PILOT COVERED BOND ISSUE
- ADVISED KHRESCHATYK BANK ON AUDIT AND MORTGAGE COVER MANAGEMENT CONTRACTS
- PARTICIPATED IN A WORKING GROUP ON AFFORDABLE HOUSING SET UP BY PRESIDENTIAL ADMINISTRATION

- PROVIDED AMENDMENTS TO DRAFT PRESIDENTIAL DECREE ON AFFORDABLE HOUSING

III. EXECUTIVE SUMMARY – MORTGAGE UKRAINE

To date, CML trained personnel now comprises ninety – eight certificate holders: forty-four per cent of whom are women. The number of banks whose personnel have been trained totals thirty-six. Discussions are underway with both the SMI and UNIA to determine how best to deliver the future courses. UNIA is revising the basic CML curriculum to include risk management for banks. ATCI and UNIA are planning for CML training to become sustainable as a program both technically and financially through UNIA. Consequently, the next training will be offered to UNIA membership on a fee paid basis.

ATCI CML lecturers from IUE will monitor the raining to ensure compliance with ATCI standards and to ensure the CML body of knowledge is conveyed properly. CML certified trainers from UNIA, and the State Mortgage Institution (SMI) will deliver the lectures.

Secondary Mortgage Market

State Mortgage Institution (SMI)

While, ATCI participated in several workgroup meetings with the SMI to discuss the covered mortgage bond issue and has provided bond manager agreement and auditor agreement (tri-party) as well as other pertinent information, SMI has continued to reorganize itself in response to the change in supervision from the Cabinet of Ministers to SAll. Consequently, preparations for issuance of a pilot mortgage bond have been delayed.

New Amendments to the Covered Bond Law drafted

During the previous quarters, ATCI completed drafting the mortgage pool monitoring regulations for the SSMSC. The regulations included provisions that were drafted to remedy deficiencies in the original law. The draft was reviewed by the SSMSC and sent to the Ministry of Justice for registration. Unfortunately, the Ministry determined that the regulations did not comport with the law and reworked them so they did. Subsequently, the Ministry registered regulations that are defective and while they will not impede a pilot issue, the regulations are sufficiently impaired to preclude development of a robust secondary mortgage market. Consequently, the mortgage covered bond law needs to be amended. To this end, ATCI and UNIA worked closely to arrive at a common position for submission to the SSMSC.

None the less, there still appears to be a divergence of opinion between the SSMSC and ATCI and UNIA as to what the final amendments should look like. Consequently, ATCI continued to work closely with UNIA to reach a common position with SSMSC regarding the final version for submission to the Rada. This work continued throughout the quarter and was one reason for co-sponsoring the covered bond seminar for SSMSC staff.

On November 27, and in cooperation with Security and Stock Market State Commission, ATCI conducted a workshop “Mortgage Covered Bonds: Responsibilities of Auditors and Bond Managers” (*See Attachment 1*). Representatives of leading banks, audit firms, SSMSC Commissioner Mr. Biryuk and senior officials discussed responsibilities of a bond manager and an auditor under current Ukrainian legislation and impact of draft amendments to the Mortgage Bond Law on their activities.

Additionally, ATCI conducted meetings with Director of SSMSC Stock Market Development Department Ms. Tabala and Head of Audit Task Force under SSMSC Ms. Kharlamova regarding audit issues and agreed-upon procedures under draft amendments to the Mortgage Bond Law submitted to the SSMSC. ATCI was requested to assist on preparing appropriate amendments to the SSMSC Regulation 1528 On Audit Reports.

Pilot Issues

ATCI continued to work with Khreschatyk Bank regarding their plans for timing, size, currency composition etc. to issue a pilot mortgage bond and conducted a portfolio review of mortgages to determine the suitability of individual mortgages for inclusion. During the quarter, Khreschatyk Bank engaged Fitch ratings to rate its covered bond issue. ATCI worked extensively with Bank staff to prepare answers and formatting of the fields of data necessary to respond to Fitch analytic requirements. Specifically, ATCI assisted “Khreschatyk” Bank on preparation of answers to Fitch’s questionnaire. The questionnaire covered extensive set of clarifying questions regarding Ukrainian covered mortgage bond legislation: segregation of assets and mortgage bond issuer bankruptcy, mortgage pool monitoring and management, mortgage pool structuring, supervision over mortgage bond transactions etc.

ATCI also advised “Khreschatyk’ Bank on three-party audit contract as well as mortgage cover management contract.

Associated Market Infrastructure

ATCI’s third direction of activity in mortgage is development of associated market infrastructure. Previously ATCI in cooperation with the International Real Property Foundation (IRPF) conducted an assessment of real estate appraisal in Ukraine. IRPF submitted its report along with a suggested solution package. This, in turn, evolved into

a proposed SOW that would lead to certifications in accordance with world standards of practice. This SOW was approved by USAID on a cost share basis with the IRPF.

Within this context an IRPF consultant George Badescu, an appraisal expert, traveled to Ukraine the previous quarter to meet with the Ukrainian Association of Appraisers (UTO). Mr. Badescu also met with ATCI's COP and outlined the issues facing the appraisers and offered a plan of action that would result in their certification and increase in professional standards. ATCI intends to prioritize appraisal certification in development of associated market infrastructure. ATCI's COP followed up by meeting with UTO and the Association of Bureaus of Technical Inventory (BTI) – the registry for all real estate transactions. BTI has concluded an agreement that could make it possible for appraisers to access real estate sales information. ATCI's COP verified that this agreement was in place and that the access would be limited to members of UTO and not the general public.

ATCI second area of concentration is on the development of a unified methodology for certification of real estate practitioners. Impeding progress, however, has been a schism between the two leading real estate organizations, the Ukrainian Association of Realtors, and the Union of Real Estate Practitioners. To remedy this situation, Norm Flynn, IRPF President, came to Ukraine during the quarter and met with both parties in an attempt to foster a merger. The result was an agreement in principle to proceed in this direction but subject to the approval of both boards. ATCI COP is following up with both factions in order to cement the arrangement and arrive at common ground regarding certification of practitioners. These meetings are expected to continue over the course of several quarters.

Other

At the request of the Secretariat of the President, ATCI participated in a working group and provided comments and amendments to the draft President Decree on affordable residential housing that, in particular, calls for adoption of amendments to the covered bond law in 2008 and requests the National Bank to consider covered bonds eligibility for refinancing. The amendments were accepted and included into issued Presidential Decree.

IV. ADMINISTRATIVE ISSUES – MORTGAGE UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – MORTGAGE UKRAINE

Task 1. Mortgage - Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • IUE review of training materials for applicability to Ukraine 	<ul style="list-style-type: none"> • WORK COMPLETED IN COOPERATION WITH THE NIA AND SMI TO REVISE CML COURSEWORK FOR DELIVERY IN UKRAINE IN 2005. NEW MATERIAL IS INTRODUCED CONTINUALLY IN RESPONSE TO CHANGING MARKET CONDITIONS.
<ul style="list-style-type: none"> • Selection of candidates for CML training 	<ul style="list-style-type: none"> • IN COOPERATION WITH UNIA AND SMI, CML TRAINERS WERE SELECTED AND ARE NOW CERTIFIED
<ul style="list-style-type: none"> • Develop and administer CML training 	<ul style="list-style-type: none"> • COURSE MODIFICATION FOR DELIVERY IN UKRAINE COMPLETE AND BEING DELIVERED.
<ul style="list-style-type: none"> • Deliver two complete CML courses 	<ul style="list-style-type: none"> • TO DATE, ATCI HAS COMPLETED DELIVERY OF FIVE COMPLETE CML COURSES. DELIVERY AND CERTIFICATION OF TRAIN-THE-TRAINERS IS NOW COMPLETE.
<ul style="list-style-type: none"> • Assess rural lending, titling registration, appraisal of profitable agricultural production units 	<ul style="list-style-type: none"> • THIS ACTIVITY WAS CONCLUDED. ATCI IS WAITING FOR THE LAND MORATORIUM TO BE LIFTED.

Task 2. Mortgage - Assistance to Banks

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Standardize rules and procedures for retail mortgage lending 	<ul style="list-style-type: none"> • THE MORTGAGE BOND LAW LEGISLATES THE COVERAGE RATIOS AND LTVS FOR INCLUSION IN COVERED BONDS. ADDITIONALLY, INVESTORS HAVE RECOURSE TO THE ISSUER IF MORTGAGES BECOME NON-PERFORMING. ONLY MORTGAGES THAT USE STANDARDIZED UNDERWRITING PRACTICES WILL BE PRACTICABLE FOR COVERED BONDS. THIS, IN TURN, AIDS IN FURTHER STANDARDIZATION. BANKS ARE USING STANDARDIZED UNDERWRITING PRACTICES IN PREPARATION FOR AND AS A RESULT OF PILOT ISSUES.
<ul style="list-style-type: none"> • Select candidate banks for receipt of on-site technical assistance 	<ul style="list-style-type: none"> • THE SAME BANKS THAT HAVE STAFF PARTICIPATE IN CML TRAINING ARE THE SAME WHO RECEIVE ON - SITE TECHNICAL ASSISTANCE.
<ul style="list-style-type: none"> • Provide on – site technical assistance 	<ul style="list-style-type: none"> • COMPLETED FOR CML; ONGOING FOR PILOT BOND ISSUANCE

Task 3. Mortgage - Home Loan Guarantee

Defined Activity	Progress Made During Quarter/Proposed Future Actions
------------------	--

<ul style="list-style-type: none"> • Analyze market for existing mortgage insurance practices 	<ul style="list-style-type: none"> • THIS ANALYSIS WAS COMPLETED DURING THE FOURTH QUARTER. A NEW ANALYSIS IS PLANNED TO ASSESS MARKET DEVELOPMENTS IN THE 14TH QUARTER
<ul style="list-style-type: none"> • Assess legal and regulatory framework 	<ul style="list-style-type: none"> • ASSESSMENT IS CONTINGENT ON ATCI IDENTIFYING A SPONSOR. FOR THE GUARANTEE FUND INSIDE THE GOU.
<ul style="list-style-type: none"> • Complete Feasibility Study 	<ul style="list-style-type: none"> • THIS WILL COMMENCE AFTER COMPLETION OF THE ASSESSMENT AND THE SPONSOR AGREES TO PROCEED.
<ul style="list-style-type: none"> • Complete Business Plan 	<ul style="list-style-type: none"> • THIS WILL FOLLOW THE FEASIBILITY STUDY
<ul style="list-style-type: none"> • Assist in operational set-up of guarantee facility 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> • Provide on-site technical assistance to facility 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> • Promote the use of mortgage insurance 	<ul style="list-style-type: none"> • ATCI IS LOOKING TO IDENTIFY A SPONSOR TO DISCUSS THE ROLE OF A STATE MORTGAGE GUARANTEE FUND. UNTIL SUCH TIME, PURSUIT OF THIS EFFORT WILL BE MINIMAL.

Task 4. Mortgage - Life Insurance Products

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Analyze insurance and mortgage markets for existing products 	<ul style="list-style-type: none"> • ATCI COMPLETED AN ANALYSIS OF RELATED MORTGAGE INSURANCE PRODUCTS AS WELL AS THE INSTITUTIONS OFFERING THEM. SEVERAL COMPANIES ARE OFFERING TERM-LIFE INSURANCE PRODUCTS TO PAY OFF THE MORTGAGE BALANCE IN THE EVENT OF DEATH. HOWEVER, BANKS ARE NOT REQUIRING THESE POLICIES BECAUSE THEY ADD TO THE COST OF THE MORTGAGE. • ALSO, TERM PREMIUMS APPEAR EXCESSIVE DUE TO THE ABSENCE OF COMPETITION. ATCI EXPECTS TO HAVE A NEW ASSESSMENT COMPLETED IN EARLY 2008.
<ul style="list-style-type: none"> • Assess legal and regulatory framework 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Assess existing actuarial data 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Select candidate insurers 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Develop term sheet and rate structure 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Draft Product policy 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER

<ul style="list-style-type: none"> • Conduct Road Show with mortgage lending banks and financial institutions 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
---	--

Task 5. Mortgage - Appraisers/Brokers Associations

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Assessment of UTO and other organizations 	<ul style="list-style-type: none"> • ASSESSMENT COMPLETED BY IRPF WITH SOLUTION PACKAGE OFFERED AND ACCEPTED BY ATCI. • PHASE I REGARDING APPRAISAL STANDARDS WAS COMPLETED DURING THE NINTH QUARTER. DURING THE ELEVENTH QUARTER, THE IVSC REPRESENTATIVE (IRPF/ATCI) MET WITH UTO AND RECOMMENDED ACTIONS FOR IMPROVING APPRAISAL STANDARDS AND PROFESSIONAL CONDUCT. DURING THE 13TH QUARTER, ATCI AGREED WITH UTO AND BTI TO WORK TOWARDS ADOPTION OF IVSC STANDARDS.
<ul style="list-style-type: none"> • Facilitate development and use of unified methodology 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Work with UAREP 	<ul style="list-style-type: none"> • THE IRPF CHAIRMAN, NORM FLYNN, MET WITH UAREP AND THE UNION OF REAL ESTATE PRACTITIONERS TO EFFECT A MERGER BETWEEN THE TWO ORGANIZATIONS THAT WOULD LEAD TO USE OF A UNIFIED METHODOLOGY FOR CERTIFICATION.
<ul style="list-style-type: none"> • Study tours to U.S. 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Design, establish and sustain the transaction and price database 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER

Task 6. Mortgage - Mortgage Backed Securities

Defined Activity	Progress Made During Quarter/Proposed Future Actions
------------------	--

<ul style="list-style-type: none"> • Establish Legal Working Group to assess legal and regulatory basis 	<ul style="list-style-type: none"> • ATCI PARTICIPATED WITH UNIA AND THE SSMSC IN DRAFTING THE IMPLEMENTING RULES AND REGULATIONS FOR SUBMISSION TO THE MINISTRY OF JUSTICE FOR REGISTRATION. THE REGULATIONS REGISTERED, HOWEVER, DID NOT ELIMINATE THE VAGARIES PRESENT IN THE COVERED BOND LAW. THEREFORE, NEW AMENDMENTS TO THE LAW ARE NECESSARY. CONSEQUENTLY, ATCI AND UNIA PREPARED AMENDMENTS FOR SUBMISSION TO THE SSMSC AND ULTIMATE SUBMISSION TO THE RADA FOR ADOPTION. • ATCI HAS PARTICIPATED IN THE WORKGROUP MEETING OF THE SSMSC ON AMENDEMENTS TO THE COVERED BOND LAW. SSMSC HAS SUBMITTED AMENDMENTS PREPARED BY ATCI AND UNIA TO OTHER MINISTRIES FOR COMMENT. ATCI ANTICIPATES THIS COMMENT PERIOD WILL CONTINUE THROUGH THE 13TH QUARTER.
<ul style="list-style-type: none"> • Select Candidate Issuer 	<ul style="list-style-type: none"> • ATCI HELPED UKRAGAZBANK TO ISSUE AND PLACE A PILOT MORTGAGE BOND • ATCI CONTINUED TO PROVIDE TECHNICAL ASSISTANCE ON ISSUANCE OF A COVERED MORTGAGE BOND IT THE STATE MORTGAGE INSTITUTION AND KRESCHATYK BANK.
<ul style="list-style-type: none"> • Draft investment memorandum 	<ul style="list-style-type: none"> • COMPLETED AND APPROVED BY THE SSMSC. (UKRGAZBANK)
<ul style="list-style-type: none"> • Identify potential investors 	<ul style="list-style-type: none"> • THE COP AND ATCI ADVISORS TOGETHER WITH UKRAGAZBANK CONDUCTED A ROAD SHOW FOR POTENTIAL INVESTORS; THE SAME PROCEDURE WILL BE FOLLOWED FOR THE NEXT TWO PILOTS.
<ul style="list-style-type: none"> • Price and Place Issue 	<ul style="list-style-type: none"> • ISSUED AND PLACED

LIST OF ATTACHMENTS

ATTACHMENT 1 ATCI / SSMSC workshop “Mortgage Covered Bonds: Responsibilities of Auditors and Bond Managers” on November 27, 2007: Agenda

ATTACHMENT 2 Raiffeisen Bank Aval round table “The market of mortgage lending: world events and the impact in Ukraine” on October 18, 2007: agenda and invitation

C. FIXED INCOME - Ukraine

I. COMPONENT DESCRIPTION – FIXED INCOME UKRAINE

This Report provides details on the events and activities relating to the Fixed Income Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from October 1 through December 31, 2007.

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

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – FIXED INCOME UKRAINE

- PROGRAMATIC TECHNICAL ASSISTANCE PARTNERSHIP (PTAP) INITIATED WITH WORLD BANK ON DEBT MANAGEMENT
- ATCI FORMALLY RESPONDS TO MINISTRY OF FINANCE FOR TECHNICAL ASSISTANCE
- ATCI WORKS WITH LEASE IT TO ISSUE CORPORATE BOND

III. EXECUTIVE SUMMARY – FIXED INCOME UKRAINE

In matters related to regulatory reform, ATCI worked with the SSMSC to develop implementing regulations for the covered bond law. These regulations were submitted to the Ministry of Justice for approval. The regulations divide the duties of the bond manager into the routine and the extraordinary duties and clearly define them. However, the Ministry of Justice did not register the version sent by the SSMSC and instead removed the specificity regarding the activities of the bond manager and

auditor. This necessitated the introduction of amendments to the covered bond law in order for the market to function like its European counterparts. Nevertheless, it did not interfere with the issuance of the first pilot. As a result, ATCI and UNIA (together) submitted a list of amendments to the covered bond law for the SSMSC to consider in preparation for the Commission's submission of the amendments to the Rada.

ATCI efforts to develop a pilot corporate bond have been manifested by the issuance of the pilot covered mortgage bond which is also corporate bond issue. Details regarding the pilot issue are discussed in the mortgage component.

To develop a long-term government yield curve for Ukraine, ATCI has been cooperating with the Mr. Vysotskyi, Head of Debt Management Department at the Ministry of Finance. In February 2007, ATCI in cooperation with the MOF hosted a debt management forum to focus senior leadership on this important subject. The program was designed to explore what steps the Government of Ukraine should take to manage its debt requirements efficiently; to examine the role *domestic* government debt markets play in efficient capital allocation; to analyze the institutional framework requisite for market development such as the role of primary dealers, use of pre-announced auction calendars, development of a debt management strategy, mitigation of risk in debt management, establishing a debt management office (DMO) and comparisons to how debt management offices (DMOs) are organized and work in other countries. To analyze what has worked in other countries facing similar circumstances and what has not. The Forum explored the practical aspects of formulating a debt management strategy and necessary elements for successful development of the primary and secondary market in government securities; the use and role of re-purchase agreements in contributing to market liquidity; and what changes to the legal framework might be necessary for use by senior leadership when framing policy choices for adopting a plan of action that leads toward development of a liquid domestic Government securities market in Ukraine.

Invitees included: Senior leadership of the Government of Ukraine involved in policy formation, market practitioners, and donors with a stake in development of the domestic treasury market. The Forum was moderated by Dr. Hans Blommestein, Head of the Debt Management Working Party at the OECD. Representatives of the debt management offices from Poland, Hungary and Turkey presented their country's experiences in developing their sovereign markets.

Consequently, a technical note summarizing conclusions and recommendation was prepared by ATCI with conclusions and recommendations presented to the First Deputy Prime Minister for consideration. Specifically, the note was accompanied by a transmittal letter asking for a meeting with the GOU to discuss the conclusions and recommendations especially the one that calls for the establishment of a working group to implement a plan of action. In August 2007, the Ministry sent a request to ATCI requesting assistance. The request encompassed:

- Development of the market for domestic government securities;
- Construction of the yield curve for government securities;

- Development of a repo and reverse repo market in standardized government securities;
- Evaluating the role of primary dealers in market development
- Developing the overall structure of the government securities market
- Creation of a system for risk assessment and risk management

In October, ATCI, in cooperation with the World Bank, prepared a response (*See Attachment 3*) that encompassed a reform plan that laid out a timeline for implementation of those areas in which each organization can best address the technical needs of the Ministry (*See Attachment 4*). This was in response to a draft debt management strategy, Concept Paper prepared by the Ministry of Finance that provided the context for targeted technical assistance (*see Attachment 5*). The next PTAP Mission is expected to be in Kiev during the 14th quarter (first quarter 2008) to meet with the Ministry of Finance for agreement on the Plan of Action.

ATCI also worked with Lease IT to structure a corporate bond using a dynamic pool SPV to manage the lease assets for the benefit of investors. The issue is expected to come to market during the ATCI fourteenth's quarter or the first quarter of 2008.

IV. ADMINISTRATIVE ISSUES – FIXED INCOME UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – FIXED INCOME UKRAINE

Task 1. Fixed Income - Regulatory Reform

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Strengthen capacity of National Securities Commission (SSMSC) 	<ul style="list-style-type: none"> • ATCI CONTINUED WORKING CLOSELY WITH THE SSMSC AND TO DEVELOP AMENDMENTS TO THE COVERED BOND LAW.
<ul style="list-style-type: none"> • Draft SSMSC and NSCM regs re investment advisors & rating agencies 	<ul style="list-style-type: none"> • THE SSMSC HAS INDICATED IT WILL NOT COOPERATE TO CHANGE THE REQUIREMENT OF MANDATORY RATINGS. • ATCI IS NOW COOPERATING WITH THE ASSOCIATION OF UKRAINIAN INVESTMENT BUSINESSES TO CREATE A COMPETITIVE DOMESTIC RATINGS INDUSTRY.
<ul style="list-style-type: none"> • Seek broader SSMSC, FSR and NSCM enforcement 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER

<ul style="list-style-type: none"> • Participate in AUB and Fin. Svcs. Working Groups – amend pledge and bankruptcy laws and trusts 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER
---	---

Task 2. Fixed Income - Pilot Corporate Bonds (See mortgage component)

Task 3. Fixed Income - Long-term government yield curve

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Assess treasury debt market 	<ul style="list-style-type: none"> • RESPONDED TO REQUEST FOR TECHNICAL ASSISTANCE FROM MINISTRY OF FINANCE
<ul style="list-style-type: none"> • Assist design of repurchase market 	<ul style="list-style-type: none"> • THIS IS REFERENCED IN THE TECHNICAL NOTE THAT SUMMARIZES THE RESULTS OF THE DEBT MANAGEMENT FORUM. THE NOTE INCLUDES CONCLUSIONS AND RECOMMENDATIONS THAT WERE SUBMITTED TO THE GOU AND INCORPORATES AN OFFER TO ASSIST THE GOU IN IMPLEMENTING A PLAN OF ACTION. IT IS ALSO REFERENCED IN THE REQUEST RECEIVED FROM THE MINISTRY OF FINANCE AND THE MOST RECENT REFORM PLAN SUBMITTED TO THE GOU AS PART OF THE PTAP.

Task 4. Fixed Income – Develop Pilot Municipal Bonds (See municipal finance component)

Task 5. Fixed Income – Resolve constraints to municipal bonds issuance (See municipal finance component)

Task 6. Fixed Income – Pilot Municipal Bonds (See municipal finance component)

Task 7. Fixed Income – Issue Pilot Muni Bonds (See municipal finance component)

Task 8. Fixed Income – Legislative work/Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • CLC and IBS-CG to draft and promote new legislation 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> • Assist PFTS and SSMSC with listing and disclosure 	<ul style="list-style-type: none"> • CONSULTATIONS HELD RE: LISTING OF COVERED BOND PILOT

<ul style="list-style-type: none"> • Collaborate with MOF, SSMSC, PFTS etc to learn and benefit from pilot experience 	<ul style="list-style-type: none"> • CONSULTATIONS HELD RE: LISTING OF COVERED BOND PILOT
<ul style="list-style-type: none"> • Regional workshops 	<ul style="list-style-type: none"> • NONE THIS QUARTER
<ul style="list-style-type: none"> • Prepare best practices, distribute with AUC 	<ul style="list-style-type: none"> • (SEE MUNICIPAL COMPONENT)

Task 9: Develop Pooled Municipal Finance Facility (See Municipal Finance Component)

LIST OF ATTACHMENTS – FIXED INCOME UKRAINE

ATTACHMENT 3 ATCI / World Bank response to the Ministry of Finance

ATTACHMENT 4 ATCI / WB Reform Plan

ATTACHMENT 5 Ministry of Finance Concept Note

ATTACHMENT 6 OECD Debt Management Forum in Amsterdam, December 11-13, 2007

D. MUNICIPAL – Ukraine

I. COMPONENT DESCRIPTION – MUNICIPAL UKRAINE

This Report provides details on the events and activities relating to the Municipal Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from October 1 through December 31, 2007.

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

Technical assistance from the program's team of Ukrainian and international experts in finance, accounting, and law will enable at least three municipalities or communal enterprises to issue bonds. The pilot bonds will demonstrate practices that creditworthy issuers employ to win investor confidence, such as transparent accounts, full disclosure, and financing capital projects that "pay for themselves" with cost savings.

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

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

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

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – MUNICIPAL UKRAINE

- PRESENTED THE MUNICIPAL FINANCE FACILITY CONCEPT TO AN INTER-MINISTERIAL MEETING ON EURO-2012 PREPARATION, CHAIRED BY MINISTER OF ECONOMY MR. KINAKH.
- ADVISED THE CITY OF LVIV ON DEVELOPING THE DOCUMENTATION FOR UAH 42 MLN. SERIES B ISSUE. THE ISSUE WAS SUCCESSFULLY PLACED ON DECEMBER 27.
- ASSISTED THE CITY OF LUHANSK ON DRAFTING THE SECURITIES COMMISSION (SSMSC) SUBMISSION FOR UAH 29.3 MLN. BOND REGISTRATION AND PROSPECTUS. THE BOND WAS SUCCESSFULLY PLACED ON NOVEMBER 5.

- ADVISED THE CITY OF BERDYANSK ON DRAFTING THE DOCUMENTS FOR SUBMISSION TO THE SSMSC. BERDYANSK SUCCESSFULLY PLACED ITS UAH 10 MLN. BOND ON DECEMBER 28.

III.EXECUTIVE SUMMARY – MUNICIPAL UKRAINE

Pilot cities

Lviv

Following the successful placement of Series A bond of UAH 50 million in July 2007, the city requested ATCI to assist with documentation for the Series B bond issue of UAH 42 million. The Ministry of Finance approval has already been provided for both Series A and Series B and was valid for the 2007 budget period. ATCI advised Lviv on draft city council resolution, the Series B credit rating documentation, issuance schedule, documentation for the SSMSC registration.

Standard & Poor's Rating Services assigned the bond a B+ rating on the global scale and an uaA+ on the national scale.

On December 27, VAB Bank, the underwriter and a payment services agent of the issue, placed the second series of the municipal bond in the amount of UAH 42 million for 5 years at 9.95%.

The proceeds of the bond will be used for energy saving, reconstruction of roads, utilities and street lightening.

Berdyansk

Following submission of documents to the SSMSC (ATCI advised the city on the drafting of the document submission to the SSMSC as well as provided the city with the draft issue prospectus) and bond registration, Alfa Bank, the underwriter and a payment services agent of the issue, placed the municipal bond on December 28 in the amount of UAH 10 million for 5 years at 11.5%.

The city will use proceeds of the bond for main roads and residential housing reconstruction, and city lighting improvement.

Lugansk

Following submission of the documents to the SSMSC (ATCI advised on documentation package and provided the city with the draft issue prospectus) and bond registration, Ukgazbank, the underwriter and a payment services agent of the issue, placed the municipal bond on November 5 in the amount of UAH 29.3 million for 5 years at 10.4%.

Lugansk is using proceeds of the bond for construction, technical equipment purchasing, reconstruction of heating, street lightening, and green plantations.

Other cities

Ivano Frankivsk

ATCI continued advice to the City of Ivano-Frankivsk at the request of the city on the second bond issue and associated legal and financial issues. The city has obtained a preliminary rating of B+/uaA for the expected 5 year UAH 7.5 million issue from Standard and Poor's, but has decided to postpone the issue to 2008.

MFF

ATCI presented the Municipal Finance Facility concept to an inter-ministerial meeting on Euro-2012 preparation chaired by Minister of Economy Mr. Kinakh. Participants of the meeting (Minister of Communal and Housing Economy, Deputy Finance Minister, Deputy Head of the State Agency for Investments and Innovations, other Ministries' representatives) supported the idea of MFF creation and its necessity for Ukraine's municipal infrastructure development.

Following the meeting, MFF creation was included into Measures for Implementation of the State Target Program for Preparation and Carrying Out of Euro-2012 although funding schedule was provided as follows:

	UAH million				
	2008	2009	2010	2011	Total
State		8	8	9	25
Private	25	20	15	15	72

Plan of Action

1. Continue efforts to establish the MFF on the Cabinet of Ministers level.
2. Identify a senior official from the new Government who can serve as champion to promote establishment of a municipal finance facility.
3. Collaborate with other donors and IFIs on establishment of the MFF in Ukraine.
4. Develop strategy for future municipal finance activities, depending on response from the State on creation of a municipal finance facility.
5. Develop draft legislation, which would eliminate obstacles and ensure MFF creation and effective activities.
6. Continue advisory help on bond issuance to other Ukrainian municipalities, in particular the city of Ivano-Frankivsk, at their requests.
7. Collaborate with the World Bank on a set of reforms to further develop Ukraine's sub national debt market.
8. Run workshops on debt issuance and associated issues, in particular in collaboration with the AUC.

IV. ADMINISTRATIVE ISSUES – MUNICIPAL UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – MUNICIPAL UKRAINE

Task 1. Municipal Finance – Constraints to Bond issuance

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Monitor GOU intergov't finance practices for credit risks 	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE.
<ul style="list-style-type: none"> Participate in Drafting on Law on Local Borrowing 	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE

Task 2. Municipal Finance – Prepare for a Pilot Issue

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Initiation of pilot 	<ul style="list-style-type: none"> ASSISTED LUHANSK WITH SECURITIES COMMISSION SUBMISSION OF REGISTRATION DOCUMENTS. THE BOND WAS SUCCESSFULLY PLACED ON NOVEMBER 5. ASSISTED THE CITY OF LVIV ON DEVELOPING DOCUMENTATION FOR THE SERIES B BOND ISSUE. THE BOND WAS SUCCESSFULLY PLACED ON DECEMBER 27. ASSISTED THE CITY OF BERDYANSK ON THE SSMSC SUBMISSION OF REGISTRATION DOCUMENTS. THE BOND WAS SUCCESSFULLY PLACED ON DECEMBER 28. ASSISTED ANOTHER UKRAINIAN CITY (IVANO-FRANKIVSK) CONSULTING ON VARIOUS ASPECTS OF BOND ISSUANCE.

Task 3. Municipal Finance – Issuance and Municipal Finance Facility Development

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Implementation 	<ul style="list-style-type: none"> PRESENTED THE MUNICIPAL FINANCE FACILITY CONCEPT TO AN INTER-MINISTERIAL MEETING ON EURO-2012 PREPARATION, CHAIRED BY MINISTER OF ECONOMY MR. KINAKH.

Task 4. Municipal Issuance – Legislation and Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Workshops and public education	<ul style="list-style-type: none">• NO ACTIVITY ON THIS ISSUE

LIST OF ATTACHMENTS – Municipal Ukraine

ATTACHMENT 7 ATCI MFF presentation to the Ministry of Economy

ATTACHMENT 8 Success story Lugansk

ATTACHMENT 9 Success story Berdyansk

E. LEASING - Ukraine

I. COMPONENT DESCRIPTION – LEASING UKRAINE

This report details events and activities relating to the Leasing Component of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from October 1 through December 31, 2007.

The primary purpose of the Leasing Component is not only to create a supportive environment for modern financial leasing but to provide specific technical, advisory, and training assistance in order to increase access to credit throughout Ukraine. Leasing can be an efficient alternative to bank credit for financing acquisition of fixed assets, and can often complement bank credit allowing a company to increase its access to needed credit availability.

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

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

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

I. SIGNIFICANT EVENTS – LEASING UKRAINE

- USING GOVERNMENT DATA, ATCI HAS DETERMINED THAT THE "PENETRATION RATE," DEFINED AS THE PERCENTAGE OF CAPITAL EQUIPMENT FINANCED THROUGH LEASING, HAS INCREASED FROM 0.09%, IN 2004 WHEN THE PROJECT STARTED, TO A LEVEL OF 3.9% IN THE 1ST QUARTER 2007, REACHED A LEVEL OF 21.3%; IN THE 2ND QUARTER 2007; A LEVEL OF 14% IN THE 3RD QUARTER 2007; AND 11.5 AT END OF 2007.

- 7TH EXAMINATION SESSION FOR THE LEASING SPECIALISTS CERTIFICATION PROGRAM WAS HELD. 45 PARTICIPANTS; 35 EXAMINED; 16 PERSONS PASSED ALL THREE EXAMS SUCCESSFULLY TO OBTAIN CERTIFICATES OF LEASE SPECIALISTS (THE AWARD CEREMONY IS PLANNED IN THE FIRST QUARTER 2008).
- SINCE THE LAUNCHING OF THE CERTIFIED LEASE SPECIALISTS PROGRAM (THE THIRD QUARTER OF 2006) A TOTAL OF 141 PEOPLE PARTICIPATED IN THE TRAINING (NEARLY 15% OF ALL EMPLOYED IN LEASING IN UKRAINE). TOTAL NUMBER OF CERTIFIED LEASE SPECIALIST AS OF DECEMBER 31, 2007, IS 67 PEOPLE (32 WOMEN, 35 MEN) OF WHICH 50 ARE EMPLOYEES OF 26 LEASING COMPANIES.
- ATCI HAS PROVIDED ON-GOING ADVISORY SERVICES TO “LEASE IT” LEASING COMPANY ASSISTING IT IN FINDING NEW SOURCES OF DEBT CAPITAL THROUGH ISSUANCE OF A CORPORATE BOND TO FUND ITS OPERATIONS THAT WILL ALLOW THE COMPANY TO INCREASE ITS LEASING PORTFOLIO SIGNIFICANTLY NEXT YEAR AND THEREFORE INCREASE ITS PROFIT POTENTIAL.
- IN OCTOBER 2007, ATCI MET WITH THE INTERNATIONAL MANAGER OF THE OTP BANK REGARDING DEVELOPMENT OF UKRAINIAN LEASING BUSINESS AND DEFINITIONS OF MARKET ENTRY STRATEGY OF A NEW LEASING COMPANY WHICH WILL BE FOUNDED BY THE OTP BANK.
- IN OCTOBER 2007, ATCI MET WITH THE SEB BANK CHAIRMAN OF THE BOARD REGARDING LEASING DEPARTMENT DEVELOPMENT STRATEGY AND DEFINITION OF MAIN DIRECTIONS OF LEASING BUSINESS DEVELOPMENT OF THE BANK IN UKRAINE.

III. EXECUTIVE SUMMARY – LEASING UKRAINE

ATCI established, using data supplied by the Government of Ukraine, that the “penetration rate,” (defined as the rate at which financial leasing is used as a method of acquiring capital equipment) has increased from 0.09% in 2004, to 3.9% in the 1st quarter 2007, reached a level of 21.3% in the 2nd quarter 2007, was at 14% in the 3rd quarter 2007, and at the end of 2007, 11.5%. The penetration rate is a major indicator of the success of ATCI’s Financial Leasing Component, because it measures the increased use of leasing as a means to modernize plant and equipment in Ukraine. The volume of new lease agreements entered into by Ukrainian leasing companies (according to the State Commission for Regulation of Financial Services Markets in Ukraine) in the 2nd quarter of 2007 reached UAH 6.1 billion (USD 1.2 billion) which is 1.25 times more than the volume of all lease agreements in effect as of the beginning of 2007. The volume of new leases transacted in the 3rd quarter of 2007 amounted to UAH 4.9 billion (USD 970 million). The total volume of new lease agreements for the first three quarters of 2007 amounted to UAH 11.8 billion (USD 2.3 billion) which is 11 times more than for the same period in 2006.

In this Quarter, ATCI in cooperation with the official CLS Program training provider, Auditing and Consulting Company “Kompas”, as well as with trainers involved in the

training process have started to update certain topics of the CLS training program due to changes taking place in the business environment and new opportunities arising for the development of leasing market that were not previously covered by the program. A new training session which is to begin in February 2008 will be held taking into account all necessary changes in relation to the interpretation of the program materials and their compliance with present-day conditions of leasing development. As of end of 2007, there are now 67 Certified Leasing Specialists.

In this Quarter, ATCI continued its work on preparing the leasing manual, with the main aspects requiring an essential revision, namely: bookkeeping of lease transactions, tax accounting of lease transactions, leasing legal framework, sources of lease transactions financing, pricing of lease transactions, organizing leasing company activity, leasing company risk management, lease transactions monitoring, management accountability, interaction with suppliers and clients, and developing leasing products. The Working Group on Drafting the Leasing Manual was enlarged, now including 5 directors of leasing companies, 2 top managers of leasing companies, as well as representatives of the training provider Auditing and Consulting Company “Kompas”. In December 2007, the first meeting of the Working Group was held where the modified plan of the leasing manual was worked out (*Attachment 10*).

ATCI initiated assistance for Lease Company, Lease IT, in discussions of and preparation for a corporate bond issuance as a source of debt capital in order to expand its operations.

The General Meeting of the CLSU Members elected a new President, Mr. Dmitriy Bogoduhov, CEO of the leasing company “LEASE IT”, as well as Members of the Board appointed Mr. Dmitriy Kruglov, Director of the leasing company “Ukrtransenergo”, Executive Director of the CLSU in November, 2007. Due to the change of the CLSU’s leadership, the re-registration of the Union within the Ministry of Justice of Ukraine is required and is being registered by the legal firm “LEXCONSULT” based on the agreement entered into with ATCI. According to this agreement, “LEXCONSULT” will also carry out the registration of the non-profit status of the CLSU within the tax bodies, accomplish all necessary procedures to obtain the seal of the Union from the authorization system of Ukraine (the seal was obtained in December 2007), and open a bank account.

In the Law of Ukraine On State Budget for 2008 (Art. 67), it is planned to have UAH 7 billion spent on financial leasing of medical equipment (term of contract – 7 years) which is evidence of growing interest of the state in leasing as one of the possible means of financing the purchase of fixed assets.

IV. ADMINISTRATIVE ISSUES – LEASING UKRAINE

Robert Homans resigned from the position of the President of the CLSU and, in September 2007.

Recent CLS graduate Alina Chernomaz of ATCI staff was promoted to Leasing Assistant Advisor.

V. DESCRIPTION AND STATUS OF TASKS – LEASING UKRAINE

Task 1. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Development of CLS Program for Ukraine 	<ul style="list-style-type: none"> • IN DECEMBER, 2007, ATCI AND AUDITING AND CONSULTING COMPANY “KOMPAS” SIGNED SUPPLEMENTARY AGREEMENT TO THE AGREEMENT ON COOPERATION IN CONDUCTING CLS PROGRAM TRAINING FOR THE 4TH SESSION (FEBRUARY-MAY, 2008) WITHOUT REVISION OF AMOUNTS AND MECHANISMS OF SPONSOR ASSISTANCE ON THE ATCI’S PART. THE REVISION OF TERMS OF COOPERATION IS PLANNED DURING PREPARING OF THE NEW AGREEMENT FOR JUNE, 2008 – AUGUST, 2009. • AT END OF 2007, A TOTAL OF 67 GRADUATES SUCCESSFULLY COMPLETED THE CLS TRAINING • IN COOPERATION WITH TRAINERS PARTICIPATING IN THE CLS PROGRAM TRAINING SEMINARS ORGANIZED BY “KOMPAS”, WORK HAS BEEN LAUNCHED ON REVIEWING AND AMENDING THE CONTENT OF CERTIFIED LEASE SPECIALISTS PROGRAM WHICH IS TO BE COMPLETED BY FEBRUARY 2008. • IN DECEMBER 2007, AUDITING COMPANY “INTERNATIONAL STANDARDS” (LVIV) ADDRESSED ATCI WITH AN AIM OF UNDERGOING ALL PROCEDURES NECESSARY TO BECOME THE OFFICIAL CLS PROGRAM TRAINING PROVIDER IN THE WESTERN REGION WHERE 20% OF ALL UKRAINIAN LEASING COMPANIES ARE CONCENTRATED.
<ul style="list-style-type: none"> • Develop and deliver training seminars for industry participants 	<ul style="list-style-type: none"> • ATCI WILL CONTINUE TO WORK DIRECTLY WITH VARIOUS INDUSTRY STAKEHOLDERS TO RAISE THE PROFILE OF LEASING AMONG POTENTIAL LESSEES AND OTHER INDUSTRY PARTICIPANTS.

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Work with key industry stakeholders to promote necessary reforms to create a more favorable legal, tax and regulatory environment for leasing in Ukraine 	<ul style="list-style-type: none"> • ATCI PROVIDED INFORMATION TO THE ANTI-MONOPOLY COMMISSION OF UKRAINE, IN CONNECTION WITH A CASE AGAINST A MAJOR STATE-OWNED LESSOR. • ATCI WILL CONTINUE TO WORK DIRECTLY WITH VARIOUS INDUSTRY STAKEHOLDERS TO RAISE THE PROFILE OF LEASING

	<p>AMONG RELEVANT GOVERNMENT OFFICIALS AND IMPLEMENT REFORMS TO IMPROVE THE LEGAL AND TAX ENVIRONMENT FOR LEASING IN UKRAINE.</p> <ul style="list-style-type: none"> • FOLLOWING THE SEMINAR FOR POTENTIAL LEASEES HELD IN SIMFEROPIL IN JUNE 2007, KRIUKOV RAILROAD CAR BUILDING PLANT MANAGEMENT RESOLVED TO SET UP ITS OWN LEASING COMPANY, "IMPROMLEASING UKRAINE" ESTABLISHED IN NOVEMBER 2007.
--	---

Task 3. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Provide advisory services to market participants 	<ul style="list-style-type: none"> • ATCI CONTINUED TO WORK WITH 'LEASE IT' ON ITS EFFORT TO ATTRACT ADDITIONAL DEBT CAPITAL OF UAH 15,000,000 (\$ 3,000,000); • ATCI HAS STARTED TO WORK WITH A NEWLY-ESTABLISHED LEASING COMPANY "LEASING COMPANY IMPROMLEASING UKRAINE" LTD. (ESTABLISHED BY THE SUPPLIER KRIUKOV RAILROAD CAR BUILDING PLAND). • ATCI CONTINUED TO FACILITATE RELATIONSHIPS BETWEEN LESSORS, BANKS, EQUITY INVESTORS, AND VENDORS FOR INCREASED LEASING ACTIVITY BASED ON INTERNATIONAL BEST PRACTICES.
<ul style="list-style-type: none"> • Attract Outside International Investment to Ukraine's Leasing Industry 	<ul style="list-style-type: none"> • ATCI MET WITH THE INTERNATIONAL MANAGER OF THE OTP BANK REGARDING ENTRY STRATEGY OF A NEW LEASING COMPANY WHICH WILL BE FOUNDED BY THE OTP BANK (100% HUNGARIAN INVESTMENT OF MERKANTILBANK) • ATCI MET WITH THE SEB BANK (100% SWEDISH CAPITAL) CHAIRMAN OF THE BOARD REGARDING LEASING DEPARTMENT DEVELOPMENT STRATEGY AND DEFINITION OF MAIN DIRECTIONS OF LEASING BUSINESS IN UKRAINE. ▪ IN 2008 ATCI WILL CONTINUE TO WORK WITH INDUSTRY PARTICIPANTS TO ATTRACT INTERNATIONAL OUTSIDE INVESTMENT TO UKRAINE'S LEASING INDUSTRY.

LIST OF ATTACHMENTS – LEASING UKRAINE

ATTACHMENT 10 Plan for the Leasing Manual

F. CREDIT BUREAU/CREDIT RATING AGENCY - Ukraine

This report provides details on events and activities relating to the Credit Bureau/Credit Rating component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from October 1, 2007 through December 31, 2007.

I. COMPONENT DESCRIPTION - CREDIT BUREAU UKRAINE

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

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

II. SIGNIFICANT EVENTS - CREDIT BUREAU UKRAINE

- ATCI/USAID PARTICIPATED IN ALL-RUSSIAN CREDIT BUREAU CONFERENCE.
- THE BUREAU OF INSURANCE HISTORIES STARTS ITS OPERATIONS IN UKRAINE
- FNBCH HAS DATA PROVISION AGREEMENTS WITH 42 BANKS. IBCH EXPECTS 1 MLN. CREDIT HISTORIES IN ITS DATABASE BY THE END OF 2007.
- NOTEWORTHY ARTICLE ON CREDIT BUREAU ISSUES (WITH REFERENCES TO EXPERT COMMENTS OF ATCI/USAID AND FNBCH) PUBLISHED BY "LIGA" WEB PORTAL.
- ATCI/USAID PLANS TO LAUNCH A COMPREHENSIVE PUBLIC AWARENESS CAMPAIGN IN 2008.

III. EXECUTIVE SUMMARY – CREDIT BUREAU UKRAINE

ATCI continued to provide on-going consultancy to ensure compliance with international standards of best practice during the development phase of a credit reporting system, and to provide advice to the overall market with respect to data sharing and the reduction of data fragmentation.

ATCI's area of focus remained in two basic areas: a) overall coordination of the market given the likelihood of data fragmentation and b) drafting regulations.

ATCI continues to interface on a regular basis with FNBBCH, IBCH, and other interested parties, including foreign credit bureau operators. Major highlights and accomplishments over the past quarter follow.

1. Continued work with FNBBCH and IBCH

In the 4th quarter 2007, both FNBBCH and IBCH continued to request assistance from ATCI, particularly in connection with a) educating market participants, and b) providing support to the credit bureau regulatory authorities with respect to draft regulations, the meaning of data exchange and the need to find a balance between privacy and data flows. ATCI supported its counterparts in the following areas:

- Work at the legal and regulatory levels
- Work with banks and other financial institutions.

2. ATCI participated in All-Russian Credit Bureau Conference

On October 10-12, 2007, ATCI participated in All-Russian Credit Bureau Conference organized by Russian National Bureau of Credit Histories. FNBBCH was also among the participants. This Conference was attended by more than 60 representatives of Russian banks and credit bureaus. In Russia, 3 major credit bureaus that have international partners control about 90% of the market. The major topic of this Conference was interaction of credit bureaus with debt collection companies. This is an important issue for CBs, since once a debt collection agency purchases debt portfolio from banks, a CB has no information about the "destiny of debts" and the status of borrowers. In this respect the development of mechanisms for interaction between CBs and debt collection agencies is very important. Currently Russia is in the process of reviewing Draft Law "On Debt Collection Agencies" aimed at regulating the activity of debt collection agencies.

3. The Bureau of Insurance Histories starts its operations in Ukraine

Russian Bureau of Insurance Histories, jointly with Ukrainian League of Insurance Organizations, opened its representative office in Ukraine. At this stage, 32 Ukrainian insurance companies joined the project to exchange information about their clients. The subscription fee is about UAH 1100 per month irrespective of the number of

applications for information. The major objective behind this initiative is to fight fraudulent practices in insurance sector. On the one hand (given current lack of significant interest of insurance companies to cooperation with credit bureaus) this is good for Ukrainian insurance sector. Something is better than nothing. On the other hand, in terms of further development of credit bureaus, this is bad, since to some extent it can be considered as further fragmentation of credit bureau market if most of insurance companies (who are prospective credit bureau clients) choose to cooperate with the bureau of insurance histories.

4. FN BCH and IBCH progress

By the end of the 4th quarter 2007, FN BCH has concluded cooperation agreements signed with 42 banks. Actual status of these banks' interaction with FN BCH differs. Some banks are at the initial stage of connection, 8 banks are testing the system, and 17 banks already feed the "live data" to FN BCH database and receive full-fledged credit reports (at this stage for a symbolic fee of UAH 1 per quarter). FN BCH also plans to introduce subscription fee for its banks depending on the size of bank assets. There will be 4 categories of subscription fees, the highest is related to the size of assets, therefore the greater the assets, the higher the fee. This decision was adopted by FN BCH Supervisory Board to get banks "psychologically" accustomed to paying for FN BCH services.

By the end of the 4th quarter 2007, IBCH has 35 partners, about 1 million credit histories in its database, and has started commercial sales of credit histories.

5. Public Awareness

As part of public awareness campaign, a significant article on credit bureau issues (with references to expert opinion of ATCI/USAID specialist) was published by "LIGA Business Net", popular legal and business information web portal. In addition, ATCI is reviewing the possibility for launching a comprehensive public awareness campaign throughout Ukraine in 2008.

IV. COMPONENT DESCRIPTION - CREDIT RATING UKRAINE

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

Ukraine faces great challenges in fostering further development of capital markets that enable efficient mobilization of domestic and foreign capital to support sustainable economic growth. Credit ratings offer significant benefits for investors. It is true that ratings do not constitute investment or financial advice. Ratings are not recommendations to purchase, sell, or hold particular securities. However, ratings do serve as an important tool for the adoption of sound and informed investment decisions based on a professional opinion for payment of debt.

Ratings represent additional information content and quality framework for the market. They facilitate investor comparison and selection of investment alternatives. A rating agency, with its fundamental approach and access to information, provides ratings that validly compare and contrast the strengths of different organizations and represent opinions regarding relative future creditworthiness of entities or instruments.

Being at a nascent stage, Ukrainian ratings industry has a long way to go, and an ATCI objective is to make sure that it develops according to international best practices. To achieve this objective and in active cooperation with market participants and government agencies, ATCI focuses its efforts on establishing policy dialogue aimed at both the development of fair and effective regulatory framework and implementation of best international practices on operational level.

V. SIGNIFICANT EVENTS - CREDIT RATING UKRAINE

- FINANCIAL SERVICES REGULATOR (FSR) INTENDS TO ESTABLISH FINANCIAL STABILITY RATING RESTRICTIONS FOR NON-RESIDENT INSURANCE COMPANIES
- 'KREDIT-RATING' ASSIGNS THE FIRST CORPORATE GOVERNANCE RATING IN UKRAINE
- TAC GROUP WINS LAW SUIT AGAINST FSR

VI. EXECUTIVE SUMMARY - CREDIT RATING UKRAINE

Brief Historic Note

The mandatory rating requirement came into existence in late 2004. This required those companies wanting to issue ratings in Ukraine to be selected by tender conducted by the SSMSC. One key requirement was that the ratings company be a Ukrainian legal entity. This requirement limited participants to only a few ratings and kept the internationally recognized rating agencies out all together. Only Credit Rating received authority from the SSMSC to offer ratings to Ukrainian issuers. Effectively, any company or municipality that wanted to issue securities had to use them. The mandatory requirement remains in effect to this day and accounts for the exceptional growth of CR.

Current Situation

Adoption of the Law of Ukraine # 3201 dated Dec. 15, 2005 expands and legislates mandatory ratings. This Law specifies the issuers and types of securities¹ subject to

¹ All types of issuable securities (which are not allocated among the founders or among the preliminary determined persons) are subject to mandatory rating, except the following types of securities: government

mandatory rating. In response to Law #3201, the SSMSC developed and adopted the resolution that allows Ukrainian companies to use Fitch, Moody's and Standard & Poor's ratings for the domestic market. In other words, these three international rating agencies are allowed by the law to assign ratings (still mandatory) to Ukrainian issuers and their securities.

Pursuant to the Law # 3201 mandatory ratings can be assigned by:

Authorized Ukrainian rating agencies certified by the SSMSC;
International rating agencies recognized by the SSMSC.

Additionally, the National scale approved by the Cabinet of Ministers must be used only by authorized Ukrainian rating agencies; International ratings agencies can use their own scales.

In May 2007, the Cabinet of Ministers of Ukraine approved the revised National Rating Scale. As mentioned above authorized Ukrainian rating agencies (so far "Credit-Rating" only) must use this scale. The National Scale includes long-term credit ratings (more than one year) and short-term ratings (up to one year). Ratings are subdivided into two grades: investment grade and speculative grade. Definitions of different ratings used in the National Scale are similar to those used in Ukraine-specific national scales used by international rating agencies.

On the one hand, the market could accept this National Scale as long it is just the set of definitions specifying different rating grades that do not entail "prescribed methodology" for assigning ratings. In this respect, the good news for international rating agencies is that the National scale (as mentioned before) resembles their Ukraine-specific scales. This makes it easier to match ratings assigned by international rating agencies to specific rating grades under the National Scale. But overall, the entire concept of National Scale runs contrary to the best international practice, since the Government should not tell rating agencies what scale they should use in their operations. Mandatory ratings are in themselves contrary to international best practices.

Furthermore, currently the SSMSC is drafting the regulation on correspondence of international rating agencies' ratings to the ratings under the Cabinet of Ministers' National Scale.

Events in the Market

ATCI/USAID met with the Chairman of Ukrainian Investment Business Association, Mr. Dmitry Leonov to discuss the status of Ukrainian rating sector and possible ways for improving the general situation and securing market competition in this industry. Mr. Leonov shared ATCI's vision that the rating industry in Ukraine needs a special law that

securities, shares, securities of non-diversified joint investment institutions, securities issued by State Mortgage Institution

would eliminate mandatory rating requirement and establish fair rules of the game for all market participants, including international rating agencies. Mr. Leonov suggested the creation of a working group (including UIBA, ATCI and interested market participants) that would draft an alternative law on rating system (given the fact that SSMSC drafted such law - which preserves mandatory rating requirement and monopoly of "Credit Rating" – but the Cabinet of Ministers never submitted this draft law for consideration by Ukrainian Parliament), and after the formation of new Parliamentary coalition to submit this alternative draft law for adoption by Ukrainian Parliament. According to Mr. Leonov, after the submission of an alternation draft law to the Parliament it would also be very useful to hold a series of events/round tables aimed at promoting the new draft law. It is important that these round tables should be attended by both market players and respective parliamentarians. These activities are expected to be launched in 2008.

VII. ADMINISTRATIVE MATTERS – CB/CR UKRAINE

NONE

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

Task 1. Credit Bureau: Assessment of Credit Bureau Status and Establishment of Credit Bureau System in Ukraine

Defined Activity	Progress made during quarter/proposed future actions
<ul style="list-style-type: none"> Develop and establish linkages with primary international credit bureau operators 	<ul style="list-style-type: none"> COMPLETED - CREDITINFO WINS FNBCH TENDER
<ul style="list-style-type: none"> Secure buy-in of local data providers and users 	<ul style="list-style-type: none"> MARKET REMAINS SPLIT – DATA FRAGMENTATION CONTINUES AS FOUR CREDIT BUREAUS HAVE BEEN ESTABLISHED IN UKRAINE. THE BUREAU OF INSURANCE HISTORIES STARTS ITS OPERATIONS IN UKRAINE.
<ul style="list-style-type: none"> Sponsor visits to potential foreign CB partners 	<ul style="list-style-type: none"> COMPLETED - FINANCIAL ASSISTANCE HAS NOT BEEN REQUESTED AND IS NO LONGER REQUIRED.
<ul style="list-style-type: none"> Determine and review CIC development strategy with government and counterparts 	<ul style="list-style-type: none"> FNBCH REQUESTS FURTHER ATCI ASSISTANCE CONTINUED DISCUSSIONS WITH AUB AND OTHER CIC REPRESENTATIVES FURTHER IMPLEMENTATION STRATEGY FOR THE DEVELOPMENT OF CB.
<ul style="list-style-type: none"> Market best approach for structuring, establishing and 	<ul style="list-style-type: none"> PUBLIC RELATIONS STRATEGY CONTINUED AND

<p>operating CIC</p>	<p>INCLUDED VISITS TO INDIVIDUAL MARKET PARTICIPANTS.</p> <ul style="list-style-type: none"> • FNBCH AND ICB CONTINUE NEGOTIATIONS ON CONCLUSION OF AGREEMENTS WITH TELECOMMUNICATIONS AND INSURANCE SECTOR. • IBCH CONDUCTS A TEST SALE OF CREDIT REPORT • IBCH ACCUMULATED OVER 200 000 CREDIT HISTORIES IN ITS DATABASE • THREE NEW SHAREHOLDERS JOIN IBCH. NBCH COMPLETED SIGNING OF AGREEMENTS ON PROVISION OF DATA WITH ITS SHAREHOLDER-BANKS
<ul style="list-style-type: none"> • Analyse and Coordinate passage of law 	<ul style="list-style-type: none"> • MARKET PARTICIPANTS RECOGNIZE THE NEED FOR AMENDMENTS TO THE CREDIT BUREAU LAW. HOWEVER, GIVEN THE STATE OF MARKET DEVELOPMENT, IMMEDIATE AMENDMENTS ARE DEEMED PREMATURE.
<ul style="list-style-type: none"> • Define Business and Operations Plan 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Outline Package of Technical Requirements 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Discussions with Government Data Providers 	<ul style="list-style-type: none"> • DIFFICULTY IN FINDING THE "PERSON" IN CHARGE OF PUBLIC REGISTRIES STILL CONTINUES

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

<ul style="list-style-type: none"> • Secure Buy-in of Foreign Investors and Banks 	<ul style="list-style-type: none"> • CREDITINFO (ICELAND) NOW OPERATES A COMMON PLATFORM FOR THE TWO LARGEST BUREAUS. • THE MINISTRY OF JUSTICE OF UKRAINE ISSUED THE LICENSE TO THE FOURTH BUREAU OF CREDIT HISTORIES – "RUSSKIY STANDART". • BRITISH COMPANY "PROVIDENT FINACIAL" ENTERS UKRAINIAN RETAIL LENDING MARKET • FNBCH HAS AGREEMENTS WITH 42 BANKS. ACTUAL PROVISION OF CREDIT REPORTS HAS STARTED WITH 17 BANKS. • IBCH HAS 35 PARTNERS, ONE MILLION CREDIT HISTORIES IN ITS DATABASE, AND STARTED COMMERCIAL SALE OF CREDIT REPORTS.
<ul style="list-style-type: none"> • Develop and Deliver Package of Training Programs (banks, leasing, credit unions) 	<ul style="list-style-type: none"> • AUB REQUESTS ATCI TO CARRY OUT A SERIES OF PRESENTATIONS FOR REGIONAL BANKS. THIS JOINT ACTIVITY, TO HAVE BEEN ORGANIZED BY AUB AND UNDERTAKEN JOINTLY WITH AUB, HAS BEEN POSTPONED UNTIL 2008. • ATCI INDEPENDENTLY HOLDS A SEMINAR IN

	SIMFEROPOL ON CREDIT BUREAU/LEASING ISSUES UPON THE REQUEST OF UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS.
<ul style="list-style-type: none"> • Assist the Ministry of Justice in drafting regulations governing CB operations 	<ul style="list-style-type: none"> • THE MINISTRY OF JUSTICE REQUESTED ATCI ASSISTANCE IN DRAFTING REGULATIONS GOVERNING CREDIT BUREAU OPERATIONS. • COMPLETED - TASK FORCE (ATCI, ICB, FNBCH, MINISTRY OF JUSTICE) FINALISES THE REGULATION ON LICENSING REQUIREMENTS.AND MINISTRY OF JUSTICE OF UKRAINE ADOPTS LICENSING REGULATION FOR CREDIT BUREAUS. • TASK FORCE AGREES TO DRAFT TWO MORE REGULATIONS: ON UNIFIED REGISTRY OF CREDIT BUREAUS, AND ON INSPECTION OF CREDIT BUREAUS. • FNBCH, IBCH, AND UBCH (PRIVATBANK) RECEIVED THE LICENSE • ATCI ASSISTS UKRAINIAN CREDIT BUREAUS AND THE MINISTRY OF JUSTICE OF UKRAINE IN ADDRESSING PRACTICAL PROBLEMS RESULTING FROM THE ADOPTED LICENSING REGULATION • ATCI, UKRAINIAN CREDIT BUREAUS AND THE MINISTRY OF JUSTICE OF UKRAINE CONTINUE THE DEVELOPMENT OF REGULATION ON INSPECTION OF CREDIT BUREAUS. • THE MINISTRY OF JUSTICE PUBLISHED DRAFT REGULATION ON INSPECTION OF CREDIT BUREAUS ON ITS WEB PAGE. ATCI SUBMITTED ITS COMMENTS TO THE DRAFT REGULATION TO THE MINISTRY OF JUSTICE.
<ul style="list-style-type: none"> • Deliver educational workshops for the specialists of the Ministry of Justice and other state agencies 	<ul style="list-style-type: none"> • COMPLETED - ATCI HOLDS 2 MINI WORK SHOPS FOR THE SPECIALISTS FROM THE MINISTRY OF JUSTICE • MINISTRY OF JUSTICE EXPRESSED INTEREST IN FURTHER SEMINARS. ATCI WILL ASSESS JUSTICE RESPONSIVENESS TO DRAFT REGULATIONS PRIOR TO COMMITMENT • COMPLETED – ATCI HOLDS A SEMINAR ON MORTGAGE AND CREDIT BUREAU ISSUES FOR THE SPECIALISTS FROM CENTRAL AND REGIONAL OFFICES OF THE SECURITIES COMMISSION.
<ul style="list-style-type: none"> • Discuss participation in international credit bureau conference to be held in Kyiv/Ukraine 	<ul style="list-style-type: none"> • COMPLETED - ATCI CO-SPONSORED AND PARTICIPATED IN INTERNATIONAL CREDIT BUREAU CONFERENCE.
<ul style="list-style-type: none"> • Participation in international Conference “Payment Card – 2006” 	<ul style="list-style-type: none"> • COMPLETED - ATCI ATTENDED THIS CONFERENCE BUT DID NOT CO-SPONSOR IT OR MAKE ANY PRESENTATIONS.

CREDIT RATING COMPONENT	
<ul style="list-style-type: none"> • Assist in the development of competitive and fair ratings industry 	<ul style="list-style-type: none"> • COMPLETED - ATCI ENGAGED INTERNATIONAL CREDIT RATINGS EXPERT TO PREPARE THE WHITE PAPER ON THE STATUS OF AND RECOMMENDATIONS FOR UKRAINIAN RATING INDUSTRY. • COMPLETED - INTERNATIONAL CREDIT RATINGS EXPERT PREPARED A WHITE PAPER ON THE DEVELOPMENT OF A COMPETITIVE DOMESTIC RATINGS INDUSTRY IN UKRAINE AND RECOMMENDATIONS FOR THE UKRAINIAN RATING INDUSTRY. ATCI DISSEMINATED THE WHITE PAPER TO MARKET PARTICIPANTS, THE SECURITIES COMMISSION AND OTHER INTERESTED PARTIES. • COMPLETED - ATCI TAKES PART IN THE CONFERENCE ORGANIZED BY UKRAINIAN INVESTMENT BUSINESS ASSOCIATION TO REPEATEDLY DISSEMINATE THE WHITE PAPER AND PRESENT ATCI/USAID VISION OF UKRAINIAN RATING INDUSTRY • ATCI MEETS WITH UIBA AND AGREES ON STRATEGY FOR DRAFTING A SPECIAL RATINGS LAW TO SECURE THE DEVELOPMENT OF COMPETITIVE AND FAIR RATING INDUSTRY.
<ul style="list-style-type: none"> • Analyze existing Regulatory framework 	<ul style="list-style-type: none"> • ATCI CONTINUES TO ANALYSE AND MONITOR EXISTING LEGISLATION AND REGULATORY FRAMEWORK. • EXSITING LAWS AND REGULATIONS CONTAIN A NUMBER OF PROVISIONS, WHICH ARE DETRIMENTAL FOR FURTHER DEVELOPMENT OF FAIR AND COMPETITIVE RATINGS INDUSTRY • SSMSC ADOPTED THE RESOLUTION #1040 "ON APPROVING THE REGULATION ON TENDER FOR SELECTION OF AUTHORIZED RATING AGENCIES" (REGISTERED BY THE MINISTRY OF JUSTICE NOVEMBER 24, 2006). • TENDER FOR SELECTION OF AUTHORIZED RATING AGENCIES TOOK PLACE ON JANUARY 27 THROUGH FEBRUARY 2, 2007. • SSMSC ADOPTED THE RESOLUTION "ON APPROVING THE PROCEDURE FOR KEEPING THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES AND ISSUING THE CERTIFICATE ON INCLUSION TO THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES". • "CREDIT RATING" IS INCLUDED INTO THE STATE REGISTRY OF AUTHORIZED RATING AGENCIES WITHOUT A TENDER. • SSMSC ADOPTED THE RESOLUTION "ON APPROVING THE

	<p>PROCEDURE FOR SUBMISSION OF INFORMATION TO SSMSC BY AUTHORIZED RATING AGENCIES” .</p> <ul style="list-style-type: none"> • SSMSC ISSUED DRAFT RESOLUTION “ON APPROVING THE RULES FOR ASSIGNING RATINGS UNDER THE NATIONAL SCALE BY THE AUTHORIZED RATING AGENCIES” . • SSMSC AND MARKET PARTICIPANTS DEVELOPED THE DRAFT LAW “ON RATING SYSTEM” . AS OF THE SECOND QUARTER 2007, THERE HAS BEEN NO PROGRESS SINCE ITS DEVELOPMENT. • SSMSC HOLDS THE FIRST ROUND OF THE TENDER FOR SELECTION OF AUTHORIZED RATING AGENCIES. • 4 RATING AGENCIES SHORTLISTED: “EXPERT RATING” , “IBI-RATING” , “RYURIK” AND “CONSULTING-GAMMA” • TENDER CANCELLED DUE TO A LAW SUIT. “CREDIT- RATING” REMAINS THE ONLY DOMESTIC AUTHORIZED RATING AGENCY. • IN MAY 2007, THE CABINET OF MINISTERS OF UKRAINE APPROVES A REVISED NATIONAL RATING SCALE. • FINANCIAL SERVICES REGULATOR (FSR) INTENDS TO ESTABLISH FINANCIAL STABILITY RATING RESTRICTIONS FOR NON-RESIDENT INSURANCE COMPANIES
<ul style="list-style-type: none"> • Market participants 	<ul style="list-style-type: none"> • RATING AGENCY “EXPERT-RATING” ENTERS THE UKRAINIAN MARKET • “KREDIT-RATING” ASSIGNS THE FIRST CORPORATE GOVERNANCE RATING IN UKRAINE. • TAC GROUP WINS A LAW SUIT AGAINST THE FSR

LIST OF ATTACHMENTS – CB/CR Ukraine

ATTACHMENT 11 2nd All-Russian Conference on Credit Risks, October 10-13, 2007, Agenda

G. GENDER - Ukraine

I. COMPONENT DESCRIPTION – GENDER UKRAINE

This report details events and activities relating to Gender of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from October 1 through December 31, 2007.

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

ATCI management recognizes the importance of carrying out gender sensitivity training for the staff in order to have a solid basis for the monitoring work.

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

Examine the program to ascertain whether if there are any provisions that could differentially discourage persons of one sex or another from participating;
Inquire about how program outreach is conducted to understand whether if these procedures may be differentially affecting participation by gender;

Examine the actual patterns of participation by gender in selected programs, to the extent permitted by the data;

Where differential participation by gender is identified, try to understand its causes and make appropriate changes.

With respect to the representation of women in higher positions in government agencies, the ATCI will work to balance the composition by gender of groups being trained by the project.

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

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – GENDER UKRAINE

- TO DATE, 67 CLS CERTIFICATES HAVE BEEN AWARDED TO 35 WOMEN AND TO 32 MEN OR NEARLY 50% FOR EACH OF THE TOTAL AWARDS GIVEN
- TO DATE, 98 CML CERTIFICATES HAVE BEEN AWARDED TO 43 WOMEN (44%) AND TO 55 MEN

III. EXECUTIVE SUMMARY – GENDER UKRAINE

All ATCI tasks present opportunities to identify and address gender bias, and to actively promote gender equality in Ukraine's financial sector. For example, ATCI is working closely with the Ukrainian National Mortgage Association, the Association of Ukrainian Banks, the Commercial Law Center and other organizations that understand the importance of gender sensitivity with respect to product and services development. These issues have not only been discussed but plans are underway to draft material and articles which point out important opportunities in this area.

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

The Project staff of ATCI project includes 13 women out of 25, some of whom have professional and technical skills in finance and law.

IV. ADMINISTRATIVE ISSUES – GENDER UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – GENDER UKRAINE

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Partner with Woman – run organizations (CLC & UAB) 	<ul style="list-style-type: none"> • ATCI IS WORKING CLOSELY WITH THE ASSOCIATION OF UKRAINIAN BANKS, THE COMMERCIAL LAW CENTER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY RELATED TO PRODUCT AND THE DEVELOPMENT OF SERVICES.
<ul style="list-style-type: none"> • Increasing the role of women in the financial sector through training and /or other initiatives 	<ul style="list-style-type: none"> • THE STAFF OF ATCI INCLUDES WOMEN AND MEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW. • ALL PROJECT TRAINING STRIVES FOR AN EVEN BALANCE OF MEN AND WOMEN. RECENT TRAINING IN SEVASTOPOL AND THE SSMSC SEMINAR ON MORTGAGE BONDS ACHIEVED THIS BALANCE
<ul style="list-style-type: none"> • Gender and cultural sensitization training 	<ul style="list-style-type: none"> • GENDER SENSITIVITY IS PRACTICED DAILY BY ALL ATCI STAFF AND HIGHLIGHTED AT THE ANNUAL STAFF RETREAT

- END UKRAINE-

ACCESS TO CREDIT INITIATIVE MOLDOVA

FIFTH QUARTERLY REPORT

October 1, 2007 – December 31, 2007

Contract Number: 121-C-00-04-00713

CTO USAID/Ukraine:	Rick Gurley
Project Manager:	Mohammad Fatoorechie
Chief of Party:	David Lucterhand
Project Mgr. USAID/Mold:	Corneliu Rusnac
Country Director/Mold:	Rick Dvorin

MOLDOVA (Fifth Quarterly)

A. PROJECT OVERVIEW - Moldova

I. PROJECT DESCRIPTION – EXECUTIVE SUMMARY MOLDOVA

ATCI/Moldova (the “Project”) is established under the supervision of ATCI/Ukraine, with a separate Country Director in Moldova reporting to the Chief of Party in Ukraine. The scope of ATCI/Moldova is similar to that of ATCI/Ukraine, yet narrower and more focused regarding the major components and tasks.

The three (3) major components of the ATCI/Moldova project are:

- Mortgage Lending Component;
- Financial Leasing Component; and
- Fixed Income Component.

A fourth component was added in the second quarter, “Development Credit Authority (DCA) Monitoring” Component.

A summary of all components and related activities are presented as **Attachment 1, *The Access to Credit Initiative/Moldova Work Plan, Updated as of December 31, 2007.*** This Work Plan is the newly approved Work Plan for ATCI/Moldova’s second year, ending September 2008, yet shows the activities of the first year as well. The Work Plan was approved in January 2008, after lengthy discussions with USAID CTO and Project Manager, along with ATCI COP and Country Director. It is also worth noting that some originally proposed activities, particularly those in the Mortgage Lending Component, are notated “as possible in Moldova” or “as appropriate in Moldova”, relating to the macro environment and developments in Moldova which are beyond the scope of the ATCI/Moldova Project. Some of these activities relating to infrastructural items related to mortgage lending in fact have been deleted from the Work Plan.

The objective of the Mortgage Lending Component is to establish a viable, effective and efficient mortgage lending sector in Moldova. This will be accomplished by providing technical, advisory, and training assistance to the National Bank of Moldova and to commercial banks and other financial institutions. A Certified Mortgage Lender (CML) Training Program has been adapted for Moldova and presented in order build the capacity of commercial banks and other financial institutions to undertake mortgage lending using standardized, transparent procedures for both borrowers and other lenders. Additionally, technical assistance has been provided to commercial banks and financial institutions to lower the risks associated with mortgage lending and improve the transparency of mortgage lending practices. Other tasks and sub-tasks are described in the “Mortgage Lending” section of this Report, under “Description and Status of Tasks”.

The objective of the Financial Leasing Component is to create a supportive environment for modern financial leasing. This will be achieved by building the capacity of leasing companies through training and consulting; provision of training for potential lessees, farmers, regulators, and other interested parties, such as vendors, banks; consulting potential foreign investors in the sector; and conducting public awareness efforts. A Certified Leasing Specialist (CLS) Training Program has been adapted for the Moldovan environment presented to leasing professionals, potential leasing professionals, and to training providers for their subsequent delivery of the CLS training program in Moldova.

It is most important that activities of this Project have a viable and beneficial impact on activities directly and even indirectly related to those described in the Work Plan. A key goal for both of the components mentioned above is to ensure continuity of the training programs after this Project ends via the “train the trainer” methodology. In this regard, ATCI/Moldova has selected or will be selecting local training providers to carry on the training and certification programs according to international standards. The training provider for the CLS program has been selected, along with a back up provider; trainers from these providers have attended the CLS courses. The training provider for the CML program has been selected by ATCI/Moldova and shall be proposed to USAID for approval early in next quarter. Meanwhile, candidate local trainers have been attending the CML courses.

The objective of the Fixed Income Component is to expand the availability of capital to corporate borrowers as an alternative to bank financing through the issuance of corporate bonds. Beginning in 2002, there have been only a few corporate bond issuances. A total of 10 companies have issued 11 bonds (one company conducted 2 bond issuances) for a total of 36 million Lei, or about \$3 million at current exchange rates. In fact, except for one bond issuance, all issuances were initiated with convertible (to equity) features, to facilitate the takeover and merger of the company. The project has continued to work with the National Commission of Financial Market (NCFM), i.e., the newly transformed Mega Regulator, to ease the legislative and regulatory burdens for bond issuance. At the same time, the project has helped build the capacity of and provide action plans for the National Securities Commission in its transformation as Mega Regulator for the Non-Bank Financial Institutions, which took place early in this quarter, in July 2007, after the Law on the National Commission of Financial Market was adopted. Concerns such as transparency and disclosures of issuers will be the main focuses for bond development while the capacity building elements will focus on legislative reform and regulatory and enforcement activities of the Mega Regulator.

The component of the Development Credit Authority Monitoring activities, which was suggested to be added by USAID as a follow up to a previous (BIZPRO) USAID project, was in fact added in late February 2007. The DCA provides partial loan guarantees for private sector investments/loans in Moldova, through 6 commercial banks and the Rural Finance Corporation. The DCA-related activities of the Project are “on-going” for the most part, and include (1) monitoring how the financial institutions are utilizing the partial

guarantees; (2) monitoring how these institutions are submitting claims; (3) assisting the institutions in completing surveys; (4) helping the financial institutions to prepare semi-annual reports for USAID; and (5) verifying the reports of the financial institutions that are submitted through the credit monitoring system.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – EXECUTIVE SUMMARY MOLDOVA

- ATCI/MOLDOVA ORGANIZED AND PRESENTED A BOND CONFERENCE ALONG WITH CO-ORGANIZERS MINISTRY OF ECONOMY AND TRADE AND NATIONAL COMMISSION OF FINANCIAL MARKET IN CHISINAU ATTRACTING OVER 140 STAKEHOLDERS IN ATTENDANCE HEARING 16 PRESENTATIONS OF PRESENTERS FROM 7 COUNTRIES; 14 POTENTIAL ISSUERS EMERGED AS HAVING DESIRE TO ISSUE BONDS WITHIN 1 AND 3 YEARS; IDENTIFIED INTERESTED POTENTIAL INVESTORS AS WELL
- THE SECOND CERTIFIED MORTGAGE LENDER (CML) CERTIFICATION TRAINING PROGRAM COMPLETED IN MOLDOVA (3 COURSES) WITH 19 TRAINEES RECEIVING CERTIFICATES; TOTAL OF 44 CERTIFIED MORTGAGE LENDERS IN MOLDOVA
- COUNTRY DIRECTOR MAKES PRESENTATION OF ATCI/MOLDOVA TO NEWLY ARRIVED USAID-COUNTRY PROGRAM OFFICER OF MOLDOVA, BRIEFING HIM ON PAST, CURRENT AND FUTURE ACTIVITIES AND IMPACTS OF PROJECT
- ATCI MOLDOVA PLANS FOR AND ADDS CML TRAINING PROGRAM IN TRANSNISTRIA FOR 6 COMMERCIAL BANKS ACTIVE IN OR PLANNING FOR MORTGAGE LENDING
- ATCI/MOLDOVA PRESENTED A NEW FINANCING VEHICLE, *FLOATING CHARGE* (I.E., *LIEM*) FOR LEASING COMPANIES SEEKING FINANCING FROM BANKING INSTITUTIONS; FINANCING VEHICLE CAN BE USED BY ANY COMPANY AS WELL
- LAW ON AMENDMENTS TO THE SECURITIES MARKET LAW ADOPTED BY PARLIAMENT INCORPORATING 2 OF 4 PROPOSED PROVISIONS BY ATCI/MOLDOVA
- LEGAL TEAM PROVIDES LEGAL SUPPORT ORGANIZING AND LEADING MEETINGS WITH LEASING PROFESSIONALS AND MINISTRIES FOR SOLUTIONS TO PROBLEMS IN LEASING FINANCIAL RESOURCES AND OTHER FISCAL-RELATED AREAS
- ATCI/MOLDOVA PREPARES FAQs, BROCHURES, AND GUIDES RELATING TO FIXED INCOME, FINANCIAL LEASING, AND RESIDENTIAL MORTGAGE LENDING FOR DISTRIBUTION
- **IMPACT NOTICE:** ATCI/MOLDOVA CONTINUES TO RECEIVE MANY COMMENTS FROM PARTICIPANTS FROM FINANCIAL INSTITUTIONS REGARDING IMPROVEMENTS THAT WERE IMPLEMENTED IN THEIR

MORTGAGE LENDING OPERATIONS DUE TO THE KNOWLEDGE AND INFORMATION LEARNED FROM CML COURSES

III. PROJECT EXECUTIVE SUMMARY – EXECUTIVE SUMMARY MOLDOVA

This Report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Access to Credit Initiative/Moldova (the "Project"), as implemented by consultants for The Pragma Corporation for the period from October 1, 2007 through December 31, 2007. ATCI/Moldova as well as this Report is comprised of four components: Mortgage Lending, Financial Leasing, Fixed Income, and Development Credit Authority (DCA) Monitoring. Each component section of the report will have a summary with specific activities and tasks identified; the status of each activity and task related to the Work Plan with appropriate commentary, relevant attachments, and reference to administrative issues, if any, will be presented.

Mortgage Lending

Primary Market

ATCI/Moldova was active in the development of the mortgage market in accordance with the Work Plan. The second Certified Mortgage Lender (CML) Training Program was presented by the short-term experts from the Institute of Urban Economics (IUE, Moscow-based), with 19 trainees receiving certificates as Certified Mortgage Lenders. Reports of the second completed CML training programs are attached to this Report, as *CML Training Reports course 1, 2, and 3, program II*; see **Attachments 2, 3, and 4**. Certificate holders came from 6 mortgage banks, 3 potential Training Providers, the National Bank of Moldova, and a microfinance company. To date, ATCI/Moldova has now graduated 44 individuals as Certified Mortgage Lenders in 2 complete CML training programs.

Additionally, to assist potential residential buyers and current homeowners, as well as to assist mortgage lending institutions, ATCI/Moldova prepared an expanded FAQ brochure for distribution, entitled *Guidance for Financial Institution Clients on Residential Mortgage Lending*. This brochure, included as an attachment in the last quarterly report, is being formatted to be included in a series of brochures to be distributed not only on the ATCI/Moldova web site, but to be sent to the relevant stakeholders, including Ministries and Regulators of the Republic of Moldova. It is contemplated that during the next quarter, ATCI/Moldova will complete the initial distribution.

The Draft Mortgage Law was approved by the Government and entered Parliament in June 2007; the Law is not yet adopted.

The Draft Law on Credit Bureaus entered Parliament during this past quarter, yet has not been read by Parliament. The Project will continue its assessment of the Credit Bureau Law and potential Credit Bureaus projected to be created in the next quarter.

Mortgage Indicator Activity statistics as of the end of third and fourth quarters 2007 will be available next quarter when ATCI/Moldova receives responses from the survey questionnaires sent to the mortgage lending companies. Meanwhile, the impact of ATCI/Moldova CML training continues to be felt as mortgage lending companies adopt or improve their operations according to knowledge and information gained during these training courses. A sampling of comments about the CML training courses along with statements from executives of mortgage lending companies on their adopted or improved operations are included as **Attachments 5 and 6**, *Impact Statements, Comments Course 1 and 2, Program II, CML Training*.

US Ambassador Kirby has started a campaign for USAID activities to be conducted in the Transnistria region of Moldova. He has approved our CML training activities to be conducted in Tiraspol, which will be initiated in January 2008. Originally, this CML training in Tiraspol was scheduled in this reporting quarter, however, this was postponed until the next quarter. A preliminary training CML training report in Transnistria is attached as **Attachment 7**, *Report on Proposed CML Training*. Training in Tiraspol will be conducted as planned, with approximately 24 trainees from 6 commercial banks.

Secondary Market

Pilot Issue

As mentioned in the prior quarter's report, ATCI/Moldova selected "Moldova Agroindbank" S.A. (MAIB) as the candidate for the pilot issuance of mortgage bonds. MAIB cleaned its data base of mortgages with the Project reviewing the portfolio for selection of the mortgages to cover the bond issuance during this quarter. Early next quarter, after MAIB's General Meeting, expert Steve Moody along with the Financial Analyst Mihail Gherghircic will discuss placement of mortgages with the principals of MAIB for their preparation of the mortgage bond issuance.

Associated Market Infrastructure

NOTE: Activities in some of these areas were deleted for the second year Work Plan, including the development of the Real Estate Brokers' Association, Appraisal Association, and mortgage-related life insurance. Activities related to the creation of the Credit Bureau will continue, with the caveat of a Credit Bureau Law being adopted, and therefore, marked in the work plan "as appropriate in Moldova".

The Law on Credit Bureaus passed from the Government to Parliament during the last quarter. Additional work relating to Credit Bureaus has been postponed until there is a Law on Credit Bureaus adopted in Moldova (a pre-requisite for the Project working on these activities). The Project, however, held meetings with the World Bank and a potential operator of a Credit Bureau during this quarter, with follow up activities planned for next quarter, including a more detailed analysis of the Credit Bureau environment along with conducting a Round Table for the stakeholders, including those from Ministries and Regulators.

Financial Leasing

During the last quarter, ATCI/Moldova completed the first full Certified Leasing Specialist Training Program. The second CLS training program will begin next quarter. A protocol between ATCI/Ukraine and the CLP Foundation must be signed in order to allow ATCI/Moldova to use the CLS logo, name, etc. and to issue certificates on behalf of the CLP Foundation. This was agreed verbally, but an agreement must be signed, along with an additional licensing fee to be paid to the CLPF. It is anticipated that during the next quarter, this will be accomplished.

Regarding the proposed bond issuance of MAIB Leasing (more on this in the Fixed Income Component section below), the Chief Executive of MAIB Leasing met briefly with the Financial Analyst and short term expert of ATCI/Moldova, with meetings scheduled next quarter. The company had submitted registration documents along to the NCFM, but had some problems with these and the documents were returned, requesting re-submission. ATCI/Moldova consultants will help assess the problems and assist in the re-submission as appropriate.

ATCI/Moldova presented a new financing vehicle, Floating Charge (i.e., lien) for leasing companies seeking financing from banking institutions to the stakeholders, leasing companies, banks, and staff of the Ministry of Justice. Briefly, the floating charge is a lien held by the bank over the whole (or partial) portfolio of assets or receivables of a company, thus eliminating the necessity for each individual asset to be accounted for. Assets under the floating charge can be used at the discretion of the company within the operations of the company's business. Rather than registering each individual asset of a company with the Ministry of Justice, the floating charge can be registered, with assets under the charge (i.e., lien) capable of freely being substituted by other, comparable valued assets. This presentation was well received by all with participating companies set to implement the financing. The power point presentation is included in this report as **Attachment 8, Floating Charge Presentation**. This form of financing can be used with essentially all types of companies, not just leasing companies, and the banks will be considering use of floating charges when assessing credit conditions for company loans.

The legal team of ATCI/Moldova also organized and presented a Round Table, discussing various (12) problems of leasing companies, at the behest of these companies, along with staff of the relevant ministries, Ministry of Economy and Ministry of Finance. The report on these problems with possible solutions or improvements within the legislation of the RoM is included as **Attachment 9, Leasing Problems and Possible Solutions**. Problems discussed include those relating to:

- Application of value added tax on expenses compensated by lessees and on commissions for leasing contracts administration;
- Interest received on leased assets as taxable items;
- Leasing claims through legislative process; and
- Deductions by leasing companies for tax purposes.

Fixed Income

The major activity of ATCI/Moldova during this quarter was the Bond Conference that was organized, sponsored and presented by the Project in December in Chisinau. The conference was entitled “Building a Bond Market in Moldova: Essential Steps for Development”. Co-Organizers included the National Commission of Financial Market along with the Ministry of Economy and Trade of the Republic of Moldova. Welcoming remarks were made by officials from USAID (Gary Linden), NCFM (Chairman Mihail Cibotaru), and Ministry of Economy (Vice Minister Viorel Melnic. Keynote addresses were made by COP David Lucterhand and First Vice Governor of the National Bank of Moldova, Victor Cibotaru. The Agenda for the Bond Conference is presented as **Attachment 10, Agenda Bond Conference**. In all, 16 presentations were made by 8 international presenters representing 8 countries’ perspectives in addition to 8 Moldovan presenters regarding the development of bond markets, barriers to overcome, legislative provisions, needs of market for issuers and investors, and next steps for Moldovan development. Participants/stakeholders attending the Bond Conference represented and numbered over 140. Based on survey results taken at the Bond Conference, ATCI/Moldova was able to uncover another 14 companies interested in issuing bonds and other investors interested in purchasing these bonds. More specific descriptions are contained in the Fixed Income section of this Report. Rather than attaching these presentations on this Report, presentations as well as other information of the Bond Conference is presented on ATCI/Moldova’s web site (linked to ATCI Ukraine’s site) at www.atci.com.md. A summary report of the Bond Conference is attached to this Report as **Attachment 11, Report on ATCI Moldova Bond Conference**.

ATCI/Moldova continued its assistance to the NCFM development in delivering recommendations for Amendments to the Securities Market Law to the NCFM. Based on recommendations from the permanent technical staff of ATCI/Moldova in addition to the recommendations of the short-term expert from last quarter, the Project delivered to Parliament, through a letter directly from the US Ambassador, 4 major recommendations for consideration to be amending the Draft Law on Amendments to the Securities Market Law in Parliament. These recommendations are contained in **Attachment 12, Embassy Letter of Recommended Provisions for Amendments to Securities Market Law**. ATCI/Moldova’s recommendations improve and upgrade to match EU Directives and international best practices regarding bond issuance and regulation. The project saw 2 of the 4 recommendations adopted by Parliament, those that provide more disclosures for bond issuing companies, thus providing more information for potential investors. One recommendation, to shorten the review period from 30 to 15 days of the NCFM on receiving registration documents, including the prospectus, was rejected; however, the NCFM can voluntarily reduce its review time, as suggested to the NCFM at a meeting with the Country Director. Another recommendation was related to the newly adopted Joint Stock Company Law, effective January 1, 2008. This recommendation regarded the deletion of the restrictive cap on bond issuance relating to a company’s

capital. Since the JSC Law was just becoming effective, the new legislation cannot be amended until 6 months after it comes into force. Therefore, the Project will prepare amendments to be accepted mid-year 2008.

The Project continued to review financials of the companies qualified or desiring to issue bonds, and to conduct meetings with their top executives. With many companies coming forth at the Bond Conference as voicing their desire to issue bonds, focus will be put on these companies to assist them where they qualify and to analyze their financials for qualification.

To further investor and issuer education and understanding of the potential benefits and risks for buying bonds and for issuing bonds, the Bond Conference accomplished this to a high degree. Included in the package of information distributed at the Bond Conference was the ATCI/Moldova FAQ brochure as well. **See Attachment 13, *FAQ Brochure on Fixed Income*.**

Development Credit Authority Monitoring

The Project continued its monitoring activities regarding the Development Credit Authority (DCA) throughout the quarter. Guarantee products offered by USAID/DCA are:

- *Loan guarantee*, for a single project, where both the borrower and lender are known in advance;
- *Portable guarantee*, for a single project, giving the borrower the opportunity to approach various lenders for best terms offerings;
- *Loan portfolio guarantee*, for multiple projects and multiple borrowers of a single lender; and
- *Bond guarantee*, for issuance of various types of bonds by financial institutions, non-financial corporations, or sub-national governments.

Review and monitoring of DCA activities is on-going.

IV. PROJECT STAFFING – EXECUTIVE SUMMARY MOLDOVA

The following are personnel of ATCI/Moldova engaged in Project activities this quarter:

- Rick Dvorin, Country Director
- Alina Birsan, Attorney
- Mariana Botezatu, Mortgage Advisor
- Tamara Burca, Translator/Interpreter
- Olga Captilova, Office Manager/Financial Controller
- Mihail Gherghircic, Financial Analyst
- Alex Levit, Driver
- Viorel Rusu, Senior Attorney

- Alisa Savva, Administrative Assistant/Receptionist

The following short-term expert advisors (and their country of origin/experience presented) worked with the Project in Moldova during the Bond Conference as presenters this quarter:

- Steve Moody, USA via Kazakhstan
- Marius Bostan, Romania
- Dan Popp, Romania
- Zurab Vanishvilli, Georgia
- Jock Paton, UK
- Michele Zotta, Italy
- Octavian Dinu, Romania
- Iliana Djorgova, Bulgaria

Additionally, Steve Moody visited with MAIB in mid-quarter to discuss their 'cleansed' mortgage portfolio in preparation of their proposed covered bond issuance. At the same time, Steve had met with other stakeholders regarding the issuance of bonds.

V. ADMINISTRATIVE ISSUES – EXECUTIVE SUMMARY MOLDOVA

The Work Plan for the second year, October 2007 through September 2008, was drafted and discussed with USAID CTO Rick Gurley and Program Manager Corneliu Rusnac at the end of December 2007. COP David Lucterhand along with Country Director Rick Dvorin made the presentations of the Work Plan. At the time of drafting this Report, the Work Plan was amended and submitted for approval. The Work Plan was approved in January 2008, as of the writing of this Report. Adjustments to the Work Plan included deleting some activities in the Mortgage Lending and Financial Leasing components, as well as adding some activities in the major (3) component areas. Work Plan is attached as **Attachment 1**.

In order to fill a void of Deputy Chief of Party on the ATCI Ukraine project as well as focus on the activities of Bond Issuance on the ATCI Moldova project, current Country Director Rick Dvorin was approved as DCOP, to be moving to Kyiv early in the next quarter. To fill this void in Moldova, Steve Moody was approved as Country Director for this ATCI/Moldova project, moving to Chisinau early in the next quarter.

The Country Director of ATCI/Moldova made a presentation to USAID Country Director Gary Linden who was newly arrived from Kyiv. Purpose of this presentation was to present activities of ATCI/Moldova, its accomplishments and impacts made, and future planned activities for reform and development. Powerpoint presentation is attached as **Attachment 14, ATCI Moldova Powerpoint, October 2007**.

The Financial Leasing Advisor of ATCI/Moldova left the Project at the end of this last quarter. The Senior Attorney left ATC/Moldova at the end of this quarter. New hires in both positions were made at the beginning of January 2008, at the time of drafting this Report, Dorin Sorbala as Financial Leasing Advisor and Stanislav Shapa as Senior Attorney.

LIST OF ATTACHMENTS

- ATTACHMENT 1:** Access to Credit Initiative/Moldova (2nd Year) Work Plan, updated as of December 2007
- ATTACHMENT 2:** CML Training Reports Course 1, Program II
- ATTACHMENT 3:** CML Training Reports Course 2, Program II
- ATTACHMENT 4:** CML Training Reports Course 3, Program II
- ATTACHMENT 5:** Impact Statements, Comments Course 1, Program II, CML Training
- ATTACHMENT 6:** Impact Statements, Comments Course 2, Program II, CML Training
- ATTACHMENT 7:** Report on Proposed CML Training
- ATTACHMENT 8:** Floating Charge Presentation
- ATTACHMENT 9:** Leasing Problems and Possible Solutions
- ATTACHMENT 10:** Agenda Bond Conference
- ATTACHMENT 11:** Report on ATCI Moldova Bond Conference
- ATTACHMENT 12:** Embassy Letter of Recommended Provisions for Amendments to Securities Market Law
- ATTACHMENT 13:** FAQ Brochure on Fixed Income
- ATTACHMENT 14:** ATCI Moldova PowerPoint, October 2007

B. MORTGAGE LENDING - Moldova

I. COMPONENT DESCRIPTION – MORTGAGE LENDING MOLDOVA

This Report provides details on the events and activities relating to the Mortgage Lending Component of the USAID Access to Credit Initiative/Moldova, as implemented by The Pragma Corporation, during the period from October 1, 2007 through December 31, 2007.

The primary purpose of the ATCI/Moldova Mortgage Lending component is to develop the primary and secondary mortgage market with its associated infrastructure, as possible and as appropriate in Moldova. Primary market development involves legislative review and addressing legislative deficiencies; the use of standardized documentation for underwriting and loan servicing; certification of personnel for mortgage lenders that results in a CML designation; technical assistance to financial institutions engaged in mortgage lending; and assessment of titling and all related processes. Development of the secondary market involves the structuring of mortgage-backed bonds with the appropriate legal environment for issuance.

A secondary goal of the Project related to Mortgage development is assisting in the development of a Credit Information Company, i.e., Credit Bureau. The Project intends to participate in this endeavor only after a Credit Bureau Law that is acceptable to USAID is adopted, as stated in the Project's SOW. To date, this law recently been sent to Parliament from the government.

II. SIGNIFICANT EVENTS – MORTGAGE LENDING MOLDOVA

- THE SECOND CERTIFIED MORTGAGE LENDER (CML) TRAINING PROGRAM COMPLETED IN MOLDOVA (3 COURSES) WITH 19 TRAINEES RECEIVING CERTIFICATES; PERSONNEL FROM THE NATIONAL BANK OF MOLDOVA INCLUDED IN TRAINING TO FURTHER THEIR REGULATORY UNDERSTANDING AND METHODOLOGIES; TOTAL OF 44 CERTIFIED MORTGAGE LENDERS IN MOLDOVA
- US AMBASSADOR APPROVES ATCI/MOLDOVA FOR ACTIVITIES IN TRANSNISTRIA REGION; ACTI/MOLDOVA PLANS FOR CML TRAINING
- **IMPACT NOTICE:** ATCI/MOLDOVA CONTINUE TO RECEIVE MANY COMMENTS FROM PARTICIPANTS OF FINANCIAL INSTITUTIONS REGARDING IMPROVEMENTS THAT WERE IMPLEMENTED IN THEIR MORTGAGE LENDING OPERATIONS DUE TO THE KNOWLEDGE LEARNED FROM CML COURSES, E.G. COMMENT FROM BANK CREDIT MANAGER:
As a result of participation in the CML courses organized by the USAID-funded ATCI project, Bank implemented the following modifications to the mortgage lending products:
 - *Increasing the maximum lending term up to 15 years – optimal term for mortgage lending on high interest rates on loans;*

- *Establishing the maximum threshold of granting loans in the amount of 70% of the cost of procured real estate, etc.*

III. EXECUTIVE SUMMARY – MORTGAGE LENDING MOLDOVA

Primary Mortgage Market

Certified Mortgage Lending Training Program

The second Certified Mortgage Lender (CML) program was completed during this quarter. 19 trainees from 6 mortgage banks, 1 mortgage agency, 3 training providers, a microfinance company, and the National Bank of Moldova received certificates. There are now 44 Certified Mortgage Lenders in Moldova. The CML training program content within the 3 courses as well as the CML trainers themselves continue to receive very high marks as to relevancy, and information brought out regarding international best practices.

During the second and third courses, for the first time, the National Bank of Moldova sent staff members to attend the CML course. The main reason for this was for the NBM to have a better understanding of the banks needs and processes. During the CML course 2, a special on-site 2 hours meeting/discussion has been organized with 16 representatives of the National Bank of Moldova and ATCI staff (Mr. A. Kopeikin, Russian trainer and ATCI Mortgage Advisor) on risk management in mortgage lending, upon Bank's request. The representatives of Banking Regulation and Supervision Department and Market Operation Department of NBM attended the meeting.

Added this quarter was CML training to be initiated in Tiraspol, Transnistria, a region of Moldova. The US Ambassador desired more USAID activities to be conducted in this region, and ATCI/Moldova received approval from the Ambassador to conduct this training. Due to some conflicts, this proposed training was delayed for this quarter, to be initiated in the next reporting quarter. The report in preparation for this training in Tiraspol is included as **Attachment 7**. The Legal Team of ATCI/Moldova reviewed the Transnistria Law on Mortgage, for deficiencies as well as overall content, with this review included as **Attachment 18, General Assessment on TN Law on Mortgage**. This assessment was sent to the IUE, Russian trainers as to be related during the anticipated CML training in Tiraspol.

Mortgage Law

The Draft Mortgage Law was sent to Parliament in a prior quarter and remains in Parliament without a reading.

Assessments of Residential Mortgage and Rural/Agricultural Lending Activity; Baselines and Project Impact; Development of Life Insurance-related mortgage products; Development of the Real Estate Broker and Appraisal Associations

These activities have been deleted from the current Work Plan.

Technical Assistance

ATCI/Moldova continued to provide on-site and/or verbal consultancy to several mortgage lending companies in the quarter. During this quarter, 6 mortgage lending companies received technical assistance advice on questions or requests regarding such issues as standardized mortgage loan documentation; standardized procedures for borrower and underwriter; and systems of contracts needed for legalizing mortgage transactions.

Secondary Market

Pilot Issue

ATCI/Moldova had selected “Moldova Agroindbank” S.A. (MAIB) as the candidate for the pilot issuance of mortgage bonds. When it is confirmed that the mortgage portfolio of MAIB can support the issuance of a mortgage bond, ATCI will seek USAID’s approval, as outlined in the Statement of Work. Meanwhile, MAIB needed to “clean” its data base, as many so-called mortgage loans on their books were in fact non-mortgage loans. This took place early in mid-quarter, with the short term expert Steve Moody meeting with the Bank to discuss the portfolio, IT issues, and the legal structure of a covered bond. **Attachment 15**, *Steve Moody’s Report, October 22-26*, is attached providing more details to the meetings and Steve’s findings. Steve will have follow up meetings with MAIB regarding covered bond issuance starting early in next quarter.

Associated Market Infrastructure

The Law on Credit Bureaus passed from the Government to Parliament last quarter where it stood at the end of this quarter. Additional work relating to Credit Bureaus has been postponed until there is a Law on Credit Bureaus adopted in Moldova (a pre-requisite for the Project working on these activities). ATCI/Moldova, however, held meetings with the World Bank, also planning to invigorate the establishment of the Credit Bureau, to coordinate our activities, yet not to wait for another donor to take action. This Project plans to take the necessary actions in order to establish the Credit Bureau(s) in Moldova, including making recommendations to the drafted legislation. ATCI/Moldova also met with a proposed organizer of a credit bureau, the Bank Association of Moldova, on behalf of the proposed founders of the credit bureau, the banks. This was a preliminary meeting, gaining information as to its progress in founding a credit bureau and where needs are for ATCI/Moldova technical assistance.

IV. ADMINISTRATIVE ISSUES – MORTGAGE LENDING MOLDOVA

As noted in the Work Plan, activities relating to the development of mortgage-related insurance and the development of the Real Estate and Appraisal Associations have been deleted.

V. DESCRIPTION AND STATUS OF TASKS (RELEVANT TO WORK PLAN THIS QUARTER) – MORTGAGE LENDING MOLDOVA

MORTGAGE LENDING COMPONENT

Task A: Implement Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. IUE review of CML training materials and methodology for applicability to Moldova: Assess mortgage activity	<ul style="list-style-type: none"> WORK COMMENCED IN PREVIOUS QUARTERS, CONTINUED IN THIS QUARTER WITH ASSISTANCE FROM MORTGAGE ADVISOR AND LEGAL TEAM OF PROJECT, IN PREPARATION FOR AND PRESENTATION OF CML PROGRAM II. COURSES II AND III OF CML PROGRAM II ADAPTED FOR MOLDOVAN MORTGAGE MARKET AND ACTIVITIES
2. Select candidates from banks and financial institutions engaged in mortgage lending	<ul style="list-style-type: none"> NUMBER OF REPRESENTED INSTITUTIONS - 14 INCLUDING: COMMERCIAL BANKS 8 MORTGAGE AGENCY 1 TRAINING PROVIDERS 3 MICROFINANCIAL ORGANISATION 1 REGULATORY BODY (NBM) 1
3. Develop and administer CML training. a. Deliver 3 completed CML courses in Chisinau; 2 in the first year b. Deliver a complete CML Program (i.e., 3 courses) in Tiraspol, as approved by US Ambassador, to 6-8 commercial banks; 24 trainees (Added to Work Plan during this Quarter)	<ul style="list-style-type: none"> COURSE MODIFICATION FOR DELIVERY IN MOLDOVA IS COMPLETED COURSES I, II AND III OF PROGRAM 1I DELIVERED IN OCTOBER - DECEMBER, 2007: COURSE 1 – OCTOBER 2-5, 2007 COURSE 2 – NOVEMBER 13-16, 2007 COURSE 3 – DECEMBER 11-14, 2007. 25 TRAINEES FROM 14 INSTITUTIONS, INCLUDING FROM 9 MORTGAGE COMPANIES AND AGENCIES AND 1 REGULATORY BODY, PARTICIPATE IN THE PROGRAM. 19 TRAINEES PASS EXAMS AND CERTIFIED AS CML MEMOS REGARDING CMLP II COURSES I, II AND III ARE INCLUDED AS ANNEXES

	<ul style="list-style-type: none"> • <u>EXTRA-ACTIVITY</u>: PLAN TO ORGANISE CML PROGRAM IN TRANSNISTRIA (NOVEMBER 27-30, 2007): Nr. of banks subscribed to participate in CML Program: 6 of 8 existing banks in Trasnistria <ul style="list-style-type: none"> ✓ Sberbank – 5 persons ✓ Ipotecinii Bank – 5 persons ✓ Gazprombank – 5 persons ✓ Agroprombank – 5 persons ✓ Tirotex – 3 persons ✓ Tiraspromstroibank – 1 person <hr/> 24 persons • NOTE: JUST PRIOR TO THE TRAINING IN TIRASPOL BEING IMPLEMENTED, DECISION MADE BY US AMBASSADOR TO POSTPONE; PLANS ARE TO INITIATE CML TRAINING IN FIRST QUARTER OF 2008. • LEGAL TEAM DRAFTED MEMO ANALYZING MORTGAGE LAW OF TRANSNISTRIA, INLCUDED AS ATTACHMENT • SUMMARY REPORT OF PROPOSED CML TRAINING IN TRANSNISTRIA IS INCLUDED AS ATTACHMENT.
<p>4. For second year, the third program implemented by training providers which is supervised by STTA-IUE CML trainers</p>	<ul style="list-style-type: none"> • N/A
<p>5. Conduct assessment of current mortgage activity and impact assessment of Certified Mortgage Lender Program (CMLP) on the mortgage lenders and on their lending practice</p>	<ul style="list-style-type: none"> • SELF ASSESSMENT SURVEY SENT TO ALL TRAINEES IN CML PROGRAM II. RESULTS ATTACHED. • SURVEY QUESTIONNAIRES ON MORTGAGE LENDING ACTIVITIES AS OF SEPTEMBER 30 AND DECEMBER 31, 2007 HAVE BEEN SUBMITTED TO THE ACTIVE MORTGAGE LENDING COMPANIES FOR UPDATED MORTGAGE LENDING STATISTICS; THE RESULTS WILL BE RECEIVED BY ATCI/MOLDOVA EARLY NEXT QUARTER
<p>6. Assessment of rural lending; titling, title registration, appraisal, and of basic element of profitable agricultural production units.</p>	<ul style="list-style-type: none"> • N/A THIS QUARTER; COMPLETED LAST QUARTER <p>NOTE: THIS SUB-ACTIVITY HAS BEEN REMOVED FROM WORK PLAN AS OF DECEMBER 2007</p>
<p>7. Deliver specialized mortgage trainings related to above and legal framework, if applicable and as needed.</p>	<ul style="list-style-type: none"> • PLAN TO ORGANISE WITH EBRD A SERIES OF ROUND TABLES/SEMINARS FOR DIFFERENT TARGET AUDIENCES FROM FINANCIAL COMMUNITIES (LAWYERS, MID MANAGEMENT LEVEL, LENDER OFFICERS, ETC.) IN ORDER TO PROMOTE THE NEW MORTGAGE LAW, AND ENCOURAGE THE BANKING COMMUNITY TO TAKE MAXIMUM ADVANTAGE OF IT. • THE TRAINING WILL BE POSTPONED UNTIL THE LAW IS ADOPTED, SINCE THERE MAY BE AMENDMENTS

	NOTE: THE MORTGAGE LAW IS STILL IN PARLIAMENT, YET TO BE ADOPTED AND SIGNED BY PRESIDENT
--	--

Task B: Assist Banks in Undertaking Mortgage Lending

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Promote standardized rules, procedures, documentation for retail mortgage lending in Moldova	<ul style="list-style-type: none"> • THESE ACTIVITIES CONTINUED IN THIS QUARTER • 3 MEETINGS HELD WITH THE NATIONAL BANK OF MOLDOVA (REGULATORY BODY) AND 3 MEETINGS WITH MOLDOVA-AGROINDBANJK DISCUSSING AND PROMOTING STANDARDIZED RULES, PROCEDURES AND DOCUMENTATION IN THIS QUARTER (WITH STTA ASSISTANCE)
2. Select candidate banks and financial institutions for on-site assistance (On-going), and as requested.	<ul style="list-style-type: none"> • DELIVERY OF TA; SEE POINT 1 ABOVE, AS REQUESTED
3. Provide on-site technical assistance (On-going)	<ul style="list-style-type: none"> • ON-SITE CONSULTANCY FOR VICE GOVERNOR AND TEAM OF NATIONAL BANK OF MOLDOVA • ADDITIONAL SPECIFIC (AS REQUESTED) TA BY SHORT TERM AND MORTGAGE/ EXPERT OF PROJECT PROVIDED TO MAIB, MOBIASBANK, MOLDINDCOMBANK, BANCA DE ECONOMII, VICTORIABANK, FINCOMBANK AND MORTGAGE COMPANIY PRIME CAPITAL DURING CMLP • AD HOC TA VIA EMAIL AND TELEPHONE <i>DISCUSSED TOPICS:</i> <ul style="list-style-type: none"> - REGULATION OF MORTGAGE LENDING BY THE NATIONAL BANK: THEORY AND PRACTICAL - MORTGAGE COVERED BONDS OR MORTGAGE-BASED SECURITIES: ADVANTAGES AND DISADVANTAGES; - COMMENTS AND SUGGESTIONS TO THE MORTGAGE PRODUCTS DEVELOPED AND IMPLEMENTED RECENTLY - ROLE OF INVESTOR'S REPRESENTATIVE AND AUDITOR IN COVERED BOND ISSUE

Task C: Develop Mortgage-Related Life Insurance Products "as possible in Moldova"

NOTE: THIS ACTIVITY DELETED FROM WORK PLAN AS OF DECEMBER 2007.

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Analyze insurance and mortgage markets for existing	N/A

products/practices	
2. Assess legal and regulatory framework	N/A
3. Assess existing actuarial data (mortality tables)	N/A
4. Identify candidate insurers	N/A
5. Develop term sheet and rate structure	N/A
6. Assist in drafting policy	N/A
7. Conduct roundtables with mortgage lending banks and financial institutions	N/A
8. Launch product	N/A

Task D: Develop the Capacity of the Real Estate Appraisal and Brokers' Associations "as possible in Moldova"

NOTE: THIS ACTIVITY DELETED FROM WORK PLAN AS OF DECEMBER 2007.

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Needs assessment of appraisal and real estate association or organizations	N/A
2. Facilitate development and use of unified methodology for appraisals	N/A
3. Design training and capacity building programs for associations to comply with int'l. norms	N/A
4. Facilitate associations' membership /participation in brokerage and appraisal associations.; organize study tours to the US	N/A

Task E: Develop a Mortgage-Backed Securities Capability (see Fixed Income Component below) "as possible in Moldova"

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Establish Legal Working Group to assess legal basis and regulatory framework	<ul style="list-style-type: none"> • WORK COMMENCED IN PREVIOUS QUARTERS, CONTINUED THIS QUARTER • A ROUND TABLE REGARDING <i>FLOATING CHARGE</i> (I.E., <i>LIEN</i>) WAS ORGANIZED. MEMO REGARDING FLOATING

	CHARGE ROUND TABLE IS INCLUDED AS ANNEX.
2. Draft legal provisions as needed	<ul style="list-style-type: none"> • COMPLETED LAST QUARTER
3. Promote legal provisions to professionals, regulators, Ministries, etc.	<ul style="list-style-type: none"> • WORK COMMENCED IN PREVIOUS QUARTERS, CONTINUED THIS QUARTER • INITIATED DISCUSSIONS WITH THE NATIONAL BANK ON COVERD MORTGAGE BONDS. THE NATIONAL BANK OFFERED ITS FULL SUPPORT OF THE PROJECT • INITIATED THE DISCUSSION WITH THE MINISTRY OF JUSTICE ON FLOATING CHARGE CONCEPT (SPECIFICALLY REGARDING PLEDGE REGISTRATION). AS A RESULT THE MINISTRY OF JUSTICE AT THIS STAGE SUPPORTED THE CONCEPT OF FLOATING CHARGE
4. Select candidate issuer(s)	<ul style="list-style-type: none"> • COMPLETED PREVIOUS QUARTERS
5. Conduct portfolio analysis	<ul style="list-style-type: none"> • PERFORMED ANALYSIS OF MAIB MORTGAGE PORTFOLIO (BASED ON THE AVERAGE MONTHLY PREPAYMENT AND CONDITIONAL PREPAYMENT RATE) AND OF THE INFORMATION SYSTEM POSSIBILITIES
6. Develop standardized indenture	<ul style="list-style-type: none"> • INFORMATION LETTER SENT TO MAIB PRESIDENT • TO BE DONE NEXT QUARTER
7. Draft investment memorandum	<ul style="list-style-type: none"> • N/A THIS QUARTER; • TO BE DONE WHEN THE ISSUER HAS THE FINAL DECISION ON ISSUANCE MORTGAGE BONDS
8. Registration and Listing	<ul style="list-style-type: none"> • N/A THIS QUARTER;
9. Identify potential investors	<ul style="list-style-type: none"> • PROJECT ORGANISED THE CONFERNECE “BUILDING A BOND MARKET IN MOLDOVA: ESSENTIAL STEPS FOR DEVELOPMENT” TO POTENTIAL ISSUERS, BUYERS AND REGULATORY BODIES (DECEMBER 6, 2007). • CONDUCT ASSESSMENT DURING THE CONFERENCE. SUMMARY RESULTS FROM A SURVEY QUESTIONNAIRE DISTRIBUTED TO THE ATTENDEES DURING THE LAST SEGMENT OF THE BOND CONFERENCE IS INCLUDED AS ANNEX. • PROJECT HELD ON AND OFF-SITE MEETINGS WITH POTENTIAL INVESTORS AND OTHER FINANCIAL INSTITUTIONS
10. Conduct "road show"	<ul style="list-style-type: none"> • NOT ACCOMPLISHED - POSTPONED ACTIVITY. PLANNED TO BE DONE IN FUTURE QUARTER WHEN APPROPRIATE
11. Price and place issue	<ul style="list-style-type: none"> • NOT ACCOMPLISHED - POSTPONED ACTIVITY. PLANNED TO BE DONE FUTURE QUARTER WHEN APPROPRIATE
12. Deliver Road Map/Guide to “Preparing for Covered Bond Issuance in Moldova”	<ul style="list-style-type: none"> • N/A FOR THIS QUARTER

**Task F. Facilitate Establishment of a Commercial Credit Information Company
 (i.e., Credit Bureau) "as appropriate in Moldova"**

<p>Assessment of credit bureau status and feasibility of establishment of credit bureau system in Moldova Phase I: Review current status of development of a CIC</p>	<p>NOTES FOR ACTIVITIES F, G, AND H, ALL RELATING TO ESTABLISHMENT OF COMMERCIAL CREDIT INFORMATION COMPANY, I.E., CREDIT BUREAU:</p> <ul style="list-style-type: none"> • DRAFT LAW ON CREDIT BUREAUS HAS NOT BEEN ADOPTED AND THEREFORE NO SUBSTANTIAL WORK WAS OR WILL BE DONE UNTIL THIS LAW IS ADOPTED • THE REGULAORY BODY HAS BEEN ESTABLISHED AS OF JULY 2007, THROUGH THE ADOPTION OF THE MEGA REGULATOR LAW • IT MAY NOW BE EXPECTED THAT THERE WILL BE MOVEMENT IN THE LAW ON CREDIT BUREAUS • THE DRAFT LAW WAS APPROVED BY THE GOVERNMENT ON AUGUST 24, 2007. THE LAW ENTERED IN PARLIAMENT ON SEPTEMBER 20, 2007, AND IS AT THE PARLIAMENTARY COMMISSION FOR EXAMINATION. • PROJECT IS IN ONGOING COMMUNICATIONS WITH WORLD BANK OFFICERS AND DIRECTOR OF THE COMPETITIVENESS ENHANCEMENT PROJECT IMPLEMENTATION UNIT (PIU) AND MOLDOVAN BANKS ASSOCIATION; WORLD BANK STARTED WORK IN DEVELOPING CREDIT BUREAU OVER A YEAR AGO • PROJECT INTENDS TO DISCUSS WITH NEW MEGA REGULATOR THE STATUS OF THIS LAW ON CREDIT BUREAUS • THE MAIN ACTIVITIES OF TASKS F, G, AND H ARE POSTPONED UNTIL THE LAW ON CREDIT INFORMATION BUREAUS IS ADOPTED • IN DECEMBER 2007, ATCI HELD MEETING WITH BANK ASSOCIATION, WHICH IS CONTEMPLATING ESTABLISHMENT OF CREDIT BUREAU BY MAJOR BANKS; EARLY NEXT QUARTER, FOLLOW UP MEETINGS WILL BE HELD ALONG WITH A ROUND TABLE ORGANIZED BY ATCI MOLDOVA TO ESTABLISH COMMON GROUND FOR ESTABLISHMENT OF CREDIT BUREAU, ITS FOUNDERS, AND USERS.
<p>1. Coordinate disparate groups (providers, users, government) and consolidate interests—overall project coordination</p>	<ul style="list-style-type: none"> • N/A
<p>a) Develop and establish linkages with primary international credit bureau operators</p>	<ul style="list-style-type: none"> • N/A
<p>b) Execute plan for participation of all</p>	<ul style="list-style-type: none"> • N/A

banks	
c) Sponsor visits to potential foreign CB partners	<ul style="list-style-type: none"> • N/A
d) Secure final buy-in of local data providers and users	<ul style="list-style-type: none"> • N/A
2. Determine and review CIB development strategy with government and counterparts: review availability, activity, and accessibility of (a) credit info.; (b) other pertinent borrower data; (c) credit data used by financial intermediaries; and (d) credit reporting	<ul style="list-style-type: none"> • N/A
3. Market best approach for structuring, establishing and operating CIB	<ul style="list-style-type: none"> • N/A
4. Analyze and coordinate passage of Law	<ul style="list-style-type: none"> • THE DRAFT LAW WAS APPROVED BY THE GOVERNMENT ON AUGUST 24, 2007. THE LAW ENTERED IN PARLIAMENT ON SEPTEMBER 20, 2007, AND IS AT THE PARLIAMENTARY COMMISSIONS FOR EXAMINATION.
a) Seminars with key government ministries (data providers) and public (articles)	<ul style="list-style-type: none"> • N/A
5. Review and shape regulatory framework; draft and monitor legislation and regulations	<ul style="list-style-type: none"> • DRAFT LAW ON CREDIT BUREAU WAS EXAMINED IN THE SECOND QUARTER AND A MEMO REGARDING LEGAL TEAM'S OPINION WAS ELABORATED, ADDITIONAL EXAMINATION WAS MADE DURING THE V QUARTER IN ORDER TO SUGGEST INCLUDING SOME SOLUTIONS TO THE PROBLEMS OF LEASING COMPANIES IN THE DRAFT LAW ON CREDIT BUREAUS. MEMO ON THE OPINION REGARDING THE DRAFT LAW ON CREDIT BUREAUS IS INCLUDED AS ANNEX • A MEETING WITH WORLD BANK REPRESENTATIVES (CHISINAU/WASHINGTON) WAS ORGANIZED AND THE PROPOSALS TO THE DRAFT LAW WERE PRESENTED TO THEM.

Task G. Build Capacity of Participating Banks to Maximize Benefits of CIC “in Moldova as appropriate”

Phase II: Work with market participants. Overall coordination of activities aimed at the promotion and development of credit bureau	<ul style="list-style-type: none"> • N/A (SEE NOTES ABOVE, IN TASK F)
a) Consent clause—convince the market, draft the wording of consent clause, recommend consent clause	<ul style="list-style-type: none"> • N/A

placement in the application form	
b) Advise on RFP responses and selection process of successful bidder from among CB operators as appropriate	• N/A
c) Reciprocity and access rights (data suppliers and data users)	• N/A
d) Data sharing (positive and negative data, scope of data, data masking, possible payment/data sharing arrangements)	• N/A
e) Work with public record holders (CBs will have to conclude separate agreement with each public record holder)	• N/A
f) Securing involvement of mobile phone operators, insurance companies, credit unions, etc.	• N/A
Phase III: Work with regulators, market education and public awareness efforts	• N/A
a) Shape regulatory debate and assist in drafting CB regulations and licensing requirements	• N/A
b) Market education and public awareness campaign (publication of articles, etc.)	• N/A
c) Regional workshops (to promote CBs and effective use of CB products)	• N/A
d) Develop and deliver package of training programs: i) Banking Sector training ii) Agricultural Sector training iii) Leasing Sector training	NOTE: THIS ACTIVITY WAS DELETED FROM WORK PLAN IN DECEMBER 2007

Task H. Develop and Prepare Business Plan for CIC "as appropriate in Moldova"

1. Define business and operations plan for CIB	• N/A (SEE NOTES ABOVE IN TASK F)
2. Outline package of technical requirements	• N/A
3. Discussions with government data providers	• N/A

4. Prepare and deliver RFP	<ul style="list-style-type: none">• N/A
i) Review business plan with domestic banks and other local investors	<ul style="list-style-type: none">• N/A
ii) Review business plan with Bankers' Association and other business groups	<ul style="list-style-type: none">• N/A
5. Secure Buy-in to business plan of foreign investors and banks	<ul style="list-style-type: none">• N/A

LIST OF ATTACHMENTS

ATTACHMENT 7: Report on Proposed CML Training

ATTACHMENT 15: Steve Moody's Report, October 22-26

ATTACHMENT 18: General Assessment on TN Law on Mortgage

C. FINANCIAL LEASING - Moldova

I. COMPONENT DESCRIPTION – FINANCIAL LEASING MOLDOVA

This report details events and activities relating to the Financial Leasing Component of the USAID Access to Credit Initiative/Moldova, implemented by the Pragma Corporation, during the period from October 1 through December 31, 2007.

The primary purpose of the Financial Leasing Component is to create a supportive environment for modern financial leasing. As ATCI/Moldova will provide specific technical, advisory, and training assistance in order to increase access to credit throughout Moldova, whereas Financial Leasing is an efficient alternative to bank financing.

ATCI/Moldova aims to strengthen existing leasing companies. Capacity building consists of training and consulting for lessors, lessees, farmers, regulators, and other interested parties, such as vendors and banks. In addition, ATCI/Moldova will be conducting public awareness efforts and seeking new domestic financial resources for the leasing companies.

Moreover, the Financial Leasing Component will be building the capacity of leasing professionals by introducing the Certified Leasing Specialist (CLS) Certification program, a designation for market participants so that they may attain world standards of practice. Consulting by ATCI/Moldova will be provided on an ad hoc basis as well as when determined to meet the needs of the financial leasing companies and industry as a whole.

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

II. SIGNIFICANT EVENTS – FINANCIAL LEASING MOLDOVA

- ATCI/MOLDOVA PRESENTED A NEW FINANCING VEHICLE, *FLOATING CHARGE* (I.E., *LIEM*) FOR LEASING COMPANIES SEEKING FINANCING FROM BANKING INSTITUTIONS; FINANCING VEHICLE CAN BE USED BY ANY other type of COMPANY
- LEGAL TEAM PROVIDES LEGAL SUPPORT organizing and LEADING ROUNDTABLE WITH LEASING PROFESSIONALS AND staffs of MINISTRIES FOR SOLUTIONS TO PROBLEMS IN LEASING FINANCIAL RESOURCES AND OTHER FISCAL-RELATED AREAS
- ATCI/MOLDOVA PREPARES FAQ AND OTHER BROCHURES BASED ON ABOVE, FOR DISTRIBUTION TO LEASE COMPANIES, BANKS, AND MINISTRIES

III. EXECUTIVE SUMMARY – FINANCIAL LEASING MOLDOVA

During this period ATCI/Moldova focused on problems confronting the leasing industry and leasing companies in Moldova. The problem of financing alternatives was tackled with ATCI/Moldova preparing for, organizing, and presenting a Round Table for stakeholders relating to leasing and lease financing. In all, 23 people attended the Round Table, which represented 7 Lease Companies, 11 Commercial Banks, 2 USAID-funded projects, and USAID. Continuing as follow up actions taken by ATCI/Moldova from last quarter, the topic presented and discussed at this Round Table was “Floating Charges” or according to American terminology, a Lien. Typically, in Moldova, a bank would finance a lease company’s individual asset, e.g., a car or a piece of equipment, using that specific asset as collateral for financing. The Floating Charge concept, utilized in Europe and America as well as in other countries, for many decades, provides financing by a bank to a lease company using as collateral the whole (or part) of a company’s assets or in fact, its receivables based on leases outstanding. In the terminology regarding the “floating” aspect, assets or receivables can be utilized within the business operations of a company, or these can be replaced with other assets or receivables of a like value, according to the decisions of the company. The financing remains unchanged as long as the value of the underlying portfolio of assets or receivables remains.

Major advantages of leasing companies and banks using the Floating Charge include:

- Its *flexibility*, first of all for the debtor, though the creditor has more flexibility in terms of alienating the right to claim.
- The debtor is free to use its assets in an ordinary way of its business development, although the assets of the debtor are encumbered based on the floating character of the pledge,
- It is not necessary each time to reach an agreement regarding using the assets/portfolio for economic activity (the procedures of pledge registration and administration are simplified).

Although this Round Table focused on the use of a Floating Charge by a leasing company, virtually all types of companies may be able to be financed through the use of a Floating Charge. Companies, though, should understand that a use of the Floating Charge assumes from the point of view of eventual risks, a good business reputation of the debtor or existence of some long term business relations between creditors and debtors. The legal team of ATCI/Moldova concluded that under the current legislation, the pledge grants preference as to other creditors, including the state, the floating charge concept is to be preferably implemented in the conditions of pledge contract and not other ordinary contracts (guarantee, retention, etc.). **Attachment 8, Floating Charge Presentation**, is attached. **Attachment 16, FAQ Brochure re Floating Charge**, presents the Floating Charge in an informational brochure, to be disseminated to stakeholders and interested parties relating to the Floating Charge concept for financing.

Taking on other current problems faced by the leasing companies, ATCI/Moldova held meetings with the leasing companies, Ministry of Economy, and other stakeholders to determine various solutions to those problems. Problems included:

- Application of VAT on services rendered by leasing companies
- Deductions of leasing companies on their taxable income
- Re-evaluation of claims n leasing contracts
- Establishing black lists for problem lessees

Solutions to these problems were discussed, and presented in **Attachment 9, *Leasing Problems and Possible Solutions***. This document was sent to the Ministry of Economy and Trade, who in turn discussed solutions with other ministries and will otherwise submit legislative amendments.

A protocol between ATCI/Ukraine and the CLP Foundation in the USA must be signed in order to allow ATCI/Moldova to use the CLS logo, name, etc. and to issue certificates on behalf of the CLP Foundation. This was agreed verbally, but it is planned to be signed in the coming quarter, along with an additional licensing fee to be paid to the CLPF.

Due to opportunities as well as problems surfacing in the leasing component in this quarter, the leasing companies now find it a priority to create the Leasing Association. Both organizations, Leasing NGO and Association, will be supported by ATCI/Moldova, both financially (during the initial stages) and with legal technical assistance. Discussions with leasing companies as well as the leasing professionals who pass the CLS course exams will continue in the coming quarter aiming for the establishment of the Association and NGO.

Besides the capacity building and consultancy work that ATCI/Moldova performed during the above-mentioned Round Tables and discussions, the Project's Legal Team also drafted a guide for foreign (leasing) companies or investors entering the Moldovan Market, regarding tax, fiscal, and legal issues and required payment. This was now presented in a brochure format for distribution and entry onto the ATCI/Moldova web site See **Attachment 17, *Legal Climate for Companies Coming into Moldova***.

ATCI/Moldova continues to assist MAIB Leasing in its proposed bond issuance. The Financial Analyst on the team drafted and presented a Bond Model specifying the term, pricing, interest, and duration based on historical and current environments. The new Chief Executive of MAIB Leasing met with the Financial Analyst, Mihail Gherghircic and Steve Moody, ATCI/Moldova's short term expert in Fixed Income, to discuss problems with the company's filing for registration with the NCFM. Discussions will continue next quarter for solutions to the registration problem, as well as to make plans on the road show and issuance for the bond.

IV. ADMINISTRATIVE ISSUES – FINANCIAL LEASING MOLDOVA

At the end of the last quarter, the Lease Advisor for ATCI/Moldova left the project. There was no replacement made until early January 2008, when Dorin Sorbala was hired as ATCI/Moldova’s Leasing Advisor.

The Work Plan for ATCI/Moldova’s second year saw the elimination of some activities as originally planned, in particular relating to the major activity under the Leasing Component, “C”, Facilitate Import Capital and Know-How to Leasing Industry. Other sub-activities under the “B” and “D” activities as originally planned, were moved to the remaining “A” major activity, “Build Capacity of Market Participants”. The Work Plan for ATCI/Moldova’s second year is presented as **Attachment 1**.

V. DESCRIPTION AND STATUS OF TASKS – FINANCIAL LEASING MOLDOVA

Task A: Build Capacity of Market Participants

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Polling the financial community for interest in leasing courses from which successful participants will graduate as Certified Leasing Specialists	<ul style="list-style-type: none"> • N/A; COMPLETED IN PREVIOUS QUARTER. • FOR SECOND CLS TRAINING PROGRAM, ATCI WILL CONTACT LEASING COMPANIES FOR LEASE COMPANY STAFF PARTICIPATION IN TRAINING, TO BE INITIATED NEXT QUARTER.
2. Assess the Moldova leasing market and activities and adapt the CLS Program for Moldova	<ul style="list-style-type: none"> • N/A; COMPLETED IN EARLIER QUARTER.
3. Identify local potential Training Providers to provide trainers to attend and to eventually administer CLS training program	<ul style="list-style-type: none"> • N/A; COMPLETED IN EARLIER QUARTER.
4. Identify potential members for setting up NGO/International Leasing Association	<ul style="list-style-type: none"> • N/A; COMPLETED IN EARLIER QUARTER • MEMBERS OF NGO WILL BE GRADUATES OF CLS TRAINING PROGRAMS • ANTICIPATE SETTING UP LEASE ASSOCIATION (OF LEASING COMPANIES) IN NEXT QUARTER WITH WILL OF THOSE GRADUATES; SEE A.6 BELOW
5. Short term expert to visit Chisinau, meeting with potential Training Providers and to assist with adapting CLS training course and assisting with setting up	<ul style="list-style-type: none"> • N/A; COMPLETED IN EARLIER QUARTER

Leasing Association/NGO	
<p>6. Initiate process of setting up Moldovan Leasing Association/NGO</p>	<ul style="list-style-type: none"> • WORK COMMENCED IN THIRD QUARTER WITH PROJECT CONDUCTING AN ASSESSMENT OF THE LEGISLATION ON REGISTERING AN NGO. • THE NECESSARY DOCUMENTS FOR SETTING UP THE NGO ARE PREPARED. THE DOCUMENTS WILL BE SUBMITTED FOR REGISTRATION AS SOON AS POSSIBLE AND IN COORDINATION WITH THE ATCI/UKRAINE LEASING NGO. • PROJECT DEVELOPED PLAN FOR SUSTAINABILITY OF NGO (CLS EXAM ADMINISTRATION AND MONITORING BODY) • CLS GRADUATES MUST AGREE TO INITIATE NGO; LEASE COMPANIES MUST HAVE THE WILL TO INITIATE ASSOCIATION. IT IS ANTICIPATED TO SEE PROGRESS IN COMING QUARTER
<p>7. Develop strategy for CLS Program for Moldova for Training of Trainers</p>	<ul style="list-style-type: none"> • COMPLETED; 2 POTENTIAL TRAINERS FROM BUSINESS CONSULTING INSTITUTE (BACK-UP TRAINING PROVIDER OF CLS PROGRAM) TOOK PART IN CLS PROGRAM TO BACK UP ACAP AS TRAINING PROVIDER
<p>a) Development of Content/Study guide</p>	<ul style="list-style-type: none"> • COMPLETED AND ADAPTED FOR MOLDOVA
<p>b) Develop training modules</p>	<ul style="list-style-type: none"> • SEE ABOVE
<p>c) Develop examination</p>	<ul style="list-style-type: none"> • SEE ABOVE
<p>d) Establish local training providers</p>	<ul style="list-style-type: none"> • COMPLETED EARLIER QUARTER
<p>8. Design and launch leasing training course seminars mainly for professionals but also for Trainers from potential Training Providers</p>	<ul style="list-style-type: none"> • ACAP IS TRAINING PROVIDER; SUPERVISED AND GUIDED BY ATCI LEASE EXPERTS; ACAP HAS PRESENTED MUCH OF THE COURSE MATERIALS ALREADY FOR CLS PROGRAM I • COMPLETED FIRST CLS TRAINING PROGRAM; 18 GRADUATES; INFORMAL GRADUATION CEREMONY HELD AT ATCI/MOLDOVA OFFICE AT END OF QUARTER; PRESS RELEASE SENT TO PRESS; AWAITING CERTIFICATES FROM CLP FOUNDATION IN USA • CLS PROGRAM II TO COMMENCE EARLY IN NEXT QUARTER DUE TO AVAILABILITY OF TRAINERS AND TRAINEES; IT IS ANTICIPATED THAT CLS PROGRAM II WILL BE COMPLETED AT END OF NEXT QUARTER
<p>9. Implement Outreach Network and Provide Consulting Services</p>	<p>SEE BELOW</p>
<p>a) Hold/Participate in conferences/roundtables on state of leasing industry for government officials, media, and industry participants</p>	<ul style="list-style-type: none"> • ORGANIZED A ROUND TABLE WITH THE LEASING COMPANIES IN ORDER TO IDENTIFY THE PROBLEMS RELATED TO THE EXISTING LEGISLATION AND TO FIND SOLUTIONS FOR THESE PROBLEMS. A MEMO WITH CONCRETE PROPOSALS TO AMEND THE LEGISLATION WAS PREPARED AND SENT TO THE LEASING COMPANIES AND MINISTRY OF ECONOMY. MEMO IS INCLUDED AS ATTACHMENT

	<ul style="list-style-type: none"> • MET WITH THE MINISTRY OF ECONOMY TO PROMOTE THE AMENDMENTS TO THE LEGISLATION IN ORDER TO SOLVE THE PROBLEMS OF THE LEASING COMPANIES. • MET WITH MINISTRY OF JUSTICE IN ORDER TO DISCUSS FLOATING CHARGE APPLICABILITY WITHIN THE EXISTENT LEGAL FRAMEWORK • A ROUND TABLE WAS ORGANIZED TO PROMOTE THE CONCEPT OF FLOATING CHARGE TO BANKS AND LEASING COMPANIES. THE POWER POINT PRESENTATION IS INCLUDED AS ATTACHMENT
b) Prepare and distribute educational materials on various aspects of international best practices	<ul style="list-style-type: none"> • SEE ABOVE • MATERIALS PREPARED AND DISTRIBUTED TO MINISTRIES AND LEASE COMPANIES ARE BEING FINALIZED FOR <i>FAQ</i> AND INFORMATIONAL BROCHURES FOR MASS DISTRIBUTION AS WELL AS FOR SUBMISSION ONTO ATCI/MOLDOVA WEB SITE
c) Provide consulting on organizational and marketing issues	<ul style="list-style-type: none"> • SEE ABOVE RE: PROBLEMS/SOLUTIONS; FINANCING ALTERNATIVES RE: FLOATING CHARGE • WORK COMMENCED IN THIRD QUARTER; AN ASSESSMENT OF THE LEGISLATION ON REGISTERING, LICENSING, AND TAX FACILITIES FOR FOREIGN COMPANIES WAS CONDUCTED. DUE TO AMENDMENTS IN THE LEGISLATION (NEWLY ADOPTED LAW ON STATE REGISTRATION OF LEGAL ENTITIES AND INDIVIDUAL ENTREPRENEURS) DURING THIS QUARTER CHANGES ARE BEING MADE IN THE BROCHURE FOR FOREIGN COMPANIES. THE BROCHURE IS INCLUDED IN ATTACHMENT OF THIS REPORT. • A BOOKLET WITH <i>FAQs</i> REGARDING FLOATING CHARGE WAS ELABORATED. THE BROCHURE IS INCLUDED AS ATTACHMENT
10. Deliver Seminars for Other Industry Participants	SEE ABOVE FOR ROUNDTABLES/SEMINARS
a) Vendors	N/A THIS QUARTER
b) Potential Lessees	N/A THIS QUARTER
c) Banks	N/A THIS QUARTER
d) Government Officials	N/A THIS QUARTER

Task B. Implement Outreach/Information Network

NOTE: THIS ACTIVITY HAS BEEN DELETED AS OF DECEMBER 2007 (some sub-activities added as A.9 above)

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Initiation	
2. Hold/participate in conferences/roundtables on state of leasing industry for government officials, media, and industry participants	

3. Prepare and distribute educational materials on various aspects of international best practices and practices in Moldova	
4. Prepare and distribute brochures relevant to “Leasing in Moldova”, e.g., recent legislative developments; FAQs, etc.	

Task C. Facilitate Import Capital and Know-How to Leasing Industries of Moldova

NOTE: THIS ACTIVITY HAS BEEN DELETED AS OF DECEMBER 2007

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Identify domestic and international lessors, investors, and suppliers for entry into Moldovan market.	
2. Analyze tax and legal environment in Moldova for foreign companies entering Moldovan market	
3. Contact foreign lessors, investors, and suppliers, providing information about the leasing activities and needs in Moldova, highlighting business opportunities	

Task D. Provide Consulting Services to Market Participants

NOTE: THIS ACTIVITY HAS BEEN DELETED AS OF DECEMBER 2007 (some advisory activities added to point A.9 above)

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Conduct transaction-based (ad hoc) Advisory Services	
2. Advisory Services to Lessors and other market participants	
3. Assist new market entry of lessors	

4. Provide consulting on organizational and management issues	
5. Assistance in securing financial sources	

LIST OF ATTACHMENTS

ATTACHMENT 1: Access to Credit Initiative/Moldova Work Plan, updated as of December 31, 2007

ATTACHMENT 8: Floating Charge Presentation

ATTACHMENT 9: Leasing Problems and Possible Solutions

ATTACHMENT 16: FAQ Brochure re: Floating Charge

ATTACHMENT 17: Legal Climate for Companies Coming to Moldova

D. FIXED INCOME

I. COMPONENT DESCRIPTION – FIXED INCOME MOLDOVA

This report provides details on events and activities relating to the Fixed Income component of the USAID Access to Credit Initiative/Moldova, as implemented by the Pragma Corporation, during the period from October 1 through December 31, 2007.

The objective of this activity is to expand the availability of capital to corporate borrowers as an alternative to bank financing, through the issuance of corporate bonds. Additionally, this component includes the activities assisting the development of the National Commission of Financial Market ('NCFM' or the Mega Regulator) as not only a regulator of the capital markets but a Mega Regulator, i.e., regulator of the Non-Bank Financial Institutions. It should be noted that in mid-year last year, July 2007, the National Securities Commission was formally transformed into the National Commission of Financial Markets ('NCFM') with the publication of the *Law on the National Commission of Financial Market* in the official monitor.

Besides seeking and assisting companies in the issuance of corporate bonds, tasks will be focused on disclosure and transparency issues and systems related to the bond regulations and enforcement capabilities of the NCFM. Tasks will also include the capacity building of the Mega Regulator in accordance with international best practices of regulators.

II. SIGNIFICANT EVENTS – FIXED INCOME MOLDOVA

- ATCI/MOLDOVA ORGANIZED AND PRESENTED A BOND CONFERENCE ALONG WITH CO-ORGANIZERS MINISTRY OF ECONOMY AND TRADE AND NATIONAL COMMISSION OF FINANCIAL MARKET IN CHISINAU ATTRACTING OVER 140 STAKEHOLDERS IN ATTENDANCE HEARING 16 PRESENTATIONS OF PRESENTERS FROM 7 COUNTRIES; 14 POTENTIAL ISSUERS EMERGED AS HAVING DESIRE TO ISSUE BONDS WITHIN 1 AND 3 YEARS; IDENTIFIED INTERESTED POTENTIAL INVESTORS
- ATCI/MOLODVA-DEVELOPED FAQ BROCHURE DISTRIBUTED AT BOND CONFERENCE TO ATTRACT ISSUERS AND INVESTORS
- ATCI RECOMMENDS PROVISIONS FOR DRAFT LAW ON AMENDMENTS TO SECURITIES MARKET LAW; 2 OF 4 PROVISIONS THAT WERE RECOMMENDED WERE ADOTED BY PARLIAMENT

III. EXECUTIVE SUMMARY – FIXED INCOME MOLDOVA

Regulatory Reform and Capacity Building

ATCI/Moldova continued its assistance to the National Commission of Financial Market throughout this reporting quarter, including:

- ATCI/Moldova met with the NCFM Commissioners and executive on several occasions discussing amendments to the Securities Market Law, with the Project submitting comments and provisions for amendment or addition to the Law.
- Based on the assessment findings of the Short-Term Expert utilized by the Project last quarter, along with the findings of the Project's full time staff, ATCI/Moldova made 4 key recommendations to the Draft Law on the Amendments to the Securities Market Law. These recommendations are covered in the **Attachment 12, Embassy Letter of Recommended Provisions for Amendments to Securities Market Law**. The Ambassador understood that ATCI/Moldova was going to make these recommendations directly to the Chairman of Parliament, and decided to step in on our behalf to draft a cover letter along with the attached recommendations, sending them directly to Chairman Lupu of Parliament. Recommendations included:
 1. Adding description of management bodies and organizational chart to information disclosed for registration/in prospectus (note: adopted by Parliament);
 2. Adding that submission of documents shall include financial reports with all corresponding annexes for the last 3 finalized financial years or for each concluded financial year since the date of issuer constitution, if the respective period is less than three years (note: adopted by Parliament);
 3. Shortening the review period from 30 to 15 calendar days of the NCFM upon submission of registration documents for fixed income securities (note: rejected by Parliament); and
 4. Deleting the cap on bond issuance relating to the capital of a company (this amendment would effect the newly adopted Joint Stock Company Law; as a new law, this cannot be amended until 180 days in force; therefore, this amendment was not adopted, but will be re-introduced sometime after July 1, 2008, when Joint Stock Company Law is open for amendments)

The first two recommendations, as noted, were adopted by Parliament. These more than anything help protect the investors, providing them with more information on which to make an investment decision or not. The third recommendation above was rejected, but the 30 day period is the maximum time limit for review and consideration of registration documents. The NCFM can take a shorter period if they are able and have the will. This was suggested to the Commissioners of the NCFM by ATCI/Moldova Country Director at a subsequent meeting. The shorter time period would lessen the market risk for the issuer. The fourth

recommendation above was attempted as it was suggested by the NCFM that Parliament could amend another law which has provisions related to the Securities Market Law; attempt failed, this time. If adopted, the issuer would have more flexibility in its proposed debt instrument issuance in order to tap into the capital markets for needed debt capital.

- The Legal Team of ATCI/Moldova reviewed the Law on the National Commission of Financial Market as well as the Regulation on the NCFM defining its regulatory capabilities. *Opinions of the Legal Team on Regulatory Capabilities of the NCFM* are expressed in **Attachment 19**, and have been sent to the NCFM for their understanding. The NCFM has all the powers and authority to regulate the non-banking financial institutions and their activities, but should make the organization and conduct of their meetings of the Administrative Council more transparent.

Bond Issuance

The major event of the quarter was the Bond Conference, “Building a Bond Market in Moldova: Essential Steps for Development”, held in Chisinau on December 6, 2007. The main goals of the Conference were to *demonstrate how bond issuance has been used by corporations globally as an alternative to bank financing and how Moldovan enterprises could use a corporate bond market to access capital...the conference will provide an opportunity for government officials, market professionals, potential issuers, and investors to share information and perspectives.*

The presentation of the Conference was much appreciated by the participants and presenters alike. ATCI/Moldova organized and sponsored the event, with the National Commission of Financial Market and the Ministry of Economy and Trade named as co-organizers. Welcoming remarks by the Co-Organizers were made by Gary Linden, USAID; Viorel Melnic, Ministry of Economy and Trade; and Mihail Cibotaru, Chairman of NCFM. Key note speeches were made by Victor Cibotaru, First Deputy Governor of the National Bank of Moldova and David Lucterhand, COP for ATCI. The Conference Chairman was Alexandru Savva, Advisor to the Chairman of the NCFM.

In all, there were 16 presentations made on the day-long Conference, that included presenters from 7 countries, the United States, UK, Italy, Moldova, Romania, Georgia, and Bulgaria, who presented best practices and country experiences for the 7 countries as well as for Kazakhstan. 144 people were in attendance, representing Moldovan Ministries, Parliament, International Donor Organizations, NCFM, Commercial Banks, Insurance Companies, Financial/Investment Companies, Industrial/Manufacturing Companies, Consulting Companies, and the Moldova Stock Exchange. An Agenda of the Conference is included as **Attachment 10**, and a summary report of the Bond Conference is included as **Attachment 11**. A *Letter of Appreciation to ATCI/Moldova from Chairman Cibotaru* is included in this Report as **Attachment 20**. The ATCI/Moldova *FAQ Brochure on Fixed Income*, **Attachment 13**, was included in the Conference folders distributed to all participants, along with texts

of all 16 presentations. Complete information including the agenda, the presentations in English and Moldovan, presenter CV excerpts, and pictures are can be found on ATCI/Moldova's web site: www.atci.com.md

Broadly, the topics of the Conference included:

- Overview of the Bond Market
- Structuring and Selling the Issue
- Importance of Credit Ratings for Issuers and Disclosures for Investors
- Bonds from the Investor's Perspective
- Legal and Regulatory Considerations
- Considerations for Domestic Issuance in Moldova
- Case Studies (3)

Formal presentations were followed by Panel Discussions; Questions and Answers from the Floor; Summary and Conclusions for Next Steps for Moldova.

These "Next steps" as well as concerns of the participants included the need to:

- Ensure that legislative and regulatory framework is conducive (i.e., favorable) for the issuance of corporate bonds, still following best international practices
- Quick review turnaround time at NCFM for submission of documents;
- Allow companies to issue bonds without restrictions related to their capital
- Develop a long-term Government Bond Curve, e.g., 6 month paper, 1 year, 3 year, 5 year, and 7 year. Anything longer than 7 years would be welcome, but this is a minimum for development;
- Reduce of deposit rates at banks;
- Conduct public relations/education of companies, the population, the media, regarding the development of bonds;
- Attract Credit Ratings companies to act in or move to Moldova, with more and more issuances of corporate bonds; and
- Develop the demand side, i.e., institutional investors that include Private Pension Funds; Insurance Companies; and Mutual Funds for corporate bonds

Results for action: Based on a survey that was distributed to the remaining 100 participants during the last 3 hours at the Bond Conference, four (4) companies stated that within the next year, they intend to issue bonds; eight (8) companies stated that from 1-3 years, they would issue bonds; two (2) insurance companies stated that they would issue bonds sometime after 3 years. Eight (8) companies stated that they would like assistance from ATCI; six (6) others would issue the bonds without ATCI assistance.

ATCI/Moldova will lengthen this momentum for bond issuance by following up and meeting with the companies that indicated interest in issuing bonds; the Ministries and Regulators attending and presenting at the Bond conference; and the participants as potential investors in the coming quarters. Meetings with those companies who have voiced interest in issuing bonds will continue in the coming quarter, with MAIB, MAIB Leasing, ExIm Bank, etc.

Analyses of financial statements of and meetings with potential corporate bond issuers will continue throughout this coming year. During this quarter, ExIm Bank's and Artima's financial statements were analyzed as potential issuers, and meetings were held with executives of this company. Short-term Fixed Income expert Steve Moody met with the companies named in the above paragraphs to continue progress in assessing their journey toward bond issuance. Steve also met with the National Bank of Moldova and the NCFM to enlighten them on covered bonds (i.e., mortgage bonds) issues.

The Project has identified and will identify companies for potential bond issuance and started analyses of financial statements of some of these companies. With confirmation that a company is a good candidate and have the desire for bond issuance, based on its recent track record and its creditworthiness, follow up meetings will occur to effectuate and initiate activities for a bond issuance.

IV. ADMINISTRATIVE ISSUES – FIXED INCOME MOLDOVA

NONE

V. DESCRIPTION AND STATUS OF TASKS – FIXED INCOME MOLDOVA

Task A. Assess and Implement Regulatory Reform in Moldova

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<p>1. Review and assess legislation (e.g., pledge law, bankruptcy law, trust law, securities market law) for gaps and needs re: issuance of corporate and mortgage bonds</p>	<ul style="list-style-type: none"> • (PAST) ANALYSIS OF BANKRUPTCY LAW COMPLETED, WITH REGARD TO CREDITOR RIGHTS AND PROTECTION IN CASE OF DEFAULT, REQUESTED BY COUNTERPART RE: COVERED BOND ISSUE; DUE TO MEETING POSTPONEMENT, THIS ANALYSIS WILL BE PRESENTED NEXT QUARTER • PREPARED A LETTER TO PARLIAMENT, THROUGH THE US AMBASSADOR, MAKING RECOMMENDATIONS FOR SOME OF THE ARTICLES OF LAW ON AMENDMENTS TO THE SECURITIES MARKET LAW AND ANOTHER LAW. FROM 4 RECOMMENDATIONS, 2 WERE ADOPTED. ONE PROPOSAL RELATED TO THE NEWLY ADOPTED JOINT STOCK COMPANY LAW, WHICH CANNOT BE AMENDED UNTIL MID-YEAR 2008; THE OTHER PROPOSAL REDUCING THE TIME FOR REVIEW OF SUBMITTED DOCUMENTS BY THE NCFM FROM 30 TO 15 DAYS CAN BE VOLUNTARILY COMPLIED WITH ACCORDING TO THE EFFICIENCY OF THE NCFM

	<ul style="list-style-type: none"> • THE PROPOSALS WERE MADE IN ACCORDANCE WITH EU DIRECTIVES (I.E., BEST PRACTICES) AND REGULATIONS THAT WERE ALSO EXAMINED. • THE DRAFT LAW WAS APPROVED BY PARLIAMENT ON 22 NOVEMBER, 2007, BUT IT IS NOT IN FORCE YET, AWAITING LAW TO BE PROMULGATED
2. Work with National Commission of Financial Market (its evolved role as Mega Regulator, "NCFM") building capacity for understanding and implementing issuance of bonds and regulating the markets	<ul style="list-style-type: none"> • HELD MEETINGS WITH HEAD OF SECURITIES DEPARTMENT AND A COMMISSIONER OF NATIONAL COMMISSION OF FINANCIAL MARKET IN ORDER TO IMPROVE THEIR BETTER UNDERSTANDING OF THE FUNCTIONING OF COVERED BOND MECHANISM AND CREDIT ENHANCEMENTS RELATED TO IT • ORGANIZED ANOTHER MEETING WITH NATIONAL BANK OF MOLDOVA TO IMPROVE THEIR UNDERSTANDING OF MECHANISM OF THE FUNCTIONING OF COVERED BOND
3. Analyze financials of potential issuers for issuance of corporate bonds (see Task B below)	<ul style="list-style-type: none"> • ANALYZED FINANCIALS OF EXIMBANK AND ARTIMA S.A IN DETERMINING THE CREDITWORTHINESS
4. Work with the NCFM in capacity building regarding transparency and disclosure issues in bond related regulation	N/A FOR THIS QUARTER
a) Ensure NCFM is continuing in easing bond related legislative and regulatory requirements.	N/A FOR THIS QUARTER
b) Install Electronic Disclosure System (EDS) at NCFM	N/A THIS QUARTER
5. Review and provide recommendations on regulations re: investment advisors and ratings agencies	N/A THIS QUARTER
6. Analyze authority of NCFM re: investigative powers and enforcement abilities; make recommendations for strengthening capabilities	<ul style="list-style-type: none"> • NOT PLANNED THIS QUARTER, HOWEVER, THE LAW OF THE NATIONAL COMMISSION FOR FINANCIAL MARKET WAS EXAMINED BY LEGAL TEAM AND AN OPINION WAS ELABORATED AS TO ITS REGULATORY CAPABILITIES. THE MEMO IS INCLUDED AS AN ATTACHMENT
7. Work with NCFM in helping them develop into a Mega Regulator; provide time bound action plan for activities necessary for implementation	N/A THIS QUARTER
8. Analyze laws, regulations, and practices for compliance with international standards,	<ul style="list-style-type: none"> • PREPARED A LETTER TO PARLIAMENT, THROUGH THE US AMBASSADOR, AMENDING SOME OF THE ARTICLES OF LAW ON AMENDMENTS TO THE SECURITIES MARKET LAW AND ANOTHER LAW. FROM 4 RECOMMENDATIONS 2

<p>making recommendations for activities.</p>	<p>WERE ADOPTED. ONE PROPOSAL RELATED TO THE NEWLY ADOPTED JOINT STOCK COMPANY LAW, WHICH CANNOT BE AMENDED UNTIL MID-YEAR 2008; THE OTHER PROPOSAL REDUCING THE TIME FOR REVIEW OF SUBMITTED DOCUMENTS BY THE NCFM FROM 30 TO 15 DAYS CAN BE VOLUNTARILY COMPLIED WITH ACCORDING TO THE EFFICIENCY OF THE NCFM</p> <ul style="list-style-type: none"> • THE PROPOSALS WERE MADE IN ACCORDANCE WITH EU DIRECTIVES (I.E., BEST PRACTICES) AND REGULATIONS THAT WERE ALSO EXAMINED. • THE DRAFT LAW WAS APPROVED BY PARLIAMENT ON 22 NOVEMBER, 2007, BUT IT IS NOT IN FORCE YET. (2 OUT OF 4 OF THE PROPOSALS TO AMEND THE DRAFT LAW MADE BY THE ATCI TEAM WERE INCLUDED IN THE APPROVED LAW).
--	--

Task B. Develop Pilot Corporate Bonds in Moldova

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<p>1. Analyze companies' financials for possible candidates for bond issuance, focusing on creditworthiness, needs, and attractiveness for investors</p>	<ul style="list-style-type: none"> • ANALYZED FINANCIALS OF EXIMBANK AND ARTIMA S.A IN DETERMINING THEIR CREDITWORTHINESS
<p>a) Select top 10 candidates for issuance, including those companies which have already issued corporate bonds</p>	<ul style="list-style-type: none"> • MET THE HEAD OF TREASURY DEPARTMENT OF EXIMBANK DISCUSSING WAYS OF ISSUING BONDS ON LOCAL OR FOREIGN MARKET • MET CEO OF ARTIMA S.A IN ORDER TO DISCUSS POSSIBLE BOND ISSUANCE • MET THE CEO OF CAMELIA S.A
<p>b) Meet with executives of these companies for their understanding and desire to issue bonds</p>	<ul style="list-style-type: none"> • MET EXECUTIVES PRIOR TO AND AT BOND CONFERENCE (SEE BELOW) TO DISCUSS THEIR DESIRES FOR ISSUANCE OF BONDS • DURING BOND CONFERENCE, MANY ASPECTS OF BOND ISSUANCE WERE DISCUSSED AND PRESENTED • SHORT TERM EXPERT STEVE MOODY MET WITH POTENTIAL ISSUERS; TENTATIVE FOLLOW UP MEETINGS WERE SCHEDULED FOR EARLY NEXT QUARTER, AFTER HOLIDAY PERIOD, WHEN SHORT TERM TECHNICAL ADVISOR STEVE MOODY WOULD BE IN MOLDOVA
<p>c) Presentation of bond workshops aimed at potential issues as well as potential buyers of bonds, for higher education, discussion possible benefits and potential risks</p>	<ul style="list-style-type: none"> • SEE BELOW, BOND CONFERENCE

<p>d) Organize and hold Bond Conference (added 09.2007)</p>	<ul style="list-style-type: none"> • ATCI/MOLDOVA ORGANIZED AND SPONSORED BOND CONFERENCE, "BUILDING A BOND MARKET IN MOLDOVA: ESSENTIAL STEPS FOR DEVELOPMENT" HELD IN DECEMBER 2007 IN CHISINAU • 144 STAKEHOLDERS IN ATTENDANCE, REPRESENTING MOLDOVAN MINISTRIES, PARLIAMENT, INTERNATIONAL DONOR ORGANIZATIONS, NCFM, COMMERCIAL BANKS, INSURANCE COMPANIES, FINANCIAL/INVESTMENT COMPANIES, INDUSTRIAL/MANUFACTURING COMPANIES, CONSULTING COMPANIES, AND THE MOLDOVA STOCK EXCHANGE • 15 PRESENTERS (7 DOMESTIC; 8 FOREIGN); 16 PRESENTATIONS; PRESENTERS FROM USA/KAZAKHSTAN, MOLDOVA, UK, ITALY, ROMANIA, GEORGIA, AND BULGARIA • BROAD TOPICS INCLUDED OVERVIEW OF BOND MARKET; STRUCTURING AND SELLING THE ISSUE; IMPORTANCE OF CREDIT RATINGS FOR ISSUERS AND DISCLOSURES FOR INVESTORS; BONDS FROM THE INVESTOR'S PERSPECTIVE; LEGAL AND REGULATORY CONSIDERATIONS; CONSIDERATIONS FOR DOMESTIC ISSUANCE IN MOLDOVA; CASE STUDIES; PANEL DISCUSSIONS/Q AND A DISCUSSIONS; SUMMARY AND NEXT STEPS FOR MOLDOVA • REGARDING POTENTIAL ISSUERS, REPRESENTATIVES OF FOUR (4) COMPANIES STATED THAT WITHIN THE NEXT 12 MONTHS, THEY INTENDED TO ISSUE BONDS; EIGHT (8) COMPANIES STATED THAT FROM 1-3 YEARS , THEY WOULD ISSUE BONDS; TWO (2) INSURANCE COMPANIES STATED THAT THEY WOULD ISSUE BONDS SOMETIME AFTER THREE (3) YEARS; UNCOVERED POTENTIAL INVESTORS OF BONDS • EIGHT (8) COMPANIES WOULD LIKE ASSISTANCE FROM ATCI • SUMMARY REPORT AS ATTACHMENT
<p>2. Assist companies (at least 3) in issuance of corporate bonds</p>	<ul style="list-style-type: none"> • MEETINGS HELD WITH MAIB, WITH A DEEP ANALYSIS OF PREPAYMENT RATE OF THE MORTGAGE PORTFOLIO

Task C. Assist Government of Moldova and National Bank of Moldova in Constructing Long Term Government Yield Curve in Moldova...DELETED

NOTE: This task was originally incorporated in the Statement of Work for ATCI/Moldova. When discussing the Work Plan with the CTO in a previous reporting quarter, CTO decided to delete this task and related activities.

LIST OF ATTACHMENTS

ATTACHMENT 10: Agenda Bond Conference

ATTACHMENT 11: Report on ATCI Moldova Bond Conference

ATTACHMENT 12: Embassy Letter of recommended Provisions for Amendments to Securities Market Law

ATTACHMENT 13: FAQ Brochure on Fixed Income

ATTACHMENT 19: Opinions of Legal Team on Regulating Capabilities of the NCFM

ATTACHMENT 20: Letter of Appreciation to ATCI/Moldova from Chairman Cibotaru

E. DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING - Moldova

NOTE: This Task was not originally included in the Statement of Work for ATCI/Moldova. However, due to desires of the local USAID officials along with discussions with this Project, this was included and approved as an additional component. The Component is comprised of monitoring activities over the seven partner financial institutions of the DCA, six commercial banks and the Rural Financial Corporation.

1. COMPONENT DESCRIPTION – DCA MONITORING MOLDOVA

This report provides details on events and activities relating to the Development Credit Authority Monitoring component of the USAID Access to Credit Initiative/Moldova, as implemented by the Pragma Corporation, during the period from October 1 through December 31, 2007.

The objective of this activity is to monitor the activities of the six commercial banks and the Rural Financial Corporation (RFC) regarding their loans that have qualified to be (partially) guaranteed by the Development Credit Authority. The activities of the Project require ongoing monitoring activities, which include answering partner institutions' relevant questions, conducting meetings to help prepare reports and to verify claims and reports, preparing reports for USAID, and verifying reports and claims of partner financial institutions.

II. SIGNIFICANT EVENTS – DCA MONITORING MOLDOVA

- ATCI/MOLDOVA ASSISTED AND VERIFIED ALL PARTNERS' SUBMISSIONS OF SEMI-ANNUAL REPORTS

III. EXECUTIVE SUMMARY – DCA MONITORING MOLDOVA

The Development Credit Authority (DCA) was created by USAID to provide (up to 50%) loan guarantees to financial institutions partners who have been approved and accepted by USAID. This DCA project was originally part of the BIZPRO project in Moldova that ended in the fall of 2006, prior to the start date of the ATCI/Moldova Project. It was USAID's desire to continue monitoring activities of the financial institution partners regarding their loan activities, claims, reports, and verification of such claims and reports. Therefore, USAID/Moldova requested ATCI/Moldova to add this component to the Work Plan and as part of the Project's tasks and activities. The Project agreed and ATCI CTO Rick Gurley also agreed to add this Component to the Work Plan in February 2007.

Throughout the reporting quarter, the Project responded to questions from and assisted partner-DCA financial institutions. In section V below, there is summarized the activities for this quarter.

IV. ADMINISTRATIVE ISSUES – DCA MONITORING MOLDOVA

NONE

V. DESCRIPTION AND STATUS OF TASKS – DCA MONITORING MOLDOVA

NOTE: all activities on an ongoing/as needed basis, as requested from DCA and/or the partner financial institutions

Task A. Monitor Activities of Financial Institutions Working with the DCA

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Monitor how Financial Institutions are utilizing guarantees and submitting claims	<ul style="list-style-type: none"> DCA - CONTACTING RURAL FINANCE CORPORATION REGARDING THE PAYMENT DUE ON UTILIZATION FEE
2. Act as contact person for Financial institutions and USAID to answer relevant questions	<ul style="list-style-type: none"> ASSISTED MAIB IN SOLVING THE CMS PROBLEM IN SUBMITTING A SEMIANNUAL REPORT
3. Assist Financial Institutions to complete questionnaires and surveys, where necessary	<ul style="list-style-type: none"> N/A FOR THIS QUARTER – NO SURVEYS OR QUESTIONNAIRES
4. Conduct meetings with Financial Institutions as needed and prepare semi-annual monitoring reports for USAID	<ul style="list-style-type: none"> ASSISTANCE IN COMPLETING THE LOAN SCHEDULE REPORT (MAIB – contacted 4 times)
5. Verify partner Financial Institutions' semi-annual reports submitted through the Credit Monitoring System	<ul style="list-style-type: none"> VERIFIED ALL BANK PARTNERS ON TIMELY SUBMISSION OF SEMIANNUAL REPORTS AND CONTACTED THE COMPANIES THAT WERE DELAYED OR NEEDED ASSISTANCE

LIST OF ATTACHMENTS

NONE

- END MOLDOVA-

UKRAINE ATTACHMENTS

ATTACHMENT 1



SECURITIES AND STOCK MARKET
STATE COMMISSION



Mortgage Covered Bonds: Responsibilities of Auditors and Bond Managers

A Workshop co - organized by the Securities and Stock Market State Commission of Ukraine and the Access to Credit Initiative, funded by the United States Agency for International Development (USAID)

AGENDA

Date: Tuesday 27, 2007

Place: Hotel Lybid, 1, Peremohy Square, Slovianskiy hall, 1st floor

9:15 – 9:45 Registration

9:45 – 10:00

Introductory Remarks

*Serhiy Biryuk, Commissioner, Securities and Stock Market State Commission
David C.M. Lucterhand, Chief of Party, USAID / Access to Credit Initiative*

Workshop Chairman, Serhiy Biryuk, Securities and Stock Market State Commission

LATEST LEGISLATIVE DEVELOPMENTS ON MORTGAGE COVERED BONDS: THE EFFECT ON THE AUDITORS AND BOND MANAGERS

Session 1:

10:00 – 10:30

Review of Existing Legislation on Covered Mortgage Bonds

*Iryna Zanoza, Head of Securities Market Professional Participants Activity Licensing Department, SSMSC,
Serhiy Yurhelevych, Legal Advisor, USAID / Access to Credit Initiative
Konstantin Kucherenko, Legal Advisor, Concorde Capital, UNIA*

10:30 – 10:40

Q&A

Session 2:

10:40 – 11:10

Amendments to the Law on Mortgage Bonds and their effect on the auditor and bond manager activity

*Maksym Lebanov, Head of the legislation development at the stock market department, SSMSC
Serhiy Yurhelevych, Legal Advisor, USAID / Access to Credit Initiative
Konstantin Kucherenko, Legal Advisor, Concorde Capital, UNIA*

11:10 – 11:20

Q&A

11:20 – 11:40 Coffee and Convenience Break

BOND MANAGER’S RESPONSIBILITIES

11:40 – 12:10

Session 3

Bond Manager’s Responsibilities based on the current Law on Mortgage Bonds and Regulations in place

Yuriy Kamenetskiy, Director of Investment Department, Ukgasbank
Serhiy Yurhelevych, Legal Advisor, USAID / Access to Credit Initiative

12:10 – 12:20

Q&A

AUDITOR’S RESPONSIBILITIES

12:20 – 13:05

Session 4

Auditor’s Responsibilities based on the current Law on Mortgage Bonds and Regulations in place

Ivan Nesterenko, Commissioner, SSMSC
Olena Tabala, Head of Monitoring and Strategy Development Department
SSMSC

Tatyana Bernatovych, President, APiK RSM

Igor Konstantinov, Audit Partner, Grant Thornton

Serhiy Yurhelevych, Legal Advisor, USAID / Access to Credit Initiative

13:05 – 13:15

Q&A

13:15 – 14:15

Moderator, Natalia Selyakova, Head of Banking and Finance Group, SALANS **Penal discussion**

SSMSC Representative

Yuriy Kamenetskiy, Director of Investment Department, Ukgasbank

Igor Konstantinov, Audit Partner, Grant Thornton

Tatyana Bernatovych, President, APiK RSM

Serhiy Yurhelevych, Legal Advisor, USAID / Access to Credit Initiative

Konstantin Kucherenko, Legal Advisor, Concorde Capital, UNIA

14:15 – 15:15

Lunch

ATTACHMENT 2



12 жовтня 2007 р.

Лактерхенд Девіду
Виконавчому директору проекту
ПРАГМА Корпорація

Шановний пан Лактерхенд!

Відкрите Акціонерне Товариство “Райффайзен Банк Аваль” у співпраці із Світовим банком (МБРР) запрошують Вас взяти участь у круглому столі на тему:

«Ринок іпотечного кредитування: світові події та їх вплив на Україну»

18 жовтня 2007 року з 11:00 до 14:00

Представництво Світового банку в Україні за адресою:
вул. Дніпровський узвіз 1, 2й поверх (конференц зал)

Метою цього круглого столу є аналіз подій на світових фінансових ринках, пов'язаних із кризою іпотечного кредитування в США, та обговорення їх впливу на подальший розвиток ринку іпотечного кредитування в Україні. Зокрема, під час обговорення будуть підніматися наступні питання:

- Причини та наслідки кризи іпотечного кредитування в США
- Можливі наслідки кризи для економіки США та економік інших країн
- Події на світових фінансових ринках та реакція регуляторів і банків
- Стан ринку іпотечного фінансування в Україні до та після кризи на міжнародних фінансових ринках
- Можливі наслідки кризи для України та механізми мінімізації ризиків на ринку іпотечного кредитування в Україні

До участі в обговоренні запрошені представники банків, фінансових та інвестиційних компаній України, оператори ринку нерухомості, фахівці Національного банку України, ДКЦПФР, ДКРРФП та представники Уряду України, представники професійних об'єднань, наукових кіл, а також представники ЗМІ. Проект програми круглого столу додається до цього листа.

Прохання підтвердити Вашу участь не пізніше 15 жовтня 2007 року пану Сергію Есаулову (sergii.esaulov@aval.ua) та пані Катерині Рущкій (kateryna.rutska@aval.ua) за телефонами (044) 490 89 95.

З повагою,

Голова правління банку

Володимир Лавренчук

Директор департаменту
корпоративних
комунікацій та досліджень

Анжела Пригожина

**“Raiffeisen Bank Aval” in collaboration with the International Mortgage Bank
and the World Bank**

ROUND TABLE

Subject:

“The market of mortgage lending: world events and the impact in Ukraine”

18 October 2007

11:00-14:00

*Conference hall of Representation Office of the World Bank in Ukraine
1, Dniprovskyi uzviz str, 2nd floor*

PROGRAMME

- 10:30-11:00 Registration
- 11:00-11:05 Opening RT
Moderator: Angela Prigozhina, Head of Corporate Communications & Research,
Raiffeisen Bank Aval
- 11:05-11:15 Review of mortgage market in USA and the analyze of consequences of the
mortgage crisis for American economy and the world financial markets
Angela Prigozhina, Head of Corporate Communications & Research
Raiffeisen Bank Aval
- Panellists:*
- 11:15-11:20 Alexey Novikov, Head Office Standard & Poors in Moscow and CIS
- 11:25-11:30 Dmytro Tarabakin, Director, Dragon Capital
- 11:25-11:45 Main tendencies and perspectives of development of the mortgage financing
market in Ukraine
Yuriy Blaschuk, Head of Board, International Mortgage Bank
Olexiy Pylypets, Executive Director, Ukrainian National Mortgage Association
- Panallists:*
- 11:45-11:50 Ivan Istomin, Head of development and private business Department, Ukrsibbank
- 11:50-12:05 Minimization of risks and negative impact of international liquidity crunch on
mortgage market development in Ukraine
Yevgen Dem”yanov, Deputy Head mortgage lending department, Raiffeisen Bank
Aval
- Panallists:*
- 12:05-12:10 Yevgeniy Barah, Head mortgage lending department, Ukrsoobank
- 12:10-12:15 Kyrylo Shevschenko, Head of the Board, Public Mortgage Institution
- 12:15-12:55 Discussions
- 12:55-13:00 Findings
- 13:00-14:00 Lunch

ATTACHMENT 3



USAID
FROM THE AMERICAN PEOPLE

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

October 12, 2007

Our ref: 874/DL/1

Mr. A. M. Kravets
Deputy Minister of Finance
Ministry of Finance of Ukraine
38 – 44 Degtyarivska
04119 Kyiv

Re: Development of Domestic Government Securities Market

Dear Mr. Kravets:

Thank you for your letter in which the Ministry requests technical assistance in specific areas which contribute to development of the domestic government securities market.

I am pleased to inform you that The World Bank and the Access to Credit Initiative are working jointly in this area. This cooperation is being conducted under the auspices of the **USAID/World Bank Programmatic Technical Assistance Partnership (PTAP /Partnership)**.

As you know, a joint USAID/World Bank mission worked with counterparts from Government and the securities market and Non-Bank Financial Institutions regulatory agencies in Kyiv from September 24 to 28, 2007 to launch the PTAP. The Aide-Memoire of the joint mission was submitted by USAID and World Bank management to the Ministry on October 11, 2007. Specifically, the USAID/World Bank mission agreed with Ministry authorities that PTAP will support the design and implementation of a comprehensive Reform Plan to develop government debt management and debt market development. This Plan will take as a point of departure the Concept Note submitted to the Bank by the Sovereign Debt Management Department (SDMD) of MOF during the DPL2 appraisal mission.

Bank staff has also provided comments on the SDMD Concept Note to the Ministry of Finance. Over the coming weeks, Bank staff, working in close collaboration with the USAID Access to Credit Initiative (ATCI), will design a multi-year Reform Plan to support the development of government debt management and debt market development. A Draft Plan will be submitted to MOF by mid-November 2006.

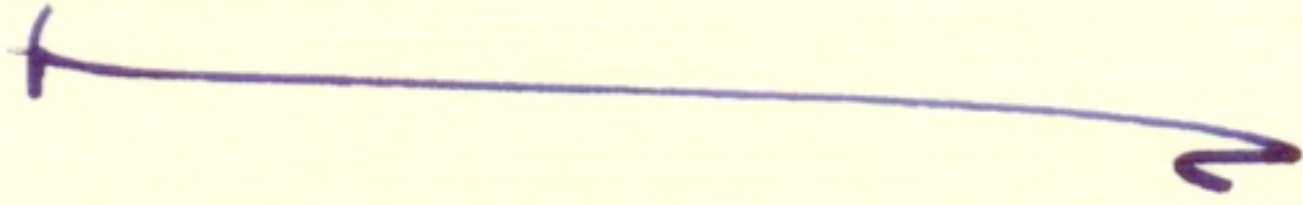
This Reform Plan will be funded under the World Bank Public Finance Management Project and under a PTAP TA grant being requested from the FIRST Initiative and through the USAID Access to Credit Initiative.

Access To Credit Initiative
Olympic Business Center
72 V.Vasylkivska Street
1st Entrance, 5th Floor
03150 Kyiv, Ukraine
Tel.: (+380 44) 537-0966
Fax: (+380 44) 537-0967
<http://www.atci.com.ua>

Ініціатива сприяння кредитуванню
Бізнес-центр «Олімпійський»
вул. В.Васильківська, 72
1 під'їзд, 5-й поверх
03150 м.Київ, Україна
Тел.: (+380 44) 537-0966
Факс: (+380 44) 537-0967
<http://www.atci.com.ua>

Consequently, the partnership looks forward to working with the Ministry to achieve these important objectives.

Most sincerely,



USAID Contractor
David C. M. Lucterhand
Chief of Party
Access to Credit Initiative
USAID / Ukraine & Moldova

Cc : Volodymyr Vysotskyi, Ministry of Finance
Paul Bermingham, The World Bank
Martin Raiser, The World Bank
Vitaliy Bigdai, The World Bank
Antonio Velandia, The World Bank
Michel Noel, The World Bank

ATTACHMENT 4

Introduction

1. The Ukrainian authorities have recently expressed concern on the structure of the government debt, 85% of which is currently denominated in foreign currencies. Such a skewed debt composition has resulted from relatively high interest rates in Hryvnya leading the authorities to embrace foreign currency borrowing with little regard for the impact of exchange rate volatility on debt service payments. This year however, the strong appreciation of the Euro has reflected unfavorably on the government accounts. Adding to these currency “losses” there are significant costs the National Bank incurs for sterilizing Hryvnya surpluses created by financing the budget with foreign borrowings. These concerns and the possibility of NBU moving to inflation targeting, increasing the volatility of the exchange rate and the risk of foreign currency borrowing, are driving the authorities to revise the debt structure and indeed the overall debt management function.

2. As a result the Ukrainian DMO has produced a policy note recommending to improve the structure of the government debt portfolio and to give a boost to the domestic debt market¹. The policy note addresses key issues raised in the Bank’s diagnostics² and discusses a number of steps to improve the government debt structure with due consideration to the costs involved. In a nutshell, the note recommends changing the course of the current funding strategy by increasing substantively the share of the local currency debt. This change, according to the note, should be accompanied by a series of actions directed to make the government securities in Hryvnya more attractive to institutional investors in order to reduce the cost of implementing the new policy.

3. These notes present a detailed set of reforms to attain the government objectives of improving the structure of the government debt portfolio while promoting a more liquid and active market of government securities. To address the required change in the portfolio structure, reforms are directed to building institutional capacity in the Ukrainian DMO to design and implement a strategy for managing the government debt. To increase the appetite of institutional investors for government securities in Hryvnyas and reduce the cost of increasing the funding in local currency, a series of reforms in the functioning of the primary and money markets are proposed together with specific improvements in the market infrastructure and actions in the secondary market including programs to enhance the participation of institutional investors.

¹ “Concept for the Development of the System of Domestic State Borrowings of Ukraine for 2008 – 2011”

² See “Needs Assessment on Debt Management and Debt Market Development” World Bank, July 2005 and also “Public Debt Management Strategy And Domestic Debt Market Development” IMF, July 2005

4. **The scope of the Reform Plan is limited to the priorities set in the DMO policy note and should be complemented by upgrading the legal framework and strengthening the institutional arrangements and the internal organization of the DMO.** The consolidation of the primary and secondary legislation in line with EU best practices, improving the institutional set-up to facilitate the formulation and implementation of policies and strengthening the capacity of the DMO should all be done in parallel with the implementation of the present Reform Plan in order to enhance the probability and permanence of a successful reform.

5. **The role of coordinator of the assistance provided by donors such as USAID and the EU, the Bank is willing to help integrate their programs in the present Reform Plan.** In particular, the program proposed in the “Twinning fiche for supporting the Ministry of Finance of Ukraine in the fields of Debt Management and Budgetary Forecasting” in its components 1, 2 and 4, fills the gaps the current Reform Plan has in the areas abovementioned. As for the overlap with component 3, the recommendation is that the Bank as coordinator defines the roles of PFMP, PTAP and the Twinning arrangement to ensure that the different projects support each other avoiding duplication and waste of resources and enhancing the assistance provided.

Debt Management

6. **The debt management front, the Reform Plan is oriented towards building institutional capacity in the DMO to prepare and implement a medium-term formal debt management strategy** based on sound cost-risk analysis and reflecting the authorities’ plan to increase the share of local currency debt and the need to promote the development of the domestic debt market. Three main components are considered: (i) revising and upgrading the debt recording system and its connectivity with the public financial system; (ii) building capacity to design a debt management strategy; and (iii) building capacity to implement such a strategy.

7. **Component 1 in the debt management front includes reviewing the current debt recording system to ensure that debt is recorded in a secure and efficient environment and that it allows projecting out interest and amortization payments over the life of the existing loans.** A key requirement for the formulation of a sound debt management strategy is the availability of good quality data in particular the ability to map out the debt servicing flows of the current debt stock. This component reviews and strengthens the DMO capabilities for debt recording and for exporting the data to an environment where cash flow simulations can be run. In addition, as the MoF has embarked in developing a single centralized information system which serves as a core to all public expenditure management processes, this component will also ensure adequate connectivity with accounting, budgeting, and payment systems as well as adequate information flow of debt data between the MoF and NBU.

8. **The review of the debt recording system and improvement in the data management for producing the strategy will include four activities:** (i) Definition of


the user requirements for the Back and Middle Office functions and for the MOF centralized information system; (ii) Analysis of the current system and determination of its gaps to the user requirements; (iii) Selection of a debt recording system to fill the gaps including the architecture to connect it with the “Integrated Public Financial System”; and (iv) Implementation of the selected debt recording system.

9. **Component 1 will be completed with the assistance of an international consultant with ample experience in the selection of recording systems for debt management offices** and familiar with international best practice for back and middle office functions as well as with the integration of the debt module with the public financial system. At the minimum the consultant should spend 1 week mission in the field to cover the first activity and a 2 week mission to cover the second. The time and cost of activities 3 and 4 will depend on whether or not the current debt recording system can be upgraded and linked to the “Integrated Public Financial System”.

10. **Component 2 consists of the preparation of a debt management medium-term strategy.** This component addresses in a formal manner the authority’s intention to reduce the foreign currency exposure and increase the share of local currency debt by assisting the DMO in preparing a proposed strategy for managing the government debt based on cost and risk analysis, macro and market development considerations. Component 2 is therefore coordinated with the reforms suggested in the market development front so that the increase in the share of the local currency debt will be paced according to the progress of reforms affecting primary and secondary markets.

11. **The preparation of the debt management strategy includes the following activities:** (i) Basic training on debt strategy formulation and scenario analysis to quantify cost and risk in a sovereign liability portfolio; (ii) Development of a model for scenario analysis to revise and discuss the cost-risk tradeoffs of alternatives strategies under consideration; (iii) iteration of the potential debt strategies and comparative analysis including the macro and market development perspectives. A byproduct of component 2 is the production of monthly reports on selected risk indicators and a basic risk analysis. This risk reports could be kept internal until DPC feels comfortable about sharing this with the market.

12. **Component 2 will be delivered with the assistance of the World Bank Treasury or international consultants with proven expertise in the design of strategies for managing the government debt.** It is estimated that the training foreseen in activity 1 will require one week of two consultants in the field plus 1 week remote for preparation. The development of the cash flow simulation model will require two one week missions of the consultant in the field and two additional weeks from remote. Finally, assistance to the final stage of the strategy design will require one week of the consultant in the field.

13.  **Component 3 provides the assistance required for the DMO to implement the debt management strategy.** This component focuses on enhancing the front office capacity to efficiently execute borrowing and liability management operations required to


comply with the government debt strategy. By executing these operations according to international best practice the DMO will minimize funding costs. Similarly, appropriate execution in the domestic market is a fundamental ingredient of debt market development.


14. **Component 3 includes two main activities:** (i) 1-2 week training course on execution; and (ii) a study tour. The training will focus in placement techniques including auctions, private placements and syndications, and will cover also liability management operations such as buybacks, exchanges and swaps. The study tour will be used to show the staff of the Ukrainian DMO how other DMOs conduct these operations in practice.

15. **Component 3 will be delivered with the assistance of the World Bank Treasury or by international consultants with proven expertise in the execution of strategies for managing the government debt.** It is estimated that training in activity 1 will require one week of two consultants in the field. The study tour referred to in activity 2 comprises the visit to three debt management offices in Europe during 2 days each, and will take place under the coordination of the international consultant. Possible DMOs to visit include Hungary, Sweden and Poland. The tour will be prepared by the international consultant who will require two weeks from remote in addition to the tour itself which is planned for 1.5 weeks.

16. **To ensure the successful implementation of the reform plan, a consultant will be hired to assist the authorities in the completion of the three former components.** The extent of this handholding approach which will be discussed with the Ukrainian authorities has two main objectives: (i) provide an additional resource that could work with the DMO staff in the capacity building process; and (ii) help coordinate with the EU and other donors contributing to the debt management function.

Debt Market Development

17.  **purpose of the Ukraine Debt Market Reform Plan is to identify major impediments to Ukraine's government debt market development and determine priority policy reforms going forward.** It draws considerably from the joint USAID-World Bank paper "Developing Securities Markets and Non-Bank Financial Institutions in Ukraine: Key Impediments and Policy Reform Priorities Ahead" (Sep 2007), as well as the World Bank "Ukraine Public Debt Management and Domestic Debt Market Development" Needs Assessment Report (2005).

18.  **Domestic government bond markets in Ukraine are at the early stage of development, particularly lacking any meaningful liquidity and depth.** The issuance of government bonds is unpredictable and the amount of government bonds outstanding has been steadily declining from about 6% of GDP in 2000 to less than 1.5% of GDP in 2006. The secondary market is largely illiquid and there is a lack of a reliable government bond yield curve. The Reform Plan consists of six components: (i) primary market; (ii)

cash management; (iii) money market; (iv) market infrastructure; (v) investor base; and (vi) secondary market.

19. **Key characteristics of the primary market for Ukraine's government bonds are the absence of a yield curve and unpredictability of debt issuance.** Standard elements of a well-functioning government securities market are non-existent, including the use of large issues as market benchmarks, a regular issuance calendar, and clear rules for the conditions under which auction outcomes will be accepted or rejected.

20. **Component 1 aims to strengthen the efficiency and transparency of the primary market in Ukraine.** It includes the following main activities:

- i. Design a benchmark-oriented issuance program that supports the development of a yield curve. Taking into consideration new funding needs and the current NBU and MoF portfolios, the program will need to adhere to a well-announced financing plan with specified limits for deviations. The issuance strategy shall focus on 2-3 benchmark series to enhance liquidity and reduce the liquidity premium. To develop a market-based yield curve, the government should gradually become a price-taker.
- ii. Review and improve the primary auction mechanisms, including frequency, bidding process, price discovery mechanism, calendar setting, and information reporting. The government needs to commit to a transparent and predictable annual issuance calendar which shall be in line with the current stage of the market development. The auction process needs to be restructured into a one-step, single-price procedure conducted at regular intervals, preferably moving from the current bi-weekly to a monthly schedule. In addition, auction rules should be revisited to allow greater participation of banks and financial institutions to generate a more competitive auction environment. Limit allocation to a single buyer should be set to 20-25% of the auction.
- iii. Review and improve the primary dealer system to ensure that the obligations and privileges of primary dealers are in line with the sophistication of the current stage of markets in Ukraine.

Some complementary activities under component A may include (i) a study tour, (ii) the government securities consolidation plan, and (iii) a relevant detailed implementation plan.

21. **One of the challenges in effective cash management is the poor quality and flow of information necessary to conduct cash flow forecasting.** Thus, data availability and adequate resources are critical to adequately manage cash balances.

22. **Component 2 aims to strengthen the government cash management capacity to facilitate the benchmark development.** It includes the following two main activities:

- i. Develop and implement an integrated government cash management function, including improved forecasting of government cash flows. Within this context, the use of short-term treasury bills (less than 90 days maturity) needs to be increased for cash management as opposed to debt management purposes. Among other things, 'gross' debt limits need to be replaced by net debt limits in budget laws to facilitate this development.

- ii. Explore the possibility of targeting a certain level of the end-of-day government cash balance in the long run as the domestic debt and money markets develop further.

23. Domestic money markets in Ukraine are underdeveloped. Recent structural liquidity surplus has significantly reduced interbank market activity - from levels that were modest to begin with - as most banks have long liquidity positions. However, as this excess liquidity has been concentrated in very short-term maturities, there has also been very limited development of term interbank activity (e.g., even beyond one week in maturity), largely because of concerns regarding credit quality. Development of an effective repo market is critical for Ukraine's financial market development; however, legal and tax uncertainties have worked against the emergence of a standardized interbank repo market.

24. Component 3 aims to promote money market development to support the activity of the secondary market. It includes the following three main activities:

- i. Improve institutional arrangements for the execution of monetary policy and strengthen the coordination between the monetary policy and debt management policy in the short end of the curve.
- ii. Improve interbank short-term liquidity by providing a legislative and regulatory framework for instruments, including repo agreements. The activity will (i) identify and resolve all outstanding legal, accounting and tax uncertainties currently restricting the development of the widespread use of repos; (ii) finalize and promote the introduction of an ISMA based master repo agreement consistent with Ukraine law; and (iii) permit use of repos in all security market segments.
- iii. Assess and implement an appropriate monetary policy to eliminate structural excess liquidity. It is necessary to review and amend NBU policy and practice regarding provision of liquidity to the banking sector in order to encourage greater liquidity management by individual banks and greater liquidity trading within the banking system, with liquidity from NBU considered only as a last resort.

25. General deficiencies in market infrastructure impede bond market development. One of the key impediments in this regard is the co-existence of two central depositories – MFS and NDU – and the virtually non-functioning delivery-vs-payment (DVP) system. The MFS is the main and oldest securities depository having performed depository and clearance and settlement functions since 1997. Meeting six of the nine standards adopted by the Group of Thirty (G30), MFS still lacks multilateral netting functions and stock borrowing and lending procedures, in addition to the absence of a central stock depository. These remaining three standards cannot be implemented due to the Ukrainian legislation's current noncompliance with international standards. Although, it appears that MFS has necessary software and human capital resources to effectively implement critical depository functions for the market, the vast majority of trades (94% in 2006) take place over-the-counter (OTC) outside the organized market and are settled free of payment (FOP). Furthermore, even though MFS recently established a DVP system, in practice it is not being used by market participants for several reasons, including: (i) MFS is not allowed to open correspondent accounts with

foreign depositories; and (ii) market participants prefer not to disclose the cash side of transactions in order to evade taxes.

26. **Component 4 aims to upgrade the market infrastructure in the Ukraine debt market.** Its main activities include:

- i. Strengthen and consolidate the clearing and settlement system;
- ii. Build the supporting structure for the DVP settlement system. In order to strengthen the clearing and settlement system, it is necessary to have a single central depository. Thus, consistent with the FSAP recommendation, the government needs to liquidate the NDU and concentrate on strengthening the MFS. To achieve the latter, the authorities need to adopt legislation that will mandate the establishment of multilateral netting, the central stock depository, and stock lending and borrowing procedures in accordance with the G30 standards. Furthermore, the authorities should implement regulations that require all ownership registration be electronic and allow MFS to open correspondent accounts with foreign depositories, as well as incorporate in the depository system the capability to handle all types of money settlement consistent with international standards.

27. **Large and diversified investor base is an important element for ensuring liquidity and stable demand in government bond markets.** Ukraine's investor base has been dominated by financial institutions, which in turn are dominated by banks. Assets of non-bank financial institutions (NBFI), such as pension funds, mutual funds, and insurance companies, account for only a small fraction of those of banks. Given the importance of NBFIs' role as investors in government bonds, there is a significant need to strengthen this sector.

28. **Component 5 aims at designing a program to promote a sustainable investor base, focusing on strengthening and developing institutional investors, particularly NBFIs.** It includes the following three main activities:

- i. Strengthen and reform the NBFI regulator in line with international standards, increasing professionalism, technical capacity, and independence from political interference in senior appointments and operational activity (see the NBFI Study).
- ii. Promote the insurance and pension sector reforms, as well as the development of collective investment schemes.³
- iii. Prepare a demand base analysis of current and potential investors.

29. **Secondary market activity in government bonds is extremely limited.** Factors contributing to low secondary market liquidity include: (i) fragmented nature of government securities; (ii) surplus liquidity decreasing banks' need to actively manage their investment portfolios; (iii) tradition of using quasi-repos to meet liquidity needs; (iv) restrictions on short selling and on NBU's ability to sell securities; and (v) lack of coordinated support by authorities.

³ The fiscal reform to restore the financial condition of Pillar I pension system is being carried out under the Pension Administration Reform Project managed by ECSHD.

30. **Component 6 aims at improving the secondary market liquidity.** It includes the two main activities:

- i. Establish a working group to identify and overcome regulatory and tax-related obstacles to market activity. The working group will include representatives of different regulators (SCRFSM, MoF, NBU) and market participants.
- ii. Gradually expand the availability of transparent and standardized data on secondary market activity.

In addition, some of the efforts carried out under the primary market component, such as consolidating the existing stock of government securities and decreasing the frequency of primary issuance, will also help bolster secondary market liquidity.

Debt Management Action Plan Table

Component	Subcomponent	Activity	End date	External Consultant	Cost External Consultant	WB Staff Supervision	Cost WB Staff	Activity cost
				Time (weeks)		Time (weeks)		
Upgrading current debt recording system		Definition of the user requirements	March, 2008	1.0	14,088	0.5	3,000	17,088
		Analysis of the current system and determination of gaps	April, 2008	2.0	21,176		-	21,176
		Select a debt recording system	May, 2008	0.5	2,800		-	2,800
		Implement debt recording system	September, 2008	1.0	14,088	0.5	10,744	24,832
Debt management strategy design	Training on cost-risk analysis and process to formulate a strategy	1week training workshop on process and cost-risk analysis	March, 2008	3.0	28,176		-	28,176
		Design cost-risk spreadsheet model	August, 2009	4.0	39,376	0.5	10,744	50,120
	Designing and implementing a cashflow model for scenario analysis and selecting a strategy	Formulation of the debt management strategy	September, 2008	1.0	9,088	0.5	-	9,088
Debt management strategy implementation		1-week training course on execution	May, 2008	2.0	21,176		-	21,176
		Study tour to review execution in other countries	August, 2008	3.5	20,632	0.5	-	20,632
Total				18.0	170,600	2.5	24,488	195,088

Debt Market Development Action Plan Table

Component	Subcomponent	Activity	Start date	End date	External Consultant					Cost External Consultant	WB Staff				Activity cost	
					Time (weeks)	Time-cost	Per-Diem	Travel	Lodging		Time (weeks)	Time-cost	Per-Diem	Travel		
1	Primary Market	Design new issuance strategy - including both new issues and consolidation of current issues and current NBU and MoF portfolios (through BuyBack, ReOpen and Exchange), and VAT bonds	Sep-08	Oct-08	1.5	7,350	1,050	5,250	1,638	15,288	0.1	600			600	15,888
2		Review mechanisms of primary auctions including: frequency, bidding process, price discovery, limit allocations, calendar setting, reporting.	Mar-08	Apr-08	2.0	9,800				9,800	0.2	1,200			1,200	11,000
3		Review primary dealers system and role for the pension fund administrators and foreign market players.	Nov-08	Jun-09	1.0	4,900				4,900	0.1	600			600	5,500

4	Study tour	Jun-08	2.0	9,800	1,050	7,000	2,184	20,034	0.1	600			600	20,634
5	Design details of gov't securities consolidation plan	May-08	1.0	4,900	525	3,500	1,092	10,017	0.1	600	7,000		8,797	18,814
6	Detailed implementation plan	Jul-Aug-08	1.5	7,350				7,350	0.1	600			600	7,950
7	Develop and implement an integrated government cash management function, including an improved forecasting of government cash flows.	Feb-May-08	1.0	4,900	525	3,500	1,092	10,017	0.2	600			600	10,617
8	Explore the possibility of targeting a certain level of the end-of-day government cash balance	Jan-Aug-09	1.5	7,350				7,350	0.1	600			600	7,950
9	Promote money market development to support activity of the secondary market													
	Improve institutional arrangements for the execution of monetary policy (MP) and strengthen the coordination between the MP	Jun-08	2.0	9,800				9,800	0.1	600			600	10,400

16			Jun-08	Nov-08	1.0	9,800	9,800	9,800	0.1	600	600	600	10,400
17			Jun-08	Nov-08									
	Secondary Market		Feb-08	May-08	2.0	9,800	1,050	7,000	0.2	1,200	210	7,000	28,444
18			Jun-08	Nov-08	1.0	4,900	4,900	4,900	0.2	600	600	600	5,500
	Total Budget				25.0	128,100.0	5,775.0	36,750.0	2.5	12,000.0	420.0	21,000.0	35,604,218,787.0
	Note: Per Diem Rate: \$105												
	one week	525											

ATTACHMENT 5

APPROVED

by order of the Cabinet of Ministers
of « ___ » _____ 2007 No. _____

Concept for the Development of the System of Domestic State Borrowings of Ukraine for 2008 – 2011

General provisions


As of 1 January 2007, the direct and guaranteed state debt of Ukraine amounted to 80,5 bln. UAH or 15,9 bln. USD, including debt in the national currency – 11 bln. UAH (13,7%), debt in the foreign currency – 69,5 bln. UAH (86,3%).

One of the main reasons for state borrowings mainly in the foreign currency is a high cost of borrowings on the domestic market. Thus, an average yield on domestic government bonds was equal: in 2003 – 9,73%, in 2004 – 11,23%, in 2005 – 7, 23%, in 2006 – 9,27%, for 9 months of 2007 – 6,66%. Liquidity of state securities on the domestic market is low, demand for such securities from investors and traders that constitute the market is low, trade on the secondary market is very slow. Foreign investors account for a large share in the investor structure. This means that state securities are purchased only to gain earnings, and there is a lack of interest from domestic financial and credit institutions in the long-term investment of significant volumes of liquid financial resources into securities, whose current liquidity does not provide for a possibility of their quick purchase or sales. Under such conditions, it is well understood that the Government makes decisions in favor of foreign currency borrowings.


At the same time, relatively low interest rates of borrowings in the foreign currency do not provide for lower aggregate state expenditures, since they are marked by significant currency risks. During the validity of a debt liability, denominated in a foreign currency, an exchange rate of the hryvnya against the currency of a liability changes. Respectively, the cost of such liabilities changes.

According to the results of the year 2006, 20,7% increase in the volume of government debt liabilities occurred at the expense of rise of the Euro exchange rate, i.e., not having received additional resources, Ukraine has to repay more funds in hryvnyas, than those received on the date of a borrowing, which amounts to 614 mln. UAH. Whereas interest payments by such a debt increase in the same proportions.


Possible transition by the National Bank to a more flexible currency regulation regime can be an additional factor for the increase of the currency risk level of state borrowings.

At the same time a cost of currency borrowings is undervalued, since it accounts only indirect expenditures of the state budget for their servicing. Expenditures of the National Bank, associated with the sterilization of hryvnya surpluses, created due to the financing of the budget deficit at the expense of foreign borrowings, are not accounted.  same holds true in respect of the expenses, connected with the replenishment of currency reserves.

Besides significant currency risks,  risks of refinancing the external borrowings also increase, which is connected with the current volatility of financial markets.

 Considering the above-indicated factors, and also a negative trade balance (3068 mln. USD) and account of current transactions (1617 mln. USD) of the balance of payment in Ukraine in 2006, the development of the system of domestic state borrowings becomes especially important.

I. Goal and main objectives

 The goal of the state debt management is compliance of the volume of government debt liabilities with the capacity of the state to repay and service them at the current moment and in the perspective pursuant to target parameters of the state function realization.

Achievement of this goal envisages the performance of the following tasks:

possibility to mobilize the required funds with a view of fulfillment by the state of its functions and making of payments by the state debt;

2) financing of state needs at the minimal possible level of expenses in the medium-term perspective with a risk minimization;

3) minimization of the state debt structure by the currency of a borrowing, types of interest rates and terms of a borrowing.

Under present conditions, development of the domestic state borrowing system is a strategic direction for the public debt management.

II. Ways of realization of the objectives

In order to manage interest rate and currency risks of the already existing debt liabilities, it is necessary to implement transactions of exchange of an interest rate and currency, in which the corresponding debt liabilities are denominated (swap transactions). Minimization of currency risks can be secured by a reallocation of the public debt structure towards the increase of its share in the national currency. To minimize public expenses for the servicing of the domestic debt, it is necessary to facilitate to the lowering of the value of state borrowings in the national currency. Under those conditions when a yield on government securities is relatively high, i.e., the government runs up significant expenses for the servicing of the public debt, a demand for them is inadequate, despite a high level of reliability, the only way to achieve the goals of public debt management is to stimulate a demand for government securities by rendering them a quality of a liquidity management instrument of financial and credit institutions, i.e., to provide for an opportunity to purchase or sell these debt liabilities at any time at firm quotes.

The proposed increase in the share of local currency debt will be part of a broader strategy for managing the government debt that will define the debt portfolio structure in terms of currencies, sensitivity to interest rate changes and to changes in refinancing conditions. Such a strategy will be formulated on the basis of the cost-risk analysis presented in *section I* and will also take into account macroeconomic factors as well as the notional balance sheet of the public sector. A handful of potential financing strategies will be considered and their merits will be compared in light of the inherent costs and risks to the State budget, the consistency with the government macroeconomic policy and the implications for market development. The results of these analyses will be presented to the Minister of Finance and to the Cabinet for final approval. Thereafter the government debt management strategy will be reviewed on a yearly basis.

III. Measures

Thus, decrease of a value of public borrowings in the national currency and stimulation of a demand for government securities are secured by facilitating the increase of liquidity of government securities. To this end, the following measures should be taken:

1. Gradual and ongoing expansion of standardized data, required for the effective functioning of the government securities market, such as daily quotes of securities on the domestic market, yield curve of securities, etc.
2. Regular placements of issues of the whole set of government securities by circulation terms in the volumes that will provide for an execution of a plan of state borrowings for the corresponding year, established by the law on the state budget;
3. Establishment of generally accepted international procedures and formulae of interests accrual by government liabilities to stimulate a demand for them;
4. Implementation of modern competitive procedures of conduct of auctions that provide for a placement of government securities in one phase;

5. Improving the cash forecast capacity of the government
6. Establishment of an institution of primary dealers and their rendering of services regarding a bilateral quoting of government securities on the secondary market. This will allow the holders of securities for a possibility to sell them at a fair price before the maturities;
7. Placement of temporarily free public funds with financial institutions by way of a temporary repurchase of government securities under the conditions of a reverse REPO agreement, which will secure a conversion of these securities into the instrument of satisfaction of investors' short-term demands for financial resources;
8. Conduct within the volumes of borrowed funds of government debt transactions, including the exchange (swap transactions) and premature repurchase of government debt liabilities, with a view to save budget funds and minimize a currency and interest rate risk;
9. Conduct of short-term banking transactions (overnight) only in respect of government securities, which will provide for an increase of demand for these instruments;

IV. Expected results

Transition to a full-scale and liquid market, which would give the investors and traders the incentives to develop the market, which exceeds the above-mentioned ones, can have wider positive consequences for the whole financial market of Ukraine and for the society. It is possible to note the following implications among them:

1. Regular placements of issues of the whole set of government securities by the circulation terms will increase their liquidity and will serve as a push start for the development of the domestic securities market. Moreover, this will enable to reach a correspondence of a demand and supply, i.e., to avoid an excessive supply. This will significantly lower a cost of servicing the government borrowings along with the placement of funds under the conditions of a reverse REPO.
2. Liquid market of government securities and a well delineated yield curve makes it possible to make a full-scale development of other segments of the financial market of Ukraine, and enables them to reach a required completeness and liquidity. This means that the cost of issue of corporate and mortgage securities will be significantly lowered in case of a full-scale operation of the government securities market.
3. Ukraine can have developed derivatives' markets. Thus, producers of agricultural products, importers and exporters, and other economic entities will be able to hedge their risks. Diversification of risks will make it possible to lower general losses resulting from the economic risk.
4. Liquid market of government securities will support lower currency risks in the financial sector and indirectly lower currency risks for borrowers. Banking sector needs internal instruments for the liquidity management and financing of long-term internal securities portfolios with the help of REPO transactions. This will mitigate a sensitivity of the banking sector to currency risks and ease the issue of securities on the domestic market for other borrowers.
5. Liquid market of government securities will establish additional possibilities for their use by the National Bank of Ukraine pursuant to the realization of the state monetary policy.

APPROVED
by order of the Cabinet of Ministers
of « ___ » _____ 2007 № _____

Suggested Program of Priority Measures for 2008
to the Concept for the Development of the System of Domestic State Borrowings of
Ukraine for 2008 – 2011

	Area	Required measures	Term of execution - Priority	Responsible executive
1	Debt Management Strategy	Ordinance instructing MoF to present a debt management strategy ¹ simultaneous with the draft of the State Budget	Second	Cabinet
2		Prepare a proposal for Cabinet	First	State Debt Management Department
3	Primary market	Establishing accepted international procedures and formulae for government securities	First	
4		Approval of annual schedule for primary placement of government securities	Third	
5		Approve issue size in excess of 1 billion UAH reached by way of reopening	Second	
6		Implement modern competitive procedures for auctions of government securities in one phase	Second	
7		Implement exchanges and buybacks to restructure the existing stock of local currency debt (external as well?)	Third	
8	Primary Dealer System	Establishment of the institution of primary dealers	Third	
9	Cash Management	Improving the cash forecast capacity of the government	First	
10		Placement of funds with financial institutions by way of a temporary repos	Third	
11	Secondary Market	Gradual and ongoing expansion of standardized data such as daily quotes of securities on the domestic market, yield curve of securities	First	
12		Repurchase of government securities-- Conduct of short-term banking transactions (overnight) only in respect of government securities	Second	

¹ The debt management strategy will have a three year horizon and should include target indicators for the debt structure including but not limited to: average maturity, ratio of volumes of borrowings in the national and foreign currency, currency structure of the foreign state debt ratio and fixed to floating debt ratio

APPROVED
by order of the Cabinet of Ministers
of « ___ » _____ **2007 №** _____

Original Program of Priority Measures for 2008
to the Concept for the Development of the System of Domestic State Borrowings of
Ukraine for 2008 – 2011

	Required measures	Term of execution	Responsible executive
1.	Approval of the annual schedule for the primary placement of government securities	Annually in December	Ministry of Finance
2.	Approval of prospectuses of issues of government securities	2 weeks before the issue	Ministry of Finance
3.	Establishment of the institution of primary dealers	During the year	Ministry of Finance
4.	Issue of government securities in liquid volumes by way of primary placements with the subsequent completion of placements up to the accumulation of a general volume of issue in excess of 1 bln. UAH	Constantly	Ministry of Finance
5.	Conduct of transactions within the borrowed funds with the public debt of Ukraine, including the exchange, premature and temporary repurchase of state debt liabilities according to reverse REPO agreements	Constantly	Ministry of Finance
6.	Development and inclusion into the forecast of indicators of the consolidated budget of Ukraine according to the main types of revenues, expenditures and financing for the planned and subsequent 3 years of the medium-term public debt management program, which should include the following target indicators: ratio of the direct public debt to the GDP, ratio of the public direct and guaranteed debt to the GDP, average weighted maturity, ratio of volumes of borrowings in the national and foreign currency, ratio of the volumes of borrowings with a fixed and floating rates, currency structure of the state debt	In accordance with the schedule for the preparation of a draft of the law of Ukraine on the State Budget for the corresponding year	Ministry of Finance Ministry of Economy

ATTACHMENT 6



SEVENTEENTH OECD GLOBAL FORUM ON PUBLIC DEBT MANAGEMENT

Amsterdam, 11-12 December 2007

Held under the aegis of the OECD Working Party on Debt Management

*In co-operation with the OECD-Italian Treasury Network for Public Debt Management
in Emerging Markets*

Sponsored by the government of Japan

Forum chairman: *Mr. Ove Jensen, Head of Government Debt Management, Danish Central Bank, and
Chairman of the OECD Working Party on Debt Management*

Monday, 10 December 2007

17 h 00 – 20 h 30 **Registration and reception**

17 h 00 – 19 h 00 Registration

Note: Delegates who are also attending the Second OECD Forum on African Debt Management, on 12-13 December, may register for that event as well.

19 h 00 – 20 h 30 Reception (hosted by the OECD)

Tuesday, 11 December 2007

8 h 00 – 9 h 30 **Registration**

Note: Delegates who are also attending the Second OECD Forum on African Debt Management, on 12-13 December, may register for that event as well.

9 h 30 – 9 h 45 **Welcome and overview of programme**

- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*

9 h 45 – 13 h 00

Session 1: Price discovery in government bond markets

This session will identify the main mechanisms for price discovery in government bond markets and the related policy issues from the perspective of government debt managers. In particular, the session will examine the roles and influences of (i) various issuance techniques, (ii) primary dealers and officially appointed market-makers, and (iii) when-issued markets and other pre-auction mechanisms.

The session will begin with an overview of the main policy issues on the role of price discovery in primary and secondary markets. The session will then proceed with a panel discussion with debt managers from the OECD area and emerging market countries. An important objective will be to identify structural trends and differences in the OECD area and to discuss recent policy issues and leading OECD practices. Primary market issues include the role of futures markets in Europe and when-issued markets in the United States and Japan; the influence of being a small market on price discovery and issuance strategy; and the set-up of, and the use of the results from, auctions. Secondary market issues include the role of electronic trading platforms for price discovery in both wholesale and retail segments.

Insights from the OECD experience will be used for a policy dialogue with debt managers from emerging markets, including possible additional challenges or complexities associated with price discovery in emerging markets.

9 h 45 – 10 h 15

Introduction of main issues

- *Mr. Ove Jensen, Head of Government Debt Management, Danish Central Bank, and Mr. Greg Horman, Consultant, OECD*

10 h 15 – 11 h 15

Panel discussion

- *Mr. Matthew Rutherford, Treasury Market Policy, Markets Group, Federal Reserve Bank of New York*
- *Mr. Gerald Dodgson, Head of Treasury Services, Australian Office of Financial Management*
- *Mr. Alexis Milo Caraza, Deputy General-Director of Public Debt, Ministry of Finance, Mexico*
- *Mr. Norberto López-Isnardi, National Director of Public Credit, Ministry of Economy and Production, Argentina (TBC)*

11 h 15 – 11 h 45

Coffee and tea break

11 h 45 – 12 h 45

General discussion

12 h 45 – 13 h 00

Policy conclusions

13 h 00 – 17 h 45

Session 2: Government debt in Asia 10 years after the crisis

13 h 00 – 14 h 30

Lunch (hosted by the OECD)

- *Special lunch speaker: Mr. Tadao Chino, senior adviser at Nomura Research Institute and formerly president of the Asian Development Bank and vice minister of finance of Japan*

This year's programme includes a session with a special focus on Asia. Mr. Tadao Chino, formerly president of the Asian Development Bank and vice minister of finance of Japan, and currently senior adviser at Nomura Research Institute, will deliver a special introductory address during lunch.

The session will examine (i) how government debt management and bond markets have evolved and been strengthened in Asian countries – both those strongly affected by the crisis and also those where the impact was less pronounced – 10 years after the crisis of the late 1990s, and (ii) the contribution of public debt management practices toward creating a stronger financial infrastructure (including liquid local-currency government bond markets) so as to better deal with various shocks, such as the recent financial turmoil.

Mr. Chino will give a general financial markets retrospective on developments since the crisis. This intervention will serve as a backdrop for the more technical debate on public debt management and market infrastructure issues. The technical part of the session will include a panel discussion with debt managers from the region.

Suggested policy questions include the following:

(i) How have local-currency government bond markets in Asia developed? Are there still major structural imbalances in the public and private sectors that make those financial markets (including the banking system) vulnerable to changes in exchange rates and foreign interest rates? How did Asian financial markets fare during the latest (still ongoing) crisis?

(ii) How important is the role of OECD public debt strategies and practices for managing specific risks associated with outstanding public debt (interest-rate, foreign-exchange, refinancing, credit, and operational risks)? How do the issuance and risk management strategies of government debt managers contribute to more stable funding costs and the development of a broader and more robust financial market for the corporate sector?

(iii) Do governments now have in place better mechanisms for controlling their exposure to explicit and implicit contingent liabilities, thereby avoiding a similar rapid build-up in government debt, as in the 1990s, in the event of a future crisis?

(iv) Concerning the outlook, what is the importance of government issuance strategies in the future development of local-currency bond (both public and corporate) markets in individual countries?

- Moderator: *Mr. Adrian Blundell-Wignall, Deputy Director, OECD*

14 h 30 – 14 h 50

Introduction of main issues

- *Mr. Greg Horman, Consultant, OECD*

14 h 50 – 16 h 15

Panel discussion with policymakers from the region

- *Mr. Muhammad Ibrahim, Assistant Governor, Bank Negara Malaysia*
- *Dr. Ning Wang, Deputy Director of Debt Management, Chinese Ministry of Finance*

- *Mrs. L. M. Vas, Joint Secretary, Indian Ministry of Finance (TBC)*
- *Mr. Pongpanu Svetarundra, Director-General of Public Debt Management, Thai Ministry of Finance (TBC)*
- *Mr. Teguh Setiadi, Senior Analyst, Bank Indonesia (TBC)*

16 h 15 – 16 h 30	Coffee and tea break
16 h 30 – 17 h 30	General discussion
17 h 30 – 17 h 45	Policy conclusions by the moderator

Wednesday, 12 December 2007

9 h 00 – 12 h 45 **Session 3: Credit risk management**

This session will consider key policy and operational issues in managing credit risk from the perspective of government debt managers. The discussion will build on and extend discussions by the OECD Working Party on Public Debt Management. In particular, the session will focus on policy frameworks and practices adopted by OECD debt managers for controlling the credit risk associated with (i) derivatives, (ii) cash management, (iii) on-lending, and (iv) guarantees.

A key question is to what extent these different sources of credit risk can, or should, be managed in an integrated fashion. Another question is whether debt managers have sufficient expertise to assess the credit risk related to on-lending or guarantees, especially when projects concern infrastructure and the like. An important objective of the session will be to identify the additional challenges or complexities faced in emerging markets for managing the different sources of credit risk.

The session will begin with an introduction of the main issues, based in part on recent work by the OECD Working Party on Debt Management in this policy area. The session will then proceed with a panel discussion with debt managers from the OECD area and their counterparts from emerging market countries, followed by general discussion.

- Moderator: *Mr. Benoît Coeuré, Chief Executive, Agence France Trésor (TBC)*

9 h 00 – 9 h 30 Introduction of main issues

- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*

9 h 30 – 11 h 00 Panel discussion

- *Mr. Magnus Thor, Head of Guarantees, Swedish National Debt Office (on-lending and guarantees)*
- *Ms. Cigdem Aslan, Head of Credit Risk Management Department, Undersecretariat of the Treasury, Turkey (on-lending and guarantees)*
- *Mr. Gerhard Schleif, Managing Director, German Finance Agency (derivatives and cash management)*

- *Mr. Phakamani Hadebe, Director General, National Treasury of South Africa (guarantees and cash management)*
- *Mr. Paulo Valle, Deputy Secretary for Debt Management, National Treasury of Brazil (TBC)*

11 h 00 – 11 h 30	Coffee and tea break
11 h 30 – 12 h 30	General discussion
12 h 30 – 12 h 45	Policy conclusions by the moderator
12 h 45 – 13 h 00	Closing remarks

- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*

ANNOTATIONS

The OECD Global Forum on Public Debt Management brings together debt managers from all over the world to discuss viewpoints and experiences relating to public debt management. Its focus is on policies, techniques, and experiences in the field of government debt management. The forum is organised under the aegis of the OECD Working Party on Debt Management, in co-operation with the OECD-Italian Treasury Network for Public Debt Management, and is sponsored by the government of Japan. The working party is a policy forum for senior government debt managers from OECD member countries to exchange views, experiences, and policies in the field of government debt management and development of government securities markets. With its unique and up-to-date pool of knowledge in this specialised field of government policy and operations, the working party has achieved singular international status in the global community of public debt managers and financial policymakers more generally. The leading practices identified by the working party serve, therefore, as a global standard.

Global forums are round-table meetings where public debt managers from the OECD area discuss in an in-depth fashion OECD practices, experiences, and policies in the field of government debt management and the development of government securities markets with their counterparts from non-OECD countries. Often forum meetings serve as opportunities for follow-up discussions of key topics that have been discussed by the OECD Working Party on Debt Management by extending and deepening the earlier or initial policy dialogue. Examples from the recent past include the assessment of auction methods; the management of market, credit, and operational risk; the role of the debt manager in managing guarantees; the role of electronic trading systems; and cash management. The interface of debt management operations with primary and secondary government securities markets is also covered by discussions in global forums.

The relevance of global forums has increased over the years, as debt managers from emerging market economies increasingly face challenges similar to those of their counterparts from advanced markets due to pressures from global finance and the related need to implement OECD leading practices in this policy area. Moreover, emerging markets have become more important from an international perspective, both as suppliers of debt instruments and as sovereign and private investors in OECD markets. At the same time, OECD governments, investors, and financial intermediaries stand to gain from emerging market countries making progress in these areas by adopting the leading practices from the OECD area.



SECOND OECD FORUM ON AFRICAN PUBLIC DEBT MANAGEMENT

Amsterdam, 12-13 December 2007

Held under the aegis of the OECD Working Party on Debt Management

Sponsored by the Swedish International Development Co-operation Agency

Forum chairman: *Mr. Ove Jensen, Head of Government Debt Management, Danish Central Bank, and Chairman of the OECD Working Party on Debt Management*

Wednesday, 12 December 2007

9 h 00 – 14 h 00

Registration

Delegates who are also attending the Seventeenth OECD Global Forum on Public Debt Management and Emerging Government Securities Markets on 11-12 December may register for both events at the same time, beginning on 10 December.

14 h 30 – 15 h 00

Opening remarks

- *Mr. Phakamani Hadebe, Deputy Director-General, National Treasury of South Africa*
- *Senior Netherlands policymaker (TBC)*
- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*

15 h 00 – 18 h 00

Session 1: Integration of African government bond markets into the world financial landscape

Debt managers and financial policymakers from emerging market countries, including in Africa, increasingly face challenges similar to those of their counterparts from advanced market countries due to competitive pressures from global finance. There is an ongoing process toward more integrated financial markets, in terms of advanced and emerging market countries, as well as among emerging market countries themselves.

This session will examine the integration of African government bond markets into the world financial landscape. Some of the issues that will be considered include the following: (i) How did individual African markets fare during recent financial market turmoil? (ii) What are the implications and likely trend of non-resident participation in local government bond markets in Africa? (iii) What are the transmission channels for financial market contagion in Africa? (iv) What are the additional challenges for African debt managers and financial policymakers brought about by greater global and regional financial market integration?

- Moderator: *Mr. Stefan Nalletamby, Adviser Vice President of Finance, African Development Bank*
- 15 h 00 – 15 h 30 Introduction to main issues
- *Mr. Greg Horman, Technical Expert, OECD Project on African Debt Management, and Mr. Lars Kalderen, Senior Adviser, OECD Project on African Debt Management*
- 15 h 30 – 16 h 00 Coffee and tea break
- 16 h 00 – 17 h 00 Panel discussion with African debt managers and financial policymakers
- *Mr. Johan Krynauw, Director of Debt Operations, National Treasury of South Africa*
 - *Ms. Funmi Ilamah, Director of Portfolio Strategy and Risk Management, Nigerian Debt Management Office (TBC)*
 - *Mr. Hassan Ennasr, Division Chief for Debt Restructuring and International Financial Markets, Department of Treasury and External Finance of Morocco (TBC)*
 - *Ms. Anna Msutze, Director of the Debt Management Programme, MEFMI (TBC)*
- 17 h 00 – 18 h 00 General discussion
- 18 h 00 – 19 h 00 Co-operation and information-sharing**
- Representatives from the principal international organisations involved in various aspects of supporting African debt managers and other financial policymakers will provide information on their work programmes in the area of government debt management and securities markets.
- 18 h 00 – 18 h 50 Overview of work programmes
- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*
 - *Mr. Georges Diffø Nigtiopop, Manager of Pole Dette, BEAC (TBC)*
 - *Ms. Anna Msutze, Director of the Debt Management Programme, MEFMI (TBC)*
 - *Mr. Stefan Nalletamby, Adviser Vice President of Finance, African Development Bank*
 - *Mr. Udaibir Das, Division Chief for Sovereign Asset-Liability Management, IMF*
 - *Mr. Francis Rowe, World Bank*

18 h 50 – 19 h 00 Questions from delegates

Thursday, 13 December 2007

9 h 00 – 12 h 00 Session 2: Costs and risks of non-market funding

Many African countries continue to rely heavily on non-market funding, including from multilateral and bilateral sources. Some countries, however, now have good access to the international capital markets, and many have made significant progress in developing their local government securities markets.

This session will examine the costs and risks of non-market funding, as well as its likely trend. Some of the issues that will be considered include the following: (i) Is the “headline” cost advantage of some non-market funding, such as foreign currency-denominated concessionary loans, sufficient to compensate for the risks that it may entail? (ii) What problems does an ongoing reliance on non-market funding pose for developing the local bond market and, more generally, moving toward more market-based funding practices? (iii) How does non-market funding, which is typically tied to specific projects, complicate the development of current sound practice in debt strategy formulation and risk management of government debt?

- Moderator: *Mr. Phakamani Hadebe, Deputy Director-General, National Treasury of South Africa*

9 h 00 – 9 h 30 Introduction to main issues

- *Mr. Udaibir Das, Division Chief for Sovereign Asset-Liability Management, IMF (TBC)*

9 h 30 – 10 h 30 Panel discussion with African debt managers and financial policymakers

- *Ms. Funmi Ilamah, Director of Portfolio Strategy and Risk Management, Nigerian Debt Management Office (TBC)*
- *Ms. Yvonne Quansah, Director of Aid and Debt Management Division, Ministry of Finance of Ghana (TBC)*
- *Ms. Naomi Ngwira, Director of the aid and Debt Division, Ministry of Finance of Malawi (TBC)*
- *Mr. Jackson Kitili, Director of Monetary Operations, Bank of Kenya (TBC)*

10 h 30 – 11 h 00 Coffee and tea break

11 h 00 – 12 h 00 General discussion

12 h 00 – 14 h 00 Lunch

Lunch arrangements are at delegates’ own discretion.

14 h 00 – 16 h 00

Session 3: Linkages between debt management, monetary policy, and fiscal policy

Debt management alone cannot solve macroeconomic imbalances or structural problems, but it is a key component of a correct policy mix. An appropriate level and structure of debt, sound debt management operations, and healthy local markets can contribute to reducing vulnerabilities. Given the interdependencies between their different policy instruments, it is important that debt managers, central bankers, and fiscal policy advisers share an understanding of the objectives, roles, and accountabilities of debt management, monetary policy, and fiscal policy. This session will examine the linkages between those areas in the context of, among other things, an analytical framework that the OECD secretariat will present.

- Moderator: *Mr. Phillip Anderson, Head of Public Debt Management Group, World Bank*

14 h 00 – 14 h 30

Introduction to main issues

- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD, and Mr. Greg Horman, Technical Expert, OECD Project on African Debt Management*
- *Mr. Udaibir Das, Division Chief for Sovereign Asset-Liability Management, IMF (TBC)*

14 h 30 – 15 h 15

Panel discussion with African debt managers and financial policymakers

- *Ms Judith Ndissi, Deputy Director for Domestic Financial Markets, Bank of Tanzania (TBC)*
- *Mr. Wasswa Kajubi, Director of Trade and External Debt, Bank of Uganda (TBC)*
- *Mr. Yandraduth Googoolye, First Deputy Director, Bank of Mauritius (TBC)*
- *Mr. Georges Diffo Nigtiopop, Manager of Pole Dette, BEAC (TBC)*

15 h 15 – 16 h 00

General discussion

16 h 00 – 16 h 30

Coffee and tea break

16 h 30 – 18 h 00

Session 4: Policy conclusions and recommendations

16 h 00 – 16 h 10

Main conclusions from discussions and the upcoming OECD study on public debt management and bond markets in Africa

- Rapporteur: *Mr. Greg Horman, Technical Expert, OECD Project on African Debt Management*

16 h 10 – 17 h 00

Suggested priorities for African debt managers

- *Mr. Stefan Nalletamby, Adviser Vice President of Finance, African Development Bank*
- *Mr. Udaibir Das, Division Chief for Sovereign Asset-Liability Management, IMF*
- *Mr. Phillip Anderson, Head of Public Debt Management Group,*

World Bank

- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*

17 h 00 – 17 h 45

General discussion

- Reactions and feed-back by African debt managers on the suggested priorities
- Assessment of the forum
- Suggestions for the Second Regional Workshop on African Management and Bond Markets (to be held in Johannesburg in 2008) and the Third OECD Forum on African Public Debt Management (to be held in 2008)

17 h 45 – 18 h 00

Closing remarks

- *Mr. Phakamani Hadebe, Deputy Director-General, National Treasury of South Africa*
- *Ms. Funmi Ilamah, Director of Portfolio Strategy and Risk Management, Nigerian Debt Management Office (TBC)*
- *Dr. Hans Blommestein, Head of Public Debt Management and Emerging Financial Markets Programmes, OECD*

17th GLOBAL FORUM ON PUBLIC DEBT MANAGEMENT
11-12 December 2007 *(reception on 10 December)*

2nd AFRICAN FORUM ON PUBLIC DEBT MANAGEMENT
12-13 December 2007

Amsterdam, The Netherlands

REGISTRATION FORM

No registration fee applies; however, participation is by invitation only.

Delegate Information	
First Name	
Surname/Family Name	
Title	<input type="checkbox"/> Mr. <input type="checkbox"/> Ms.
Job Title	
Organisation	
Contact Information	
Address	
Country	
Telephone (with country code)	+
Fax (with country code)	+
E-mail	
I will attend:	
Cocktail Reception for 17th Global Forum on Public Debt Management Monday 10 December (19h00-20h30)	YES <input type="checkbox"/> NO <input type="checkbox"/>
17th Global Forum on Public Debt Management Tuesday 11 December (all day) and Wednesday 12 December (morning)	YES <input type="checkbox"/> NO <input type="checkbox"/>
2nd African Forum on Public Debt Management Wednesday 12 December (afternoon) and Thursday 13 December (whole day)	YES <input type="checkbox"/> NO <input type="checkbox"/>
Hotel Information	
I have arranged my own accommodation at the Renaissance Hotel. If NO, please specify hotel.	YES <input type="checkbox"/> NO, I am staying at:
Visa Information : <i>Please note that delegates are responsible for obtaining their own visa. The OECD can, if necessary to attend the forums issue a letter to support a visa application. We would advise you to contact The Netherlands Embassies in your own country to have more information.</i>	

Please return via e-mail by **15 November 2007** to both:

Ms. Elodie PIERRE: elodie.pierre@oecd.org
Mr. Gregory HORMAN: gregory.horman@oecd.org



RENAISSANCE®
AMSTERDAM HOTEL

17th Global Forum on Public Debt Management
December 10-12, 2007

2nd African Forum on Public Debt Management
December 12-13, 2007

Please make your reservation at the Renaissance Amsterdam Hotel before **November 12th, 2007**. After this date, availability cannot to be guaranteed and reservations would be made on a space and rate availability basis.

The booking can be made by completing this form and sending it to **Marieke DUIJVERMAN** by email (Marieke.Duijverman@renaissancehotels.com) or by fax (+ 31 (0)20 6237742) or by using the following restricted website: [Renaissance Amsterdam Hotel >>](#) . Please note however that this link can only be used if you are booking for the nights of the 10th, 11th and 12th December 2007; if you wish to reserve extra nights, you will need to contact with your reservation number Ms. DUIJVERMAN who will extend your booking.

Name of Delegate :
Company :
Address :
Postal Code : City: Country:
Telephone : Fax:

Would like to make the following reservation for the special rate at the Renaissance Amsterdam Hotel:

- Deluxe single room at **Euro 169,-** per room per night
- Deluxe double room at **Euro 169,-** per room per night
- Non smoking room (upon availability)

The above mentioned rates are per room per night including VAT but excluding breakfast & 5% city tax. The American Buffet Breakfast is Euro 24,50 and the Continental Buffet is Euro 19,50.

Room Booking:

Arrival date : Arrival time :
Departure date : Number of nights :

GUARANTEE:

Deposit payment:

By cheque By credit card;

VISA Mastercard American Express Diners Club Eurocard

Card number: Valid until:

Card holders name: Date

Signature:

For other means of payment, please contact the hotel directly at +31 (0)800 022 7337

Date: Signature:

NOTE: Reservations must be cancelled in writing by 6pm (18.00 hrs) on the day of arrival. The reservation can only be confirmed with a credit card number and expiry date or a deposit received in advance. When a reservation is guaranteed, the first night will be charged in case of a no-show or a failed written cancellation. In case of an early check (before 3pm) or a late check out (after 12am), the Renaissance Amsterdam Hotel will be entitled to charge you for one extra room night.

Renaissance Amsterdam Hotel - www.renaissancehotels.com/amsrd - Fax: + 31 (0)20 6237742
Confirmed by:
Confirmation number:
Signature:

Renaissance Amsterdam Hotel
Kattengat 1
1012 SZ Amsterdam

ATTACHMENT 7



USAID
FROM THE AMERICAN PEOPLE

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

Municipal Finance Facility

Market-Based Infrastructure Finance for Ukraine

Ministry of Economy
October 17, 2007
Kyiv

ATCI



USAID
FROM THE AMERICAN PEOPLE

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

Why Municipal Finance Facility?

- Tremendous need for infrastructure investments: \$14B for water and heat alone
- State subventions and local resources are inadequate

Solution: **MFF uses limited State financing to leverage private sector funds**

ATCI

2



Municipal Finance Facility

What is it?

A new, specialized financial institution that borrows in the capital markets to provide infrastructure loans to creditworthy cities at the lowest possible market interest rate.

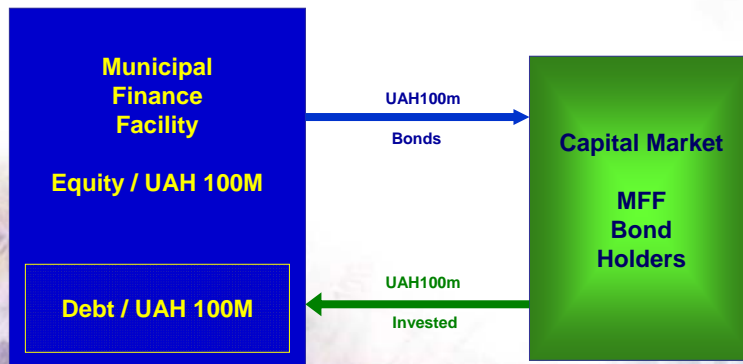


Municipal Finance Raises Loan Funds

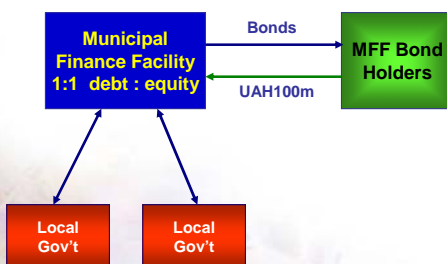
- MFF borrows in Ukraine's capital markets
- It borrows based on its own financial strength, without sovereign guarantee
- Strong initial capitalization (example: UAH 100M)
- Conservative, 1:1 financial leverage at the beginning
- After building track record: 3:1 to 10:1 financial leverage



Municipal Finance Facility: How it Works



MFF Lends to Cities



- MFF lends to *creditworthy* cities and communal enterprises
- Loan interest rates must cover MFF's operating costs plus borrowing costs





USAID
FROM THE AMERICAN PEOPLE

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

How MFF Benefits Cities

- Access to credit
- Low transaction costs from pooling
- MFF financial structure reduces cost of capital for individual cities
- Low *market* interest rates
- Faster and cheaper than individual bonds



ATCI

7



USAID
FROM THE AMERICAN PEOPLE

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

MFF Returns to the Capital Market to Raise Additional Loan Funds

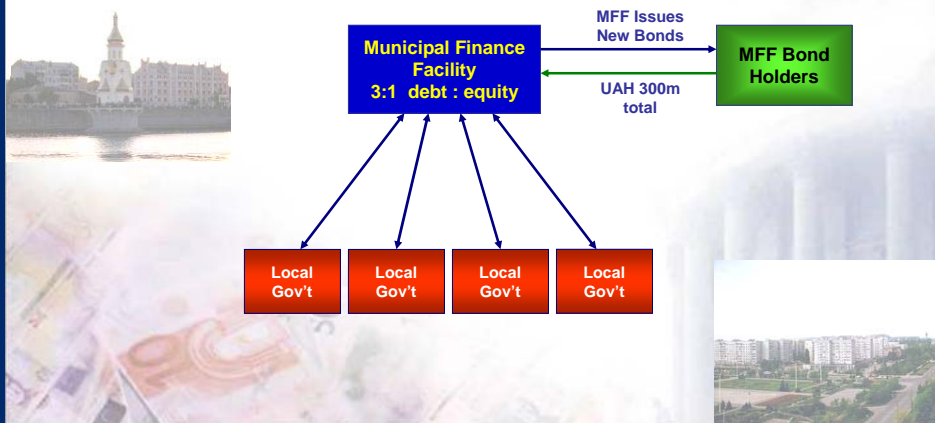
- Timely loan repayments by cities build MFF credibility
- Over time, MFF financial strength and track record
 - reduce its borrowing costs
 - enable MFF to increase leverage of equity capital
- MFF debt-to-equity ratio could soon reach approx. 3:1
- Leverage grows funds available for loans to cities

ATCI

8



MFF Leverage Generates Funds for New Loans



How does MFF generate low interest rates on loans to cities?

- A few large MFF borrowings fund many small loans to cities, creating *economies of scale*
- MFF's expert knowledge of municipal finance *reduces credit risk*
- *Credit enhancements* cut MFF borrowing costs
- MFF earns a *high credit rating*
- MFF minimizes its *operating expense*



Optional Feature: Credit Enhancement

Credit enhancement is a financial arrangement that increases MFF investors' assurance of timely repayment.

Examples:

- standby line of credit
- collateral
- guarantee
- intercept



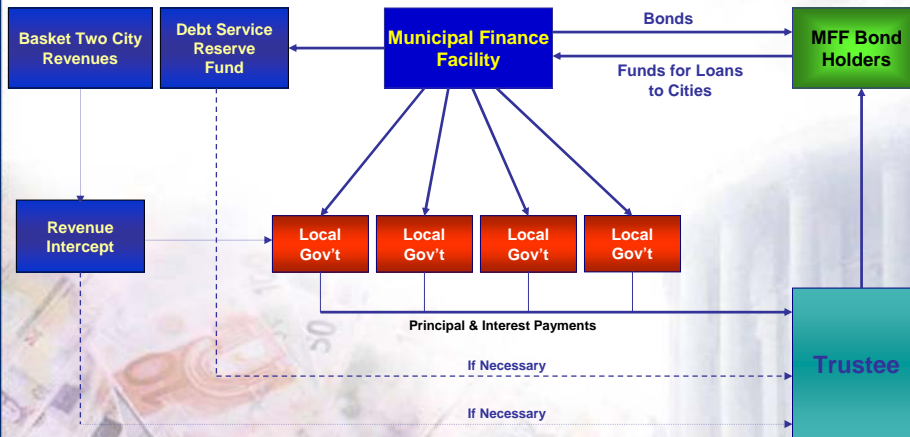
Additional Enhancement: Trustee

Trustee

- MFF hires a trustee to administer and enforce agreements between MFF and its investors
- Trustee gives investors confidence that agreements will be kept
- A respected commercial bank could act as trustee
- Investor confidence = cheaper money for MFF



Fully-Developed Municipal Finance Facility



Optional MFF Activities

- Provide loan guarantees
- Vehicle for State subsidy to bring loan rates down
- Advocate for policy reforms to improve creditworthiness in communal sector
- Provide technical assistance to potential borrowers



Examples of Successful Municipal Finance Facilities

- Western Europe (Netherlands, Norway, Finland, Sweden, Denmark, Belgium, France)
- India
- Philippines
- South Africa
- Canada
- United States



International Examples

Name	Ownership	Loans	Leverage
INCA-South Africa	100% private	\$838 M	12.5 : 1
Tamil Nadu India	49% private 51% state	\$29 M	3.7 : 1
MUFIS Czech Republic	49% private 49% state 2% municipal	\$44 M	3:1



Municipal Finance Facility

Options for Capitalization



State Equity Investment in MFF

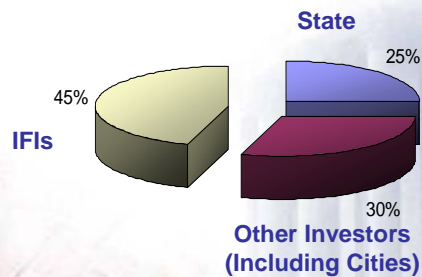
- Initial State investment would
 - demonstrate commitment
 - enable rapid start-up
 - help to attract other investors
- Recommended State investment: UAH 100 million
- Potential source: Infrastructure Subventions (UAH 1 Billion in 2007, Budget Line 49)





Attracting Private Equity Capital

- Sell MFF shares to international financial institutions (IFIs) and other investors
- Reduce State share to 25%



Next Steps

1. State makes decision to proceed and commits initial capital
2. Develop detailed business plan for State and potential investors: IFIs, Commercial banks, Cities
3. MFF begins operation as an open joint stock company with 100% of equity owned by the State
4. Adopt enabling legislation
5. MFF sells equity stakes to reduce state share to 25%



USAID
FROM THE AMERICAN PEOPLE

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

Conclusion

The MFF concept has four key requirements:

1. Initial capitalization from the State.
2. It must lend only to creditworthy borrowers.
3. It must be apolitical and professionally run.
4. Could be started under existing legislation but requires legal changes to attract private investors

ATCI

21

ATTACHMENT 8



SUCCESS STORY

ATCI Assists the Ukrainian City of Luhansk Attract Funds for Infrastructure Development

The placement of the UAH 29.3 million bond issued by the major industrial centre Luhansk of eastern Ukraine brings up the total amount of pilot municipal bond issues by four Ukrainian cities to over USD 27 million.



Photo by: Google

The proceeds of the UAH 29.3 million will be used for reconstruction of boiler-houses' water facilities, new construction, rehabilitation of existing facilities, street lightening, purchase of equipment, and other necessary infrastructure improvements.

Access to Credit Initiative (ATCI)
www.atci.com.ua

Ukraine's cities need massive capital investment to modernize infrastructure. In late 2004, the USAID-funded Access To Credit Initiative (ATCI) began working with selected cities to demonstrate how municipal bonds can help attract long-term capital. Out of the cities screened (only those with populations of 800,000 or less), ATCI selected and signed Protocols with the cities of Ivano-Frankivsk, Berdyansk, Lviv, and Luhansk for assistance in pilot bond issuance.

ATCI studied cities' fiscal environment and legal framework governing bond issuance, and city borrowing with the objective of preparing them for bond issuance. This process included credit evaluation, securing an international credit rating, regulatory approvals, registration, placement, and listing for secondary trade.

Beginning the fall of 2006, ATCI provided assistance to the City Council of Luhansk (489,000 inhabitants) in preparation for its bond issue by helping to complete a bond capacity assessment, prepare for and facilitate the credit rating, structure the issue, prepare necessary documentation to obtain borrowing approval from the Ministry of Finance, drafting the tender documents and advising on the competitive process necessary to select an underwriter, and preparing the necessary documents to register the issue with the Securities and Stock Market State Commission.

The total amount of bond issue approved by the Ministry of Finance of Ukraine for the City of Luhansk was **UAH 29.3 million**. With financial support from ATCI, *Standard & Poor's* International Rating Agency assigned the bond a B/Stable rating on the global scale and an uaBBB+ua on the national scale.

On November 5, 2007, Ukgazbank, the underwriter of the issue, successfully placed the UAH 29.3 million bond (5 years; 10.4% percent interest) on the *Perspektiva* Trading Information System. The proceeds of the bond will be used for reconstruction of boiler-houses' water facilities, new construction, rehabilitation of existing facilities, street lightening, purchase of equipment, and other necessary infrastructure improvements.

Among other pilot issues placed with the assistance of ATCI were the UAH 5.5 million bond by the City of Ivano-Frankivsk issued in 2006, and Series A UAH 50 million (out of the UAH 92 million bond) issued by the City of Lviv in 2007. The placement of the City of Berdyansk's issue is expected by end of 2007.

These pilot municipal bond issues will have a powerful impact and demonstrate to cities nationwide that Ukrainian bond investors are prepared to make long-term capital available to well managed cities.

ATCI is also working with the Government of Ukraine to create a specialized independent financial institution – Municipal Finance Facility - that would act as a conduit for liquidity between cities and the capital markets.

ATTACHMENT 9



SUCCESS STORY

ATCI Assists the Ukrainian City of Berdyansk To Attract Funds for Infrastructure Development

With assistance from ATCI, the City of Berdyansk issued a pilot bond in December 2007. Total pilot issues (4) now exceed \$27 million. Pilot bonds have demonstrated how municipalities can finance needed improvements.



Photo by: Google

The proceeds of the UAH 10 million (approximately \$2 million) will be used for road repair, roof repairs for residential housing, and improvements to street lighting.

Access to Credit Initiative (ATCI)
www.atci.com.ua

Ukraine's cities need massive capital investment to modernize infrastructure. In late 2004, the USAID-funded Access To Credit Initiative (ATCI) began working with selected cities to demonstrate how municipal bonds can help attract long-term capital. ATCI signed Protocols with the cities of Ivano-Frankivsk, Berdyansk, Lviv, and Luhansk for assistance in pilot bond issuance. ATCI studied cities' fiscal environment and legal framework governing bond issuance, and city borrowing with the objective of preparing them for bond issuance. This included credit evaluation, securing a rating, regulatory approvals, registration, placement, and listing for secondary trade.

Beginning the fall of 2005, ATCI provided assistance to the Berdyansk City Council in preparation for its bond issue by helping to complete a bond capacity assessment, prepare for and facilitate the credit rating, structure the issue, prepare necessary documentation to obtain borrowing approval from the Ministry of Finance, drafting the tender documents and advising on the competitive process necessary to select an underwriter, and preparing the necessary documents to register the issue with the Securities and Stock Market State Commission.

As a result of technical assistance from ATCI and joint efforts with the Association of Ukrainian Cities, in May 2007 the City of Berdyansk received Ministry of Finance approval for the **UAH 10 million** bond issue (approximately **\$2 million**). *Moody's Investor Services* assigned the bond a B1 rating on the global scale and an Aa3.ua on the national scale.

On December 28, 2007, the bond was placed on *Perspektiva*, a national securities trading platform (for 5 years and 11.5 percent interest). *Alfa Bank* was underwriter of the bond issue.

The proceeds of the bond will be used for road repair (UAH 7 million); roof repairs for residential housing (UAH 2 million); and improvements to street lighting (UAH 1 million).

With assistance from ATCI, the City of Ivano-Frankivsk issued the UAH 5.5 million bond in 2006; the City of Lviv issued the first series of UAH 50 million in summer 2007 and the second series of UAH 42 million at the end of 2007; the City of Luhansk issued the UAH 29.3 million bond in summer 2007. These pilot bond issues demonstrate that Ukrainian bond investors are prepared to make long-term capital available to well managed cities. ATCI is also working with the Government of Ukraine to create a specialized independent financial institution – Municipal Finance Facility - that would pool the borrowing needs of smaller cities into large issues and use these economies of scale to efficiently access the capital markets for on-lending.

ATTACHMENT 10

Proposed Plan for Discussing the Leasing Manual

All parts and chapters will embrace, where possible, international experience set forth by Mr. Homans in the attached Draft Manual.

Introduction

- Leasing as financial mechanism of fixed assets acquisition.
- Very precise history of leasing (international aspect).
- Emergence of leasing in Ukraine, current condition of leasing market and perspectives for leasing industry development.

1. Basics of Lease Transactions

- Classification and terminology (legislation basics of leasing activity without going too deep into legal collisions).
- Comparing leasing with other ways of fixed assets acquisition (bank credit, purchase in installments, using own financial resources), perspective of a potential lessee, *examples*.
- Bookkeeping and tax accounting of lease transactions (briefly).
- Effectiveness of cooperating with leasing companies: perspective of a vendor, bank, insurance company (all participants of the leasing project).

2. Organizing Leasing Company Activity

- Approximate organization structure describing functions of major departments/services, their coordination (providing an example of specific transaction, we can demonstrate the whole process ranging from receiving an application from potential lessee, making a decision with regard to lease transaction, receiving necessary financing, transferring leased object to a lessee, further lease transaction monitoring and its foreclosure).
- Strategic and marketing planning (universal methods), sales techniques and interaction with fixed assets suppliers/vendors.
- Developing leasing products.
- Risk management (all risk categories must be considered), with special emphasis to financial risks, i.e. risk of default in payments (providing possible methods of analyzing lessee's financial and economic activity), monitoring, assessing portfolio risks, etc., including revealing, assessing, analyzing and measuring the degree of influence of various risks imposed on a company during its activity as well as developing and implementing procedures aimed at minimizing risks and enhancing profits, *examples*.

3. Lease Transactions Financing, Pricing, Profitability

- Bank credit
- Post-import financing
- Issuing securities
- Borrowing from non-banking financial institutions
- Selling part/all leasing portfolio
- Using company's own funds

- **Brokerage**
- **Discounting**
- **Possible ways of combining several sources of financing in order to enhance the profitability of lease transactions**
- **Basic approaches to pricing in leasing**
- **Theory of money value**
- **Annuity and other types of lease payments, including seasonal payments, flexible schedule, etc.**
- **Calculating lease payments in operating and financial lease**
- **Basic directions of structuring lease payments with the purpose of increasing the profitability of lease transactions**

Conclusion

- **Summary**
- **Basic ways of increasing leasing activity (including legislative aspects and disseminating knowledge about leasing as one of the financial instruments of fixed assets acquisition)**

Plan of Activities on Compiling the Leasing Manual

- 1. Creating new working group (12 persons) for discussing the Draft Leasing Manual prepared by Mr. Homans, considering my comments on every part and chapter (attached) and proposed plan of the Manual which I developed (attached).**
- 2. Composition of the working group, 12 persons:**
 - **9 – Directors of leasing companies,**
 - **2 persons – representatives of the training-provider of the Certified Leasing Specialists Program,**
 - **1 person – a representative from IFC Project , “Development of Leasing in Ukraine”.**
- 3. We proposed the members of the working group to carefully look through the Draft Manual, give their remarks and recommendations, consider proposed contents of the Manual and decide whether they are interested to take part in preparing certain chapters of the Manual.**
- 4. Meeting of the working group on the above issues will take place on December 26, 2007 in our conference-room.**
- 5. Meeting of the working group on December 4, 2007 was attended by: representatives of the training-provider, President of the LLC Union “Certified Leasing Specialists”, Director of Laska Leasing Company (members of the working group initiated by Mr. Homans were not present). Mr. Barry Pitts mentioned that the parties interested in preparing the Manual will be paid for their work.**
- 6. Following the meeting on December 26, 2007, we will decide on the following:**
 - **Table of content of the Leasing Manual and specific content of certain parts and chapters;**
 - **Responsibility for preparing every chapter;**
 - **Setting the deadlines and dates of meetings of the working group on discussing compiled materials;**
 - **Budget.**
- 7. Approximate date of preparing the Manual - late March-April 2008.**

ATTACHMENT 11

Second All-Russian Conference on Credit Risks

RUSSIAN CONSUMER LENDING MARKET. MODERN MECHANISMS FOR LOWERING CREDIT RISKS

October 10-13, 2007
Hotel Molniya
Black Sea coast, Krasnodarskiy reg.
Nebug, Tuapse distr.

CONFERENCE AGENDA

October 10 Wednesday

- c 16.00 – check-in and accommodation of participants
- 19.00 – 23.00 – dinner

October 11 Thursday

8.00-9.00 breakfast

9.00-10.00 – registration of participants

10.00 – 12.00

Welcoming remark of the ARB President **G.A.Tosunyan**.

Speakers:

- **A.I.Milyukov**, executive Vice-President of the Association of Russian Banks;
- Representative of the Banking Regulation and Supervision Department of the Central Bank of the Russian Federation);
- **A.V.Volkov**, Deputy Head of the Directorate for Regulation of Activities of Professional Participants and Market Infrastructure Providers, Federal Financial Markets Service of RF:
“State oversight over CB activities”;
- **B.B.Voronin**, Head of Central Catalogue of Credit Histories, Department for Licensing Credit Institutions and Their Financial Rehabilitation:
“Interaction of Central Catalogue of Credit Histories with credit organizations and credit bureaus”;
- A.Y.Vikulin**, General Director of NBCH
“CBs as instrument for assessment and lowering of credit risk”;
- **O.I.Lagutkin**, General Director
BCH «Global Payment Credit Services»,
“Practice of interaction between credit bureaus and banks”;

Questions and Answers

12.00 – 12.30 coffee break

12.30 – 13.30

Speakers:

- **A.B.Palamarchuk**, First Vice-President of the Association of Ukrainian Banks, Director of the First **Bureau of Credit Histories of Ukraine**, (*topic to be determined*);
- **A.I.Akhmedov**, General Director of the First Credit Bureau of Kazakhstan

Second All-Russian Conference on Credit Risks

“Prospects of interaction between CBs of Eurasian Economic Community and Shanghai Organization of Cooperation”;

- **Questions and Answers**

Lunch 13.30 – 15.00

15.00 – 16.30

Speakers:

- **A.S. Krylov**, General Director of Amulet Security Service of ARB, *(topic to be determined)*

- **A.Y.Klychkov**, President of NBCH

“Products and services of the National Credit Bureau on lowering risks and fighting fraud”;

- **V.M. Guzhelev**, Head of the Department on counteracting fraud and operational risks, LLC Home Credit and Finance Bank”,

“Interaction of bank’s analytical units and security structures for the purpose of lowering credit risks in consumer lending”;

- **Questions and Answers**

19.00-23.00 - leisure program

October 12 Friday

8.00 – 9.00 – breakfast

10.00 – 12.00

Speakers:

- **S.A. Rakhmanin**, President of the Association on Development of Collection Business -

“Collection business today: trends and development prospects”;

- **N.A. Cheltsova**, General director of debt agency *Finansovy Korpus*,

“Draft Law “On Collection Agencies”

- **N.S. Zaitsev**, Director of Rostov subsidiary “National Agency of Collection of Payments” –

“Experience of work with overdue debt in the regions. Problems and solutions”;

- **S.A. Podobedov**, General director of LLC *Center*. *“Peculiarities of bankruptcy of a natural person”.*

- **A.V. Fyodorov**, Deputy General Director of the Center of Legal Services, *“Check of the borrower by the collection agency. From data collection to guarantee”;*

- **Questions and Answers**

12.00 – 12.30 coffee break

12.30 – 13.30

- **A.B.Pruzhyin**, Chief specialist on organization of business processes of the National Credit Bureau, *“Practical issues of use of the credit reports in activities of the bank’s credit units”;*

- **P.V.Kalyshyn**, Head of Risk Management, *Ellips Bank*,

“Ways of reducing credit risks in consumer lending”;

- **Questions and Answers**

13.30 – 15.00 lunch

15.00 – 16.30

Second All-Russian Conference on Credit Risks

- **N.N. Sheremet**, Head of Credit Department, CB «Kuban Credit», “Perspective methods for assessment of borrowers”;

- **presentations of the banks:** “Practice of interaction with credit bureaus and collection agencies”

- **Questions and Answers**

- Closing summary

Banquet 19.00 – 23.00

October 13 Saturday

8.00 – 9.00 breakfast

12.00 - transfer to the Krasnodar airport or Tuapse railway station

The organizers reserve the right to introduce amendments, clarifications and additions in the conference program. Final version of the program will be sent to participants of the Conference before October 5.

MOLDOVA ATTACHMENTS

ATTACHMENT 1



January 22, 2008

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

Activity Description	Staff	2006-2007			2007-2008				
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	5th Quarter	6th Quarter	7th Quarter	8th Quarter
<p>NOTE: Changes shall be indicated in RED for deletions; PINK for addition</p> <p>NOTE: GREEN indicates "completed"; LIME indicates "to be completed".</p> <p>Dark Green indicates activity not planned in current quarter, but either (1) completed in this latter quarter, or (2) worked on in current quarter.</p>									
Contract Management									
A: Work Plans									
1. Draft Mobilization Plan	RD								
2. Draft Work Plan/1st Year and 2nd Year	RD, DL								
3. Agree Work Plan with USAID (Year 1 only approved)	RD, DL								
B: Mobilization									
1. Establish Reporting Relationships	RD								
2. Identify possible ST and Timeframes	RD, DL								
3. Rent and equip office space, hire local staff, open bank accounts, rent apartment	RD								
4. Meet Key Individuals, Client, Counterparts, Participants, GOM	RD								
C: Project Administration									
1. Quarterly Reports	RD								
2. Develop Performance Monitoring Plan	MF, RD, DL								
3. ATCI Senior Staff Meeting, weekly with advisors	RD								
4. ATCI Staff Meeting, monthly for all staff	RD								
5. ATCI Staff Retreat or Team Building Activities	All								
MORTGAGE LENDING COMPONENT									
A: Implement Certified Mortgage Lender Program									
1. IUE review of CML training materials and methodology for applicability to Moldova : Assess mortgage activity; understand practices and policies of participants/regulators, etc.	AK, NR, MB								
2. Select candidates from banks and financial institutions engaged in mortgage lending	MB, RD								
3. a. Deliver a series of three CML courses in Chisinau, 2 programs during the first year: first program for mortgage professionals and second program for training providers	AK, NR								
3.b. Deliver a complete CML program in Tiraspol, as approved by US Ambassador, to 6-8 commercial banks; 24 trainees	AK, NR								
4. For second year, the third program implemented by training providers which is supervised by STTA-IUE CML trainers	AK, NR								
5. Conduct assessment of current mortgage activity and impact assessment of Certified Mortgage Lender Program (CMLP) on the mortgage lenders and on their lending practice	MB								
6. Assessment of rural lending, titling, title registration, appraisal, and of basic element of profitable agricultural production units.	MB								
7. Deliver specialized mortgage trainings related to above and legal framework, if applicable and as needed.	MB, ST, SA, AB								
B. Assist Banks in Undertaking Mortgage Lending									
1. Promote standardized rules, procedures, documentation for retail mortgage lending in Moldova	MB, LA								
2. Select candidate banks and financial institutions for on-site assistance (On-going), and as requested.	MB								
3. Provide on-site technical assistance (On-going)	MB, ST								
C. Develop Mortgage-Related Life Insurance Products "as possible in Moldo									
1. Analyze insurance and mortgage markets for existing products/practices	MB, LA, MG								
2. Assess legal and regulatory framework	MB, SA, AB								
3. Assess existing actuarial data (mortality tables)	MB, MG, LA								



January 22, 2008

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

Activity Description	Staff	2006-2007			2007-2008			Jul	Aug	Sep
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	5th Quarter	6th Quarter			
4. Identify candidate insurers	MB, MG									
5. Develop term sheet and rate structure	TBD									
6. Assist in drafting policy	TBD									
7. Conduct roundtables with mortgage lending banks and financial institutions	MB, MG									
8. Launch product	MB, MG									
D. Develop the Capacity of the Real Estate Appraisal and Brokers' Associations										
1. Needs assessment of appraisal and real estate association or organizations	MB, SA, AB									
2. Facilitate development and use of unified methodology for appraisals	MB, TBD									
3. Design training and capacity building programs for associations to comply with int'l norms	MB, TBD									
4. Facilitate associations' membership/participation in brokerage and appraisal associations, organize study tours to the US	MB, RD, TBD									
E. Develop a Mortgage-Backed Securities Capability (see Fixed Income Com)										
1. Establish Legal Working Group to assess legal basis and regulatory framework	RD, SA, AB, MB									
a) Pledge Law--multiple pledgees	SA, AB, MB									
b) Bankruptcy Statutes--pledge excluded from bankruptcy estate	SA, AB, MB									
c) Trust Law--bondholder representative	SA, AB, MB									
d) Other Laws as applicable	SA, AB, MB									
2. Draft legal provisions as needed	SA, AB									
3. Promote legal provisions to professionals, regulators, Ministries, etc.	MB, SA, AB									
4. Select candidate issuer(s)	MB, MG									
5. Conduct portfolio analysis	RD, MG									
6. Develop standardized indenture	SSM									
a. Perform cost/benefit analysis of credit enhancements	MB, MG									
7. Draft investment memorandum	SSM, MG									
8. Registration and Listing	RD, SSM, MG									
9. Identify potential investors	RD, SSM, MG									
10. Conduct "road show"	RD, SSM, MG									
11. Price and place issue	RD, SSM, MG									
12. Deliver Road Map/Guide to "Preparing for Covered Bond Issuance in Moldova"	SSM, MG									
F. Facilitate Establishment of a Commercial Credit Information Company (Included in Mortgage Lending Component) "as appropriate in Moldova"										
Assessment of Credit Bureau Status and Feasibility of Establishment of Credit Bureau System in Moldova	RD, JP, MG, MB									
Phase I -Review current status of development of CIC	RD, JP, MB, MG									
1) Coordinate Disparate Groups (Providers, Users, Government) and Consolidate Interests - Overall Project Coordination	JP or OK									
a) Develop and Establish linkages with Primary International Credit Bureau Operators	JP									
b) Develop plan for banks to participate as providers of info for CB	JP									
c) Sponsor visits to potential foreign CB partners (Experian, CRIF and/or Schufa), if applicable.	JP									
d) Secure Final buy-in of local data providers and users	JP									
2) Determine and review CIB development strategy with government and counterparts: Review availability, activity, and accessibility of (a) credit info; (b) other pertinent borrower data; (c) credit data used by financial intermediaries; and (d) credit reporting.	JP, MB, OK									
3) Market best approach for structuring, establishing and operating CIB	JP, MB, OK									
4) Analyze and Coordinate Passage of Law	JP, SA, AB									
a) Seminars with key government ministries (data providers) and public (articles)	JP, SA, AB									



January 22, 2008

The Pragma Corporation Work Plan: Access to Credit Initiative, Moldova

Activity Description	Staff	2006-2007			2007-2008				
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	5th Quarter	6th Quarter	7th Quarter	8th Quarter
a) Vendors									
b) Potential Lessees									
c) Banks									
d) Government Officials									
B. Implement Outreach/Information Network									
1. Initiation	LA								
2. Hold / participate in conferences/roundtables on state of leasing industry for gov't officials, media and industry participants (added as 9.a) above)	LA								
3. Prepare and distribute educational materials on various aspects of international best practices and practices in Moldova (added as 9.b) above)	LA								
4. Prepare and distribute brochures relevant to "Leasing in Moldova", e.g., recent legislative developments; FAQs, etc.	LA								
C. Facilitate Import Capital and Know-How to Leasing Industries of Moldova									
1. Identify domestic and international lessors, investors, and suppliers for entry into Moldovan market	LA								
2. Analyze tax and legal environment in Moldova for foreign companies entering Moldovan market	SA, AB								
3. Contact foreign lessors, investors, and suppliers, providing information about the leasing activities and needs in Moldova, highlighting business opportunities	LA, ST								
D. Provide Consulting Services to Market Participants (added as 9.c) above)									
1. Conduct transaction-based (ad hoc) Advisory Services	LA								
2. Advisory Services to Lessors and Other Market Participants	LA								
3. Assist New Market Entry of Lessors	LA, ST								
4. Provide Consulting on Organizational and Management Issues	LA								
5. Assistance in Securing Financial Sources	LA, ST								

DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING COMPONENT

DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING COMPONENT									
A. Monitor Activities of Financial Institutions Working with the DCA									
1. Monitor how Financial Institutions are utilizing guarantees and submitting claims	MG								
2. Act as contact person for Financial Institutions and USAID to answer relevant questions	MG								
3. Assist Financial Institutions to complete questionnaires and surveys, where needed	MG								
4. Conduct meetings with Financial Institutions as needed and prepare semi-annual monitoring reports for USAID	MG								
5. Verify partner Financial Institutions' semi-annual reports submitted through the Credit Monitoring System	MG								

MF= Mohammed Fatorechie DL=David Luterhand, RD=Rick Dvorin, SSM=Steve Moody, LA=Lease Advisor, SA= Sr. Attorney to be named, MB=Mariana Botezatu, MG=Mihail Gherghirci, AB=Alina Bisan, JP=Javier Piedra, OK+ Oleg Kalchenko
 RH=Robert Homans, AK=Alexander Kopeykin, NR=Natalia Rogozhina, LS=Liliya Snigir, SK=Sergiy Kysil, OM=Oonagh McDonald, MA=Mads Andenas, NF= Norm Flynn, LT=Local Team, TBD=to be determined, ST=other short-termers; IUE=Institute of Urban Economics. **NOTE: as there is a change in key personnel of Country Director from Rick Dvorin to Steve Moody, as of Jan. 2008, RD may be replaced by SSM**

ATTACHMENT 2

REPORT
On Certified Mortgage Lender Program Training
Course 1 “Mortgage Lending Bases”
Group II

Training period: October 2-5, 2007

Trainers: Natalia Rogojina, Institute for Urban Economics, Russia
Alexandr Kopeikin, Institute for Urban Economics, Russia

Number of participants: 23

Number of represented institutions: 13
including:

Commercial banks	8
Mortgage Agencies	1
Training providers	3
SCA (microfinance)	1

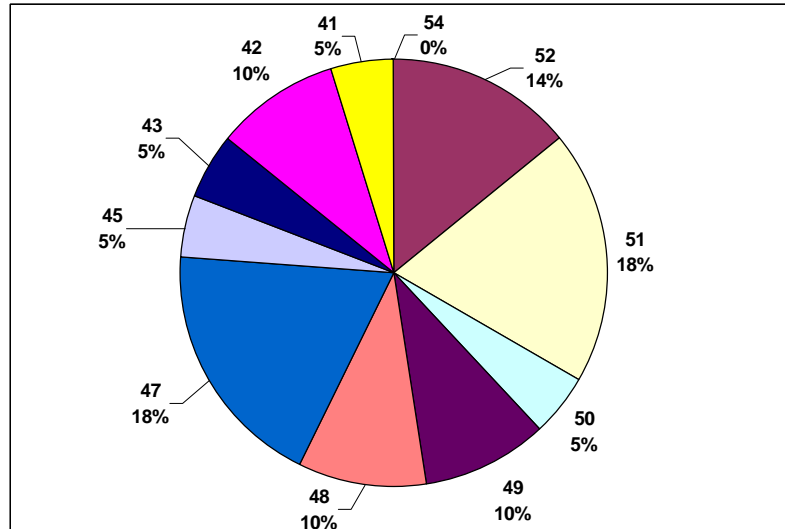
Subjects discussed:

The training course was derived from training courses offered by the IUE in other countries, with some adaptations relevant to the mortgage activities and environment of Moldova and constitutes the first module of three that will be offered within the Certified Mortgage Lender Program II. The following subjects have been discussed during the first module:

1. Mortgage lending process main tasks, elements and stages
2. The experience of Western and Eastern European countries in organization of mortgage lending system
3. Main risks of housing mortgage lending
4. Mortgage law historic development
5. Lender preliminary evaluation. Collection of documents to submit an application for mortgage housing lending
6. Evaluation of the probability to pay off the loan (underwriting procedure)
7. Mortgage lending legal base
8. Mortgage lending traditional instruments, loan payments calculation schemes
9. Mortgage lending indexed instruments
10. Mortgage lending primary and secondary markets. Mortgage refinancing models, based on examples from Germany and US
11. The experience of countries with the economy in transition in mortgage lending (based on examples from Kazakhstan and Russia)
12. Residential saving programs in mortgage lending system

The training was finalized by a test offered to the participants. The results of the test are shown in the figure below:

Correct answers		Participants	
Nr	%	Nr	%
54	100.0%	0	0%
52	96.3%	3	14%
51	94.4%	4	19%
50	92.6%	1	5%
49	90.7%	2	10%
48	88.9%	2	10%
47	87.0%	4	19%
45	83.3%	1	5%
43	79.6%	1	5%
42	77.8%	2	10%
41	75.9%	1	5%
Total		21	100%



Minimum accepted = 40

The persons (2), who didn't attend the test, were offered the possibility to take it during the second CMLP Course.

At the end of each day the participants were offered the chance to evaluate the quality of training, both modules and training, in general. The results are shown in the table below:

	1	2	3	4	5	Too easy	Adequate	Too difficult
1. Mortgage lending process main tasks, elements and stages								
Presentation was informative	0	0	1	10	8			
Presentation was relevant to my situation	0	2	2	8	7			
Trainer possessed the necessary knowledge	0	0	1	1	17			
Trainer presented the material effectively	0	1	1	4	13			
In general, I would appreciate this seminar as						1	17	1
2. The experience of Western and Eastern European countries in organization of mortgage lending system								
Presentation was informative	0	0	1	5	13			
Presentation was relevant to my situation	2	1	6	4	6			
Trainer possessed the necessary knowledge	0	0	1	3	15			
Trainer presented the material effectively	0	1	0	6	12			
In general, I would appreciate this seminar as						2	16	1
3. Main risks of housing mortgage lending								
Presentation was informative	0	0	1	7	11			
Presentation was relevant to my situation	0	0	3	7	9			
Trainer possessed the necessary knowledge	0	0	0	5	14			
Trainer presented the material effectively	0	0	1	6	12			
In general, I would appreciate this seminar as						0	15	2
4. Mortgage law historic development.								
Presentation was informative	0	1	0	7	11			
Presentation was relevant to my situation	1	2	5	4	7			
Trainer possessed the necessary knowledge	0	0	2	4	13			
Trainer presented the material effectively	1	0	1	7	10			
In general, I would appreciate this seminar as						1	11	7
Level of knowledge and skills of following trainers DAY 1:								

Natalia Rogojina	0	0	0	1	17			
Alexandr Kopeikin	0	0	0	3	15			
5. Lender preliminary evaluation. Collection of documents to submit an application for mortgage housing lending								
Presentation was informative	0	0	0	3	17			
Presentation was relevant to my situation	0	0	2	2	16			
Trainer possessed the necessary knowledge	0	0	1	0	19			
Trainer presented the material effectively	0	0	0	3	17			
In general, I would appreciate this seminar as						5	14	0
6. Evaluation of the probability to pay off the loan (underwriting procedure)								
Presentation was informative	0	0	0	3	17			
Presentation was relevant to my situation	0	0	1	2	17			
Trainer possessed the necessary knowledge	0	0	0	1	19			
Trainer presented the material effectively	0	0	0	0	20			
In general, I would appreciate this seminar as						4	15	0
7. Mortgage lending legal base								
Presentation was informative	0	0	0	5	15			
Presentation was relevant to my situation	0	0	1	5	14			
Trainer possessed the necessary knowledge	0	0	0	1	19			
Trainer presented the material effectively	0	0	1	6	13			
In general, I would appreciate this seminar as						1	15	3
Level of knowledge and skills of following trainers DAY 2:								
Natalia Rogojina	0	0	0	1	19			
Alexandr Kopeikin	0	0	0	4	16			
8. Mortgage lending traditional instruments, loan payments calculation schemes								
Presentation was informative	0	0	2	1	18			
Presentation was relevant to my situation	0	0	4	9	8			
Trainer possessed the necessary knowledge	0	0	0	1	20			
Trainer presented the material effectively	0	0	0	4	16			
In general, I would appreciate this seminar as						3	15	1
9. Mortgage lending indexed instruments								
Presentation was informative	0	0	0	3	18			
Presentation was relevant to my situation	0	2	5	9	5			
Trainer possessed the necessary knowledge	0	0	0	2	19			
Trainer presented the material effectively	0	0	1	6	13			
In general, I would appreciate this seminar as						1	16	2
10. Mortgage lending primary and secondary markets. Mortgage refinancing models, based on examples from Germany and US.								
Presentation was informative	0	0	2	2	17			
Presentation was relevant to my situation	2	1	7	6	5			
Trainer possessed the necessary knowledge	0	0	1	3	17			
Trainer presented the material effectively	0	0	3	7	11			
In general, I would appreciate this seminar as						1	17	2
11. The experience of countries with the economy in transition in mortgage lending (based on examples from Kazakhstan and Russia)								
Presentation was informative	0	0	1	5	13			
Presentation was relevant to my situation	1	3	5	5	5			
Trainer possessed the necessary knowledge	0	0	1	6	13			
Trainer presented the material effectively	0	0	1	8	10			
In general, I would appreciate this seminar as						1	16	1
Level of knowledge and skills of following trainers DAY 3:								
Natalia Rogojina	0	0	0	0	21			
Alexandr Kopeikin	0	0	1	4	16			
12. Residential saving programs in mortgage lending system								
Presentation was informative	0	0	0	2	18			

Presentation was relevant to my situation	1	2	3	8	5			
Trainer possessed the necessary knowledge	0	0	0	2	18			
Trainer presented the material effectively	0	0	0	4	15			
In general, I would appreciate this seminar as						2	16	1
OVERALL COURSE EVALUATION								
New knowledge gained as regards presented subjects	0	0	3	7	10			
Knowledge gained during the training I will be able to use in my work/company	0	1	2	7	10			
The way the training was conducted (i.e. pace, amount of time for each module, etc)	1	0	2	8	9			
Realism of exercises, cases, role-plays	0	1	4	8	5			
Level of knowledge and skills of following trainers:								
Natalia Rogojina	0	0	0	1	18			
Alexandr Kopeikin	0	0	0	3	15			

The most frequent answers to the question “What did you like the most?” were the following:

- ✓ Presentation of material, use of visual methods, very good slides, good analytic program allowing to demonstrate different instruments;
- ✓ New and useful information acquired at the seminar, very well presented by the lecturers;
- ✓ Information is very close to the spheres of activity work of attendees;
- ✓ Big experience in building residence mortgage programs in countries with the economy in transition;
- ✓ Examples on standard and alternative instruments, experience of other countries (the attendees would like comparison with the experience of Moldova);
- ✓ The level of lecturers’ preparedness, the possibility to have discussions during breaks.

The participants answering the question “What did you dislike the most?” mentioned the following shortcoming:

- Little practical work. It is desirable by the end of the day to make a summary of the material, on the blackboard;
- The language;
- Huge volume of information for a short term of the training;
- Few things about small countries, such as Moldova, Check Republic, Slovakia, Denmark, Hungary;
- In our conditions this will not happen very soon, i.e. mortgage in full sense of this word and implementation of all its mechanisms.

These comments /wishes will be taken into account while organizing the next training, planned for November 13-16, 2007.

During the seminar individual consultancy was offered to the representatives of the following banks of Moldova: Moldova-Agroindbank, Mobiasbank, Moldindconbank, Banca de Economii, Victoriabank, EuroCreditBank as well as to Mortgage Company Prime Capital.

ATTACHMENT 3

REPORT
On Certified Mortgage Lender Program II Training
Course II “Granting and Servicing of Mortgage Loans”
Group 2

Training period:	November 13-16, 2007
Trainers:	Natalia Rogojina, Institute for Urban Economics, Russia Alexandr Kopeikin, Institute for Urban Economics, Russia
Number of participants:	22
Number of represented institutions:	13
including:	
Commercial banks	7
Mortgage Agency	1
Training providers	3
SCA (microfinance)	1
Regulatory body (NBM)	1

Subjects discussed:

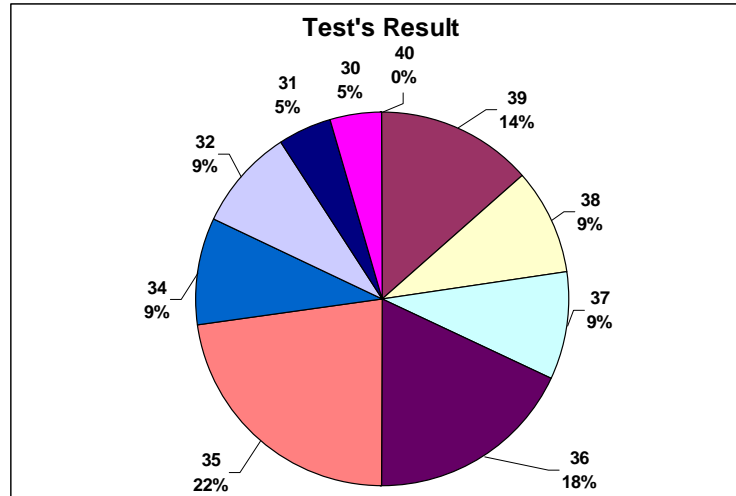
The training course was derived from training courses offered by the IUE in other countries, with some adaptations relevant to the mortgage activities and environment of Moldova and constitutes the second module of three, offered within the Certified Mortgage Lender Program. The first course “Mortgage Lending Bases” Group 2 was held in October 2-5, 2007.

The following subjects have been discussed during the second module:

1. Residential mortgage loans servicing process
2. Mortgage lending instruments. Practical session in the computer class
3. Residential construction financing
4. Civil and legal agreements in the process of mortgage lending. Loan agreement, mortgage agreement and cessation agreement, notary certification and registration. Round table on the Draft Mortgage Law
5. Methods of mortgage lending financial indicators calculation. Evaluation of lenders in the process of underwriting. Practical session using the financial calculator
6. Business game «Filling in the mortgage loan application»
7. Tasks and functions of the mortgage lending secondary market operator
8. The mortgage development experience in the US.
9. Business game «Granting and servicing long term residential mortgage loans»
10. Foreign systems of state registration of immovable property rights

The training was finalized by a test offered to the participants. The results of the test are shown in the figure below:

Correct answers		Participants	
Nr	%	Nr	%
40	100.0%	0	0%
39	97.5%	3	14%
38	95.0%	2	9%
37	92.5%	2	9%
36	90.0%	4	18%
35	87.5%	5	23%
34	85.0%	2	9%
32	80.0%	2	9%
31	77.5%	1	5%
30	75.0%	1	5%
Total		22	100%



Minimum accepted = 30

At the end of each day the participants were offered the chance to evaluate the quality of training, both modules and training, in general. The results are shown in the table below:

	1	2	3	4	5	Too easy	Adequate	Too difficult
1. Residential mortgage loans servicing process								
Presentation was informative			1	3	17			
Presentation was relevant to my situation			3	6	12			
Trainer possessed the necessary knowledge			1	1	19			
Trainer presented the material effectively			1	2	18			
In general, I would appreciate this seminar as						3	18	
2. Mortgage lending instruments. Practical session in the computer class								
Presentation was informative			1	3	17			
Presentation was relevant to my situation			3	6	12			
Trainer possessed the necessary knowledge			1	2	18			
Trainer presented the material effectively			1	3	17			
In general, I would appreciate this seminar as						3	18	
3. Residential construction financing								
Presentation was informative			1	5	15			
Presentation was relevant to my situation			5	4	12			
Trainer possessed the necessary knowledge			1	1	19			
Trainer presented the material effectively			1	5	15			
In general, I would appreciate this seminar as						2	18	1
4. Civil and legal agreements in the process of mortgage lending. Loan agreement, mortgage agreement and cessation agreement, notary certification and registration. Round table on the Draft Mortgage Law								
Presentation was informative			1	5	15			
Presentation was relevant to my situation			4	5	12			
Trainer possessed the necessary knowledge			1		20			
Trainer presented the material effectively			1	5	15			
In general, I would appreciate this seminar as						3	16	2
Level of knowledge and skills of trainers DAY 1:								
Natalia Rogojina				1	20			
Alexandr Kopeikin				1	20			

5. Methods of mortgage lending financial indicators calculation. Evaluation of lenders in the process of underwriting. Practical session using the financial calculator											
Presentation was informative			2	1	15						
Presentation was relevant to my situation			4	2	12						
Trainer possessed the necessary knowledge			1	1	16						
Trainer presented the material effectively			1	6	11						
In general, I would appreciate this seminar as								1	16		1
6. Business game «Filling in the mortgage loan application»											
Presentation was informative			2	4	12						
Presentation was relevant to my situation			2	6	10						
Trainer possessed the necessary knowledge			1	2	15						
Trainer presented the material effectively			1	7	10						
In general, I would appreciate this seminar as								2	16		
7. Tasks and functions of the mortgage lending secondary market operator											
Presentation was informative			2	3	13						
Presentation was relevant to my situation			4	6	8						
Trainer possessed the necessary knowledge			1	1	16						
Trainer presented the material effectively			2	5	10						
In general, I would appreciate this seminar as								1	14		3
8. The mortgage development experience in the US.											
Presentation was informative			2	2	13						
Presentation was relevant to my situation			3	5	9						
Trainer possessed the necessary knowledge			1	2	14						
Trainer presented the material effectively			1	4	12						
In general, I would appreciate this seminar as								1	15		1
Level of knowledge and skills of following trainers DAY 2:											
Natalia Rogojina					17						
Alexandr Kopeikin				1	16						
9. Business game «Granting and servicing long term residential mortgage loans»											
Presentation was informative				3	15						
Presentation was relevant to my situation				9	11						
Trainer possessed the necessary knowledge				3	17						
Trainer presented the material effectively				3	15						
In general, I would appreciate this seminar as								1	18		
10. Foreign systems of state registration of immovable property rights											
Presentation was informative				4	16						
Presentation was relevant to my situation				6	12						
Trainer possessed the necessary knowledge					20						
Trainer presented the material effectively				4	15						
In general, I would appreciate this seminar as									15		
OVERALL COURSE EVALUATION											
New knowledge gained as regards presented subjects				5	15						
Knowledge gained during the training I will be able to use in my work/company				4	15						
The way the training was conducted (i.e. pace, amount of time for each module, etc)			1	7	11						
Realism of exercises, cases, role-plays				4	15						
Level of knowledge and skills of following trainers:											
Natalia Rogojina					11						
Alexandr Kopeikin					11						

The most frequent answers to the question “What did you like the most?” were the following:

- ✓ Test
- ✓ Business game
- ✓ Examination of certain circumstances
- ✓ Amplitude of knowledge
- ✓ New information
- ✓ Method of teaching
- ✓ Combination of theory and practice
- ✓ Big experiences of trainers
- ✓ Style and rhythm of teaching

The participants, answering the question “What did you dislike the most?” frequently mentioned:

- Few time for calculation of exercises by using the financial calculator
- Short term for the assimilation of material
- Lack of connection with mortgage loans accounting, their coverage and mortgage securities
- Limited time for studying

These comments /wishes will be taken into account while organizing the next training, planned for December, 2007.

Additional individual consultancy was offered by the short term and local experts to the representatives of the following banks of Moldova: Mobiasbank, Moldindconbank, Banca de Economii, Victoriabank, as well as to Mortgage Company Prime Capital during the training.

Discussed topics:

- standardized mortgage loan doc. rules;
- standardized procedures for the borrower and underwriter;
- system of contracts for legalizing mortgage transactions.

ATTACHMENT 4

ATTACHMENT 4

REPORT
On Certified Mortgage Lender Program Training
Course 3 «Pricing Base and Risk Management in Mortgage Lending»
Program II

Training period:	December 11-14, 2007
Trainers:	Natalia Rogojina, Institute for Urban Economics, Russia Alexandr Kopeikin, Institute for Urban Economics, Russia
Number of participants:	20
Number of represented institutions:	12
including:	
Commercial banks	6
Mortgage Agency	1
Training providers	3
Regulatory body (NBM)	1
Microfinance	1

Subjects discussed:

The training course was derived from training courses offered by the IUE in other countries, with some adaptations relevant to the mortgage activities and environment of Moldova and constitutes the third (last) module of three, offered within the Certified Mortgage Lender Program II. The first two courses “Mortgage Lending Bases” and “Granting and Servicing of Mortgage Loans” were held in October 2-5 and November 13-16, 2007. The main differences between CMLP I and CMLP II are the following:

- One of the objectives of CMLP II was to select among the 3 training providers that participated in the training, one that will overtake the CML after the closing of the ATCI Project;
- For the first time, the National Bank of Moldova (NBM) sent its representatives to the training, which during the Program were always near the bankers. This fact certainly contributed to the better understanding of their needs and thoughts.
- During the CMLP II a special on-site 2 hours meeting/discussion has been organized with 16 representatives of the National Bank of Moldova and ATCI staff (Mr. A. Kopeikin, Russian trainer and ATCI Mortgage Advisor) on risks management in mortgage lending, upon their request. The representatives of Banking Regulation and Supervision Department and Market Operation Department of NBM attended the meeting.

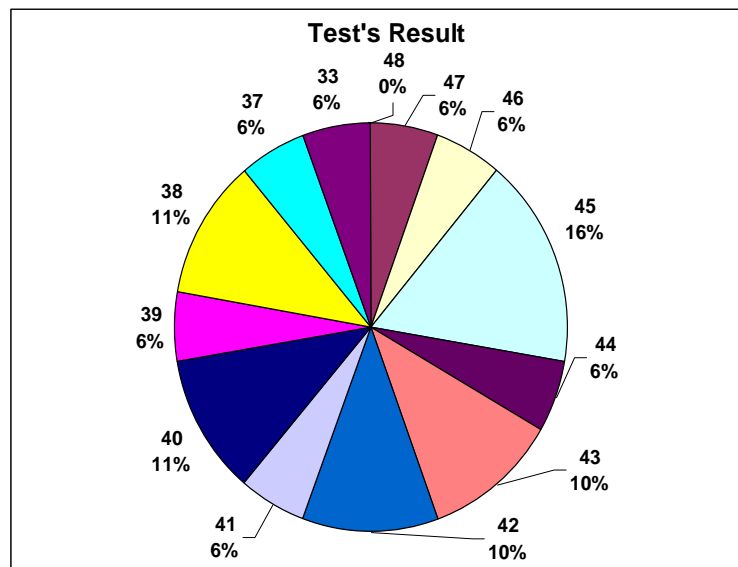
The following subjects have been discussed during the third module of CMLP:

1. Analysis and evaluation of mortgage lending banking risks. Lending risk
2. Analysis and evaluation of liquidity risk. Optional risk. «Spread-risk»
3. Residential construction financing
4. Assets and liabilities management in mortgage lending
5. Crediting risk insurance on residential mortgage lending

6. Credit Bureaus in mortgage lending system
7. Main types of mortgage securities issues, secured by mortgage credits, their primary placement and secondary circulation. International experience.
8. The practice of the securities market organization, secured by mortgage credits, on the example of Kazakhstan. Proposals for organizing such markets in countries with the economy in transition.
9. Evaluation of risks of mortgage lending servicing
10. Mortgage operations planning in banks. Lending mortgage business plans
11. Mortgage pricing. Combined evidence of all factors
12. New aspects of mortgage securities structuring
13. Main aspects of the formation of state assistance system supporting the population in improving their living conditions. Discussion of residential mortgage lending practice in Moldova

The training was finalized by a test offered to the participants. The results of the test are shown in the figure below:

<i>Correct answers</i>		<i>Participants</i>	
Nr	%	Nr	%
48	100.0%	0	0%
47	97.9%	1	6%
46	95.8%	1	6%
45	93.8%	3	17%
44	91.7%	1	6%
43	89.6%	2	11%
42	87.5%	2	11%
41	85.4%	1	6%
40	83.3%	2	11%
39	81.3%	1	6%
38	79.2%	2	11%
37	77.1%	1	6%
33	68.8%	1	6%
Total		18	100%



Minimum accepted = 32

At the end of each day the participants were offered the chance to evaluate the quality of training, both modules and training, in general. The results are shown in the table below:

	1	2	3	4	5	Too easy	Adequate	Too difficult
1. Analysis and evaluation of mortgage lending banking risks. Lending risk								
Presentation was informative				7	10			
Presentation was relevant to my situation			3	5	9			
Trainer possessed the necessary knowledge				2	15			
Trainer presented the material effectively				5	12			
In general, I would appreciate this seminar as							17	
2. Analysis and evaluation of liquidity risk. Optional risk. «Spread-risk»								

Presentation was informative				7	10		
Presentation was relevant to my situation		1		8	8		
Trainer possessed the necessary knowledge				1	16		
Trainer presented the material effectively				3	14		
In general, I would appreciate this seminar as						16	1
3. Analysis and evaluation of interest rate risk							
Presentation was informative			1	7	9		
Presentation was relevant to my situation		1	5	6	5		
Trainer possessed the necessary knowledge				3	14		
Trainer presented the material effectively			1	7	9		
In general, I would appreciate this seminar as						13	4
4. Assets and liabilities management in mortgage lending							
Presentation was informative			1	6	10		
Presentation was relevant to my situation		1	5	6	5		
Trainer possessed the necessary knowledge				4	13		
Trainer presented the material effectively			1	8	8		
In general, I would appreciate this seminar as						14	3
Level of knowledge and skills of following trainers DAY 1:							
Natalia Rogojina					17		
Alexandr Kopeikin				3	14		
5. Crediting risk insurance on residential mortgage lending							
Presentation was informative				3	13		
Presentation was relevant to my situation				5	11		
Trainer possessed the necessary knowledge				2	14		
Trainer presented the material effectively				4	12		
In general, I would appreciate this seminar as						16	
6. Credit Bureaus in mortgage lending system							
Presentation was informative				4	12		
Presentation was relevant to my situation				4	12		
Trainer possessed the necessary knowledge				1	15		
Trainer presented the material effectively				3	13		
In general, I would appreciate this seminar as						16	
7. Main types of mortgage securities issues, secured by mortgage credits, their primary placement and secondary circulation. International experience.							
Presentation was informative				5	11		
Presentation was relevant to my situation		1	2	7	6		
Trainer possessed the necessary knowledge				1	15		
Trainer presented the material effectively			1	3	12		
In general, I would appreciate this seminar as						16	
8. The practice of the securities market organization, secured by mortgage credits, on the example of Kazakhstan. Proposals for organizing such markets in countries with the economy in transition.							
Presentation was informative				3	13		
Presentation was relevant to my situation		1	2	5	8		
Trainer possessed the necessary knowledge				2	14		
Trainer presented the material effectively			1	4	11		
In general, I would appreciate this seminar as						16	
Level of knowledge and skills of following trainers DAY 2:							
Natalia Rogojina					16		
Alexandr Kopeikin					16		
9. Evaluation of risks of mortgage lending servicing							
Presentation was informative				6	10		
Presentation was relevant to my situation			2	7	6		
Trainer possessed the necessary knowledge				2	13		

Trainer presented the material effectively				4	12			
In general, I would appreciate this seminar as							16	
10. Mortgage operations planning in banks. Lending mortgage business plans								
Presentation was informative			1	4	11			
Presentation was relevant to my situation			4	8	4			
Trainer possessed the necessary knowledge				2	14			
Trainer presented the material effectively				4	12			
In general, I would appreciate this seminar as						1	13	2
11. Mortgage pricing. Combined evidence of all factors								
Presentation was informative				6	10			
Presentation was relevant to my situation			3	9	4			
Trainer possessed the necessary knowledge				2	14			
Trainer presented the material effectively				6	10			
In general, I would appreciate this seminar as							16	
12. New aspects of mortgage securities structuring								
Presentation was informative				7	9			
Presentation was relevant to my situation			4	9	3			
Trainer possessed the necessary knowledge				2	14			
Trainer presented the material effectively				6	10			
In general, I would appreciate this seminar as							14	2
Level of knowledge and skills of following trainers DAY 3:								
Natalia Rogojina				1	15			
Alexandr Kopeikin				3	13			
13. Main aspects of the formation of state assistance system supporting the population in improving their living conditions								
Presentation was informative				6	11			
Presentation was relevant to my situation			3	6	8			
Trainer possessed the necessary knowledge				2	15			
Trainer presented the material effectively				4	13			
In general, I would appreciate this seminar as						2	14	1
14. Discussion of residential mortgage lending practice in Moldova								
Presentation was informative			1	5	7			
Presentation was relevant to my situation			3	4	6			
Trainer possessed the necessary knowledge		1		7	5			
Trainer presented the material effectively		1		7	5			
In general, I would appreciate this seminar as							12	1
OVERALL COURSE EVALUATION								
New knowledge gained as regards presented subjects				5	12			
Knowledge gained during the training I will be able to use in my work/company				7	10			
The way the training was conducted (i.e. pace, amount of time for each module, etc)			1	7	9			
Realism of exercises, cases, role-plays				6	11			
Level of knowledge and skills of following trainers:								
Natalia Rogojina					17			
Alexandr Kopeikin				2	15			

The most frequent answers to the question “What did you like the most?” were the following:

- ✓ Very useful new information regarding secondary market, examples from different countries;
- ✓ The teachers were very well informed regarding mortgage issues;
- ✓ Main approaches of creating a governmental system of helping citizens;

- ✓ The exactness of formulated tasks and correct development of the seminar;
- ✓ The form of material presentation;
- ✓ Sessions were combined with concrete cases form other countries;
- ✓ International practice in the field of mortgage bonds and calculation of duration;
- ✓ Demonstrated computer program, support of the theoretical material with examples from practice;
- ✓ Business game.

The participants, answering the question “What did you dislike the most?” mentioned:

- There was no information regarding Republic of Moldova ;
- Business game - it would have been better not to use the excluding method, but to analyze each client;
- The calculation need more details, not all are economists;
- Too much theory ;
- Legal part in the first module;
- Too little time for each module;
- Specialized specific terms need to be explained;

These comments /wishes will be taken into account while organizing the next training.

Additional individual consultancy was offered by the short term and local experts to the representatives of the following banks of Moldova: Mobiasbank, Moldindconbank, Banca de Economii, FinComBank, as well as to Mortgage Company Prime Capital during the training.

**List of Certified Mortgage Lender
Group 2 (October-December, 2007)**

<i>Registration Nr. of CML Certificate</i>	<i>Name of participant</i>	<i>Institution</i>
26.	Arcadie Gîscă	EuroCreditBank
27.	Corneliu Ursu	FinComBank
28.	Șalvir Ivan	FinComBank
29.	Roșca Natalia	Moldindconbank
30.	Liliana Paladi	Moldindconbank
31.	Aliona Apostol	Mobiasbank
32.	Caraman Lilia	Banca de Economii
33.	Natalia Roabes	Prime Capital
34.	Eugen Galbura	Prime Capital
35.	Lilia Baciuc	SCA from Mereni (microfinance)
36.	Cojocaru Iurie	Banca Sociala
37.	Carolina Lozovanu	Financial Consulting Center
38.	Vasile Calpagiu	Financial Consulting Center
39.	Stanislav Șapa	Financial Consulting Center
40.	Gavriliuc Ludmila	ACAP
41.	Ghenadie Ciobanu	Moldovan Banks Association
42.	Ștefîrță Natalia	National Bank of Moldova
43.	Denis Gancearov	Banca de Economii
44.	Svetlana Magdaliuc	EuroCreditBank

ATTACHMENT 5



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE/Moldova
Mortgages, Fixed Income, Leasing

**Impact Statements: Comments and Suggestions on Certified Mortgage Lender Program
(Course 1, Program II), December 2007**

Note: names of individuals and financial institutions are deleted to keep these comments confidential.

„Thank you for organizing the Certified Mortgage Lender Program.

We would like to inform you that the theoretical base of the CML course (newly obtained and continued knowledge) was and will be useful for the review and approval of the new version of -----bank SA existing Product regulating granting of mortgage loans, as well as will contribute to the improvement of day by day collaboration with the personnel of Bank's structural subdivisions and with the existing and potential Bank's clients.

In line with this, it is necessary to mention that after the approval of the Law on mortgage (we made objections and proposals to this draft), we are ready to participate in the review and adaptation of the existing Product of our Bank which is regulating the process of granting mortgage loans in conformity with valid legislation, financial market requirements and best world practices.

Taking into account the knowledge obtained during the training courses organized by the ATCI-USAID Project, a number of provisions, practiced in other countries with respect to mortgage lending, were implemented, including the following:

- increasing the maximum lending term to 15 years;
- establishing the maximum threshold for granting credits in the amount of 70% of the cost of the project on procurement/construction of real estate and increase of credit threshold up to 100% of the cost of the project on repairing and finalizing the real estate, excluding the threshold limit sums.
- establishing a single interest rate for all loan mortgage purposes.

We kindly ask you to convey our sincere thanks to the representatives of the US and Russia who made possible the organization and holding of this seminar”

Respectfully,

*Head of Credit Methodology Section
Credits Directorate
Bank*

„...Concurrently, we would like to thank the USAID Access to Credit Initiative Project for organizing such an informative and useful seminar for the banks of Moldova.

The knowledge accumulated at these training courses permitted us to optimize the bank mortgage products, thus increasing the population access to such kind of lending services. At the same time, the obtained knowledge will allow the banks to elaborate and offer to the market, in the future, new types of mortgage products for various social layers of the population.

As a result of participation in the courses organized by the USAID, -----bank” S.A. implemented the following modifications to the mortgage lending products:

- Increasing the maximum lending term up to 15 years – optimal term for mortgage lending on high interest rates on loans;
- Establishing the maximum threshold of granting loans in the amount of 70% of the cost of procured real estate;
- Establishing the maximum rate of payments (loan and interest) – 50% of the net income of the applicant’s family;
- Establishing the modality of loan and interest payment in annuities;
- Maintenance of risks insurance package provided by the product.

P.S. On the eve of Winter Holidays we would like to wish you a lucky year and major achievements!
Happy New Year!”

Respectfully,

*Şef adjunct Secția Credite de Consum
și Plasamente pe Termen*

„The main changes implemented within the organization as a result of the implementation of accumulated knowledge during CML Program are the following:

1. A subdivision was introduced into the structure of the bank that is dealing directly with mortgage lending;
2. Internal regulations related with granting mortgage loans have been drafted and the knowledge obtained during the training was taken into account.
3. Other employees of Credit Directorate were trained based on this course materials.

-----,
*Head of Credit Department
Bank-----*

„The main changes operated in the organization as a result of implementation of the knowledge accumulated within CML Program are as follows:

- The process of implementation and, at the end, issue of bank’s mortgage bonds on the securities market was initiated;
- Certain ideas are introduced in the programs of bank products presentation or are planned to be introduced during their annual review;
- The visions regarding risks in mortgage lending have changed, the bank being more apprehensive in this area.

Suggestions: it is actual and useful to organize a seminar in the area of lending for residential constructions.”

-----, *project manager,-----bank*
-----, *Specialist on risks, -----bank*

ATTACHMENT 6



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE/Moldova
Mortgages, Fixed Income, Leasing

Impact Statements: Comments and Suggestions on Certified Mortgage Lender Program (Group II), December 2007

NOTE: Names of individuals and financial companies deleted to keep comments confidential.

-----, **economist - coordinator, Bank -----SA**

„The main changes operated in the company as a result of implementation of knowledge accumulated during CML Program are as follows:

The first course of this Program caused the initiation of the mortgage lending process within the Bank. The second Program contributed to the accumulation and foundation of necessary knowledge to make efficient and to optimize the process of mortgage lending granting.

Suggestions for improvement:

- in the procedure of potential clients' evaluation (mortgage lending beneficiaries);
- mortgage loans accessibility;
- providing qualitative servicing of mortgage loans.”

-----, **(financial institution), credit inspector:**

„Main changes, implemented in the company as a result of implementation of knowledge accumulated during CML Program are as follows:

Improvement of the process of analysis and evaluation of clients' payment capacity and of their reputation as a result of implementation (analysis) in practice of the main principles of the process of underwriting, formed based on the experience of the US and EU banks. Development of mortgage securities market in the RM has good perspectives”.

-----, **senior manager, Consumption Credits Directorate, Commercial Department Bank ----- SA**

„The main changes, implemented in the company as a result of implementation of knowledge accumulated during CML Program are the following:

The Bank grants mortgage loans in conformity with the recommendations included in the training program. In the future, we plan to organize staff training using the materials from CMLP training.

Ideas and suggestions for improvement:

- standardizing the underwriting procedure;
- preparing front office specialists within the company”.

-----, **doctor in economy, main economist at the National Bank of Moldova, lecturer of the Technical University of Moldova:**

„The material will be used for teaching the students and namely for the improvement of the Mortgage Lending subject.”

-----, **main economist, National Bank of Moldova:**

„The legislation on mortgage lending needs to be reviewed and to strive to ensure that the accumulated knowledge will be used.”

-----, **Financial Consulting Center consultant:**

„The knowledge accumulated within the Program will be used during the process of consultation of construction companies (developers), in the training programs of mortgage lending market operators, as well as in public programs (state and municipal). Within our Center we plan to improve the training program of mortgage lending market operators.

-----, **„-----bank” SA**

„Suggestions regarding areas of improvement:

- first of all the law on mortgage should be adopted;
- it is necessary to create credit history bureaus;
- it is necessary to help the young people to procure an apartment.”

-----, **consultant**

„Suggestions:

- drafting a manual in Romanian „Mortgage Lending Basis” for Moldovan specialists and students;
- drafting the mortgage lending course for the higher education and post graduate studies for the specialty: “Finances and Banks”.

-----, **Consulting Group**

„The purpose of participation in the CML training was to obtain profound knowledge about mortgage, for further teaching, due to that there will be no changes in the company because mortgage is not its main type activity.

Suggestions: Adapting the course to the situation in the RM.”

-----, **„-----bank” SA**

„Suggestions:

- to approve the law on mortgage lending in the RM;
- to improve the internal regulations of the Bank regarding mortgage lending granting;
- credit history bureaus;

- implementing the mortgage lending insurance.”

----- – **Legal Directorate Head BC „-----bank” SA**

„Ideas and suggestions for improvement:

- internal normative base of the bank associated with mortgage lending credits servicing;
- participation of the bank in credit history bureaus formation.”

-----, **Chief Accountant, Micro Financing Association**

„It is practically impossible to implement the accumulated knowledge in our company because we don’t have cheap resources. We hope that the obtained knowledge will be useful for the creation of new credit products.”

-----, **credit inspector, (financial institution)**

„The main changes, implemented in the company as a result of implementation of knowledge accumulated during CML Program are as follows:

- evaluation of continuous process of studies in the area of mortgage lending;
- improvement of the process of attraction and evaluation of payment capacity of clients;
- implementation of new ideas on the market.”

-----, **economist, Bank-----**

„Ideas and suggestions for improvement:

- to completely automate the underwriting process in view of increasing the speed of taking decisions and improvement of credit portfolio in line with international practice.”

-----, **Member of the Council of Directors, education commission**

„Knowledge accumulated at the seminar will be used while teaching different courses performed by ACAP because the subjects included in the course “mortgage lending” are interesting and important for other courses, i.e. “financial management”, as well as “taxation and legislation”, etc.”

-----, **specialist –relations with clients, -----bank**

„Ideas and suggestions for improvement:

Our mortgage products will be described in more details, so in such a way the “loans pool” will be created and standardized and when the law on mortgage bonds will be adopted, we should be able to perform an issue and to securitize our assets.”

ATTACHMENT 7

CML TRAINING IN TIRASPOL

Proposed period: November 27-30, 2007

Location: Tiraspol, Conference Hall of Sberbank (photos in the attachment)
All type of equipment available (laptop, projector, screen)

Host bank: Sberbank (Saving bank) – “state” owned,
Contact person: Carsacova Iulia (phone: 00160037353379622)

Trainers: Natalia Rogojina, (IUE, Moscow)
Alexander Kopeikin (IUE, Moscow)

Nr. of banks subscribed to participate in CML Program: 6 of 8 existing banks

- Sberbank – 5 persons
- Ipotecinii Bank – 5 persons
- Gazprombank – 5 persons
- Agroprombank – 5 persons
- Tirotext – 3 persons
- Tiraspromstroibank – 1 person

24 persons

Training materials (presentations): – prepared

List of planed delegation has been submitted to Gazprombank for invitation and coordination with the Migration Department/Tiraspol:

Invitation Letter 1 (November 26, 2007):

1. Natalia Rogojina, trainer (Russia)
2. Alexander Kopeikin, trainer (Russia)
3. Alexander Levit, driver (Moldova)

Invitation Letter 2 (November 27, 2007):

1. Gary Linden, USAID
2. Michael C. Burkly, USAID
3. Barry Pitts, Deputy Chief of Party ATCI/Ukraine
4. Richard Dvorin, Country Director of ATCI/Moldova
5. Iulia Timotin, translator
6. Alexander Levit, Driver
7. Leonid Korsak, driver (Ukraine)

Gazprom has been started to work on the formalities.

Estimated budget for coffee-breaks: – 120-150 USD

Location: – Sberbank’s cafeteria (closed to the Conference hall)

Confirmed list of participants:

Attachment 7.1 Report on Proposed CML Training	Position
--	----------

SBERBANK– 5 persons (subscribed initially-20, then 9 (the list is available)) Contact person: Carsacova Iulia, (phone: 00160037353379622)		
1.	Novicova Natalia	Head of Credit Department for Individuals
2	Caplun Svetlana	Economist of Credit Department for Individuals
3	Gladushkina Olga	Senior Economist of Credit Department for Corporate Clients
4	Yamandy Alexander	Head of Department of Active-Passive Operations
5	Vasilevschi Olga	Manager of Lending to Individuals
IPOTECINII BANK– 5 persons (subscribed initially-10) Contact person: Cojocari Elena, Head of Development Department (phone: 00160037353390473)		
6	Novac Oxana	Head of Department
7	Gradinar Ecaterina	Economist of Credit Department for Individuals
8	Zaitev Alexander	Manager of Lending to Individuals
9	Osadcia Elena	Economist of Credit Department for Individuals
10	Sericov Evghenii	Manager of Lending to Individuals
GAZPROMBANK– 5 persons (subscribed initially-10 (the list is available)) Contact person: Fateev Serghey, Head of Development Department (phone: 00160037353351378)		
11	Pavelischaia Ludmila	Vice-President
12	Sizova Oxana	Head of Credit Department for Individuals
13	Fateev Serghey	Head of Development Department
14	Dobrov Victor	Head of Branch (Bender)
15	Cernogor Iulia	Senior Specialist of Development Department
AGROPROMBANK– 5 persons Contact person: Kisili Natalia, Head of Credit Department (cell phone: 00160037377780940)		
16	Kariuk Serghey	Credit Officer, Credit Department for Individuals
17	Blizniuc Elena	Head of SMEs Lending Department
18	Denisiuc Ecaterina	Credit Officer, SMEs Lending Department
19	Fomina Ludmila	Credit Officer, SMEs Lending Department
20	Orjehovschi Evghenii	Lawyer
TIROTEX– 3 persons Contact person: Sologub Natalia, Vice-President (phone: 001600373753325214)		
21	Poponina Svetlana	Economist of Credit Department
22	Denisov Denis	Economist of Credit Department
23	Astafieva Natalia	Economist of Credit Department
TIRASPROMSTROIBANK– 1 person Contact person: Zaiarschi Alexander, Head of Credit Department for Individuals (phone: 001600373753325214)		
24	Zaiarschi Alexander	Head of Credit Department for Individuals

ATTACHMENT 8



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

FLOATING CHARGE CONCEPT. ASPECTS OF APPLICABILITY UNDER THE LEGISLATION OF THE REPUBLIC OF MOLDOVA

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

CONTENT

2

- **FLOATING CHARGE CONCEPT OR BONDS FLOATING GUARANTEE**
- **FLOATING CHARGE ADVANTAGES AND DISADVANTAGES**
- **FLOATING CHARGE APLICABILITY**
- **IMPLEMENTATION OF FLOATING CHARGE CONCEPT IN THE CONTEXT OF THE LEGISLATION OF THE REPUBLIC OF MOLDOVA**
- **ASPECTS REGARDING COMPATIBILITY OF FLOATING CHARGE CONCEPT WITH THE LEGISLATION OF THE REPUBLIC OF MOLDOVA**
- **SOME CONCLUSIONS AND RECOMMENDATIONS**

ATCI



FLOATING CHARGE CONCEPT / MEANING OF THE TERM

3

- “*Floating charge*” would mean “a manner of floating guarantee with respect to execution of some obligations”.
- *Floating aspect* is referring to the unstable character of guarantee regarding execution of obligations (elements constituting the base of obligations execution are subject to changing, replacement or even alienation).
- Floating charge concept is used in the practice of other countries (such as, the US, UK, Canada, etc.) under different names („lien”, “floating charge”, „floating hypothecs”).
- In a certain sense “floating charge” could be used as a variety of pledge extending over all or a part of company’s assets.
- In day by day activity (as a result of activity), the respective assets are permanently changing (such as current assets – goods and stocks).

ATCI



FLOATING CHARGE CONCEPT / continuation

4

- In case of certain events (for example “insolvency”) this floating charge “ is transformed into “fixed charge”.
- The mentioned operation is called “crystallization of floating charge”.
- Before “crystallization” the company can use the pledged assets as it deems appropriate, including directing them for payment of debts for which there was no special guarantee.
- After “crystallization” the pledged assets can be used only for redemption of debts, that were formally guaranteed.

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

FLOATING CHARGE ADVANTAGES

5

- The main advantage of the floating charge is its *flexibility*, first of all for the debtor (though the creditor has more flexibility in terms of alienating the right to claim).
- Though the assets of the debtor are encumbered based on the floating character of the pledge, the debtor is free to use its assets in an ordinary way of its business development.
- It is not necessary each time to reach an agreement regarding using the stock for economic activity (the procedures of pledge registration and administration are simplified).
- The respective concept creates premises for stimulating economic transactions and even the financial market.

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

FLOATING CHARGE DISADVANTAGES

6

- There is a necessity of special additional mechanisms for monitoring and control of debtor's activity in the case of floating charge.
- The debtor should have a good reputation in business.
- There is a necessity of special additional clauses in the basic contracts (special evidence, certain restrictions regarding signing different categories of contracts, submission of some reports to the creditor, etc.).

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

FLOATING CHARGE APLICABILITY

7

- Floating charge is welcome in the case of:
 - ✓ credit lines;
 - ✓ pledging stocks or goods (different current assets);
 - ✓ pledging the company as a patrimony complex;
 - ✓ pledging the rights on claims;
 - ✓ existence of other long term contractual relations between the creditor and debtor.
- Floating charge supposes, from the point of view of eventual risks, a good business reputation of the debtor or existence of some long term business relations between creditors and debtors.

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

IMPLEMENTATION OF FLOATING CHARGE CONCEPT IN THE CONTEXT OF THE LEGISLATION OF THE REPUBLIC OF MOLDOVA.

8

- The pledge is regulated in conformity with the Civil Code of the Republic of Moldova dated June 6, 2002 and the Law on pledge dated July 30, 2001.
- Civil Code (Book III) provides other means of guaranteeing the execution of obligations, such as penal clause, advance payment, debtor's guarantee, retention.
- The existing law doesn't expressly provide the "floating charge" notion, though its elements exist.

ATCI



USAID
FROM THE AMERICAN PEOPLE

MORTGAGES. FIXED INCOME. LEASING.

ACCESS TO CREDIT INITIATIVE

IMPLEMENTATION OF FLOATING CHARGE CONCEPT IN THE CONTEXT OF THE LEGISLATION OF THE REPUBLIC OF MOLDOVA / continuation

9

- If there is a pledge on an universality of goods, the individualization of its constitutive parts is not necessary (Article 459 of the Civil Code and Article 24 of the Law on pledge). All goods are considered pledged to the extent mentioned in the contract, which according to the particularities of types indicated in the contract, can be attributed to this universality.
- In case of goods that are in circulation and processing, the pledgor is entitled to modify the composition and natural form of the object of pledge, (stocks, raw material, materials, half finished and final products, etc) **upon condition that their total value is not reduced as to the value mentioned in the contract on pledge (Article 459 of the Civil Code).**

ATCI



USAID
FROM THE AMERICAN PEOPLE

MORTGAGES. FIXED INCOME. LEASING.

ACCESS TO CREDIT INITIATIVE

IMPLEMENTATION OF FLOATING CHARGE CONCEPT IN THE CONTEXT OF THE LEGISLATION OF THE REPUBLIC OF MOLDOVA / continuation

10

- In case when no other goods are replacing the sold goods, *within the terms established by the pledgee*, the pledge on sold goods doesn't subsist and cover only the sums of money originated from sale of pledged goods if the latter can be identified (Article 24 of the Law on pledge).
- If the goods were lost, the pledge on a universality of goods subsists if the pledgor is replacing them within a reasonable term taking into account their nature.
- The pledgor of goods in circulation and processing is obligated to enter into the **pledge ledger the conditions of goods pledging and data on all operations leading to modification of the composition and natural form of pledged goods** (Article 459 of the Civil Code).

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

IMPLEMENTATION OF FLOATING CHARGE CONCEPT IN THE CONTEXT OF THE LEGISLATION OF THE REPUBLIC OF MOLDOVA / continuation

11

- *Pledge on a company as a patrimonial complex* is extending over all goods necessary for its operation or over a part of its goods, allowing the buyer to ensure the continuity of operation.
- For the period of pledge validity on the company, the pledge contract can provide restrictions regarding exercising by the pledgee of the right to dispose the goods being in the composition of the object of pledge (Article 27 of the Law on pledge).

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

ASPECTS RELATED WITH FLOATING CHARGE CONCEPT COMPATIBILITY WITH THE LEGISLATION OF THE REPUBLIC OF MOLDOVA

12

- The procedure of registration and introducing of amendments into the pledge ledger with respect to implementing without difficulties of the floating charge concept is rather rigid:
 - Pledge being a real right supposes the description of the pledge object (even a generic one), which creates certain difficulties in the case of a portfolio of assets;
 - All the conditions provided by law referring to the content of note on pledge registration should be respected.
- The most important issue, from the point of view of floating charge content, is the value of pledged assets, which are identified in case of insolvency, i.e. the “floating charge” becomes a “fixed charge” which is in conformity with valid legislation.

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

ASPECTS RELATED WITH FLOATING CHARGE CONCEPT COMPATIBILITY WITH THE LEGISLATION OF THE REPUBLIC OF MOLDOVA / continuation

13

- The pledgor is entitled to modify the composition and natural form of the object of pledge (stocks, raw material, materials, half finished, final products, etc.) upon condition that their total value is not reduced as to the value mentioned in the pledge contract.
- This provision of the valid legislation creates some inconveniences due to the fact that from the point of view of floating charge concept it is important that the value of company's assets is not less than level of pledged "portfolio".

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

ASPECTS RELATED WITH FLOATING CHARGE CONCEPT COMPATIBILITY WITH THE LEGISLATION OF THE REPUBLIC OF MOLDOVA / continuation

14

- Pledgor is obligated to enter into the pledge ledger the conditions of pledging goods and the data on all operations leading to modification of composition and natural form of pledged goods.
- This provisions creates inconveniences during the process of activity.
- From the point of view of floating charge concept it is important that during the day by day economic activity the object of pledge value doesn't become less.
- Creditor can monitor, request reports regarding the situation with the assets of the company and, if necessary, can intervene with a respective preliminary note and can institute the "fixed charge".

ATCI



CONCLUSIONS

15

- Taking into account the fact that under the legislation, the pledge grants preference as to other creditors, including the state, the floating charge concept is to be preferably implemented in the conditions of pledge contract and not other ordinary contracts (guarantee, retention, etc.)
- At present, the valid legislation doesn't include such categories as "floating charge", "crystallization" and "fixed charge", additional judicial mechanisms being necessary to cover such gaps.
- There is a necessity to institute in the legislation a more simple procedure and at the same time to add details to the procedure of "crystallization" and transformation into "fixed charge".

ATCI



16

Floating charge concept is welcome in the aspect of crediting some permanent economic or systemic activities (such as leasing and other crediting activities). Meanwhile, the creditor has the possibility to assign the "portfolio of claims" secured as one total.

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

17

Thank you for your attention!

ATCI

ATTACHMENT 9

PROPOSALS REGARDING LEASING LEGISLATION IMPROVEMENT

The Ministry of Economy and Trade, to execute the Order of the Government no.1412-792 from September 26, 2007, convened of October 3, current year a meeting with the representatives of the Ministry of Finance, Tax Inspectorate, Customs Service and leasing companies, where the issues raised by leasing companies were discussed. As a result of the discussions the following may be stated:

1. Application of value added tax on expenses compensated by lessees and on commissions for leasing contracts administration.

Draft amendment

LAW on interpretation of Article 93 point (4) of the Tax Code #1163-XIII from April 24, 1997

Art. I.- Provisions of Article 93 point 4) of the Tax Code #1163-XIII from April 24, 1997 (re-published by the Official Monitor of the Republic of Moldova, 2007, special edition), with further amendments, shall not be applicable to actions as a result of which the expenses of the lessor are compensated by the lessee pursuant to the leasing financial leasing contract (such expenses as for insurance, registration, etc.).

Art. II. – Taking into consideration that provisions of Article 1 of present Law creates a more favorable situation for the mentioned subjects, this law shall be applied in all legal situations emerging after entering into force of Article 93 point (4) of the Tax Code.

PARLIAMENT CHAIRMAN

Draft amendment

LAW regarding modification and completion of some legislative acts

Art. I. - To Article 103 paragraph (11) of the Tax Code #1163-XIII from April 24, 1997 (re-published by the Official Monitor of the Republic of Moldova, 2007, special edition), with further amendments, after the words “in the form of interest”, the words “, as established by Article 12, point 7) of present Code,” shall be introduced.

2. Leasing interest, is it an exempted supply or a taxable object?

During the mentioned meeting the representative of the State Tax Inspectorate Headquarters made the following clarification. According to Article 103, paragraph (11) income in the form of interest, obtained by the lessor based on a financial leasing contract is not **an object taxable with VAT**.

3. Leasing object claim through the ordinance procedure.

Draft amendment

Art. II. – Article 29, paragraph (1) of the Civil Procedure Code of the Republic of Moldova 225 – XV from May 30, 2003 (Official Monitor of the Republic of Moldova, 2003, # 111-115, art. 451), shall be amended by letter f) with the following content:

„f) causes of claims which are examined under the ordinance procedure (simple procedure) in conformity with the present Code”.

4. Deduction by leasing companies of provisions with the purpose of taxation

Draft amendment

III. – Article 2 of the Law on leasing # 59-XVI from April 28, 2005 (Official Monitor of the Republic of Moldova, 2005, no. 92-94, art. 429) shall have the following language:

“Article 2. Legal Regulation

(1) Leasing and legal relations related to it shall be regulated by the Civil Code, present law and other normative acts.

(2) Lessors, under financial leasing contracts, shall be allowed, under the procedure established by the Government, to form provisions destined for covering eventual losses related with non-reimbursement of loans (leasing object value) and interest on them.

(3) If the international leasing Convention, to which Moldova is a party, establishes other norms than those provided by this law, the international Convention norms shall prevail.”

**PARLIAMENT
CHAIRMAN**

LAW

regarding modification and completion of some legislative acts

Art. I. - The Tax Code #1163-XIII from April 24, 1997 (re-published by the Official Monitor of the Republic of Moldova, 2007, special edition), with further amendments shall be modified and completed as follows:

1. Article 31 shall be completed by paragraph (6) with the following content:

“(6) Lessors, under financial leasing contracts, shall be allowed to deduct the provisions destined for covering eventual losses related with non-reimbursement of loans (leasing object value) and interest on them, which volume shall be determined under the procedure established by the Government.”

5. Re-evaluation of claims on leasing contracts

It is necessary to organize an additional meeting with the representatives of the State Tax Inspectorate Headquarters, Ministry of Finance, ACAP and Ministry of Economy.

6 and 7. Clarification of necessary acts for passing the state border

As a result of discussions the following conclusion was made: the Border Service shall obligatorily request from the lessees the proxies issued by the lessor for the cars, constituting the leasing object, while the latter are exiting the country. This measure is imposed based on the following reasons:

- the lessor should know the place of its property (leasing objects) location);
- non admission of leasing objects having debts on leasing payments contract to exit the country;
- prevention of exiting the country of goods constituting the object of leasing contracts, which have been already canceled or are in the process of canceling by the lessor;
- non admission of exiting the country of non insured leasing objects (CASCO, Green Card).

The actual danger is that while exiting the country of leasing objects, the leasing company doesn't know the place of its property location and there is an imminence probability of goods loss or deterioration, etc.

At present the registration certificate is issued on lessee name only with note: "Leasing till ". The information included in the registration certificate

doesn't give any clue on the real owner of goods. In case of necessity (accident, theft, etc.) it is necessary to address to corresponding institutions to find out the real owner of the object. This fact often leads to confusions and loss of time. To solve this problem, it is proposed to modify Annex #2 of the Decision of the Government #1047 from 11.08.1999, as follows:

„ The words “Leasing till....” shall be excluded from paragraph 2 of Article 25.

Art. 26 shall have a new language: „Vehicles procured based on a leasing contract are registered directly on the name of the lessor. Two registration certificates are issued while registering vehicles constituting the leasing object:

- the first is issued on the name of the lessor;
- the second is issued on the name of lessor, with the note in the column “special notes”: “Lessee: IDNO/CP:; till:”

Another issue discussed at the meeting was attribution of distinct registration numbers to leasing objects. International practice demonstrates the efficiency and utility of such numbers which visually emphasize the goods constituting the objects of leasing contracts. It is proposed to amend the valid legislation and to attribute distinct registration numbers to vehicles – leasing objects.

8. Non admission of courts enforcement acts closing by the Border Service.

It is necessary to have an additional meeting with the representatives of the Ministry of Justice, Birder Service and the Ministry of Economy.

9. Registration of transportation means by Military Headquarters

Settlement through the regulatory reform and single window. Letter of the Ministry of Economy .

10. Bureaus of Transport Inventory – have a limited program, non accessible for the public procedures and laws, based on which they operate.

It is necessary to have an additional meeting with the representatives of the Ministry of Information Development and the Ministry of Economy.

11. Burdensome and lengthy procedure on removal the interdiction on pledge applied on vehicles.

It is necessary to have an additional meeting with the representatives of the Ministry of Information Development, Ministry of Justice and Ministry of Economy.

12. Forming the list of doubtful lessees

PROPOSAL TO THE DRAFT LAW REGARDING CREDIT HISTORY BUREAUS

In our opinion, the draft law on credit history bureaus is rather unclear in view of real identification of credit history formation sources (see Article 6). The focus is made on submission of information by financial institutions (art. 6 paragraph (2)). We consider opportune, to also specify in Article 6, Paragraph (2) other sources of credit history information, such as: micro financing organizations, citizens' saving and credit associations, leasing companies:

„(2) By derogation from the provisions of paragraph (1), banks, micro financing organizations, citizens' saving and credit associations and leasing companies shall be obligated to submit all available information... according to the text...”

ATTACHMENT 10



**COMISIA
NAȚIONALĂ
A PIETEI
FINANCIAR**



USAID
DIN PARTEA POPORULUI AMERICAN



**MINISTERUL
ECONOMIEI ȘI
COMERȚULUI**

**Building a Bond Market in Moldova:
Essential Steps for Development**

Date: December 6, 2007 (Thursday)

**Place: Leo Grand Convention Centre
Chisinau, Moldova**

STAKEHOLDERS: Senior leadership of the Government of Moldova, Management of Moldovan enterprises interested in raising capital from debt or equity markets and potential investors.

PURPOSE: To demonstrate how bond issuance has been used by corporations globally as an alternative to bank financing and how Moldovan enterprises could use a corporate bond market to access capital. The conference will explore the theoretical and practical aspects of corporate bond issuance such as: the economic basis for bonds, the necessary legal framework, methods and costs of issuance, and means of minimizing risk of default. The conference will provide an opportunity for government officials, market professionals, potential issuers and investors to share information and perspectives regarding this newly developing financial instrument.

**CONFERENCE CHAIRPERSON: Alexandru Savva, Counselor of Chairman,
National Commission of Financial Market (NCFM), Republic of Moldova**

TIME	
8:45 – 9:30	REGISTRATION (Coffee in Foyer)
(9:00-9:25)	(Press Conference)
9:30 – 10:00	WELCOMING REMARKS/KEYNOTE SPEECHES
	Co-Organizers' Welcoming Remarks
	Gary Linden, Country Program Officer, USAID, Co-Organizer
	Viorel Melnic, Vice-Minister of Economy and Trade, Co-Organizer
	Mihail Cibotaru, Chairman, NCFM, Co-Organizer
	Keynote Speakers
	Mihail Pop, Minister of Finance
	Victor Cibotaru, First Deputy Governor, NBM
	David C. M. Lucterhand, Chief of Party, Access to Credit Initiative

	I. OVERVIEW OF THE BOND MARKET
10:00 – 11:00	<p>Session 1: Debt Markets and Their Role in the International Capital Markets; Prospects for Issuance in Moldova</p> <p><i>Steve Moody, International Expert and Consultant (Kazakhstan/USA)</i></p> <p>Session 2: Debt Vs Equity – The Economic Case for Issuance; Comparative Advantages and Disadvantages for Attracting Capital, Managing Currency Risk, Issuing Asset Backed Securities.</p> <p><i>Marius Bostan, Senior Partner, VMB Partners SA (Romania)</i></p> <p>Q&A (5 min)</p>
	II. STRUCTURING AND SELLING THE ISSUE
11:00 – 11:40	<p>Session 3: Corporate Bonds: Preparing for an (International) Issue, Importance of Selecting a Financial Advisor: Associated Costs of Issuance, Who gets paid and How. Importance of and Relationship to the Government Bond Yield Curve.</p> <p><i>Zurab Vanishvili, Managing Partner, Zurab Vanishvili Law Firm (Georgia)</i></p> <p>Q&A (5 min)</p>
11:40 – 12:00	COFFEE BREAK
	III. IMPORTANCE OF CREDIT RATINGS FOR ISSUERS AND DISCLOSURES FOR INVESTORS
12:00 – 12:30	<p>Session 4: Role of Risk Ratings; Overview of Ratings in Transition Economies, Prospects for Rating Issues in Moldova, What the Ratings Mean, How to Get One, What They Cost.</p> <p><i>Jock Paton (ex-Standard and Poor's), Principal, Crailing Associates (Strategy Consultants and Financial Advisors, UK)</i></p> <p>Q&A (5 min)</p>
12:30– 13:00	<p>Session 5: Preparing Financial Statements, Standards of Information Disclosure for Corporate Issuance, Associated Costs.</p> <p><i>Nicoleta Rusu, Audit Director, KPMG (Moldova)</i></p> <p>Q&A (5 min)</p>
	IV. BONDS FROM THE INVESTOR'S PERSPECTIVE
13:00 – 13:45	<p>Session 6: Corporate Bonds: Viewpoint of the Foreign Investor, What They Look For in Making a Decision to Invest, Market Impact When Choosing a Financial Advisor, Trading, Liquidity, and Marketing Considerations</p> <p><i>Michele Zotta, Head of Fixed Income Investments, Generali Investments SGR (Italy)</i></p>

	Q&A (5 min)
	V. LEGAL AND REGULATORY CONSIDERATIONS
13:45 – 14:35	<p>Session 7: Legal and Regulatory Framework for Issuance/Default and Bankruptcy: Creditor’s Rights.</p> <p><i>Roger Gladei, Partner, Turcan and Turcan (Moldova)</i></p> <p>Session 8: The Romanian Model for Bond Market Development – Practices and Perspectives</p> <p><i>Octavian Dinu, Specialist, Regulated Markets, Issuers Department, National Commission for Securities (Romania)</i></p> <p>PLUS: “Bond Issuance in Bulgaria”, Iliyana Dzhorgova, Head of Economic Regulation Department, Financial Supervision Commission of Bulgaria</p> <p>Q&A (5 min)</p>
14:35– 15:05	COFFEE BREAK with finger sandwiches, snacks
	VI. CONSIDERATIONS FOR DOMESTIC ISSUANCE IN MOLDOVA
15:05 – 15:50	<p>Session 9: Bonds as a Means for Economic Revival.</p> <p><i>Elena Pui, Member of Administrative Council, National Commission of Financial Market (Moldova)</i></p> <p><i>Nina Savin, Director of Market Operations Department, National Bank of Moldova</i></p> <p><i>Vadim Ceban, Head of General Department for Structural Policies, Ministry of Economy and Trade (Moldova)</i></p> <p>Session 10: Fiscal System in the Financial Sector.</p> <p><i>Anastacia Chertan, Director, Fiscal Policy Department, Ministry of Finance (Moldova)</i></p> <p>Q&A (5 min)</p>
	VII. CASE STUDIES
15:50 – 16:40	<p>Session 11: Case Study: Romanian Corporate Issue: Practical Experiences.</p> <p><i>Dan Popp, General Manager, Impact SA, Real Estate Company, (Romania)</i></p> <p>Session 12: Case Study: Issuance of Bonds in Moldova</p> <p><i>Nicolai Kozin, Director of Department of Planning Investments and Development, DAAC-Hermes Group S.C., (Moldova)</i></p>

	<p>Session 13: Case Study: Kazakhstan Corporate and Covered Issues: Practical Experience</p> <p><i>Steve Moody, International Expert and Consultant (Kazakhstan/USA)</i></p> <p>Q&A (5 min)</p>
	NEXT STEPS FOR MOLDOVA
16:40 – 17:10	<p>Panel & Questions from the Floor</p> <p>Moderator <i>Alexandru Savva, Counselor of Chairman</i>, National Commission of Financial Market (NCFM)</p> <p>Panel: All Presenters</p>
17:10 – 17:30	<p>Summary of Conference and Conclusions</p> <p>Moderator <i>Alexandru Savva, Counselor of Chairman</i>, National Commission of Financial Market (NCFM)</p> <p>Panel: All Presenters, Summary of Impressions and Conclusions</p>
17:30 – 19:00	FOURCHETTE
	End

ATTACHMENT 11



USAID
FROM THE AMERICAN PEOPLE

**ACCESS TO CREDIT
INITIATIVE/MOLDOVA**
Mortgages, Fixed Income, Leasing

**Summary Report on ATCI/Moldova Bond Conference
“Building a Bond Market in Moldova: Essential Steps for Development”
Chisinau, Republic of Moldova
December 6, 2007**

Co-Organizers/Welcoming Remarks

- USAID/Gary Linden, Country Program Officer
- Ministry of Economy and Trade/Viorel Melnic, Vice Minister of Economy and Trade
- National Commission of Financial Market/Mihail Cibotaru, Chairman, National Commission of Financial Market (NCFM)

Key Note Speakers

- Victor Cibotaru, First Deputy Governor, National Bank of Moldova
- David C.M. Lucterhand, Chief of Party, Access to Credit Initiative

Attendees

144 people were in attendance, representing Moldovan Ministries, Parliament, International Donor Organizations, NCFM, Commercial Banks, Insurance Companies, Financial/Investment Companies, Industrial/Manufacturing Companies, Consulting Companies, and the Moldova Stock Exchange.

Presentations and Presenters

15 Presenters (7 Domestic; 8 Foreign); 16 Presentations. Presenters from the USA/Kazakhstan; Moldova; UK; Italy; Romania; Georgia; and Bulgaria. Experts from Ministries, National Banks, Securities/Financial Market Regulators, and Commercial Companies made presentations, based on domestic and international experiences and best practices.

Broad Topics of Conference Presentations

- Overview of the Bond Market
- Structuring and Selling the Issue

- Importance of Credit Ratings for Issuers and Disclosures for Investors
- Bonds from the Investor's Perspective
- Legal and Regulatory Considerations
- Considerations for Domestic Issuance in Moldova
- Case Studies (3)

Followed by Panel Discussions; Questions and Answers from the Floor; Summary and Conclusions for Next Steps for Moldova

Results of Survey and Comments from Attendees

The last segment of the Bond Conference lasted from 15.15 until 18.00. Over 100 people remained and 39 completed a questionnaire concerning their impressions of the Bond Conference. Of the 39, representatives of thirteen (14) companies as potential issuers were included. A summary of the 39 responses is shown below:

1. General Impressions of the Conference's Presentations as to Complexity and Level of Information: 95% good to very good; 5% satisfactory

Positive comments included:

- a. "A major foundation for the formation of strategy with respect to the role and use of bonds in the financial market";
- b. "The examples and presentations of the development of this sector from neighboring countries , as well as the international best practices are very appropriate for Moldova" ;
- c. "Participation of the experts and professionals from different countries will encourage the development of the capital market and attraction of investments in the economy of the Republic of Moldova";
- d. "Rather large perspective of the topic, including the (world) geographic point of view";
- e. "The agenda was very well structured"; and
- f. "(A large benefit was learning) the theoretical and practical aspects of the bond issuance process from different countries".

Negative comments included:

- a. "Better to conduct the Conference over 2 days";
- b. "Too many topics covered in too short periods of time"; and
- c. "It would have been opportune to invite the representatives of municipalities".

2. As to perceived barriers impeding the development of the bond market in Moldova: 38% did not perceive barriers; 62% did perceive barriers. Comments relating to perceived barriers (legislative, economic, etc.) included:

- a. The interests of Bondholders are not sufficiently protected;

- b. Big costs;
 - c. There is no Government Bond Market with maturities of 5-10 years;
 - d. Corporate culture and joint stock companies' managers do not have sufficient understanding for taking decisions on bond issuance; and
 - e. Regulatory authorities tend to over-regulate the securities market.
3. Regarding potential issuers, representatives of four (4) companies stated that within the next year, they intend to issue bonds; eight (8) companies stated that from 1-3 years, they would issue bonds; two (2) insurance companies stated that they would issue bonds sometime after 3 years. Eight (8) companies would like assistance from ATCI; six (6) would issue the bonds without ATCI assistance.
 4. Regarding a willingness of meeting with the ATCI/Moldova team to discuss the rendering of assistance to issue bonds, representatives of eight (8) companies voiced a positive response. (NOTE: ATCI/Moldova is already working with 2 of these companies, and has discussed bond issuance with another 2 companies.)
 5. And finally, of the 39 attendees, 100% voiced a willingness to be invited to subsequent events (i.e., roundtables, conferences, seminars) organized by Access to Credit Initiative.

Executive Summary: Conclusions and Next Steps for Development for Moldova

The Bond Conference served its purpose, “to demonstrate how bond issuance has been used by corporations globally as an alternative to bank financing and how Moldovan companies could use a corporate bond market to access capital...The conference will provide an opportunity for government officials, market professionals, potential issuers and investors to share information and perspectives regarding (bonds).” Therefore it was a success as a conference.

Those completing survey questionnaires included the following topics as suggestions for future roundtables or seminars that could be directed at specific segments, such as investment managers, issuers, investors, etc.:

- Protection of bond holder rights;
- Issue and circulation of municipal bonds;
- Creation of investment funds and development of other institutional investors in RM;
- Mortgage loan securitization, advantages and risks; and
- Financial market instruments, including derivatives.

The work continues for ATCI/Moldova in assisting companies to issue bonds and recommending amendments to legislation and implementing regulations for ease of bond issuance. This effects the *supply* side. The *demand* side, that is, the institutional investors, such as Mutual Funds, Pension Funds, and Insurance Companies, must be developed, with the help of the regulator, NCFM, among other stakeholders. It may be

considered part of ATCI/Moldova's work plan activities to help develop the demand side where we are able. Barriers still exist for development of the bond market, yet there are companies now that are interested in issuing bonds.

Comments received by the invitees and the speakers proposed other areas for development, such as the development of a Government Bond Yield Curve and municipal bond issuance. Other issues for development, or Next Steps as discussed during the final sessions of the Bond Conference, include

- Continually reviewing and amending legislation related to the issuance of bonds, e.g., removing the restrictions on the level of issuance as related to the capital of the company (in the Joint Stock Company Law). With amended legislation comes the need for the adaptation of implementing regulations conforming to the legislation. In all, laws and rules should not be a barrier for bond issuance, but should guide and ease bond issuance practices;
- Controlling and reducing rates of inflation and bank deposit rates;
- Education of companies and the populace regarding bond issuance and investments; this includes the capacity building, education if you will, for the regulators, media, judges and lawyers, and the educators themselves;
- Development of local risk rating companies; with increasingly more bonds being issued by Moldovan companies, the international risk ratings companies will be attracted to set up shop in Moldova, particularly for international or off-shore issuances;
- Development of a market for secondary trading of bonds; and eventually,
- Development of a futures market providing hedging instruments for the bond investments.

Attached are some pictures from the Bond Conference.



ATTACHMENT 12

Attachment 12

Proposals to the draft Law on modification and completion of Law # 199-XIV from November 18, 1998 regarding securities market as well as of Law on stock companies # 1134-XIII from April 2, 1997.

A. Law on modification and completion of Law # 199-XIV from November 18, 1998 regarding securities market.

1. Under the Directive 2003/71/CE from November 4, 2003, as well as under Article 22 of Regulation (CE) # 809/2004 of the Commission from April 29, 2004 on implementation of Directive 2003/71/EC, if the issuer is a part of a group, a short description of the group and issuer's position in it is made and if the issuer is depending on other entities from the group, this issue is explicitly indicated and the dependence relation is described. Based on the above, it is proposed to modify Article 13 of the draft Law on modification and completion of Law # 199-XIV from November 18, 1998 regarding securities market (further on draft) as follows:

*„paragraph (3) letter d) shall have the following content:
„d) specification of management bodies structure and organizational chart of the issuer;”.*

Under point 13 of Annex IV of the Regulation (EC) nr. 809/2004 of the Commission from April 29, 2004, the audited financial information shall include at least the following: 1) accounting balance; 2) profit and losses account; 3) cash flow; 4) accounting methods and explanatory notes.

Thus, the following language of letter b), paragraph (4) of article 13 is proposed:

„paragraph (4) letter b) shall have the following content:

„b) financial reports with all corresponding annexes for the last 3 finalized financial years or for each concluded financial year since the date of issuer constitution, if the respective period is less than three years;”

2. Under article 13 paragraphs (1) and (2) of the Directive 2003/71/EC of the European Parliament and Council from November 4, 2003 not a single prospectus is published before the approval by the competent authority of the origin Member State. This authority notifies upon case, the issuer, the bidder or the person requesting admission to trading on a regulated market on its decision regarding approval of the prospectus, during the following 10 working days after submission of the prospectus draft.

Thus, the following amendment to Article 14 is proposed:

„paragraph (3) shall be amended at the end with the words:

„and in case of corporate bonds during a term of the most 15 calendar days.”

B. Law on stock companies # 1134-XIII from April 2, 1997.

3. Paragraph (9) of article 16 on stock companies provides that *the nominal value of all company's placed bonds shall not exceed the amount of its social capital.*

This paragraph represents an impediment to a functioning bond market which can impact companies' development. Based on the study of 900 stock companies performed by the Access to Credit Initiative, it was concluded that the common equity summed up by mentioned companies represents only 59% of the total shareholders' equity, so this fact is limiting the real financing capacity of companies. In a developing economy it is normal that the common equity is not capable to grow with the same rhythm as shareholder equity, due to fact that accumulated profits are reinvested in the company increasing the shareholders' equity and not the common equity, because of this reason this big difference appears.

In addition, EU Directives do not establish restrictions regarding the relation between the nominal value of bonds and the amount of common equity of companies.

Thus is it proposed to exclude paragraph (9) of Article 16 of the Law on stock companies:

„Art. – To article 16 of the Law #1134-XIII from April 2, 1997 regarding stock companies (Official Monitor of the Republic of Moldova, 1997, # 38-39, art. 332), with further modifications, paragraph (9) is excluded.”.

ATTACHMENT 13



USAID
FROM THE AMERICAN PEOPLE

**ACCESS TO CREDIT
INITIATIVE/MOLDOVA**
Mortgages, Fixed Income, Leasing

FIXED INCOME

AN INTRODUCTION TO BOND ISSUANCE AND INVESTING

Frequently Asked Questions



**Chisinau, Moldova
2007**

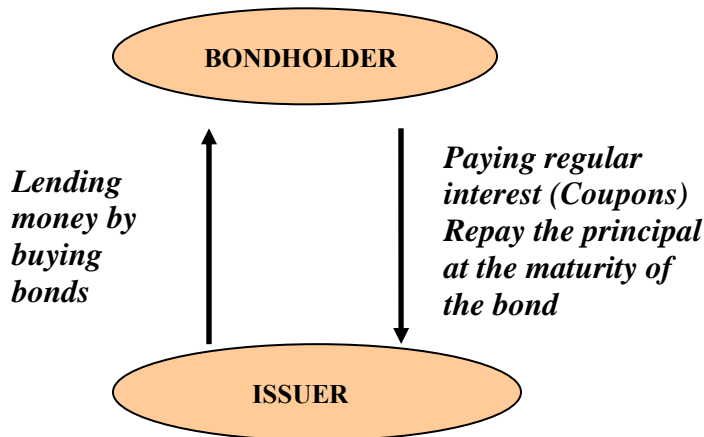
**FREQUENTLY ASKED QUESTIONS:
An Introduction to Bond Issuance and Investing**

- 1. What is a bond?**
- 2. Who can issue bonds?**
- 3. Why issuing bonds?**
- 4. Who invests in bonds?**
- 5. Why investing in bonds?**
- 6. What types of bonds exist?**
- 7. Key features of bonds**
- 8. Price – yield relationship**
- 9. What risks do we take by investing in bonds?**
- 10. Bond Investing – Financial Objectives relationship**
- 11. Bonds vs. Shares**
- 12. Bonds vs. Bank Loans**
- 13. Tax considerations**
- 14. Where can you buy bonds?**

1. What is a Bond?

BOND - It is the obligation of the issuer to pay its bondholders periodic interest at a fixed rate (the “coupon”), and to repay the amount of the loan (the “principal”) at a specified time in the future (the “maturity date”). Because bonds are debt obligations of the issuer, bondholders have a senior claim over stockholders on a company’s assets, should they be liquidated.

Individuals, Institutional Investors, Companies



Institution, Company, Government, Municipality

Bonds belong to a class of investments called fixed income securities or debt obligations. Fixed income securities are like contracts where the investor lends money to a business for an agreed interest rate and period. Interest is usually paid in regular installments, e.g., quarterly or semi-annually.

When you invest in a stock, you become a part owner of a corporation. Your equity holding has unlimited upside potential and downside risk. A bond investor is not an owner but a creditor of the underlying company or government entity. In effect, you are lending money to a company or government (the “issuer”) when you purchase a bond.

2. Who can issue bonds?

Generally bonds are issued by governments, companies (including financial institutions), municipalities and other institutions (agencies). In Moldova bonds are normally issued by companies and government. The law allows Joint Stock Companies, Government and Municipalities to issue bonds.

3. Why issue bonds?

Businesses need to raise money from time to time to expand or to finance their day-to-day operations. Issuing bonds is one way to do this. Bonds give direct access to investors and could be a good alternative to bank loans for issuers. Generally bonds reduce the cost of borrowing for corporations and give the possibility to extend the maturity of loans. Bonds do not represent any ownership interest in the company; only debt obligations of the company to the bond investors. Recent legislation also reduced the cost of issuing bonds compared to that of issuing equity securities, from 0.5% to 0.1% of the issuance, paid to the Regulator.

4. Who invests in bonds?

Generally, the main groups of investors that invest in bonds are institutional investors like:

- Insurance Companies
- Banks
- Pension Funds
- Investment Funds
- Large Corporations
- Mutual Funds and other

It should also be considered that in addition to institutional investors a large group of investors in bonds are *Individuals*.

5. Why invest in bonds?

Bonds are a type of securities, with a higher level of safety compared to shares (or equities):

- Bonds provide diversification to portfolio of equity investments;
- Bonds historically provide a higher interest rate than bank deposits and are less risky than equities due to less price fluctuation;
- You can sell your bonds (theoretically) on the secondary market and receive your money back plus the accrued interest for the period holding the bond. *But keep in mind that prices of bonds fluctuate, and the sale of bonds in the secondary market may create a loss for the investor, where prices decline relative to the purchase price. Additionally, offering a bond for sale does not automatically mean that there will be a buyer for the bond.*

6. What types of bonds exist?

The bonds are divided in 3 major categories:

1. Government Bonds – bonds issued by government
2. Municipal Bonds – bonds issued by local authorities
3. Corporate bonds – bonds issued by companies, including banks

Government bonds are backed by the full faith and credit of the government as to the timely payment of principal and interest. As such, these bonds are considered to be “risk-free”. In the United States, depending on their length of maturity, Treasury issues are called U.S. Treasury bills (*T-Bills*) if maturities ranges from 90 days to one year; U.S. Treasury notes (*T-Notes*) for maturities of one-to ten years; and U.S. Treasury bonds (*T-Bonds*) if maturities are from ten- to thirty years. In Moldova, the government issues debt only up to 2 years currently.

Municipal bonds are issued by municipalities and local governments, often to finance specific projects such as highways, schools, recreational facilities, and the like. While they typically pay lower interest rates than corporate bonds, the interest income is generally exempt from federal income tax in the United States and frequently from state and local taxes, as well. Thus, a lower-yield municipal bond could actually be more attractive than a higher-paying taxable instrument when the relative tax consequences are

figured into the comparison, especially in the higher income tax brackets. To date, there have been no municipal bond issuances in Moldova.

Corporate bonds are issued by corporations to finance their (long-term) capital projects and are paid back within a specified period of time (the bond's maturity). Generally speaking, the interest rate that the bond pays reflects its relative safety all other things being equal. Usually, the higher the quality of the bond, the lower the interest rate, because the risk to the investor is perceived to be lower.

A corporate debt obligation may be secured or unsecured:

Secured Bonds – means that there is some form of collateral pledged to ensure payment of the debt. A “secured” bond may also mean a bond that is secured through insurance or other forms of guarantee, including mortgages.

If we remove the pledged collateral we have **unsecured debt**. Although an unsecured bond does not have pledged collateral it doesn't mean investors don't have claim on property of the issuers or on their earnings. An investor has a claim as a general creditor on the assets and property that wasn't pledged to secure other debt.

7. Key features of bonds

Main features of the bonds are:

- **Issuer** – government, company, municipality, banks
- **Bondholder (Investor)** – bondholder lends money to issuer
- **Price** – the price that bondholder pays for a bond.
- **Face value (par value or principal)** - amount paid to bondholder by issuer at the end of the lending period. The price can be different than face value. Bond's price can be higher or lower than its par value. *There is market risk when buying a bond and later trying to sell it.*
- **Coupon and coupon rate** – the coupon rate is the interest rate paid on a bond. Interest usually is paid regularly at intervals of time (e.g., every 3 months, 6 months, or one year).

Example: A bond with 1000 Lei face value and 10% coupon will pay an interest of 100 Lei per year (1000 Lei face value x 10%). Coupon rates can be fixed or floating. Fixed rate coupons do not change during the lifetime of the bond. Floating rates allow periodic adjustments to reflect prevailing market conditions.

- **Term (or Maturity)** – this is the life of the bond. At the end of the term the face value and the last coupon is paid to the bondholder.
- **Yield** – this is a measure of return that a bondholder makes on a bond. The higher the yield the higher the interest rate.
- **Security** - An issuer may “secure” the bond on some of its assets, like property or shares that it owns. Thus if the issuer defaults in paying bondholders, the bondholders will have the rights to the proceeds from the sale of the assets which are securing the bond. Security for a bond reduces the risk to the bondholders and therefore makes the bond more attractive to investors.
- **Ratings** – bonds are generally rated by rating agencies. A ratings agency assigns its ratings based on in-depth analysis of the issuer's financial

condition and management, economic and debt characteristics, and the specific revenue sources securing the bond. Ratings measure the company's ability to pay interest and principal. The higher the ratings of a bond, the higher the price of the bond, all other things being equal. In Moldova there is a rating agency that provides research on the issuers.

8. What is the Price-Yield relationship?

From the time a bond is originally issued until the day it matures, its price in the marketplace will fluctuate according to changes in market conditions or credit quality. The constant fluctuation in price is true of individual bonds—and true of the entire bond market—with every change in the level of interest rates typically having an immediate, and predictable, effect on the prices of bonds.

There is an inverse relationship between Price and Interest Rates. If interest rates increase, the bond's price decreases (due to a lesser value of the coupon relative to the increase in interest rates); and if interest rates decrease, a bond's price increases (due to a greater value of the coupon relative to the decrease in interest rates).

9. What risks do we take by investing in bonds?

Investing in bonds implies some risks that are carried by the investor. Some of them are below:

- **Financial risk or Credit risk** – bonds are debt hence the risk that the issuer could not repay the principal at maturity could arise. This risk could be reduced if you invest in higher rated bonds or high quality names or in secured bonds.
- **Interest rate risk** – this risk appears when the interest rates increase and the price (value) of the bond decreases. This risk disappears if the bond is held to maturity.
- **Currency risk** – the risk of receiving less domestic currency when investing in a bond that pays in foreign currency.
- **Liquidity risk** – the risk that investor will have to sell a bond below its indicated value or will not be able to sell the bond on the secondary market.
- **Inflation risk** – reflects the decrease in the purchasing power of the bond. If you receive an interest rate of 10% and the inflation is 3% then your real rate is 7% not 10%; if inflation is 15%, the real rate is negative 5%!

10. Bond Investing – Financial Objectives relationship

Bonds appeal to many investors, including:

- *Conservative investors* concerned with preserving their principal, especially during times of market volatility;
- *Moderate investors* looking for growth opportunities through capital appreciation;
- Investors planning for goals such as:

- ✓ *college*, who can benefit from the “ladder” portfolio strategy to meet future tuition payments, where maturities vary from short term to medium to long term; and
- ✓ *retirement*, who seek the steady income stream generated by a “Check-A-Month” strategy, where a portfolio of bonds is accumulated with varying interest payment dates;
 - *Liquidity-oriented* investors seeking to meet their cash management needs;
 - *Income-oriented* investors who require a monthly or quarterly income stream;
 - *Aggressive* investors who can tolerate higher risk to capture higher yields; and
 - *Institutional* investors who use bonds to hedge more volatile investments or portfolios.

11. Bonds vs Shares

Corporate Bonds	Common Stock
Represent a creditor’s claim on the corporation.	Represents an ownership in the corporation
Promised cash flows (coupons and principal) are stated in advance	Amount and timing of dividends may change at any time
Can be called prior to maturity (callable bonds)	Almost never callable; unlimited life

12. Bonds vs Bank Loans vs Bank Deposits

Historically Bonds provided higher yield to investors than the Bank Deposits. For issuers Bonds are a cheaper way to finance their operations compared to bank loans. The bonds can be sold and bought at any time on the secondary market without losing the interest, *if there is a buyer*.

13. Tax Considerations

According to the recent changes in the Tax Code of Moldova, from 1st of January 2007, individuals will not pay any tax on interest received from investment in corporate bonds until 2010. And legal entities will not pay any tax on interest received from investments in bonds with maturity longer than three (3) years.

14. Where can you buy bonds?

The bonds generally can be traded either on the Stock Exchange, in case the bonds are listed or from the bank(s) or other financial institutions that appeared as underwriter(s) in the placement of bonds.



This brochure is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of the leaflet are the sole responsibility of the Pragma Corporation, that implements ATCI project in Moldova and do not necessarily reflect the view of USAID or the United States Government.

Str. N.Iorga 8/4, Chişinău, MD-2009
Republica Moldova
Tel: (373 22) 232 008; (373 22) 232 971
Fax: (373 22) 238 039

ATTACHMENT 14



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Access To Credit Initiative Project in Moldova

October 2007
Chisinau, Moldova

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Background of Project

- ATCI/Moldova is a 2 year project which began fall 2006 and scheduled to end fall 2008; funded by USAID
- 'Daughter' project of ATCI/Ukraine; evolved from other successful projects in FSU
- Country Director and 9 Local Staff
- 3 Major Components:
 - Mortgage Lending
 - Fixed Income
 - Financial Leasing

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Goals of ATCI/Moldova

- Facilitating increased mortgage lending and building capacity of professionals
- Expanding the availability of capital to corporate borrowers as an alternative to bank financing
- Facilitating the growth and development of the leasing industry

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Major Activities of ATCI/Moldova

- To assist commercial financial companies and banks engaged in or contemplating mortgage lending activities
- To construct a fixed income market in corporate and mortgage bonds; to assist development of National Commission of Financial Market ("NCFM", or Mega Regulator)
- To increase the capacity of existing and new financial leasing companies and professionals; expanding types of assets for leasing

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Mortgage Lending Component: Objectives

- **Primary market**
 - Development of CML Program to build capacity and professionalism
 - 3 full CML training courses/60-80 trainees in total
 - Technical assistance; standardized procedures and documentation; lengthen mortgage loans
- **Secondary market**
 - Securitize portfolio of mortgages/liquefy portfolio for sale as mortgage bonds (covered bonds) in secondary securities market
- **Associated market infrastructure**
 - Use of mortgage-related life insurance
 - Development of appraisal methodology
 - Development of credit information company (i.e., credit bureau)

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Mortgage Lending Component: Expected Results

- Increased mortgage lending and professionalism and skills of mortgage specialists, benefiting financial institutions, SMEs, homeowners, and farmers (through CML programs)
- Development of secondary market that allows mortgage lenders to refinance their mortgages at lower costs
- Availability of mortgage-related products and infrastructure relating to insurance and credit bureaus to mitigate risk and to protect homeowners

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Estimated Mortgage Debt in Moldova as percent of GDP* (\$3.36 Billion), end of 2006 is 1.32%.



*Source: IMF

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Mortgage Lending Component: Statistics (Dec. 2006; June 2007)

- 8 mortgage lending institutions
- Residential mortgages at \$44 million (June 2007 at \$83 million (over MDL 1 billion)); funding by deposits; 3200 mortgage loans (June 2007, 5100 mortgage loans)
- Terms of loans range from 6 to 15 years; average term 7.0 years (June 2007 average at 8.5 years)
- Interest rates @ 15-16% MDL; @ 12-14% in USD or Euro (June 2007 @ 11-14%)
- LTV @ 46-70% (June 2007 @ 47-65%)

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Mortgage Lending Component: Major Accomplishments to Date

- Adapted CML courses for Moldova; completed first series of CML courses; 25 certificates to professionals at 8 Mortgage Lending Institutions plus other organizations
 - “We extended a lot of mortgage loans and I was involved in this activity on a daily basis, but I have never thought that I know so little about this subject” after attending CML training courses-- *Head of Department, Retail Mortgage Lending*
- Executed protocol to assist a mortgage lending institution for issuance of pilot mortgage bonds

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Fixed Income Component: Objectives

- Development of corporate bond issuance
- To stimulate development of capital markets in cooperation with the Mega Regulator
- To expand financial instruments available and lengthen maturities of fixed income products at lower costs offered in financial markets

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Fixed Income Component: Expected Results

- Increased investor confidence in utilizing the capital markets
- Realization of high degree of transparency benefiting consumers and investors
- Diversification of non-bank financing resources benefiting companies, consumers, and investors

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Fixed Income Component: Statistics and Recent Events

- Beginning in 2002, 11 issuances of corporate bonds:
 - Maturities 12-36 months
 - Coupons 10-19%
 - 36 million MDL total (issues ranging 666,000 MDL-12 million MDL)
- Securities Commission transformed into “Mega Regulator” through recent adoption of Law
- Securities Market Law (contains provisions for bonds) being amended with assistance from ATCI/Moldova

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Fixed Income Component: Major Accomplishments to Date

- Delivered 3 Fixed Income educational seminars held at ATCI/Moldova Training Centre; 60 potential buyers and issuers, and regulators in attendance
- Assisted National Securities Commission in its transformation into the Mega Regulator
- Assisted NCFM in drafting legislation and implementing regulations regarding issuance of debt instruments

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Financial Leasing Component: Objectives

- Establish the Certified Leasing Specialist training program based on international best practices; 60-80 trained professionals over 3 full training programs
- Develop leasing market by expanding types of assets available for lease and number of leasing companies offering these products
- Attract long term financial resources from international/domestic institutions

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Financial Leasing Component: Expected Results

- Professional development through the Certified Leasing Specialist training programs
- Increased capacity and availability of capital resources for lessors and lessees

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Financial Leasing Component: Statistics (est. as of end 2006)

- 15 Leasing Companies; top 3 = 80-85% Market; 70-80 employees total (est. 120 now)
- Total Portfolio = 30-35 million Euro
- Rates 15%-20%, depending on currency and goods leased (e.g., equipment 20%; cars 15-17%)
- Cars @76%; Trucks @12%; Equipment (construction/agric) @8%
- Lessees=Individuals @ 39%; Companies @ 61%
- Fastest growing sector: Equipment (medical; computer; food/bev; industrial packaging; agricultural; construction)

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Financial Leasing Component: Major Accomplishments to Date

- Adapted CLS courses for Moldova; delivered 1 full program; 18 graduates to receive CLS Certificates
 - “We found many answers to questions that we had in our day-by-day practice and discussions with the clients” regarding the information received at the CLS course--*Executive of a top Leasing Company attending the course*
- Signed protocol to assist leasing company with corporate bond issuance

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Rates as of August 2007

- ***Inflation Rate:** 2006 @ 14.6%; last 12 months @ 13.5%
- **Mortgage Interest Rates:** 11-14% foreign currency; 15-16% MDL; average 7 year term (end 2006); 8.5 year term (June 2007)
- **Leasing Rates:** 15%-20%, depending on currency and goods leased (e.g., equipment 20%; cars 15-17%) (end 2006)
- **Government Bonds:** up to 2 years, yields 11.9% to 13.26%
- ***Bank Loans:** 2Q 2007 @ 19.06% in MDL; @ 10.80% in foreign currency
- ***Bank Deposits:** 2Q 2007 @ 14.99% in MDL; @ 6.16% in foreign currency

*Source: NBM

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

ATCI Moldova Work Plan

Activity Description	Year 1, Oct 2006-Sep 2007	Year 2, Oct 2007-Sep 2008
Contract Management		
A: Work Plans	<ul style="list-style-type: none"> Approved Work Plan 	<ul style="list-style-type: none"> Draft Work Plan and get approved
B: Mobilization	<ul style="list-style-type: none"> Mobilization completed Jan 2007 	<ul style="list-style-type: none"> Demobilization last month
C: Project Administration	<ul style="list-style-type: none"> Quarterly reports, staff meetings 	<ul style="list-style-type: none"> Quarterly reports, staff meetings
MORTGAGE LENDING COMPONENT		
A: Implement Certified Mortgage Lender Program	<ul style="list-style-type: none"> Completed first full CML training program; 12 days; 25 certificate holders Assessed mortgage market and activities for impact comparisons based on Project's activities 	<ul style="list-style-type: none"> Plan to complete 2 more full CML training programs; add another 40-50 certificate holders Need to choose Training Provider
B. Assist Banks in Undertaking Mortgage Lending	<ul style="list-style-type: none"> Provided TA to financial institutions as requested or needed, e.g., promoting standardized rules, procedures, and documentation 	<ul style="list-style-type: none"> Continue to provide TA to financial institutions as requested or needed, including specialized mortgage training related to legal framework
C. Develop Mortgage-Related Life Insurance Products "as possible in Moldova"	<ul style="list-style-type: none"> Analyzed insurance market products (2 companies) and assessed existing actuarial data Timing not suitable as new Insurance Law adopted 04.2007 	<ul style="list-style-type: none"> Provide TA to insurance companies, as possible or needed Develop term sheet, rate structure, policies; conduct roundtables (as possible) <p>NOTE: Need STTA</p>

ATCI




USAID
FROM THE AMERICAN PEOPLE


ACCESS TO CREDIT INITIATIVE
MORTGAGES. FIXED INCOME. LEASING.

Activity Description	Year 1, Oct 2006-Sep 2007	Year 2, Oct 2007-Sep 2008
D. Develop the Capacity of the Real Estate Appraisal and Brokers' Associations "as possible in Moldova"	<ul style="list-style-type: none"> Performed basic assessment of Appraisal Association (no RE Brokers Association) 	<ul style="list-style-type: none"> Development of RE Association (as possible) Design training and capacity-building programs for associations (as possible) <p>NOTE: Need STTA</p>
E. Develop a Mortgage-Backed Securities Capability (see Fixed Income Component below) "as possible in Moldova"	<ul style="list-style-type: none"> Established legal working group; discussed draft mortgage law; drafted provisions for bond issuance and mortgage law Selected candidate for mortgage bond issuance (only 1 exists currently) Conducted initial portfolio analysis of issuer 	<ul style="list-style-type: none"> Assess portfolio as to length of maturities; prepayment history Develop standardized indenture, investment memo; assist in bond registration; assist in identifying potential investors; assist in road show; price and place issue (as possible) <p>NOTE: Need STTA</p>
F. Facilitate Establishment of a Commercial Credit Information Company/Credit Bureau (Included in Mortgage Lending Component) "as appropriate in Moldova"	<p>NOTE: no work done until acceptable Credit Bureau Law passed in Moldova</p> <ul style="list-style-type: none"> Reviewed current status of Credit Bureau (Law recently passed from Government to Parliament) Coordinate activities with World Bank for CB development 	<p>NOTE: no work done until acceptable Credit Bureau Law passed in Moldova</p> <ul style="list-style-type: none"> Continue coordination with World Bank Coordinate Groups (i.e., providers, users, government) and consolidate interests Determine CB development strategy for structuring, establishing and operating CB Analyze and coordinate passage of law Review regulatory framework <p>(all as appropriate) NOTE: Need STTA for Credit Bureau</p>

ATCI

 USAID ACCESS TO CREDIT INITIATIVE <small>FROM THE AMERICAN PEOPLE</small> <small>MORTGAGES. FIXED INCOME. LEASING.</small>		
Activity Description	Year 1, Oct 2006-Sep 2007	Year 2, Oct 2007-Sep 2008
G. Build Capacity of Participating Banks to Maximize Benefits of CIC in Moldova as appropriate.	NOTE: no work done until acceptable Credit Bureau Law passed in Moldova <ul style="list-style-type: none"> N/A year one 	NOTE: no work done until acceptable Credit Bureau Law passed in Moldova <ul style="list-style-type: none"> Work with market participants; promote and develop CB Develop consent clause; reciprocity and access rights; data sharing arrangements Work with regulators (i.e., NCFM); market education and public awareness; training programs to various sectors (all as appropriate)
H. Develop and Prepare Business Plan for CIC as appropriate	NOTE: no work done until acceptable Credit Bureau Law passed in Moldova <ul style="list-style-type: none"> N/A year one 	NOTE: no work done until acceptable Credit Bureau Law passed in Moldova <ul style="list-style-type: none"> Define business and operations plan; technical requirements; government data providers Prepare and deliver RFP; secure buy in to business plan for foreign investors/banks (all as appropriate)
FIXED INCOME COMPONENT		
A. Assess and Implement Regulatory Reform in Moldova	<ul style="list-style-type: none"> Reviewed and assessed legislation re: gaps and needs for bond issuance Assisted NCFM in development of regulatory needs and as Mega Regulator Analyzed legislation and rules for compliance with int'l standards; made recommendations for improved provisions and activities 	<ul style="list-style-type: none"> Continue providing TA to NCFM and analyzing laws for improved provisions as needed Possible TA to NCFM in response to their TA requests

ATCI

 USAID ACCESS TO CREDIT INITIATIVE <small>FROM THE AMERICAN PEOPLE</small> <small>MORTGAGES. FIXED INCOME. LEASING.</small>		
Activity Description	Year 1, Oct 2006-Sep 2007	Year 2, Oct 2007-Sep 2008
B. Develop Pilot Corporate Bonds in Moldova	<ul style="list-style-type: none"> Analyzed companies' financials for possible candidates (ongoing) Met with executives of potential candidates to determine capability and willingness to issue; advised where companies must improve Presented 3 educational bond workshops to 60 potential issuers and investors, and regulators Signed protocol with 2 companies to assist in their contemplated bond issuance 	<ul style="list-style-type: none"> Continue to analyze companies' financials and meet with executives (on going) Hold International Bond Conference Continue educational bond seminars; hold round tables with participants Assist companies in their bond issuance
C. Assist GOM and NBM in Constructing Long-Term Gov't Yield Curve in Moldova		
1. Assess Status of GOM debt market including impediments to development		
FINANCIAL LEASING COMPONENT		
A. Build Capacity of Market Participants	<ul style="list-style-type: none"> Established the CLS training course; adapted course for Moldova Chose Training Provider Assessed leasing market and activities for impact comparisons based on Project's activities Completed 1 full CLS Training Program; 8 days; 18 to be certified 	<ul style="list-style-type: none"> Present 2 more CLS Programs to certify 30-40 more professionals Training Provider to present CLS course Form NGO (CLS grads) for CLS exam responsibility and Lease Association (companies) Deliver seminars for other industry participants, e.g., vendors, potential lessees, banks, government officials

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE

MORTGAGES. FIXED INCOME. LEASING.

Activity Description	Year 1, Oct 2006-Sep 2007	Year 2, Oct 2007-Sep 2008
B. Implement Outreach/Information Network	<ul style="list-style-type: none"> Initiated outreach/information network Complete FAQ brochure Prepared and distributed other educational materials 	<ul style="list-style-type: none"> Hold/participate in roundtables; conferences for industry, government, and media Distribute FAQ brochure and other info re: best practices
C. Facilitate Import Capital and Know-How to Leasing Industries of Moldova	<ul style="list-style-type: none"> Prepared (legal and tax basis) brochure for foreign lessors, investor, and suppliers (or any other company) entering Moldova market 	<ul style="list-style-type: none"> Identify international lessors for entry into Moldova market Contact foreign companies highlighting business opportunities
D. Provide Consulting Services to Market Participants	<ul style="list-style-type: none"> Provided consulting to companies as needed and requested Developing Floating Charge agreement for use between Lessors and Banks; other companies as well Contacted foreign companies for entry into Moldova 	<ul style="list-style-type: none"> Continue to provide ad hoc advisory service as needed or requested Assist new entry of lessors Assist in securing financial sources, e.g., hold round table or seminars on Floating Charge
DEVELOPMENT CREDIT AUTHORITY (DCA) MONITORING COMPONENT		
A. Monitor Activities of Financial Institutions Working with the DCA	<ul style="list-style-type: none"> Monitored and assisted 7 financial institutions as needed or as requested by USAID or the partner financial institutions (on going) 	<ul style="list-style-type: none"> Monitor and assist 7 financial institutions as needed or as requested by USAID or the partner financial institutions (on going)

ATCI



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE

MORTGAGES. FIXED INCOME. LEASING.

Access to Credit Initiative

Str. N. Iorga 8/4

Chisinau, MD-2009

Republic of Moldova

Tel: (373 22) 232 008; 232 971

Fax: (373 22) 238 039

ATCI

ATTACHMENT 15

MEMORANDUM

DATE: 5 November 2007

FROM: Stephen S. Moody

TO: Rick Dvorin, Country Director, ATCI/Moldova
David Lucterhand, COP, ATCI/Ukraine

Re: Consultant's Report: Chisinau 22-26 October 2007

The report below summarizes the consultant's work in Chisinau during 22-26 October 2007.

During the trip the consultant had meetings with Moldova Agroindbank, the National Bank, Eximbank, the National Commission of Financial Market (NCFM), and Artima, a local manufacturer of leather products. The consultant was unable to meet with the Ministry of Justice, but there were extensive discussions with the local staff on those aspects of the law—primarily pledge registration—that appear to present problems.

The report pays particular attention to the covered bond project with Agroindbank since at present that is the consultant's primary activity in Moldova and, understandably, the area in which most questions addressed to either to the Country Director or COP are likely to arise.

List of Attachments to the Report

1. Attachment 1: Original Agroindbank Credit Portfolio
2. Attachment 2. Scrubbed Portfolio
3. Attachment 3. Scrubbed Portfolio with Average Monthly Prepayment calculations

1. Agroindbank Covered Bond Project

The consultant met three times with personnel from Agroindbank—twice on IT issues and once on the legal structure of the proposed bond. We will treat the two subjects separately.

IT Management of the Mortgage Pool

Agroindbank uses Globus Bank Software which is very popular with banks worldwide. The software is a very flexible data base manager that allows users to design their own reports, the data for which may be exported and presented in Excel format.

Prior to the consultant's arrival, bank IT personnel compiled the required data of an unscrubbed pool of some 3,232 credits totaling about USD 50.0 million. At the first meeting, the consultant instructed the IT personal on how to clean up the pool so that it consisted solely of standard performing mortgages with a maximum LTV of 75% and then how to calculate Single Month Mortality (prepayment rate) of the resulting pool using an Excel template the consultant had prepared. IT spent three days on the task, producing a mortgage pool of 1,762 credits with a outstanding balance of ML 336.2 million (USD 33.0 million). The pool also had the following characteristics:

Weighted Average Term: 142.15 months
Weighted Average Rate: 14.47%
Weighted Average LTV: 51.15%

Due to a programming error in the consultant's spreadsheet, however, IT's calculation of Single Month Mortality was not correct. Reviewing the data and attempting to correct the error, the consultant discovered a shortcut calculation of monthly prepayment that is probably just as good as Single Month Mortality and much easier to calculate. It is Average Monthly Prepayment, and it is calculated by subtracting **factual outstanding balance** from **calculated outstanding balance** and dividing the result by **the age (in months)** of the mortgage.

monthly amortization	calculated outstanding balance	total prepayments	as percent of outstanding balance	
2941.18	291176.47	-25.18	-0.0001	0.0000
1058.82	104823.53	-8.82	-0.0001	0.0000
252.10	25210.08	-0.10	0.0000	0.0000
6302.52	630252.10	26412.74	0.2057	26412.7421
462.18	48529.41	-251.76	-0.0048	0.0000
12500.00	50000.00	-10125.00	-0.0401	0.0000
810.94	133804.86	-449.22	-0.0032	0.0000

The calculation segment of the spreadsheet uses fields in the data base segment to determine Average Monthly Prepayment.

Calculated outstanding balance is simply the monthly principal payment (monthly amortization) times the age of the mortgage in months. Starting balance, term, months to maturity and factual outstanding balance are all fields in the data base segment of the spreadsheet imported from Globus. There are three possible results for 'total prepayments': equal, positive or negative.

Equal indicates no prepayment and on-time payment.

Positive prepayment means that the borrower has actually prepaid some portion of principal at some time in the past. The absolute number in the 'total prepayments' field is actually average monthly prepayment (or shortfall) over the past life of the loan. Since a borrower has to make an application to prepay a loan at Agroindbank, the actual number of prepayments is relative small, though individual amounts can be large.

Negative prepayment denotes a shortfall in the payment amount. If the shortfall is large, the loan number is flagged and the staff recheck the loan dossier for possible delinquency. A trivial shortfall is ignored. (Mortgage loan payments are automatic debits of borrower accounts; when the debit is made, there may not be sufficient funds in the account to cover the full amount of interest and principal. Interest is always deducted first.)

The last (untitled) column in the spreadsheet above converts all negative numbers to zero and counts only positive prepayments. At the end of June, cumulative prepayment in the mortgage pool totaled ML 945,545, or 0.28 percent of factual outstanding balance. Annualized that comes to 3.43 percent of factual outstanding balance—a remarkably low number for a bank in a developing country.

Average Monthly Prepayment is much easier to calculate than Single Month Mortality, which requires tracking and manipulating additional data. In fact, Average Monthly Prepayment is a smoothed version of Single Month Mortality and, for that reason, it may be less volatile and perhaps more comprehensible to the user. In any event, it captures the prepayment characteristics of the portfolio, and individual monthly rates can be annualized to CPR just as can Single Month Mortality.

The primary reason for calculating Single Month Mortality or Average Month Prepayment is to be able to generate a more accurate calculation of the portfolio's duration. Duration uses the weighted average value of periodic cash flows to measure the true financial term of an instrument or a pool of instruments like mortgages. The most accurate calculation of duration takes all periodic cash flows—*positive and negative*—into account. Interestingly, the 'total prepayments' column in the spreadsheet above captures both positive and negative cash flows; negative payments reduce positive payments. The rate of prepayment in this column, 1.29 percent annualized, is only one-third of Average Monthly Prepayment. Using this figure, which can be called Adjusted Average Monthly Prepayment, to calculate duration will yield a much more representative number for the portfolio as a whole. The bank can calculate and use both.

End of Month	calculated outstanding balance	total positive/negative payments	Adjusted Average Monthly Prepayment Rate	Prepayments	Average Monthly Prepayment Rate
June	339 381 157	358 779	0.01288	945 546	0.03427
August	331 891 447	372 491	0.01371	913 713	0.03395
Sept	335 342 586	381 306	0.01389	893506	0.03283

The consultant has sent the summary spreadsheet (above) to Agroindbank with an explanation of the formulae.

Legal Matters

The consultant met with Agroindbank's attorney to review the primary legal structures of the proposed issue. In the consultant's opinion, the attorney has a good understanding of the laws and legal mechanisms the bond relies on. And she agrees that they are no major obstacles to issuance in the law.

There are problems, however. The first is with pledge registration as set forth in Article 39 of the Law on Pledge. Article 39 Paragraph 2a requires that the pledge agreement include the names, addresses and other coordinates of both the pledge-giver and the pledge-holder. The structure of the bond is such that, on the basis of power of attorney, the bondholder representative signs the pledge agreement on behalf of all bondholders. Local staff were due to meet with Ministry of Justice to explain the functions of the bondholder representative and resolve the problem presented by Article 39.

The second problem has arisen because the Central Depository, managed by the Exchange, does not maintain of registry of corporate bondholders. This problem can be solved by having the bondholder representative act in the capacity of registrar or, alternatively, employing a private third party registrar. Further discussions with the bank are required to determine the best solution.

Agroindbank: Conclusion

Both IT and management understand the methodology and meaning of Average Monthly Prepayment and the importance of maintain the mortgage pool. IT has demonstrated that it can manipulate the data both in Globus and in Excel format. In the consultant's opinion, the bank is prepared to move toward issuance of a small—USD 10.0 million—pilot covered bond. The bank requested that Pragma address a letter to the Chairman stating that the bank is technically capable of issuing a bond, and management should secure shareholder approval to do so in the near future. Rick Dvorin can sign the letter I asked Marianna to prepare.

One matter I have not raised with the bank is rating. Ideally, the bank should get a rating from at least one rating agency. The bank rating itself is not particularly helpful when it comes to an issue rating, because the agencies consider covered bonds 'structured instruments' and consequently charge serious extra fees for issue ratings. However, at this stage, an issue rating is probably not required; an issuer rating, on the other hand, would be very nice. Rick should talk to the Chairman and inquire if, prior to issuance, the bank plans to get rated. David might ask the CTO if financial assistance with the rating fee is within the project's parameters.

2. Eximbank

The consultant met with Radu Cazacu of Eximbank, the wholly-owned Moldovan subsidiary of Veneto Banca, Italy. Eximbank's management wants to grow the bank faster than its deposit base will allow. They are, therefore, interested in issuing bonds to fund the bank's expansion and inquired about issuing 'abroad.'

The all-in cost (financial advisor, legal counsel, placement) of issuance in any European market is now about USD one million, so issuance in any amount less than USD 100.0 million is ill-advised. An alternative to issuance in Europe might be issuance in a regional financial center like Dubai, Singapore, or Hong Kong, where costs might be somewhat less. It is likely the least costly of all might be Almaty, which has just begun operations. The consultant advised Mr. Cazacu to first secure shareholder approval of a bond issue in a specific amount and then we'd put him in contact with Almaty Regional Financial Center.

On the issue of rating, we advised Mr. Cazacu to work through his mother bank, Veneto Banca.

3. The National Bank of Moldova

The consultant made a courtesy call on the National Bank to advise them that Pragma was working with a bank to develop and issue covered bonds. We did not voluntarily reveal the name of the bank, and the National Bank didn't ask.

Specifically, the consultant and some members of local staff met with Radu Musteata, Director of Banking Regulation and Supervision, and Nina Savin, Director of Market Operations and other staff. The meeting lasted an hour and a half, and the discussions were quite detailed.

The National Bank offered its full support of the project.

4. The National Commission of Financial Market

With the same objective, the consultant met with Alexandra Puscas, a member of the national securities commission, and a member of her staff who did not have a card and will therefore remain nameless.

Ms Puscas is new to the Commission and, being a political appointee, has little or no experience in the financial sector. Her unnamed colleague, on the other hand, has developed her own version of mortgage bonds which involves issuers pledging physical real estate to bondholders as collateral for their investment in bonds. Her scheme faces the same problem with registration of pledge as does the Agroindbank covered bond. To solve the problem, the Commission has drafted an addition to Pledge Law which exempts from registration a pledge of real estate in support of a bond. It made me feel bad for Moldovan Pledge Law, which in most other respects is a model of clarity, fairness and practicality and would remain so were it not for meddling tinkering by nameless, ill-informed individuals.

In any event, Ms Puscas was pleasant enough and I suspect the Commission will support the project if push comes to shove.

5. Artima

The consultant also met with Alexandra Can, General Manager of Artima, a leather goods manufacturer, most of whose product is exported. Ms Can had formerly expressed an interest in issuing bonds to finance the company's expansion. During the hour or so in her office, however, Ms Can managed to stay off topic and has yet to deliver the company's financials for the consultant's review.

ATTACHMENT 16



USAID
FROM THE AMERICAN PEOPLE

**ACCESS TO CREDIT
INITIATIVE/MOLDOVA**
Mortgages, Fixed Income, Leasing

**„FLOATING CHARGE” CONCEPT APPLICABILITY
IN THE CONTEXT OF THE LEGISLATION OF THE
REPUBLIC OF MOLDOVA**

FREQUENTLY ASKED QUESTIONS



**Chisinau, Moldova
2007**

FREQUENTLY ASKED QUESTIONS:

Introductory information regarding opportunities and modalities of floating guarantee of liabilities' execution.

1. WHAT IS THE SIGNIFICANCE OF THE “FLOATING CHARGE” TERM?	3
2. WHAT ARE THE MAIN CHARACTERISTICS OF “FLOATING CHARGE”?	3
3. WHAT IS THE AREA OF FLOATING CHARGE UTILIZATION?	3
4. WHAT IS THE PRACTICAL APPLICABILITY OF “FLOATING CHARGE”?	3
5. WHAT ARE THE “FLOATING CHARGE” ADVANTAGES?	4
6. WHAT CHARACTERISTICS CAN BE CONSIDERED AS THE “FLOATING CHARGE” DISADVANTAGES?	4
7. CAN THE “FLOATING CHARGE” CONCEPT BE INCORPORATED WITHIN THE LIMITS OF PROVISIONS OF THE LEGISLATION OF THE REPUBLIC OF MOLDOVA?	4
8. ARE THERE ANY LEGAL RESTRICTIONS (IMPEDIMENTS) IN THE PROCESS OF “FLOATING CHARGE” CONCEPT APPLICATION?	5
9. WHAT ARE THE LIMITS OF GOODS' FLUCTUATION (REPLACEMENT) WITH RESPECT TO FLOATING CHARGE IN THE CONTEXT OF EXISTING LEGISLATION?	5
10. IS THE ACTIVITY OF THE DEBTOR RESTRICTED IN VIEW OF NUMBER OR VOLUME OF OPERATIONS WITH GOODS SUBJECT TO FLOATING CHARGE?	6
11. ARE THERE ANY OTHER MODALITIES OF “FLOATING CHARGE” CONCEPT IMPLEMENTATION, OTHER THAN THROUGH THE PLEDGE?	6
12. IS IT NECESSARY TO MAKE SOME AMENDMENTS IN THE LEGISLATION TO FACILITATE THE IMPLEMENTATION OF THE „FLOATING CHARGE” CONCEPT? WHAT ARE THE PERSPECTIVES OF THIS CONCEPT?	6

1. What is the significance of the “floating charge” term?

“**Floating charge**” would mean “a manner of floating guarantee with respect to execution of some obligations”. Floating aspect is referring to the unstable character of guarantee regarding execution of obligations (elements constituting the base of obligations execution are subject to changing, replacement or even alienation).

2. What are the main characteristics of “floating charge”?

In a certain sense “floating charge” could be used as a variety of pledge extending over all or a part of company’s assets. In day by day activity (as a result of activity), the respective assets are permanently changing (such as current assets – goods and stocks).

In case of certain events (for example “insolvency”) this floating charge “is transformed into “fixed charge”. The mentioned operation is called “crystallization of floating charge”.

Before “crystallization” the company can use the pledged assets as it deems appropriate, including directing them for payment of debts for which there was no special guarantee. After “crystallization” the pledged assets can be used only for redemption of debts that were formally guaranteed.

3. What is the area of floating charge utilization?

Floating charge concept is used in the practice of other countries (such as, the US, UK, Canada, etc.) under different names („lien”, “floating charge”, „floating hypothecs”).

4. What is the practical applicability of “floating charge”?

Floating charge is welcome in the case of:

- credit lines;
- pledging stocks or goods (different current assets);
- pledging the company as a patrimony complex;
- pledging the rights on claims;

- existence of other long term contractual relations between the creditor and debtor.

Floating charge supposes, from the point of view of eventual risks, a good business reputation of the debtor or existence of some long term business relations between creditors and debtors.

5. What are the “floating charge” advantages?

The main advantage of the floating charge is its flexibility, first of all for the debtor (though the creditor has more flexibility in terms of alienating the right to claim).

Though the assets of the debtor are encumbered based on the floating character of the pledge, the debtor is free to use its assets in an ordinary way of its business development.

It is not necessary each time to reach an agreement regarding using the stock for economic activity (the procedures of pledge registration and administration are simplified).

The respective concept creates premises for stimulating economic transactions and even the financial market.

6. What characteristics can be considered as the “floating charge” disadvantages?

There is a necessity of special additional mechanisms for monitoring and control of debtor’s activity in the case of floating charge. The debtor should have a good reputation in business.

There is a necessity of special additional clauses in the basic contracts (special evidence, certain restrictions regarding signing different categories of contracts, submission of some reports to the creditor, etc.).

7. Can the “floating charge” concept be incorporated within the limits of provisions of the legislation of the republic of Moldova?

The pledge is regulated in conformity with the Civil Code of the Republic of Moldova dated June 6, 2002 and the Law on pledge dated July 30, 2001. Civil Code provides other means of guaranteeing the execution of obligations, such as penal clause, advance payment, debtor’s guarantee, retention.

The existing law doesn't expressly provide the "floating charge" notion, though its elements exist. For instance, if there is a pledge on a universality of goods, the individualization of its constitutive parts is not necessary. All goods are considered pledged to the extent mentioned in the contract, which according to the particularities of types indicated in the contract, can be attributed to this universality. In case of goods that are in circulation and processing, the ledger is entitled to modify the composition and natural form of the object of pledge, (stocks, raw material, materials, half finished and final products, etc) upon condition that their total value is not reduced as to the value mentioned in the contract on pledge.

Pledge on a company as a patrimonial complex is extending over all goods necessary for its operation or over a part of its goods, allowing the buyer to ensure the continuity of operation. For the period of pledge validity on the company, the pledge contract can provide restrictions regarding exercising by the pledgee of the right to dispose the goods being in the composition of the object of pledge.

8. Are there any legal restrictions (impediments) in the process of "floating charge" concept application?

The legislation in force provides a series of restrictions.

The procedure of registration and introducing of amendments into the pledge ledger with respect to implementing without difficulties of the floating charge concept is rather rigid. Pledge being a real right supposes the description of the pledge object (even a generic one), which creates certain difficulties in the case of a portfolio of assets. Also all the conditions provided by law referring to the content of note on pledge registration should be respected. The most important issue, from the point of view of floating charge content, is the value of pledged assets, which are identified in case of insolvency, i.e. the "floating charge" becomes a "fixed charge" which is in conformity with valid legislation.

9. What are the limits of goods' fluctuation (replacement) with respect to floating charge in the context of existing legislation?

The pledgor is entitled to modify the composition and natural form of the object of pledge (stocks, raw material, materials, half finished, final products, etc.) upon condition that their total value is not reduced as to the value mentioned in the pledge contract. This provision of the valid legislation creates some

inconveniences due to the fact that from the point of view of floating charge concept it is important that the value of company's assets is not less than level of pledged "portfolio".

10. Is the activity of the debtor restricted in view of number or volume of operations with goods subject to floating charge?

Pledgor is obligated to enter into the pledge ledger the conditions of pledging goods and the data on all operations leading to modification of composition and natural form of pledged goods. This provision creates inconveniences during the process of activity.

From the point of view of floating charge concept it is important that during the day by day economic activity the object of pledge value doesn't become less. Creditor can monitor, request reports regarding the situation with the assets of the company and, if necessary, can intervene with a respective preliminary note and can institute the "fixed charge".

11. Are there any other modalities of "floating charge" concept implementation, other than through the pledge?

Basically the "floating charge" concept can be implemented also through some ordinary civil contracts.

Taking into account the fact that under the legislation, the pledge grants preference as to other creditors, including the state, the floating charge concept is to be preferably implemented in the conditions of pledge contract and not other ordinary contracts (guarantee, retention, etc.)

12. Is it necessary to make some amendments in the legislation to facilitate the implementation of the „floating charge" concept? What are the perspectives of this concept?

Some amendments to the legislation would be welcome.

At present, the valid legislation doesn't include such categories as "floating charge", "crystallization" and "fixed charge", additional judicial mechanisms being necessary to cover such gaps. There is a necessity to institute in the

legislation a more simple procedure and at the same time to add details to the procedure of “crystallization” and transformation into “fixed charge”.

Floating charge concept is welcome in the aspect of crediting some permanent economic or systemic activities (such as leasing and other crediting activities). Meanwhile, the creditor has the possibility to assign the “portfolio of claims” secured as one total.



This brochure is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of the leaflet are the sole responsibility of the Pragma Corporation that implements ATCI project in Moldova and do not necessarily reflect the view of USAID or the United States Government.

Str. N. Iorga 8/4, Chişinău, MD-2009

Republic of Moldova

www.atci.com.md

Tel: (373 22) 232 008; (373 22) 232 971

Fax: (373 22) 238 039

ATTACHMENT 17



USAID
FROM THE AMERICAN PEOPLE

**ACCESS TO CREDIT
INITIATIVE/MOLDOVA**
Mortgages, Fixed Income, Leasing

**LEGAL ASPECTS OF THE INVESTMENT CLIMATE
IN THE REPUBLIC OF MOLDOVA**



**Chisinau, Moldova
2007**

LEGAL ASPECTS OF THE INVESTMENT CLIMATE IN THE REPUBLIC OF MOLDOVA

CUPRINS

I.	INTRODUCTORY ASPECTS REGARDING INVESTMENTS AND BUSINESS REGISTRATION.	3
II.	CHARACTERISTICS OF ENTERPRISES WITH FOREIGN INVESTMENTS	3
III.	REGISTRATION OF BUSINESS	4
	1. REGISTRATION BODY	4
	2. DOCUMENTS NECESSARY FOR REGISTRATION	4
	3. REGISTRATION PROCEDURE AND TERMS	5
	4. TARIFFS FOR PAID SERVICES RENDERED BY THE STATE REGISTRATION HOUSE OF THE MINISTRY FOR INFORMATION DEVELOPMENT	6
	5. MODALITY OF EXECUTION AND SUBMISSION OF DOCUMENTS FOR STATE REGISTRATION	6
IV.	LICENSURE.....	7
V.	FISCAL FACILITIES	7
VI.	OTHER FACILITIES	15

I. INTRODUCTORY ASPECTS REGARDING INVESTMENTS AND BUSINESS REGISTRATION.

Main principles regarding investments and right of property guarantees are regulated by the Constitution of the Republic of Moldova. Legal, social and economic principles of organization and development of investment activities in the Republic of Moldova, rights and obligations of investors, attributions and competence of public authorities in investment area, guarantees granted by the state to foreign and domestic investors, modalities of investment disputes settlement, as well as regulations regarding the activity of enterprises with foreign investments are established in the Law on investments in entrepreneurship activity # 81-XV from 03.18.2004, other laws and normative acts, as well as international treaties, to which the Republic of Moldova is a party.

If the provisions of international treaties to which Moldova is a party, differ from those of the Law on investments in entrepreneurship activity, the provisions of international treaties shall be applied.

The investors can make investments on the whole territory of the Republic of Moldova in all areas of entrepreneurship activity, within the limits of valid legislation, if they comply with national security interests, provisions of the law on competition protection, norms of environment protection, population health care and public order.

The Republic of Moldova provides, in conformity with valid legislation and with international treaties on mutual promotion and protection of investments, to which the Republic of Moldova is a party, a security regime and full and permanent protection for all investments, regardless of their form.

State enterprises and organizations registration is regulated by the Civil Code, other legislative acts regarding enterprises and organizations (such as the Law on stock company), as well as the Law on state registration of enterprises and organizations.

II. CHARACTERISTICS OF ENTERPRISES WITH FOREIGN INVESTMENTS

Enterprises with foreign investments can be set up in the Republic of Moldova in the form of *joint enterprises and enterprises with foreign capital*.

A joint enterprise is an enterprise which social capital is partially composed of foreign investments.

An enterprise with foreign capital is an enterprise which social capital is exclusively composed of foreign investments.

Non resident enterprises, their associations and international organizations are entitled to institute in the Republic of Moldova branches and trade and economic representations.

Non resident enterprises' representations are registered on the territory of the Republic of Moldova without the right of a legal person and without the right to unfold economic activity.

Enterprises with foreign investments are entitled to institute, if this right is provided by their constitution documents, trade and economic branches and representations, both in the country and abroad.

Branches and representations instituted in the Republic of Moldova by resident enterprises with foreign investments are not legal persons.

III. REGISTRATION OF BUSINESS

At present the registration of enterprises and organizations is performed in conformity with the Law on state registration of enterprises and organizations #1265-XIV from 10.05.2000. Beginning on May 30, 2008 a new law on state registration of legal persons and individual entrepreneurs will enter into force, Law # 220-XVI from 10.19.2007.

1. Registration Body

Legal persons, branches and their representations, as well as individual entrepreneurs shall be registered by the territorial office of the state registration body, within which area of servicing the respective office is placed.

2. Documents Necessary for Registration

The following documents are submitted for state registration of enterprises and organizations:

- 1) application for registration under the sample approved by the House;
- 2) decision regarding foundation and constitution of enterprise or organization, depending on the form of legal organization, in two copies;
- 3) identity cards of founders or authorized persons pursuant to the law, as well as of the general manager of the enterprise or organization;
- 4) document confirming depositing by founders (associates) of their share-part in the statutory capital of the enterprise in the amount and terms provided for the respective form;
- 5) prove of stamp fee payment (*registration of an enterprise with statutory capital is made after collection of stamp fee in the proportion of 0,5% of the statutory capital, which is transferred to the state budget*) and prove of registration fee payment;
- 6) document, issued by territorial tax office, confirming that the founders of the enterprise or organization have no debts to the National Public Budget.

For registration of enterprises with foreign investments the following documents shall be attached to the application for registration:

- 7) extract from the National Commercial Register of investor's country of origin;
 - 8) certificate of foreign enterprise registration;
 - 9) foreign enterprise constitution documents;
 - 10) foreign enterprise solvency certificate, issued by the servicing bank.
- Documents listed in points 7)-9) are submitted in notary authenticated copies, legalized by consular offices of the Republic of Moldova from abroad and translated in the state language.
- 11) data regarding the office of the enterprise or organization.

The state registration body is not entitled to request other documents regarding confirmation of these data. Responsibility for data authenticity regarding the office is borne by the owner of the enterprise or organization pursuant to the provisions of the legislation.

Concurrently with the new law on state registration of legal persons and individual entrepreneurs # 220-XVI from 10.19.2007 entering into force **on May 30, 2008**, the following documents will be required for the state registration of legal persons:

- 1) application for registration, under the model approved by the state registration body;
- 2) decision on constitution and the constitution acts of the legal person, depending on the legal form of organization, in two copies;
- 3) document confirming depositing by founders of contribution to the statutory capital of the legal person in the amount and term provided by law;
- 4) document confirming the payment of registration fee;

For registration of legal persons created by reorganization of state enterprises, enterprises which statutory capital contains a share part of state property, unions of enterprises, associations, holdings, trans-national corporations, financial and industrial groups, financial institutions, non state pension funds, insurance companies, education institutions, museums, theaters, circuses, concert organizations, innovation and science organizations, medical and sanitary institutions and resorts, the state registration body shall request the authorization (note) from the respective authority, provided by law.

The authorization (note) shall be issued by public authorities, as a rule, in electronic form, upon the request of the state registration body, in a 7 working days term from the time of submission of documents provided by paragraph (1), letter (b) and (c). If the public authority shall not respond to the state registration body, within the provided term, it shall be tacitly agreed that the authorization (note) was granted.

For state registration of legal persons with foreign investments, besides the documents provided by paragraph (1) and (2), the following documents shall be submitted:

- a) extract from the national register of the country of origin of the investor;
- b) constitution acts of foreign legal person;
- c) police clearance on the physical person of foreign legal person' manager, issued by the competent body of his/her country of origin and from the Republic of Moldova.

3. Registration Procedure and Terms

State Registration Body verifies the legality of acts received for registration and during the term of less than **15 days** (*urgent registration of enterprises and organizations is made during (1 one day)*), issue the decision on registration or decision on refusal to register the enterprise or organization.

The registered enterprise and organization is attributed a state identification number, which serves for identification and is indicated in the constitution documents, registration certificate and on the stamp.

The enterprise or organization is considered registered as of the date of adopting the decision on registration.

Beginning on May 2008, the state registration of legal persons, branches and their representations, as well as of individual entrepreneurs shall be made during 5 working days from the date of submission of all documents necessary for the registration. The registrar shall verify the legality of documents and shall adopt the decision to admit or reject the registration.

Pursuant to the Law entering into force on May 30, 2008, upon registration, the legal person shall be attributed a state identification number (IDNO), indicated on the title page of constitution acts. The legal person shall be considered registered as of the date of registration decision adoption.

4. Tariffs for Paid Services Rendered by the State Registration House of the Ministry for Information Development

State registration of enterprises and organizations, providing other services in the area of state registration of enterprises and organizations is performed against a fee, which quantum is established by Government Decision.

According to the Law on state registration of legal persons and individual entrepreneurs entering into force on May 30, 2008, the registration of legal persons, their branches and representations and of individual entrepreneurs, as well as the amendments to the constitution acts and the data entered into the State Register, shall be made charging the sum of 250 lei from legal persons and 54 lei from individual entrepreneurs.

Other state registration services shall be made against fees which quantum and procedure of payment shall be determined by the Government.

Re-registration of legal persons and individual entrepreneurs, conditioned by modification of the law shall be made free of charge.

5. Modality of Execution and Submission of Documents for State Registration

The Law on state registration of legal persons and individual entrepreneurs entering into force on May 30, 2008 provides for the modality of execution and submission of documents for state registration.

Thus, the documents for state registration shall be executed in the state language and shall be submitted to the state registration body by the founder or his/her representative, authorized by power of attorney authenticated under the procedure established by law.

The electronic documents can be transmitted to the state registration body electronically, complying with the provisions of Law #264-XV from July 15, 2004 regarding electronic documents and digital signature and other relevant normative acts of the Government.

If, in cases established by the state registration body or upon applicant' request, the information necessary for the registration can be obtained only via the official electronic information systems, the respective document shall not be requested from the founder.

It is considered that the date of documents submission for state registration shall be the date of their receipt for registration by the state registration body.

Upon receipt of application and documents for state registration, the applicant is issued a note confirming the receipt of application indicating the number of the application and the date of its receipt, name of the office, list of submitted documents, and the date established for acts' issue. If the documents are submitted electronically, the applicant is sent back electronically the same confirmation note.

The state registration body is not entitled to refuse to receive the application for registration or to request other documents than those provided by law.

IV. LICENSURE

The types of activity subject to licensing are provided by the Law regarding licensing of some types of activity # 451 from 07.30.2001; the law establishes over 50 types of activity subject to licensing, among which the following are listed:

- audit activities;
- real estate evaluation and goods expertise activities;
- stock exchange activities;
- insurance activities; non state pensions funds administration activities;
- citizens saving and credit associations activities;
- projecting activities for all categories of constructions, urban, technical and town installations and networks, reconstructions, restorations; environment impact evaluation activities;
- constructions of buildings and/or engineering constructions, technical and town installations and networks, reconstructions, consolidations, restorations;
- insolvency administrator activities;
- financial institutions and currency exchange offices activities;
- professional participants of securities market activities.

The activity in leasing area, including financial leasing **shall not be licensed or otherwise authorized.**

The right to licensing of types of activity shall be granted to the Chamber of Licensure, the National Bank of Moldova for financial institutions and the National Commission for Financial Market for the activities on the securities market.

V. FISCAL FACILITIES

a) Income Tax

No.	Beneficiaries of	Category of Facility	Term of Facility	Article and
-----	------------------	----------------------	------------------	-------------

	Facility			Normative Act
	1	2	3	4
Income Tax Rate for 2007 constitutes 15 % of taxable income¹				
1.	Leasing activity	The lessor calculates the depreciation on investments in fixed assets which are the object of an operational leasing contract.	Permanently	Art. 26 para (3) and (4) of the Tax Code
2.	Leasing activity	In case of financial leasing, the lessee is treated as the owner of fixed assets received in leasing. Calculation and deduction of fixed assets depreciation making the object of a financial leasing contract is performed by the lessee.	Permanently	Art. 26 para (3) and (4) of the Tax Code
3.	Enterprises, including with foreign investments which statutory capital is constituted or increased or which make capital investments (expenses) in the amount exceeding a sum equivalent with 250 thousand USD.	are exempted of income tax in the amount of 50%, beginning with fiscal period during the which an agreement with the tax office is signed on income tax exemption, upon condition that at least 80% of income tax sum calculated and non transferred to the budget is reinvested in the development of own production (works and services) or state programs or sector of the national economy development	During 5 fiscal periods (5 years)	Art. 49 ² para (1)) of the Tax Code

¹ Beginning on January 1, 2008 the enterprises (legal persons) are exempt from income tax (zero rate is established).

		programs.		
	1	2	3	4
4.	Enterprises, including with foreign investments which statutory capital is constituted or increased or which make capital investments (expenses).	<p>are exempted of income tax beginning with the fiscal period in which the agreement with the tax body is signed on income tax exemption for the following fiscal periods, depending on the size of constituted or increased statutory capital or the amount of capital investment (expenses) made;</p> <p>1) if the amount of constituted or increased statutory capital or amount of capital investments (expenses) exceeds the amount equivalent to 2 million USD, upon condition that at least 80% of income tax sum calculated and non transferred to the budget is reinvested in the development of own production (works and services) or state programs or sector of the national economy development programs;</p>	For three years	Art. 49 ² para. (2)) of the Tax Code
		2) if the amount of constituted or increased statutory capital or amount of capital investments	For three years	

		<p>(expenses) exceeds the amount equivalent to 5 million USD, upon condition that at least 50% of income tax sum calculated and non transferred to the budget is reinvested in the development of own production (works and services) or state programs or sector of the national economy development programs;</p> <p>3) if the amount of constituted or increased statutory capital or amount of capital investments (expenses) exceeds the amount equivalent to 10 million USD, upon condition that at least 25% of income tax sum calculated and non transferred to the budget is reinvested in the development of own production (works and services) or state programs or sector of the national economy development programs;</p> <p>4) if the amount of constituted or increased statutory capital or amount of capital investments (expenses) exceeds the amount</p>	<p>For three years</p> <p>For 4 years</p>	
--	--	---	---	--

		equivalent to 20 million USD, upon condition that at least 10% of income tax sum calculated and non transferred to the budget is reinvested in the development of own production (works and services) or state programs or sector of the national economy development programs;		
		5) if the amount of constituted or increased statutory capital or amount of capital investments (expenses) exceeds the amount equivalent to 50 million USD	For 4 years	
5.	Commercial banks and micro financing organizations	Income obtained from loans granted for 2-3 years are exempted in the amount of 50%.	Unlimited	Art. 24 para (14) of the Law on implementation of Title I and II of the Tax Code
6.	Commercial banks and micro financing organizations	Income obtained from loans granted for a term longer than three years are totally exempted (100%)	Unlimited	Art. 24 para (14) din Law on implementation of Title I and II of the Tax Code
7.	Savings and Credit Associations of citizens	Are exempt from tax payment	Permanently	Article 53 ² of the Tax Code
	1	2	3	4
8.	Interest of resident physical persons, except those registered in a legal	Not taxed	Until the 1 st of January 2010.	Art. 24 para (7) of the Law on implementation of Title I and II of the

	form of entrepreneurship activity, on bank deposits, corporate securities in the form of bonds and securities, which are instruments of monetary market, such as bank certificates of deposit and bank bills, as well as from deposits of members of Credit and Saving Associations of citizens personal accounts, placed on the territory of the Republic of Moldova.			Tax Code
9.	Interest of legal persons on bank deposits for a term exceeding 3 years and corporate securities in the form of bonds issued for a term exceeding 3 years.	Not taxed.	Until January 1, 2010	Art. 24 para (8) of the Law on implementation of Title I and II of the Tax Code
	1	2	3	4
	Interest on Government Securities	Not taxed	Until January 1, 2010	Art. 24 alin. (9)
10.	Non state qualified pension fund	Income is not subject to taxation but any payments made from this fund are included into the gross income of the beneficiary (for physical person, the	Permanently	Article 68 of the Tax Code

		deducted sum shall not exceed 15% of the income gained by him/her during the fiscal year)		
--	--	---	--	--

b) Value Added Tax (VAT)

No.	Beneficiaries of Facility	Category of Facility	Term of Facility	Article and Normative Act
	1	2	3	4
VAT standard rate constitutes 20 % of the taxable value of imported taxable goods and services and supplies performed on the territory of the Republic of Moldova. Subject to VAT is the entrepreneur who made supplies of goods and services in the sum exceeding 300,000 lei²				
1.	Lessors in financial leasing contracts	Income in the form of interest is not a VAT taxable object	Permanent	Art. 103 para (11) of the Tax Code
2.	Financial institutions and other participants of the financial market	The following financial services are exempted from VAT: 1) granting or transfer of loans, loan guarantees, other guarantees of cash and crediting operations, including loans, credits, and loan guarantees management on behalf of lenders (credit, transfer,		Art. 103 para (1) point 12) of the Tax Code

² Voluntary registration is also provided, if during 12 consecutive months the subject performed taxable supplies in the amount exceeding 100 000 lei, upon condition that the payment for these supplies is made by the buyer in the form of transfers to the bank account of the subject of entrepreneurship activity, opened in financial institutions having fiscal relations with the budgetary system of the Republic of Moldova. Beginning on January 1, 2008, substantial facilities are provided for capital investments' subjects and supplies made in the localities of the Republic of Moldova, except Chisinau and Balti municipalities, in the form of VAT refunds and minimum sums for registration in such a capacity.

³ Except revenues from sale of goods in case of failure to reimburse the loan, from granting information, consultancy and expertise services, from procurement and renting of broker places at the stock exchange, from renting, from services of collection and delivering cash to clients, from services of storage and transfer of values, cash, securities and documents, of revenues, from fiduciary operations on management of clients' goods, from liquidation of insolvent enterprises goods, from providing the clients with normative documents against payment.

⁴ Except those used for numismatic purposes.

⁵ From tariff position 7108 (Gold (including platinum gold), in raw or half processed form, or in the form of mould.

⁶ Except intermediation services of insurance and/or re-insurance operations. Beginning on January 1, 2008 intermediation services will be exempted of VAT.

		<p>fiduciary operations, related with crediting, cash transfers, searching the sums not included into accounts, opening, closing and re-execution of accounts);</p> <p>2) operations related with deposit accounts evidence, including saving, transfer and budget accounts, transfers, claims, checks and other financial instruments³,</p> <p>3) operations related with currency, monetary resources, notes constituting a legal way of payment⁴, goods supplied to the National Bank of Moldova⁵;</p> <p>4) operations related with issue of shares, bonds and other securities, bills other securities including commercial and intermediation operations on the securities market, operations of independent registrars;</p> <p>5) operations related with derivate financial instruments, forward agreements, options and other</p>		
--	--	---	--	--

		financial operations; 6) services related with investment funds and non state qualified pensions funds management; 7) insurance and re-insurance operations ⁶ .		
--	--	--	--	--

VI. OTHER FACILITIES

Guaranteed lenders: lenders, who have a pledge right on goods from the total debtor's assets, are entitled to priority reparation of borrowed capital, interest and expenses from the account of pledged goods (*article 61 of the Law on insolvency, November 14, 2001*).

Enforcement of pledged goods: pledged goods can be enforced by the pledgee. He/she has priority with respect to other clients. The consecutiveness of reparation of claims on several pledge rights on the same goods or patrimonial rights, is established in the order of pledge constitution. The claims of the following pledgee are satisfied after full reparation of previous pledge claims (*Article 97 of the Enforcement Code of the Republic of Moldova from December 24, 2004*).



This brochure is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of the leaflet are the sole responsibility of the Pragma Corporation that implements ATCI project in Moldova and do not necessarily reflect the view of USAID or the United States Government.

Str. N.Iorga 8/4, Chişinău, MD-2009
Republica Moldova
www.atci.com.md
Tel: (373 22) 232 008; (373 22) 232 971
Fax: (373 22) 238 039

ATTACHMENT 18



Internal Memorandum

To: Rick Dvorin, Country Director
From: Viorel Rusu, Senior Attorney
Alina Bîrsan, Attorney

Date: November 9, 2007

GENERAL ANALYSIS OF THE TRANSNISTRIAN LAW ON MORTGAGE

The Law on mortgage of Transnistria, dated January 22, 2007 # 165 –z-iv (further on Law), regulates the juridical relations associated with immovable property pledge contracts, usage rights and/or land plots ownership pledging. The Law includes:

- general provisions on mortgage;
- procedure of mortgage contracts concluding;
- procedure of state registration of mortgage;
- providing safety for the property pledged according to a mortgage contract;
- transfer of rights on property, pledged according to a mortgage contract, to other persons and encumbrance of this property by other persons rights;
- subsequent mortgage;
- concession of rights on mortgage contract;
- collecting the fee on property, pledged according to a mortgage contract;
- sale of pledged property, on which the fee should be collected;
- particularities of enterprises, buildings and installations mortgage, rights of land plots usage (ownership);
- particularities of residential buildings and other living space mortgage.

According to Article 2 of the Law, the general rules of mortgage, included into the civil legislation of Transnistria, are applied with respect to mortgage contracts in cases when the Civil Code of Transnistria or the Law on mortgage don't provide otherwise.

Thus, from the point of view of Law clarity and exactness, we consider opportune to unite all provisions on mortgage in the corresponding Law or to make the respective references.

In Article 6 and 7 it is not absolutely clear who is the mortgagor and what kind of property is the object of mortgage.

We consider that the mortgagor can be any legal or physical person having the right of property on the immovable property or the owner having the right of immovable property alienation.

As to the object of mortgage, this can be the immovable property in civil circuit which is based on ownership or administration rights or on trusting management, including that the contract might provide extending of mortgage on the immovable property acquired or created in the future.

In our opinion the above mentioned issues are not very clearly stated in the Law.

We consider that Article 10 of the Law with respect to the pledgee, as well as to the object of mortgage should include general provisions establishing the possibility of their subsequent identification. This is especially significant for further development of the securities market, mortgage bonds, in particular.

It is not clear why Article 11 provides that the mortgage contract should be notary legalized (creates additional expenses), if the contract is considered concluded and enters into force from the date of state registration.

ATTACHMENT 19

Internal Memorandum

To: Rick Dvorin, Country Director

From: Viorel Rusu, Senior Attorney
Alina Birsan, Attorney

Data: 25 October, 2007

**Opinion with respect to the Regulation regarding the National Commission for
Financial Market organizing and operation**

The National Commission for Financial Market unfolds its activity in conformity with the provisions of the Constitution of the Republic of Moldova, Law on the National Commission for Financial Market, decisions of the Parliament, other normative acts, as well as the with Regulation on the National Commission for Financial Market organizing and operation.

The Regulation on National Commission for Financial Market organizing and operation regulates the mission, attributions and rights, decisions and the modality of their application, as well as other aspects related with the organizing of the National Commission for Financial Market activity and operation.

Both, the Law on the National Commission for Financial Market and the examined Regulation, establish as the main objective of the National Commission ensuring stability, transparency, safety and efficiency of the non banking financial sector, preventing systemic risks and manipulations on the financial market, protection of rights of non banking financial market participants. The National Commission is obligated to act in the manner consistent with its objectives and in the manner that it considers the most appropriate, within the limits established by the law.

The National Commission should have all powers that it needs to operate as a regulatory authority of the non banking financial institutions. The examined Regulation widely regulates the attributions and rights of the National Commission based on the fact that a complex authority was created, which regulates and authorizes the activity of the financial market participants combining the attributions of the National Commission for Securities, State Inspectorate for Insurance Supervision and Non State Pensions Funds and the State Supervisory Service of Saving and Credit Associations by the Ministry of Finance. Thus, the Commission adopts decisions that it considers necessary in the form of decisions and orders and, upon case, protocol entries. The decisions of the National Commission are obligatory for the non banking financial market participants.

Based on above, the Regulation on National Commission for Financial Market organizing and operation to a great extent combines the provisions from the respective area laws.

Nevertheless, point 8.4 of the Regulation provides that “the procedure of organizing and unfolding the meetings of the Administration Council are established by the Regulation on the National Commission internal rules.” Under Article 3 of the Law on the National Commission for Financial Market, the National Commission has the objective to ensure “transparency of the non banking financial sector”. Based on the same reason of transparency, we consider that the manner of organizing and conducting the meetings of the Administration Council should be established by the examined Regulation and not by the internal rules Regulation of the National Commission.

Attachment 20



REPUBLICA MOLDOVA
COMISIA NAȚIONALĂ A PIETEI FINANCIARE

MD 2012, municipiul Chișinău, bd. Ștefan cel Mare, 77, Telefon: (373 22) 22 76 95, Telefax: (373 22) 22 30 88, e-mail: cnpf@cnpf.md

Nr. 01/2507 din « 07 » 12 2007

Mr. Richard Dvorin
Country Director/Moldova
Access to Credit Initiative
Implemented by The Pragma Corporation

Dear Mr. DVORIN,

On behalf of the National Commission of Financial Market, I would like to thank you for the excellent organization of the Conference "Building a Bond Market in Moldova: Essential Steps for Development" from December 6, 2007.

As one of Conference co-organizers, we reconfirm the importance of the Conference for Moldovan financial market and for the chance to build and develop a real and viable bonds market in Republic of Moldova. In this context, I would like to mention the invaluable help of the Access to Credit Initiative Project in this process.

It was very useful for us, as regulator of non-banking financial market, to be familiarized with the experience of international experts related to bonds market. The proposals received during the Conference are essential for public authorities to improve local financial legislation.

Using this opportunity, I would like to invite you to visit National Commission of Financial Market in the near future. This visit will contribute to the strengthening of our cooperation.

We hope to develop further a mutual advantageous relationship between National Commission of Financial Market and the Access to Credit Initiative Project.

Looking forward to hear from you.

Yours faithfully,

Mihail CIBOTARU
Chairman

National Commission of Financial Market
Republic of Moldova