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USAID FINANCIAL SECTOR REFORM ACTIVITY

Roundtable

**BANKS, NBFIS AND INTERNATIONAL FINANCIAL
SUPPORT PROGRAMS IN UKRAINE**

SUMMARY OF PRESENTATIONS BY BANKS

December 16, 2022

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Speakers represented a wide range of the major players of the Ukrainian banking sector: state-owned, subsidiaries of international bank groups and Ukrainian private banks. The round table attracted high level participants – mostly board members and heads of the departments.

The first part of the round table was devoted to discussion of the development of the Ukrainian banking sector during the war. It covered the following aspects:

- (1) Banks' experience with various IFI donor/financial support programs and bankers' views on the most appropriate IFI support options;
- (2) The impact of the war on their SME loan portfolios and NPL positions by the end of 2022;
- (3) Recommendations on the needs (especially risk-sharing) and the desired parameters of the IFI initiatives in the current situation.

When discussing the **NPL level**, speakers noted good performance of the loan portfolios despite the war and all associated risks. However, bankers emphasized that their estimates reflected the current situation, and the quality of the portfolio might worsen later – in 2023.

Risk-sharing / portfolio guarantees solutions, with higher cover ratio, and **grant schemes** are considered priority instruments for IFI support for the banking sector. A rough estimate of the need for international guarantees for the banking sector is USD 500 mln. The major interest is in instruments similar to the government portfolio guarantees (credit repayment, risk-sharing instruments) for the support of working capital and CapEx financing. Interest rate compensation, other measures to reduce the cost of financing and grant programs are also of interest. Direct financing lines might be interesting for banks but only if the financing is long-term and in UAH or accompanied by FX hedging instruments (as Ukrainian MSME borrowers prefer not to apply for foreign currency financing). Non-bank financial institutions, like the leasing industry, are more interested in direct financing. Participants highlighted the

need for the long-term support for reconstruction (for big infrastructure and logistics projects), for which equity financing and co-investment will be required.

The representatives of **state-owned and Ukrainian private owned institutions** called upon IFIs to broaden the scope of their programs and to include them in new IFI support schemes.

SUGGESTIONS REGARDING INTERNATIONAL PROGRAM CONDITIONS



GUARANTEE AND INSURANCE MECHANISMS:

- Guarantees with 50-80% risk coverage
- Collateral insurance against military action



FINANCING:

- Medium- and long-term funding
- Low interest rate at 5-7-9%
- Financing in the national currency or currency risk insurance



PROGRAMS FOR BUSINESSES:

- Concessional investment lending for SMEs (for example, at no more than Libor+5%/interest rate compensation/grants)
- Support programs for major corporate clients
- Easier access to programs

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Many speakers emphasised that IFIs should develop their programs **without delay** and not wait for a better and more predictable environment “after-war” time. Summaries of the key points of presentations are presented below.

SUMMARY OF PRESENTATIONS BY BANKS

BANK LVIV

Volodymyr Kuzyo, Executive Director

Ownership	The bank belongs to foreign private and institutional shareholders (incl. NEFCO and ResponsAbility)
Experience with IFI and other support programs	<p>The bank has broad and long-term experience in cooperation with IFIs. In 2022 the bank managed to attract new support facilities:</p> <ul style="list-style-type: none">- Syndicated loan from EBRD/EFSE/GGF for \$10 mln- Up to 80 % portfolio credit guarantee cover for a total \$15 mln from DFC/USAID with clear claim procedure- MSME grant resources for a total 1,3 mln EUR (Sparkasse/Business development fund (BDF))- IDP support grant facility for 1 mln EUR (Oxfam)
SME loan portfolio	The bank is a local player with HQ in Lviv, focused in MSME financing in the western regions of Ukraine (94 % of 121 mln USD loan portfolio – in micro, small and medium segments).

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OSCHADBANK

Natalia Butkova, Member of the Board

Ownership	State-owned bank
Experience with IFI and other support programs	Sparkasse/BDF MSME grant facility for 1.3 mln EUR (signed in December 2022) EBRD Trade Facilitation program (40 mln EUR of currently available limit) EIB/EIF guarantee limit (50 mln EUR of already utilized limit) 5-7-9 GoU interest subsidy program (with 14,1 bln UAH outstanding on 01.11.2022) GoU portfolio guarantee limit utilized for 4,9 bln UAH ECA Ukraine 180 mln UAH available limit
Quality of the SME loan portfolio	The level of overdue loans in SME segment in July – November made up 2,9 – 5,6 % on the territory controlled by Ukraine and 2,2 – 8,6 % - on the entire territory (incl. occupied regions) NPL in SME segment before 24.02.2022 – 0,1 %
Recommendations (expectations from IFIs)	Cooperation with IFI donor projects is key for further reconstruction and development of Ukraine. Oschadbank, as the sole operator of the state grant support programs, accumulated valuable experience and is prepared to participate in the development of new IFI support initiatives

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PRIVATBANK

Yevhen Zahraiev, Member of the Board

Ownership	State-owned bank
Experience with IFI and other support programs	So far, the MSME segment of the bank has not had previous experience of cooperation with IFI support initiatives
Quality of the SME loan portfolio	<p>The quality of the MSME portfolio is high (unexpectedly for the current situation).</p> <p>The bank thinks that in part the good quality is related to incentives from the 5-7-9 and the government portfolio guarantee instruments (in case of overdue payments under the loan agreements – respective borrowers cannot receive interest rate compensations and participate in the programs).</p> <p>The bank has portfolio of more than 10 thousand loans secured by the government portfolio guarantees with less than 1 % overdue share.</p>
Recommendations (expectations from IFIs)	<p>The bank has 50 % market share in various sub-segments of MSME lending and is interested in increasing its portfolio. The bank called upon the IFIs to support Ukrainian state-owned banks (now Privatbank sees certain limitations from IFIs).</p> <p>The major interest is in instruments similar to those of the government portfolio guarantees (credit repayment, risk-sharing instruments) for the support of WC and CapEx financing related to reconstruction, relocation, equipment and transport purchases. Grant programs are also interesting. There is less interest in receiving direct funding support.</p> <p>Privatbank considers that having a matrix of donor support programs is quite important.</p>

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FUIB

Serhiy Magdych, Deputy Chairman of the Board

Ownership	Ukrainian privately owned bank
Experience with IFI and other support programs	The bank does not participate in any IFI support initiatives. At the same time, FUIB actively cooperates with 5-7-9 and the GoU portfolio guarantee programs occupying the 4 th and 5 th positions in terms of disbursed SME loans.
Quality of the SME loan portfolio	<p>The bank is the biggest one with purely Ukrainian ownership. During the current year the loan portfolio of the bank increased by 14 %.</p> <p>The level of provisions is lower than expected in all sub-segments, though NPLs reach 50 % on the occupied territories. In MSME segment the level of NPLs is lower than in big corporate segment.</p>
Recommendations (expectations from IFIs)	<p>The bank is eager to partner with the IFIs and supposes that inclusion of Ukrainian private banks in IFI support schemes.</p> <p>The most interesting fields of potential cooperation are risk-sharing (for 50-70 %), interest rate compensation (like in 5-7-9 program) and grant programs for relocation.</p> <p>The bank suggests that IFIs consider joining existing state support schemes (e.g. 5-7-9 program).</p>

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RAIFFEISEN BANK

Ruslan Spivak, Corporate business director

Ownership	Subsidiary of the international bank group
Experience with IFI and other support programs	<p>The bank has experience in many IFI support programs in the Ukrainian market including direct financing, risk-sharing and new products launch. It cooperated with IFC, EBRD, MIGA, EIB, DCFTA programs. The bank also actively participates with state 5-7-9 and credit guarantee instruments (provided SME loans for more than 8 bln UAH).</p> <p>During the war, the bank continued to utilize limits established earlier, new programs were not established.</p>
Quality of the SME loan portfolio	The bank was prepared for the current crisis. After 24.02 specific credit policy for this period was developed. Now the bank concentrates on lending to agricultural sector, pharmaceutical business, food processing, hygiene and logistics.
Recommendations (expectations from IFIs)	<p>Major interest in the following instruments:</p> <ul style="list-style-type: none">- Portfolio guarantees- Financial grants- Long-term support for reconstruction (for big infrastructure and logistics projects)

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UKRSIBBANK

Ievgenii Borodin, Head of SME centre

Ownership	Subsidiary of the international bank group (BNP Paribas)
Experience with IFI and other support programs	The bank has respective experience with IFI programs, but has not had negotiations about IFI support since the beginning of the war.
Quality of the SME loan portfolio	<p>The bank has not formed additional provisions starting from June (the overdue loans haven't increased since May 2022).</p> <p>In Ukrsibbank, the borrowers in Kyiv region serviced their loans worse than, those in the Eastern region (which was partially occupied). In Kharkiv the enterprises started recovering sooner than in Kyiv. Most probably Kyiv in this respect suffered as the logistics and economic support centre for Ukraine and was more exposed to direct military damage.</p>
Recommendations (expectations from IFIs)	Risk-sharing solutions from the IFIs will let the bank to extend limits for its already existing borrowers.

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CREDIT AGRICOLE

Vladislav Berezhny, Director of Trade & Structured finance

Ownership	Subsidiary of the international bank group
Experience with IFI and other support programs	Trade facilitation lines from EBRD and IFC were crucial for the bank for providing import financing in the current year
Recommendations (expectations from IFIs)	<p>CA's priorities are: long-term financing, risk sharing, support of new products development. Co-investments from IFIs will be also important for creation of new fundamentals of new Ukrainian economy.</p> <p>Another topical issue – support for the development of factoring instruments and the entire factoring ecosystem: many supplier companies suffer from payment delays from retail networks (which try to improve their liquidity position at the expense of suppliers). In the situation of bank overliquidity, factoring might resolve existing difficulties, however joint efforts of IFIs and respective state bodies are required.</p>

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AGROPROSPERIS BANK

Serhiy Schepanskiy, CEO

Ownership	Foreign institutional investors
Experience with IFI and other support programs	The bank has experience with international and Ukrainian state support programs, particularly with EFSE (which provided support for the development of on-line channels).
Quality of the SME loan portfolio	The NPL figures are much better than expected. However, the ultimate effect will be felt later. Temporarily non-performing borrowers tend to agree on acceptable restructuring conditions and try to service the debts at their earliest convenience.
Recommendations (expectations from IFIs)	<p>Main focus should be on the following aspects:</p> <ul style="list-style-type: none">- risk-sharing (with higher cover ratio)- reducing the cost of financing- equity financing (especially topical at the stage of investments in reconstruction) <p>Direct financing is interesting in UAH (or with support of currency risks hedging instruments). In the current situation the lenders are required to take more risks, therefore risk-sharing instruments are so important.</p>

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ULF FINANCE

Oleksandr Koshcheiev, Head of the Supervisory Board

Ownership	Ukrainian private company
Experience with IFI and other support programs	<p>UUL Finance has had experience in attracting EIB financing (it was done through the related bank, for relatively expensive costs and was quite inconvenient in utilization).</p> <p>The state interest rate subsidies for leasing companies were launched in the end of 2021 (withing 5-7-9 scheme), but after beginning of the full-scale war the product became unprofitable.</p> <p>The major market player (OTP leasing – member of the UUL) cooperated with IFIs (EBRD, FinanceEast, used grant scheme for energy efficient agricultural equipment).</p>
Specifics of leasing business	<p>Leasing companies, unlike banks, have no cross-selling opportunities, operate only with long-term financing and at the moment are interested in receiving direct financing.</p> <p>In the current year ULF Finance provides leasing approx. at 40 % of the budgeted figures (leasing services are provided to private individuals and legal entities).</p>
Recommendations (expectations from IFIs)	<p>Ukraine has an under-credited economy (though certain problems existed prior to the war as well, e.g. lack of mortgages and absence of complex financing solutions for corporate businesses).</p> <p>In order to renew and stimulate economic activities huge amounts of funds (incl. equity finance instruments), complex solutions and feasible growth model are essential.</p>

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