EVALUATION SERVICES IQC

FINAL PERFORMANCE EVALUATION OF THE FINANCIAL SECTOR REHABILITATION PROJECT (FINREP) IN UKRAINE

February 15, 2013

DISCLAIMER

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

BAH  Booz Allen Hamilton
CO   Contract Officer
COM  Cabinet of Ministers
COP  Chief of Party
COTR Contract Officer’s Technical Representative
CSC  Central Settlement Center
CSD  Central Securities Depository
DGF  Deposit Guarantee Fund
dTS  Development & Training Services, Inc.
EBRD European Bank for Reconstruction and Development
ESCRIN Electronic System for Comprehensive Information Disclosure
EU   European Union
FINREP Financial Sector Rehabilitation Project
FSR  Financial Services Regulator
FSU  Former Soviet Union
GIZ  German Agency for International Cooperation
GOU  Government of Ukraine
IFC  International Finance Corporation/World Bank Group
IFI  International Financial Institution
IFRS International Financial Reporting Standards
IQC  Indefinite Quantity Contract
IMF  International Monetary Fund
M&E  Monitoring and Evaluation
MAS  Mass Accumulation System
MLSP Ministry of Labor and Social Policy
MOF  Ministry of Finance
MOE  Ministry of Economy
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>MOJ</td>
<td>Ministry of Justice</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>MP</td>
<td>Member of Parliament</td>
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<tr>
<td>NBU</td>
<td>National Bank of Ukraine</td>
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<td>NSD</td>
<td>National Securities Depository</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>NPF</td>
<td>Non-State Pension Fund</td>
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<td>PFU</td>
<td>Pension Fund of Ukraine</td>
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<td>PMP</td>
<td>Performance Management Plan</td>
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<tr>
<td>SOW</td>
<td>Statement of Work</td>
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<tr>
<td>SRO</td>
<td>Self-Regulatory Organizations</td>
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<tr>
<td>SSMNC</td>
<td>Securities and Stock Market National Commission (aka Securities and Stock Market State Commission)</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>TO</td>
<td>Task Order</td>
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<tr>
<td>UFPAA</td>
<td>Ukrainian Federation of Professional Accountants and Auditors</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VR</td>
<td>Verkhovna Rada (aka Ukrainian Parliament)</td>
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<td>WB</td>
<td>World Bank</td>
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ACKNOWLEDGEMENTS

The dTS Team, including Team Leader Patrick Meagher, Evaluation Specialist Oleksandr Rohozynsky and Development Specialist Iaroslav Gregirchak would like to thank Geetha Nagarajan, dTS project director, for her support in carrying out this evaluation.

The evaluation team would like to also thank and acknowledge the USAID/Ukraine office, Financial Markets International, Inc. (FMI) staff and experts of the Financial Sector Rehabilitation Project (FINREP), the Government of Ukraine, and other stakeholders for their collaboration. The evaluation team is particularly grateful to Brian Fink, COTR for the evaluation, and Natalia Berezhna, FINREP COTR, for their guidance, and Robert Bond, project COP, for help reaching out to key informants.
EXECUTIVE SUMMARY

From June 2012 through October 2012, Development and Training Services (dTS) conducted an evaluation of the USAID Financial Sector Rehabilitation Project (FINREP, contract number EEM-I-03-07-00007-00). The goal of FINREP is to assist Ukraine in building a sound, transparent and resilient financial system. The project responds to serious challenges posed by the global financial crisis to the country’s financial markets and its economy as a whole. The FINREP project began in October 2009 and was scheduled to be completed in October 2012.

The FINREP Evaluation is a final performance evaluation where the effectiveness of completed interventions and the implementation process are assessed. It seeks to determine what the project has achieved, how it was implemented, how it is perceived and valued, and whether the expected results are occurring. The evaluation Task Order (TO) poses a series of questions, which are discussed below.

dTS formed a core team consisting of Team Leader Mr. Patrick Meagher, Evaluation Specialist Dr. Oleksandr Rohozynsky and Development Specialist, Mr. Iaroslav Gregirchak to conduct the evaluation. The team used document review, key informant interviews and small-scale surveys of project participants as the main sources of data for this evaluation.

The findings, conclusions and recommendations of the evaluation are presented in response to the questions posed in the TO:

(1) To what extent, and how, did the project shape the legal and regulatory environment for a stable, transparent and resilient financial sector in Ukraine? The project provided substantial input in reforming the regulatory environment in Ukraine. FINREP assisted in the reform of financial sector legislation and regulations by means of analytical studies, legal drafting, and monitoring and commenting on legislation. In a few cases, including that of the Deposit Guarantee Fund, the project took a prominent role in developing and drafting legal-regulatory instruments. Ukrainian counterparts in government and the banking sector appreciated FINREP's outreach, responsiveness and technical input. The project did not always succeed in convincing policymakers to follow its recommendations, but it helped shape the discussion, establish important benchmarks, and persuade some key people of the merits of best practice approaches to financial sector reform. FINREP appears to have exercised a moderate positive influence on the financial sector policy environment., but the project did not meet a number of its performance metrics, many of which the evaluation team considered unrealistic in the context and time frame.

RECOMMENDATIONS:

- Try for a tighter fit among the following: project objectives, performance metrics, time horizon and realities on the ground, including available resources and political context.

(2) To what extent, and how, did the project affect the capacity of Ukrainian financial sector institutions to implement reforms and raise performance to international best practices? In the original FINREP scope of work, “capacity building” for “financial sector institutions” referred to strengthening banks and other financial services providers, as well as training judges to deal with legal issues in restructurings. As the project progressed, the capacity-building mandate was broadened to include work with regulators (primarily the National Bank of Ukraine (NBU)), sector associations and others. The assistance covered a range of regulatory fields, with substantial and well-received support for
the implementation of International Financial Reporting Standards (IFRS). Aggregate data show that neither FINREP nor any other participant in the sector was able to counteract the negative trajectory of Ukraine’s financial sector since the crisis, but FINREP chipped away at a number of policy and capacity problems in ways that appear reasonably calculated to improve the situation or, at least, keep it from worsening. Project activities in this component (notably training) were largely of a low-risk, low-return character. FINREP appears to have had a moderately positive effect in the short term in specific areas of capacity-building, and a small effect overall. Training and technical assistance (TA) activities appear to have been well-integrated in many – but not all – instances. Follow-on programming should consider steps to enhance localization and the sustainability of capacity-building activities.

**RECOMMENDATIONS:**

- Try for improved balance and strategic coherence in the combination of TA and training.
- Consider a mechanism to support the recruitment of local FINREP experts into government counterpart agencies at the end of the project.
- Explore the possibility of providing a home for selected FINREP activities in a Ukrainian institution.

(3) **To what extent, and how relevant, were project activities designed to assist vulnerable Ukrainians with financial relief and awareness, and increase demand for provision of adequate customer-oriented financial services and proper government supervision?** How was gender addressed in these interventions? The project stimulated movement for reform in consumer rights protection, supported pioneering research on the population’s financial literacy, and developed the first financial literacy course in Ukraine. It provided important ongoing support to Ukrainian counterparts in Parliament, NBU, the Pension Fund of Ukraine (PFU) and others in pension reform. FINREP also strove to follow USAID gender policy by reporting on the gender composition of groups involved in project activities and seeking gender balance in areas under project control, such as staff appointments and training opportunities. Several of the formal project goals set by the project statement of work (SOW) in this area were not achieved due largely to their dependence on government action and other factors external to the project. The goals were also highly ambitious. In this component overall, significant advances in some areas (e.g., financial literacy) were offset by setbacks in others (e.g., debt restructuring). Inputs here might have been made more relevant by a stricter focus on the “vulnerable” population as defined in the project design, and a wider array of policy tools brought to bear on this point.

**RECOMMENDATIONS:**

- Consider developing a special project and center on financial education.
- Consider adding a project component to develop small banks and financial services for small enterprises and low-income households.
- Analyze new ways to incorporate gender considerations into policy reform activities.

(4) **To what extent have project activities expanded the domestic securities market to mitigate financial stress and broaden the financial base?** This has been an area of intensive FINREP activity, in which it exercised flexibility to respond to needs and opportunities. FINREP contributed substantially in a few key areas of law and regulation, while monitoring and commenting on a range of other policy
proposals. The project worked closely with the Securities and Stock Market National Commission (SSMNC), the main regulator in this field, providing technical assistance and other input on securities market regulation and supervision. The project also supported the operation of the Electronic System for Comprehensive Information Disclosure system (ESCRIN), and reached out to relevant self-regulatory organizations through discussions and training on capital market regulations. FINREP was not able to prevent certain developments in capital market regulation that it viewed as negative (e.g., control of the securities depository). The project’s work on government debt markets, primarily with the Ministry of Finance (MOF), produced several achievements as well as appreciation by the government and market participants. Market data show that neither FINREP nor any other stakeholder effectively expanded the domestic securities market. Movements in the capitalization of Ukraine’s equity market were mixed, but mostly negative, during the project period. On the other hand, project targets on the expansion of the government debt market were met, with several new or greatly improved instruments (e.g., repos) being piloted. FINREP’s achievements in these areas came to a large extent from building on its predecessor projects and pursuing mutually supportive objectives.

RECOMMENDATIONS:

- Ensure that follow-on activities build on what has proven effective in past projects.
- Ensure that project plans continue to feature parallel, mutually supportive elements.

(5) What factors enabled or inhibited the achievement of stated objectives, and how were the latter successfully overcome, or, if not, why not? Achieving most of the project’s targets, such as restoring consumer confidence in the banking system to pre-crisis level, depended on external factors that were outside of the project’s direct control. These factors were generally quite adverse, although in several cases the resulting constraints contributed to project success by making counterparts more amenable to assistance than they otherwise would have been. FINREP responded flexibly, adjusting the focus of the work (within the broad parameters of the project design) to address evolving opportunities, constraints and counterpart needs. Some impacts of the project are not yet visible but will likely be in the future. The project had some internal problems in the first year of implementation, but responded promptly with changes in personnel, allocation of responsibility among implementing partners, and other areas. This allowed the team to catch up with the initial project plan and achieve strong performance in the remaining years. FINREP benefited from some positive enabling factors, such as access to seasoned Ukrainian staff and experts, and relatively easy Internet access in the country.

RECOMMENDATIONS:

- Where possible, continue to leverage the constraints imposed by crisis and transition.

(6) What were the most effective strategies used in establishing working relations with the project’s multiple counterparts in the constantly changing Ukrainian environment? For strategies that did not work, what were the challenges, and how could they be further improved? The project worked effectively with different stakeholders. This is especially clear in the case of key government counterparts and the international community. Among private sector and civic organizations, opinion on this issue was more mixed, reflecting diverse interests and the project’s inevitable selectivity in choosing partners. FINREP’s success in communicating with Government of Ukraine (GOU) counterparts is based on listening attentively, recognizing government priorities, showing the flexibility to adjust project activities and timelines, ensuring that project outputs are responsive and technically sound, and delivering them promptly. The project’s approach required it to be in regular communication with counterparts, both
proactively and responsively. This open channel of communication was not only valued by counterparts in its own right, but it also furnished the regular input needed for FINREP to tailor project activities as it did. A related ingredient of FINREP’s successful working relationships is the prominent role played by its local experts in the project. These experts had been working in the field of financial market reforms or pension reforms in Ukraine since the 1990s, having established reputations in the field and connections with government agencies. FINREP’s strategies did not work in a few instances where GOU counterparts took positions that conflicted with the project’s advice, based on good international practice, and could not be persuaded otherwise. In these instances, FINREP was able to use its flexibility to shift emphasis away from problematic areas and focus on other matters where success appeared more likely. Early in the project, the inefficiency of the implementing partner consortium created an obstacle to this kind of quick adaptation, but FINREP was able to overcome this by its second year.

**RECOMMENDATIONS:**

- Continue to use flexible, streamlined project designs and to deploy mixed, mostly local teams.
INTRODUCTION

The dTS team was tasked with conducting a final performance evaluation of FINREP, a project implemented by a consortium of Booz Allen Hamilton, Inc. (BAH) with Financial Markets International, Inc. (FMI), Bankworld, Inc. and Cardno Emerging Markets USA, Ltd. The aim of this evaluation is to assess the effectiveness of FINREP’s design, specific interventions and implementation process.

PROJECT DESCRIPTION

The goal of FINREP is to assist Ukraine in building a sound, transparent and resilient financial system. The project responds to serious challenges posed by the global financial crisis relative to the country’s financial markets and its economy as a whole. In particular, the project has focused on capacity building with financial institutions. FINREP works to achieve the following objectives:

1. Strengthen the legal and regulatory environments for a stable, transparent and resilient financial sector;

2. Enhance the organizational capacity of financial sector institutions to implement reforms and raise performance to international best practices;

3. Assist vulnerable Ukrainians with financial relief and awareness and increase demand for responsive financial intermediation and government intervention; and,

4. Expand the domestic securities markets to mitigate financial stress and broaden the financial base.

FINREP began in October 2009 and was to be completed in October 2012. The project implements several types of activities, including support for legislative and regulatory initiatives, media and awareness campaigns and other public forums, training, workshops and study tours for government officials, and development of analytical products and research.

EVALUATION: PURPOSE AND METHODOLOGY

The FINREP Evaluation is a final performance evaluation, meaning that it will assess the effectiveness of completed interventions and the implementation process. It seeks to determine what the project has achieved, how it was implemented, how it is perceived and valued, and whether the expected results are occurring. Findings are framed so as to assist USAID in assessing the role it has played in addressing the most severe financial crisis in Ukrainian history and to determine the adequacy of the activities undertaken.¹

The Task Order SOW provides as follows:

The Contractor will evaluate the effectiveness of FINREP completed interventions as well as the implementation processes in helping Ukraine rebound from the global economic and financial crisis and establish a sound financial sector. The Contractor will concentrate on five principal areas of the FINREP project: 1) legal and regulatory reforms, 2) banking and finance, 3) financial literacy/consumer protection, 4) government securities, and 5) capital markets.

¹ USAID evaluation policy states as follows: Performance evaluations focus on descriptive and normative questions: what a particular project or program has achieved (either at an intermediate point in execution or at the conclusion of an implementation period); how it is being implemented; how it is perceived and valued; whether expected results are occurring; and other questions that are pertinent to program design, management and operational decision making. Performance evaluations often incorporate before-after comparisons, but generally lack a rigorously defined counterfactual.
In particular, the Contractor will present findings, conclusions and recommendations relating to the following questions (numbers do not reflect priority):

1. To what extent, and how did the project shape the legal and regulatory environment for a stable, transparent, and resilient financial sector in Ukraine?

2. To what extent, and how did the project affect the capacity of the Ukrainian financial sector institutions (NBU, SSMNC, the FSR, the DGF, the Ministry of Finance) to implement reforms and raise their performance to international best practices?

3. To what extent, and how relevant were the project activities designed to assist vulnerable Ukrainians with financial relief and awareness, and increase demand for provision of adequate customer-oriented financial services and proper government supervision? How was gender addressed in these interventions?

4. To what extent have the project activities expanded the domestic securities market to mitigate financial stress and broaden the financial base?

5. What factors enabled or inhibited the achievement of stated objectives and how were the latter successfully overcome, or if not, why not (e.g., the project’s management structure, the operating environment, etc.)?

6. What were the most effective strategies used in establishing working relations with the project’s multiple counterparts in the constantly changing Ukrainian environment? For strategies that did not work, what were the challenges, and how could they be further improved?

The evaluation team aimed to identify observable project outcomes whenever possible, and obtain independent, quantitative measures of the results. The team used several methods of data collection. The evaluation started with a thorough document and literature review. The team then conducted key informant interviews during the country visit (and in a few cases by telephone before the visit). These interviews were conducted on the basis of a discussion guide that is provided in Appendix F. The evaluation team followed up with a small-scale survey of training participants and a self-evaluation by members of the implementation team (see Appendices D and E). Initial findings from in-country data collection were discussed with USAID/Ukraine at the end of the field implementation. Guidance from the Mission was used in constructing the final report.

It is important to bear in mind the limitations of this evaluation. These arise from two main sources: first, the attribution of economic outcomes to specific reforms is always a complex and uncertain business. The further attribution of the reforms themselves to USAID inputs and project activities is similarly problematic. Second, even where empirical linkages are most readily discernible – in this project, for example, the effects of training on financial literacy – a rigorous study would require a quasi-experimental design that is absent in this instance. The evaluator must rely on triangulating among data from such sources as interviews, financial sector statistics and assessments of training materials and legislative drafts. The breadth and complexity of the project, moreover, raised difficulties. The large number of project components and counterparts, combined with the finite resources of the evaluation team (and limited availability of interviewees in July-August), placed a constraint on the sample of informants that was possible to interview for each area of FINREP activity. Many interviewees were involved

2 The questions in the KII guide are intentionally worded differently from those given in the SOW. It was inevitable that the broader evaluation questions would have to be disaggregated and rephrased for use in interviews. The goal, which we believe the instrument achieved, was to find an effective way to elicit the kinds of information needed to address the SOW.
in multiple project components, a fact that further reduced the time and attention they could invest in discrete components during our discussions. Last, our written survey and self-evaluation produced low response rates – an expected, but real, limitation to the validity of the data thus yielded. Carefully pursued, an evaluation on this kind of qualitative basis can offer valid guidance, but must necessarily be modest in its claims.

The core evaluation team consisted of Team Leader Mr. Patrick Meagher, Evaluation Specialist Dr. Oleksandr Rohozynsky, and Development Specialist Mr. Iaroslav Gregirchak. The team was supported by a Project Director and Project Manager at the home office in Washington, DC. The team traveled to Ukraine in July-August 2012 to conduct primary data collection. The evaluation methodology developed for the study is available in Appendix B, and the implementation of the methodology is discussed below.

**Literature Review**

Our review of documents and literature began in the few weeks prior to the country visit and continued throughout the evaluation. The team reviewed all the project documents provided by USAID and FINREP, including quarterly and annual reports, as well as annexed materials such as consultant trip reports, technical analyses of financial market regulation, and training reports. The team also collected material from GOU, the Verkhovna Rada, NBU, the World Bank Group and other international sources, and independent analysts. Materials were comprised of laws and regulations, technical reports and studies, statistics, and cross-country ratings. The Ukrainian material was in many cases available only in that language. The purpose of reviewing these materials was not only for the team to familiarize itself with the project and its context, but also to confirm outcomes and gather evidence of impacts.

**Key Informant Interviews**

The key informant interview was the most widely used data collection method for this evaluation. Interviews were used to deepen our understanding of the FINREP project and its expected influence, obtain expert opinion on the success of current FINREP activities and progress toward objectives, and form recommendations for future programming. The initial list of key informants was constructed based on the recommendations of FINREP’s project management and USAID/Ukraine representatives, and revised during field work.

Data collection from key informants commenced during the project’s first week. The project team, including the Team Leader and the Evaluation Specialist, conducted phone interviews with BAH staff in Washington, D.C. and project management members in Ukraine. Data collection continued during the Ukraine field visit. The evaluation team conducted 65 key informant interviews (see Appendix C for list of key informants contacted).

The main challenge encountered during key informant interviews was the turnover of government officials in key regulatory agencies. For this reason, where possible, key informants included government officials working in the counterpart institutions at the time of the evaluation, as well as others who served at those institutions during project implementation, but had since departed. Another problem related to the timing of the evaluation was its overlap with the vacation season at government offices. The evaluation team remained in the country long enough to meet with representatives of nearly all the government offices identified in the original evaluation design.
Table 1. Number of Key Informants by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Key Informants Interviewed</th>
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<tbody>
<tr>
<td>USAID and Project Staff</td>
<td>12</td>
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<tr>
<td>Government Officials</td>
<td>26</td>
</tr>
<tr>
<td>International Organizations and Projects</td>
<td>12</td>
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<tr>
<td>Independent Experts</td>
<td>3</td>
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<tr>
<td>Public and Private Project Counterparts</td>
<td>8</td>
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<tr>
<td>Professional Unions and Organizations</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
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Small-Scale Surveys

To collect more primary data on the effectiveness of project training activities, the evaluation team conducted an email and Web-based small-scale survey of participants of different study tours conducted or supported by FINREP. The project organized and sponsored 18 different international trips and events for diverse sets of government officials.

The evaluation team received a list of 63 study tour participants, and was able to obtain email addresses for 18 participants. The team also requested assistance from the protocol department of the government institutions in forwarding electronic versions of the survey to those individuals.

A short survey questionnaire (see Appendix D) was sent to study tour participants by email. It focused on the impacts of training on the career and level of responsibility of the training participants. Respondents were asked to either complete the survey online or provide written responses using an attached Word document. The survey was sent to an estimated 38 study tour participants. The team received 10 responses (a 26% response rate) and found that at least four training participants no longer worked with the government counterpart institutions and could not be reached.

Self-Evaluation Exercise

The evaluation team also conducted a self-evaluation exercise to collect internal data and the expert opinions of the project implementers that could not be collected through field interviews.

The evaluation team developed a self-evaluation questionnaire (see Appendix E) for members of the project implementation consortium, particularly the technical representatives of each consortium member. The questionnaire requested information about project activities, best practices, recorded outcomes and impacts as viewed by the project implementers, assessment of project outcomes, and success of the partnership for this project’s implementation.
The team requested reasonably documented responses within two weeks from the main project contacts identified by the BAH Project Director. The evaluation team received responses from three out of four members of the consortium (75% response rate).

II. FINDINGS

This section presents the findings in response to each of the evaluation questions. Subsections are organized in accordance with the FINREP project results framework where possible. Although the project had some numeric targets, the evaluation team looked at a broader spectrum of quantitative and qualitative indicators of effectiveness.

**TO WHAT EXTENT, AND HOW, DID THE PROJECT SHAPE THE LEGAL AND REGULATORY ENVIRONMENT FOR A STABLE, TRANSPARENT, AND RESILIENT FINANCIAL SECTOR IN UKRAINE?**

The original FINREP SOW targeted changes to the regulatory environment in the following subcomponents for Result 1:

COMPONENT 1.1: Financial Sector Restructuring, Transparency and Dispute Resolutions – support financial regulators and the Verkhovna Rada in drafting legal-regulatory acts in key areas of financial sector rehabilitation including supervision, bankruptcy and creditor rights, and support restructuring transactions and dispute resolution;

COMPONENT 1.2: Supervision – Financial Regulators – help financial sector regulators enhance licensing policy, transparency, audit and inspection, and support them in developing and implementing reforms; and

COMPONENT 1.3: Capacity Building – Deposit Guarantee Fund (DGF) – assist in developing a framework for DGF bank rehabilitation, the transfer of functions from NBU to DGF, new roles and powers of DGF, and help assess and meet DGF’s IT and training needs.

In addition, the project provided support to the development and revision of the legal and regulatory framework under the following components of Results 2 and 3:

COMPONENT 2.1: Capacity Building – Financial Institutions and Associations – design and establish training programs for financial sector institutions, in cooperation with relevant associations and academic institutions, on the fundamentals of a well-regulated market, corporate governance, financial risk management, IFRS and other topics;

COMPONENT 3.1: Debt Restructuring for Vulnerable Households – assist financial institutions, regulators and market participants in restructuring debt for vulnerable households to sustain institutional solvency and borrower creditworthiness; and

COMPONENT 3.3: Pension Reform – support the Financial Services Regulator in drafting legislative amendments and corrections to protect pension assets, introduce regulations for private sector pension funds, and develop and implement concrete investment policies and controls for asset managers.
Implementation of legal and regulatory changes, especially under Results 2 and 3, is closely related to other project activities. Most of the legislative work is discussed in this subsection, but some specific matters are presented in subsections related to other evaluation questions.

FINREPs unfolded as a response to the severe effects of the global financial crisis in Ukraine. The depth of the contraction in Ukraine’s banking system exposed an urgent need for restructuring and intensified reform. FINREPs assisted in reforming financial sector legislation and regulations by means of analytical studies, monitoring and commenting on legislation, and, in a few cases, taking a prominent role in the development and drafting of legal-regulatory instruments.

**Analysis and monitoring of financial services legislation**

Overall, FINREP assisted in the development of laws and regulations across a range of financial services and capital markets areas, including several in the banking field. The project team strove to monitor and comment on all legislative proposals relating to the stability and oversight of the financial sector that potentially could become law. FINREP also posted updates on its website regarding the most important areas of financial sector-related legislative development in the Verkhovna Rada and expert working groups.

In several cases, FINREP provided significant assistance in the drafting of legislation that was ultimately enacted. Laws passed with FINREP input include legislative amendments dealing with banking regulation, consolidated supervision, creditor rights, bankruptcy and tax code provisions. Below, we discuss two other instances where FINREP had a sustained role in similar, critically important reforms (DGF and disclosure of ultimate owners).

Key sector stakeholders, especially government counterparts, greatly appreciated FINREP’s responsiveness and technical input. All interviewees in government and the international financial institutions (IFI) praised FINREP support, citing instances of its positive contribution to policy development. NBU officials described FINREP assistance as demand-driven, responsive and sound. They appreciated FINREP’s continuous contact and availability; one official stated that the project offered “an ideal platform for policy debate.” Differences of opinion between project experts and NBU were discussed openly, and consensus positions reached. NBU representatives stated that FINREP’s input has been incorporated into such areas as regulations on banks’ ultimate owners and the further development of draft NBU regulations on corporate governance in commercial banks. NBU officials also reported using FINREP’s input in discussions with the World Bank, the lead external actor.

Opinions in the banking sector were more mixed. All of the interviewees (from five organizations combined) expressed appreciation for some initiatives and reservation about others (see below). Some respondents (from three of five institutions) expressed concern that FINREP did not reach out to the sector sufficiently or did not support the priorities of the informant’s institution. Interviewees from two institutions in the international banking and business sectors were not familiar with FINREP.

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3 By FINREP’s cumulative accounting through FY 2011 (in the PMP), the project assisted with five legislative acts or amendments (nine are reported in the 2011 Annual Report along with 17 drafts), and six regulations.

4 The number of such proposals has not been reported, but the project tracked all policy initiatives likely to affect FINREP’s objectives.

5 After trying for over a month to arrange it, the team was able to meet with NBU representatives in the last few days of its stay in Kyiv. Eight officials were present; five from key counterpart departments spoke. Differences of opinion were not aired, nor were individual follow-up appointments available.
There were a few setbacks in the project, including FINREP’s involvement in proposed legislation on the restructuring of “toxic” bank assets. The FINREP team worked alongside the International Finance Corporation (IFC)/World Bank Group and the Association of Ukrainian Banks. The draft amendments, however, were rejected by the Verkhovna Rada Banking Committee. Representatives of a major banking sector association interpreted this as an instance of the power wielded by insolvent debtors, including prominent business and political interests, exerting influence on the parliament. FINREP tried following an alternate approach, seeking to assist with the restructuring of individual banks (see below).

**Ministry of Finance/Bank Recapitalization**

An early FINREP priority was support for bank recapitalization and for the privatization of nationalized banks based on international standards of valuation. In the first year, FINREP developed a plan to assist the Ministry of Finance Bank Recapitalization Department with a program for the effective control and supervision of problem banks, in cooperation with NBU “problem bank” staff. This included an audit strategy proposed by FINREP, plans for staffing and administering recapitalized banks, and training inputs. A Ministry official involved in this initiative reported that there was essentially no local expertise in this area, and that it needed FINREP’s help. The project contributed to the legislative framework but had a bigger role in developing documents for a bank privatization tender. In the second year, Ministry officials went on study tours to the US and Sweden. As a result of the change in government and subsequent policy reversals, this area of project activity largely ended. Apart from MOF, only an IFI representative (one of five interviewed) mentioned this project component. These informants agreed that FINREP’s intervention was well-targeted and helpful. At the time of our visit, bank restructuring generally had fallen short of completion, lacked policy salience, and was not discussed by the majority of interviewees.

**Deposit Guarantee Fund: Law and Regulations**

On March 19, 2011 the President signed the Deposit Guarantee Fund Law, which transferred powers for insolvent bank resolution and liquidation from NBU to DGF. This law, providing “extended powers” to DGF, aimed to transform DGF from a pure deposit guarantee agency to one that can also engage in the resolution of insolvent banks.

The World Bank initially took the lead. FINREP informants reported that the project was facing problems related to start-up management and staffing at the time the DGF legislation was proposed. It was agreed that the World Bank would provide legislative drafting assistance. Though at this stage FINREP’s role was limited to providing comments to the draft DGF Law between its first and second readings, FINREP later provided critical inputs to the drafting of regulations. The project helped produce a comprehensive set of regulations enabling DGF’s revised function of “paybox with enhanced powers,” which was to take effect in September 2012. Key counterpart personnel at DGF and the Verkhovna Rada confirmed the importance of FINREP’s role in implementing the reform.

A majority of interviewees on this topic (six of eight) agreed that the DGF reform was a good idea that reflected some of the best international practices. The Fund replaces NBU in this particular role with a lower-cost provider of bank liquidation services. The reform should provide NBU with a degree of political cover, shielding it from

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6 An MOF official reported that FINREP was unable to provide timely assistance in drafting the bank restructuring law, and so the Ministry turned to another advisor.
the kinds of protests that occasioned bank liquidations handled by NBU appointees. Interviewees at the IFIs were unanimous in characterizing FINREP’s input and the DGF “paybox” reform as positive and important.

FINREP cited its taking the technical lead in developing all the regulations (bylaws) required to set up the “paybox” system as a major accomplishment. It did so during a six-month window while the law’s implementation was suspended. The project hired three local professionals (one banking expert and two lawyers) to draft the implementing regulations based on draft amendments to the Law on the Deposit Guarantee Fund then under review by the Presidential Administration.

Three respondents expressed concern that the DGF would be controlled by NBU. This presents a risk, especially as DGF has significant powers, including discretion over loss payouts. According to these informants, the DGF Board reflects NBU’s interests and lacks any representatives from the banking sector. The liquidation of a bank quickly becomes politicized, especially when an oligarch is involved (even more so when the oligarch is aligned with the party in power). The consequent fear is that the DGF will not always handle losses and liquidations dispassionately, in a way best suited to the public interest.

**Disclosure of banks’ ultimate owners**

FINREP was involved in crafting new ownership disclosure regulations for NBU. These were issued under the Law on Disclosure of Ultimate Controllers of Banks (Law #3024-IV), a structural benchmark under the IMF-Ukraine Stand-By Agreement. Public disclosure of the real owners of commercial banks is a necessary precondition for implementing the new “consolidated supervision” component of NBU’s regulatory oversight. Starting in late June 2011, the Project assisted NBU in drafting regulations implementing Articles 56 and 69 of the Law “On Banks and Banking Activity” as amended by Law #3024-IV (effective February 15, 2011). FINREP reports that its TA was demand-driven, since the SSMNC requested FINREP’s help and accepted all of its recommendations. The World Bank also cooperated with the project. Informants from one IFI and from NBU described this reform as necessary for a stable, transparent and resilient financial sector, and acknowledged FINREP’s key role in bringing it about.

Unfortunately, it appears that the requirement of expanded disclosure is not followed by NBU or most commercial banks in their disclosure practices. Thus, most of the anticipated benefits of the new law and regulations have not yet materialized despite the passage of the new rules. A representative from a financial sector association stated that, in practice, the legislation “has made no difference.” From this perspective, the amount of material disclosed under the regulations has multiplied, but NBU is not releasing the information to the public. Here again, it appears that NBU is exercising a worrying amount of discretion – in this case over the standards and timetable for disclosure to the public.

**TO WHAT EXTENT, AND HOW, DID THE PROJECT AFFECT THE CAPACITY OF UKRAINIAN FINANCIAL SECTOR INSTITUTIONS TO IMPLEMENT REFORMS AND RAISE PERFORMANCE TO INTERNATIONAL BEST PRACTICES?**

The original FINREP SOW included institutional capacity building in these subcomponents for Result 2:

COMPONENT 2.1: Capacity Building – Financial Institutions and Associations – design and establish training programs for financial sector institutions, in cooperation with relevant associations and academic institutions,

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7 See, in particular, p.17 of the project’s 2011 Annual Report.
on the fundamentals of a well-regulated market, corporate governance, financial risk management, International Financial Reporting Standards (IFRS), and other topics; and,

COMPONENT 2.2: Capacity Building – Judiciary – design a training program for judges on the fundamentals of a well-regulated market and support pilot programs on the adjudication of disputes connected to the restructuring of financial institutions.

Several components of Results 1, 3 and 4 also featured capacity-building. There components include:

COMPONENT 1.3: Capacity Building – Deposit Guarantee Fund (DGF) – assist in developing a framework for DGF bank rehabilitation, the transfer of functions from NBU to DGF, new roles and powers of DGF, and help assess and meet DGF’s IT and training needs;

COMPONENT 3.2: Financial Literacy and Public Outreach – help financial sector regulators develop effective public communication policy and procedures to inform the public on actions taken and to improve the financial literacy of low-income households and vulnerable groups with regard to financial markets, and assist large educational institutions and industry associations in developing low-cost training modules on financial markets; and,

COMPONENT 4.1: Government Securities Market – assist the MOF in implementing the Cabinet of Ministers Resolution concerning development of the domestic market for government debt securities, assist the financial sector in organizing primary and secondary markets and regular auctions, help enhance investor relations through communications and other means, and assist in building the infrastructure for the government debt market.

The last two groups of activities were closely related to other project activities under components 3 and 4. For this reason, some findings for these capacity building activities are discussed in other parts of this report.

In the original FINREP scope of work, “capacity building” for “financial sector institutions” referred to the strengthening of banks and other financial services providers, as well as the training of judges to deal with legal issues in restructurings. This turned out to be a fairly limited set of activities, especially since the scale of rehabilitation and recapitalization was much more limited (and less open to outsiders) than anticipated. As the project progressed, the capacity-building mandate was broadened to include work with regulators, sector associations and others.8 For convenience, we focus here largely on the banking and financial services sector, deferring the discussion of all capital market and government debt issues to a later point (Question 4).

Financial Institutions and Associations

This area was initially the focus of several activities, but became less important as the project proceeded, dealing mainly with the dissemination of IFRS. In partnership with the Association of Ukrainian Banks, FINREP provided a training program to commercial banks on the fundamentals of a well-regulated banking market. In September 2010, the project delivered two training programs for bankers and other sector participants in Kyiv, based on the American Bankers Association’s BankExec International© training program. The course is described in the project reports as being “comprised of lectures and simulation models of key financial issues in the life of a

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8 This statement is not meant to suggest that the project SOW was overridden. Rather, in light of the opportunities available during implementation, FINREP adjusted the focus of planned activities in order to more effectively advance the project’s organizational capacity goals as well as to serve the cross-cutting “Special Considerations” such as local capacity building, sustainability and combating corruption.
bank in today’s global economy.” The project plans also envisioned a training program for judges to promote understanding of the basic legal frameworks for a well-regulated market. Last year, there were regional training seminars on pension law (see below). Overall, FINREP reports having provided 591 financial sector professionals (including 347 females) with training in international standards.

Some representatives of the banking sector appreciated FINREP’s assistance, although the sector was divided on the merits of the project (see above). One informant cited the project’s proactive outreach and engagement with “the right issues.” Another credited FINREP with exploring issues not addressed elsewhere (e.g., concentration of market power in the banking sector) and providing more comprehensive analysis. Of the remaining three sector institutions, one commented favorably on selected FINREP input (e.g., toxic assets restructuring), while the others did not discuss this area.

Other interviewees (one from a financial sector association, the other from an independent institute) thought that FINREP should be more active in ensuring that the banking system is competitive and better serves the interests of small businesses and lower-income clients. Consolidation is widely acknowledged as unavoidable. There are some 180 banks in Ukraine; the bulk of asset value (estimated at 70 - 95 percent) resides in the top 30, and the remaining banks are evenly divided between sound, smaller banks and a range of insolvent, captive and money-laundering banks.

In this situation, FINREP is associated with the GOU and World Bank approach of strong consolidation in the sector, whether intentionally or not. This approach was expressed in NBU’s 2010 move (supported by the World Bank) to raise statutory capital by a factor of nearly seven – reduced in the enacted legislation to an increase of about 150% over a period of years. This approach, together with the restructuring and refinancing of large portfolios of non-performing loans, can be interpreted as primarily serving the interests of the large banks (and therefore, in some cases, of politically-connected oligarchs). In this view, the small banks that are sound represent an important part of the sector’s future, and therefore, the project should reach out to them more regularly and focus on policy issues that are more in tune with their interests (e.g., prudential norms tailored to small banks, increasing banks’ access to long-term financing, and steps to encourage SME credit).

**Financial Sector Regulators**

FINREP provided training and technical assistance to regulators. The project reports having trained 43 financial sector supervisors (22 female, 21 male) on new financial instruments, prudential regulation, IFRS (see below) and risk management systems (credit, portfolio, liquidity, market and operational risks).

NBU was the main counterpart here, principally the Bank Supervision Department. NBU also participated in the BankExec International Simulation. The Project provided technical assistance to NBU in such areas as improvements to supervision manuals, bank credits and related risk, and the tax treatment of reserves for bad debts or non-performing loans. FINREP also worked with NBU to conduct a national opinion survey on public attitudes toward the institution, with the aim of generating a more evidence-based approach to developing a communications strategy.9

Apart from the SSMNC and Pension Fund of Ukraine (PFU, discussed in sections of the report that follow), the project’s other counterpart regulator was the Financial Services Regulator (FSR). FINREP reports holding training programs for FSR pension staff and pension industry personnel. FSR was also represented at other capacity-building events. Although it has an important role de jure in supervising all non-bank institutions, in

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9 NBU will be discussed more extensively in the later parts of the report. Its authority spans the breadth of the project.
practice it has been marginalized. FINREP did not have much interaction with the organization. Not only did FSR go through a politically contentious change in management after the 2010 election, but it was also liquidated and subjected to formal change in its legal status (and its previous chairman imprisoned), without legal successorship passing to the new FSR. As of the evaluation visit, the process was still ongoing. Its experience illustrates the contextual constraints and trade-offs of working with Ukraine’s financial sector. Key issues facing the new FSR include the implementation of IFRS, corruption in the domestic market for audit services, the need for stricter oversight of such institutions as large financial cooperatives, and the lack of coordination among regulators.

FSR regulates such institutions as finance companies, credit unions, non-state pension funds, asset management firms and insurance companies. It agreed to a Memorandum of Understanding (MOU) and work plan with FINREP in early 2010. The project made it clear to FSR that it was only one of several regulators in Ukraine, and so would not be the only priority. Current FSR officials reported having participated in a number of FINREP events, though the project could not accommodate some FSR requests for technical assistance (TA) and did not spend significant time working with FSR. Still, informants at FSR described FINREP as focused on the right issues, helpful, organized and dynamic relative to other programs. The continuity of FINREP with the predecessor Capital Markets Project was noted as especially helpful, as was the project’s flexibility and ability to provide comparative analysis. By contrast, a former senior official of the old FSR described FINREP’s involvement as both modest and not sufficiently focused to be very useful (his concern centered on the difficulty FSR had in supervising the credit unions).

Our interviews with FINREP and counterparts, together with our review of documents, show two approaches the project used in order to sustain momentum. First, the emergence of a specific policy issue led to the convening of roundtables and training seminars, and the latter, in turn, produced recommendations or roadmaps on how to proceed with reform. Adoption of a reform was followed by training to support implementation. Thus, TA and capacity-building inputs were deployed in such a way as to be mutually supporting. Examples of this appear in FINREP’s support for IFRS and DGF (see below). Second, the project kept the focus on the main regulators and policymakers dealing with the largest domains of financial activity, while inviting other players such as banks, associations and FSR to participate in FINREP events, and providing some of them (FSR in particular) with occasional TA. This enabled the project to sustain relationships with a wide range of actors, staying focused on key priorities while keeping alive the option to shift partners, should an obstacle arise. This does not mean that FINREP could satisfy the needs of all its allies, especially those in the financial sector (see below).

**Financial Reporting and Disclosure**

The main thrust here was FINREP’s support for the implementation – by means of law, regulation and procedure in firms and government agencies – of IFRS. There is general consensus, supported by international good practice, that a move in this direction is overdue in Ukraine, and that it will be fundamentally important for future inbound investment, particularly in the financial sector.

In 2011, FINREP provided MOF with comments and recommendations on the draft law “On Amending Legislative Acts in the Sphere of Accounting Policy,” which was eventually adopted as Law #3332-VI, dated May 10.

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10 The evaluation team met with the Commissioner and four current FSR staff as a group. We met separately with an ex-Commissioner of the predecessor FSR.
12, 2011. By means of implementing regulations that it helped create, the Project ensured that the requirement of financial reporting in compliance with IFRS also extends to private pension funds. The law includes a definition of IFRS and a requirement for banks, publicly owned companies and insurance companies to prepare and submit financial reports in compliance with IFRS, which can also be attributed to FINREP’s input.

FINREP focused on facilitating the full adoption of IFRS primarily by providing training, information and technical assistance. The project worked with MOF, SSMNC and FSR on the regulatory agenda for IFRS adoption, while collaborating with the Ukrainian Federation of Professional Accountants and Auditors (UFPAA) to strengthen understanding and implementation of IFRS by the accounting profession. Government counterparts were sent to international conferences of the leading global accounting and audit standards boards in London. FINREP also held seminars for hundreds of accountants and managers across Ukraine. These seminars both informed companies about the new accounting standards required of them and provided practical knowledge and tools for implementing IFRS. The project then created a video covering practical implementation, uploaded it to the MOF website for further dissemination, and worked with a contractor to set up an interactive online resource hosted by MOF. FINREP also developed and piloted a curriculum in this area.

FINREP inherited the IFRS initiative from a predecessor project, and built on knowledge gained from the ongoing use of these standards by the banks, SSMNC and ESCRIN. The project scope of work does not actually identify IFRS as an area of activity for FINREP. Rather, the need for compliance with these standards had become sufficiently clear and pressing that the project – recognizing the fit with its formal mandate – was able to join what it saw as an “organic process” of implementation. MOF and others recognized the need, set up a working group, and asked for help. According to FINREP experts, the project has worked “every day” with the government on IFRS implementation. The combination of pressure created by international standards with the momentum of IFRS implementation will need to continue in order to overcome the opposition of those in government and the corporate sector who are hoping to retain discretion over methods of financial reporting. The accounting law provides transition periods of varying lengths, some of which are quite short and therefore raise demand for assistance in this area.

FINREP and Ukrainian government counterparts consider the adoption of IFRS a well-chosen and important undertaking. They regard it as at least a partial success – one for which the project deserves some credit. GOU counterparts were unanimous in stressing the importance and quality of FINREP’s assistance on IFRS. Interviewees from major collaborators such as MOF and Ukrainian Federation of Professional Accountants and Auditors (UFPAA) have praised the quality and timeliness of FINREP input. An accounting expert at MOF referred to the project’s work on outreach and dissemination, admitting that these are not government strengths. Use of the Web, with widening access in Ukraine, is providing a multiplier effect as the requirement of compliance (as a legal or a competitive matter) takes hold. Translation of standards into the Ukrainian language and accounting practices is also an important service of the project. UFPAA signed an MOU with FINREP in 2010, and is working with the project on training on and translation of the standards. A senior official with UFPAA identified the IFRS website as a particularly useful initiative.

Most other informants took a different view. Of independent informants with whom we discussed IFRS, two-thirds (4 out of 6) expressed doubt or concern about the feasibility of achieving full implementation in the next few years. In this view, adopting the law is only half the battle. Professional capacity is needed to carry out the implementation, but Ukraine has limited resources and preparation for this. The amount of material that an

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11 CMU Resolution #1223, dated November 30, 2011 (adopted to further the provisions of Law #3332-VI).
accountant needs to be familiar with in order to use IFRS properly is significant. Implementing it means a major change in the way businesses are run; this, in turn, means that managers must understand what is needed. Conditions for doing business in Ukraine are rated as adverse by international metrics. Tax authorities, who have little or no exposure to IFRS, have shown a tendency to respond to fiscal pressure with coercion.

In this light, the relatively short window for compliance could turn out to be a disaster, or at best a side-step, rather than progress. Detailed application of IFRS would require changing an unrealistic number of regulations. And at least for the foreseeable future, IFRS implementation would not yield a clean break from businesses keeping multiple sets of books, nor would it greatly simplify due diligence. As IFRS implementation is necessarily iterative over a period of many years, it will likely be important for this part of FINREP to find a sustainable home in a Ukrainian institution such as UFPA.

Deposit Guarantee Fund: Capacity-Building

FINREP focused significant effort on helping establish DGF capacity to carry out its new functions as a “paybox with enhanced powers.” FINREP experts worked with DGF on strengthening the institution to take on the new “paybox” duties and also handle increased “provisional administration powers for banks in receivership.” During this time, the FINREP team continued monitoring changes made to the draft framework legislation for the restructured agency. FINREP worked with NBU and DGF to identify the range of funding, technology and staffing needs to support DGF’s transition to its new functions and powers. FINREP sent key DGF staff on study tours to the US, Sweden and Turkey, as well as to a conference in the Czech Republic.

Based on the Institution-Building Plan agreed to by the World Bank and DGF, in August-September 2010, FINREP presented a program entitled “Deposit Guarantee Fund: Process Reviews and Transition to Extended Powers.” The program included such elements as a staffing plan, human resource management system, financial plan and projections, a proposal for automated payments to depositors, and performance measures based on international standards. FINREP also retained three local professionals (one banking expert and two lawyers) to draft implementing regulations.

The amended law was signed, and the regulations written; the new DGF structure was due to take effect on September 22, 2012. Key informants in the DGF, Verkhovna Rada and international financial institutions agreed that FINREP’s approach and input to the augmented DGF were not only appropriate in policy terms, but important to achieving the reform. As mentioned above, however, concerns have been expressed by independent observers that the DGF will not be independent, and therefore might not prove as helpful to banking sector rehabilitation as had been hoped. The majority of such respondents addressing this area fear that the DGF will be controlled by NBU, increasing the risk that DGF’s discretionary powers of liquidation will be subjected to political pressures.

Results of the Study Tour participants’ survey

In addition to key informant interviews, the evaluation team conducted a small survey of study tour participants. FINREP provided the evaluation team information about 18 study tours, with the names of 63 participants from at least 17 different organizations. The project did not have email addresses for most participants, so the evaluation team was only able to communicate (directly or through colleagues or institutional representatives) with 38 study tour participants. Only ten participants responded to the survey. Due to this fact, survey results represent the opinions of participants from only five government institutions, and participants from only nine study tours (see Table 2 and Table 3).
### Table 2. Study Tour Participants Survey: Respondents by Institution

<table>
<thead>
<tr>
<th>Institution Name</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Ukraine</td>
<td>1</td>
<td>11%</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>5</td>
<td>56%</td>
</tr>
<tr>
<td>Deposit Guaranty Fund</td>
<td>1</td>
<td>11%</td>
</tr>
<tr>
<td>State Commission for Regulation of Financial Markets</td>
<td>2</td>
<td>22%</td>
</tr>
<tr>
<td>Ministry of Labor and Social Policy</td>
<td>1</td>
<td>11%</td>
</tr>
</tbody>
</table>

### Table 3. Study Tour Participants Survey: respondents by study tour

<table>
<thead>
<tr>
<th>Study Tour</th>
<th># Responses</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study Tour to Estonia and Latvia, March 21-25, 2011</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Two-day Course on Repo/Reverse Repo Instruments in London, UK, April 6-7, 2011</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>World Bank Treasury Workshop at JVI in Vienna, Austria, June - July, 2011</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Training at US FDIC in Washington, DC, October 24-28, 2011</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Seminar on Risk-based Approach to Pension Supervision in Warsaw, Poland, November 14-18, 2011</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>IFAC Conference in London, UK, November 28-29, 2011</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Government Debt Management Workshop in Washington, DC, December 5-9, 2011</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Workshop on Government Debt Management at JVI, Vienna, Austria June 11-12, 2012</td>
<td>2</td>
<td>20%</td>
</tr>
</tbody>
</table>

12 Respondents were allowed to choose several answers to this question if they participated in more than one study tour. Total number of respondents, rather than total number of answers, is the basis for this calculation.
All respondents were satisfied with the study tours (see Table 4) giving different aspects of the tour high grades. It seems that FINREP excelled in the organizational aspects of the tour and used funds effectively. However, at least 20 percent of survey respondents indicated that they expected a better connection between study tour objectives and other technical assistance provided by FINREP. Open-ended responses to the survey also stated that study tour goals should be better explained.

Table 4. Study Tour Participants Survey: Study Tour Rating

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>N/A</th>
<th>Average</th>
<th># Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did FINREP explain the goals of the study tour/workshop?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>4.71</td>
<td>10</td>
</tr>
<tr>
<td>Did FINREP contact you sufficiently in advance to facilitate your participation?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>3</td>
<td>5.00</td>
<td>10</td>
</tr>
<tr>
<td>Was your organization’s (or Government of Ukraine in general) role as the in selecting participants important?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>4.56</td>
<td>10</td>
</tr>
<tr>
<td>Was FINREP’s role in the organization of the study tour/workshop effective?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>5.00</td>
<td>10</td>
</tr>
<tr>
<td>How useful do you consider this study tour/workshop for your professional development?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>8</td>
<td>0</td>
<td>4.80</td>
<td>10</td>
</tr>
<tr>
<td>Was the study tour/workshop and other technical assistance from FINREP mutually supportive?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>7</td>
<td>0</td>
<td>4.70</td>
<td>10</td>
</tr>
<tr>
<td>Were resources used effectively in the study tour?</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>9</td>
<td>0</td>
<td>4.90</td>
<td>10</td>
</tr>
</tbody>
</table>
The focus of the evaluation was to determine if this activity had any impact on the performance of institutions in Ukraine. Table 5 demonstrates that most respondents were able to utilize the knowledge obtained in the study tours. However, their responsibilities within the organization did not change.

Table 5. Study Tour Participants Survey: Utilization of Obtained Knowledge

<table>
<thead>
<tr>
<th>Were you able to utilize the new knowledge that you obtained from the study tours?</th>
<th>Did your responsibilities at work change as the result of the participation in the study tours?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% Responses</strong></td>
<td><strong># Responses</strong></td>
</tr>
<tr>
<td>Yes</td>
<td>80%</td>
</tr>
<tr>
<td>No</td>
<td>20%</td>
</tr>
</tbody>
</table>

Since one of the biggest concerns expressed by key informants was high staff turnover in the government institutions, the survey asked study tour participants about their tenure with their current institutions. Sixty percent of respondents indicated that they stayed with the institution over a period of five years. Twenty percent indicated that, at the time of the survey, they had been with their institution for only two years; another 20 percent indicated that they had been working for less than a year at their current institution. Further, the evaluation team was notified that, of the 38 study tour participants identified as prospective informants, at least four had left their institutions. As we did not attempt to construct a statistically valid sample, the figures should not be considered representative for all study tour participants.

**TO WHAT EXTENT, AND HOW RELEVANT, WERE PROJECT ACTIVITIES DESIGNED TO ASSIST VULNERABLE UKRAINIANS WITH FINANCIAL RELIEF AND AWARENESS, AND INCREASE DEMAND FOR PROVISION OF ADEQUATE CUSTOMER-ORIENTED FINANCIAL SERVICES AND PROPER GOVERNMENT SUPERVISION?**

The original FINREP SOW included three subcomponents for Result 3 that related to this evaluation question:

COMPONENT 3.1: Debt Restructuring for Vulnerable Households – assist financial institutions, regulators and market participants in restructuring debt for vulnerable households to sustain institutional solvency and borrower creditworthiness;

COMPONENT 3.2: Financial Literacy and Public Outreach – help financial sector regulators develop effective public communication policy and procedures to inform the public on actions taken and to improve the financial literacy of low-income households and vulnerable groups with regard to financial markets, and assist large educational institutions and industry associations in developing low-cost training modules on financial markets; and,

COMPONENT 3.3: Pension Reform – support the Financial Services Regulator in drafting legislative amendments and corrections to protect pension assets, introduce regulations for private sector pension funds, and develop and implement concrete investment policies and controls for asset managers.
The design for this result states the aim of bringing key financial services indicators, such as confidence in financial institutions, level of bad loans, etc., to their pre-crisis levels, increasing utilization of the financial system and financial institutions, and advancing pension reforms.

Analysis of project documents and conversations with project staff and key informants suggest that two definitions of “vulnerable population groups” were used during the implementation of this component. First, is the definition that is most widely used by the development community in Ukraine. It includes people with low income and low ability to earn income who are in poverty or on the edge of poverty. Second is the definition that FINREP used in practice to identify the target population for component 3.1 and 3.2 activities. This includes people who would not be able to repay their loans or are at risk of losing their financial assets as a result of the financial crisis.

The economic and financial crisis in Ukraine in 2008-2009 created a group of people who have strong earning potential but are at risk of losing most of their assets to the banks – the vulnerable population under the second definition above. There are two subgroups of this population. One is the group that received mortgages or car loans denominated in foreign currency. Most of the population in this group did not lose their earnings as a result of the crisis, but increased exchange rates significantly raised the amount of their loans denominated in Hryvnias, and putting the required monthly payment beyond the financial capacity of the borrowers. This resulted in defaults, significantly increasing banks’ portfolios of bad loans. The second group includes people who received small, unsecured consumer credit at high interest rates and experienced a significant decrease in their earning potential during the crisis. This group of people also defaulted on their loans.

Statistics published by NBU\(^{13}\) suggest that since the beginning of the project, the ratio of non-performing loans in the total loan portfolio of commercial banks remains high, although it appears to have reached its peak in 2010. Non-performing loans constituted approximately 13 percent of the portfolio at the end of 2009, more than 15 percent at the end of 2010, and came back down to about 14 percent in the second quarter of 2012. At the same time, the ratio of foreign-currency denominated loans fell from over 60 percent at the end of 2008 to about 40 percent in the second quarter of 2012.

**Consumer protection**

Under Component 3.1, FINREP explored a variety of ways to assist both the population at risk and financial institutions in resolving the bad debt problem. Most significant for all key informants in this area were two streams of project activity: the study on consumer lending in Ukraine (FINREP 2011) and support for consumer protection initiatives by banks, non-profits and parliamentarians. The study demonstrated that there is strong asymmetry in bargaining power between borrowers and lenders in Ukraine. Consumer protection advocates stated that a significant share of bad consumer loans could be attributed to the behavior of banks that failed to disclose full information about loans and/or did not permit reasonable modification of the terms of loan agreements. During the crisis, financial institutions used their power to increase interest rates and impose fees, and, later, to seize collateral from borrowers instead of attempting to restructure the debt. This helped motivate the creation of non-profit consumer protection groups that advocate for and provide legal support to consumers attempting to negotiate with banks.

Consumer protection fits within FINREP’s mandate; the project decided to intervene as consumer protection reform discussions got underway and some unworkable reform proposals were being aired. The project reached out to MP Poluneev, head of the Verkhovna Rada subcommittee on Finance, Banking, Tax and Customs Policy. Mr. Poluneev requested FINREP’s assistance in drafting consumer protection legislation. The project supported consumer protection roundtables and other activities. It also worked with banks, banking associations and other stakeholders to help find mechanisms to resolve the problems.

FINREP took the lead role in developing two draft laws aimed at aligning Ukraine’s legal consumer finance framework with best international practice. This was described to us in detail by FINREP experts and strongly corroborated by the lead Verkhovna Rada counterpart. The two draft laws were registered by MP Poluneev in December 2011 with the Rada, namely:

- Draft Law “On Consumer Lending” #9593, essentially adopting the structure and content of EU Directive “On Consumer Credit 2008/48” (initially FINREP provided comprehensive commentaries); and,
- Draft Law “On Amendments to Certain Laws of Ukraine (Regarding Protection of Financial Services’ Consumers)” #9594, setting forth a framework equally applicable to both banks and non-banking financial institutions and introducing consistent and more stringent provisions regarding disclosure, advertising and requirements for financial services contracts.

Acting as part of MP Poluneev’s working group, FINREP analyzed comments made by NBU, SSMNC and FSR and revised both draft laws prior to their being filed with the Rada Banking Committee – with consideration by the Rada tentatively slated for Fall 2012. FINREP was tasked, inter alia, with preparing a comparative table (now filed with NBU and all financial regulators for their consideration) to reflect comments made by financial services regulators following WG discussions with all parties involved. The main issues faced at the time of the evaluation were: (i) how to ensure technical compliance with EU directives; and, (ii) how to define the regulatory power and structure of the Financial Ombudsman (envisioned as coordinator of the existing ministerial departments).

Although the Project’s continuous work in this field appears to be widely acknowledged by those active in this policy sphere, its success ultimately depends on the substance of the new legislation (if any) to be adopted by the Rada.

All key informants who discussed these issues recognized the importance of consumer rights protection, and acknowledged project activities in this area. However, representatives of the banking and capital market sectors expressed concern. Five of these interviewees addressed this issue, and all felt that the approach to consumer protection incorporated in the new legislation gives too much power to consumers. The commercial banks, in particular, were strident in their criticism. In their view, increased protection could encourage borrowers to default, and the law could result in a larger number of bad loans or significantly decrease the number of loans provided by banks. Financial institutions are actively seeking to develop alternative legislation that will address these problems in a way that the sector considers more suitable. One of their suggestions for bringing greater balance is to improve Ukraine’s system of credit bureaus that report on borrowers’ credit history.

**Public awareness and financial literacy**

The financial crisis, problems with bank closures, and bad loans demonstrated two other problems in Ukraine’s financial sector. First is low trust in financial institutions. According to the European Bank for Reconstruction and Development (EBRD) *Life in Transition* report (EBRD 2011), in 2006, banks and other financial institutions in Ukraine were the second most trusted institutions after religious organizations, with over 30 percent of respondents expressing trust in them. In 2010, only about 20 percent of respondents
indicated that they trusted banks, significantly less than they trusted government, religious institutions or the armed forces. The second problem is the population’s low level of financial literacy. The project worked to address these problems with activities under Component 3.2.

The project worked with government counterparts to help plan, design and implement public outreach and awareness campaigns. This included organizing roundtables, workshops and seminars in Kyiv and the regions, conducting workshops for journalists on financial issues, and developing distribution materials and TV campaigns for the Pension Fund. FINREP produced two videos for NBU and conducted a survey of attitudes toward the organization (FINREP 2012) that should allow the bank to develop a campaign to increase confidence in it as a government institution. All key informants who addressed this area approved of the financial literacy initiative, most of them recognizing FINREP’s public outreach support as a success.

The specific component that was appreciated by every key informant with whom it was discussed, across government, IFIs and the private sector, is the survey of financial literacy and awareness in Ukraine (FINREP 2010). A minority of respondents did not recognize this survey as a product of the project, but all expressed the opinion that the survey was a starting point for work on financial literacy. The study provided evidence of limited understanding of financial terminology and financial mathematics by Ukrainian households, as well as the need to advocate for consumer protection measures such as full disclosure of the actual terms of lending by banks and a financial literacy campaign by the government.

Based on the results of the financial literacy survey, FINREP was able to secure approval from NBU and the Ministry of Education to develop a financial literacy course for tenth graders (end of middle school). The project contracted a team of professors from the Banking University of NBU, supported by US STTA teachers to develop the course guide, student textbook and workbook. Materials were approved by the Ministry of Education for use in a pilot course. The pilot was taught in 13 schools in five regions of Ukraine (Kyiv, Lviv, Cherhassy, Kharkiv and Donetsk); the number of schools enrolled in the pilot increased to nearly 70 as of September 2012. The project reported that course materials received high marks from teachers who were involved in the pilot. It also reported that the survey of students conducted at the end of the pilot indicated satisfaction with the course and its effectiveness. The project is working with the Ministry of Education to approve the course as optional or mandatory nationwide.

Half of our key informants who were closely involved in the course (2 of 4) suggested, however, that the course has several significant drawbacks. First, the presentation of material is dense, and pupils who have never been exposed to financial terms have difficulty understanding the materials in the limited time devoted to the course. Interviewees suggested that the course was developed by financial experts who work with adult populations. As a result, material is not presented in a form appropriate to tenth grade students’ level of comprehension. Further, these informants pointed out that the student textbook and workbook are heavy and physically challenging for students to carry to school. They suggested several ways to improve the course: (1) introduce a sequence of more basic courses, including ones for high school and university-level students; (2) involve a youth education specialist in developing the school-level course; or even, (3) develop a specialized computer software/application on the subject. Even the key informants who criticized the course admitted that without it, the financial literacy programs for Ukrainian schools would not have been developed for some time. They credited the course for advancing this process. Informants at one of the market participant

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14 These views were largely confirmed by our review of the study materials.
institutions suggested that the financial literacy effort as it stands is not adequate, and should be extended to the university level.

The project also developed education materials for a younger audience, producing simple brochures for 8 to 10-year olds about financial issues (credit cards, currency, savings and investment, retirement) and tested them on the target audience. This work was mentioned only by key NBU and PFU informants.

**Pension reform**

The project’s work with the Pension Fund was conducted under Component 3.3. The aim of project activity was to continue support to the Fund started by previous USAID projects. Primary project activities involved: (1) supporting the outreach campaign on pension reforms implemented by PFU and the Ministry of Labor and Social Policy (MLSP); and, (2) supporting development of the second and third pillars of the pension system in Ukraine. The second pillar refers to the mandatory investment pension system; the third pillar includes non-mandatory private pension funds. According to the information of the financial market regulator, there are currently 105 non-state pension funds operating in Ukraine.  

FINREP worked on legislation for Pillars II and III of the pension system. It supported the development and revision of legislation required to introduce the second pillar and tighten the supervision of non-state pension funds. The law reflects a policy of balancing the social safety net’s preservation with fiscal viability in the future. FINREP provided detailed comments and legal drafting assistance on draft law #7455 to the Rada Banking and Pension Affairs Committee and MLSP. These comments were primarily focused on Pillar II implementation from the standpoint of participation of non-state pension funds (NPF). The approved law was passed in July 2011 under #3668 and entered into force on October 1, 2011, except for the Pillar II provisions (to be introduced in the year when there is no deficit in the Pension Fund of Ukraine). The Project was also a major contributor in drafting key provisions of Law #0882 On Amending the Law of Ukraine “On Non-State Pension Provision” (Pillar III), which was passed on December 22, 2011 under #4225-VI and entered into force on July 18, 2012. FINREP experts reported that several of their legislative recommendations were incorporated into these laws; this was confirmed by counterpart staff at (the new) FSR and two interviewees in the IFIs and financial sector.

FINREP has contributed to two other legislative efforts in this area that have not reached fruition. The project provided legal drafting assistance on the Draft Law “On Implementation of Insurance Contributions to the Accumulation System of Mandatory State Pension Insurance” (Pillar II, implementation in 2013). Although the initial hope was to submit this draft law to Rada in November 2011, as of the date of this evaluation, the document was still incomplete due to shifting GOU priorities. More recently, the project also assisted MSLP in preparing the Draft Law “On Mandatory Occupational Pension System” that provides for the transfer of

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15 See [http://npf.dfp.gov.ua/](http://npf.dfp.gov.ua/)

16 The comments dealt with provisions on, inter alia: (i) increase in the amount of regulatory capital of the accumulation fund’s custodian; (ii) reduction of administration costs; (iii) use of IFRS by institutions of the systems of accumulation pension provision; (iv) enlarged powers of FSR in supervision of Pillar II; and (v) suggested amendments to provisions imposing criminal and administrative liability.

17 Key elements of the pension law are: (i) a progressive increase of the retirement age for women from 55 to 60 over a 10-year period; (ii) for men, the retirement age increases to 62 progressively by 2016; (iii) each person age 35 or less would be enrolled in the Mass Accumulation System (MAS), acquiring a “second” individual pension account, into which contributions made to the government pension system will be deposited; and, (iv) the minimum service contribution period to receive a pension was raised from five years to 15.
individuals working in hazardous and arduous conditions (and therefore entitled to early retirement from the solidarity system) to Pillar III by having employers of such individuals pay contributions on their behalf to private pension funds. FINREP recommended new wording for certain articles of the draft law and amendments to the related legislation. While this draft law provides for the implementation of this system from January 1, 2013, it was still a work in progress at the date of the evaluation visit.

Another area of project activity was support for the public outreach campaign on pension reform. The project continues to operate a website (http://www.pension.kiev.ua/) that provides basic information on pension reforms in Ukraine and support a hotline operated by MLSP. FINREP developed materials distributed by the Pension Fund and organized regional workshops to educate government officials and the public on specifics of the pension reform.

Interviewees from GOU (FSR, MLSP and PFU), IFIs, and one of the sector organizations recognized FINREP’s contribution to the development of the legislation, and mentioned it as a valuable source of information on international experience in pension reform. The head of the PFU reported that a FINREP lawyer sat on its Advisory Board. While appreciating FINREP, two respondents in government and the financial sector dissented from current policy, expressing doubt that implementing Pillars II and III is a sensible, feasible objective in the near term. FINREP was also recognized for its efforts to improve public awareness. In particular, MLSP informants suggested that without continuing support from USAID, operation of the pension hotline may not be sustained. The head of the PFU was especially grateful for the series of regional workshops on changes in pension legislation that was organized by the project, and considered the training of judges particularly important.

FINREP activities were implemented in a difficult environment. On one hand, the economic and financial crisis of 2008-2009 forced the government to implement changes to the obligatory pension system (Pillar I) that increased the pension age and reduced some special pension provisions. On the other hand, the introduction of Pillar II is still delayed because of the deficit of the Pension Fund. Eliminating this deficit is a precondition for Pillar II implementation. As a result, support provided by FINREP has not yet produced the more valuable and visible changes in the pension system targeted by the original project SOW.

**HOW WAS GENDER ADDRESSED IN THESE INTERVENTIONS?**

Since FINREP was focused on financial sector policy and its implementation, both project and counterpart personnel considered the activities largely gender neutral. The project put its main effort into ensuring gender equality for the activities with immediate outcomes, such as workshops, seminars, training and other similar activities organized by the project. The project PMP required disaggregating performance data by sex where possible. As evident in reports to USAID, project staff collected and presented detailed information about the gender composition of different events, especially for FY 2011 and 2012. Generally, events appear to have strong gender balance, with the ratio of women to men ranging from 65%/35% to 50%/50%. At the same time, key informants admitted that this gender balance is the result of the natural composition of the general population of potential participants invited to each particular event, rather than a special attempt to ensure gender balance. Similarly, the FINREP office has gender balance at all levels of the project, ranging from key experts and management to support staff and short-term consultants. FINREP interviewees demonstrated familiarity with USAID gender and non-discrimination policies, and expressed commitment to implement them. The project did not have a designated gender specialist on staff.

The evaluation team considered other possible implications of project activities for gender equality and ways to ensure non-discrimination based on gender. In the UN’s Gender Inequality Index, Ukraine scored higher (i.e.,
better) than the world average in 2011, ranking 57th out of 146 countries (compare Sweden, ranked 1st, and the U.S., 47th) and showing a positive trend since the 1990s.\textsuperscript{18} The UN data suggest that in Ukraine, small or symbolic measures are unlikely to produce the kind of impact that they might in other parts of the world. The team was not in a position to conduct independent research on the likely effects of FINREP on gender equality. Nor did FINREP commission any such studies. In general terms, policies that improve the pension system and financial literacy while expanding business opportunities and access to finance would (\textit{ceteris paribus}) serve the interests of those who do not already benefit from wealth and connections, including most women. In this respect, the aims of the project are consistent with the enhancement of gender equity, either addressing areas of particular importance to gender status (e.g., pensions) or laying the necessary groundwork for more gender-specific interventions by helping build a stable financial sector.

**TO WHAT EXTENT HAVE PROJECT ACTIVITIES EXPANDED THE DOMESTIC SECURITIES MARKET TO MITIGATE FINANCIAL STRESS AND BROADEN THE FINANCIAL BASE?**

The original FINREP SOW included work on expanding the domestic securities market under Result 4:

COMPONENT 4.1: Government Securities Market – assist the MOF in implementing the Cabinet of Ministers Resolution concerning development of the domestic market for government debt securities, assist the financial sector in organizing primary and secondary markets and regular auctions, help enhance investor relations through communications and other means, and assist in building the infrastructure for the government debt market.

This has been an area of intensive FINREP activity, and one where it exercised its flexibility to adjust the focus and seize opportunities.\textsuperscript{19} While Component 4.1 deals exclusively with government securities, FINREP was able to work on a broader front, including the regulation of private market participants. This fits with the overall goals of the project and particularly the cross-cutting “Special Considerations” such as local capacity-building, sustainability and combating corruption.

There was a significant amount of activity in this field on the development of laws and regulations. FINREP monitored and commented on policy proposals and contributed to the passage of legislation in such areas as the governance of joint stock companies and securities law amendments strengthening disclosure requirements. Other legislative initiatives also involved sustained work by FINREP: on the central securities depository, derivatives and the market for government debt. The project worked closely with SSMNC, the main regulator in this field, providing technical assistance and other inputs on securities market regulation and supervision. The project also supported the operation of the ESCRIN disclosure system and reached out to relevant self-regulatory organizations, including them in discussions and training on capital market regulations.

**Support to SSMNC**

FINREP has supported SSMNC with technical assistance and training in such areas as prudential supervision of the capital markets and regulations dealing with insider trading and market manipulation. This area is a carryover from the predecessor Capital Markets Project. The agenda for TA and training is substantial, given Ukraine’s level of capital market development and the need to move toward EU and best practice standards on financial reporting, disclosure, market behavior and corporate governance. Further impetus comes from the rise in

\textsuperscript{18} \url{http://hdr.undp.org/en/statistics/gii/}. The index represents a composite measure of status in three areas: reproductive health, empowerment and the labor market.

\textsuperscript{19} Again, this was an adjustment in activity planning that served this project objective and also addressed cross-cutting goals.
demand for financial market instruments, as private pension funds and Pillar II contributions flow into the sector.

The project has provided a steady source of legal and policy advice, with FINREP staff and experts checking in regularly with SSMNC on its needs, and the latter seeking input on issues arising within its regulatory ambit. While advisory work is essentially continuous, training runs in parallel in the form of discrete events. For example, a workshop was held in early 2012 in Kyiv, with experts from the US and German securities regulators using case studies and comparisons of Ukrainian law and EU standards. Twenty-five SSMNC staff attended, along with representatives from the stock exchanges and Self-Regulatory Organizations (SROs). SSMNC and FINREP subsequently discussed which recommendations to pursue by means of policy and regulatory instruments. Commissioners have also been sent to seminars in Washington, D.C. to update and upgrade their knowledge of securities regulation. Training and TA are in some ways symbiotic, with seminars and handouts prompting new approaches or even serving as the basis for regulatory proposals.

Under the bilateral MOU and annual plans, SSMNC and FINREP held regular meetings, engaging in joint planning and allocation of personnel, and working on policy matters. Members of the Commission expressed appreciation for FINREP’s assistance, the Chair describing it as responsive, prompt, proactive and sound, and suggesting that it was important in helping sustain SSMNC’s progress on the development of its regulatory and supervisory instruments. The Commission benefited from FINREP’s insider trading seminar, recently launching its first case. SSMNC experts stated that the project’s advice and materials on market behavior regulation were incorporated in the law on investment companies. The project helped the Commission break new ground on prudential supervision by applying this concept systematically to the capital markets, and assisted in crafting legislation and regulations. The process began with issues being raised in the parliamentary committee working in this area. FINREP produced a concept paper then held a seminar; soon after, the process of crafting rules got underway. The prudential norms are slated to be put in place next year.

FINREP also coordinates with other agencies, associations of market participants, and technical assistance providers. One of the associations characterized FINREP as “irreplaceable” for the information, advice and training it provides based on international practice. These organizations acknowledged using FINREP technical papers, and suggested that the project’s timely input on breaking issues was having an impact on policy. There are also frequent examples of joint events such as conferences, where other organizations involved in the market team up with FINREP, leveraging resources to support discussion of financial market policy ideas. Media coverage further multiplies the impact. A joint seminar for private investors involving FINREP attracted 800 participants interested in online trading, and was followed by an increase in trades through that mechanism – as reported by FINREP and confirmed by informants in one of the market participant institutions.

Along with the positive comments on FINREP’s contributions to capital market regulation, interviewees in this sector expressed concerns about the project and the direction that the market regulatory framework is taking. From the perspective of market participants, there has been a buildup of new requirements aimed at improving market soundness and approximating EU standards. These include more stringent licensing requirements for large firms, audit and risk management standards, and others. FINREP was associated with some of these efforts. Informants from one of the main associations in this sector expressed concern about these developments. The concerns relate not to FINREP but to SSMNC’s perceived heavy-handed application of standards developed

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20 The team met with the Chair and five other senior officials jointly, and followed up with shorter conversations with three of the senior officials.
with the project’s assistance and the challenges of compliance given market participants’ unfamiliarity with the new approaches.

A further set of worries relates to the concentration of power within the market and regulatory authorities. Officials from a leading group representing market participants see Ukraine moving toward a model of capital market trading dominated by large universal banks – an approach that tilts in favor of the commercial banks while exposing them to greater risk. The more stringent regulatory demands place increased pressure on market traders, for whom compliance costs represent more of a financial challenge than for the banks. On the level of regulation, NBU has raised concern among observers and stakeholders in the financial markets that it seeks in practice to become a “super-regulator.” This fear was expressed by informants in two of the three sector organizations who discussed this question with us, as well as others affiliated with the project. SSMNC and NBU see this concern as unwarranted. In principle, having a single agency with ultimate authority (such as the UK’s Financial Services Authority) can have important benefits. But this regulatory model has not been adopted de jure. In the Ukrainian political context, NBU’s informal concentration of power can credibly be interpreted as a potential threat to SSMNC’s independence and to a balanced distribution of authority among the various financial regulators.

**ESCRIN**

As part of its work for SSMNC, FINREP has supported the operation of ESCRIN, an online database enabling publicly traded companies to directly enter financial results and annual reports. The project has provided training, improved the functionality of the software, updated manuals, and revised the regulations. This, too, was an activity inherited from a predecessor project. FINREP reports 160 large publicly-owned firms as having filed disclosures through ESCRIN. The project views this as changing the disclosure paradigm through simplified, real-time reporting, as compared to the old system of voluminous (and sometimes useless) company reports processed by administrators that were prone to error and undue influence. Changes in the reporting mechanism and procedures are therefore important to the integrity of the market. SSMNC officials credit FINREP and its predecessor project with providing help that made this improvement possible.

**Central securities depository**

FINREP played a prominent role in the SSMNC working group to develop legislation on the central securities depository, an institution that performs custodial and clearing functions critical to the safe, efficient operation of the capital market. It also advised on practical matters related to the running of the depository, such as valuation of the largest private-owned depository in connection with its potential merger with the one set up by NBU. The project agreed with the principle of establishing a central national depository rather than relying on private initiatives that did not serve the whole market in accordance with best practice. But it argued – unsuccessfully, in spite of support from international financial institutions – that the depository should be owned by the market participants themselves rather than the state.

In late 2011, the Cabinet of Ministers disappointed expectations that it would keep the largest Ukrainian depository in mainly private hands, replacing the depository’s supervisory board with one dominated by NBU. Also at that time, the government proposed legislation that would create the Central Securities Depository (CSD) on the basis of the National Securities Depository (NSD) set up by NBU. In effect, the law would strengthen the state’s role in corporate governance through the CSD ownership structure, and its control over the clearing and

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21 For example, through former NBU officials serving as SSMNC senior management.
settlement functions through the state-owned Central Settlement Center (CSC). The Law of Ukraine “On the System of Securities Depository Record Keeping” #9428 was passed by the Rada on July 6, 2012 and was due to be signed by the President in September.

FINREP’s effort to dissuade GOU from nationalizing the depository system came to an unsuccessful conclusion. The project took the view that the new arrangement would weaken confidentiality in the securities record-keeping function and thereby send a negative message to foreign and domestic investors about the security of investments in Ukraine. NBU sits on the CSD board, and will inevitably influence the other members, who include banks and issuers. In the abstract, there would seem to be no major cause for concern here, but given current circumstances in Ukraine, private sector ownership could be seen as a check against political intrusion, while state ownership could increase the perceived risks of such intrusion. As Ukraine seeks foreign investment as well as placement opportunities for pension funds, the stakes are rising. As a result, FINREP reported at the time that it would step back from its work with CSD, engaging only “as appropriate and requested by the donor community and private sector to counter this nationalization effort.”

Opinions among informants are divided about the significance of this. Some agree with FINREP’s assessment, and indeed feel that the situation might have been worse but for the project’s efforts in opposition. SSMNC, NBU and some financial market participants disagree. Interviewees at the Commission and the central bank felt that FINREP is unduly worried about government ownership. They pointed out that the law allows private ownership and suggested that eventually, government would have to reduce its shareholdings to a minority position. Further, there are central bank-based clearing houses in best practice jurisdictions including Europe. SSMNC representatives and others argue that NBU has the resources to run a clearing system, where the private sector does not. Three interviewees representing domestic and international financial institutions discussed this matter with the team. Two of them shared FINREP’s concern; the third did not. Time will tell who is right, and whether FINREP’s approach would have been the most appropriate one for Ukraine in the context. It appears, and is confirmed by interviewees from IFIs, that FINREP helped ensure that the issue of CSD ownership was raised and discussed by sector stakeholders and policymakers.

**Derivatives reform**

In another difficult situation, this one involving new legislation on derivatives, FINREP has joined a contentious policy debate. An initial draft law, # 8576 “On Derivatives,” initiated in the Verkhovna Rada, was widely criticized and ultimately withdrawn in April 2012. A senior official of NBU credited FINREP with providing the policy analysis and discussion that persuaded the Rada to drop the bill. The project then collaborated with a joint International Monetary Fund (IMF)/EBRD mission to draft a derivatives law for Ukraine. IMF and EBRD each proceeded to develop their own draft law, with FINREP playing a supporting role, offering comments and recommendations. The Project’s involvement was much appreciated by interviewees from both IMF and EBRD, the latter reporting that FINREP provided “very substantive comments that were well thought out and showed a really good grasp of what’s happening in Ukraine.” A difference of approach emerged between the main external advisors, with one side supporting a “best practice” approach of passing a single act presenting the new model comprehensively, and the other side arguing for a gradualist approach of amending a number of relevant laws in order to achieve the essential aims of the reform. While FINREP is prepared to continue working in this area, it has decided to remain neutral until a consensus is reached.

**Government debt market**

FINREP has been actively engaged in promoting the development of a market for government debt instruments. Success here will achieve a number of important policy goals, among them, enhancing government’s ability to
manage the money supply, stimulating the market for securities more generally while providing price guideposts, expanding investment options for pension funds and others, and enabling banks as dealers in the market to develop their capacity and client relationships. Much of FINREP’s activity is aimed at recreating and updating practices, infrastructure and bond instruments that fell into disuse due to the events of the last several years, including the global financial crisis. The project works largely with MOF, though NBU, IMF and commercial banks are also important participants. This component of FINREP began as part of the predecessor Access to Credit Project.

The project contributed to the development of the regulatory framework in the following areas:

- It assisted in drafting the Regulation “On Public Debt Related Risk Management” (approved by the Order of the Ministry of Finance #461, dated June 16, 2010);
- The State Budget Stabilization Working Group under the MOF incorporated several FINREP proposals into Law of Ukraine “On Amending Budget Code of Ukraine and Other Legal Acts of Ukraine” #3614-VI, dated July 7, 2011, regulating certain public debt issues;\(^{22}\)
- The project assisted the MOF in developing a draft Cabinet of Ministers Resolution “On Risk Hedging and the Use of Derivatives In Public Debt Management,” and crafting a compromise to overcome NBU opposition; and,
- FINREP recommendations (e.g. on monitoring the average weighted maturity of debt to achieve a trade-off between refinancing risk and cost of borrowing, and evening out the semiannual debt redemption profile) were incorporated into a draft Cabinet Resolution currently awaiting approval.\(^{23}\)

In tandem with the above work, FINREP cooperated with MOF and other partners to build government debt management capacity, reestablish the public bond auction system, and establish an effective market for the full range of bond rates and maturities – or “yield curve” – to meet the needs of government and investors. The project prepared analytical papers, assessments, plans and procedures in these areas, and provided training by means of expert seminars in Ukraine and conferences abroad. Among the project’s achievements was helping establish the MOF Government Debt Risk Management Program and procedures to coordinate state budget requirements and the needs of the pension system with bond market development (reported by FINREP staff and confirmed by MOF informants). FINREP has also been active in helping create new debt issues and instruments including VAT bonds, a Eurobond offering, covered bonds based on (full recourse) loan securitizations, and derivatives enabling risk hedging for foreign currency and other types of exposures.

FINREP worked to develop both the primary and secondary debt markets. This involved a range of initiatives, from ensuring constant and transparent pricing information, to vetting and monitoring a group of approved primary dealers. The project helped institute the daily collection and publication of market price information in the form of a “quote sheet,” as well as procedures for firm price quotations for government securities on secondary markets. One of the project’s key initiatives was helping set up a system of primary dealers, under which commercial banks could apply to become preferred dealers of government bond issues. This arrangement has produced what an independent observer described as a “vibrant market” in debt securities, with 16 commercial banks operating as primary dealers. With FINREP support, MOF expanded the population of

\(^{22}\) Source: FINREP reports and interviews, informants at MOF including a government debt specialist, and a check of the legislative and regulatory texts cited.

\(^{23}\) Ibid.
dealers to stimulate the growth of the market, instituted a dealer performance-monitoring framework, and estabished regular meetings with the dealers to ensure smooth operation.

Another FINREP initiative was promoting a market for repurchase (and) reverse repurchase transactions, or “repos” — a method commonly used in developed economies to manage liquidity in the financial system. Repos are not entirely new to Ukraine, but have not been common practice, and the impact of the crisis has created a serious need for such instruments. FINREP has held a number of forums and workshops in this area, and ensured that the NBU study tour to London covered repo issues. The project has worked with market participants, banks, exchanges, MOF and regulators to gain consensus on the basic framework for repos, including a master agreement and legal-regulatory amendments in areas such as taxation and clearing procedures. In addition to developing the foundations of a repo market, FINREP has promoted the use of repo transactions. It has encouraged MOF and NBU to put unused fund balances to work, injecting them into the financial system. While MOF has been receptive to this idea, NBU has been slower to respond, making only limited use of repos for internal purposes. Meanwhile, banks have taken an interest, and municipal governments are exploring the idea of using repos as well. Officials at NBU, a market participant institution, and an independent institute attributed the new salience and usage of repos to FINREP’s work on the legal framework and its public discussions in this area.

The project also originated the practice used in developed economies of publishing a weekly overview of the government debt market. The result is its publication FINREP Focus, which is distributed to participants in the domestic government debt market, including primary dealers, as well as the IMF, USAID, the US Embassy and others. From the project’s point of view, FINREP Focus not only enables it to promote the market and supply the range of information needed for the market to function, but also allows the project to present critical views that might otherwise provoke a backlash — for example, if expressed directly by a market participant. The publication covers the latest debt auctions, trends in the markets, policy developments, etc. FINREP Focus is widely cited as vital, insightful and a basic information source in a context generally lacking transparency. FINREP reports that Moody’s, IMF, and market players rely on it. This was confirmed by informants in IFIs and sector institutions. One of the latter suggested that it merits a larger commitment of resources in order to broaden coverage and circulation. One representative of a major international bank in Kyiv confessed to being unaware of it.

The government debt field appears to have had, as compared to others discussed here, the greatest ongoing demand for assistance from FINREP. The project has produced a steady stream of work for MOF and, to a lesser extent NBU, while also producing information and analysis for stakeholders more generally. The debt market advances supported by FINREP are not entirely new, yet it is clear that the market was substantially underdeveloped and needed to build some basic capacities and know-how. Further, as in other project domains, FINREP’s input in this area was supply-driven at a few points early in the project, but since then, has been largely servicing major demands for help, and partnering with other organizations to host discussions and address other matters. MOF officials have expressed satisfaction with FINREP’s assistance, and said that, as a rule, the project is more prompt and responsive than MOF’s sister GOU agencies. IFI informants said that, here as in other fields, FINREP has helped keep a bad situation from getting worse, and helped make advances where possible. There have been positive changes in the management and policy framework for government debt, and a growing consensus on what needs to be done. The project has been very active here and has contributed tangibly to the changes, as reported by FINREP and confirmed by MOF and IFI officials, as well as an independent observer involved in the sector. But the fundamental project goal of filling in the yield curve has not yet been achieved.
WHAT FACTORS ENABLED OR INHIBITED THE ACHIEVEMENTS OF STATED OBJECTIVES AND HOW WERE THE LATTER SUCCESSFULLY OVERCOME, OR, IF NOT, WHY NOT?

FINREP was designed as a quick response to Ukraine’s need to combat the financial crisis that started in 2008-2009. It was a continuation of USAID's pre-crisis work in several areas connected with the development of financial markets and was implemented by a consortium of four firms: Booz Allen Hamilton, Inc. (BAH), with Bankworld, Inc., Cardno Emerging Markets USA Ltd., and Financial Markets International, Inc. (FMI), who had prior experience working in Ukraine. FMI continued implementation of the predecessor USAID-funded Capital Markets Project in parallel with FINREP for the first year of the project.

The expectation was that the project would start fast, without the initial delay that new projects implemented by new contractors typically experience, but FINREP got off to a slow and rocky start in its first year of implementation. This is clear from FINREP interviews and reports. According to the self-evaluation, the consortium recognized this internal problem and took steps to improve the situation by replacing the COP and some senior-level staff. Since Year Two, FINREP has worked effectively and is compared favorably to other international technical assistance projects, as indicated by the interview findings cited above.

A number of inhibiting and enabling factors shaped the project’s effectiveness. Constraining factors discussed in key informant interviews, project materials and research include the following:

1. A challenging political environment that makes it difficult to implement reforms in the financial sector and introduce more transparent legislation.
2. Corruption and rent-seeking behavior of government officials generally (though not attributed to those working directly with the project).
3. Increasing centralization of regulatory power over the financial sector (despite best international practice and recommendations from international organizations to the contrary).
4. Rapid turnover of staff at government institutions, and lack of experienced, qualified staff in technical and top management positions.
5. A complex bureaucratic system for cooperation with international organizations, with burdensome paperwork, coordination and procurement processes.
6. Frequent changes of direction and attitude toward reforms, and unwillingness to accept advice and technical assistance from international organizations. The example mentioned by most key informants is GOU’s unwillingness to implement all the criteria to unblock funding from the IMF stand-by program. The key informant interviews and self-evaluation suggest that during project implementation, MOF and MLSP were among the counterparts that most agreed with the project’s objectives, while certain regulators of the financial markets (excluding NBU) and the Cabinet of Ministers were among the least engaged in the project.
7. Relations among implementing partners were often inhibiting factors for the project. In the self-evaluation, implementing partners gave an average rating of 3 to the relations between the consortium members (on a scale of 1 to 5). As explained above, these factors were corrected late in the first year of the project.

FINREP experienced constraints similar to those reported by other projects in Ukraine. Several recent evaluations of USAID-funded projects cite the lack of political will for reform, uneven interest by government counterparts in technical assistance, rapid turnover of government staff, and bureaucratic and rent-seeking

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24 For example, the Evaluation of the Indiana University Parliamentary Development Program.
behavior among state officials. The financial crisis and change in the government during the project appear to have intensified these factors. The crisis elevated the problems in the country’s financial sector and public finance to the level where government had to pursue reform urgently.

One ongoing constraint that the project must deal with is occasional difficulty in cooperating with counterparts. NBU has at times been unreceptive to FINREP suggestions, as in the case of the Central Securities Depository. Disagreements are normal, but FINREP also reports periodic difficulty in getting the cooperation of senior NBU officials and in reaching agreement on strategy. For example, as discussed above, it appears that NBU (along with most commercial banks) is not complying with the expanded transparency requirements of the new Law on Disclosure of Ultimate Controllers of Banks.

In this, the project appears to be typical. According to an IFI interviewee, top NBU management is not very open to outside advice from any quarter, and needs to be persuaded of its value. A former regulator in the sector added that NBU usually seeks to act unilaterally and to avoid cooperation with other regulators. FINREP appears to have kept its relations with NBU on relatively positive footing through its responsiveness, not only on key issues of financial market policy, but also by supporting NBU in meeting its needs in special areas of interest such as financial literacy and NBU’s public relations.

MOF has been more welcoming of FINREP’s advice, but has suffered staff cuts and personnel turnover. There appears to be no real civil service career path, and political change intervenes to disrupt the activities and learning of government officials. FINREP has tried to address this constraint by carefully selecting junior and senior staff participants for training events – especially the international forum on government debt held in Vienna. An important factor in MOF’s smooth cooperation with FINREP is the urgency of government debt reform arising not only from the domestic context, but also from performance conditions stated in the IMF standby agreement (see below).

Project implementation faced several setbacks due to events beyond FINREP’s control. The most disruptive change affecting a GOU counterpart was the liquidation and replacement of FSR. These changes are obstructing the implementation of reform in the near term by, for example, delaying FSR’s application of IFRS in its disclosures, and populating FSR with a cohort of inexperienced staff who will change again after the next election – although a number of staff from the old entity have been retained in the new agency. The adverse conditions at FSR made it difficult for FINREP to partner successfully with it. This, combined with the project’s need to prioritize, limited FINREP’s impact on FSR and its regulatory sphere.

FINREP’s pension reform activities also suffered from external constraints. As mentioned above, the introduction of Pillar II of the pension system is still delayed because of the deficit of the Pension Fund. Removing this deficit is a precondition for Pillar II implementation. As a result, the support provided by FINREP has not yet produced the more valuable and visible changes in the pension system targeted by the original project SOW.

In several cases, initiatives in which FINREP was involved were disapproved, abandoned or turned in a different direction by policymakers. An example mentioned above is the securities depository. Another is FINREP’s involvement in proposed legislation on the restructuring of “toxic” bank assets. There, the FINREP team worked alongside the World Bank Group (IFC) and the Association of Ukrainian Banks. The draft amendments, however, were rejected by the Verkhovna Rada Banking Committee. Representatives of a major banking sector

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25 Information on FSR comes mainly from interviews with two persons with direct knowledge of the agency before the 2011 change.
association interpreted this as an instance of the power wielded by insolvent debtors, including prominent business and political interests exerting undue influence on the parliament. FINREP tried following an alternative approach, seeking to assist with the restructuring of individual banks.

What, then, were the enabling factors? The financial crisis itself can be viewed as an enabling factor in achieving project goals. The crisis amplified the challenges of funding budget expenditures and the pension fund deficit, and created additional public pressure to resolve banking sector issues that affected large groups of the population. It appears that government was trying to fulfill some of the IMF requirements to unblock access to stand-by program funds. In order to do this, it had to implement reforms in the financial sector and public finance, and take unpopular steps to reform the pension system. This increased demand for technical assistance in drafting new legislation, since the government had a mandate to implement reforms quickly. One example of this is the project’s assistance in drafting the Law on Disclosure of Ultimate Controllers of Banks, a structural benchmark under the IMF-Ukraine Stand-By Agreement.

The pension system’s need for safe investment vehicles with a modest but steady rate of return is one of the key driving forces of debt market development. This need will become particularly pressing when Pillar II takes effect. The imperatives of developing the capital markets and encouraging inbound foreign investment also play a role here. In other words, pension, capital market and government debt reforms were mutually supportive, forming a triangle linked by compatible incentives. In the field of financial reporting standards, conditionality and debt were less relevant, but the agenda of bringing Ukraine’s banks, capital markets, accounting firms and others into compliance with international standards provided effective motivation. It helped that the process of IFRS implementation had gotten underway several years earlier, was supported by a predecessor project, and had momentum.

Independent of crisis effects, other factors in the Ukrainian and project contexts proved advantageous to FINREP’s work. The project was able to employ a number of qualified, seasoned Ukrainian professionals who have been critical to the project’s success. There are several reasons for this, including Ukraine’s endowment of highly qualified and motivated people in this area, the opportunities such professionals have had to work on similar projects over the last two decades, and the continuity of FINREP with earlier projects, some of which bequeathed able staff to the project. A related factor is the relatively high level of Web access and computer programming skills in Ukraine. These have helped make online methods of dissemination and interaction readily available in such areas as IFRS and financial literacy. Web presence, in turn, is having a multiplier effect on project outreach in those fields. Not much mention was made of social media, which could extend this effect in new ways.

**WHAT WERE THE MOST EFFECTIVE STRATEGIES USED IN ESTABLISHING WORKING RELATIONS WITH THE PROJECT’S MULTIPLE COUNTERPARTS IN THE CONSTANTLY CHANGING UKRAINIAN ENVIRONMENT? FOR STRATEGIES THAT DID NOT WORK, WHAT WERE THE CHALLENGES, AND HOW COULD THEY BE FURTHER IMPROVED?**

Due to the diversity of tasks performed by the project, FINREP had a significant number of official government counterparts, including:

1. Cabinet of Ministers (COM), MOF, Ministry of Economy (MOE), Ministry of Justice (MOJ);
2. Verkhovna Rada profile committees; and,
3. NBU, SSMSC, FSR and DGF.
In addition, project stakeholders and counterparts included various industry organizations (such as bankers' and other associations, Federation of Employers, etc.), non-governmental organizations (NGO), advocacy groups, media organizations, etc.

Establishing good working relations was identified by key GOU (Rada and two counterpart agencies) and international organization informants as one of the keys to project success in FINREP’s last two years. Self-evaluation suggests that the project has stronger relations with the international community (including USAID) than with GOU. The evaluation team noted that the project was complimented and highly regarded by international counterparts for its willingness to cooperate and to consider the views of other donors and technical assistance projects.

Among GOU counterparts, the project established strong relations in specific areas with NBU, MOF and MLSP, while recognizing some weaknesses in other areas. In particular, the project just started reestablishing relations with the new FSR (now called “National Commission Carrying Out State Regulations in the Sphere of Financial Services Markets”) after its reorganization last year. Key government informants confirmed the assessment of relations given by project implementers.

Our review of interview responses points to a few key requirements in establishing working relations with government counterparts:

1. Flexibility and persistence. This includes flexibility in scheduling and rescheduling meetings and understanding the bureaucratic limitations that counterparts have. One successful method that was mentioned by officials in a majority (5 of 6) of FINREP’s government counterpart agencies is to develop a realistic annual activity plan and to be persistent in its execution. These informants noted that planning is a weak point in GOU departments and TA projects generally, and that joint work plans enhanced FINREP’s effectiveness.

2. Use of local staff (including the DCOP) that includes established experts in the field who have long-standing relations with government counterparts. It became clear from FINREP reports as well as our interviews with stakeholders that the project benefited from these relationships, building upon them to ensure regular contact and open channels of communication.

3. Being considerate of the ongoing needs of government counterparts. As reported by FINREP, most criticism of project implementation, especially in the first year, was due to the project’s agenda of implementing activities that were overly supply-driven, and hence not top priorities for government counterparts. The activities considered most successful by the counterparts were the activities that fit with the internal plans of the government agency, and, in most cases, were proposed by the counterpart institution. The project was proactive in proposing activities in some areas, for example in financial literacy, but conformed to the counterpart’s wishes, as reported by officials in two of government counterpart agencies, as well as interviewees in the Verkhovna Rada and the international community.

4. Finding new ways to help. As reported above, FINREP appears to have kept its relations with NBU on a relatively positive footing through its responsiveness, not only on key issues of financial market policy, but also by supporting NBU in meeting its needs in special areas of interest such as financial literacy and NBU’s public relations.

FINREP worked effectively with the international community by means of close coordination and avoiding inconsistencies of approach to government counterparts. The project stepped back or worked out a joint approach when other international organizations were actively involved. It also recognized that government counterparts have stronger incentives to follow advice from IFIs such as the World Bank Group that provide substantial resources to support reforms. This strategy allowed FINREP to concentrate its limited resources on
the problems it could help resolve effectively. In this way, the project gained the trust and cooperation of its international counterparts, even intervening on one or more occasions to arbitrate differences of opinion between donors. This pattern was reported by FINREP staff and confirmed by informants at the two leading IFIs active in this field.

Some concerns have been expressed (especially by the private sector) about the project’s ability to service all of its counterparts effectively. One view holds that FINREP has taken on too much – it has too broad a mandate and is too ambitious in its objectives – and should take a narrower and more realistic approach. A related concern is that FINREP’s interaction with different banking and private sector associations has an episodic quality, that the project does not always have the time or interest to deal with some of the sectoral organizations.26 This no doubt reflects the sequence in which different policy matters arise to take FINREP’s attention, and the inevitable tradeoffs in the use of human resources. But the project would do well to note this and engage in some broader counterpart maintenance as time allows. One or the other (or both) of these issues was raised by five respondents including GOU counterpart officials, sector association representatives, and others. The banking sector’s concerns centered mainly around whether FINREP is attending to the most urgent policy priorities (from the banking perspective).

Further, ongoing cooperation with government will likely face structural changes and challenges. According to a senior NBU official, Ukrainian policy on foreign assistance is changing, with the result that cooperation with FINREP will have to be more structured, reflecting an agreed work plan. The official acknowledged that the fluid character of the project in prior years was due in part to the crisis itself, along with wholesale changes in government personnel – but it looks forward to a structured form of cooperation.

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26 One or the other (or both) of these issues was raised by a minority of GOU counterparts, sector associations and others – about one-third (5 of 16) of respondents who discussed this matter.
III. DISCUSSION AND CONCLUSIONS

In this part of the report, we return to the questions posed in our Scope of Work in order to draw conclusions from the findings in each area. In this discussion, we provide analysis that links back to the findings and provides the basis for recommendations presented in the next section.

First we offer a few general conclusions:

- The project provided substantial assistance to GOU and was recognized for its work toward achieving all four project objectives.

- At the same time, a few of the formal targets provided in the original project SOW were either not met or were abandoned.\(^{27}\) Achieving most of the targets depended on external factors that were outside the project’s direct control.

- The project demonstrated flexibility, adjusting the focus of the work (within the broad parameters of the project design) in response to evolving opportunities, constraints and counterpart needs. Some impacts of the project are not yet visible, but are likely to be in the future.

- The project had some internal problems in the first year of implementation. However, the implementing partners made changes that allowed the team to catch up with the initial project plan and achieve strong performance in the remaining years.

Our discussion of findings and presentation of conclusions with respect to each evaluation question follows immediately below. In each case, we also put forward recommendations that are developed in full in the last part of this report.

As noted previously, success in changing an economic environment – such as by building a sound, transparent and resilient financial system – involves long-term changes in attitudes and practices. Correctly measuring success requires prolonged observation of these practices. Also, adoption of new legislation by itself does not mean that market practices will shift toward compliance. A performance evaluation such as this cannot overcome these constraints to provide definitive measurement of changes in the soundness, resilience and transparency of a financial system. This evaluation came near the end of FINREP project implementation, when most of the reforms developed with the help of the project were newly adopted or early in implementation. The long-term effect of project interventions could not yet be observed. The evaluation team observed immediate outcomes, and relied on its own expertise and the opinions of other experts to assess whether these outcomes could lead to the desired project impacts. Findings presented in this report are subject to various interpretations. In the discussion below, we provide the reasoning behind our judgments of success and failure, which inevitably have an element of subjectivity.

\(^{27}\) These include: bank recapitalization, training vulnerable people in debt restructuring, strengthening adjudication processes in bank resolution, and increasing private pension funds’ share in GDP. Also, by FINREP’s accounting, of the 22 indicators adopted in the PMP, project targets were met for 13 of them, the targets were not met for 6, and in 3 cases no results were reported due to lack of data or changed circumstances.
TO WHAT EXTENT, AND HOW, DID THE PROJECT SHAPE THE LEGAL AND REGULATORY ENVIRONMENT FOR THE STABLE, TRANSPARENT, AND RESILIENT FINANCIAL SECTOR IN UKRAINE?

The presentation of findings in the previous section shows that FINREP assisted in the development of several laws and regulations across a range of financial services and capital markets areas, including several in the banking field. The project monitored and commented on a larger number of legislative and regulatory proposals relating to the stability and oversight of the financial sector. FINREP’s monitoring enabled it to inform others, become part of the debate, and intervene in policy development – by request or of its own initiative. It intervened productively in such areas as DGF and consolidated supervision/disclosure of banks’ ultimate owners, but was unsuccessful in securing full implementation of reform in such areas as bank recapitalization and restructuring of toxic bank assets due to policy decisions beyond its control.

In all these cases, FINREP’s advice supports the project’s objective of bringing the policy framework into conformity with best international practice. Changes in this direction are at risk of dilution, if not reversal. The DGF reform, in which FINREP played a significant role, was to become operational in late September 2012. While it will no doubt provide important benefits in the stabilization and restructuring of the financial sector and the protection of depositors, there are concerns that NBU’s broader move to centralize authority could reduce DGF’s independence and, thus, its effectiveness. Regarding disclosure of ownership, evidence shows that the new requirements are not being carried out fully by NBU or the majority of the banking sector. The policy objective of enhanced transparency remains unmet for now.

Our findings have shown that Ukrainian counterparts in government and the banking sector appreciated FINREP’s outreach, responsiveness and technical input. NBU described FINREP assistance as demand-driven. Differences of opinion between project experts and NBU were discussed openly, and consensus positions reached. Representatives of the financial sector were more mixed in their appraisal. They appreciated FINREP’s cooperation, citing the project’s proactive outreach and willingness to confront “the right issues.” At the same time, several expressed concern that FINREP did not reach out to the sector sufficiently or did not support the priorities of particular segments of the banking sector.

In summary, FINREP provided best practice advice on the development of Ukraine’s financial sector legal-regulatory framework. It did not always succeed in persuading policymakers to follow its recommendations. Where it did succeed, the dysfunctions present in Ukraine’s governance risk defeating the reform goals advanced by the project, at least in the near term. In the longer perspective, the project helped shape the discussion, set some important benchmarks, and persuade key people of the merits of best practice reforms. In particular areas (e.g., DGF), the threat of undermining could well be turned back, even in the near term.

Projects providing TA to support institutional and policy reform aim at systemic change, but their success depends (to a greater degree than most aid programs) on actions beyond their control. The defeat or reversal of reform is an ever-present possibility in all such projects, making them high-risk, high-return investments. Outcomes in terms of banking activity, financial stability or private sector growth take time to materialize. This is clear from the chain of causation involved:

TA → Problems understood → Reform discussed → Reform proposed → Reform enacted → Implementation → Financial sector response → Private (real) sector response.

In this simplified schema, each link in the chain involves some combination of principal-agent dynamics, information flow, persuasion and action in the political and market realms. This highlights the need for timelines and performance metrics tailored specifically to projects of this kind. Further, each node is subject to a
complexity of different influences moving in a variety of directions, making the attribution of causation highly problematic, even in the most rigorous study.

Our main conclusion here is as follows: FINREP helped shape the legal and regulatory environment for a stable, transparent and resilient financial sector in Ukraine. Our findings suggest that it did so by working effectively with key counterparts in government (primarily NBU, also MOF and SSMNC), the Verkhovna Rada and the banking sector, offering prompt and responsive input to these counterparts, taking the lead on a few critically important reform matters, and by providing appropriate expertise. The extent to which the project shaped the legal-regulatory environment was moderate. Our findings show that interviewees both in and outside official counterpart agencies consider FINREP’s input to legal-regulatory reforms in the financial sector as well-targeted and in conformity with best practice. They believe, further, that this input contributed to the adoption of reforms supportive of a stable, transparent, resilient financial sector in several areas, especially the Deposit Guarantee Fund and the disclosure of bank’s ultimate owners. These and other reforms have not had the effect of improving Ukraine’s financial sector, partly because they are too recent and partly because the full implementation of those reforms consistent with best practice is in question.

**RECOMMENDATIONS:**

- Try for a tighter fit among project objectives, performance metrics, time horizon and realities on the ground, including available resources and political context.

**TO WHAT EXTENT, AND HOW, DID THE PROJECT AFFECT THE CAPACITY OF THE UKRAINIAN FINANCIAL SECTOR INSTITUTIONS TO IMPLEMENT REFORMS AND RAISE THEIR PERFORMANCE TO INTERNATIONAL BEST PRACTICES?**

We found that the project provided training to the original counterparts mentioned in the SOW (i.e., financial institutions and the judiciary), but in practice, this comprised part of a broader effort to build capacity that also included regulators, associations, accountants and others. The logic of the original design was perhaps flawed, given the obvious importance of policymakers, regulators and non-banking professions. As mentioned above, working with the latter groups fits the objectives of the project while also addressing the cross-cutting “Special Considerations” such as local capacity-building and sustainability. The capacity-building that took place went beyond the supply of training and materials (including study tours) to include technical assistance in creating organizational structures (DGF), implementing and disseminating financial reporting standards (IFRS), and other initiatives.

Capacity-building initiatives are always at risk of failure due to vague objectives, mis-targeting and oversupply. FINREP interviews and reports indicate that the project addressed the first of these by staying focused on the objectives of reform and improved performance in the financial sector, and especially by ensuring that its efforts under those two headings were mutually supportive. In several instances, for example, the emergence of a specific policy issue led to the convening of roundtables and training seminars. The latter, in turn, produced recommendations or roadmaps for how to proceed with reform. In terms of targeting and supply, our inquiry discovered no particular cause for concern. Given the difficulties posed by circumstances in Ukraine, particularly staff turnover (see below), the choice of topics and participants does not appear unreasonable. Participants, as expected, were nearly unanimous in their appreciation of the training. Given the likely reticence to raise issues

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28 Recommendations are discussed in more detail in the last part of the report.
here, it is significant that a few study tour participants suggested that the tours could have been more carefully tailored to support FINREP objectives.

FINREP faced difficult choices. Not everyone’s capacity could be built, so the project had to be selective. Our review shows that the project kept a focus on the main regulators and policymakers dealing with the largest domains of financial activity, while inviting other players such as banks, associations and FSR to participate in FINREP events, and providing some of them (FSR in particular) with occasional TA. A further dilemma arose as a result of personnel turnover in FINREP’s government counterpart agencies. Political change resulted in the replacement of both senior officials and line staff. The project lost its investments in human capital and relationships. As with the risks inherent in supporting reforms subject to reversal, the investments in individuals do not pay off in the near term, but could prove valuable over the longer term. We were not able to determine how many governmental trainees lost their jobs, but the number is not trivial. In this light, diversifying capacity-building inputs beyond training alone appears both a practical means to meet project objectives as well as a useful risk-hedging strategy.

The banking sector expressed concern as to whether FINREP is attending to the most urgent policy priorities. Some worried that the sector would lose its voice in policymaking as NBU consolidates its power vis-à-vis the banks and sector associations. Other interviewees thought that FINREP should be more active in ensuring that the banking system is competitive and better serves the interests of small businesses and lower-income clients. To be clear, addressing competitiveness as such is not part of FINREP’s responsibilities, but the banking sector’s competitive structure is relevant to the project’s goals, and was included in the early stages of FINREP.

Good international practice and FINREP’s design support a focus on the biggest institutions during financial sector crisis recovery and restructuring. It is also reasonable for stakeholders to question whether, in a given setting, some greater attention might not be paid to the population of smaller institutions and to questions of competition. The aftermath of the global crisis has highlighted the tradeoffs between stabilizing macroeconomic fundamentals and large systemically significant institutions, and addressing the needs of competitive smaller players. Both approaches have a reasonable claim to be correct; the direction FINREP took was, indeed, more consistent with its project design.

Is there any external evidence that the project’s reform and capacity-building efforts moved the sector in the direction of best international practice? Available indicators actually show a movement in the opposite direction. For example, the PMP cites an indicator of banking sector soundness from the World Economic Forum Global Competitiveness Report. The results for 2009 to present are as follows.

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2010</td>
<td>3.42</td>
<td>133</td>
</tr>
<tr>
<td>2010-2011</td>
<td>2.49</td>
<td>138</td>
</tr>
<tr>
<td>2011-2012</td>
<td>2.82</td>
<td>141</td>
</tr>
<tr>
<td>2012-2013</td>
<td>3.10</td>
<td>142</td>
</tr>
</tbody>
</table>

It is wise to keep in mind that this evaluation is a “performance,” rather than an “impact” evaluation. We cannot attribute causation. The data show that neither FINREP nor any other participant in the sector was able to
counteract the negative trajectory of Ukraine’s financial sector since the crisis. But this is saying very little. One can more usefully say that FINREP chipped away at a number of policy and capacity problems in ways that appear reasonably calculated to improve the situation, or at least to keep it from getting worse. It is our judgment, and that of many key informants, that this is indeed the case. If we were to ask broader questions about both design and implementation, it is conceivable that a more tightly focused effort might have produced a bigger result within a defined area, but in Ukraine, this would be quite a high-risk strategy. In reality, the project used its flexibility to emphasize promising areas, thus avoiding the one-off gamble and securing results in a number of areas. Also, providing training and study tours to several hundred financial professionals, regulators, accountants and judges represents a relatively low-risk, low-return strategy. This last complements the reform TA by spreading small, but secure, benefits to a large number of people.

Our main conclusion here is that the project affected the capacity of Ukrainian financial sector institutions to implement reforms and raise their performance to international best practices. Our findings show that it did so by working to build institutional structures and information bases, coupling reform efforts with training for stakeholders in government and private sector, and sponsoring study tours. The extent to which FINREP built the financial sector’s capacity for best-practice reform was moderate in the short term and small overall. Our findings indicate that the training was well-received, substantively appropriate, and often but not always linked to the objectives of reform. Due to personnel turnover in government, trainees frequently did not stay in their agencies long enough to improve performance (this is not to say that those trainees will not contribute to financial sector improvement in other ways). Where capacity-building took other forms such as developing the DGF structure and supporting the elaboration and dissemination of IFRS, there is some prospect of its proving sustainable. This will take time, especially given the near-term obstacles faced in these areas and the iterative nature of reform. The need for sustainability, moreover, suggests that consideration should be given to providing a local institutional home for some of the FINREP components (e.g., UFPAA for the IFRS component).

RECOMMENDATIONS:

- Try for improved balance and strategic coherence in the combination of TA and training.
- Consider a mechanism to support the recruitment of selected local FINREP experts into government counterpart agencies at the end of the project.
- Explore the possibility of providing a home for selected FINREP components in a Ukrainian institution.

TO WHAT EXTENT, AND HOW RELEVANT, WERE THE PROJECT ACTIVITIES DESIGNED TO ASSIST VULNERABLE UKRAINIANS WITH FINANCIAL RELIEF AND AWARENESS, AND INCREASE DEMAND FOR PROVISION OF ADEQUATE CUSTOMER-ORIENTED FINANCIAL SERVICES AND PROPER GOVERNMENT SUPERVISION? HOW WAS GENDER ADDRESSED IN THESE INTERVENTIONS?

Our findings suggest that FINREP had limited success assisting vulnerable Ukrainians. This is true regardless of whether the group is defined as the low-income population or as middle-income individuals who are vulnerable to the financial crisis, the latter definition being the one used in the project. Several of the formal project goals set by the project SOW in this area were not achieved. These include goals in the areas of helping banks and individuals restructure debt in order to bring non-performing loans to pre-crisis level, and increasing public confidence in financial institutions to pre-crisis level. According to NBU figures, the ratio of non-performing loans in the total loan portfolio of commercial banks remains high, although it appears to have peaked in 2010. Our findings overall give little reason to think that the low level of trust in the banking system reported in 2010 EBRD figures has improved.
Achievement of these goals was highly dependent on government action and other factors external to the project. Given the circumstances, the project did a good job of assisting in achieving these goals where possible, but they were not achieved due to the actions of other stakeholders. In addition, the goals formulated for the project were highly ambitious. Even most developed countries that experienced a smaller recession due to the financial crisis were not able to restore financial indicators and confidence in financial institutions to pre-crisis levels in three years.

In the area of pensions, FINREP’s performance metrics include a goal of increasing the private pension funds’ share in GDP to at least 3 percent. The project pursued this through assistance to legislative reform and public awareness. FINREP was recognized by informants at PFU and other stakeholder institutions for its substantive contributions to draft legislation on Pillars II and III, as well as for its input to public awareness campaigns about the pension system. Some of the legislation was adopted, while some was either withheld from the Rada or not implemented due to shifting state priorities and to contingencies related to the pension system deficit. The incomplete state of pension reforms strongly suggests that the quantitative goal had not been met as of the end of the project.

FINREP was able to identify other areas where its actions could contribute to long-lasting relief and protection for vulnerable Ukrainians. These actions include: (1) support for development of legislation to protect consumers of financial services; (2) studies and development of programs on financial literacy; and (3) other project outreach activities including development of materials for the PFU, training for journalists, and support to the outreach activities of other government institutions involved in financial markets.

The project’s contribution in the area of consumer protection was not only in the direct support of drafting legislation, but also in starting the dialogue on this issue. The legislation developed in collaboration with MP. Poluneev may be imperfect, as suggested by key informants in the banking sector. Also, it may further deviate from international best practices as it passes through Parliament. However, development of this legislation stimulated further discussion and analysis of the issue – by NBU, market players such as banks, and consumer protection advocacy groups – that seems likely to sustain this work beyond the life of the project. This further work may produce a stronger legal framework for consumer rights protection (i.e., stronger than what is currently in effect) that is also acceptable to market participants and financial institutions.

The project conducted important research on financial literacy, and started work in this direction that could potentially benefit several generations of vulnerable Ukrainians. The survey of financial literacy and awareness was appreciated by every key informant with whom it was discussed, across government, IFIs, and the private sector. Based on the results of the financial literacy survey, FINREP was able to secure approval from NBU and the Ministry of Education to develop a financial literacy course for tenth graders. The project also developed education materials for 8-10 year olds about financial issues. The educational materials received mixed reviews for their content and practicality.

In light of the needs in this field and its early stage of development in Ukraine, further production of training materials and courses for different population groups merits continued support. There will be a need to continue monitoring financial literacy in Ukraine, and it may be advantageous to internalize this monitoring in an independent research center.

Our findings show that FINREP took into consideration the gender aspects of its interventions as required by USAID. This is evident in the tracking of training and seminar participants by sex, and in female representation in project events and project staff. As regards the further step (beyond the criteria applicable to FINREP) of choosing, pursuing and designing policy interventions with gender objectives in mind, FINREP interviews and
documents show no evidence that this was seriously considered. Making the gender dimension more substantive, e.g., as a key consideration influencing policy objectives and project design, requires further study.

Our main conclusion here is that project activities as designed and implemented were relevant to the objectives of assisting vulnerable Ukrainians with financial relief and awareness, and increasing demand for the provision of adequate customer-oriented financial services and proper government supervision. Our findings indicate FINREP pursued these objectives by means of continued assistance in the reform of pension laws and regulations, and by helping initiate public policy discussions on financial literacy and consumer protection in the context of financial services. FINREP contributions in all of these areas were acknowledged as fruitful by government counterparts. The financial literacy campaign was unanimously valued, while the consumer protection bills got a mixed review, attracting criticism from the banking sector. The goals of serving and protecting vulnerable populations were advanced to a small degree, overall. Policy reforms in the areas of pensions and consumer protection advanced, but fell short of enactment, to say nothing of implementation. It would be fair to say that the information base on financial literacy and the awareness of consumer protection issues in the financial sector took a quantum leap forward. Interviewees in and outside government recognized these advances as well as FINREP’s contribution to them.

An area that might usefully have been made part of this project component is technical and policy support for the development of small banks, non-bank institutions and financial products for small businesses and middle- to lower-income households. A small minority of informants pointed this out; in our analysis, such initiatives would have increased the relevancy of the project to the needs of vulnerable Ukrainians. Since FINREP was conceived as a crisis response placing top priority on systemic recovery and stability, it appears to us less than ideal, but not unreasonable, to have omitted this line of activity.

Interviews and analysis of project materials show that gender was addressed in these and other project interventions to a moderate degree. This was done through tracking participation by gender, and to a lesser extent, through pursuing gender equity in project staff and training opportunities.

**RECOMMENDATIONS:**

- Consider developing a special project and center on financial education.
- Consider adding a project component on the development of small banks and financial services for small enterprises and low-income households.
- Analyze new ways to incorporate gender equity considerations into policy reform activities.

**TO WHAT EXTENT HAVE THE PROJECT ACTIVITIES EXPANDED THE DOMESTIC SECURITIES MARKET TO MITIGATE FINANCIAL STRESS AND BROADEN THE FINANCIAL BASE?**

This has been an area of intense activity by FINREP, and one where it exercised its flexibility to adjust its emphasis and seize opportunities. The scope of work for the securities component dealt only with government debt. The project broadened this scope, providing legal-regulatory TA as well as capacity-building in several areas of SSMNC jurisdiction, and playing a significant role in the reform of the securities depository system. As in other areas, FINREP’s flexible response is justified by the project objectives and cross-cutting goals. The record for this component is mixed, but mostly positive. We further found that – in this component most clearly – the project was able to advance by building on continuities from a predecessor project and by pursuing mutually supportive activities and objectives such as TA and training, and government debt market development with pension reform and IFRS implementation.
FINREP’s initiatives have been largely well-received in such areas as insider trading and market manipulation, the continued operation and refinement of the ESCRIN disclosure system, and the government debt market. The project’s intensive coordination, regular contact, and continuous discussion and advice have been cited by SSMNC officials as helpful and productive; FINREP materials and recommendations were adopted or otherwise influenced policy. The project also played a constructive role in raising issues for consideration and debate, even where, as in the case of the securities depository, its best practice recommendations did not win acceptance.

The government debt field appears to have had the greatest demand for assistance of the kind that FINREP could effectively deliver, and as a result the most consistent record of achievement and recognition. In part, this is because the market was substantially underdeveloped and needed to build some basic capacities and know-how. Further, as mentioned, fiscal constraints, IMF conditionality and the needs of both the overall securities market and the pension system heightened the urgency of reform. Incentives and project activities were mutually supportive. In this area, FINREP helped introduce (or revive) a number of important elements such as primary dealer auctions and repos. The FINREP Focus publication served an urgent need for information, while advancing the debate on relevant policy matters.

On the other hand, the project had to struggle with some developments that it saw as adverse, but was unable to counteract. These include the ongoing nationalization of the securities depository system (including the system of clearing and settlement), the stalemate over derivatives legislation, and the perceived heavy-handedness of SSMNC’s implementation of prudential norms. The failure to change policies in these areas in ways that expand the securities market to mitigate financial stress and broaden the financial base appears to be due to factors beyond FINREP’s control.

Did FINREP help expand the domestic securities market? Movements in the capitalization of Ukraine’s equity market were mixed during the project period (see table below). During the global crisis, overall capitalization went into a steep dive, reviving in 2010. The capital/GDP ratio fell again by half in the aftermath of Ukraine’s 2010 election and with the prosecution of former Prime Minister Tymoshenko. Thus, the dominant factors at play were economic and political crises. The 2010 upswing is unlikely to have been caused by FINREP’s activities in its first year. Further, in the first half of 2012, the volume of stock exchange contracts with registered securities decreased by 12.4 percent compared to the same period in 2011 (a reduction of UAH14.04 billion in value).29

Table 7. Market Capitalization of Listed Companies as a Percentage of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>78.3%</td>
<td>13.5%</td>
<td>14.3%</td>
<td>28.9%</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

Source: World Bank

As for government debt, the indicators here (ratio of government debt securities to GDP and rate of increase in ratio of government securities to overall government debt) met or exceeded FINREP’s targets, as reported in the PMP update in late 2011. Here, a causal link to the project is more plausible, because FINREP was directly involved in helping MOF develop debt instruments, auctions and other kinds of transactions, while publishing information on the market that was much more detailed than previously available.

Our main conclusion here is that FINREP helped to expand the domestic securities market to mitigate financial stress and broaden the financial base to a moderate degree. How? Our findings show that FINREP made a number of contributions that helped improve the capital market framework, build capacity, and keep a bad situation from getting worse. This is clearer with regard to the government debt market than the capital markets in general. In the former case, FINREP’s inputs appear to have been well-targeted, and its assistance produced substantive improvements as assessed by counterparts and others. Moreover, external data show that targeted improvements in government debt markets were achieved. In the case of the overall capital markets, by contrast, policy advances were more often overshadowed by adverse developments, although some useful policy dialogues were launched. Data on market capitalization show a decline during the project period rather than an increase.

**RECOMMENDATIONS:**

- Ensure that follow-on activities build on what has proven effective in past projects.
- Ensure that project plans continue to feature parallel, mutually supportive elements.

**WHAT FACTORS ENABLED OR INHIBITED THE ACHIEVEMENT OF STATED OBJECTIVES AND HOW WERE THE LATTER SUCCESSFULLY OVERCOME, OR IF NOT, WHY NOT (E.G., THE PROJECT’S MANAGEMENT STRUCTURE, THE OPERATING ENVIRONMENT, ETC.)?**

As discussed above, FINREP experienced constraints similar to those reported by other projects in Ukraine, constraints intensified by the financial crisis and the change in government early in the project. These include general factors such as lack of movement on reforms, high corruption, centralization of state authority, and turnover of government personnel. The crisis elevated the problems in the country’s financial sector and public finance to the level where government had to urgently pursue change.

Our interviews and review of project materials suggest that these and related constraints posed obstacles to the project, but, in some cases, created opportunities. The crisis and pressure for reform helped the project forge an understanding with counterparts in government (and the parliament), and provide assistance on issues that could produce the rapid results the government wanted. These issues include increased supervision of financial markets, consumer rights protection, management of government debt, financial literacy and public outreach. At the same time, the inhibiting factors remained, causing the greatest difficulties in areas that were not as critical to overcoming the crisis, such as control of CSD. Counterpart agencies such as NBU sometimes disagreed with FINREP’s advice or were not open to the project’s involvement. The project was able to recognize opportunities and concentrate its activities in areas where it was likely to be most effective.

In our analysis, negative contextual factors made it more likely that counterparts would be receptive to particular FINREP initiatives. This was most evident where fiscal pressure was also at its strongest – in policymaking on the government debt market. Further impetus came from related difficulties, including unmet IMF conditions in aspects of the banking and pension systems. Further, the pension, capital market and government debt reforms were mutually supportive, each creating conditions for progress in the others. In the field of financial reporting standards, conditionality and debt were less relevant, but the agenda of bringing Ukraine’s banks, capital markets, accounting firms and others into compliance with international standards provided effective motivation. This incentive structure could only carry the project so far – resistance diverted or delayed some reform steps such as full disclosure of information on banks’ ultimate owners.

Several enabling factors helped the project. FINREP was able to employ a number of qualified, seasoned Ukrainian professionals who have been critical to the project’s successes. Ukraine’s endowment of qualified people, along with the experience developed by local professionals working on aid projects, has proven...
advantageous. A related factor is the relatively high level of Internet access and computer programming skills in Ukraine that is having a multiplier effect on project outreach.

Internal problems experienced by the project at the beginning of the implementation period caused delays. Relations among implementing partners proved an inhibiting factor. In the self-evaluation, implementing partners gave an average rating of 3 to the relations between the consortium members (on a scale of 1 to 5), but this had no clear long-term effect on project performance, especially as it coincided with changes in the management and technical personnel of government counterparts. The project replaced the COP and reorganized its internal structure in Year 1 of implementation. At the same time, government reorganization (in a few cases) brought in senior officials more interested in working with the project. As a result, Year 2 saw the effective implementation of several project activities including the financial literacy survey and a plethora of training and legislative drafting interventions, allowing FINREP to catch up with the initial project plan.

Our main conclusion here is that several factors inhibited the achievement of stated project objectives, including the depth of the financial crisis, weak governance generally, personnel turnover in the civil service, disagreements and adverse interests of counterparts, and problems internal to the project during its first year. FINREP overcame some of these factors by restructuring internally and focusing efforts in areas that were most urgent or otherwise most promising. In the latter areas, FINREP turned two main factors to its advantage: the abilities of its seasoned, mainly Ukrainian team, and the urgent interest of certain counterparts feeling pressure to address the roots of the crisis. This was apparent in such areas as deposit protection, bank governance and liquidation, consumer protection, and development of government debt markets. The project exploited these advantages mainly through close coordination with the partner agencies, and provision of assistance that was responsive, prompt, well-targeted and professional. Where FINREP was not able to overcome constraints (or, in some cases, benefit from enabling factors), it was sometimes due to internal problems in the project consortium, and at other times to policy decisions beyond FINREP’s control.

RECOMMENDATIONS:

• Where possible, continue to leverage the constraints imposed by crisis and transition.

WHAT WERE THE MOST EFFECTIVE STRATEGIES USED IN ESTABLISHING WORKING RELATIONS WITH THE PROJECT’S MULTIPLE COUNTERPARTS IN THE CONSTANTLY CHANGING UKRAINIAN ENVIRONMENT? FOR STRATEGIES THAT DID NOT WORK, WHAT WERE THE CHALLENGES, AND HOW COULD THEY BE FURTHER IMPROVED?

Our findings show that the project worked effectively with different stakeholders. This is especially clear in the case of key government counterparts and the international community. Among private sector and civic organizations, opinion on this issue was more mixed, reflecting diverse interests and the project’s inevitable selectivity in choosing partners. A looming challenge with respect to government counterparts is Ukraine’s move toward a more structured engagement with international projects and donors, which appears likely to erect further bureaucratic barriers in this area.

FINREP’s effective communication with GOU counterparts consisted of listening attentively, recognizing government priorities, showing flexibility to adjust project activities and timelines, ensuring that project outputs are responsive and technically sound, and delivering them promptly. “Responsive” and “prompt” were terms used frequently by government counterparts to describe FINREP’s work. The project’s approach required the FINREP team to be in regular communication with counterparts, in both the proactive and responsive senses. Several GOU officials described their interactions with FINREP as if the latter were an in-house think tank or law firm. This open channel of communication not only was valued by counterparts in its own right, but also
furnished the regular input necessary for FINREP to tailor project activities as it did. Where the project could not meet the government’s needs, it was able to communicate this early enough in many cases to shape expectations and avoid disruption.

A related ingredient of FINREP’s successful working relations is the prominent role played by local experts in the project. Ukrainian experts hired by the project had been working in the field of financial market reforms or pension reforms in Ukraine since the 1990s, having established reputations in the field and connections with government agencies. This allowed the project to coordinate effectively with counterparts at the technical level.

This deployment of local experts, while clearly advantageous, also raises challenging questions for the implementation of future technical assistance projects. On one hand, over the last 20 years in Ukraine, USG assistance helped develop a strong cohort of local experts in financial sector policies, public finance and other areas. On the other hand, as demonstrated by FINREP activities, USAID provides significant support for training staff of government institutions having a shortage of technical experts. Once trained, expert staff in fields such as financial markets have a wider range of options for well-paid employment, including in technical assistance projects. This raises the concern that such projects attract the best experts away from government institutions – a pattern that tends over time to weaken rather than strengthen state capacity.

Our main conclusion here is that the project used several strategies in establishing working relations with multiple counterparts in the constantly changing Ukrainian environment. The most effective were to approach the counterparts with a mixed team of mostly Ukrainian experts, stay in nearly constant contact, provide prompt and responsive assistance, encourage frank discussion and debate, focus in areas where there is some traction, use coordinated approaches with others such as the IFIs, and build good will by helping the counterpart in other ways. These strategies did not work in a few instances, such as NBU’s decisions on the CSD and disclosure practices. In such cases, the counterpart had views and interests in conflict with FINREPs good international practice recommendations. The project made its concerns known, then withdrew from active assistance on the matter in question, choosing to focus elsewhere for the time being. Alternatives might have included public criticism and mobilizing pressure in the international community, but these would likely have impaired the relations of trust that FINREP cultivated with the counterparts without actually advancing the project’s policy goals. As mentioned above, the implementing partnership created an obstacle to this kind of quick adaptation early on, but FINREP was able to overcome this by its second year.

**Recommendations:**

- Continue to use flexible, streamlined project designs and deploy mixed, mostly local teams.
IV. RECOMMENDATIONS

Following are the recommendations that flow from our findings and conclusions in response to the six evaluation questions. In the previous section, above, we listed the recommendations under each evaluation question. Here we make the full presentation. All of these recommendations are addressed primarily to USAID/Kyiv in its efforts to identify, design and ensure the implementation of financial sector projects in Ukraine. Secondarily, we direct these proposals to implementers (contractors and grantees) as they seek to execute USAID programs effectively in this sector.

Try for a tighter fit among the following: project objectives, performance metrics, time horizon and realities on the ground, including available resources and political context.

It is not clear that project objectives and performance metrics are well-tailored to the realities of implementing FINREP. Being both realistic and motivating in this area is a challenge, but it is important to get this right, especially in a project as ambitious as FINREP. The ideas of either: (a) focusing the project more tightly, concentrating its limited resources on a smaller range of strategic interventions; or, (b) making the project bigger and longer so that it has the leverage and time scale appropriate to the high-level changes it seeks to bring about came up several times in our interviews and analysis. The first approach has risks in the setting of post-crisis Ukraine, since a narrow effort risks running into a blind alley. The second approach is more promising in the context, though it would no doubt pose problems on the level of procurement and contracting. This suggests that the actual design, with its breadth and flexibility, makes sense.

The parameter that can be tailored most appropriately here is the scheme of performance metrics. Granted, devising an appropriate PMP in this context is especially difficult, since the adoption and implementation of reform – to say nothing of the economic impacts – lie beyond the project’s control. Further, measures of reform fall into two main categories, each of them problematic. First are quantitative indicators, such as the number of enactments or the scoring of institutional systems based on cross-country metrics. Second are qualitative measures that must be based on analysis of the reforms themselves and their implementation. The former tend to oversimplify or deliver meaningless results, while the latter fail to provide the desired clarity and objectivity. Cross-country ratings do build in certain qualitative judgments, but they reflect developments over a longer time horizon than a three-year project.

The broad, flexible design proved functional in the context. This context is now changing in a way that may permit tighter focus. Our concern is with the appropriateness of using fixed or quantitative indicators in a field – policy and institutional reform – that depends upon the actions of counterparts. This is especially true in a politically difficult context such as Ukraine. Alternatives should be explored that center on whether the implementer’s actions themselves were well-tailored to advance the system toward good international practice, or that at least take into account the scale of the obstacles to success.

Try for improved balance and strategic coherence in the combination of TA and training.

This is an area where FINREP mostly got things right by bringing capacity-building inputs to bear in the lead-up to reform efforts and in the move to implement enacted reforms. The project seemed especially astute in some areas such as consumer protection and the use of repo transactions, where it, in effect, followed a supply-side approach in order to stimulate demand in areas where reform could have an impact. In other areas, such as financial literacy training and especially study-tours, stakeholder feedback has been more mixed. The oversupply or mis-targeting of training inputs is a common failing of aid projects. FINREP appears to have done well in
comparison to most, but there is room for improvement. Careful consideration should be given, for example, to the design of training materials that are of practical utility to the audience. Expensive inputs such as study-tours have potentially high payoff, but are also easily wasted if not guided by a clear strategy that guides the selection of participants and is tied to concrete outcomes.

Consider a mechanism to support the recruitment of selected local FINREP experts into government counterpart agencies at the end of the project.

The experience of FINREP suggests that involving established local experts helps build and maintain strong relations with project counterparts. USAID should consider requiring projects to incorporate leading local experts into supported government agencies. Ideally, experts who were successfully employed by the project would be embedded in their respective government institutions and continue working in them. For example, this approach could be implemented through a policy similar to those established for education grants, where any person who successfully worked as an expert on a USAID project would not be allowed to work on another USAID project if he/she did not work for at least two years at a government institution. USAID could institute grant programs to provide supplementary income for the experts that “graduated” from USAID projects into the government. Prior experience raises questions about the sustainability of such a financial commitment as well as the earning differentials this would introduce into the public service, but creative solutions are possible. An adjunct or fallback to this approach would be to coordinate across donors to secure GOU commitments to cost-sharing. Government institutions in Ukraine could be required to fund an increasing proportion of project activities that establish new capacities for them. They would, in effect, be paying part of the experts’ salaries.

Explore the possibility of providing a home for selected FINREP components in a Ukrainian institution.

Ideally, Ukraine as a society should exercise ownership of its reform agenda as well as the expert solutions that bring reform to fruition. In the current project context, the foreign presence and international donor umbrella of FINREP ensure access to comparative expertise and analysis, encourage synergies in the efforts of people with complementary strengths, and provide a kind of protective cover so that professional work can proceed relatively free from political pressures. But at some point, project activities need to be localized, whether in existing government and academic settings or by means of a new institution. One possibility is a hybrid arrangement by which experts are appointed to an agency that is at least partly insulated from the political shifts and civil service regulations applicable to the rest of government. Another alternative is creating a freestanding local foundation, however, the record of donor-supported NGOs suggests that this may not be the most promising, and Ukrainian philanthropy is still in an emergent stage. The issue of sustainability in this field is important enough to warrant some exploration of joint effort with the EU, the World Bank Group, the Soros Foundation and perhaps others.

Consider developing a special project and center on financial education.

This project could usefully bring in education professionals in addition to financial experts to develop courses and educational materials for several population groups: elementary school pupils, middle or high school pupils, university students, and people involved in vocational training/retraining by labor centers. Such a specialized project could continue work started by FINREP, cooperating with the Ministry of Education to gain approval for the study courses and respond to feedback about materials developed by the project. There will be a need to

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30 One possibility would be that such grants take the form of deferred compensation, as in the approach taken by the Mo Ibrahim leadership awards given in Africa.
continue monitoring financial literacy; it may be advantageous to internalize this monitoring in an independent research center. Ideally, USAID could assist in establishing regular monitoring of financial literacy by a new or existing think tank, and working with NBU to establish a mechanism for sustainable financing of this research by the Bank.

Consider adding a project component on the development of small banks and financial services for small enterprises and low-income households.

FINREP came to be as a response to a severe financial crisis. The priority was therefore placed on reform and restructuring efforts that would stabilize the system. The project also had a component dealing with vulnerable populations. In this latter area, the project might have made more headway in addressing access to financial services and trust in the financial system if it had taken a broader approach that included small-scale institutions and services. Indeed, given the lack of progress in such areas as the restructuring of large insolvent banks and enterprises, a project component aimed at stabilizing, shoring up, and expanding services at the lower end of the market might have had greater impact. This is speculative, of course. At this point, it is worth considering a more ambitious undertaking in this area, whether as part of the FINREP follow-on or otherwise. Especially in a context where large institutions are often misgoverned, the development of a tier of smaller unit banks, non-bank institutions, community financial institutions, and similar providers of smaller relationship-based services could be an effective option. In Ukraine, there are serious problems at this level as well, but it is worth studying the likely effectiveness of opening up new licensing windows and types of service.

Analyze new ways to incorporate gender equity considerations into policy reform activities.

FINREP has been scrupulous in tracking the gender composition of participants in its training and other activities, and has also striven for balance on its staff. The interest of gender equity would be better served if this were coupled with serious efforts to understand and address the impact of reforms across gender lines. There was essentially no conscious effort on this front, yet efforts to protect vulnerable Ukrainians in such areas as consumer protection and pension reform can be expected to address the needs of women to a greater degree than many alternatives. This analysis was not done, nor was the project designed to incorporate gender considerations as such into the reform agenda. In follow-on projects, we would recommend this be part of the design. It could begin easily enough with outreach to academics and advocacy groups in this area, and a review of extant research. Stakeholder forums similar to those held on consumer issues could then help sharpen the focus on issues to be brought onto the project and policymaking agenda.

Ensure that follow-on activities build on what has proven effective in past projects.

This recommendation and those that follow essentially recommend that USAID and its partners should continue doing those things that worked – and do them more consistently.

FINREP effectively carried on from its predecessor projects, and future initiatives would do well to build on it. Continuity was provided by professionals, both Ukrainian and international, who carried over from one project such as the Capital Market Project to FINREP. Counterpart agencies, and in some cases officials, also carried over to the new project. The activities had a kind of momentum, and the personnel had built up experience and knowledge that benefited the new project. Designing in overlap by the successor project also helped ensure continuity. Given that USAID projects must have temporal limits, this continuity from

31 This approach is taken in other projects dealing with financial inclusion, and is now being recommended in the aftermath of the crisis in the US by the new Consumer Financial Protection Bureau.
predecessor to successor projects is critical to efficiency and progress. As for the follow-on to FINREP, USAID is in the process of contracting. If the same contractor and mechanism cannot be used, it will nevertheless be important to have overlap and continuity as in the past, to prevent a significant loss of effort and momentum. Building on the effective elements of past projects is especially important for the kinds of reforms targeted by FINREP, which are, in any case, threatened by political change and controversy.

**Ensure that project plans continue to feature parallel, mutually supportive elements.**

FINREP capitalized on its ability to pursue compatible, cumulative activities across different components and modalities of project activity. Training and technical assistance supported each other, building in both directions. Substantive project components were also complementary, as with government debt market development, pension reform and securities market reform. Other complementarities that might have been pursued, but were not, include working in tandem with the largest financial sector actors along with smaller-scale providers who could provide competitive down-market alternatives – an important factor in addressing the effects of a crisis. A more difficult pairing, but one no less important, is to work on ensuring continuity of mandate, skill sets and working-level staff (if not higher officials) in the counterpart agencies, while also pursuing policy reform. Civil service reforms are among the very hardest to tackle, but there may be ways to secure (and police) pre-commitments from government and political leaders to avoid a politicized makeover in the middle of a crisis response. In any case, such an approach merits further study.

**Where possible, continue to leverage the constraints imposed by crisis and transition.**

In this project, counterpart officials in several cases proved especially receptive to USAID assistance as a result of the severity of the financial crisis in Ukraine. IMF conditionality and domestic political pressure enhanced this effect, in some cases. The leverage created by these influences contributed to FINREP’s success in advancing reform in such areas as government debt securities, consumer protection, the implementation of IFRS, and the establishment of the Deposit Guarantee Fund. In other cases, countervailing priorities and interests made reform difficult, if not impossible, as in the cases of bank rehabilitation and control of the Central Securities Depository. It is important in this kind of project to ensure as far as possible that counterpart incentives are aligned with project goals, but this is not always possible and is furthermore subject to change over the life of the project. This argues for the flexibility to shift project priorities and counterparts (see below).

**Continue to use flexible, streamlined project designs, and to deploy mixed, mostly local teams.**

Aiding reform in a context of crisis and political volatility such as Ukraine requires not only flexibility, but also a streamlined project structure supporting quick response. FINREP’s experience shows the importance of responsiveness in such a setting, and the ability to shift in and out of project activities (and shift focus from one counterpart to another) in order to achieve success. This proved necessary for the outcomes of the last two years of the project, but the first year shows what happens when crisis intersects with more traditionally ponderous management structures. Even in later stages, FINREP struggled with procurements and consortium arrangements that had been overtaken by events. A streamlined rapid response vehicle should be considered to avoid these difficulties and ensure the most relevant and timely assistance. Such a vehicle should permit shortcuts in recruitment, procurement and budget adjustment. It should also build in breadth and flexibility so the project can tailor activities to an evolving political, economic and aid situation. Consortium arrangements should be reconsidered in this light.
FINREP also demonstrates the potential effectiveness of an expert team with the right composition of national and expatriate members. Ukrainian professionals bring the contextual expertise, seasoning and contacts needed for a project to show flexibility and gain traction.
APPENDIX A. SOW FOR THE EVALUATION

SECTION C – DESCRIPTION / SPECIFICATIONS / STATEMENT OF WORK

FINAL PERFORMANCE EVALUATION OF THE FINANCIAL SECTOR REHABILITATION PROJECT IN UKRAINE

I. Introduction

This is a Statement of Work (SOW) for a final performance evaluation of the three-year, Financial Sector Rehabilitation Project (FINREP) in Ukraine.

1. Project Title: Financial Sector Rehabilitation Project
2. Award Number: EEM-I-03-07-00007
3. Award Dates: October 20, 2009 – October 19, 2012
4. Funding: $12,392,734

II. Evaluation Purpose

The purpose is to evaluate the effectiveness of FINREP interventions and implementation processes. USAID Regional Mission to Ukraine, Moldova, and Belarus (the Mission) will use evaluation findings, conclusions, and recommendations to assess the role that USAID has played in addressing the most severe financial crisis in Ukrainian history, and to determine the adequacy of the undertaken activities. Booz Allen Hamilton, Inc. and their partners will have an opportunity to assess the successes/failures and learn from them. Other project stakeholders including the Government of Ukraine (GOU) and international development partners, such as the World Bank (WB) and International Monetary Fund (IMF), will have the opportunity to learn about USAID’s role in promoting financial sector reform.

III. Background

USAID designed FINREP at the outset of the global financial crisis in 2008 with the purpose of assisting Ukraine to rebound from its economic and financial crisis and to establish a sound financial sector. FINREP has four overall objectives:

1. Strengthen the legal and regulatory environment for a stable, transparent, and resilient financial sector;
2. Enhance the capacity of financial sector institutions to implement reforms and raise performance to international best practices;
3. Assist vulnerable Ukrainians with financial relief and awareness, and increase demand for responsive financial intermediation and government intervention; and
4. Expand the domestic securities market to mitigate financial stress and broaden the financial base.

FINREP is implemented in close coordination with a wide range of Ukrainian partners, including the Government of Ukraine and profile ministries, the Verkhovna Rada, the National Bank of Ukraine (NBU), the Securities and Stock Market National Commission (SSMNC), the Financial Services Regulator (FSR), and the Deposit Guarantee Fund (DGF). In addition, project partners include private financial market organizations and consumer groups. In its first year, FINREP coordinated its activities in the financial
sector with USAID’s Capital Markets Project (CMP), ref #121-C-00-05-00707, which ended in October 2010. Select CMP activities in capital markets/pension reform have been transferred to FINREP.

Presently, Ukraine continues to remain severely impacted by the global financial crisis and its aftermath. Transparency International, in its 2011 Corruption Perception Index, recently ranked Ukraine 152 out of 182 countries. These findings are corroborated by the International Finance Corporation (IFC) in its report on the investment climate in Ukraine from October 2011. In this report, the IFC notes that Ukraine is failing to meet its untapped economic potential because of its over-regulated and cumbersome business and investment climate with its many cases of corruption. At the same time, Ukraine’s dependence on commodity exports makes it highly susceptible to adverse global economic and financial market developments.

In recent months, the GOU’s commitment to reform the economy and stabilize the financial sector appears to have weakened. The IMF-Ukraine Stand-by Loan Agreement remains effectively suspended (no disbursements were made in 2011 or this year to date) due to lack of progress on measures to end government gas subsidies. Reform of the pension system to address the fiscal deficit remains behind schedule – the law was only signed by the President in September 2011.

After halting steps toward a more flexible exchange rate system, the NBU is now resorting to administrative procedures and restrictive measures to defend the currency. The government primary securities market essentially ceased to function, mainly because the GOU refused to pay market rates on government debt. A long-sought goal of USAID in capital markets development – the creation of a majority private sector-owned central securities depository – has come under serious threat of government takeover via nationalization. Additionally, while there is no apparent commitment to resolving Ukraine’s troubled bank issue in a transparent manner in line with international best practices, the draft law for establishing enhanced banking resolution powers for the DGF was nonetheless passed in the second reading with the Verkhovna Rada of Ukraine in February 2012.

FINREP, therefore, operates under the following conditions:

- A weakening of the GOU’s commitment to resolve problem banks, address non-performing loans, or correct structural weaknesses in bank oversight;
- General deterioration of the business and financial environment due to the impact of the troubled global financial and economic situation on local financial markets and the economy;
- Increased political interference in key regulatory bodies such as the NBU, the SSMNC, and the FSR;
- Lack of confidence by the IMF in the GOU to implement major structural economic reforms required as conditions for its financial assistance; and
- Continued lack of public knowledge about, and therefore, confidence in the financial sector.

To learn more about FINREP, please refer to the project’s website www.finrep.kiev.ua.

IV. Scope of Work

The Contractor will evaluate the effectiveness of FINREP completed interventions as well as the implementation processes in helping Ukraine rebound from the global economic and financial crisis and establish a sound financial sector. The Contractor will concentrate on five principal areas of the FINREP project: 1) legal and regulatory reforms, 2) banking and finance, 3) financial literacy/consumer protection, 4) government securities, and 5) capital markets.

In particular, the Contractor will present findings, conclusions and recommendations relating to the following questions (numbers do not reflect priority):
1. To what extent, and how did the project shape the legal and regulatory environment for a stable, transparent, and resilient financial sector in Ukraine?

2. To what extent, and how did the project affect the capacity of the Ukrainian financial sector institutions (NBU, SSMNC, the FSR, the DGF, the Ministry of Finance) to implement reforms and raise their performance to international best practices?

3. To what extent, and how relevant were the project activities designed to assist vulnerable Ukrainians with financial relief and awareness, and increase demand for provision of adequate customer-oriented financial services and proper government supervision? How was gender addressed in these interventions?

4. To what extent have the project activities expanded the domestic securities market to mitigate financial stress and broaden the financial base?

5. What factors enabled or inhibited the achievement of stated objectives and how were the latter successfully overcome, or if not, why not (e.g., the project’s management structure, the operating environment, etc.)?

6. What were the most effective strategies used in establishing working relations with the project’s multiple counterparts in the constantly changing Ukrainian environment? For strategies that did not work, what were the challenges, and how could they be further improved?

The Performance Evaluation process must be in line with relevant USAID ADS (Chapters 203 and 578) and USAID Evaluation Policy (January 2011) requirements and recommendations (http://www.usaid.gov/evaluation/USAIDEvaluationPolicy.pdf). FINREP is expected to collaborate fully with USAID and the evaluation team (ET) and provide documents and background materials to support the evaluation during the course of the evaluation. USAID requires that the ET examines gender issues within the context of FINREP activities and how gender considerations have been integrated into project activities.

V. Evaluation Design Methodology

The below section outlines some of USAID’s expectations regarding evaluation design and methodology. However, the Contractor will be expected to design the full evaluation methodology.

It is anticipated that the performance evaluation will have a mix of evaluation methodological approaches to meet the requirements outlined in the Scope of Work section. Suggested data sources include, but are not limited to: official statistics, market data, surveys, FINREP’s reports (quarterly, annual, FINREP FORUM, FINREP FOCUS), reports published by reputable agencies (WB, IMF, Economic Intelligence Unit) and beneficiaries (SSMNC, FSR, NBU, DGF), key informants interviews, and surveys of those who participated in FINREP’s trainings, seminars, workshops and study tours. Illustrative methodological approaches are discussed below.

To assess FINREP’s achievements (questions 1, 3-5), the ET is suggested to review FINREP’s reports, official statistics, market data, surveys, and interview key informants and trained individuals with structured or semi-structured interview protocols and/or mini-surveys regarding the results of FINREP’s:

- Advocacy and legislative development towards shaping the legal and regulatory environment (testimonial evidence should be supported with documentary evidence where possible, including but not limited to FINREP’s documentation);

- Financial literacy initiative, policy research on financial sector consumers’ awareness and protection, mortgage modification program, pension reform awareness campaign, and cooperation with the financial media press club in order to assist vulnerable Ukrainians with financial relief
and awareness and increase demand for responsive financial intermediation and government intervention;

- Advice on aligning market demand (primary dealers in government securities) with Ministry of Finance (MOF) government debt policies in order to mitigate financial stress and broaden the financial base;

- What factors enabled or inhibited the achievement of stated objectives and how were the latter successfully overcome, or if not, why?

To answer question 2 on how the project activities have affected the capacity of the Ukrainian financial sector institutions, (NBU, SSMNC, the FSR, the DGF, and the MOF) to implement reforms and raise their performance to international best practices, the ET is suggested to review project documents, annual reports of project beneficiaries (DGF, SSMNC, FSR, NBU, MOF), interview and/or survey key informants, and examine the processes and results of the assisted organizations. The ET is recommended to gather the perspective of key informants on changes in the capacity of these institutions and examine the changes in these institutions against explicit criteria for best practices for financial sector actors.

Key informants interviews should reflect the perspective of both FINREP’s beneficiaries and partners (GOU and key development partners, such as the WB, European Bank for Reconstruction and Development (EBRD), IFC and the IMF).

The ET is expected to assess the role of management structure (question 5), ascertaining the lessons USAID can draw from managing a multi-component award managed by a consortium of companies.

The ET will also examine the effectiveness of collaboration and partnerships, and areas for further improvement (question 6), illuminating the strategy(ies) that worked in establishing working relationships with the project’s multiple counterparts in the constantly changing Ukrainian environment. The ET is again suggested to review FINREP’s documents and interview key informants with structured or semi-structured interview protocols and/or mini-surveys of key informants.

VI. Deliverables

All required deliverables listed in this section should be written in English and submitted in electronic form using MS Word Times New Roman 12.

The ET will provide the following deliverables:

1. Work Plan and Evaluation Design. A Work Plan and Evaluation Design (WPED) document shall be completed within 10 working days after the award and presented to the COR for review and approval. The WPED shall contain the following: summary of information collected to date; information sources; list of key informants to be contacted in-country; composition of the ET defining roles and responsibilities; and, draft itinerary of the field visit. The ET will discuss any deviations from the WPED with the Evaluation COR and seek USAID’s concurrence with any proposed changes if they are significant, as determined by the Evaluation COR.

The WPED will include a detailed evaluation design matrix, including the key questions, methods and data sources used to address each question and the data analysis plan for each question, draft questionnaires and other data collection instruments or their main features, known limitations to the evaluation design, and a dissemination plan. The final design requires COR approval. Unless exempted from doing so by the
COR, the Contractor will share the WPED with host country stakeholders as well as with the implementing partners for comments before being finalized.

2. **Summary Pre-Departure Presentation.** A Pre-Departure Presentation summarizing the ET’s preliminary findings and conclusions made in conjunction with the final performance evaluation of the FINREP project at a pre-departure briefing for Mission management and staff. Submission of a power point presentation for the debriefing meeting is required.

3. **Draft Evaluation Report (ER),** which is due 10 working days after the debriefing presentation. The draft ER must cover the objectives of this evaluation and include all relevant ET findings and conclusions made in conjunction with the FINREP project evaluation, preliminary ET recommendations as well as possible feedback received at the pre-departure briefing. The Mission will have 10 working days to review the draft ER. A **Revised Draft Evaluation Report** will be due 5 working days after formally receiving comments from USAID/Ukraine. The Mission will have 5 working days to review the Revised Draft ER. The Contractor will use either a cover memorandum or similar format to explain how comments provided by the Mission were addressed in the Revised Draft Evaluation Report and how it differs substantially from the initial version.

4. **Final Evaluation Report (FER)** should include an executive summary, introduction, background of the local context and the projects being evaluated, the main evaluation questions, the methodology or methodologies, the limitations of the evaluation, findings, conclusions, and recommendations and lessons learned (if applicable).

The executive summary should be 3-5 pages in length and summarize the purpose, background of the project being evaluated, main evaluation questions, methods, findings, conclusions, and recommendations and lessons learned (if applicable).

The evaluation methodology shall be explained in the report in detail. Limitations to the evaluation shall be disclosed in the report, with particular attention to the limitations associated with the evaluation methodology (e.g., selection bias, recall bias, unobservable differences between comparator groups, etc.).

The annexes to the report shall include:

- The Evaluation Scope of Work
- Any “statements of differences” regarding significant unresolved difference of opinion by funders, implementers, and/or members of the ET
- All tools used in conducting the evaluation, such as questionnaires, checklists, and discussion guides
- Sources of information, properly identified and listed
- Disclosure of conflicts of interest forms for all ET members, either attesting to a lack of conflict of interest or describing existing conflict of interest

The ET is required to submit the evaluation report, or its draft, to USAID’s Development Experience Clearinghouse within three months of concluding an evaluation.

**Criteria to Ensure the Quality of the Evaluation Report**

Per the USAID evaluation policy, draft and FER will be evaluated against the following criteria to ensure the quality of the evaluation report.¹

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• The evaluation report should represent a thoughtful, well-researched and well organized effort to objectively evaluate what worked in the project, what did not and why.
• Evaluation reports shall address all evaluation questions included in the scope of work.
• The evaluation report should include the scope of work as an annex. All modifications to the scope of work, whether in technical requirements, evaluation questions, ET composition, methodology or timeline need to be agreed upon in writing by the technical officer.
• Evaluation methodology shall be explained in detail and all tools used in conducting the evaluation such as questionnaires, checklists and discussion guides will be included in an Annex in the final report.
• Evaluation findings will assess outcomes and impact on males and females.
• Limitations of the evaluation shall be disclosed in the report, with particular attention to the limitations associated with the evaluation methodology (selection bias, recall bias, unobservable differences between comparator groups, etc.).
• Evaluation findings should be presented as analyzed facts, evidence and data and not based on anecdotes, hearsay or a compilation of people’s opinions. Findings should be specific, concise and supported by strong quantitative or qualitative evidence.
• Sources of information need to be properly identified and listed in an annex.
• Recommendations need to be supported by a specific set of findings.
• Recommendations should be action-oriented, practical and specific, with defined responsibility for the action.

The FER shall be submitted within 5 working days following the formal Mission’s approval of the Revised Draft Evaluation Report (see section 3 above). The FER should be up to 30 pages, excluding annexes and references, submitted in ten paper copies (bound and color printed) and an electronic version readable in MS Word 2010.

VII. Evaluation Team Qualifications and Composition

All Team members will be required to provide a signed statement attesting to a lack of conflict of interest. The ET will be carried out by a three-person team. The team shall include:

1. **The ET Leader (Expatriate)** must have extensive experience in managing financial sector reform projects and a J.D., M.B.A. or master’s degree in finance (Ph.D. preferred). He/she should have a minimum of 10 years of experience in the design, implementation, and/or evaluation of financial sector reform programs including USAID financial sector-related programming. The team leader should have excellent written and oral communication skills in English. Previous overseas work experience in the region and knowledge of Russian and/or Ukrainian is highly desirable. This person shall be responsible for coordinating and directing the overall evaluation effort, including preparation and submission of the draft, revised and final evaluation reports. High level of diplomatic skills and cultural sensitivity are critical for this assignment.

2. **The Evaluation Specialist (Expatriate)** must have a master’s degree in economics or business (preferably finance) with at least 5 years of relevant experience in evaluating USAID programs, with strong understanding of data collection and analysis methodologies and substantial international experience in designing and conducting evaluations of financial sector reform projects. Experience in designing and conducting performance evaluations of large USAID projects is preferred. Strong writing and word processing skills are required. Previous overseas work experience in the region and knowledge of Russian and/or Ukrainian is highly desirable.
3. **The Development Specialist (Local),** a financial sector expert, with detailed knowledge of Ukraine’s financial sector and relevant governmental and non-governmental institutions. Good understanding of political dynamics, the legislative and regulatory framework governing financial sector reform, and political actors in Ukraine is essential. Strong writing and word processing skills are a requirement. At least five years’ work experience required. Knowledge of USAID and other donors is preferable.

The ET Leader, Evaluation Specialist, and Development Specialist will be key personnel under this TO.

**VIII. Evaluation Management**

USAID will appoint the Evaluation COR to manage the evaluation.

To facilitate evaluation planning, the Mission will make available to the Contractor three FINREP Annual Work Plans, one Performance Monitoring Plan, ten Quarterly Reports, two Annual Reports, as well as lists of FINREP project subcontractors, counterparts, sites, and documents intended to support reforms in Ukraine’s financial sector within two working days of the award effective date. The Contractor can upload additional technical reports from [www.finrep.kiev.ua](http://www.finrep.kiev.ua).

Upon request, the Contractor will also receive the approved Country Development Cooperation Strategy, if the latter is available. As warranted, the Contractor will receive additional project-related documentation.

When planning and conducting the evaluation, the Contractor will make every effort to reflect opinions and recommendations of all key FINREP project stakeholders from the government, donors, civil society and the private sector. In particular, the Contractor is expected to meet with leadership and/or staff of the NBU, DGF, MOF, Ministry of Economy, Ministry of Labor and Social Policy, SSMNC, FSR, Pension Fund of Ukraine, Banking Associations, League of Financial Development, State Property Fund; as well as leading donors in Ukraine: the International Bank for Reconstruction and Development (World Bank), EBRD, IMF, the EU Delegation, and the American Chamber of Commerce. USAID requests that American and Ukrainian holidays be considered in scheduling evaluation meetings in the United States and Ukraine.

The ET will invite the Evaluation COR and other relevant Mission personnel to participate in all meetings and site visits planned in conjunction with the evaluation. The ET will conduct weekly briefings for the Evaluation COR, Office of Economic Growth Director and other relevant Mission personnel in order to keep them informed of the progress of the evaluation and any other issues that may arise. The ET will provide an out-brief to the Mission shortly before departure.

**IX. Other Requirements**

All records from the evaluation (e.g., interview transcripts or summaries) must be provided to the COR. All quantitative data collected by the ET must be provided in an electronic file in an easily readable format agreed upon with the COR. The data should be organized and fully documented for use by those not fully familiar with the project or the evaluation. USAID will retain ownership of the survey and all datasets developed.

All raw data used to prepare the report will be presented to the USAID/Ukraine Evaluation Officer for warehousing and future reference.

All modifications to the scope of work, whether in technical requirements, evaluation questions, ET composition, methodology or timeline need to be agreed upon in writing by the technical officer.
X. Logistical Support

The Contractor will be responsible for all logistical support of the evaluation, including translation/interpretation, transportation, office supplies and computer equipment, office space, arranging meetings and accommodating field reviews. The Contractor must not expect any substantial involvement of Mission staff in either planning or conducting the evaluation.
APPENDIX B. EVALUATION METHODOLOGY

I. OVERVIEW OF METHODOLOGY

The FINREP Evaluation is a final performance evaluation, meaning that it will assess the effectiveness of completed interventions and the implementation process. The evaluation seeks to determine what the project has achieved, how it was implemented, how it is perceived and valued, and whether expected results are occurring. Evaluation findings will be framed so as to assist USAID in assessing the role it has played in addressing the most severe financial crisis in Ukrainian history, and determine the adequacy of activities undertaken.

Our methodology will concentrate on the following groups of research questions:

First are questions about the relevance of the components and activities, the completion and quality of project outputs, and the nature of cooperation with the main stakeholders. A particular concern here is the extent to which the project addresses gender disparities and the needs of vulnerable populations (see questions 3 and 6, above).

Second are questions about project outcomes and assessment of project results. This analysis will document observable project outcomes and impacts in light of the expected results listed in the project SOW and the PMP (see questions 1, 2 and 4, above).

Third are questions about lessons to be learned from successes and failures, intervening factors (enabling or inhibiting), and strategies used (see questions 5 and 6, above).

Stated this way, our queries aim to bring the logic of USAID’s TO questions to the surface. Further, the answers to each successive category of research queries build upon the prior ones, the logical progression being from activities to outcomes to lessons.

This evaluation is not designed as a rigorous impact evaluation exercise. Our team will, however, strive to identify observable outcomes and impacts of the project and obtain independent quantitative measures of these outcomes/impacts. Wherever possible, we will analyze data on activities and results disaggregated by gender.

The table below outlines the various methods of data collection and analysis that will be used during the evaluation. The evaluation will start with a thorough document and literature review, and then proceed with key informant interviews conducted by the core team members before and during the country visit, along with two small-scale surveys and collection of secondary data. The research methods are discussed in more detail below. The initial findings from the in-country data collection will be discussed with USAID/Ukraine at the end of the field implementation, and the findings will be incorporated into the final evaluation report.
<table>
<thead>
<tr>
<th>METHOD</th>
<th>PURPOSE OF METHOD</th>
<th>EXPECTED OUTCOMES</th>
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<tbody>
<tr>
<td>Pre-trip Activities</td>
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<tr>
<td>Document review</td>
<td>Analysis of project activities and project deliverables</td>
<td>Review of project structure</td>
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<td></td>
<td>Collect information on the project structure and achievements, and construct list of key informants, partners, etc.</td>
<td>List of project activities</td>
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<td>Determine overall environment for the project implementation</td>
<td>List of recorded project outcomes</td>
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<td></td>
<td>Record documented project outcomes and impacts at the regional and country level.</td>
<td>List of project partners and key informants</td>
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<td>Information on project results, impediments and outcomes.</td>
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<td>Field-based Activities</td>
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<tr>
<td>Key informant interviews</td>
<td>Collect information about the project, validate evaluation methodology and tools, collect experts opinions about FINREP’s effectiveness</td>
<td>Tabulation of typical responses about project performance</td>
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<td></td>
<td>Collect information about project activities, deliverables and cooperation with main stakeholders</td>
<td>Tabulation of typical expert opinions about project outcomes and impacts</td>
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<td></td>
<td>Collect expert opinions about project outcomes and impact at regional, country and firm level.</td>
<td>Expert assessment of project outcomes and impacts</td>
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<td>List of suggested program improvements.</td>
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<td>Survey of participants in project trainings and study tours</td>
<td>Collect primary data on the possible impact of the project on the capacities of Ukrainian financial market institutions.</td>
<td>Quantitative measures of perceived changes in human capacities of participants</td>
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<td>Indication of project’s success in producing sustainable changes in capacity.</td>
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<tr>
<td>Review of documents in Verkhovna Rada legal database</td>
<td>Collect primary information about draft and new legislation shaping the legal and regulatory environment for financial markets in Ukraine.</td>
<td>Quantitative measures of the potential FINREP impact on legal/regulatory environment</td>
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<td>Validation of project reporting.</td>
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<tr>
<td>METHOD</td>
<td>PURPOSE OF METHOD</td>
<td>EXPECTED OUTCOMES</td>
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<td>Post-field Activities</td>
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<tr>
<td>Self-evaluation exercise</td>
<td>Collect information the project structure and performance of the consortium.</td>
<td>Additional information about project activities, best practices and recorded outcomes and impacts</td>
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<td></td>
<td>Expert assessment of project outcomes and impacts</td>
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<td>Expert recommendations on suggested improvements and future activities.</td>
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II. DATA COLLECTION AND ANALYSIS

Here, we provide a detailed description of the data collection methods that will be used in this evaluation.

DOCUMENT REVIEW

The document review will be conducted in two phases: pre-field document and literature review, and ongoing review of documents collected during field activities. The goal is to make document review and evaluation as comprehensive as possible.

The pre-field document and literature review will be conducted during the first four weeks of the project. It will aim to:

1. determine the strength of policy linkages between project activities and anticipated project results;
2. glean some sense of “lessons learned” and adjustments made during the FINREP project; and,
3. inform development of the evaluation methodology and field data collection tools.

The pre-field document and literature review includes FINREP administrative and technical documents, such as annual reports and work plans, and economic analysis articles discussing similar projects or documenting changes in Ukraine’s financial markets. This literature review will be conducted by both the Team Leader and the Evaluation Specialist, with support from the Development Specialist. The latter will concentrate, to a large extent, on the review and analysis of technical documents concerning legislative initiatives in the area of financial market reform and regulation, and on the analysis of legal documents available at Verkhovna Rada.

Ongoing document review during field activities will include documents that become available to the evaluation team as a result of key informant interviews, such as policy analyses, drafts of laws and regulations, and reports with related discussions. Much of the qualitative data reflected in these documents will be used to analyze the host government’s needs and FINREP’s proposed solutions in the legal-regulatory context.
KEY INFORMANT INTERVIEWS

Key informant interviews, our central data collection method for this evaluation, will be used to deepen our understanding of the FINREP project, obtain expert opinion on the success of FINREP activities and progress toward objectives, and assess the project’s impact. In particular, we will use key informant interviews to:

- hear the views of project partners and counterparts on the quality of FINREP’s cooperation with them and the success of project activities;
- hear expert assessments of changes in Ukraine’s financial system and any FINREP contributions to those changes;
- corroborate influence and claimed outcomes; and,
- assess the sustainability of the FINREP effort.

Our initial list of key informants includes FINREP project management, USAID/Ukraine representatives, government offices that are official partners of the project, such as MOF and NBU, local independent experts from NGOs and international organizations, and selected local FINREP staff. The initial list of key informants is being expanded and corrected based on interviews with FINREP management and recommendations from USAID and other stakeholders.

Key informant interviews will commence during the first week of project field work. The Team Leader, Evaluation Specialist, and Development Specialist will conduct single or joint interviews. In cases of overlap in subject matter interest, the interview may be concurrently conducted by team members. Key informants will be contacted in advance to schedule interviews. If needed, interviews will be conducted by members of the team at another time or, alternatively, by phone. In the event that the Team Leader and Evaluation Specialist are unable to conduct an interview, it may be conducted by the local Development Specialist as appropriate.

A semi-structured questionnaire with open-ended questions will be used to conduct key informant interviews. It will be used to guide key informant interviews and form the basis for meeting summaries developed in English in electronic format. The questionnaire may be revised based on information obtained during the interviews.

A brief statement about the purpose of the study and voluntary participation in the survey will be translated into English and Ukrainian for the discussions. Interviewers will read the statement and answer respondents’ questions before proceeding with the interview.

Subject to local protocols, the questionnaire will be distributed in advance of the interview. This will ensure more detail in the live key informant interviews. Only the live interviews can corroborate and qualify responses to the questionnaire. Advance distribution can stimulate interest in the live interview, as the interviewee is anxious to elaborate on the relation of his/her institution and FINREP, or express a view as to financial sector policy generally.

Key informant interview information will be analyzed as soon as possible after interviews are conducted. Experts will identify the most typical responses to questions raised during the interviews, and will tabulate the typical responses from all experts. A separate list of “outlier” responses will be created for further investigation. Follow-up interviews will be conducted by the Evaluation Specialist or the local expert if clarification is necessary.
SURVEY OF PARTICIPANTS IN THE PROJECT TRAININGS AND STUDY TOURS

The evaluation team plans to conduct a small-scale electronic survey of participants regarding project training, workshops, study-tours and other capacity-development activities. The survey will ask three groups of questions to determine the following:

1. How useful were the learning experiences provided? Please comment on the topics, structure, facilitators and trainers involved.

2. Do participants consider the activities important for their capacity building, and do they utilize the new knowledge received due to the project participation?

3. Did the capacity building result in any structural changes within the participant’s organization? If so, please describe them.

The project team will rely on FINREP to provide lists and the contact information for the project’s capacity-building participants. Once such information is obtained, the evaluation team will finalize the questionnaire and send it to participants by email. If email is not available or the participant is not responding, the team will follow up with two phone calls and will attempt to conduct the survey by phone. It is expected that responses will be collected by the time the team leaves Kyiv, or soon thereafter.

Since the survey sample will not be drawn randomly from a proper sampling frame, it will not be possible to generalize the results. Still, the results – combined with other data – could indicate the impact of the FINREP project on the capacities of financial markets institutions.

If the survey cannot be conducted, the evaluation team will try to arrange focus group meetings with participants to gather information on the impact of FINREP on their capacities. At the moment, it does not appear that this will be necessary.

SELF-EVALUATION EXERCISE

A self-evaluation exercise will be used by the Evaluation Team to collect internal data and expert opinions of the project implementers that could not be collected through the field interviews. The Self-Evaluation Exercise, supplemented by these other measures, can lead to fair conclusions as to FINREP management, resource allocation, and the tradeoffs of decisions made.

The Evaluation Team will develop a set of self-evaluation questionnaires for members of the project implementation consortium, in particular the technical representatives of each consortium member as well as current and former staff involved in the project. Questionnaires will be finalized during the second week of field work. The team will request reasonably documented responses to inquiries within two weeks of contact.

The Evaluation Specialist will be the primary interface with consortium members during the self-evaluation exercise. Expected outcomes include:

- Additional information about project activities, best practices and recorded outcomes and impacts as viewed by the project implementers, and supported by project documents;

- Assessment of project outcomes and impacts by the experts involved in the project; and,

- Expert recommendations on suggested improvements in future.
Analysis of the data collected during the pre-field and field activities will be conducted by the Team Leader and the Evaluation Specialist during the three-week period following the field activities. The team will use the methods described below.

**DATA ANALYSIS**

Qualitative Data Analysis will rely on two primary methods:

1. **Tabulation of Qualitative Results** – The team will construct a list of main achievements of the project based on different information sources. It will collect claims supporting and disproving these achievements in a table and will analyze frequency and substance of this evidence to determine the degree to which each achievement can be considered proven.

2. **Cross-Verification of Data** – The Evaluation Team fully expects that data analysis will present competing and even conflicting claims. For each statement derived from the qualitative data, the team will attempt to find at least one piece of supporting evidence in each of the sources of qualitative data: literature/document review, key informant interviews, and secondary data sources.

Quantitative Data Analysis will consist of the following:

- Calculation of the quantitative indicators for the possible project impacts and outcomes at the country and individual levels.

**III. WORKPLAN**

The evaluation will be implemented according to the division of responsibilities listed below and the step-by-step work plan outlined in the table.

**Team Responsibilities:**

The Team Leader will have primary responsibility for:

- Banking and financial sector areas, including legal-regulatory matters;
- Consumer protection, gender, and other areas not included below;
- Overall analysis and evaluation of legal-regulatory reform and institutional capacity-building;
- Overall completion and coherence of evaluation report and USAID presentation; and,
- Team leadership: decisions on approach and focus, leading meetings, allocating responsibilities.

The Evaluation Specialist will have primary responsibility for:

- Education, training, and outreach areas;
- Vetting and translating empirical research instruments;
- Managing qualitative and quantitative data;
- Carrying out small-scale surveys;
- Arranging for logistics in Ukraine, including appointments and any interpretation/translation needed
at meetings (shared with Development Expert);
- Coordinating home office inputs; and,
- Assisting team leader in compiling and completing the report.

The Development Expert has primary responsibility for:
- Capital markets and pension reform areas;
- Legal-regulatory research, including reviewing and (as needed) summarizing materials in Ukrainian;
- Securing other documents and data as required;
- On-the-ground follow-up when the other team members are absent; and,
- Ensuring accuracy of findings and report in terms of Ukrainian law, policy, political economy, conditions generally.

**Step-by-Step Work Plan:**

<table>
<thead>
<tr>
<th>PHASE</th>
<th>ACTIVITY</th>
<th>RESPONSIBLE PARTY/PARTIES</th>
<th>SCHEDULE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award</td>
<td>Finalize team arrangements</td>
<td>dTS Project Management Team (PMT)</td>
<td>June 12 - 19</td>
</tr>
<tr>
<td>Task 1: Literature Review</td>
<td>Clarification call with USAID/Ukraine and request/</td>
<td>PMT &amp; Team Leader</td>
<td>June 12-19</td>
</tr>
<tr>
<td>Evaluation Methodology</td>
<td>gather background documents from USAID/Ukraine &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation</td>
<td>FINREP</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Team building</td>
<td>PMT, Evaluation Team</td>
<td>June 12-19</td>
</tr>
<tr>
<td></td>
<td>Review background documents</td>
<td>Evaluation Team</td>
<td>June 15 – July 6</td>
</tr>
<tr>
<td></td>
<td>Prepare and submit revised draft work plan to USAID</td>
<td>Team Leader</td>
<td>June 15 – 25</td>
</tr>
<tr>
<td></td>
<td>Prepare and submit final evaluation methodology</td>
<td>Evaluation Team</td>
<td>June 18 – July 6</td>
</tr>
<tr>
<td></td>
<td>and data collection tools, and receive USAID/Ukraine</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Arrange logistics and schedule for field work</td>
<td>PMT, Team Leader</td>
<td>June 18 – July 6</td>
</tr>
<tr>
<td>Task 2: Conduct</td>
<td>Travel to Kyiv</td>
<td>Evaluation Team</td>
<td>July 10 – 12</td>
</tr>
<tr>
<td>Phase</td>
<td>Activity</td>
<td>Responsible Party/Parties</td>
<td>Schedule</td>
</tr>
<tr>
<td>-------</td>
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<td>--------------------------</td>
<td>----------</td>
</tr>
<tr>
<td><strong>Fieldwork</strong></td>
<td>Orientation meetings with USAID &amp; local partner</td>
<td>Evaluation Team</td>
<td>July 12</td>
</tr>
<tr>
<td></td>
<td>Finalize site visit interview protocols, including key informant and mini-survey selection; begin Kyiv interviews and surveys</td>
<td>Evaluation Team</td>
<td>July 11 – 13</td>
</tr>
<tr>
<td></td>
<td>Key informant interviews and surveys in Kyiv</td>
<td>Evaluation Team</td>
<td>July 13 – 28</td>
</tr>
<tr>
<td>Task 3: Report preparation and Briefing</td>
<td>Complete data collection and analyses</td>
<td>Evaluation team</td>
<td>July 23 – 27</td>
</tr>
<tr>
<td></td>
<td>Prepare summary of main findings and recommendations</td>
<td>Evaluation team</td>
<td>July 25 – Aug 2</td>
</tr>
<tr>
<td></td>
<td>Hold partner validation meeting with stakeholders and debriefing with USAID</td>
<td>Evaluation team</td>
<td>July 27 – 28</td>
</tr>
<tr>
<td></td>
<td>Team returns to US</td>
<td>Evaluation team</td>
<td>Aug. 2 – 3</td>
</tr>
<tr>
<td></td>
<td>Prepare &amp; submit draft final report</td>
<td>Evaluation team, PMT</td>
<td>Aug 3 – Sep 14</td>
</tr>
<tr>
<td>Task 4: Submit Final Report</td>
<td>Respond to USAID comments on draft report; submit final report</td>
<td>Evaluation team, PMT</td>
<td>From receipt of USAID comments on draft to September 30</td>
</tr>
</tbody>
</table>
### APPENDIX C. LIST OF KEY INFORMANTS

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USAID</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peter Luzik</td>
<td>USAID</td>
<td>Alternate Evaluation COR</td>
</tr>
<tr>
<td>Brian Fink</td>
<td>USAID</td>
<td>Evaluation COR</td>
</tr>
<tr>
<td>Natalia Berezhna</td>
<td>USAID</td>
<td>FINREP COR</td>
</tr>
<tr>
<td><strong>FINREP</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>John Glover</td>
<td>BAH</td>
<td>Project Director</td>
</tr>
<tr>
<td>Robert Bond</td>
<td>FMI</td>
<td>COP</td>
</tr>
<tr>
<td>Victor Stetsenko</td>
<td>MOF</td>
<td>Deputy COP</td>
</tr>
<tr>
<td>Natalia Goryuk</td>
<td>BAH</td>
<td>Senior Pension Lawyer</td>
</tr>
<tr>
<td>Paul Roberti</td>
<td>BAH</td>
<td>Senior Sovereign Debt Advisor</td>
</tr>
<tr>
<td>Benjamin Hill</td>
<td>BAH</td>
<td>Senior International Accounting Specialist</td>
</tr>
<tr>
<td>Natalia Konovalenko</td>
<td></td>
<td>Senior Capital Markets Specialist</td>
</tr>
<tr>
<td>Natalia Lozitskaya</td>
<td></td>
<td>Head of Communications Department</td>
</tr>
<tr>
<td>Yuliya Nytkka</td>
<td></td>
<td>Chief Legal Counsel</td>
</tr>
<tr>
<td><strong>Government Officials – Counterparts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oleg Kantsurov</td>
<td>MOF</td>
<td>Head of Department of Accounting Methodology</td>
</tr>
<tr>
<td>Kostyantyn Kuznetsov</td>
<td>MOF</td>
<td>Chief of State Debt Management Strategy Unit</td>
</tr>
<tr>
<td>Yaroslava Orlovs'ka</td>
<td>Section of Analytic Work and Risk Management at the Financial Policy Department</td>
<td>Chief Economist</td>
</tr>
<tr>
<td>Andriy Olenchyk</td>
<td>DGF/Deposit Guarantee Fund</td>
<td>Deputy Managing Director</td>
</tr>
<tr>
<td>Yuriy Poluneev</td>
<td>Verkhovna Rada</td>
<td>Head of Subcommittee on Finance, Banking, Tax and Customs Policy</td>
</tr>
<tr>
<td>Alexander Dubikhvist</td>
<td>NBU</td>
<td>Treasury Department, Treasurer</td>
</tr>
</tbody>
</table>

FINREP Project Evaluation: Final Report
<table>
<thead>
<tr>
<th>Name</th>
<th>Institution</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oleksandr Arseniuk</td>
<td>NBU</td>
<td>General Department of Monetary Policy, Deputy Head</td>
</tr>
<tr>
<td>Serhiy Chechel</td>
<td>NBU</td>
<td>Head of Derivatives Regulation Division, Monetary Policy Methodology Department, Monetary Policy General Department</td>
</tr>
<tr>
<td>Bohdan Lukasevych</td>
<td>NBU</td>
<td>Accounting Department, Chief Accountant - Director of Department</td>
</tr>
<tr>
<td>Natalia Ivanenko</td>
<td>NBU</td>
<td>Director of Normative and Methodological Support of Banking Regulation and Supervision</td>
</tr>
<tr>
<td>Serhiy Kruglik</td>
<td>NBU</td>
<td>Director, External Relations Department</td>
</tr>
<tr>
<td>Serhiy Shumikhin</td>
<td>NBU</td>
<td>Head of Branch of the Department for Foreign Economic Relations</td>
</tr>
<tr>
<td>Tatiana Rupcheva</td>
<td>NBU</td>
<td>Head of Division of Bilateral Cooperation, Department of External Economic Relations</td>
</tr>
<tr>
<td>Dmytro Tevelev</td>
<td>SSMNC</td>
<td>Chairman</td>
</tr>
<tr>
<td>Kostyantyn Kryvenko</td>
<td>SSMNC</td>
<td>Commissioner</td>
</tr>
<tr>
<td>Evgen Voropaev</td>
<td>SSMNC</td>
<td>Commissioner</td>
</tr>
<tr>
<td>Iryna Chirikalova</td>
<td>SSMNC</td>
<td>International Relations Department, Director</td>
</tr>
<tr>
<td>Serhiy Biryuk</td>
<td>FSR/State Commission for Regulation of Financial Services Markets of Ukraine</td>
<td>Commissioner</td>
</tr>
<tr>
<td>Andriy Lytvyn</td>
<td>FSR/State Commission for Regulation of Financial Services Markets of Ukraine</td>
<td>Commissioner</td>
</tr>
<tr>
<td>Viktor Lohvinovskyi</td>
<td>FSR/State Commission for Regulation of Financial Services Markets of Ukraine</td>
<td>Department of Methodology, Regulatory Supervision and Oversight Over Financial Institutions, Director</td>
</tr>
<tr>
<td>Serhiy Kuzmenko</td>
<td>FSR/State Commission for Regulation of Financial Services Markets of Ukraine</td>
<td>Head of Department on Work with International Organizations</td>
</tr>
</tbody>
</table>
Serhiy Zubyk  FSR/State Commission for Regulation of Financial Services Markets of Ukraine  Department On Regulating and Oversight Over Institutions of Accumulating Pension Provision

Ievheniya Semko  FSR/State Commission for Regulation of Financial Services Markets of Ukraine  Head of the Section of European Integration and International Technical Assistance Project Management of the Department of Financial Market's Services Development and Financial Monitoring

Valentina Kudin  MLSP  Head of the Mandatory and Voluntary Accumulation Pension Provision Department

Borys Zaichuk  PFU  Chairman of the Board

Volodymyr Khilenko  NBU Banking University  Rector

Other USAID Activities/Projects

Irina Inozemtseva  Commercial Law Center (2011-2015)  Professional Development Director

Yuriy Voshchynar  Commercial Law Center (2011-2015)  Legislative Development Director


Experts - Independent

Oleksandr Savchenko  International Institute of Business  Head of the Board

Oleg Ustenko  Blazer Foundation  Executive Director

Viktor Suslov  Brazil - Ukraine Economic Partnership  FSR, former Chairman

International Organizations

Marius Vistmantas  World Bank  Regional Coordinator, Financial Programs

Angela Prigozhina  World Bank

Max Alier  IMF  Resident Representative in Ukraine

Wim Fonteyne  IMF  IMF/CIDA Project Manager
<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
<th>Title/Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vladyslav Rashkovan</td>
<td>American Chamber of Commerce in Ukraine</td>
<td>Banking Committee Co-Chair/Unicredibank Ukraine CFO</td>
</tr>
<tr>
<td>Jacek Kubas</td>
<td>EBRD</td>
<td></td>
</tr>
<tr>
<td>Elena Sulima</td>
<td>EBRD</td>
<td>Senior Counsel</td>
</tr>
<tr>
<td>Olha Valchuk</td>
<td>European Business Association</td>
<td>Deputy Director</td>
</tr>
<tr>
<td>Svitlana Mykhailovska</td>
<td>European Business Association</td>
<td>Lobbying Team Leader</td>
</tr>
<tr>
<td>Tetyana Golubova</td>
<td>“Securities Market Partnership”</td>
<td>Department of External Relations, Director</td>
</tr>
<tr>
<td>Serhiy Moskvin</td>
<td>“Securities Market Partnership”</td>
<td>Director of Department of Market Regulation</td>
</tr>
<tr>
<td>Andriy Rybalchenko</td>
<td>Ukrainian Association of Investment Business</td>
<td>General Director</td>
</tr>
<tr>
<td>Olga Tripolska</td>
<td>Ukrainian Association of Investment Business</td>
<td>Deputy Director</td>
</tr>
<tr>
<td>Valentyna Legka</td>
<td>UFPAI</td>
<td>Director</td>
</tr>
<tr>
<td>Steven Fisher</td>
<td>Citibank Ukraine</td>
<td>CEO</td>
</tr>
<tr>
<td>Yuriy Blashchuk</td>
<td>Platinum Bank</td>
<td>Member of Supervisory Board</td>
</tr>
<tr>
<td>Yuriy Skolotyanyi</td>
<td>League of Financial Development</td>
<td>Journalist, Co-chair</td>
</tr>
<tr>
<td>Borys Sobolev</td>
<td>Ukrainian Credit-Banking Union</td>
<td>Head of Coordination Committee</td>
</tr>
<tr>
<td>Pavlo Matiyash</td>
<td>Ukrainian National Mortgage Association</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Oleksandr Suhoniako</td>
<td>Association of Ukrainian Banks</td>
<td>President</td>
</tr>
<tr>
<td>Iryna Samoilova</td>
<td>Association of Ukrainian Banks</td>
<td>Head of Bank Supervision Department</td>
</tr>
</tbody>
</table>
APPENDIX D. QUESTIONNAIRE FOR STUDY TOUR PARTICIPANTS

I. Introduction

Development and Training Services (dTS), an American consulting firm, is conducting an evaluation of the Financial Sector Rehabilitation Project (FINREP) of the United States Agency for International Development (USAID). Implementation of FINREP began in November 2009. The objectives of the project include strengthening the legal and regulatory environment for Ukraine’s banking sector, increasing the capacity of key institutions in the financial sector, assisting vulnerable Ukrainians with debt restructuring and education, increasing financial literacy, and continuing development of the domestic market for government securities. Activities conducted by FINREP include study tours for experts and officials from the main counterpart government institutions. The project evaluation team would like to ask for your help in determining the effectiveness and usefulness of these activities.

We would greatly appreciate it if you could answer the survey questions below. Please complete every section of the questionnaire applicable to you, presenting your own views only. Please send your answers by email to Mr. Oleksandr Rohozynsky at orohozynsky@onlinedts.com by July 31st, 2012. Your answers will not be shared with FINREP or your current and former employers. The results of the survey in aggregated form will be used in the FINREP Evaluation Report. Also, the disaggregated data in the form that prevents identification of respondents will be delivered to USAID/Ukraine.

II. Background Information about the Participant

1. Please specify the institution with which you are currently affiliated (mark with X in designated box):
   a. National Bank of Ukraine
   b. Ministry of Finance
   c. Deposit Guaranty Fund
   d. State Commission for Regulation of Financial Markets
   e. State Commission for Securities and Stock Market
   f. Ministry of Social Policy
   g. Pension Fund of Ukraine
h. Independent association, union, or other organization for market participants

i. Independent NGO, think-tank or other expert organization

j. Other organization (please specify)

2. Please specify your position and level of your responsibilities:
   a. Member of the Board
   b. Head of the institution (president, director, etc.)
   c. Head of Department
   d. Technical Specialist
   e. Other (please specify)

3. How long have you worked with your current organization? _______

4. If you changed your place of work in the last 3 years, please specify your previous place of work and position

III. Participation in the study tours/workshops organized by FINREP

5. Please mark all of the study tours/activities in which you participated:
   a. Study tour to Sweden November 7-10, 2010
   b. Study tour to Brazil, Feb. 28 to Mar. 3, 2011
   c. Study tour to Estonia and Latvia, March 21-25, 2011

e. Two-day course on repo/reverse repo instruments in London, April 6-7, 2011


g. Meeting of Securities Markets Regulators of the Eurasian Economic Community, St. Petersburg, Russia, May 25-28, 2011

h. World Bank Treasury workshop at JVI in Vienna, Austria, June - July, 2011

i. CEE pension reform meeting in Warsaw, Poland, October 6-7, 2011

j. Training at US FDIC in Dallas, TX in October 24-28, 2011

k. Training at US FDIC in Washington, DC in October 24-28, 2011

l. Seminar on Risk-based Approach to Pension Supervision in Warsaw, Poland in Nov. 14-18, 2011

m. IFAC conference in London, Great Britain, Nov. 28-29, 2011

n. Workshop on Regulatory Reform in London, UK, Nov. 29-Dec. 1, 2011


p. Workshop on Securities Market Regulations in Skopje, Macedonia in Feb. 15-17, 2012


r. XIV meeting of Council of Heads of State Bodies on the Securities Market of CIS in Minsk, Belarus, May 23-25, 2012

s. Workshop on Government Debt Management at JVI, Vienna, Austria June 11-12, 2012

IV. Effect of the participation in the FINREP study tours/workshops
6. Please rate participation in the FINREP study tours/workshops on the following

<table>
<thead>
<tr>
<th>Study Area</th>
<th>Negative effect</th>
<th>No effect</th>
<th>Positive effect</th>
<th>Strong positive effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical expertise</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding of international practices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relations with international counterparts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relations with counterparts in Ukraine</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Did your responsibilities at work change as the result of the participation in the study tours/workshops (yes/no)? ____________
   
   If yes, can you please give a short description of how they changed?
   
   _______________________________________________________________________

8. Were you able to utilize the new knowledge that you obtained from the study tours/workshops (yes/no)? ____________
   
   If yes, can you please explain how?
   
   _______________________________________________________________________

V. Experience with the FINREP study tours/workshops

9. Please provide your assessment of the organizational and other aspects of the study tour/workshop, 1 is the lowest, and 5 is the highest

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Did FINREP explain the goals of the study tour/workshop?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Did FINREP contact you sufficiently in advance to facilitate your participation?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was your organization’s (or Government of Ukraine in general) role as the in selecting participants important?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was FINREP’s role in the organization of the study tour/workshop effective?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How useful do you consider this study tour/workshop for your professional development?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was the study tour/workshop and other technical assistance from FINREP mutually supportive?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Were resources used effectively in the study tour?</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

10. Any other comments and suggestions on the study tours/workshops?

_____________________________________________________________________________________
_____________________________________________________________________________________
**APPENDIX E. QUESTIONNAIRE FOR THE SELF-EVALUATION**

PLEASE ANSWER THE FOLLOWING QUESTIONS BASED ONLY ON YOUR OR YOUR FIRM’S INVOLVEMENT INTO THE FINREP PROJECT. Please indicate N/A if you were not involved in working towards specific project objective or activity.

**General Questions**

1. Please indicate the FINREP project objectives towards which you (or your firm) worked as a part of the project

<table>
<thead>
<tr>
<th><strong>Per project design</strong></th>
<th><strong>Actual work</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthen the legal and regulatory environment for Ukraine’s banking sector</td>
<td>□</td>
</tr>
<tr>
<td>Increase the capacity of key institutions</td>
<td>□</td>
</tr>
<tr>
<td>Assist vulnerable Ukrainians with debt restructuring and education</td>
<td>□</td>
</tr>
<tr>
<td>Increase financial literacy</td>
<td>□</td>
</tr>
<tr>
<td>Continue development of the domestic market for government securities</td>
<td>□</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>□</td>
</tr>
</tbody>
</table>

2. In your opinion, was the project successful in achieving its results?  
(choose not applicable/not able to evaluation for the question outside your expertise or knowledge about the project)

<table>
<thead>
<tr>
<th><strong>Successfull</strong></th>
<th><strong>Unsuccessfull</strong></th>
<th><strong>Not applicable / not able to evaluate</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthen the legal and regulatory environment for Ukraine’s banking sector</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Increase the capacity of key institutions</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Assist vulnerable Ukrainians with debt restructuring and education</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Increase financial literacy</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Continue development of the domestic market for government securities</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>
3. Were indicators used in the project results framework/PMP adequate to capture the outcomes/impacts of the project?

   Yes ☐    No ☐    Don’t know ☐

If there were success/failures not captured by standard indicators, please explain and suggest objective indications of such success/failure.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

4. Have there been any significant or critical gaps in FINREP implementation?

   Yes ☐    No ☐    Don’t know ☐

Provide explanation if needed.
5. Was FINREP flexible in responding to changing circumstances?

   Yes ☐    No ☐    Don’t know ☐

Provide examples

6. Was FINREP successful in coordination with multiple counterparts in country? Please rate the success of collaboration with the following counterparts on the scale 1 to 5, one being absence of collaboration, and 5 being full success?

<table>
<thead>
<tr>
<th>Counterpart</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Ukraine</td>
<td>☐</td>
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<tr>
<td>International/donor organizations</td>
<td>☐</td>
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<tr>
<td>Partners (firms) of the consortium implementing FINREP</td>
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<tr>
<td>USAID office in Kyiv</td>
<td>☐</td>
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</tbody>
</table>

7. Please rate FINREP’s experience collaborating with different government offices/counterparts in Ukraine, considering 1 being the most difficult, and 5 the easiest?

<table>
<thead>
<tr>
<th>Counterpart</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Ukraine</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Ministry of Finance</td>
<td>☐</td>
<td>☐</td>
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<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>State Commission on Securities and Stock Market of Ukraine</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<td>☐</td>
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<tr>
<td>Commission for Regulation of Financial Services Markets of Ukraine</td>
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<tr>
<td>Cabinet of Ministers</td>
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<td>☐</td>
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<tr>
<td>Presidential Administration</td>
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<tr>
<td>Pension Fund</td>
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<tr>
<td>Ministry of Social Protection</td>
<td>☐</td>
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</tbody>
</table>

8. What were the most effective strategies used in establishing working relations with the project’s multiple counterparts in the Ukrainian government?

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

9. For strategies that did not work, what were the challenges, and how could they be further improved?

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

10. What factors in the project’s structure and implementation affected relationships with the project counterparts? How?

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

11. What changes in the Ukrainian environment and in counterpart personnel affected the implementation of the project? How?

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________
12. What approaches to these relationships were particularly successful? Unsuccessful? What changes would improve this situation?

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

13. To what extent did relevant government counterparts share the same objectives as FINREP? Consider 1 as being the least interested in the FINREP agenda, and 5 as having an agenda that was closely related to the objectives outlined in the FINREP SOW.

<table>
<thead>
<tr>
<th>National Bank of Ukraine</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
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<tr>
<td>State Commission on Securities and Stock Market of Ukraine</td>
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<tr>
<td>Commission for Regulation of Financial Services Markets of Ukraine</td>
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<td>Pension Fund</td>
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<td>Ministry of Social Protection</td>
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</tbody>
</table>

14. In your opinion, what particular factors in each of the following categories must the evaluation team take into consideration to adequately evaluate the performance of the project? Please explain:

a. Internal factors, such as structure of the implementation team, relations between implementing partners, etc.

___________________________________________________________________________

___________________________________________________________________________

b. Exogenous external factors that changed the implementation environment.
c. Peculiarities of the political, legal, etc. environment in Ukraine.

d. Other factors
APPENDIX F. KEY INFORMANTS INTERVIEW GUIDE

Key Informant Interview Questionnaire

<table>
<thead>
<tr>
<th>KEY INFORMANT NAME(S)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>KEY INFORMANT TITLE AND AFFILIATION</td>
<td></td>
</tr>
<tr>
<td>INTERVIEWER</td>
<td></td>
</tr>
</tbody>
</table>

DATE/LOCATION:  
TIME: 

INTRODUCTION

Hello. My name is ________________. My colleagues and I are conducting an evaluation of the ongoing USAID Financial Sector Rehabilitation Project (FINREP) in Ukraine.

USAID has asked us to conduct an assessment of FINREP’s performance. We will assess the degree to which the implementation of the project has been successful, and the extent to which it has contributed to policy reforms or other improvements that help develop and stabilize the financial markets in Ukraine. Responses gathered in interviews such as this will be used to inform USAID’s decisions on this and related programs.

Participation in this interview is voluntary. If you choose, the information you provide can be kept strictly confidential. However, summary results based on key informant interviews will be shared with USAID officials.

During the interview, if we come to any question you do not wish to answer, just let me know and I will go on to the next question; or you can stop the interview at any time. However, we hope that you will participate in this interview since your views are important.

At this time, do you want to ask me anything about the survey?

May I begin the interview now?

Signature of Interviewer: ______________________    Date: ________________________
QUESTION 1.
IN YOUR EXPERT OPINION, WERE THERE SIGNIFICANT CHANGES IN UKRAINE'S FINANCIAL SECTOR DURING THE LAST THREE YEARS? CAN YOU DESCRIBE THEM?

Please identify changes in:

- Banking and financial services:

- Securities markets:

- Government debt issue:

- Pensions:

- Other:

QUESTION 2.
IN YOUR EXPERT OPINION, WHAT WAS THE MAIN REASON FOR THESE CHANGES? WHAT WAS THEIR RESULT?

- In assessing the reasons for the changes, please address any policy changes and legal-regulatory reforms in addition to others you consider important.

- In assessing the results of the changes, please indicate whether these results support (or do not support):
  - a stable, transparent, and resilient financial sector.
  - a financial sector that serves the needs of the most vulnerable Ukrainians.

QUESTION 3.
[SKIP WHERE ANSWER IS OBVIOUS, E.G. DIRECT COUNTERPARTS]
ARE YOU FAMILIAR WITH FINREP?
• Briefly describe your specific experience, if any, with FINREP.

[IF ‘YES’ TO Q 3, ASK THE REMAINING QS:]

QUESTION 4.
COULD YOU PROVIDE A BRIEF ASSESSMENT OF FINREP’S EFFECTIVENESS? WE INVITE BOTH POSITIVE AND CRITICAL COMMENTS.

QUESTION 5.
WHAT WERE THE THREE MOST SUCCESSFUL ACTIVITIES THAT FINREP IMPLEMENTED? THE THREE LEAST SUCCESSFUL ONES? WHY?
• Please identify up to three activities in each category. Which ones should be continued, which changed, and which discontinued? Please identify any changes you think should be made.

QUESTION 6.
COULD YOU BRIEFLY ASSESS THE EFFECTIVENESS OF FINREP’S COOPERATION AND COMMUNICATION WITH YOUR ORGANIZATION?
• Please give specific examples, positive or negative.
QUESTION 7.

IN YOUR EXPERT OPINION, DID THE PROJECT CONTRIBUTE TO THE CHANGES MENTIONED IN QUESTION #1? IF YES, HOW?

- Please discuss the link between specific FINREP activities and the changes.

QUESTION 8.

IN YOUR EXPERT OPINION, DID THE PROJECT HAVE AN IMPACT ON THE CAPACITIES OF FINANCIAL SECTOR PARTICIPANTS? WHAT WAS THE IMPACT AND HOW DID IT COME ABOUT?

- Participants include:
  - Policymakers, regulators, and courts
  - Financial institutions and other providers of financial market products
  - Consumers, especially vulnerable populations
  - Women, in any of the above roles.

- Please discuss the link between specific FINREP activities and the outcomes.

QUESTION 9.

IN YOUR EXPERT OPINION, WHAT FACTORS HAVE ENABLED OR INHIBITED FINREP’S SUCCESS?

- Please focus on factors that are **objective, i.e. independent of the project itself.** Please describe the **impact** of these factors and the project’s **response.**
QUESTION 10.
IN YOUR EXPERT OPINION, HAS FINREP PRODUCED EFFECTS THAT ARE NOT OBSERVABLE NOW, BUT WILL BECOME VISIBLE IN LATER YEARS? PLEASE DESCRIBE THEM.

QUESTION 11.
WOULD YOU LIKE TO PROVIDE ANY ADDITIONAL INSIGHTS REGARDING FINREP?
### APPENDIX G. SUMMARY OF KEY INFORMANT RESPONSES BY EVALUATION QUESTION

<table>
<thead>
<tr>
<th>Main Comments</th>
<th>USAID</th>
<th>FINREP</th>
<th>Government Officials/ Counterparts</th>
<th>Experts and International Organizations</th>
<th>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provided significant assistance in drafting legislation</td>
<td>3</td>
<td>3</td>
<td>20</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Instrumental in developing legislation on banking supervision, creditor rights, bankruptcy and taxation</td>
<td>3</td>
<td>3</td>
<td>20</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Responsive to the environment and government needs for assistance with legislation drafting</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Project provided experts in timely manner, faster than other international donors</td>
<td></td>
<td></td>
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<td></td>
<td>7 2</td>
</tr>
<tr>
<td>Project provided high-quality professional</td>
<td>3</td>
<td>7</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Well-targeted interventions</td>
<td>3</td>
<td>4</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Project provided a platform for consolidation and discussion of different views on the reform</td>
<td>2</td>
<td>2</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Project did not reach out to all stakeholders</td>
<td></td>
<td></td>
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<td></td>
<td>3</td>
</tr>
<tr>
<td>Significant input in drafting legislation on toxic assets on the banks that was rejected due to reasons that are not</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
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</table>

Q1: To what extent, and how, did the project shape the legal and regulatory environment for the stable, transparent, and resilient financial sector in Ukraine?
<table>
<thead>
<tr>
<th>Main Comments</th>
<th>USAID</th>
<th>FINREP</th>
<th>Government Officials/ Counterparts</th>
<th>Experts and International Organizations</th>
<th>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</th>
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<tbody>
<tr>
<td>under project control</td>
<td></td>
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</tr>
<tr>
<td>Significant input into development of the DGF (developing legislation and bylaws)</td>
<td>3</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Significant project input into development of disclosure regulations</td>
<td>3</td>
<td>8</td>
<td></td>
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</tr>
<tr>
<td>Was not familiar with the project work in this area</td>
<td>5</td>
<td>6</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The progress in the area was not significant (independent of project inputs)</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progress in banking/ bank recapitalization over past three years was negative</td>
<td>5</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progress in DGF in the last three year was negative</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progress in banking regulation over the past three years was negative</td>
<td></td>
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</tbody>
</table>

Q2: To what extent, and how, did the project affect the capacity of the Ukrainian financial sector institutions to implement reforms and raise their performance to international best practices?

<p>| Project was instrumental in developing IFRS in Ukraine                        | 3     | 3      | 8                                   | 6                                       | 8                                                             |
| Project provided needed trainings to increase capacity of government counterparts in banking supervision and financial | 5     | 22     | 3                                   |                                         |                                                               |</p>
<table>
<thead>
<tr>
<th>Main Comments</th>
<th>USAID</th>
<th>FINREP</th>
<th>Government Officials/Counterparts</th>
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<th>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>markets regulations</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Project provided training that was needed by counterparts</td>
<td>10</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Project provided significant input in developing/translating regulations, manuals, other training documents</td>
<td>10</td>
<td>5</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project use of the Web to disseminate information and support of counterparts’ web applications helped reach wider audiences and expend or sustain current capacities of Ukrainian institutions</td>
<td>3</td>
<td>22</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Project helped develop and implement the DGF institution-building plan, which was important to achieve reforms</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project did not provide significant input in this area</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was not familiar with project work in this area</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant turnover of professionals in government institutions is significant factor reducing capacity of the financial sector institutions</td>
<td>3</td>
<td>17</td>
<td>9</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>The capacity of financial institutions in Ukraine did not change over the last three years (independent of</td>
<td>3</td>
<td>4</td>
<td>6</td>
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</tr>
</tbody>
</table>
The capacity of financial sector regulators became worse over the last three years (independent of the project)

Q3: To what extent, and how relevant, were the project activities designed to assist vulnerable Ukrainians with financial relief and awareness, and increase demand for provision of adequate customer-oriented financial services and proper government supervision? How was gender addressed in these interventions?

<table>
<thead>
<tr>
<th>Main Comments</th>
<th>USAID</th>
<th>FINREP</th>
<th>Government Officials/Counterparts</th>
<th>Experts and International Organizations</th>
<th>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project was instrumental/had major impact on establishing the financial education program</td>
<td>3</td>
<td>4</td>
<td>14</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>The study of consumer lending was well known and had strong effect on the actions of GOU and NGOs</td>
<td>3</td>
<td>3</td>
<td>24</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Project responded to requests from members of parliament and helped draft extremely important consumer protection legislation</td>
<td>3</td>
<td>12</td>
<td>8</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Consumer protection legislation drafted with the project’s help is important; project input was valuable</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Consumer protection legislation developed with project input is not perfect/balanced for the Ukrainian market (gives too much power to consumer)</td>
<td>1</td>
<td>5</td>
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<td></td>
</tr>
<tr>
<td>Main Comments</td>
<td>USAID</td>
<td>FINREP</td>
<td>Government Officials/Counterparts</td>
<td>Experts and International Organizations</td>
<td>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</td>
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<tr>
<td>The financial literacy course developed by NBU and the project was a success, which was only possible due to the project</td>
<td></td>
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<tr>
<td>The financial literacy course was an important first step, but it has drawbacks and should be corrected/improved</td>
<td></td>
<td>2</td>
<td></td>
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</tr>
<tr>
<td>The outreach and training campaigns on pension reform supported by the project was important</td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>The project support to the maintenance of the MLSP website and hotline on pension reform was crucial</td>
<td></td>
<td>1</td>
<td>2</td>
<td></td>
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</tr>
<tr>
<td>Project provided valuable support to the development and revision of pension system reform legislation</td>
<td></td>
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<td>3 1 1</td>
</tr>
<tr>
<td>The main reforms in the pension system in the last five years should be attributed to the pressure from the financial crises/budget deficit rather than actions of any projects</td>
<td></td>
<td>3</td>
<td>3</td>
<td>2</td>
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</tr>
<tr>
<td>Adaptation of the pension system's Pillar II and III is highly unlikely in the near term</td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Project took some steps to ensure gender equality</td>
<td>1</td>
<td>4</td>
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</tbody>
</table>
There were no specific studies conducted on the gender effects of legislation introduced with the support of the project.

<p>| Q4: To what extent have the project activities expanded the domestic securities market to mitigate financial stress and broaden the financial base? |
|---|---|---|---|
| FINREP provided continuation of valuable legal and capacity development support to SSMNC (previously provided by Capital Markets project) | 2 | 5 | 2 | 1 |
| Trainings and workshops on market supervision supported by FINREP very useful and provided valuable information | | | 5 | 2 | 2 |
| Project experts provided valuable contribution to the development of capital markets regulations | 2 | 7 | 5 | 2 |
| The development of capital markets regulations over the last five years is moving toward concentration of power with regulatory (government) authorities, which is not good for the market | | | | 3 | 3 |
| ESCRIN (supported by the project) had strong positive impact on the capital | 2 | 7 | 4 | 5 |</p>
<table>
<thead>
<tr>
<th>Main Comments</th>
<th>USAID</th>
<th>FINREP</th>
<th>Government Officials/Counterparts</th>
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<th>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>markets</td>
<td></td>
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</tr>
<tr>
<td>FINREP provided visible and valuable support to the development of the CSD</td>
<td>2</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Development of the CSD may jeopardize the expansion of financial sector in Ukraine (independent of FINREP work)</td>
<td>2</td>
<td>7</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of the CSD will support the stability of the financial sector in Ukraine (independent of FINREP work)</td>
<td></td>
<td>7</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINREP provided valuable expertise in developing and discussing legislation on derivatives</td>
<td>7</td>
<td>6</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINREP was actively engaged in promoting development of the government debt market</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINREP activities provided necessary push to use of REPO operations</td>
<td>10</td>
<td>3</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus newsletter published by FINREP provided important and reliable information to support development of the government debt market</td>
<td>10</td>
<td>3</td>
<td>8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q5: What factors enabled or inhibited the achievement of stated objectives and how were the latter successfully overcome, or if not, why not (e.g., the project's management structure, the operating environment, etc.)?
<table>
<thead>
<tr>
<th>Main Comments</th>
<th>USAID</th>
<th>FINREP</th>
<th>Government Officials/Counterparts</th>
<th>Experts and International Organizations</th>
<th>Public/Private Counterparts, Trade Unions &amp; Professional Organizations</th>
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<tbody>
<tr>
<td>Challenging political environment, especially for implementing reforms in financial sector</td>
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<td>Corruption and rent-seeking presents challenge to resolving any issue in financial sector</td>
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<tr>
<td>Increasing centralization of regulatory power/government control over market</td>
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<tr>
<td>Rapid turnover of staff in government institutions</td>
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<tr>
<td>A complex system for cooperation with international organizations/bureaucracy</td>
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<td>Frequent changes in directions toward reforms by government counterparts</td>
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<td>Relations between project implementing partners inhibiting project implementation</td>
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<tr>
<td>Top management at government institutions is not open to outside advice</td>
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</table>

**Q6:** What were the most effective strategies used in establishing working relations with the project's multiple counterparts in the constantly changing Ukrainian environment? For strategies that did not work, what were the challenges, and how could they be further improved?

Project was very responsive to client requests

<table>
<thead>
<tr>
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<tr>
<td>Project worked with counterparts to develop annual plans and stick with them</td>
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<tr>
<td>Project was understanding of clients’ decisions to switch priorities</td>
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<tr>
<td>Project did not consult clients about the agenda in Year 1</td>
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<tr>
<td>Project tried to push agenda that counterparts did not need</td>
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<td>Project was one of the best international projects in dealing with counterparts</td>
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<td>Project was significantly better in establishing relations with the stakeholders after change of COP</td>
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<td>International and domestic financial crises helped the project by stimulating government interest in reforms</td>
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<td>Challenge was in the change of professionals at government institutions after election</td>
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<td>Employed respected and well-qualified Ukrainian professionals</td>
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</table>
APPENDIX H. REFERENCES


FINREP Monthly and Quarterly Reports, 2009-2012 (with Annexes).


