



Ministry of  
Finance  
of Ukraine



## Annual report 2021 of the Business Development Fund



25 years of German-Ukrainian financial  
cooperation for the development of  
Ukrainian small business

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## ADDRESS BY BUSINESS DEVELOPMENT FUND REPRESENTATIVES



### SERGIY MARCHENKO

Minister of Finance of Ukraine, Chairman of the Boards of Governors of the World Bank and the IMF

In 2021, the Business Development Fund, in close cooperation with the Ministry of Finance and the Government of Ukraine, continued the efficient implementation of the state policy of promoting the development of small and medium-sized enterprises in Ukraine. The main direction of this policy was measured to expand SMEs' access to financing to intensify lending to the Ukrainian economy to overcome the consequences of the corona crisis, and in the future - the military aggression of the Russian Federation against Ukraine. The main instrument for the implementation of these measures remains the state program «Affordable loans 5-7-9%», the implementation of which is ensured by the Business Development Fund (BDF), and the results of 2021 confirm this. In 2021, the state program «Affordable loans 5-7-9%» strengthened its presence and influence on the development of the financial and real sectors of the economy, essentially becoming the main driver of the growth of bank lending to SMEs, revitalizing the business activity of entrepreneurs and increasing budget revenues. The data of monetary and loan statistics and the annual report of the BDF fully confirm this:

- according to the results of 2021, bank lending to small and medium-sized businesses increased by a record 40.2%, with a simultaneous decrease in the level of problem loans in the banking system to 30%;

- the increase in the volume of lending by Ukrainian banks was correspondingly reflected in the interest income and profit of the banking sector, which according to the results of 2021 received a historically record net profit of UAH 77.5 billion. Such a result had a positive effect on budget revenues, as well as on the creation of a margin of safety for the banking system, which continues to lend to the economy of Ukraine today in war conditions;

- among entrepreneurs participating in the program, the total amount of income tax and single social contribution increased by 12% and 18%, respectively, which indicates the positive impact of state support on increasing transparency and formalization of business.

In the conditions of the military aggression of the Russian Federation against Ukraine, the Fund's activities within its programs became decisive for maintaining the economic activity of business entities and the financial sector of Ukraine: dated 24.02.2022, within the framework of the program 5-7-9% , authorized banks issued loans to entities entrepreneurship for a total amount of more than UAH 50 billion. The lion's share of these loans was given to Ukrainian farmers for sowing and harvesting campaigns, which, thanks to this, ensure food security not only for Ukraine but also for the whole world. The year 2021 became a defining year for the Business Development Fund also because in December it was 25 years since the beginning of the German-Ukrainian financial cooperation, within the framework of which, in particular, the Fund was established. Also, thanks to this cooperation, the banking sector of Ukraine gained access not only to financial resources but also to advanced lending technologies for micro-, small and medium-sized businesses, which are still used today.

German-Ukrainian financial cooperation has been successfully developing for 25 years, and the best confirmation of this is the allocation in April 2022 by the German Government through KfW and the BDF of financial assistance for the refinancing of budget expenditures for the payment of state support under the program 5-7-9% . The Business Development Fund once again united Ukraine and Germany for the development of small businesses and the financial sector of our country. This fully corresponds to the mission of the Fund and the slogan: «Uniting for growth!», which in the conditions currently experienced by Ukraine can be supplemented with: «Uniting for the Victory and reconstruction!».



### YURIY DRAGANCHUK

Deputy Minister of Finance for European Integration, Chairman of the Board of the BDF

In 2021, the Business Development Fund continued the dynamic development of lending to small businesses in Ukraine, thanks to which the total amount of financial support for small and medium-sized businesses in Ukraine under all the Fund's programs amounted to almost UAH 109.2 billion, up by UAH 61.2 billion more than according to the results of 2020.

Such a tangible result was facilitated by the coordinated work of the team of the Business Development Fund, as well as the teams of authorized banks, which provided direct financing of small business enterprises in Ukraine within the framework of the Fund's programs.

It is worth noting that in 2021 the Fund expanded the number of programs to support the financing of not only business entities, but also citizens of Ukraine for the purchase of their housing.

On the initiative of the President of Ukraine, in March 2021, the BDF in cooperation with the Ministry of Finance introduced a new state program «Affordable mortgage 7%». The purpose of the program is to develop mortgage lending in Ukraine by improving its accessibility through lowering interest rates and expanding the range of banks that provide mortgage loans.

In the incomplete year of implementation, the program demonstrated tangible results: the interest rate on mortgage loans for the purchase of housing in the primary market decreased by 1.5%, and the total volume of mortgage loans issued by the banking sector in 2021 amounted to almost UAH 9 billion.

The next new program of the Fund was the state program «Affordable Financial Leasing 5-7-9%», thanks to which the Government of Ukraine expanded alternative sources of financing for MSME investment projects.

The goal of the introduction of the state program «Affordable Financial Leasing 5-7-9%» was the desire of the Government of Ukraine to strengthen the investment component of financial state support, which will contribute to the capitalization of the economy of Ukraine, as well as balancing the competitive struggle on the financial market between leasing companies and banks of Ukraine, which is within the framework of the state program «Affordable Loans 5-7-9%» received tangible price advantages when attracting customers of small and medium-sized businesses.

Along with the introduction of new programs of financial state support, the Fund worked to attract new projects from our international projects. One of them was the project «Refinancing energy-efficient investments of SMEs of Ukraine through the financial sector». The project is financed by a loan from the German Government in the amount of 7 million euros through KfW, as well as a grant of 400,000 euros to develop the competencies of small and medium-sized entrepreneurs and BDF partner banks in the implementation of investment projects in the field of energy efficiency. The loan and grant agreement for the specified project was concluded between the Ministry of Finance of Ukraine, KfW and BDF in July 2022.

According to the results of 2021, the Business Development Fund once again demonstrated its institutional capacity in the rapid development and implementation of programs for the support and development of small businesses. It is important to note that with the beginning of the full-scale Russian invasion of Ukraine on 24.02.2022, the Fund ensured the smooth implementation and improvement of existing financial support programs, becoming a key state institution for lending support to the Ukrainian economy in wartime conditions.



**ANDRII GAPON**  
BDF Executive Director

Throughout 2021, the Business Development Fund decently and efficiently faced the challenges caused by quarantine restrictions, and from the beginning of 2022 - the military aggression of the Russian Federation against Ukraine, providing the necessary financial support to business entities to maintain economic activity and financial stability of the country.

To overcome the negative consequences of the above-mentioned events, the Fund mobilized and actively used all available financial support tools for Ukrainian entrepreneurs: loan programs, state aid programs, and international grant programs. According to the results of 2021, the BDF maintained a high rate of transformation of its funds at the level of 93% into loans from partner banks for further directing them to finance small business investments or increasing their liquidity by loans for working capital.

The significant demand for BDF loans was determined by their nomination in the national currency according to financial assistance from the European Union within the framework of the EU4Business Initiative, which is aimed at compensating the Fund's currency losses when lending in hryvnia. In 2021, the BDF suffered a foreign exchange loss of EUR 1.4 million, which was compensated in full by the EU through KfW in April 2022.

The state program «Affordable loans 5-7-9%» also continued its active expansion and influence on lending to small businesses, essentially becoming the main driver of affordable financing of the Ukrainian economy, first under quarantine restrictions, and then under martial law. To adapt the program 5-7-9% to wartime conditions, the Fund, together with the Ministry of Finance, the Ministry of Economy and the Ministry of Agrarian Policy and Food, repeatedly made changes to the program, the result of which was the introduction of a component supporting the sowing campaign of Ukrainian farmers and an anti-war component. Because of these two components, since the beginning of the war, the largest amount of loans to entrepreneurs for more than UAH 40 billion was granted with the use of state portfolio guarantees and a zero-compensation interest rate.

Within the reporting year, the Fund introduced not only two new state programs - «Affordable mortgage 7%» and «Affordable financial leasing 5-7-9%», but also jointly with the Lviv regional state administration developed a regional program for additional interest compensation up to 0% for loans to SMEs of the Lviv Region, which implemented an investment project and created new jobs within the framework of the program 5-7-9%. Thanks to the initiative of the Lviv Regional State Administration, the state and local budgets were essentially merged to create even more favorable conditions for state support for entrepreneurs who, despite the quarantine restrictions, continued to invest in the region's economy, while creating jobs to fill the local budget. Based on the results of operations in 2021 and the conditions of a full-scale military invasion of the Russian Federation in 2022, it can be stated that the Fund has confirmed its institutional efficiency and the ability to quickly respond to internal and external challenges to support the financing of the economy and ensure the financial stability of Ukraine.



**VALERIY MAYBORODA**  
Deputy Executive Director of the BDF

The Business Development Fund continues the tradition of reporting to Ukrainian entrepreneurs and their partners on the results of the implementation of their projects and programs in 2021, demonstrating the availability of state and international financial support for business entities. In 2021, the Fund ensured the active and efficient implementation of all its programs to support the financing of small and medium-sized enterprises in Ukraine. The best confirmation of this was the growth of the loan portfolio of entrepreneurs under all programs of financial support of the Fund in 2021 by UAH 60 billion, reaching UAH 109.2 billion.

The largest volume of financing of entrepreneurs with state support was carried out within the framework of the state program «Affordable Loans 5-7-9%», which, according to the results of 2021, confirmed the status of the most massive national program, and with the beginning of hostilities on the territory of Ukraine in 2022, became the main driver of lending to the country's economy for more than UAH 50 billion.

Along with the implementation of financial support programs for SMEs, the Business Development Fund in 2021 completed the process of its transformation into a full-fledged, independent financial institution with staff who were transferred from the International Financial Cooperation Projects Office, which previously administered funds of the BDF.

In December 2021, the Ministry of Finance of Ukraine by its order approved the new charter of the BDF, which efficiently completed the process of establishing a State institution for supporting small business financing in Ukraine.

This is a historical event for the Fund coincided with the 25th anniversary of German-Ukrainian financial cooperation, which began on December 10, 1996, with the signing of the Grant Agreement under the «TRANSFORM» program of the Federal Government of Germany to support the reform process in Ukraine.

Measures for the development of small and medium-sized entrepreneurship through the introduction of SME lending technologies in the banking sector of Ukraine and the establishment of a specialized «second-level» financial institution, which eventually was the Business Development Fund, became a component of such reforms.

During the 25 years of its history, the Business Development Fund acted as a bridge, which, on the one hand, ensured interaction between the Governments of Germany and Ukraine during the implementation of joint programs and projects for the development of small businesses in Ukraine, and on the other hand, contributed to the establishment of mutual relations between banks and entrepreneurs for sustainable lending and economic development with the help of a wide range of financial instruments - soft loans, interest compensation, loan guarantees and grants.

Looking back and looking at the current performance of the Fund, we can confidently say that it has been successfully fulfilling its mission for 25 YEARS - UNITING FOR GROWTH! Invariable companions in the 25-year activity of the Fund are its partner banks, which ensure the direct implementation of its programs, and the efficiency of financial support for small and medium-sized businesses largely depends on the efficiency of their work. A long journey spanning 25 years, the Business Development Fund went side by side with its constant and most reliable partner - the KfW Development Bank, which transferred to the Fund the best experience, procedures, and practices of implementing programs for the support and development of SMEs, which are used in existing programs, for example, in the state program «Affordable loans 5-7-9%». I am sure that the next 25 years of the activity of the BDF with existing and new partners, as well as with the accumulated experience, will be even more successful for the development and reconstruction of the economy of Ukraine after our Victory!



# MAIN EVENTS IN 2021



## MARCH

Launch of the state program «Affordable mortgage 7%» at the initiative of the President and the Government of Ukraine with the aim of promoting mortgage loans, increasing the volume of housing construction and restoring the economy of Ukraine.



President of Ukraine Volodymyr Zelenskyy congratulates the first families on the purchase of apartments within the framework of the program «Affordable mortgage 7%».





## SEPTEMBER

Launch of the Joint program of Lviv Regional State Administration and the BDF for additional interest rate compensation for SME Investment Loans in Lviv region in terms of the state program «Affordable Loans 5-7-9%».



## DECEMBER

**10.12.2021** marked the 25th anniversary of signing the Grant Agreement under the German Government's «TRANSFORM» program, which had launched the German-Ukrainian financial cooperation in the field of support and development of small businesses in Ukraine.

**15.12.2021** process of transforming of the Business Development Fund into an independent financial institution with its own staff, which ensures control over the Fund's operational activities and funds completed.

**Ceremonial signing of the Grant Agreement with the participation of Viktor Yushchenko, Chairman of the National Bank of Ukraine (1993-2000).**





**DECEMBER**

**28.12.2021** signing of the Memorandum of Cooperation between ANTONOV Company, JSB «UKRGASBANK» and BDF with the aim of reducing the cost of mortgage loans for the purchase of housing by young specialists at the plant within the framework of the program «Affordable mortgage 7%»

Maksym Kozysky, Rector of the Banking University Angela Kuznetsova and Deputy Executive Director of the BDF Valeriy Mayboroda signed the Memorandum on cooperation and interaction.



**16.12.2021** official launch of the state program «Affordable Financial Leasing 5-7-9%» and signing of the agreements of cooperation with the first three leasing companies, OTP LEASING LLC, ULF-FINANCE LLC and BEST LEASING LLC.

# 25 YEARS OF GERMAN-UKRAINIAN FINANCIAL COOPERATION. RESULTS AND ACHIEVEMENTS

**In** 2021, German-Ukrainian financial cooperation reached a milestone of 25 years, which began with the signing of the Grant Agreement on 10.12.1996 in the amount of DEM 10 million between the National Bank of Ukraine and the KfW Development Bank in terms of the «TRANSFORM» program of the Federal Government of Germany to support the reform process in Ukraine.

The following mutually complementary tasks became components of support measures from Germany in the field of development of small businesses in Ukraine and the development of the appropriate financial infrastructure, namely:

- Establishment of a National institution for support of financing of small businesses in Ukraine based on the «second level» principle and by analogy with KfW.
- Provision of investment loans for financing micro-, small and medium-sized enterprises (hereinafter referred to as MSMEs) through commercial banks of Ukraine.
- Consulting support for commercial banks with the aim of introducing loan systems and technologies for MSME through the development and improvement of internal procedures, as well as trainings of employees.

# 1



**1996** – Grant from the German Government through KfW in the amount of **€6.1 million**



NBU's contribution to GUF's capital in the amount of **€5,1 million**



Ministry of Finance's contribution to GUF's capital in the amount of **€5,1 million**

# 2

**1999** – establishment of GUF



Grant from the German Government through KfW in the amount of **€6,1 million**

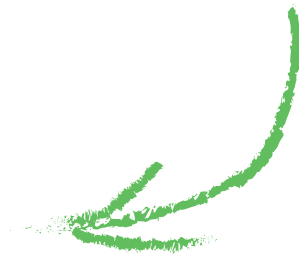


# 3

**2020** – GUF's transformation into BDF



The Government of Ukraine, represented by the Ministry of Finance, authorized capital **€16,3 million**



## ESTABLISHMENT OF A NATIONAL INSTITUTION FOR SUPPORT OF FINANCING OF SMALL BUSINESSES IN UKRAINE

The Grant Agreement provided the procedure for its use, which consisted of the following three stages:

**At the first stage**, the grant was aimed at introducing the Microlending program in 1997 with the aim of financing micro- and small enterprises of Ukraine through Ukrainian commercial banks, which introduced technologies and procedures for lending to micro- and small enterprises.

**At the second stage**, the grant funds together with contributions from the Government of Ukraine, represented by the Ministry of Finance and the National Bank of Ukraine, were to be transformed into the German-Ukrainian Fund.

The result of the second stage was the establishment of the GUF in accordance with the Regulation on the German-Ukrainian Fund, approved by the Resolution of the Cabinet of Ministers dated 19.04.1999 No. 628, with the participation of the KfW Development Bank, the Government of Ukraine, represented by the Ministry of Finance, and the National Bank of Ukraine.

From 1996 to 2015, GUF funds were managed by the Team of Project Management Unit for International Credit Lines at the NBU, and from 2016 to 2021 by the State Institution International Financial Cooperation Projects Office (IFCP Office).

**At the third stage**, the German-Ukrainian Fund was transformed into a state institution for the development of SMEs, with its transfer under the control of the Government of Ukraine.



In 2020, the transformation of the German-Ukrainian Fund into the Business Development Fund (Fund or BDF) took place. The main impetus for this was the initiative of the President and the Government of Ukraine to introduce the state program «Affordable Loans 5-7-9%», the implementation of which was entrusted to the German-Ukrainian Fund (GUF) in view of its vast experience, transparent procedures and an efficient model of loan program implementation through partner banks, which made it possible to ensure a quick launch and efficient implementation of the program.

For this purpose, by decree of the Cabinet of Ministers of Ukraine dated 11.12.2019 No. 1273-r, the German-Ukrainian Fund was transferred under control of the Government of Ukraine, represented by the Ministry of Finance of Ukraine, by transferring a 50% share of the National Bank of Ukraine, after which the German-Ukrainian Fund was renamed to the Business Development Fund on the basis of a decree by the Ministry of Finance of Ukraine dated 11.01.2020 No. 5.

In 2021, the Ministry of Finance of Ukraine completed the transformation process of the Business Development Fund into a full-fledged, independent financial institution with personnel transferred from the IFCP Office, which was added to the Fund in accordance with the decree of the Ministry of Finance of Ukraine dated 17.05.2021 No. 272.



**FIVE DAYS LATER AFTER THE SIGNING OF THE GRANT AGREEMENT IN 1996, THE MINISTRY OF FINANCE OF UKRAINE, BY ITS DECREE DATED 15.12.2021 NO. 674, APPROVED THE NEW CHARTER OF THE BUSINESS DEVELOPMENT FUND, WHICH ESSENTIALLY COMPLETED THE PROCESS OF ESTABLISHING A STATE INSTITUTION FOR THE SUPPORT OF FINANCING SMALL BUSINESSES IN UKRAINE, WHICH WAS STARTED AT THE INITIATIVE OF THE GERMAN GOVERNMENT 25 YEARS AGO, AND FULFILLED THE TERMS OF THE GRANT AGREEMENT AND THE PROGRAM «TRANSFORM» IN FULL.**



The history of the German-Ukrainian Fund, its partner banks and plans for the development of small and medium-sized businesses in Ukraine in a short video.

# SUCCESS STORIES

## OF SME INVESTMENT SUPPORT PROGRAM

### LLC AMIDA Vyshgorod, Kyiv region

The medical centre provides primary care services, from tests to ultrasound. And from the summer of 2021, operations are performed at the centre. "We decided to take part in this programme because we were just finishing renovations and arranging the operating room where we are now. Thanks to the program, equipments for life support during operations was purchased".



### AGROSPILKA FARMING LLC Sobolivka, Cherkasy region

They are engaged in breeding of cattle and crop production. More than 40 people are employed. "Thanks to our participation in this program, we have gained the opportunity to develop our livestock even more. We can bring European technologies to Ukraine. This program provides confidence in our future. In the long run we want to open a breeding farm and sell the Austrian breed throughout Ukraine»".



LAUNCH OF LENDING TO MICRO-,  
SMALL AND MEDIUM-SIZED ENTERPRISES  
WITHIN THE FRAMEWORK OF THE  
UKRAINIAN MICROLENDING PROGRAM





In 1997, in fulfilment of the Grant Agreement, the implementation of the Microlending program began. It consisted of two components:

1. The investment component, within the framework of which grant funds of DEM 10 million were lent to micro-, small and medium-sized enterprises (MSMEs) through partner banks to finance their business activities.

2. The consulting component, the purpose of which was to develop the infrastructure of lending to small businesses in Ukraine by introducing microlending procedures and technologies in partner banks in accordance with the best global experience and practices.

The implementation of the Microlending program was ensured by the Team of the Project Management Unit for International Credit Lines at the National Bank of Ukraine (PMU NBU), and for the implementation of the consulting component, based on the results of a tender selection, KfW engaged the German consulting company International Project Consult GmbH (hereinafter - IPC) with the funds of the «TRANSFORM» program.

Consulting support for partner banks focused on: introduction of lending systems and technologies for MSMEs, development of lending departments for MSMEs, improvement of the organizational structure of partner banks to meet the needs of these new departments, development of approaches to risk assessment of MSMEs and decision-making with the help of small loan committees, training of loan experts etc.

As examples of procedures, processes and approaches to lending to micro-, small and medium enterprises, the IPC consulting company used technology that had been developed and tested in the German banking sector for many years. In terms of the program «TRANSFORM», this MSME lending technology was transferred for implementation to the banking system of Ukraine with the aim of expanding the access of small businesses to bank financing and realizing the potential of its development and scaling.

In order to implement the investment component of the Microlending program in 1997, IPC together with the PMU NBU conducted an in-depth analysis and selection of the first partner banks on the basis of developed policies and procedures. In the first year of implementation of the Microlending program, 4 leading banks of Ukraine became its participants. The first loan agreements were signed with them:

- On 11.04.1997 a loan agreement was signed with AVAL BANK in the amount of DEM 1 million.

- On 11.04.1997 a loan agreement was signed with AGIO BANK in the amount of DEM 1 million.

- 07.05.1997 a loan agreement with VAB BANK in the amount of DEM 1 million



- 12.11.1997 an agreement with CB PRIVATBANK in the amount of DEM 1 million.

In the future, the loan agreements volumes with the specified partner banks were increased, and new banking institutions joined their circle: JSCB KYIV-PRIVAT (now – TASCOMBANK JSC), CJSC MICROFINANCE BANK (now - PROCREDIT BANK JSC), JSCB BANK FORUM, PJSC CB NADRA, PJSC KREDITPROMBANK, PJSC MEGABANK and other banks in Ukraine.

**SIMULTANEOUSLY WITH THE SIGNING OF LOAN AGREEMENTS WITH THE ABOVE-MENTIONED BANKS, AGREEMENTS ON TECHNICAL COOPERATION WERE SIGNED, IN THE FRAMEWORK OF WHICH IPC CONSULTANTS PROVIDED CONSULTING SERVICES ON THE CREATION OF MICROLENDING DEPARTMENTS, THE DEVELOPMENT AND IMPLEMENTATION OF MICROLENDING PROCEDURES, AS WELL AS TRAINING OF LOAN EXPERTS. CONSULTING ACTIVITIES IN EACH OF THE PARTNER BANKS WERE COORDINATED BY LONG-TERM EXPERTS, WHO, TOGETHER WITH REPRESENTATIVES OF THE PARTNER BANKS, CONDUCTED A LOAN ASSESSMENT OF MSMES, AND JOINED NEWLY CREATED LOAN COMMITTEES OF MSMES, WHICH COLLEGIALLY MADE DECISIONS ON GRANTING LOANS TO MICRO-BORROWERS.**

According to the results of the first year of implementation of the Microlending program, 148 loans to MSMEs for a total amount of DEM 7 056 207 were granted through partner banks. During 1997, 25 loan experts of partner banks were trained in microlending technology and received corresponding certificates.



In 1998, the European Bank for Reconstruction and Development joined the Ukrainian Microlending program and provided Ukraine with loan lines for lending to MSMEs through partner banks. EBRD loan lines were also accompanied by consulting support aimed at introducing microlending procedures and technologies in partner banks.

Consulting support for partner banks within the framework of EBRD loan lines was also implemented by IPC with the financial support of the European Union in terms of the TACIS program (Technical Assistance to the Commonwealth of Independent States) and USAID.

Lending to MSMEs by partner banks within the framework of the Microlending program both through the German-Ukrainian Fund and through the EBRD grew at a high rate, primarily due to the wide spread of microlending technology through loan experts trained by IPC consultants in partner banks. Later, loan experts themselves became mentors for employees of microlending departments of partner banks. By 2003, loan

experts who knew microlending technology were represented in almost all regions of Ukraine, working in microlending departments of partner banks.

In 2007, both components of the Microlending program - GUF and EBRD - achieved the following key results:

- Through partner banks, 524,780 loans to MSMEs with an average amount of USD 8,000 were granted to a total amount of about USD 4 billion.
- About 4,500 loan experts and bank employees received corresponding certificates from GUF, EBRD and IPC.
- The level of non-performing loans, thanks to the microlending technology introduced in partner banks, did not exceed 3% of the total Microlending program loan portfolio.
- Thanks to an extensive network of branches of partner banks and loan experts, the Microlending program was presented in 268 cities in all regions of Ukraine.

But the most important result of the Ukrainian Microlending program was that Ukrainian banks, having mastered the microlending technology, began to efficiently and profitably lend to small businesses in Ukraine, using 90% of their own funds, not the program's investment loans.

And although EBRD had completed its component of the Ukrainian Microlending program in 2007, the effect of its actions continues and is felt to this day, since nearly every Ukrainian bank currently employs highly professional specialists who have undergone training and gained initial experience under this program.

**THE GERMAN-UKRAINIAN FUND, WHICH TODAY HAS TRANSFORMED INTO THE BUSINESS DEVELOPMENT FUND, CONTINUES TO IMPLEMENT THE MICROLENDING PROGRAM, ATTRACTING NEW PARTNER BANKS. SO, FOR EXAMPLE, IN 2016, JSB UKRGASBANK WAS INVOLVED IN THE IMPLEMENTATION OF THE MICROLENDING PROGRAM, AND IN 2017 JSC OSCHADBANK, WHICH, ALONG WITH LOAN RESOURCES FOR FINANCING MSMEs, RECEIVED A POOL OF CONSULTING SUPPORT FOR THE INTRODUCTION OF THE MICROLENDING SYSTEM, PROCEDURES AND TECHNOLOGY BUT THROUGH ANOTHER GERMAN CONSULTING COMPANY - THE FRANKFURT SCHOOL OF FINANCE AND MANAGEMENT.**

The efficiency of the provided consulting support to JSB UKRGASBANK and JSC OSCHADBANK is confirmed by the high growth rates of their MSME loan portfolio, as well as their leading positions in lending to MSMEs within the framework of the state program «Affordable loans 5-7-9%».



# EXPANSION OF LENDING TO SMALL AND MEDIUM-SIZED ENTERPRISES IN RURAL AREAS OF UKRAINE

In 2006, the German-Ukrainian Fund started implementing a new program of the German Government, administered through KfW, aimed at introducing an SME lending system in rural areas.

With the aim of lending to micro-, small and medium-sized businesses in rural areas, the German Government granted Ukraine a preferential loan line for 40 years in the amount of EUR 7 million, as well as technical assistance in the amount of EUR 2 million for the spread of microlending technology through partner banks in small cities and villages.

**THE MAIN GOAL OF THE PROGRAM IS TO INTRODUCE A SYSTEM OF LENDING TO SMALL AND MEDIUM-SIZED PRIVATE ENTERPRISES AND INDIVIDUAL ENTREPRENEURS (SMES) IN RURAL AREAS THROUGH BANKING INSTITUTIONS, AS WELL AS TO ENSURE THE PROVISION OF FINANCIAL SERVICES FOR SMES IN RURAL AREAS OF UKRAINE ON AN SUSTAINABLE BASIS.**

For the purposes of the program, rural areas were defined as all areas and cities, excluding regional centers and cities with a population of more than 100 000 people. Along with this, SMEs

located in larger cities (excluding regional centers) and working in the agricultural sector, were also able to receive financing under this program.

The maximum loan amount for one entrepreneur should not exceed the equivalent of EUR 250,000, while the average loan amount in the loan portfolio of the partner bank under the program should be EUR 50 000.

Partner banks, under the Ukrainian Microlending program, received consulting support from IPC in order to create stable and efficient SME lending structures at the head office and branches in rural areas, as well as to develop the corresponding loan procedures and processes.

In fact, the program for support to SMEs in rural areas was a continuation of the Microlending program, which expanded access to financing to SMEs operating in small towns and villages, thus contributing to a more proportionate development of Ukraine's regions.

During the implementation of the program, as of 01.01.2022 partner banks granted 692 loans to SMEs to a total amount of EUR 43,14 million.



IMPLEMENTATION OF THE PROJECT  
SUPPORT FOR SMEs  
CONSULTING COMPONENT





In 2012, the German-Ukrainian Fund started the implementation of the new Project «Support for SMEs», which consisted of an investment component in the form of a loan from the German Government in the amount of EUR 10 million for lending to SME investment projects, and an consulting component - a 2 million grant for consulting support to the Project.

In 2013, based on the results of a tender selection, an agreement was signed with the Frankfurt School of Finance and Management, which ensured the implementation of the Project's consulting component.

**The Project's consulting component was aimed at the implementation of the following areas:**

- GUF's institutional development with the aim of transforming it into an efficient financial institution supporting SME financing through Ukraine's financial sector.
- Consulting support to partner banks for the purpose of introducing and improving lending procedures and technologies for SME investment projects.
- A communication campaign to popularize the Fund's activities, its programs and partner banks.

**GUF's institutional development focused on improving the following main areas of the Fund's activities:**

- an investment policy that would ensure transparent and efficient management of the BDF's funds;
- a risk management policy that would minimize the Fund's risks when lending to partner banks;
- a new organizational structure that would correspond to the best European experience and practices;

- a new fund management team capable of ensuring the timely implementation of all planned innovations to transform the Fund into a national institution for the implementation of both international and state programs to support SME financing;
- a corporate policy that would determine a clear distribution of functions and powers between the Fund's management bodies.

**The following results were achieved thanks to a set of measures aimed at GUF's institutional development, which were implemented during 2015-2019:**

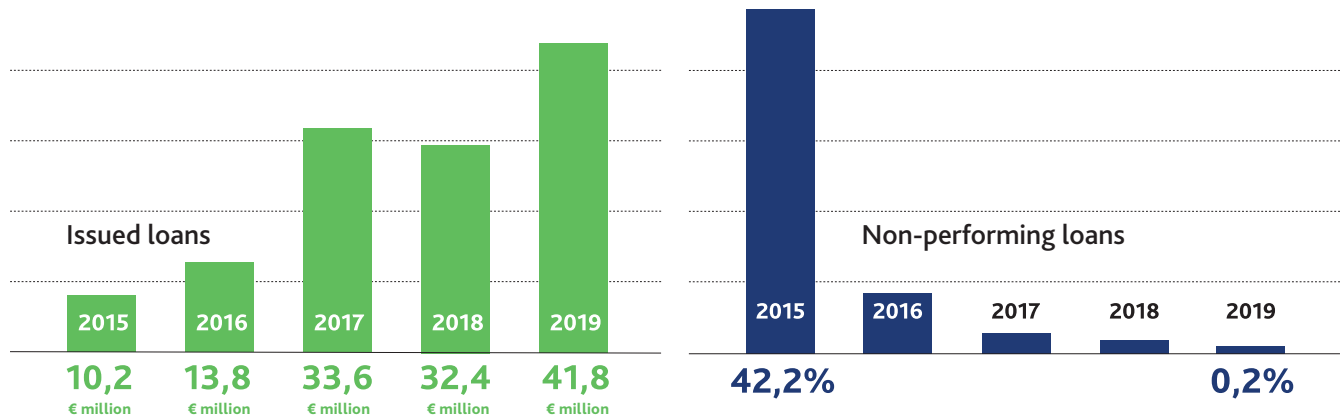
- the level of transformation of funds in 2019 was 90.3% (in 2015 – 37%).
- the level of bad loans fell from 42.2% in 2015 to 0.2% in 2019;
- net interest income increased by 600% from EUR 0.4 thousand in 2015 to EUR 2.4 million in 2019,
- net profit in 2019 amounted to EUR 5.6 million, compared to EUR -3.6 million in 2015,
- GUF's equity increased by 177% from EUR 16.6 million in 2015 to EUR 29.4 million in 2019.

## THE MAIN AREAS OF INSTITUTIONAL DEVELOPMENT OF THE GERMAN-UKRAINIAN FUND

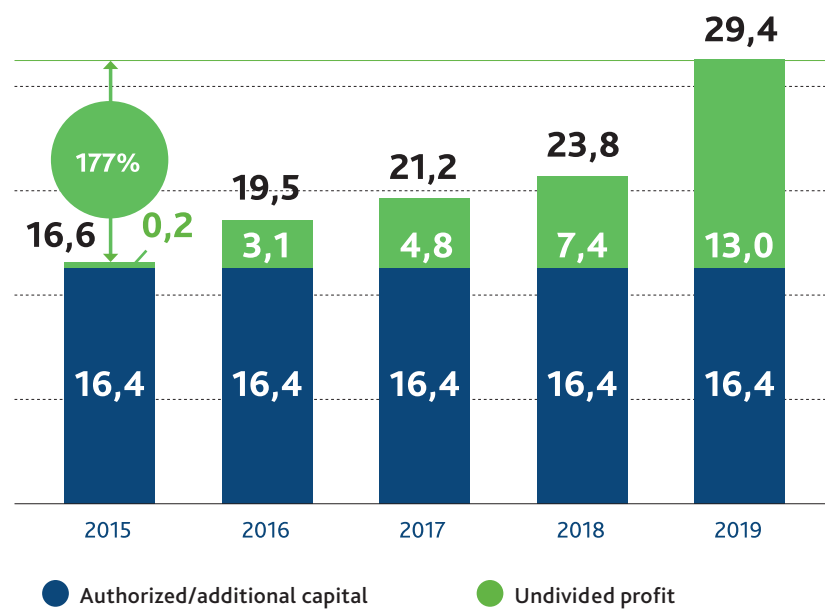


## IMPACT OF GUF'S INSTITUTIONAL DEVELOPMENT ON THE MAIN INDICATORS OF ITS ACTIVITIES

### GUF's loan portfolio development



### Increase of own capital, € million



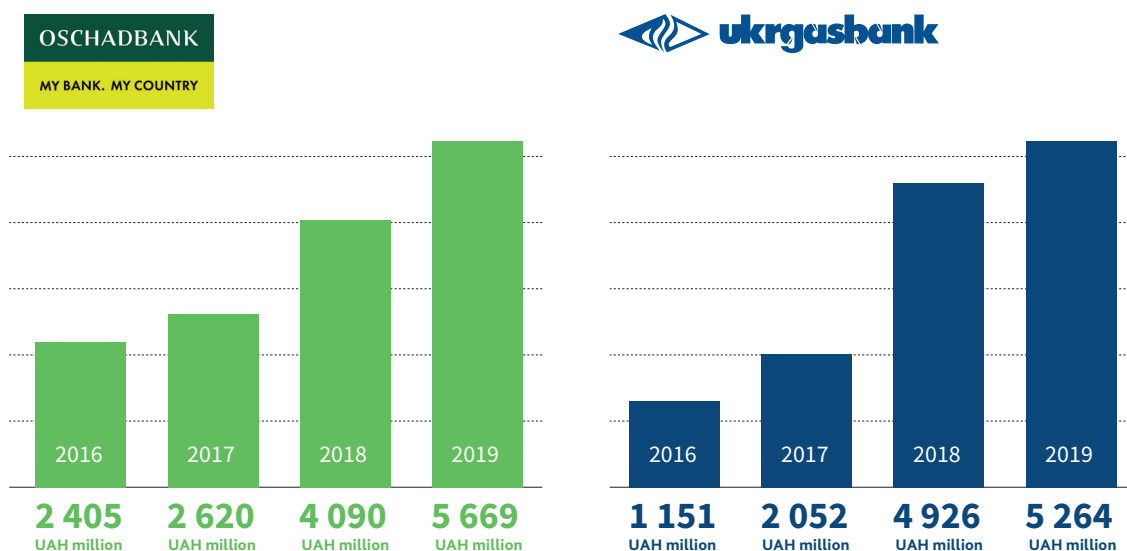
In order to develop a system of micro- and small lending in Ukraine, consulting support was provided to JSB "UKRGASBANK" in 2016 and JSC "OSCHADBANK" in 2017-2018. Its efficiency is confirmed by the high growth rates of their SME loan portfolios and leading positions in issuing loans to SMEs within the framework of the state program «Affordable loans 5-7-9%».

## AREAS OF CONSULTING SUPPORT TO JSB "UKRGASBANK" AND JSC "OSCHADBANK" ON DEVELOPMENT OF MICRO- AND SMALL BUSINESS LENDING SYSTEMS

Implemented measures to improve the SME lending systems at JSB «UKRGASBANK» and JSC «OSCHADBANK»				
A new business model with a focus on the needs of SME clients	A new SME customer segmentation system	Introduction of a microlending technology	Optimization of procedures and processes for SME lending	Development of a new microlending products
Improvement and optimization of organizational structures	New staff hiring	Introduction of a training systems for staff	New remuneration policy for the SME Department	Introduction of microlending technology in regions of Ukraine

## IMPACT OF CONSULTING SUPPORT ON THE GROWTH OF THE BANKS' SME LOAN PORTFOLIO

Today JSB «UKRGASBANK» AND JSC «OSCHADBANK» are the leaders in lending to micro- and small borrowers under the state program «Affordable loans 5–7–9%»





IMPLEMENTATION OF THE PROJECT  
SUPPORT FOR SMEs  
INVESTMENT COMPONENT



## DEVELOPMENT AND LAUNCH OF SME INVESTMENT SUPPORT PROGRAM IN THE NATIONAL CURRENCY

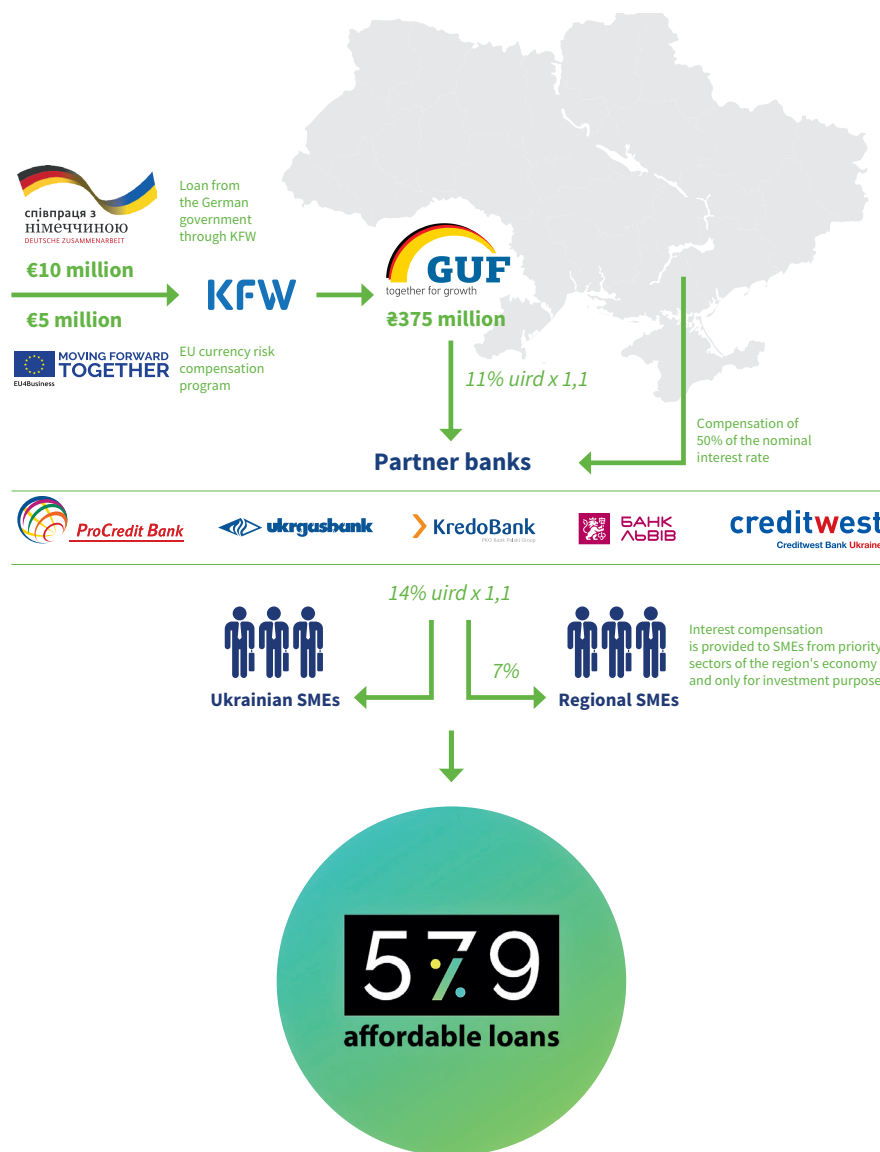
Parallel to the implementation of the consulting component, the Fund's new team together with consultants from the Frankfurt School developed a new program to support investments of SMEs in national currency to protect partner banks and SMEs from currency risks in order to avoid the negative situation in 2014.

For this purpose, the KfW Development Bank has attracted an EUR 5 million financial aid package for Ukraine from the European Union in terms of the EU4Business initiative to compensate for possible losses of the Fund due to currency fluctuations.

Thanks to this, the Fund managed to offer SMEs a long-term loan resource in UAH at 14% per annum within the framework of the SME Investment Support program and to introduce a lending model to small businesses in national currency.

In 2017, the Kyiv City State Administration and later other regions of Ukraine joined the interest rate compensation program which made it possible to reduce the annual interest for entrepreneurs to the level of 7%, which is very important, especially when implementing SME investment projects that have long payback periods.

The model of implementation of GUF's SME Investment Support program, financed in terms of a loan from the German Government through KfW and a hedging instrument from the EU, combined with an interest rate compensation mechanism from local authorities, as well as an escrow account mechanism, which was borrowed from the FinancEast Program for SME support in the East of Ukraine served as the basis for the state program «Affordable loans 5-7-9%». Thanks to an efficient operating model, the German-Ukrainian Fund becomes the agent of the Government of Ukraine for the implementation of this program and was renamed to the Business Development Fund.



As of 01.01.2022, 433 SME loans to a total amount of UAH 1.3 billion were granted in terms of the SME Investment Support program.

Looking back 25 years, we can say with confidence that Ukraine has made the most efficient use of the entire amount of support provided by the German Government through KfW to ensure the sustainable development of small businesses in Ukraine:

- A state institution for support of financing small businesses - the Business

Development Fund – has been created and is operating efficiently in Ukraine.

- Banks of Ukraine efficiently and profitably lend to SME investment projects.
- Ukrainian small businesses have gained access not only to long-term loan resources to finance their economic activities, but also to state financial support tools in the form of interest rate compensation, loan guarantees and grants, which is especially important in the current difficult conditions of martial law.

# BDF's PROGRAMS TO SUPPORT MSME FINANCING

In 2021, the Business Development Fund continued to actively lend to micro-, small and medium-sized enterprises within the framework of its loan programs through partner banks. Along with loan support, BDF also provided grant assistance to MSMEs within the framework of the program for the restart of financing of MSME investment projects in the east of Ukraine - FinancEast, which is implemented with European Union funds through KfW within the framework of the financing agreement «EU Support to the East of Ukraine» between the Government of Ukraine and the European Commission. During 2021, BDF fully disbursed the provided financial support to MSMEs. Since the start of the program's implementation in December 2019 and up to 2021, the Fund has paid out financial support to MSMEs in the amount of UAH 250,81 million to reimburse the cost of their investment projects.

Despite the difficult economic situation caused by the COVID-19 pandemic since the beginning of 2020 and the periodic introduction of quarantine restrictions by the Government of Ukraine for two years, the demand for loan programs from partner banks in 2021 remained quite high. The level of transformation of the BDF's funds into loans to partner banks was 93%. Also, despite a certain decrease in business activity of small and medium-sized enterprises due to the effects of the corona crisis, the level of transformation of investment loans provided to partner banks into MSME sub-loan portfolios under the Fund's two programs - the Microlending program and the program for SMEs in rural areas - remained at an acceptable rate of 70%. The reduction of this indicator to 56% and 45% occurred within the framework of the MSME lending program in priority sectors and the SME Investment Support program in priority sectors due to two main reasons:

- Planned repayments of the Fund's loans by partner banks, resulting in the suspension of issuance of new sub-loans to MSMEs under the specified programs. At the same time, before the planned repayments of the Fund's loans by partner banks, the level of the transformation indicator was over 80%.

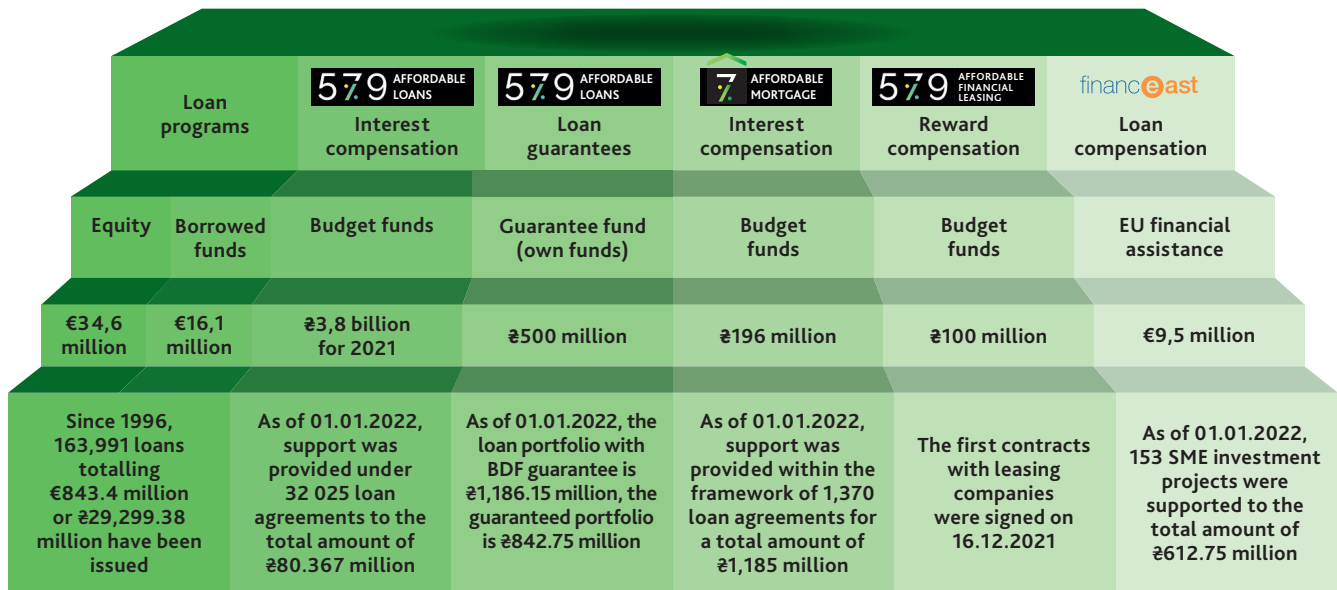
- An increase in the volume of usage by partner banks of their own financial resources in lending to MSMEs, rather than using loan lines from financial organizations. The emergence of such a trend became possible thanks to the state program «Affordable Loans 5-7-9%», which, through state support in the form of interest rate compensation, made the banks' own funds available for financing MSMEs, thus opening a gateway for a rapid flow of available investment loans into the Ukrainian economy. Another proof of this positive trend, according to the Business Development Fund, was the fact that a significant number of authorized banks, in order to increase the volume of their loan offer and, accordingly, their loan portfolios, resorted to the sale of government bonds with the subsequent use of the released funds for lending to small businesses and the economy of Ukraine.

According to the Business Development Fund, this is one of the most important effects of the state program «Affordable Loans 5-7-9%» for the development of lending in Ukraine, thanks to which the internal financial resources of authorized banks were mobilized for their further funnelling to meet the investment needs of small businesses and Ukraine's economy as a whole.

It is also important to note that despite the slowdown in business activity and the difficult economic situation in the country caused by quarantine restrictions, the level of bad debt under the program support for SMEs in rural areas and the SME Investment Support program in priority sectors was less than 1% at the end of 2021. Only under the Microlending program and the Lending to MSMEs in priority sectors program did the indicator exceed 1% and amounted to 1.07% and 2.22%, respectively, under each of these programs.

Due to the significant expansion of BDF programs and financial instruments, which will be presented in more detail in the presentation, the total amount of the Fund's support to financing MSMEs as of January 1, 2022 amounted to nearly UAH 109.2 billion.





Additional interest compensation from the Lviv Regional State Administration

Local budget funds

€6.2 million for 2021

As of 01.01.2022, support was provided within the framework of 228 loan agreements for a total amount of €295.5 million

In 2021, the Business Development Fund introduced two new programs to support financing of business entities:

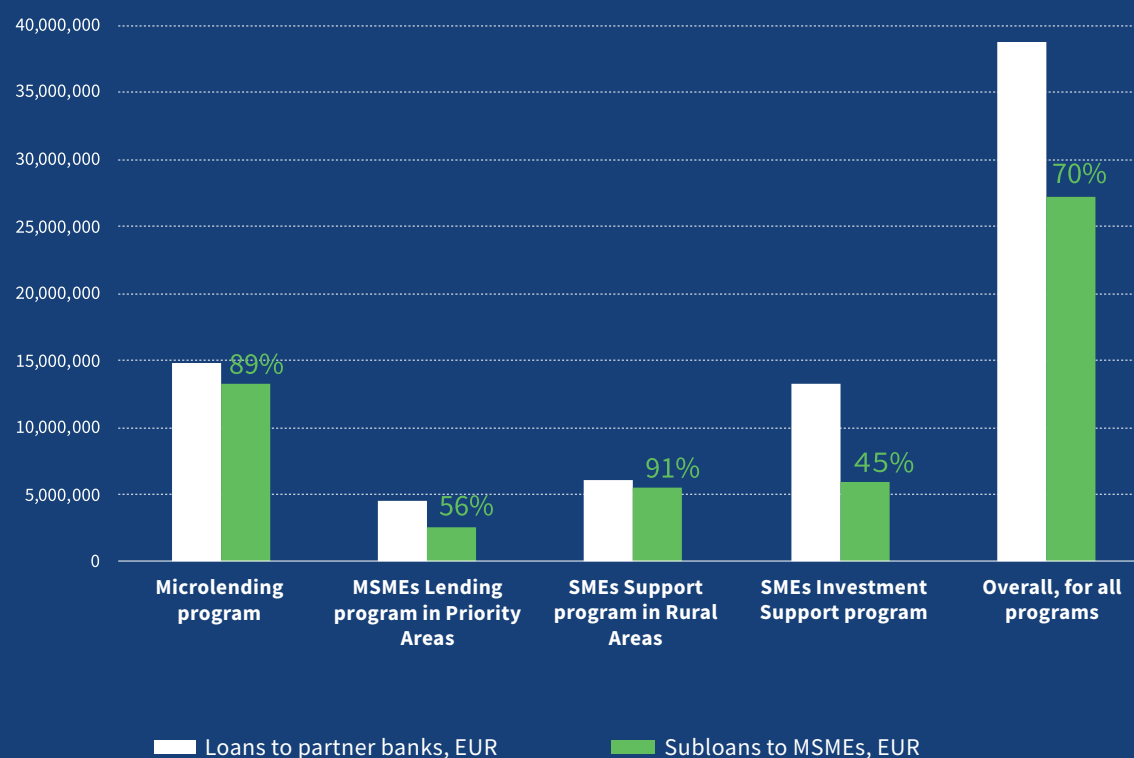
- affordable financial leasing 5-7-9% at the expense of state budget;
- joint program on the initiative of Lviv Regional State Administration for additional interest rate compensation for MSMEs in the Lviv region at the expense of the local budget.

Also in 2021, the program «Affordable mortgage 7%» was launched to support citizens of Ukraine by compensating interest rates on mortgage loans to purchase housing.

**THE TOTAL AMOUNT OF SUPPORT FOR MSMES WITH ALL OF THE FUND'S FINANCIAL INSTRUMENTS AS OF 01.01.2022 AMOUNTED TO €109,198.2 MILLION AND INCREASE IN 2021 BY €61,216.2 MILLION**

# LOAN PROGRAMS

## TRANSFORMATION OF FUND FUNDS INTO SUB-LOANS TO MSMES AS OF 01.01.2022



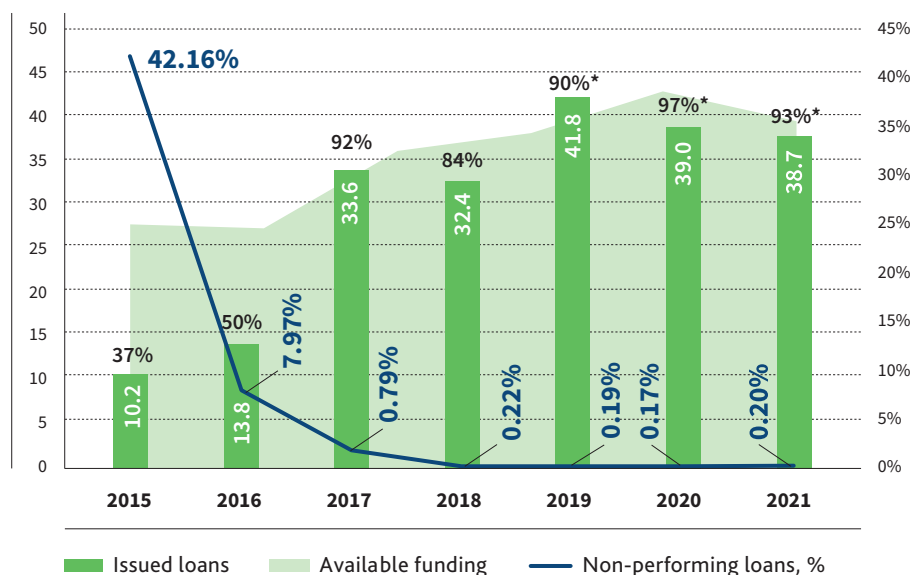
Despite the COVID-19 global pandemic and the introduction of quarantine restrictions by the Government of Ukraine in 2020 and 2021, which led to the slowdown of economic and business activity, the level of transformation of BDF loans in the MSME sub-loan portfolio as of 31.12.2021 was 70% for all BDF programs, which corresponds to the normative value of such an indicator.

It is worth noting that the level of transformation under BDF programs in EUR exceeded 70%, which became possible as a result of the Fund updating the terms of the Microlending program and adjusting them to the market conditions of MSME lending by partner banks.

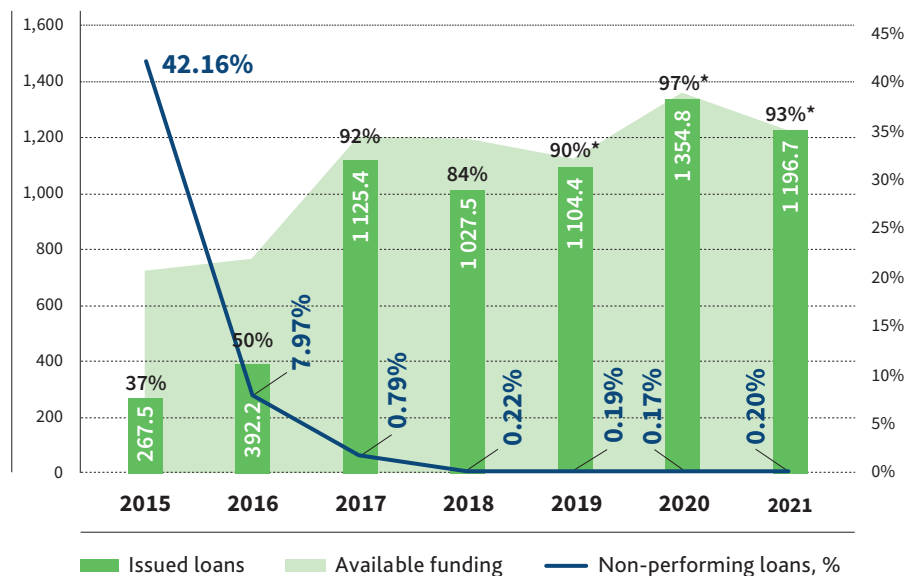
On the other hand, the level of transformation under BDF programs in UAH slightly decreased, which is explained by planned debt repayments to BDF by partner banks at the end of the year, as well as more active use of their own financial resources in lending to MSMEs within the framework of the state program «Affordable loans 5-7-9%».

## IN 2021, THE LEVEL OF TRANSFORMATION OF THE BDF'S FUNDS INTO LOANS TO PARTNER BANKS REMAINED AT A HIGH LEVEL OF 93%

Development of lending to partner banks, EUR million



Development of lending to partner banks, UAH million




\* - when calculating indicators, the average numerator and denominator for the reporting period is used – the average for the reported year is defined as the arithmetic average of the corresponding values at the end of the IV quarter of the reported year and at the end of the IV quarter of the preceding reported year.

According to 2021 results, the level of bad debt in partner banks in absolute value remained unchanged compared to the previous year, but the relative value of this indicator increased from 0.17% to 0.2% due to UAH to EUR exchange rate fluctuations and a minimal reduction in the level of BDF's loan portfolio.

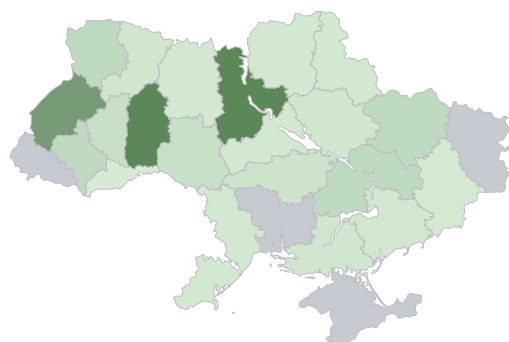


# MICROLENDING PROGRAM

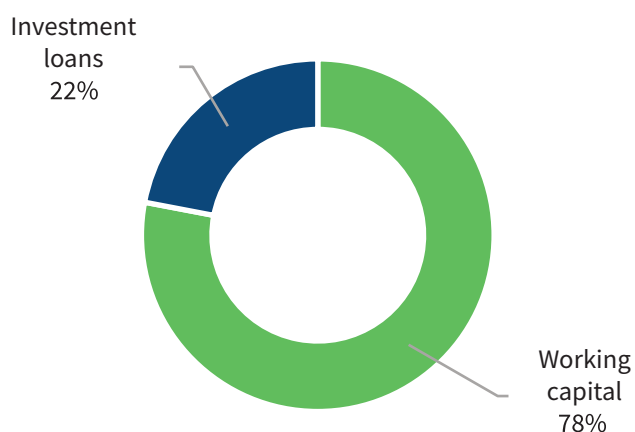
## THE MAIN PARAMETERS

Program objectives	Lending to micro-, small and medium-sized enterprises (MSMEs) and the implementation of microlending systems in partner banks
Start of implementation	in 1997
Source of funding	Fund's equity
Amount of funding	€18,2 million
Partner banks under the program	
Current debt of partner banks	€14,85 million
The interest rate for MSMEs	market, without any restrictions
Number of loans granted to MSMEs since the start of the program	162,767
Amount of the loan portfolio for MSMEs since the start of the program	€766,57 million
Priority areas	All MSMEs without restrictions on type of economic activity

Regional structure



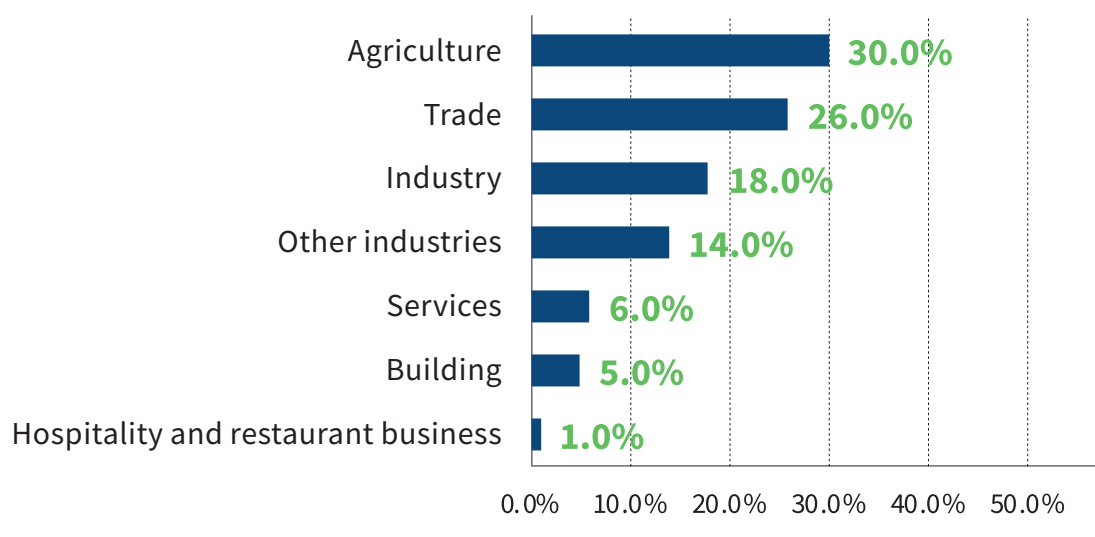
Targeted use of funds



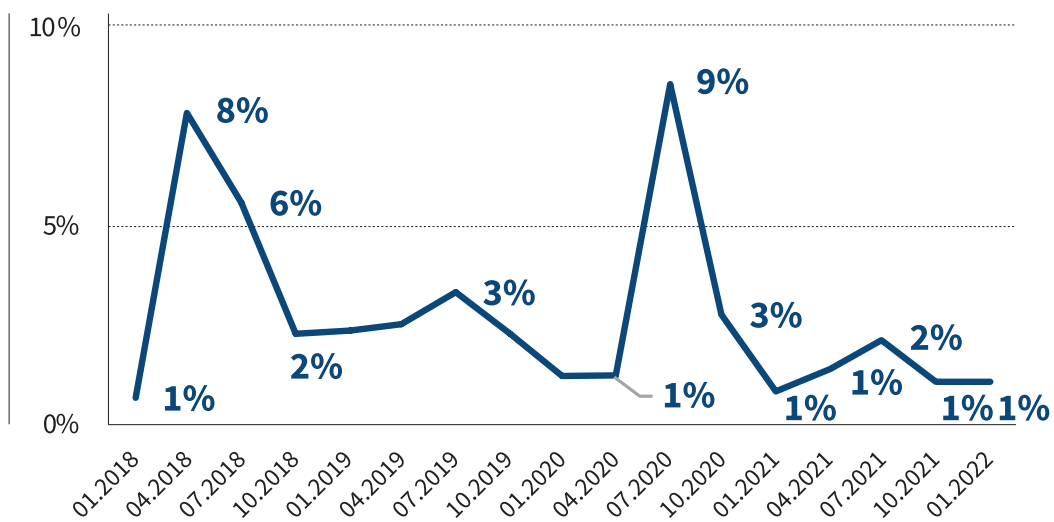
# MAIN RESULTS

## AS OF 01.01.2022

### Sectoral structure




### Level of NPL

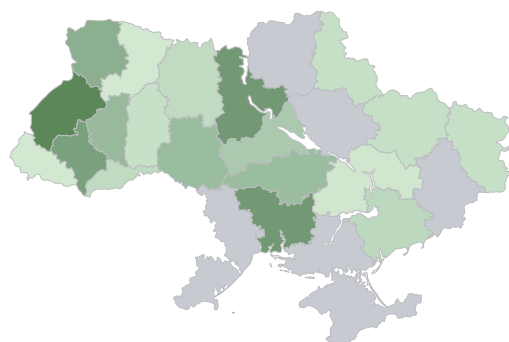


# MSMEs LENDING PROGRAM IN PRIORITY SECTORS

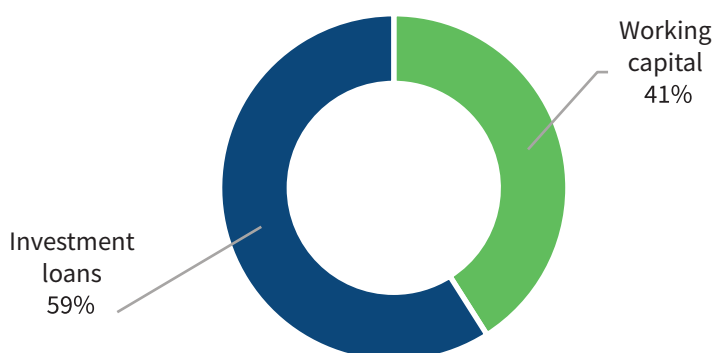
## THE MAIN PARAMETERS

Program objectives	Lending to micro-, small and medium-sized enterprises (MSMEs) in priority areas of the Ukrainian economy
Start of implementation	in 2010
Source of funding	Fund's equity
Amount of funding	€163,3 million
Partner banks under the program	
Current debt of partner banks	€140,0 million
The interest rate for MSMEs	UIRD (3 months) + 5pp
Number of loans granted to MSMEs since the start of the program	573
Amount of the loan portfolio for MSMEs since the start of the program	€704,45 million €22,78 million
Priority areas	Agriculture, processing industry, hotels and restaurants, green tourism, energy efficiency

Regional structure



Targeted use of funds

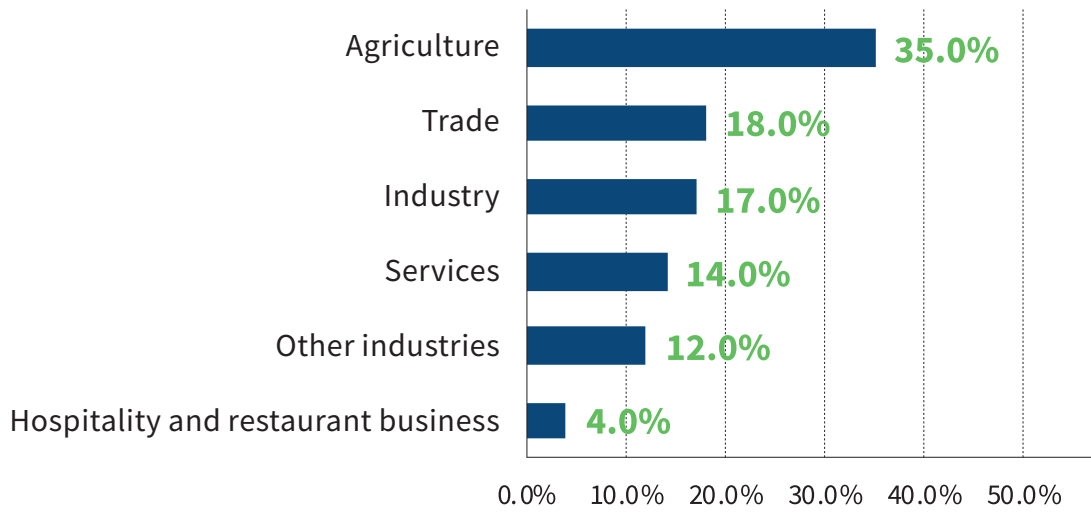




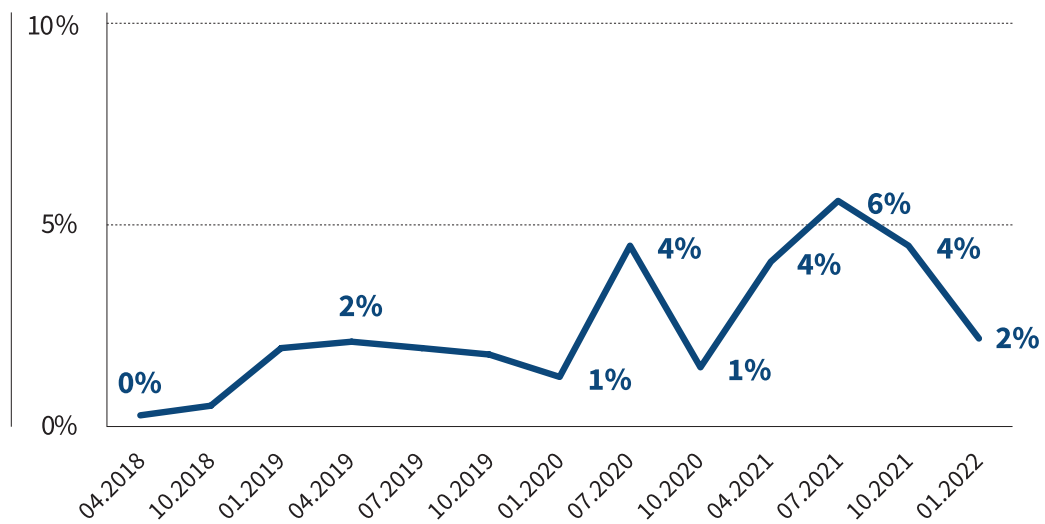
# MAIN RESULTS

## AS OF 01.01.2022

### Sectoral structure



### Level of NPL



# SMEs SUPPORT PROGRAM IN RURAL AREAS

## THE MAIN PARAMETERS

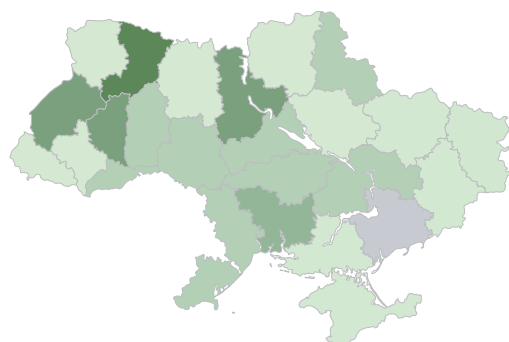
Program objectives	Lending to small and medium-sized enterprises (SMEs) in rural areas
Start of implementation	in 2006
Source of funding	The German Government loan through KfW
Amount of funding	€7,0 million

Partner banks under the program

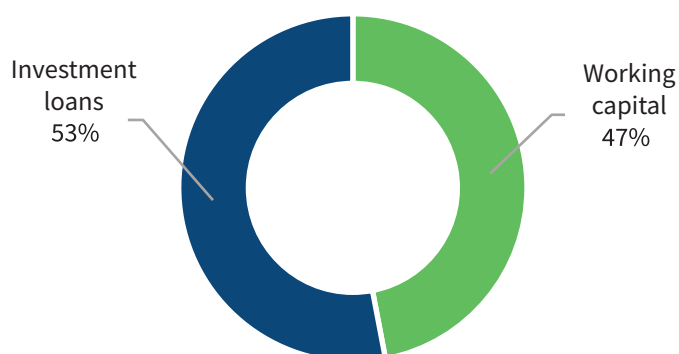


Current debt of partner banks	€6,0 million
The interest rate for MSMEs	market, without any restrictions
Number of loans granted to MSMEs since the start of the program	692
Amount of the loan portfolio for MSMEs since the start of the program	€43,14 million
Priority areas	SMEs in settlements with up to 100,000 inhabitants

Regional structure



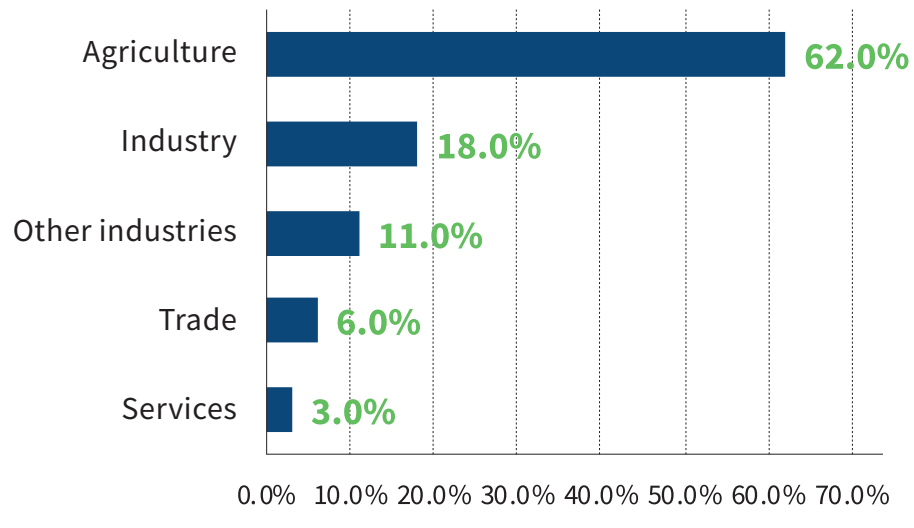
Targeted use of funds



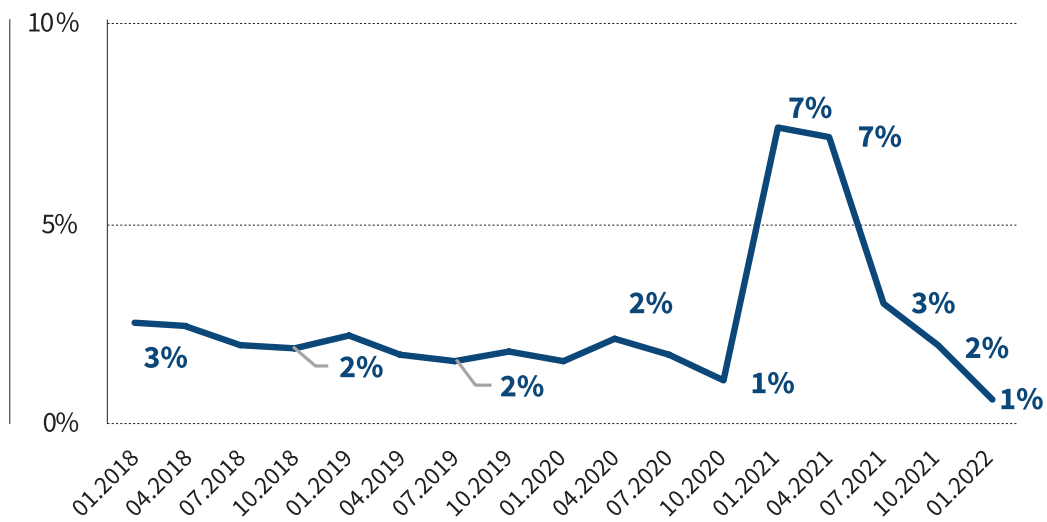
# MAIN RESULTS

## AS OF 01.01.2022

### Sectoral structure



### Level of NPL

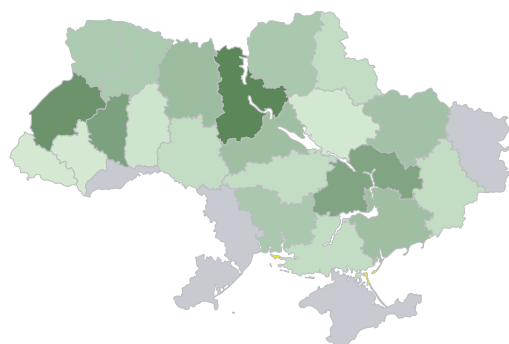


# SME INVESTMENT SUPPORT PROGRAM IN PRIORITY AREAS

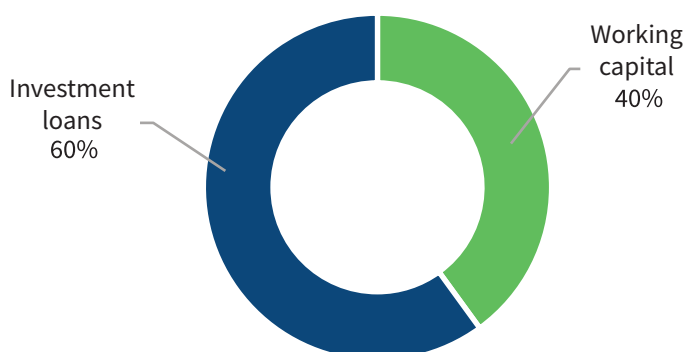
## THE MAIN PARAMETERS

Program objectives	Financing of the SME investment projects in priority sectors of the Ukrainian economy
Start of implementation	in 2017
Source of funding	German Government loan through KfW under the «SME Support» Project
Amount of funding	€416,1 million
Partner banks under the program	
Current debt of partner banks	€410,0 million
The interest rate for MSMEs	UIRD (3 months) + 2.5 pp
Number of loans granted to MSMEs since the start of the program	433
Amount of the loan portfolio for MSMEs since the start of the program	€1 289,5 million €41,7 million
Priority areas	Agriculture, processing industry, hotels and restaurants, supply of electricity/gas/steam and air conditioning, energy efficient measures

Regional structure



Targeted use of funds

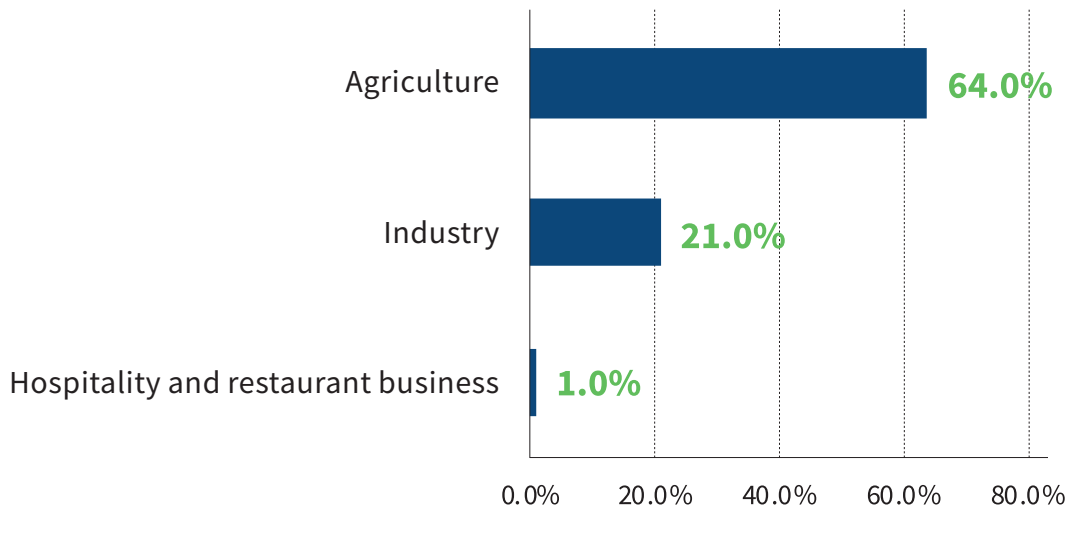




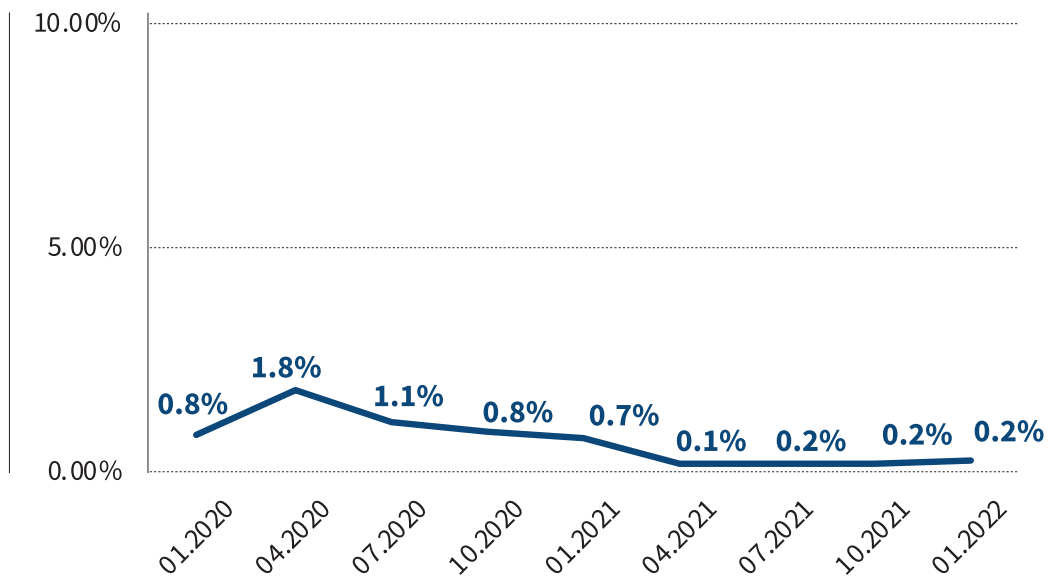
# MAIN RESULTS

AS OF 01.01.2022

## Sectoral structure



## Level of NPL



# THE MAIN RESULTS

## OF THE SME NATIONAL CURRENCY LENDING MODEL AND THE ASSET GROWTH OF THE SME INVESTMENT SUPPORT PROGRAM AS OF 01.01.2022

# 1

Thanks to revolver loan use, the amount of accumulated funds under the program increased by 74% in 4 years.

# 2

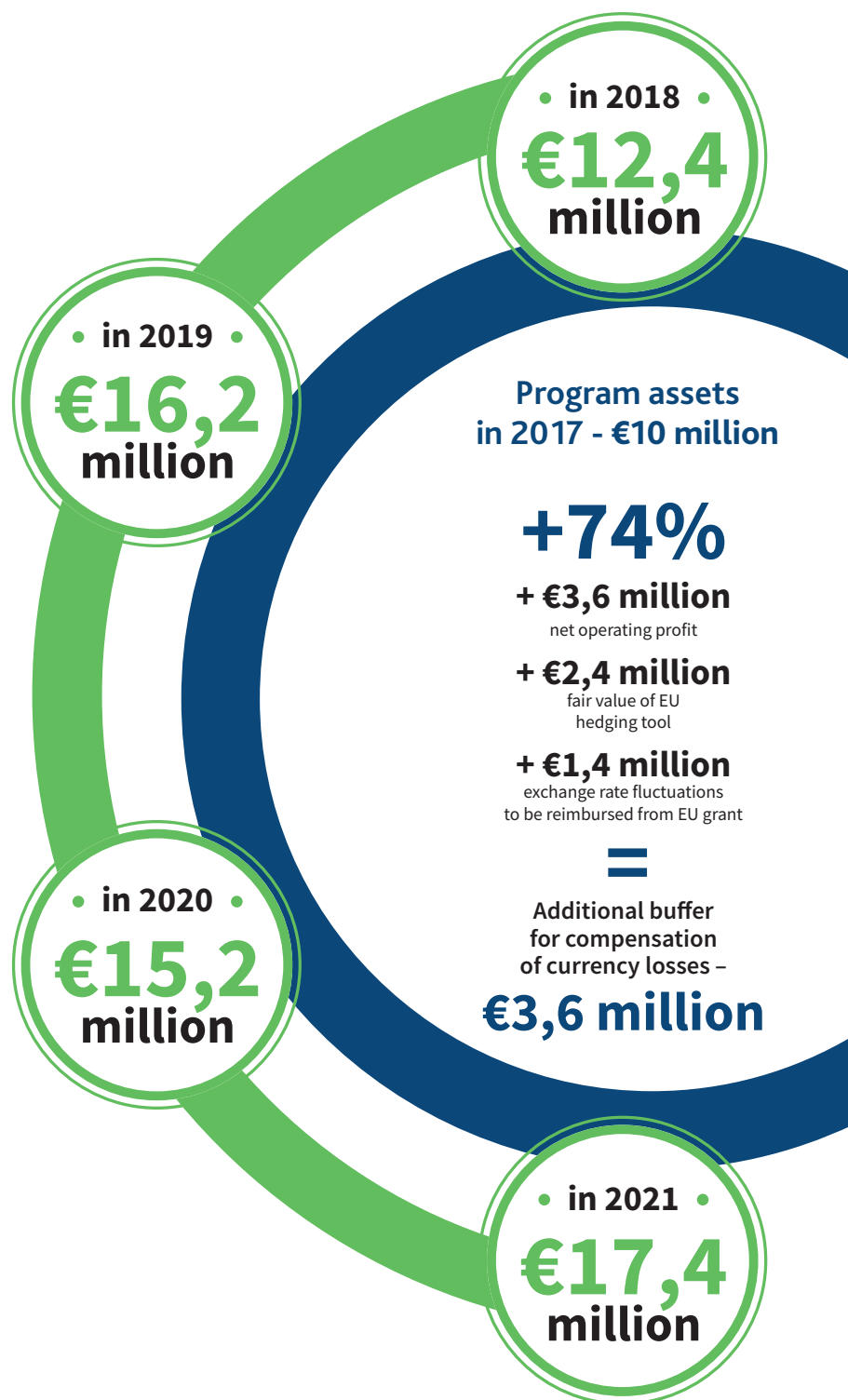
Thanks to BDF's FX losses the compensation from the EU, the model and BDF did not suffer any currency losses.

# 3

The model used the received income to create an additional buffer for compensation of future losses.

# €64 250,28

Actual use of European Union funds to compensate currency losses as of 01.01.2022



# SUCCESS STORIES

## OF SME INVESTMENT SUPPORT PROGRAM

### YAGOPAK LLC

Yagotyn, Kyiv Region

Company manufacture both paper products for markets, restaurants, shops, cafés, coffee shops and paper bags for coal. Which are supplied not only in Ukraine but also to Europe and around the world. In order to reach a new level in production, the company prepared and submitted an application for an investment project through JSB «KREDOBANK» and very soon purchased a 6 Colour Flexo Printing Machine for the total amount of 160 thousand dollars.



### TSENR SEMEYNOY STOMATOLOHYY LLC

Mykolaiv

The dental centre provides a full range of services. Thanks to the program, the company purchased equipments to help conducts operations during which patients are on medication sleep. "The equipment makes it possible to treat the youngest children, children with Down Syndrome, cerebral palsy and autism, and adults who don't like dentists", - says Viktoriya Bogoslavska, co-founder of the centre.



STATE PROGRAM  
«AFFORDABLE LOANS 5-7-9%»





The state program «Affordable loans 5-7-9%» (hereinafter - the program) was initiated by the President and the Government of Ukraine and officially started on February 3, 2020.

The conditions, criteria and mechanism of program implementation are determined by the Provision for state financial support to small and medium-sized enterprises, approved by the decree of the Cabinet of Ministers of Ukraine dated 24.01.2020 No. 28 (hereinafter – the Provision), and the mechanism for the use of funds provided for in the state budget under the program «Ensuring the functioning of the Business Development Fund», regulated by the corresponding provision, which was approved by the decree of the Cabinet of Ministers of Ukraine dated 24.01.2020 No. 29.

State support was provided using such tools in terms of interest rate compensation on loans to micro-, small and medium-sized (hereinafter - MSMEs) enterprises by the Fund and the BDF's portfolio MSME loan guarantees to the amount of UAH 500 million.

During 2021, the Provision was repeatedly amended for the purpose of adapting the program to modern conditions, in particular in terms of additional support measures for business entities during quarantine restrictions and overcoming their consequences by simplifying and making lending more accessible to a wider range of businesses. The program provides measures that are universal and an efficient lending tool to MSMEs with state financial support to businesses regardless of their area of activity.

In 2021, the program was amended to introduce a new component: support to private entrepreneurs. The component provides the inclusion of a new category of borrowers, with an annual income of up to UAH 50 million, which involve small loans (loan amount up to UAH 1 million) without property pledge, but with the possibility to finance their business activities for investment purposes or for working capital. It is worth mentioning that this particular group of borrowers was targeted in the program's initial version, but could not fully get into the program because of the high cost of lending due to the lack of property collateral, and administrative registration costs which are disproportionately high for the loan's small volume. Within the framework of this component, the base interest rate for this group of borrowers was increased to the level of UIRD (12 months) + 14 percentage points, while the amount of interest rate compensation is set at 12% per annum. In addition, under the program, for this group of borrowers a «simplified system» of reporting was introduced by

transitioning to an annual monitoring and dropping the need to count all working places. Until now, this prevented authorized banks from cooperating with private entrepreneurs due to the disproportionality of their administrative costs to the received income from small loans.

**IN ORDER TO EXPAND STATE SUPPORT FOR ENTREPRENEURS IN UKRAINE TO OVERCOME CONSEQUENCES OF THE COVID-19 PANDEMIC AND RELATED QUARANTINE RESTRICTIONS IN MARCH 2021, THE PROGRAM WAS AMENDED TO INCREASE THE PERMISSIBLE LIMIT OF STATE AID TO EUR 400,000, IN ACCORDANCE WITH THE CMU DECREE DATED 03.03.2021 NO. 200 «ON APPROVAL OF CRITERIA FOR ASSESSING THE ADMISSIBILITY OF STATE AID TO BUSINESSES TO OVERCOME THE CONSEQUENCES CAUSED BY THE CORONAVIRUS DISEASE COVID-19».**

Due to the high level of its popularity and spread, in late 2021 the program already included 4 components: investment, anti-crisis, refinancing and support for private entrepreneurs.

In March 2022, the program was expanded by two more new components, which were aimed at supporting the sowing campaign, preventing Russian aggression and overcoming its consequences.

The assistance to agricultural producers component was aimed at supporting the short-term liquidity of micro-, small, medium and large enterprises (hereinafter - MSMEs) by compensating the interest rate on loans to MSMEs for working capital at 0% per annum. In turn, the anti-war component focused on compensating interest rate on investment loans to MSMEs and loans for working capital at 0% per annum during martial law in Ukraine, then 5% per annum until the end of the term of the loan agreement depending on lending purposes.

It should be noted that after the introduction of martial law in Ukraine, the program became a unified tool on the bank lending market, as well as a driver in maintaining the stability of the banking system in Ukraine and supporting all business segments through banks of Ukraine. Starting dated 24.02.2022 authorized banks which participate in the program carried out lending to MSMEs with the corresponding increase of the loan portfolio, with more than 80% formed at the expense of the program thanks to timely changes adapted to business needs in the conditions of martial law.

40

number of authorized banks

32 025

number of loan agreements (units)

80 367

amount of loan agreements (UAH million)

30 957

created jobs (pers.)

359 705

saved jobs (pers.)

0,33%

bad debts

4 610,2

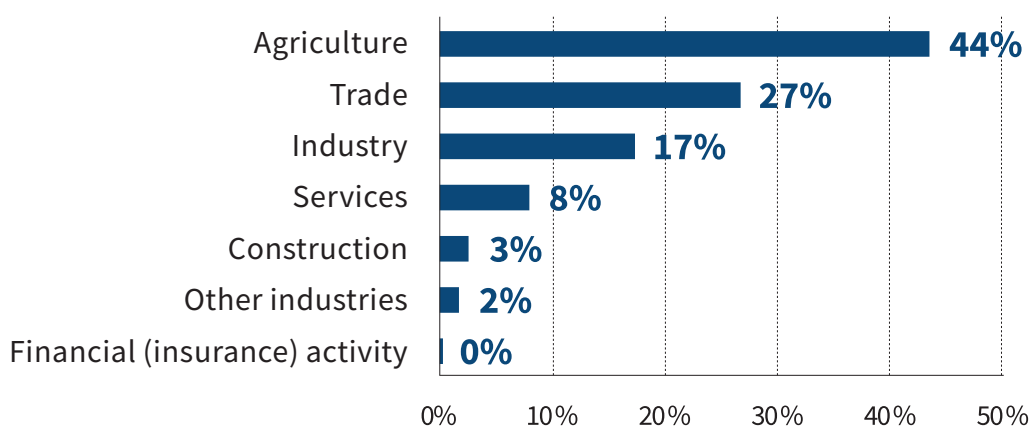
amount of compensation on escrow accounts in banks (UAH million)

4 231,7

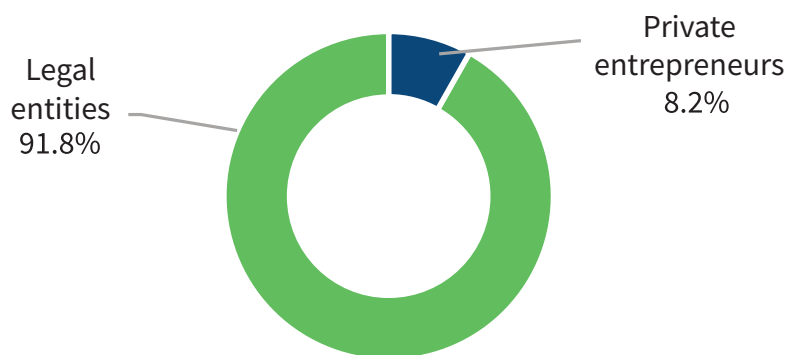
amount of compensation paid to MSMEs (UAH million)

## RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATE COMPENSATION AS OF 01.01.2022

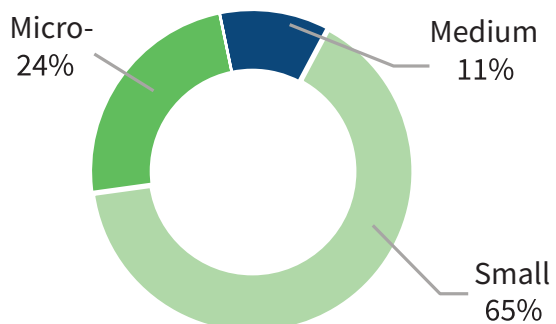
### Loan agreements by type of economic activity, %



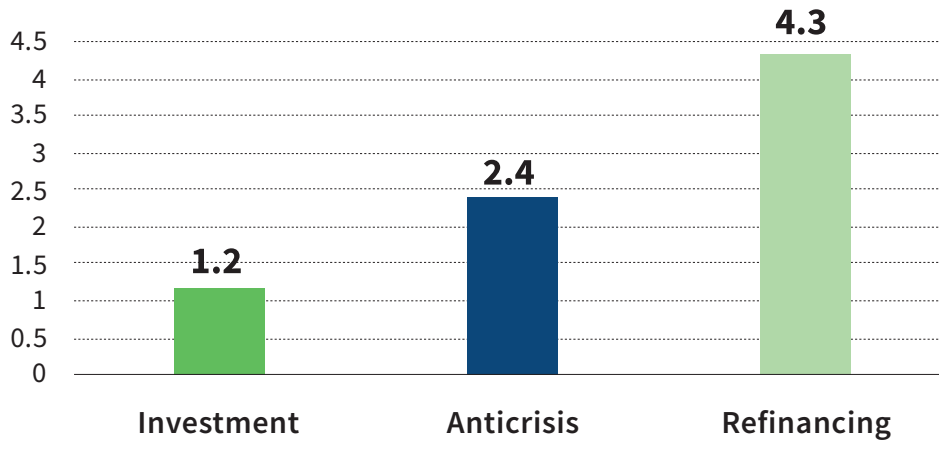
### Structure of program participants by number in terms of MSME types, %



### Share of business segments in the total loan portfolio, %

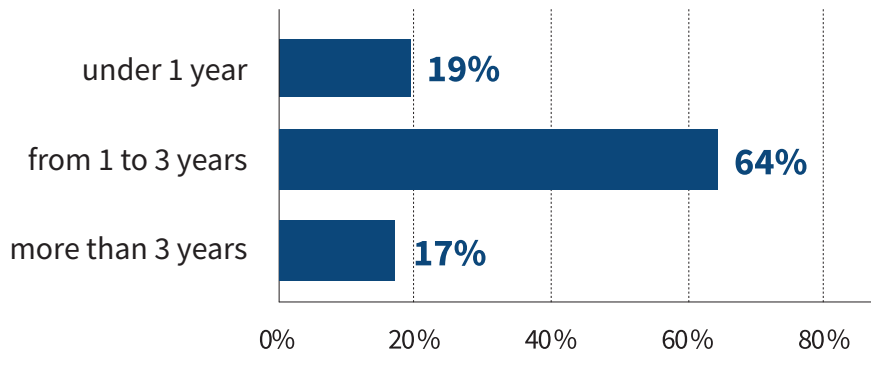


### Average loan amount for MSMEs by components, UAH million

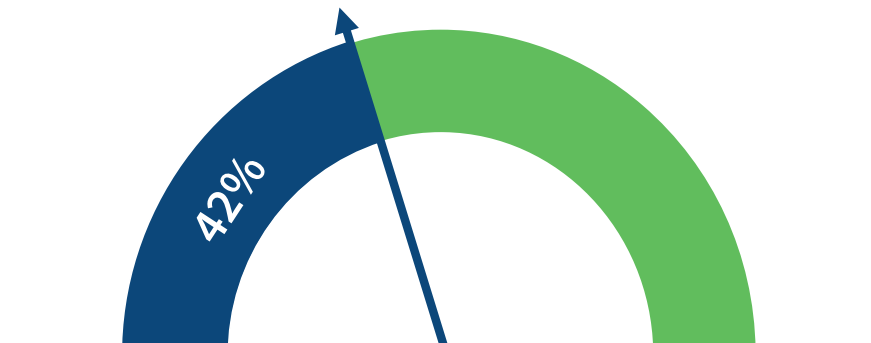


The average loan amount under the investment component at the level of UAH 1 million indicates a wide presence of mainly microenterprises.

### Structure of loan agreements by terms



### Share of program in authorized banks' total MSME loan portfolio



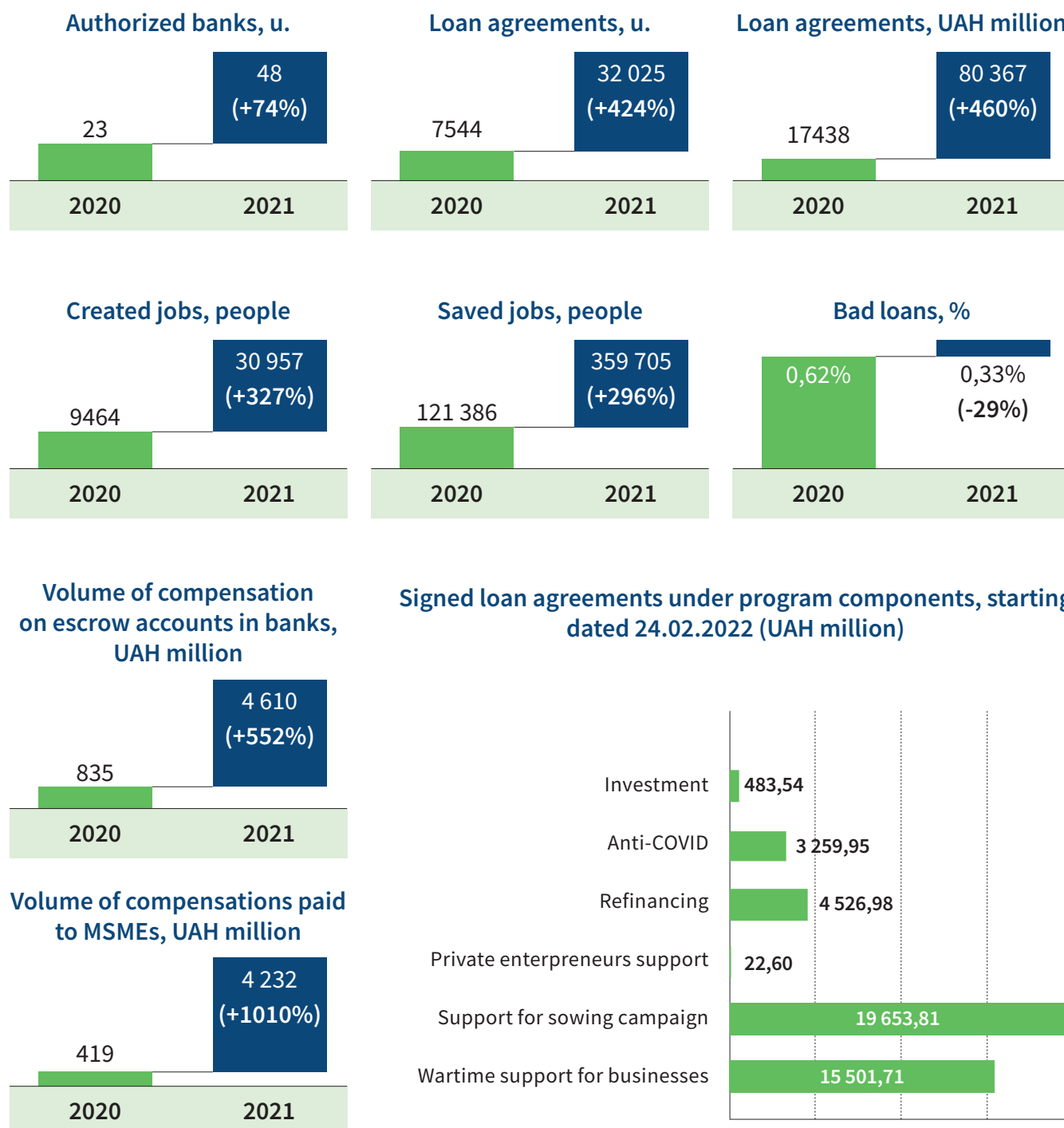
In less than two years of implementation, the program has occupied almost 42% in the total loan portfolio of MSMEs of authorized banks, ensuring its growth in 2021 by 25%.



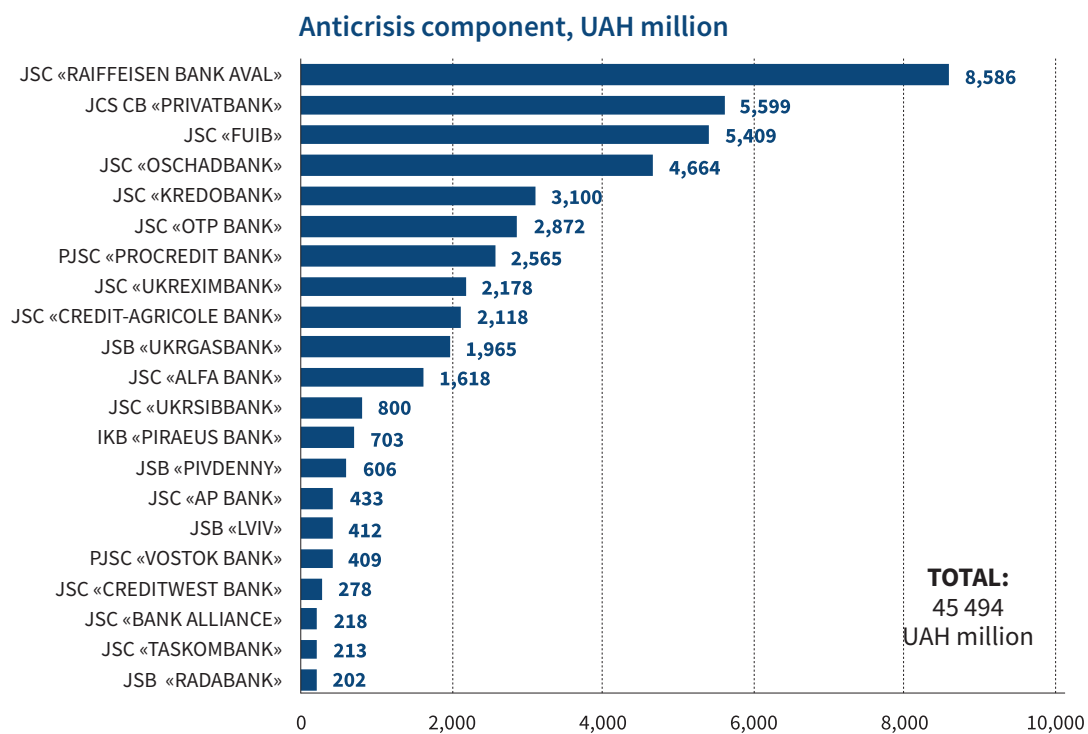
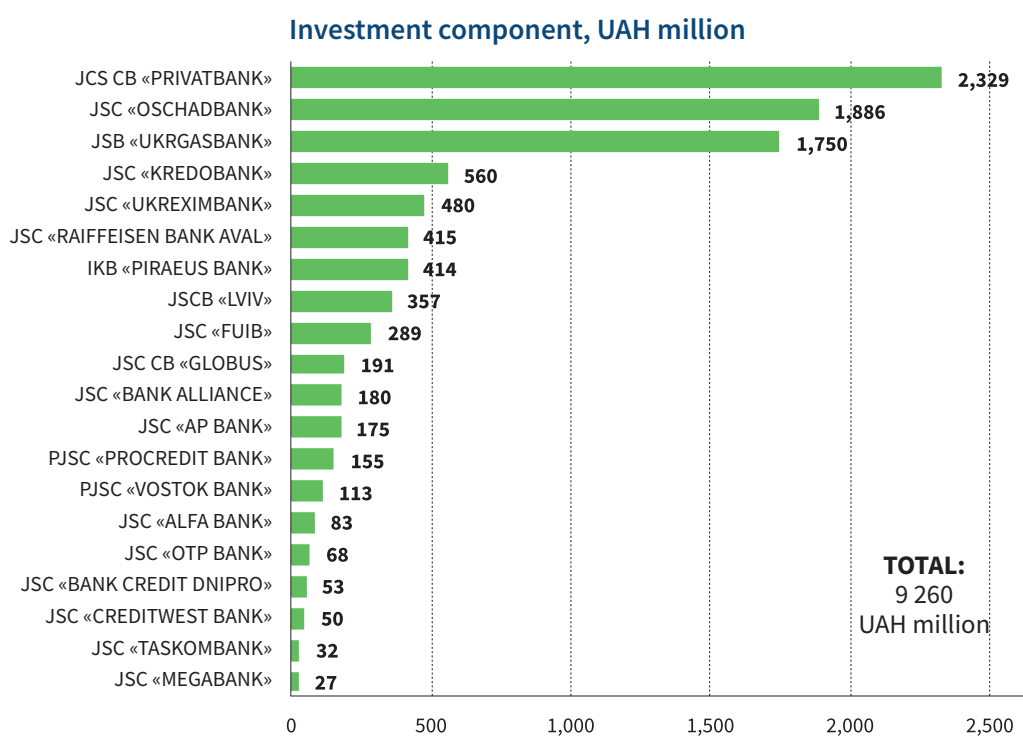
Despite the continuing impact of quarantine restrictions on businesses in 2021, which mainly affected micro- and small enterprises, the dynamics of lending within the framework of the program maintained a positive pace. The results specified in the report were achieved thanks to the widespread popularization of the state program and the introduction of necessary changes in order to adapt to market conditions and needs of businesses. The excess in planned indicator levels shows the program's popularity (state support) specifically

among the target audience envisaged by the program's terms in compliance with established eligibility criteria for borrowers and appropriate business payment discipline.

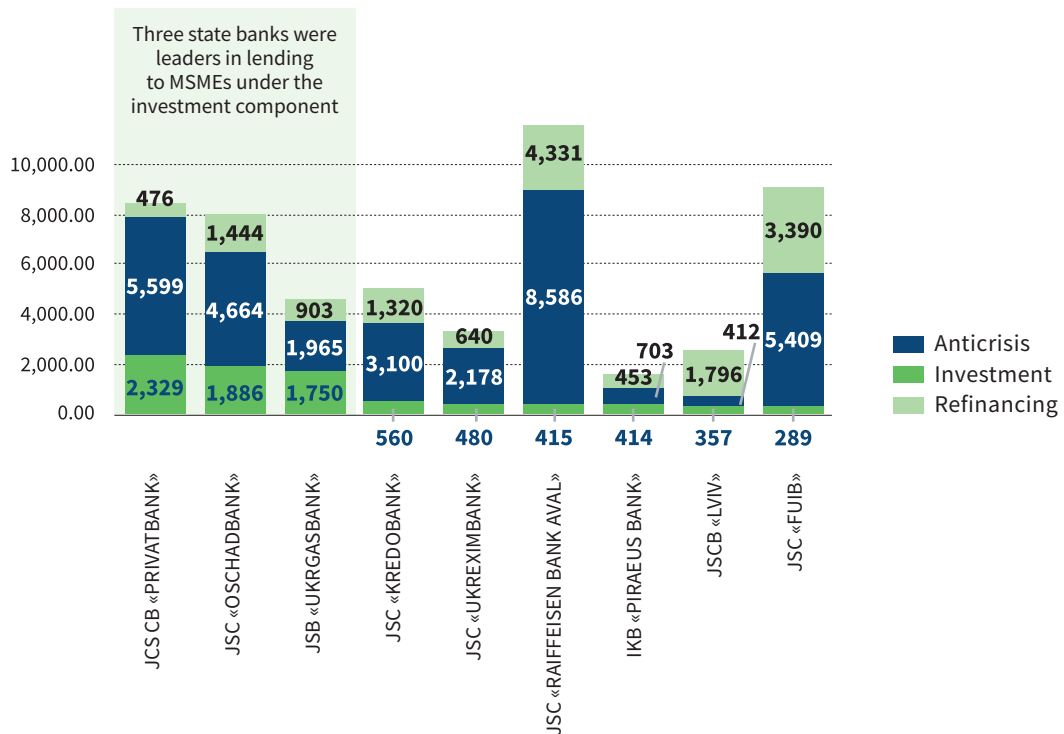
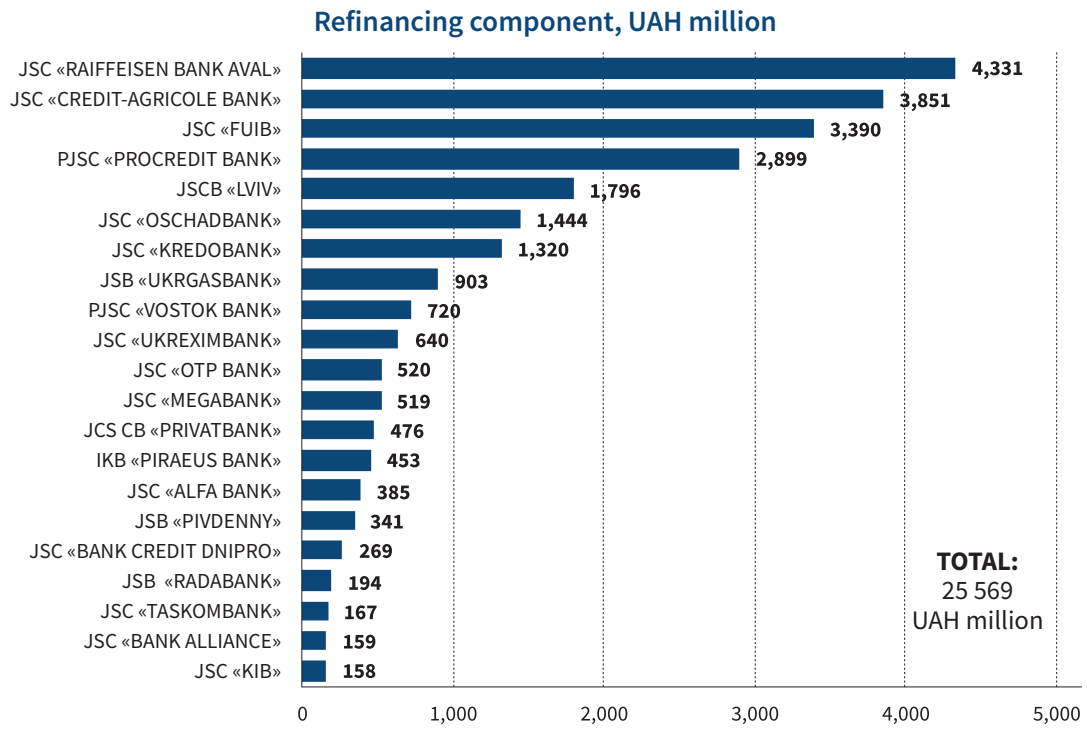
It should also be noted that after the introduction of martial law in Ukraine on 24.02.2022 authorized banks participating in the program carried out lending to MSMEs with a corresponding increase in the loan portfolio, which amounted to UAH 43.4 billion.



## AMOUNTS OF LOAN AGREEMENTS WITH MSMEs BY PROGRAM COMPONENTS

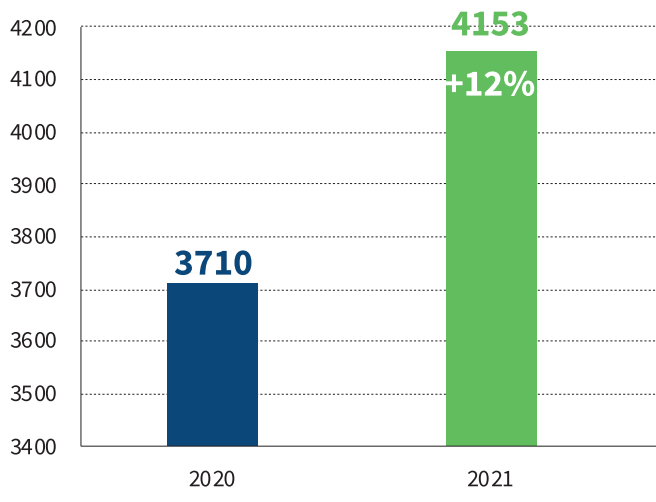


## AMOUNTS OF LOAN AGREEMENTS WITH MSME BY PROGRAM COMPONENTS

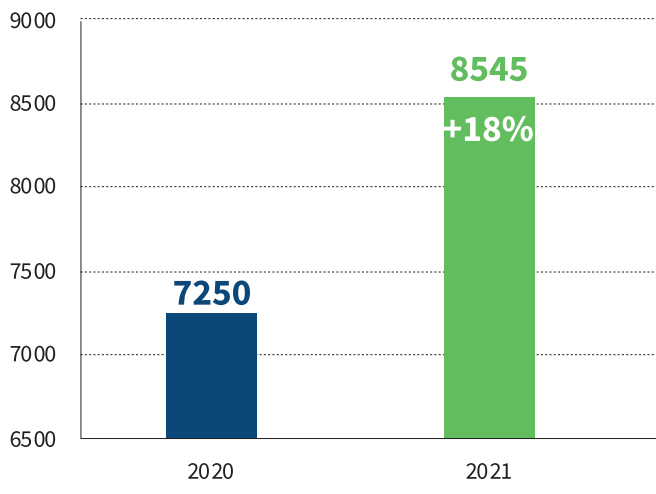


## THE IMPACT OF STATE SUPPORT UNDER THE PROGRAM ON INCREASING KEY BUSINESS ACTIVITY INDICATORS

Change in total income tax,  
UAH million



Change in social contribution tax,  
UAH million

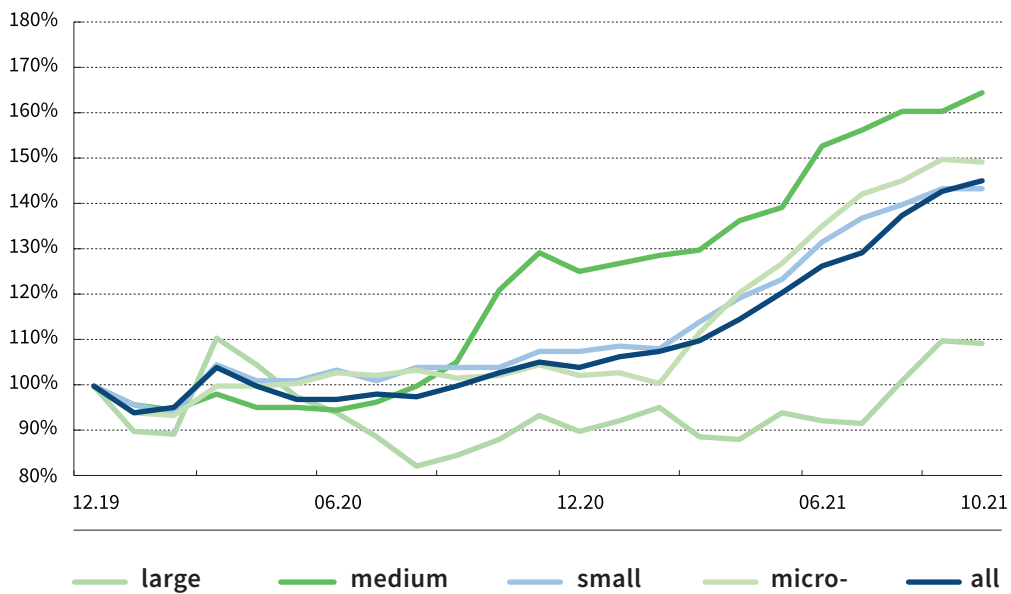


1. Business entities that benefited from state support within the framework of the program, based on the results of 2021, increased the amount of paid income tax by 12% to UAH 4,153 million and social tax contributions by 18% to UAH 8,545 million.
2. Thus, the amount of state support provided in 2021 for interest rate compensation to MSMEs in the amount of UAH 3,813.7 million mainly influenced the increase of budget revenues in the amount of UAH 1,738.0 million despite the negative economic situation in the country due to the effect of quarantine restrictions.
3. The data testifies to the positive influence of financial state support on development and expansion of economic activity of small businesses, as well as the gradual formalization and transparency of its activities. This will allow an increase in the amount of financing and state support for their business activity in the future.



# RESULTS OF THE PROGRAM IN TERMS OF INTEREST COMPENSATION AS OF 01.01.2022

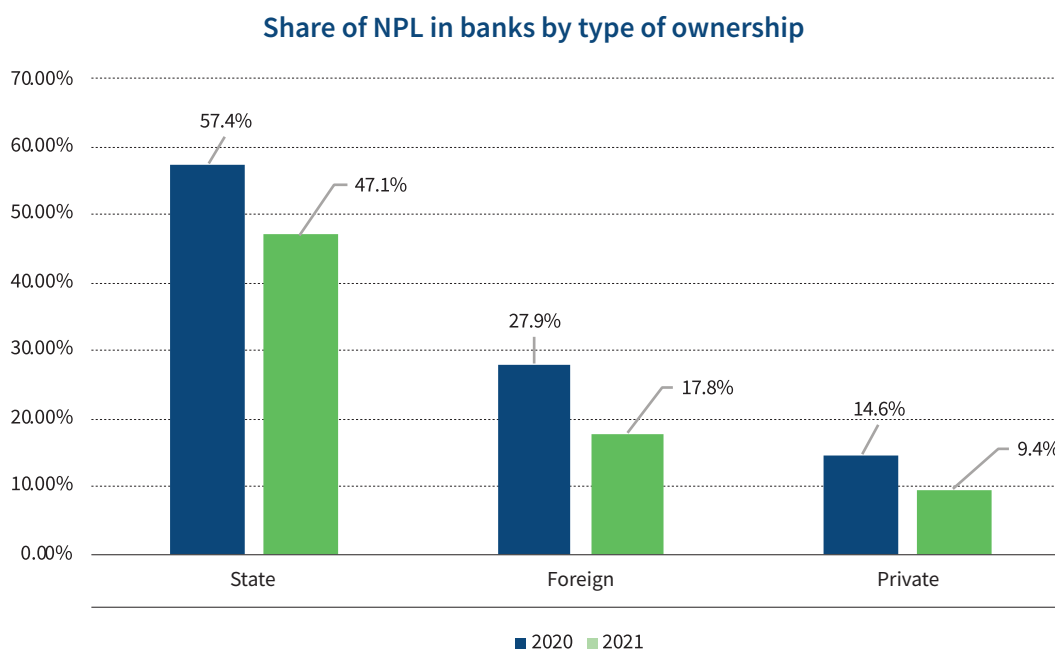
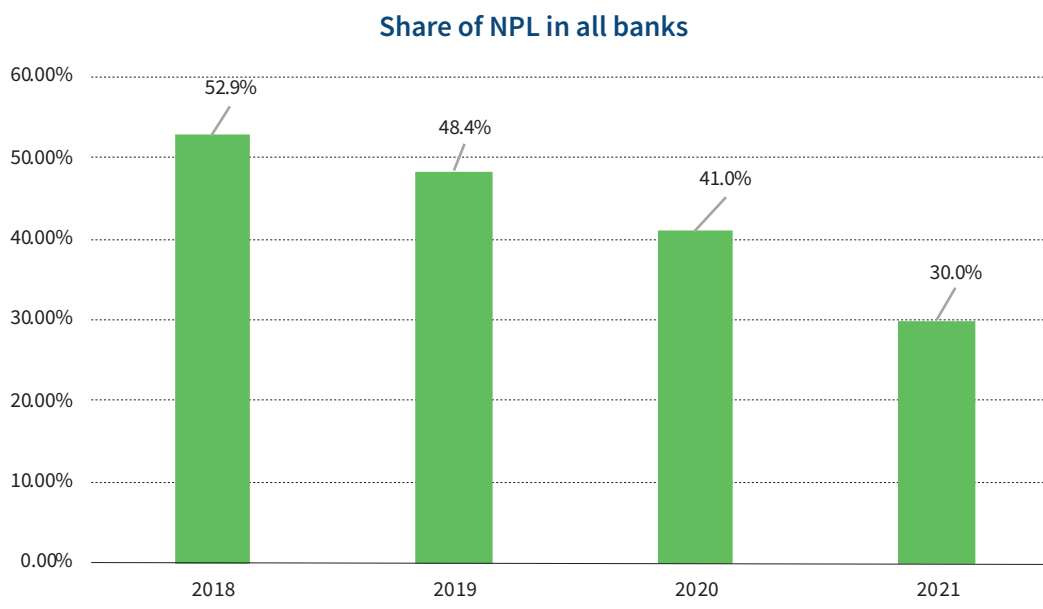
**1** The program influenced the growth of the loan portfolio of micro-, small and medium-sized enterprises by 40.2%, according to 2021 results



Source: NBU financial stability report, December 2021

Despite the continued impact of quarantine restrictions in 2021, which affected mostly micro- and small enterprises, their loan portfolio increased by 40.2% in the reported period. According to NBU's assessment, the program «Affordable loans 5-7-9%» contributed to such positive dynamics.

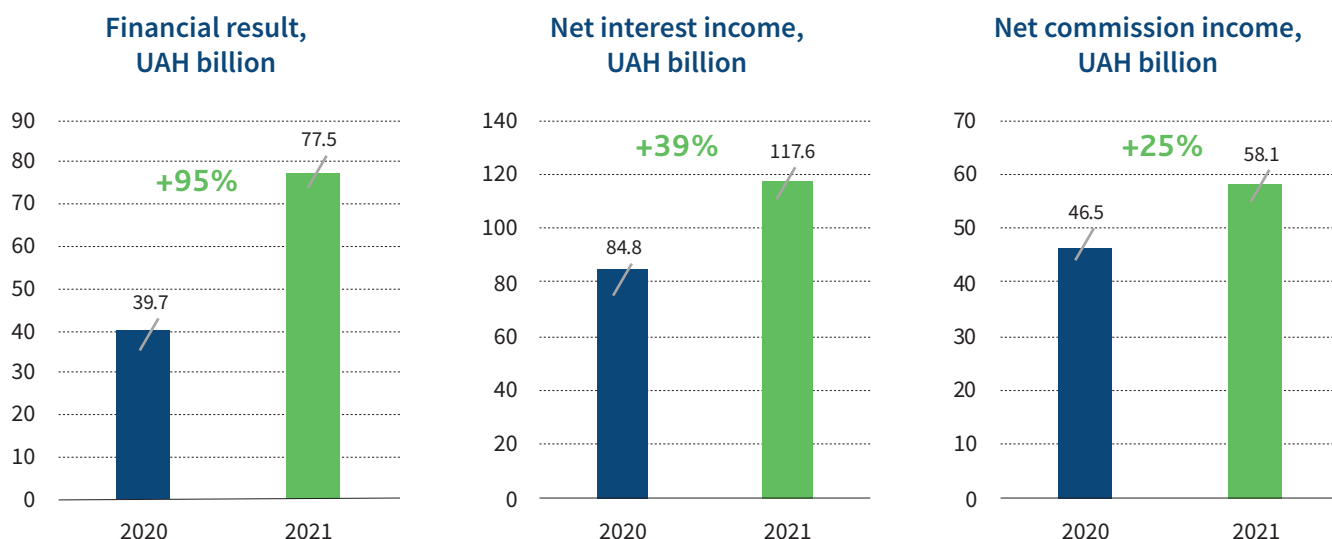
## 2 The program reduced the financial burden on MSMEs during the period of quarantine restrictions, minimizing bad debt and negative impact on financial stability of the country



The level of bad debt within the program considering quarantine restrictions was 0.33% based on the results of 2021 since the program contributes to strengthening the financial discipline of MSMEs. Without complying, they may lose the right to receive state support.

Thus, the program became somewhat of a buffer that held back the possible growth of non-performing loans and ensured positive dynamics of their reduction in the banking system of Ukraine up to 30% according to the results of 2021.

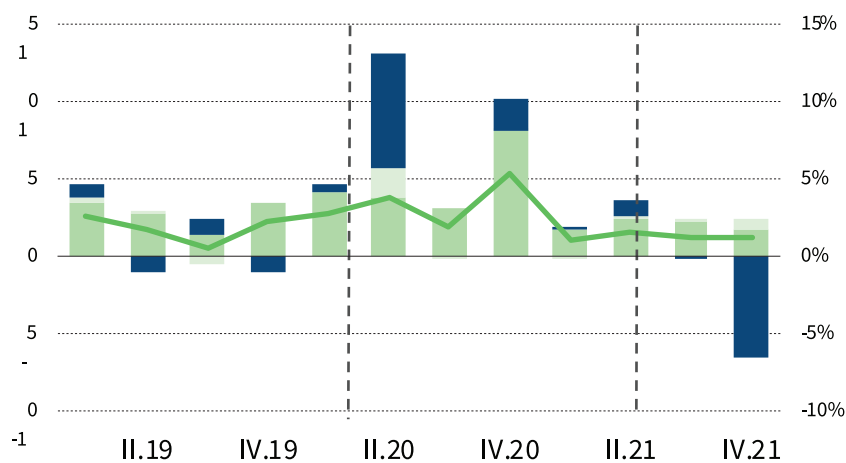
### 3 The program affected profit growth in the banking sector in 2021 to a historical maximum - UAH 77.5 billion



Thanks to the active growth of bank lending to businesses with a simultaneous reduction in the volume of problem loans, Ukrainian banks received a historical net profit of UAH 77.5 billion with the program's direct contribution.

Thanks to the obtained financial result, Ukrainian banks created an additional capital reserve that will cover increased loan risks caused by the aggression against Ukraine, and maintain financial stability in the country.

### 4 Due to the low share of bad loans, the banks reduced their deductions to reserves for expected loan risks within the program

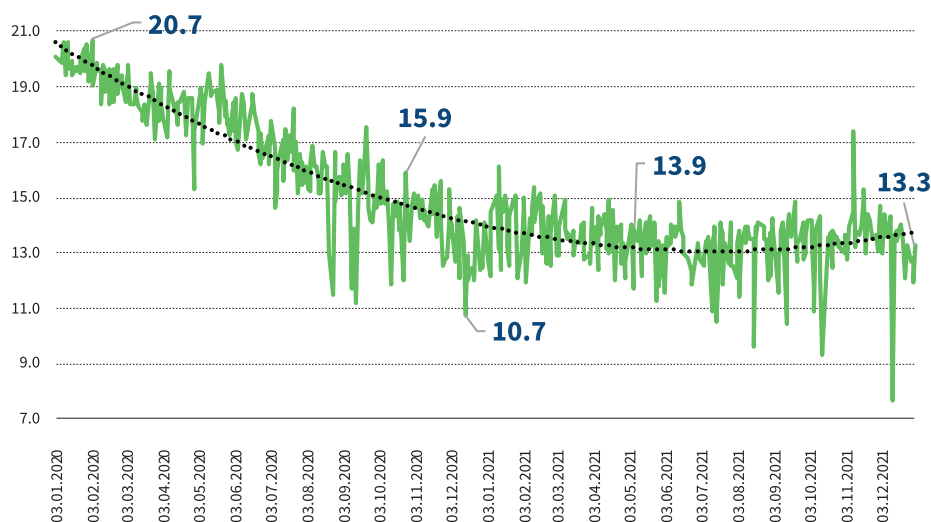


The record growth of financial results of Ukrainian banks in 2021 was facilitated by the reduction of deductions to reserves for possible loan risks, as well as liquidation of reserves based on the results of the 4th quarter of 2021 due to the reduction of the share of non-performing loans.

The freed capital from the liquidation of reserves and their reduction created a buffer for the further increase of lending to small businesses of Ukraine, even during the time of martial law.

■ In reserves for loans by other banks, UAH billion  
■ In reserves for loans by JCS CB «PRIVATBANK», UAH billion  
■ In other reserves, UAH billion  
— Cost of risk\*

## 5 The program influenced a significant decrease in interest rates on loans to MSMEs, maintaining this trend in 2021



According to NBU statistics on financial markets, since the start of the program on 01.01.2020, interest rates on long-term loans in national currency for businesses decreased from 20.7% per annum to 13.3% per annum as of 01.01.2022.

## 6 The program is highly popular among Ukrainian banks compared to similar state programs

As of 01.01.2022, 40 banking institutions became the program's authorized banks. They cover about 95% of the bank lending market.

The main factors of the banks' interest in participating in the program included: the program's relevance, especially during the corona crisis; the possibility of providing affordable loans to businesses.

## THE PROGRAM'S MAIN RESULT

According to 2021 results, the program «Affordable loans 5-7-9%» confirmed its national status and essentially became the main driver of affordable lending to micro-, small and medium enterprises, having made a significant positive impact on the development of both the real economy and the banking sector of Ukraine.

Entrepreneurs of Ukraine felt the program's relevance and significance in difficult times of the corona crisis, and then martial law, when state support was decisive for the continued financing of their economic activity. The result of such interaction between businesses and the state was the increase in the number of jobs as well as a rise in tax revenues, which in turn contributed to the further formalization of businesses and increasing the transparency of their activities in order to obtain a larger volume of state support for their development in the future.

The banking sector of Ukraine, which is the direct executor of the program, received significant benefits from its participation, which created a reliable financial reserve for further rapid development, as well as to withstand external shocks, in particular, the negative consequences of the military aggression of the Russian Federation against Ukraine.

Rapid and high-quality growth of the MSME loan portfolio in Ukraine's banking system with minimal bad debt and the absence of the need to form reserves for loan risks allowed banks to receive its maximum historical profit based on 2021 results by directing the funds to increase its capital and strengthen its financial stability. Thanks to this, a stronger and more stable banking sector of Ukraine is able to respond to the consequences of military aggression and continue to protect Ukraine's real economy sector.



## TOOL OF FINANCIAL SUPPORT FOR SMES: LOAN GUARANTEES

In 2021, within the framework of the state program «Affordable Loans 5-7-9%», the Business Development Fund continued to provide state guarantees for portfolio loans through authorized banks for micro-, small and medium-sized enterprises (MSMEs) loans. The mechanism for implementing loan guarantees assumes that the state covers part of the MSME loan risk by creating conditions for expanding and increasing the volume of bank lending.

The size of the provision of portfolio loan guarantees ranges from 50% to 80% of the amount of loans to MSMEs, but no more than 50% of the total size of the guaranteed MSME portfolio loans at the Authorized Bank.

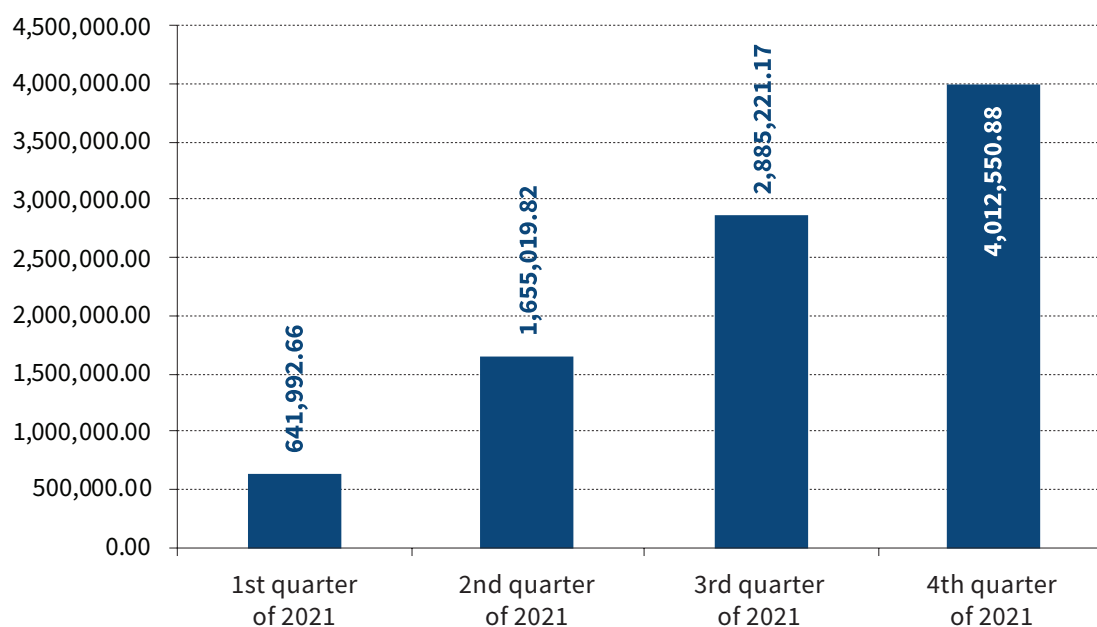
The basic conditions and parameters of the loan guarantee mechanism continue to be defined by the Provision for providing financial state support to small and medium-sized business entities, approved by the Decree of the Cabinet of Ministers of Ukraine dated 24.01.2020 No. 28, as well as the Procedure for the use of state budget funds provided for ensuring the functioning of the Business Development Fund, approved by Decree No. 29 of the Cabinet of Ministers of Ukraine dated 24.01.2020.

According to 2021 results, thanks to the Fund's guarantees, authorized banks issued loans to micro- and small enterprises to the total amount of UAH 809.2 million. The portfolio guaranteed by the Fund amounted to UAH 842.75 million as of 01.01.2022. Overall in 2020 and 2021, authorized banks issued loans with the Fund's guarantee to the amount of UAH 1,412.6 million.

It is worth noting that the size of bad MSME loans within the framework of the loan guarantee mechanism under the program «Affordable loans 5-7-9%», which could serve as guarantee cases, was 0.0% as of 01.01.2022. At the same time, the increase in funds of the guarantee fund according to the results of 2021 amounted to UAH 4.013 million, which was achieved through a commission for the Fund's guarantee. Thus, since the introduction of loan guarantees, the increase in funds of the guarantee fund thanks to the commission for providing such a guarantee amounted to UAH 4.378 million.

This data testifies to the efficiency of the implemented loan guarantee mechanism for MSME loans, which will continue to be used to support financing MSMEs within the framework of the program «Affordable loans 5-7-9%».

**Increase of guarantee fund through guarantee commission, UAH**



## RESULTS OF THE PROGRAM IN TERMS OF LOAN GUARANTEES AS OF 01.01.2022

**4**

number of authorized banks

**1 186,15**  
UAH MILLION

SME portfolio with Fund's guarantee

**842,752**  
UAH MILLION

guaranteed SME portfolio

**504,378**  
UAH MILLION

guarantee fund amount

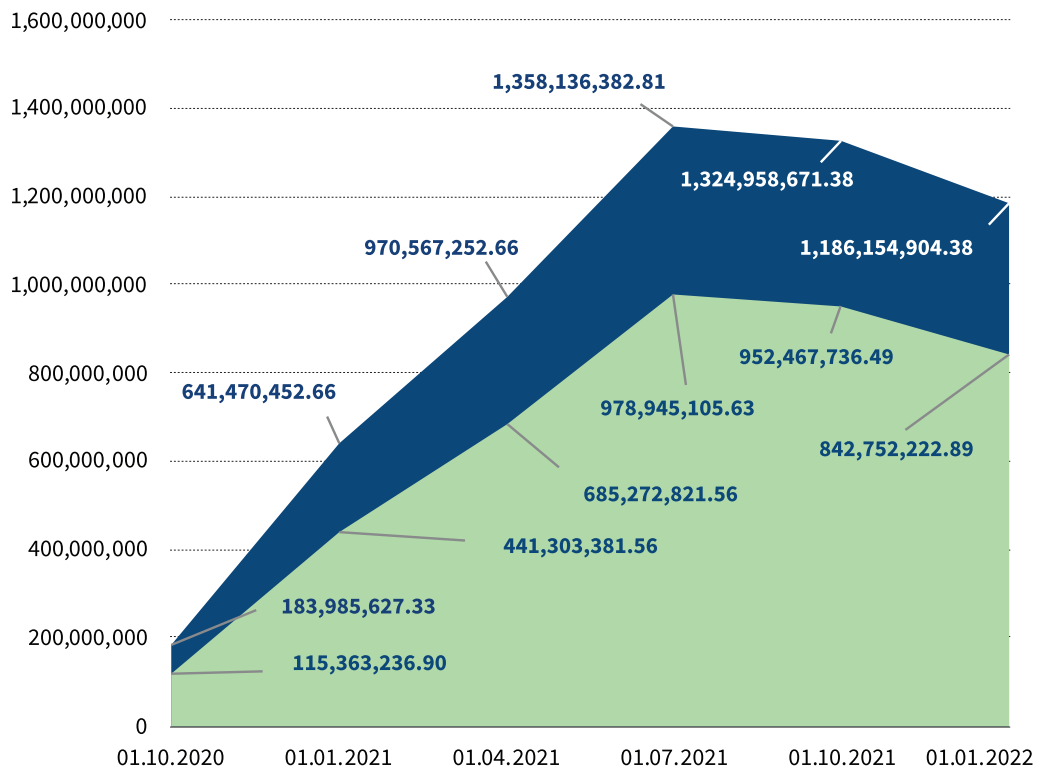
**4,378**  
UAH MILLION

guarantee fund increase (commission) in 2 years

**0,00%**

guarantee cases

Development of MSE loan and guaranteed portfolios



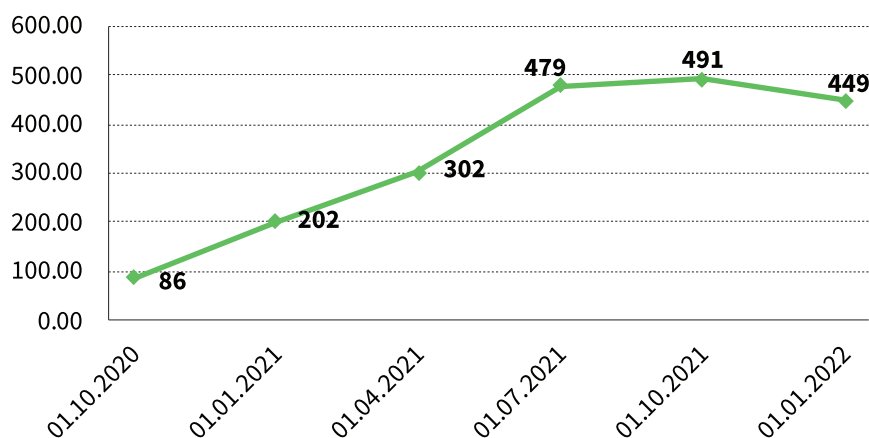
■ Loan portfolio MSE, UAH

■ Guaranteed portfolio MSE, UAH

During the two years of implementation of the program «Affordable loans 5-7-9%», the loan guarantee mechanism introduced within it demonstrated high rates of growth of the guarantee portfolio of MSMEs with a zero level of guarantee events.

## RESULTS OF THE PROGRAM IN TERMS OF LOAN GUARANTEES AS OF 01.01.2022

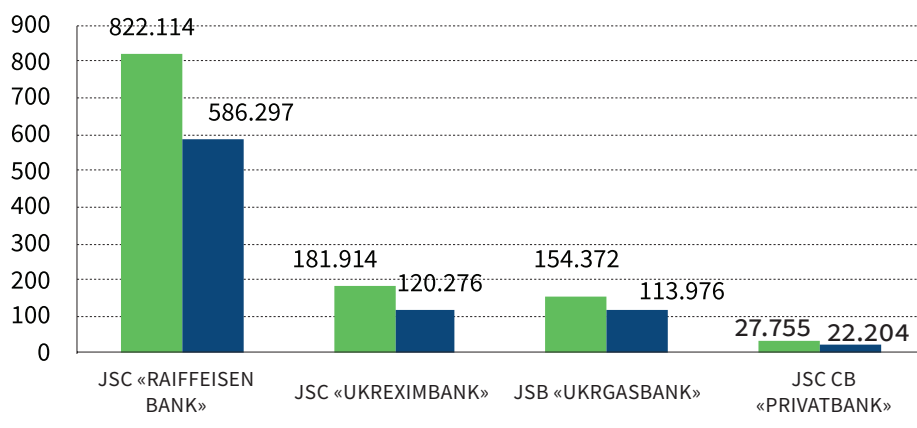
### Quantitative dynamics of guarantee portfolio



■ Loan portfolio, number

During the 2 years of implementation of the mechanism for providing loan guarantees at the Fund's authorized banks, there has been a stable growth dynamic in the number of loans an issued guarantee. However, at the end of 2021, the number of loans guaranteed by the Fund decreased due to the expiration of the contract and/or full repayment of loans, especially by MSMEs with a seasonal business, in particular - those involved in agriculture.

### Guarantee portfolio in terms of authorized banks, UAH million

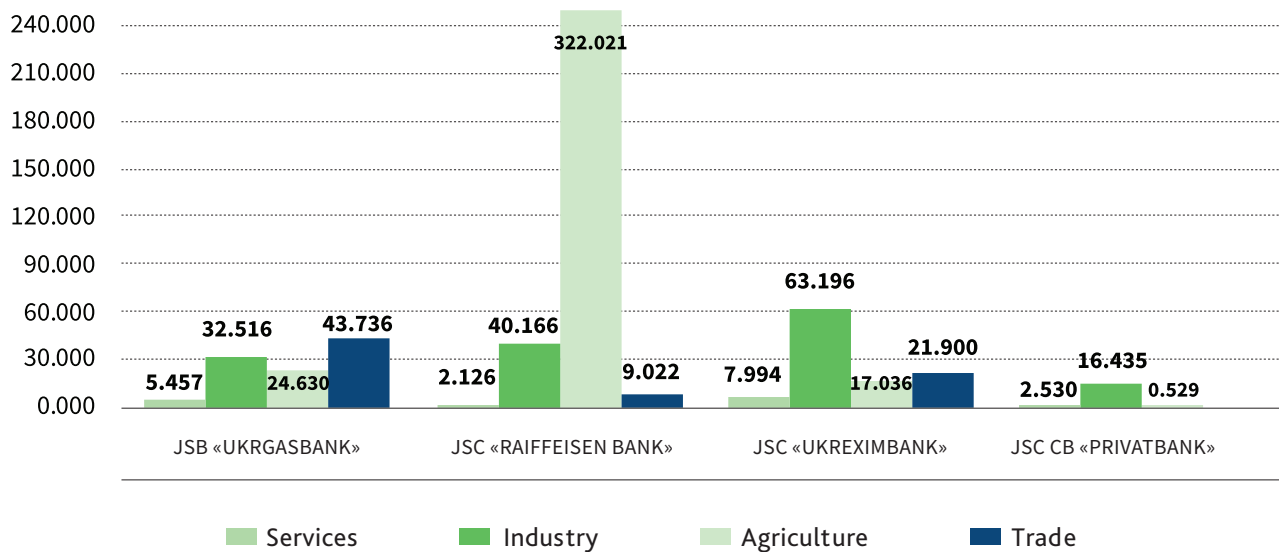


■ Loan portfolio, UAH

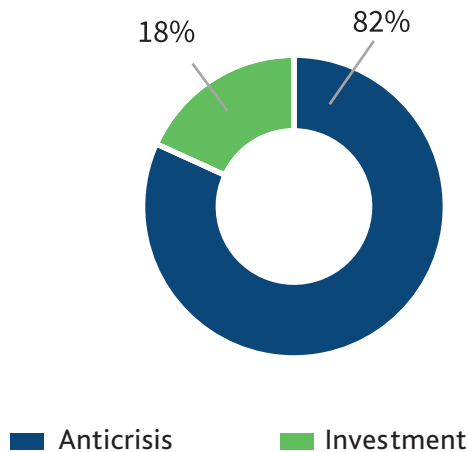
■ Guaranteed portfolio, UAH

4 authorized banks are active participants of the program in terms of loan guarantees. They implement the mechanism of loan guarantees, combining it with MSME lending procedures, which allows them to expand the scope of financing enterprises that could not participate in the program without a guarantee. The leader in terms of the amount and number of loans issued under the Fund's guarantee is JSC RAIFFEISEN BANK. Its portfolio amounts to 57% of the total guarantee portfolio.

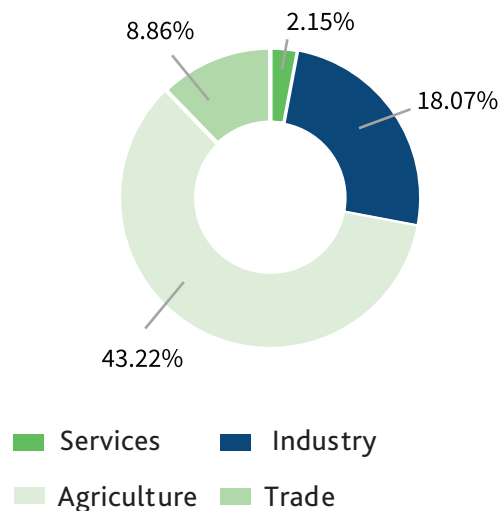
### Structure of MSME guaranteed portfolio by NACE as of 01.01.2022, UAH million



### MSME guaranteed portfolio structure by components, %



### Overall structure of MSME guaranteed portfolio by NACE, %



Expanding the possibility of using the Fund's loan guarantees within the framework of the Anticrisis component of the program «Affordable loans 5-7-9%» made it possible to support a significant number of MSMEs that found themselves in temporary difficulties related to shortages of short-term liquidity caused by quarantine restrictions.

The structure of the MSME guaranteed portfolio by types of economic activity of enterprises mostly repeats the trends of the general MSME loan portfolio of authorized banks under the program «Affordable loans 5-7-9%» with agriculture companies prevailing.

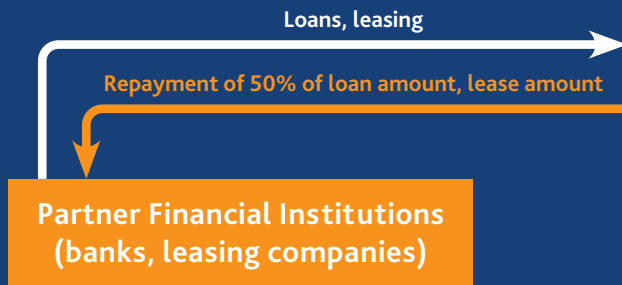


# THE FINANCEAST PROGRAM



€9,5 million

KFW



Compensation of 50% of down payment and loan or lease amount within the investment project (excluding VAT)



# ENTREPRENEURS FROM THE EAST OF UKRAINE DEMONSTRATED A HIGH INVESTMENT POTENTIAL

The FinancEast program is implemented within the framework of Component 2 «Economic recovery and development of MSMEs» of the «EU Support to the East of Ukraine» agreement between the Government of Ukraine and the European Commission, as well as the EU4Business initiative.

The program is implemented by the Business Development Fund with indirect management of the KfW Development Bank. Their Financial agreement was concluded on 14.05.2019.

**The main goal of the FinancEast program** is to restore financing of MSME investment projects in the east of Ukraine, which will contribute to the achievement of the following strategic goals:

- economic recovery of the east Ukraine,
- increase of MSME business and investment activity in the region,
- expanding the presence of financial and banking institutions that will provide steady financing for MSME investments,
- gradual restoration of peace in the east of Ukraine.

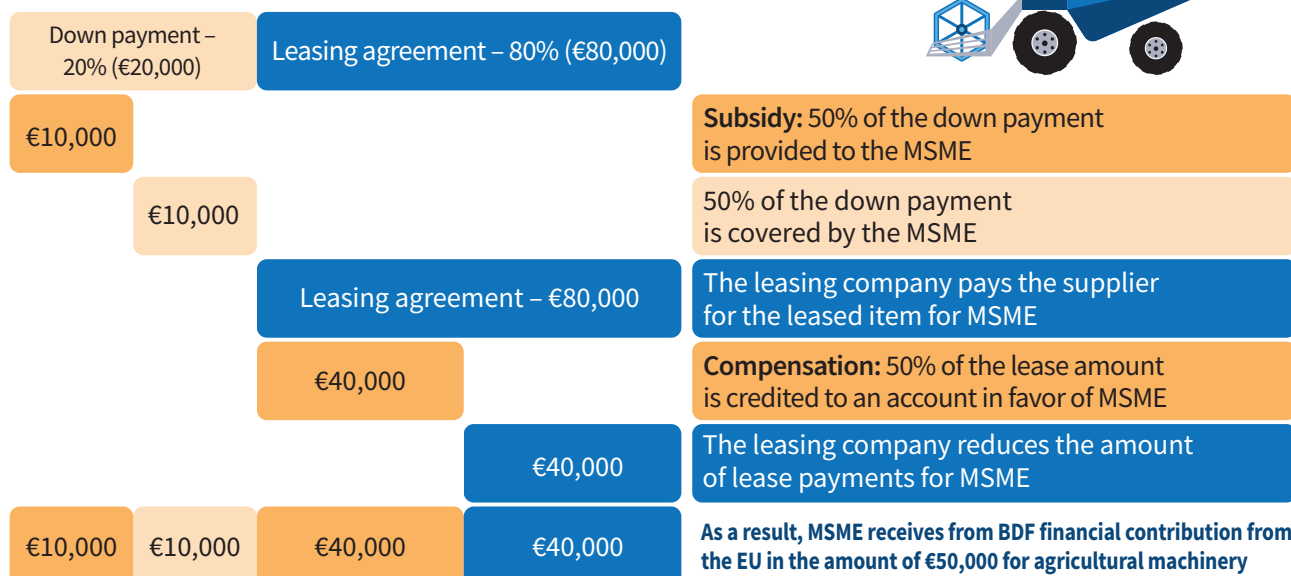
Support for the financing of MSME investments within the framework of the program was carried out using the tool of compensating 50% of the cost of the investment project, which, in fact, played a dual role: for entrepreneurs, it covered half of the investment expenses, encouraging business activity; and served as a guarantee for returning half of the loan or leasing amount to partner institutions, minimizing their risks and increasing the volume of loan and leasing operations in the region.

After the signing of the Financial agreement on 14.05.2019 between BDF and KfW, the preparatory phase started, within its framework a mechanism of program implementation using escrow accounts was developed along with operating manual, draft contracts with partner financial institutions, program eligibility criteria for MSMEs and partner institutions, partner institutions were selected. According to the results, OTP LEASING LLC, JSC «OSCHADBANK» and JSB «UKRGASBBANK» became the program's partner institutions.

The active phase of the implementation of the FinancEast program began in January 2020, within its framework partner institutions ensured the selection and financing of MSME investment projects. According to the results of 2020-2021, the Fund implemented the main phase of the program to reimburse the cost of MSME investment projects financed by partner institutions ahead of schedule. In general, within the framework of the program, 153 MSME investment projects were financed to a total amount of UAH 612.75 million. The Fund used 100% or UAH 250.81 million (equivalent to EUR 8,1 million) of the financial support by the European Union in the form of compensation of 50% of the value of MSME investments.

Thus, entrepreneurs in the east of Ukraine demonstrated a high demand and investment potential, which is an important prerequisite for rapid economic restoration and establishment of peace in the east of Ukraine. At the same time, the program achieved its main goal - the economic recovery and development of MSMEs in the region, as well as additional access of MSMEs to financing due to the increase in the number of financing institutions and the volume of operations for financing of MSMEs in the region.

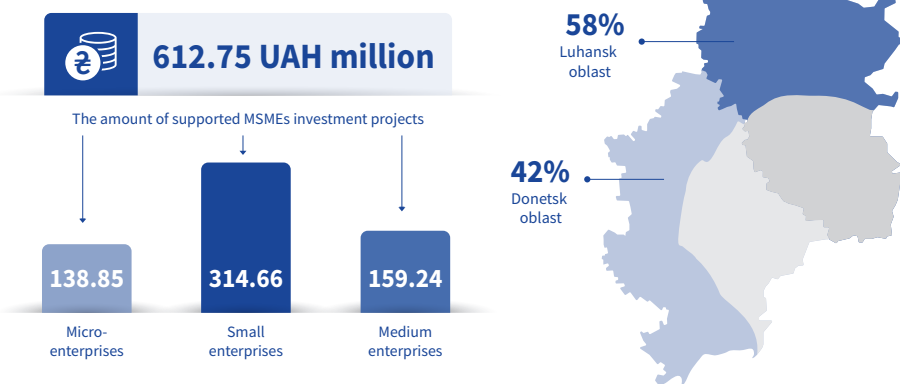
## EU financial contribution for the implementation of an MSME investment project financed by leasing



# RESULTS OF THE PROGRAM

## AS OF 31.12.2021

### 153 MSME investment projects

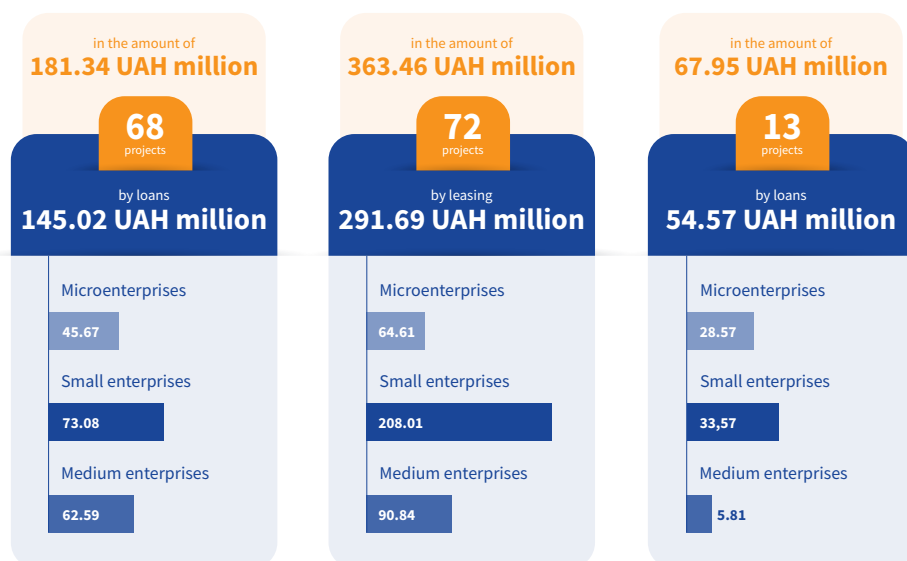


During the two years of implementation of the program, 153 MSME investment projects with a total cost of UAH 612.75 million were financed by partner institutions.

### Scope of activity of MSME program participants

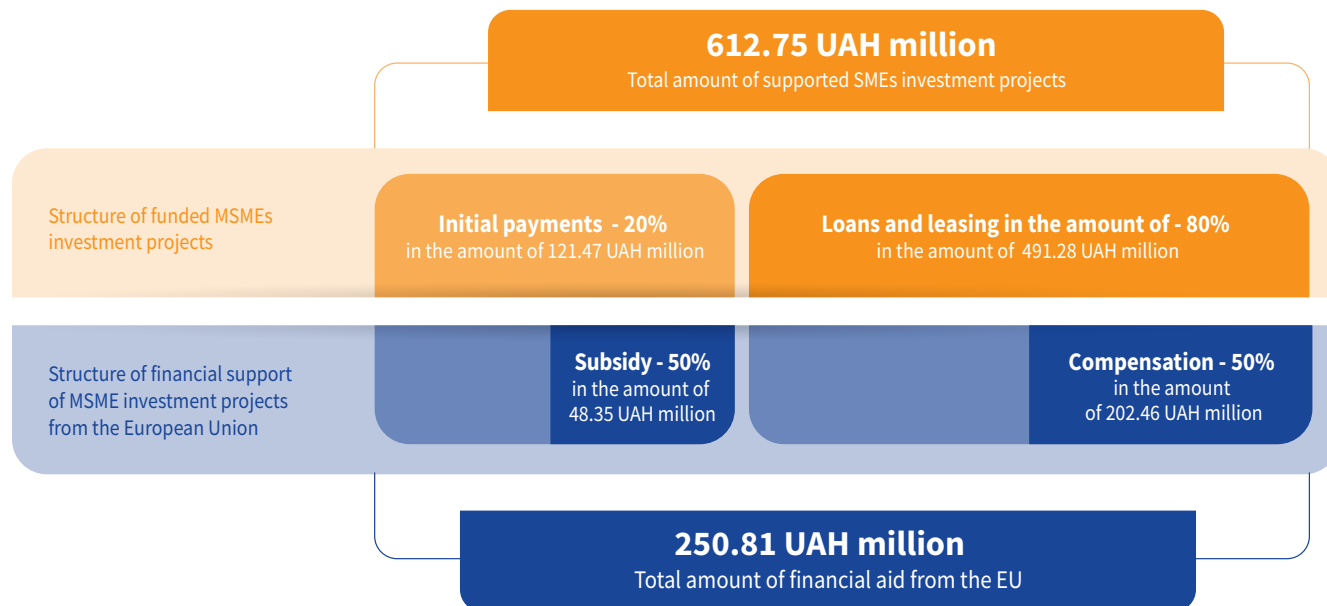


### PARTNER INSTITUTIONS



During the entire period of implementation of the FinancEast program, starting dated December 2019 and ending in December 2021, none of the loan agreements and/or financial leasing agreements with MSMEs was recognized as problematic or hopeless. Repayment of debts under most loan agreements and financial leasing agreements was carried out by MSMEs in a timely manner and according to payment repayment schedules (only certain technical delays were allowed in the repayment of payments by some MSMEs, with their actual payment within 27 calendar days).

## THE AMOUNT OF FINANCIAL AID FOR MSMEs IN EASTERN UKRAINE FROM THE EUROPEAN UNION AS OF 31.12.2021



## DYNAMICS OF INCREASE IN THE NUMBER OF FINANCIAL INSTITUTIONS IN THE REGION LENDING TO MSME AS OF 31.12.2021

During the implementation period of the FinancEast program, the dynamics of the increase in the number of financial institutions in the territories of the Donetsk and Luhansk regions under the control of the Government of Ukraine was observed.

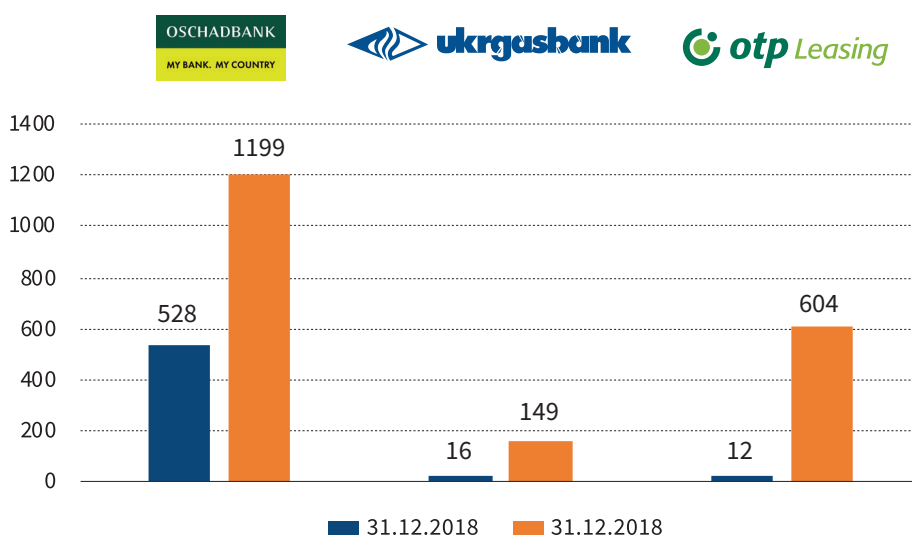


As of 30.06.2021, 11 financial institutions are already actively lending to MSMEs in the region: JCS CB «PRIVATBANK», JSC «OSCHADBANK», JSB «UKRGASBANK», JSC «ALFA BANK», JSC «CREDIT-AGRICOLE BANK», JSC CB «GLOBUS», JSC «MEGABANK», JSC «OTP BANK», PJSC «PROCREDIT BANK», JSC «FUIB» and LLC «OTP LEASING».

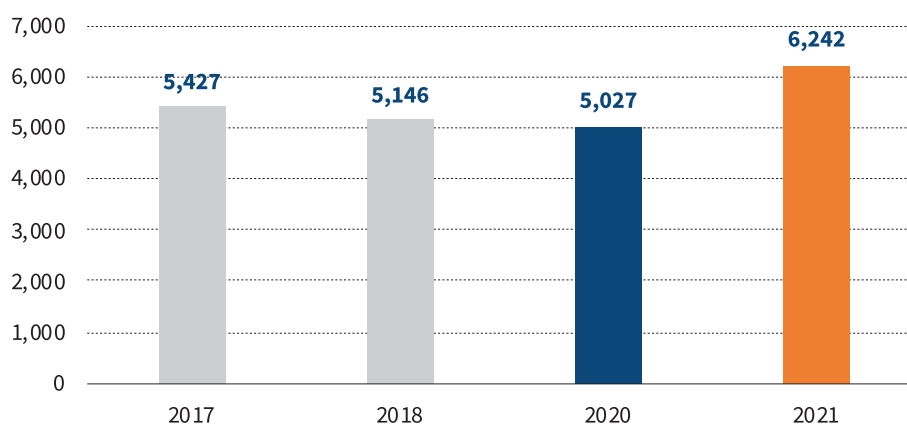
## ACHIEVING THE MAIN GOAL OF THE PROGRAM TO INCREASE THE VOLUME OF FINANCING OF MSMEs IN THE REGION

As of 31.12.2021, the program's partner institutions increased the volume of their operations of financing MSMEs in the region by more than 250% compared to the volume of similar operations as of 31.12.2018. A significant aspect in increasing the volume of financing of MSMEs is the willingness of partner institutions to actively finance not only working capital, but also MSME investment projects.

### Loan portfolios of partner institutions of the MSME Loan program in the region, UAH million

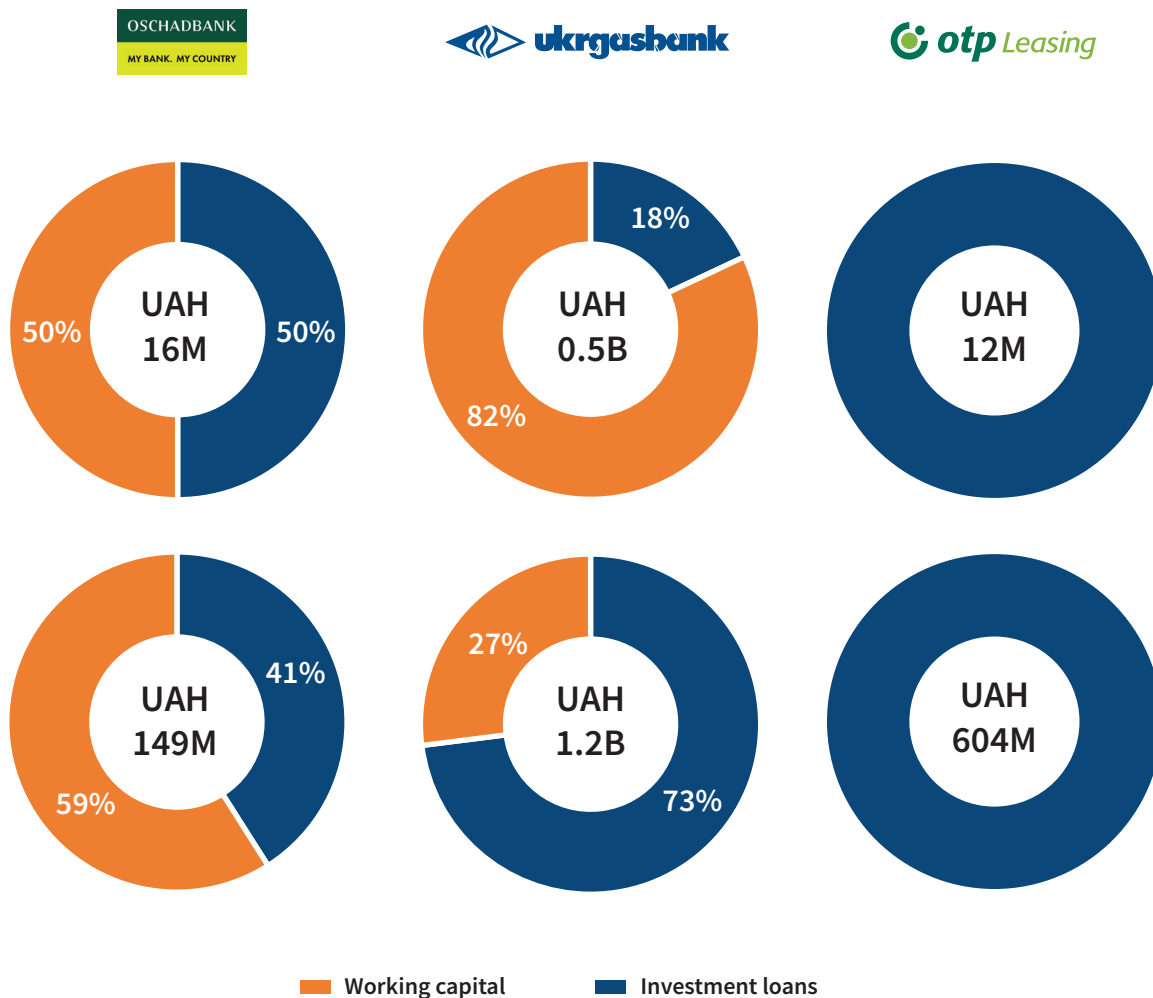


### The total volume of banks' loan portfolios for MSME loans in the region, UAH million





## Structure of loan portfolios of partner institutions of the MSME Loan program in the region by lending purposes



The volume of banks' loan portfolios for MSME loans in the region has constantly decreased until 2020 and new loans to MSMEs were provided at minimal volumes by banks in the region. Since 2020, after the launch of the FinancEast program, the number of banks in the region that actively lend to MSMEs increased. As a result, the rise in the number of banks allowed to significantly increase the volume of lending operations for the financing of MSMEs.

STATE PROGRAM  
«AFFORDABLE MORTGAGE 7%»



On 01.03.2021, at the initiative of the President and the Government of Ukraine, BDF started implementation of the state program for reducing the cost of mortgage loans «Affordable mortgage 7%». This program was developed in accordance with the Provision for reducing the cost of mortgage loans, approved by Resolution of the Cabinet of Ministers of Ukraine dated 24.01.2020 No. 28 (as amended), which is implemented at the expense of financial state support for individuals - citizens of Ukraine - borrowers of mortgage loans.

The program's primary goal is to provide citizens of Ukraine with the opportunity to purchase their own housing with loans and ensure the availability of loan servicing, because the state compensates part of the accrued interest, and the borrower pays only 7% per annum.

At the same time, the implementation of the program involves the execution of other tasks.

Thanks to the program, the Government of Ukraine aims to give support to the faster development of the mortgage lending market with the expansion of the range of banks that provide loans for the purchase of housing both on the primary and secondary real estate markets. An increase in the number of banks will certainly contribute to the revitalization of the mortgage lending market, the growth of competition between them and the reduction of interest rates on mortgage loans, just like with loans to small businesses within the framework of the program «Affordable loans 5-7-9%».

The next goal also pursued by the Government of Ukraine when introducing the program is to provide incentives for the development of the construction industry and increasing the volume of construction of new housing, which will simultaneously result in the development of related industries, and, in the end, contribute to the development and recovery of the entire economy of Ukraine, which has suffered like most world economies from the corona crisis.

The program began to implement its declared goals in the first year of its



activities. The implementation of the program «Affordable mortgage 7%» revived mortgage lending in Ukraine and pushed the market to reduce the market interest rate on loans.

According to bank data, in December 2020 the average mortgage loan rate on the secondary market was 14%, on the primary market - 16.9%. The weighted average mortgage loan rate in 2021 was 15.4% on the primary market and 13.6% on the secondary market. Since the beginning of the year, rates have decreased by 1.5% for the primary market and by 0.3% for the secondary market respectively.

In the course of 2021, 21 authorized banks joined the program and issued loans to the total amount of almost UAH 1.2 billion only within the program «Affordable mortgage 7%», while 1370 Ukrainian families benefited from it. Thus, thanks to the successful implementation of the program, almost 20% of the total number of mortgage loans granted by banks were

issued in nine months, which means that every fifth loan was issued under the program «Affordable mortgage 7%».

**IN OCTOBER 2021, THE GOVERNMENT MADE CHANGES TO THE PROGRAM «AFFORDABLE MORTGAGE 7%», WHICH WAS DUE TO THE DESIRE TO ATTRACT MORE PARTICIPANTS AND MAKE LOANS EVEN MORE ACCESSIBLE TO CITIZENS OF UKRAINE. TO DO THIS, THE EXCESS OF THE STANDARD HOUSING AREA WAS INCREASED FROM 20% TO 40%, ALSO THE TERMS OF PUTTING HOUSING INTO OPERATION WERE INCREASED FROM 3 TO 10 YEARS FOR CITIES WITH OVER A MILLION INHABITANTS, AND THE LIMITATION OF SUCH TERMS WAS REMOVED FOR HOUSING IN OTHER SETTLEMENTS.**

# RESULTS OF THE PROGRAM

## AS OF 01.01.2022

**21**

number of authorized banks

**1 880**

number of applications to participate in the program

**1 370**

number of concluded loan agreements

**1 627**

UAH MILLION  
volume of bids to participate in the program

**1 185**

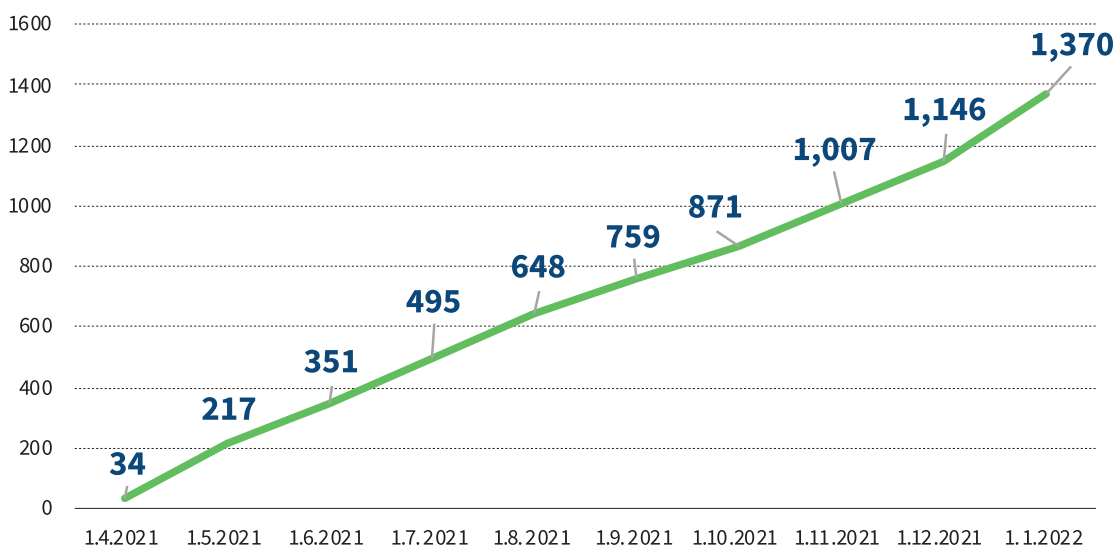
UAH MILLION  
volume of concluded loan agreements

**865 299**

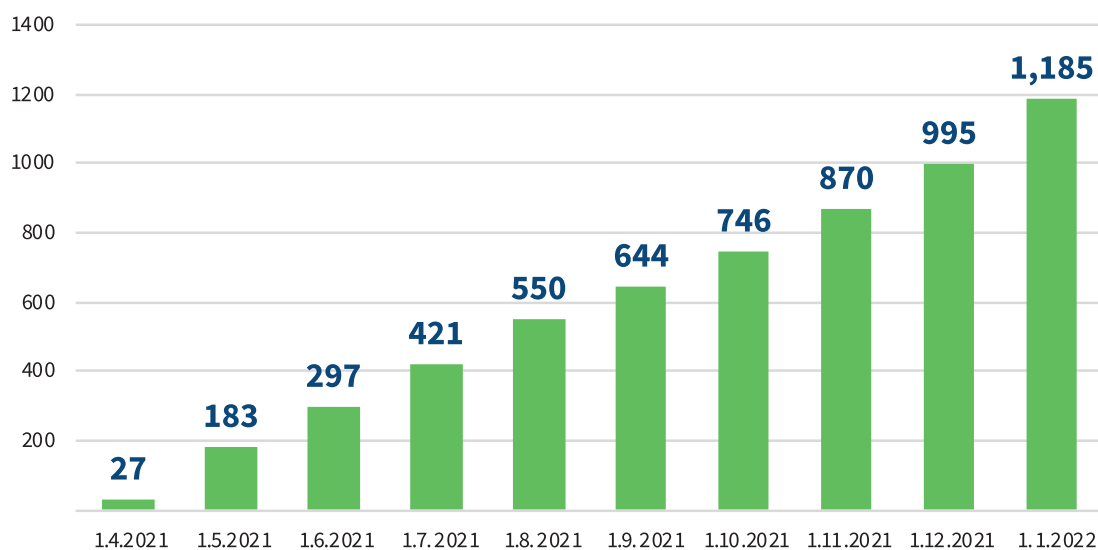
UAH  
average volume of mortgage loan

### DYNAMICS OF LOAN PORTFOLIO UNDER THE PROGRAM

By number of loan agreements

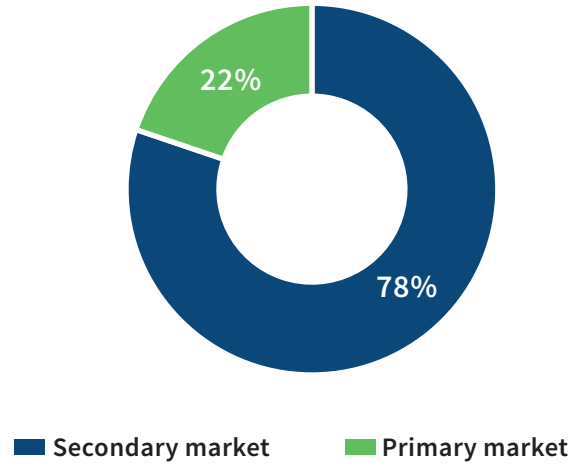


By amount of loan agreements, UAH million



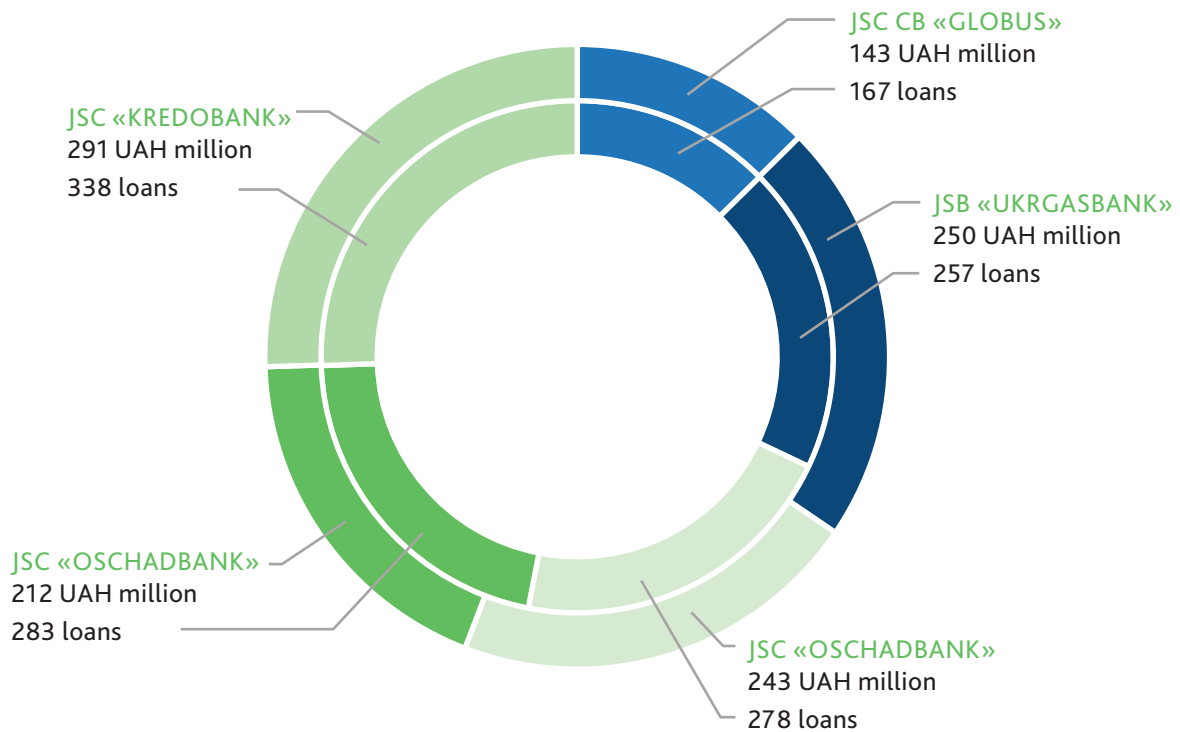
During 2021, the program «Affordable mortgage 7%» demonstrated steady development.

### By residential real estate market



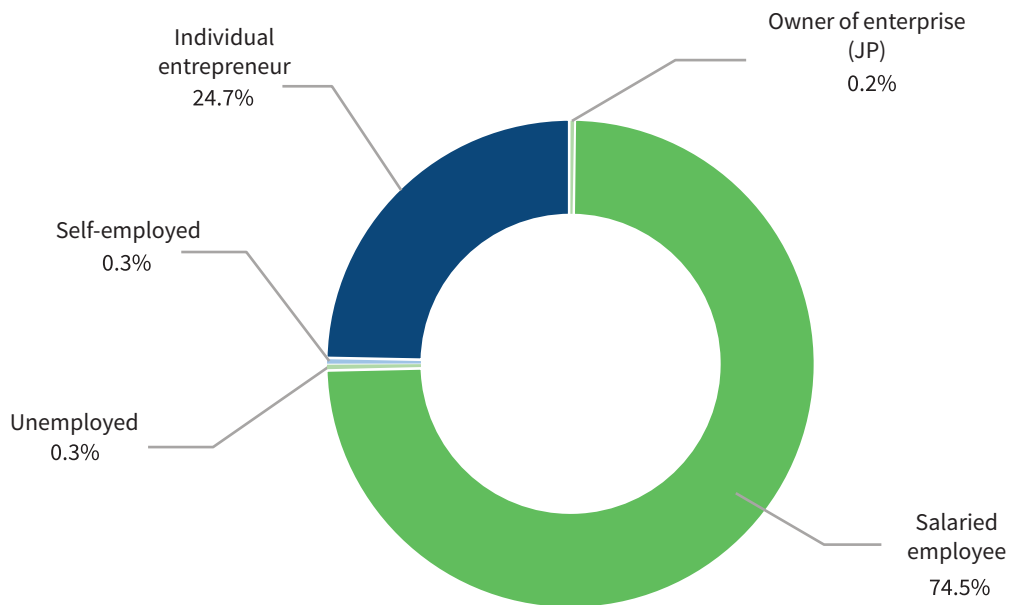
The program «Affordable mortgage 7%» provides support for mortgage loans for the purchase of housing in both the primary and secondary residential real estate markets.

### TOP-5 banks by loan number and volume



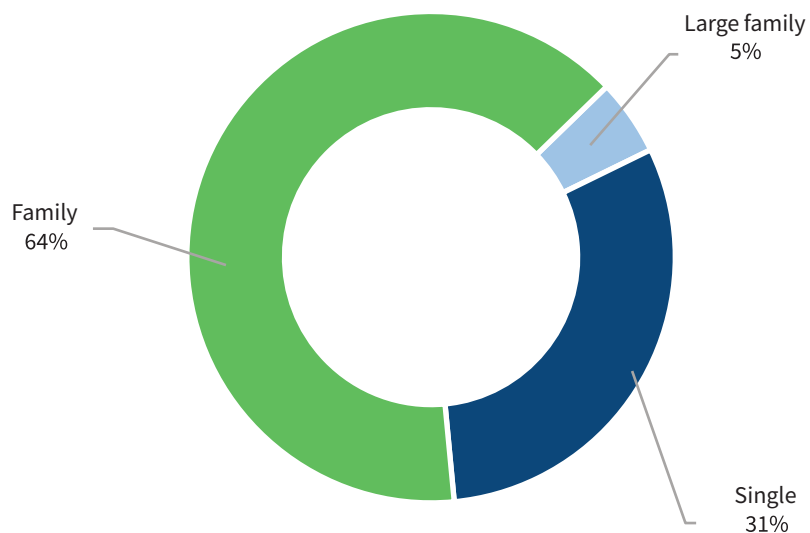


### By type of borrower employment, %



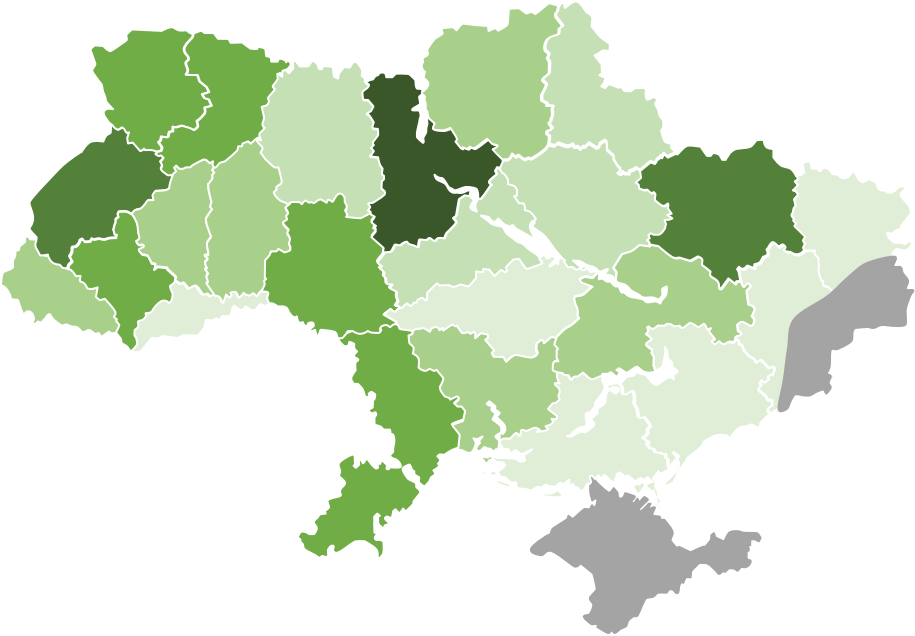
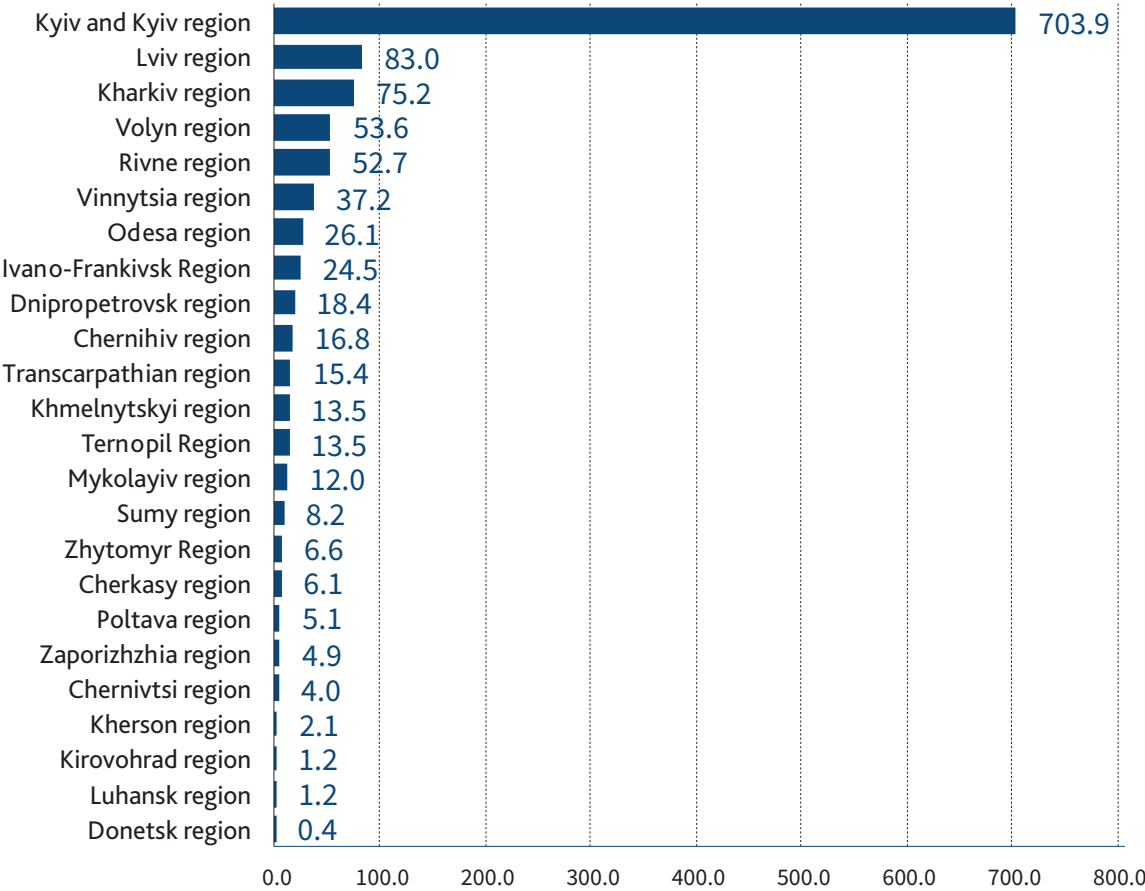
The program became the most popular among citizens of Ukraine who belong to the category of employees, because have a stable and official income. Along with this, a quarter of all subsidized mortgage loans under the program were granted to individual entrepreneurs who carry out official business activities and have the opportunity to confirm their solvency to authorized banks.

### By borrower's family status, %



Ukrainian families with one or two children received the largest number of mortgage loans under the program. According to the results of 2021, the share of large families that became participants in the program amounted to 5%.

### By regions of Ukraine



Thanks to the active participation of authorized banks, which by the results of 2021 numbered 21 banking institutions, and the extensive network of their branches throughout the territory of Ukraine, already in the first year of the implementation of the program, Ukrainian families from all regions of Ukraine, with the exception of temporarily occupied territories, were able to obtain affordable mortgage loans.

STATE PROGRAM «AFFORDABLE  
FINANCIAL LEASING 5-7-9%»



On 21.10.2021, the Business Development Fund started implementing the new state program «Affordable Financial Leasing 5-7-9%» (Leasing program), introduced in accordance with the Provision for providing financial state support to small and medium-sized enterprises under financial leasing contracts.

The development of the new leasing program was carried out by the Business Development Fund in cooperation with experts from the Ministry of Finance of Ukraine, the «Ukrainian Union of Lessors» association, the USAID project «Financial Sector Reform Activity», as well as representatives of leading leasing companies of Ukraine.

The basis for the leasing program was the implementation mechanism of the state program «Affordable Loans 5-7-9%» with use of escrow accounts that leasing companies must open in settlement banks.

The introduction of the new leasing program was determined by the following main factors:

1. Strengthening the investment component of financial state support, as leasing focuses exclusively on financing the main assets of small and medium-sized enterprises, which will contribute to the modernization and growth of capital investments in the economy of Ukraine.
2. Balancing the competitive struggle within the financial market between leasing companies and banks of Ukraine, which received tangible competitive advantages in attracting and serving customers among small and medium-sized enterprises thanks to the state program «Affordable Loans 5-7-9%».
3. Expansion and development of an alternative source of financing for small and medium-sized enterprise investments - financial leasing, which, compared to a bank loan, has a number of significant advantages that are

attractive to small businesses: no need for a collateral, a smaller amount of the company's own contribution, more prompt consideration of the leasing application and signing of the contract.

Thanks to the launch of the leasing program, entrepreneurs of Ukraine will be able to take advantage of all these to re-equip and modernize their production process, which will contribute to faster, high-quality and efficient development of their businesses.



**Ceremonial signing of the first three cooperation agreements between BDF and OTP LEASING LLC, ULF-FINANCE LLC, BEST LEASING LLC, as well as the Memorandum on cooperation between BDF and the «Ukrainian Union of Lessors» association at the Ministry of Finance of Ukraine on 16.12.2022**

## LEASING PROGRAM OBJECTIVES



Strengthening MSME investment activity



Equal competition on the financial market to reduce the cost of MSME financing

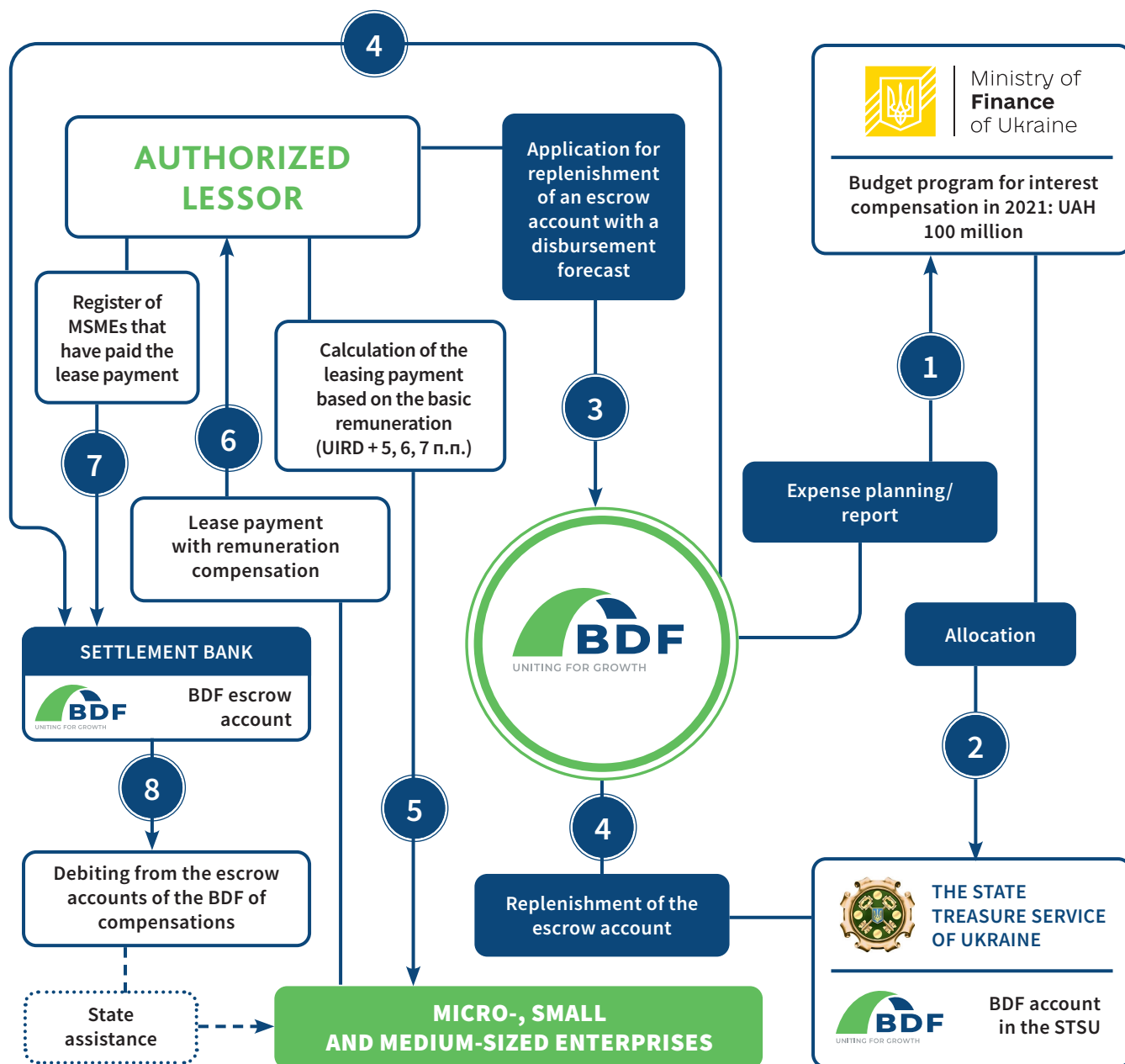


Expansion of alternative sources of financing MSME investments



Simplifying MSME access to financial leasing

## COMPENSATION SCHEME FOR FINANCIAL LEASING CONTRACT



The program «Affordable financial leasing 5-7-9%» was developed on the platform of the program «Affordable loans 5-7-9%» with one main key addition, which is including the settlement bank in the scheme of compensation, which ensures maintaining the BDF escrow account and compensating the reward in favor of MSMEs which have fulfilled their obligations to pay the leasing fee payment which includes compensation.

The following documents were developed for the implementation of the program «Affordable Financial Leasing 5-7-9%»:

1. The procedure for providing financial state support to SMEs under financial leasing contracts approved by the decree of the CMU No. 28 dated 24.01.2020
2. The Business Development Fund's program «Affordable financial leasing 5-7-9%»
3. Templates of the cooperation agreement and the escrow account agreement



# SUCCESS STORIES

THE «FINANCEAST» PROGRAM OF FINANCING OF MSME INVESTMENT PROJECTS IN EASTERN UKRAINE

## LLC TAIFA

Kamianka, Donetsk region

The enterprise grows wheat, corn, sunflower, and peas on the territory of agricultural land with an area of 1,580 hectares. Thanks to the program, "TAIFA" LLC purchased a powerful harvester with a total cost of UAH 5.5 million. "The combine's productivity allows us to cover 45 hectares a day. The best thing is that we do not lose our harvest. This is the first time in 19 years of my work that someone has helped agriculture in eastern Ukraine in this way".



## LLC KORMO-TRANS-LOGISTIC

Mariupol, Donetsk oblast

The company is engaged in transportation of goods and removal of industrial waste. In particular, the company's equipment helps to clean the coast of the Sea of Azov from blast furnace waste of the Azovstal plant. The company learned about the FinancEast program through the partner institution Ukrgasbank. Having prepared all the necessary documents, the company purchased an excavator worth UAH 5.5 million.

JOINT BDF AND LVIV REGIONAL STATE  
ADMINISTRATION PROGRAM ON ADDITIONAL  
INTEREST RATE COMPENSATION TO 0% p.a. FOR  
MSME INVESTMENT LOANS IN THE LVIV REGION  
WITHIN THE PROGRAM «AFFORDABLE LOANS  
5-7-9%»



To increase investment activity and promote the creation of new jobs at micro-, small and medium-sized enterprises in the Lviv Region, the Department of economic policy of Lviv Regional State Administration offered the Business Development Fund to introduce additional stimulating measures within the framework of the state program «Affordable loans 5-7-9%».

To this end, on 07.06.2021, a Memorandum of cooperation was signed between the Lviv Regional State Administration and the Business Development Fund, which included the development and launch of a Joint program on additional interest rate compensation to 0% p.a. for MSME investment loans in the Lviv region (hereinafter - the joint program) within the framework of the state program «Affordable loans 5-7-9%» (hereinafter referred to as the program 5-7-9%).

With the help of the joint program, the local government of the Lviv region aimed to provide additional support to entrepreneurs in the Lviv region, who in difficult times of quarantine restrictions continued to increase capital investment in the region's economy, while also creating new jobs, therefore providing the local regional budget with additional income. The Business Development Fund sought to strengthen the investment activity of MSMEs within the framework of the program 5-7-9%.

To achieve the set goal, during June-July 2021 the work group led by Orest Hryniv, deputy director of Department of economic policy



Ceremonial signing of the agreement on cooperation between Lviv Regional State Administration and BDF, 04.09.2021

of Lviv Regional State Administration, and BDF representatives developed the procedure for additional compensation of part of the interest rate by reducing the compensatory interest rate to 0% p.a. on loans provided by authorized banks to MSMEs within the framework of the state program «Affordable loans 5-7-9%». The specified procedure was approved by the decision of the Lviv Regional Council on 13.07.2021 No. 158 by making appropriate changes to the program of enhancement of the competitiveness of the Lviv region for 2021-2025.

## JOINT PROGRAM'S MAIN GOAL

To strengthen the investment activity of entrepreneurs of the Lviv region and to stimulate the creation of jobs

### JOINT PROGRAM ADVANTAGES

#### For local authorities

direct participation in the program 5-7-9% by introducing an additional support package for local entrepreneurs, taking into account regional development priorities

#### For entrepreneurs of the Lviv region

- affordable loans to finance investment projects
- anti-COVID support
- partial reimbursement of new job creation costs by the state

#### For authorized banks

an additional incentive to attract new and existing entrepreneurs who are planning to implement investment projects

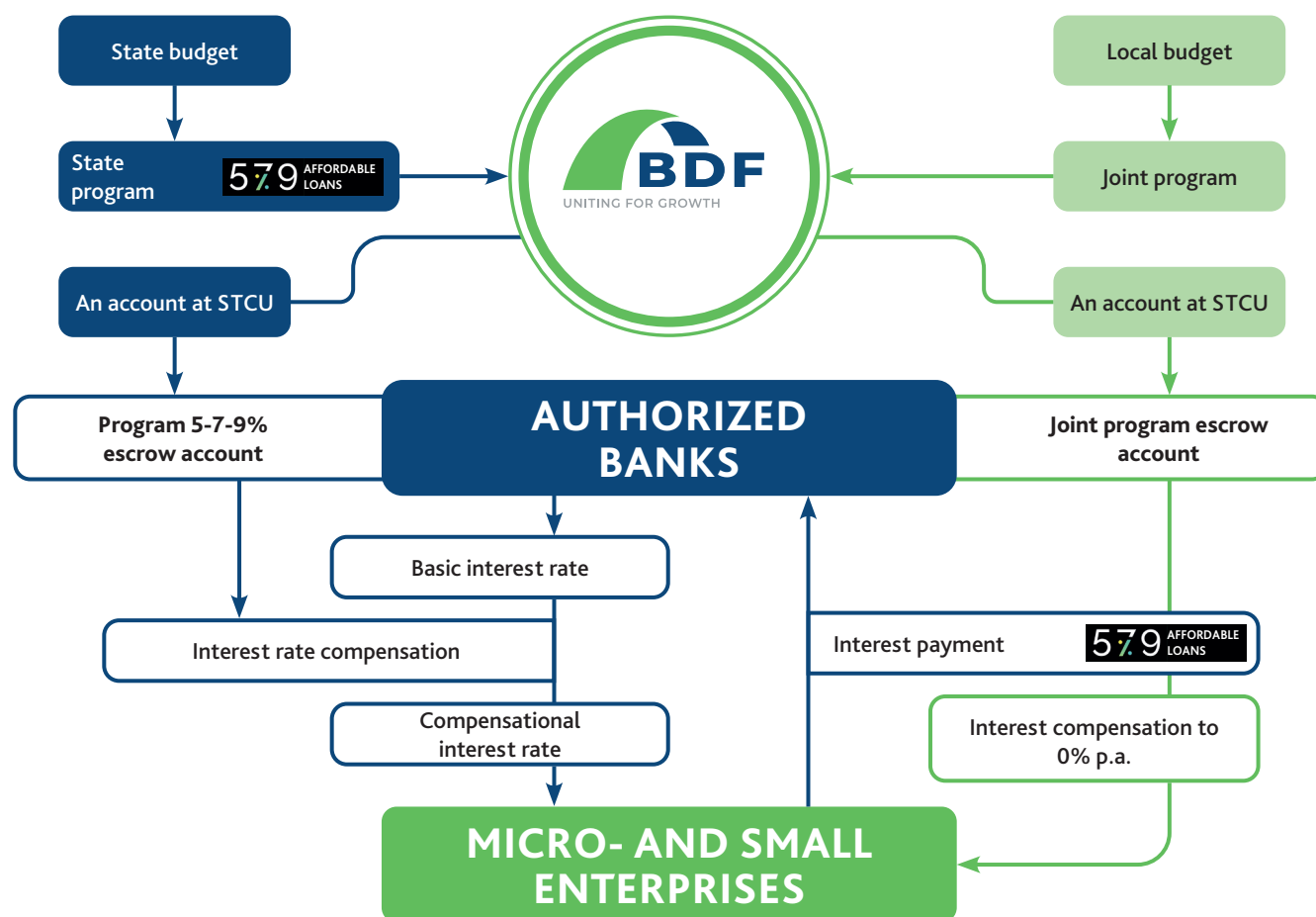
### RESULTS

Strengthening the region's investment attractiveness

Increasing business transparency

Building trust between businesses and local government

## IMPLEMENTATION SCHEME



The implementation scheme of the Joint program in accordance with the agreed position of Lviv Regional State Administration and BDF was fully integrated with the implementation mechanism of the state program «Affordable loans 5-7-9%», and the Business Development Fund provided its full support.

Thanks to this joint decision, the following advantages were possible to achieve:

- Unification of funds from the state and local budget, which allowed to increase the amount of state support for entrepreneurs who belong to the target group in accordance with the Strategy and development priorities of the region.
- Direct participation of local authorities in the program 5-7-9% with the possibility of increasing support to MSMEs, which are a priority for the development of the region.
- Minimization of local authorities' administrative costs, since the Fund carried out all functions in support of the Joint program within the framework of the current implementation mechanism of the program 5-7-9% and agreements on cooperation with authorized banks. Therefore, Lviv State Administration did not need to conclude additional contracts with authorized banks.
- Minimization of authorized banks' administrative costs, since they continued to interact with BDF within the agreed procedures and

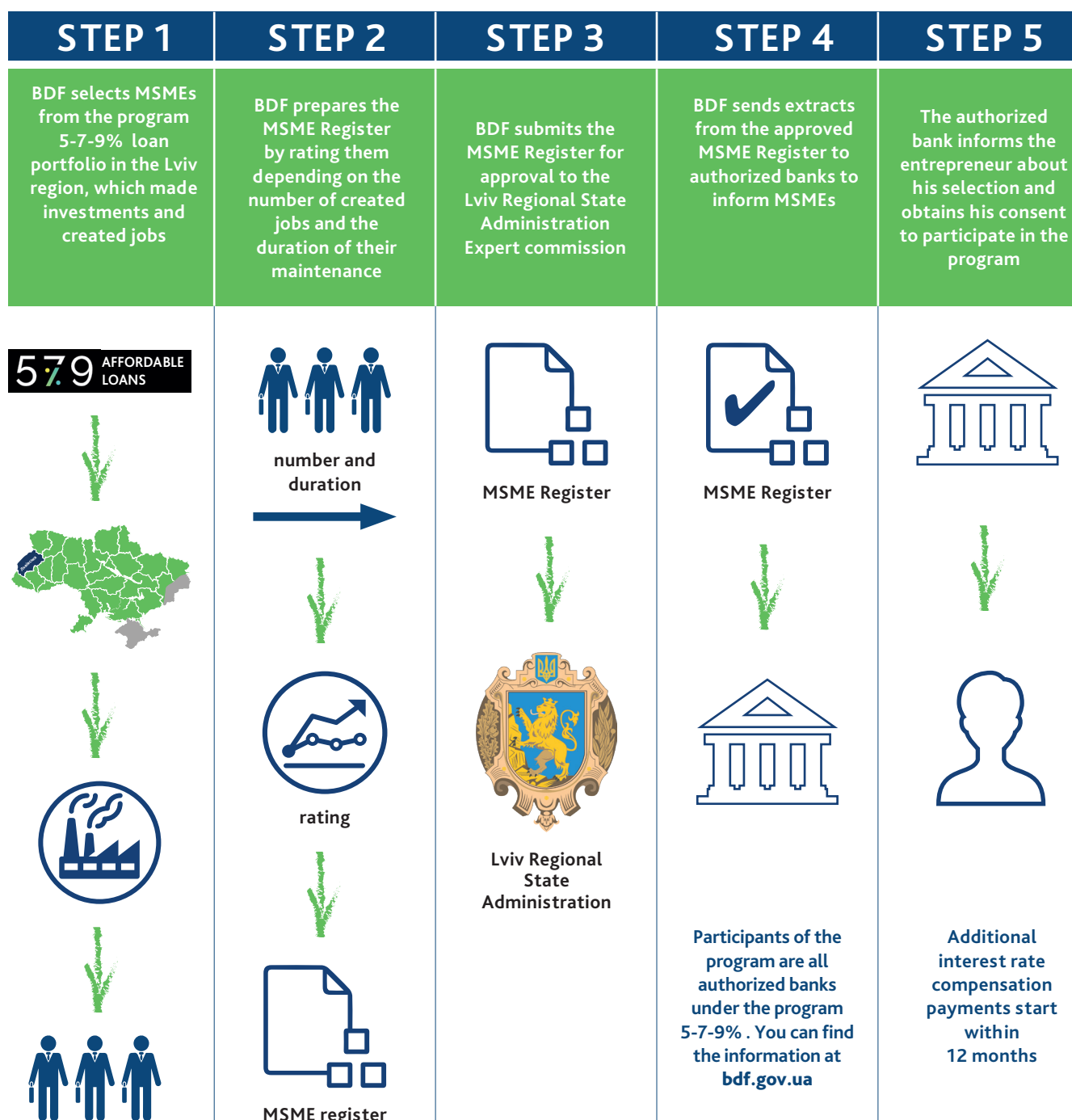
processes on all operational issues of the Joint program.

Thus, within the framework of the Joint program, the main issues related to its defined conditions and criteria for the selection of participating MSMEs were determined by the local government - Lviv Regional State Administration, and all technical issues related to MSME selection and rating, and the implementation of state support payments were provided by the Business Development Fund based on established mechanisms and procedures.

Thanks to the use of the current implementation mechanism of the program 5-7-9% , Lviv Regional State Administration and the Business Development Fund managed to develop and launch the Joint program in record time, because on 04.09.2021, Entrepreneur's Day, it was already shown to the representatives of small and medium-sized enterprises of the Lviv Region, who in September received state support funds on their accounts through authorized banks. The program 5-7-9% is open to all regions of Ukraine. For this purpose the Government of Ukraine in 2021 made appropriate changes to the Provision for providing financial state support to business entities, approved by a decree of the CMU of 24.01.2020 No. 28, which allowed for the possibility of combining the program 5-7-9% with regional programs of support to small businesses in Ukraine.



## MSME SELECTION PROCEDURE



Just like the program 5-7-9% , the Joint program promotes trust and transparency in the relationships between local government and local businesses, as additional state support is, in fact, state reimbursement of the entrepreneurs' costs for creating and maintaining jobs, as well as an increase in capitalization and modernization of the economy of the region.

Such state support is especially important and valuable for entrepreneurs in crisis periods, since it strengthens the entrepreneurs' ability to withstand crises, and thus creates a reliable foundation for the stability of the economy of the entire region, which is especially important during the war that Ukraine is currently experiencing.



## Share of the Joint program in the Investment component of the program 5-7-9% in the Lviv region



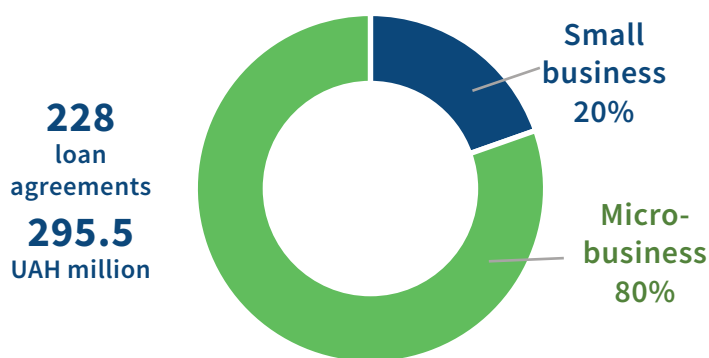
In terms of the Investment component of the program «Affordable loans 5-7-9%», authorized banks in the Lviv region concluded 628 loan agreements to the total amount of UAH 741.8 million as of 01.01.2022.

According to the conditions and criteria for participation in the Joint program, its participants are entrepreneurs who, along with the implementation of the investment project, created and maintained new jobs during the corona crisis.

Of the total volume of investment loans to MSMEs in the Lviv region, the Joint program accounted for 228 MSME loan agreements to a total amount of UAH 295.5 million, which is 40% of the total volume of the Investment component of the program 5-7-9% .

Thus, state support provided by local authorities became, in fact, a reward and partial reimbursement to entrepreneurs of the Lviv region for the cost of creating and maintaining jobs in the region.

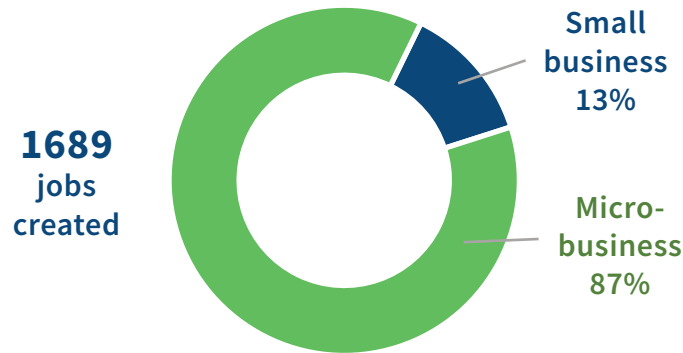
## Joint program loan portfolio structure by types of enterprises, %



A pleasant discovery of the Joint program was the fact that 80% of the loans which received additional state support were targeted for financing investment projects of micro-borrowers, which in view of their specific features related to the asymmetry of financial information, the lack of sufficient provision and the required level of financial literacy are much more time-consuming and the least profitable for banks when conducting loan operations.

The exclusive presence of micro- and small businesses in the Joint program speaks of the efficiency of incentive measures of state support, which had an impact on and oriented banks to the necessary target audience of borrowers. It also testifies to the availability of efficient systems, procedures and technologies of microlending in authorized banks, which were attracted in full thanks to state support.

### Number of jobs created within the framework of the Joint program by types of enterprises, %

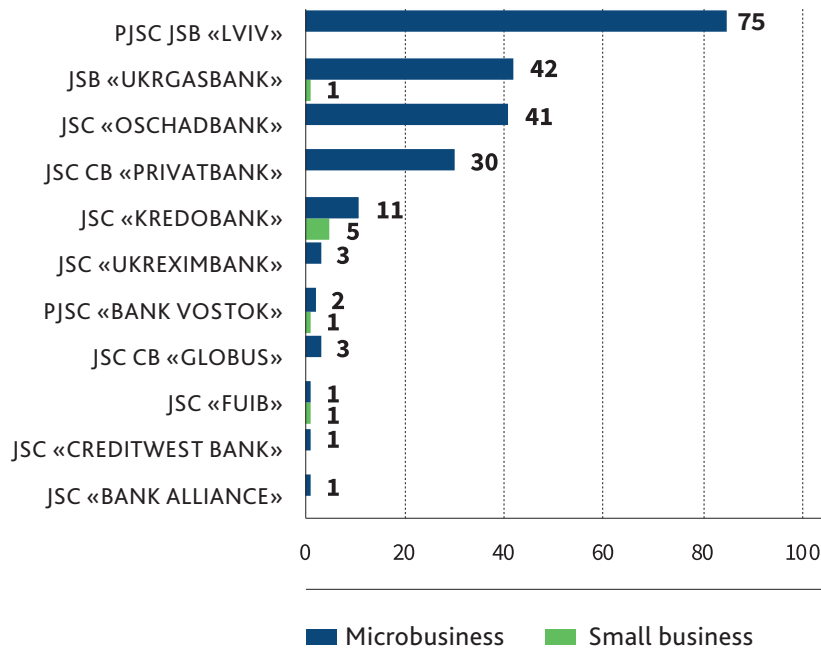


The next pleasant discovery about the Joint program, as well as the Investment component of the program 5-7-9% in the Lviv region, was the fact that nearly 90% of all created jobs were provided at the expense of microenterprises.

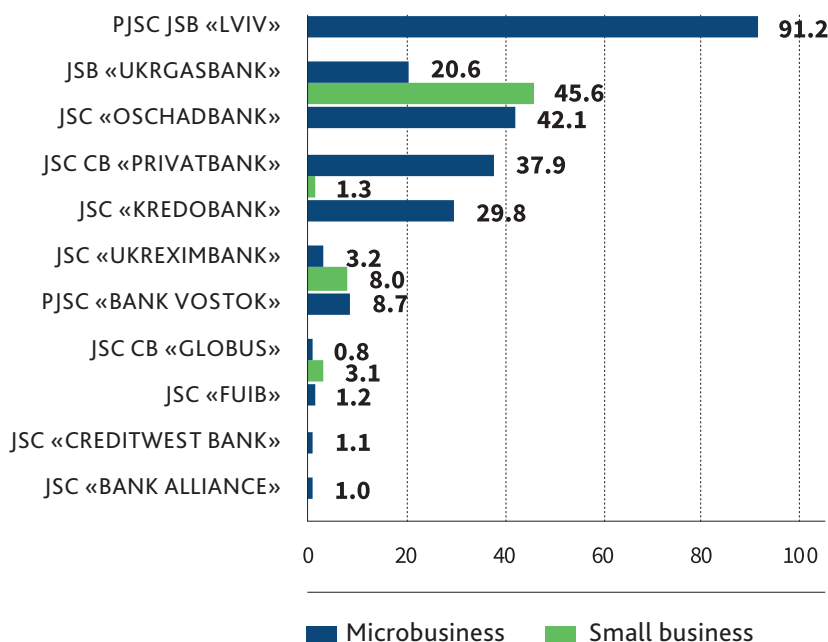
Such a result of the Joint program is explained by the fact that microentrepreneurs while investing in the expansion of their

economic activity increase the number of employees, as the production process in microenterprises is not usually fully automated, so certain production cycles should be provided with additional workers, unlike small and medium-sized enterprises, which mostly have an automated production process, and therefore, modernization or purchase of new equipment, on the contrary, leads to a reduction in personnel.

### Number of MSME loan agreements within the framework of the Joint program by banks



## Volume of MSMEs loan agreements within the framework of the Joint program by banks, UAH million



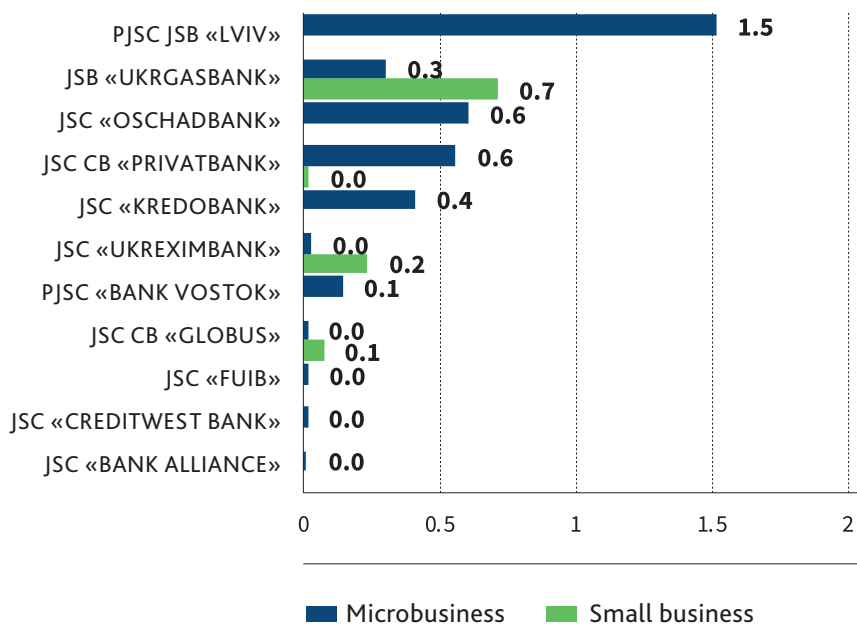
According to the chosen implementation mechanism of the Joint program, which is based on and combined with the state program «Affordable loans 5-7-9%», all active authorized banks immediately became potential participants, but the agreements on cooperation were signed primarily with those that financed MSME investment projects in the Lviv region which led to the creation of new jobs within the framework of the program 5-7-9%.

That is, in order to acquire the status of a participant of the Joint program, an authorized bank must finance an MSME investment project, which in the future will allow to create new jobs.

**Thus, one more important feature of the Joint program should be noted, which is attracting financial resources to the region for the implementation of capital investments achieved by local authorities thanks to the creation of more attractive lending conditions to MSME investment projects compared to other regions of Ukraine.**

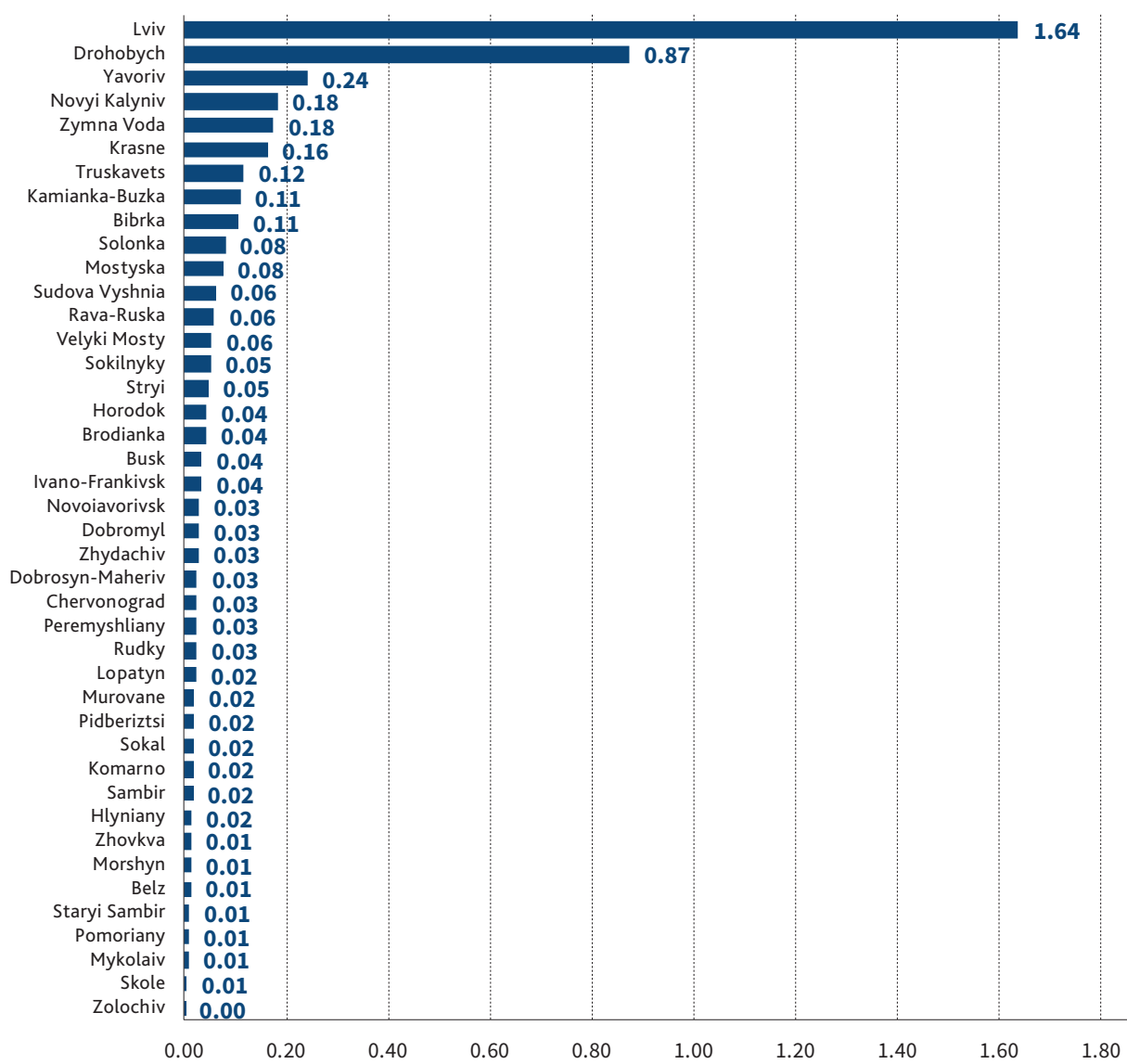
This is confirmed by the fact that after the official launch of the Joint program on 04.09.2022, a significant number of authorized banks that did not become its active participants, through their branches in the Lviv region began to actively offer loan resources for the implementation of MSME investment projects, which may be implemented in combination with state support funds.

## Volume of provided state support to MSMEs within the framework of the Joint program by banks, UAH million



At the time of the launch of the Joint program, 11 authorized banks became its participants. The most active among them were: regional banks - JSB LVIV and JSC KREDOBANK, as well as state banks - JSC «OSCHADBANK», JSB «UKRGASBANK» and JSC CB «PRIVATBANK». At the same time, it is worth noting that the list of participating banks of the joint program is constantly changing just as the list of MSMEs to which they provide investment loans, as a result of their quarterly rating depending on the number of created jobs and the duration of their maintenance. Thus, **to participate in the Joint program, authorized banks must constantly search for and lend to promising MSME investment projects while entrepreneurs must ensure their efficient implementation by creating and maintaining jobs.**

## Volume of state support provided to MSMEs within the framework of the Joint program by territorial communities, UAH million



Within the framework of the Joint program, entrepreneurs from the majority of the Lviv territorial community were supported.

The most active were MSMEs from Lviv, Drohobych and Yavoriv territorial communities.

It is important to note that the Lviv territorial community allocated funds from its own budget for financing additional interest rate compensation payments on loans for its entrepreneurs.

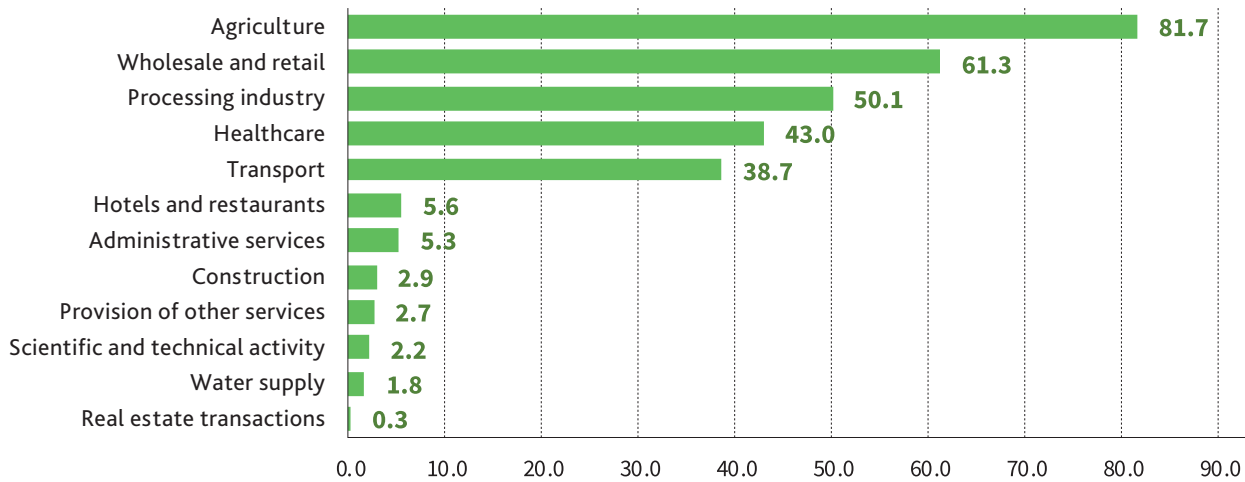
Using the Lviv territorial community as an example, the regional authorities planned to involve other territorial communities whose

entrepreneurs received the largest volumes of state support from the regional budget in partial financing from the Joint program.

Thanks to this approach, more active and profitable territorial communities could provide support to their entrepreneurs with their own budget funds, and the regional budget could be used to develop entrepreneurship in less active territorial communities.

That is why, the authorities of the Lviv region sought to ensure a more uniform development of all territorial communities of the region. However, the military aggression against Ukraine put a stop to these plans, which, however, will certainly be implemented after the joint Victory and for the reconstruction of Ukraine.

### Volume of MSME loan contracts within the framework of the Joint program by types of economic activity, UAH million



Presentation of the Joint program by representatives of Lviv Regional State Administration and BDF to Lviv region businessmen on Entrepreneur's Day - 2021.



# SUCCESS STORIES

OF SME INVESTMENT SUPPORT PROGRAM

## Company MebliOR Drohobych, Lviv region

It is engaged in the production of cabinet furniture: kitchens, sliding wardrobes, furniture for health centres and hotels. "We realised that it is not profitable for us to buy plates from other manufacturers, and wanted to expand our production. So we needed new equipment. Thanks to this programme, we were able to buy an edge bander and formatting machine. And now we have the opportunity to develop".



## LLC HOROST-PODILLYA Matskivtsi, Khmelnytsky region

For 19 years, they have been growing grain, leguminous and oilseed crops on 2,100 hectares of land. Every spring, the farm faces the problem of purchasing protection and fertilizers for the fields. Thanks to the program LLC bought crop protection products and fertilizers about UAH 9 million.

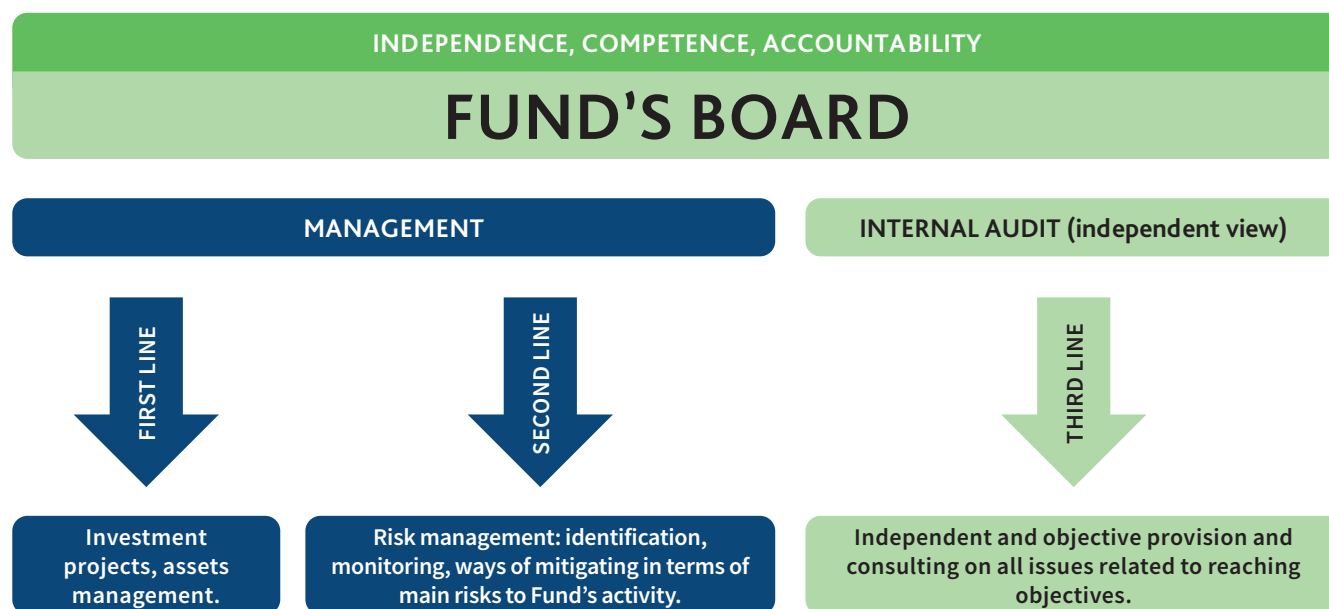
# BDF'S RISK MANAGEMENT POLICY



# IMPLEMENTATION OF THE PRINCIPLES OF A RISK-ORIENTED APPROACH



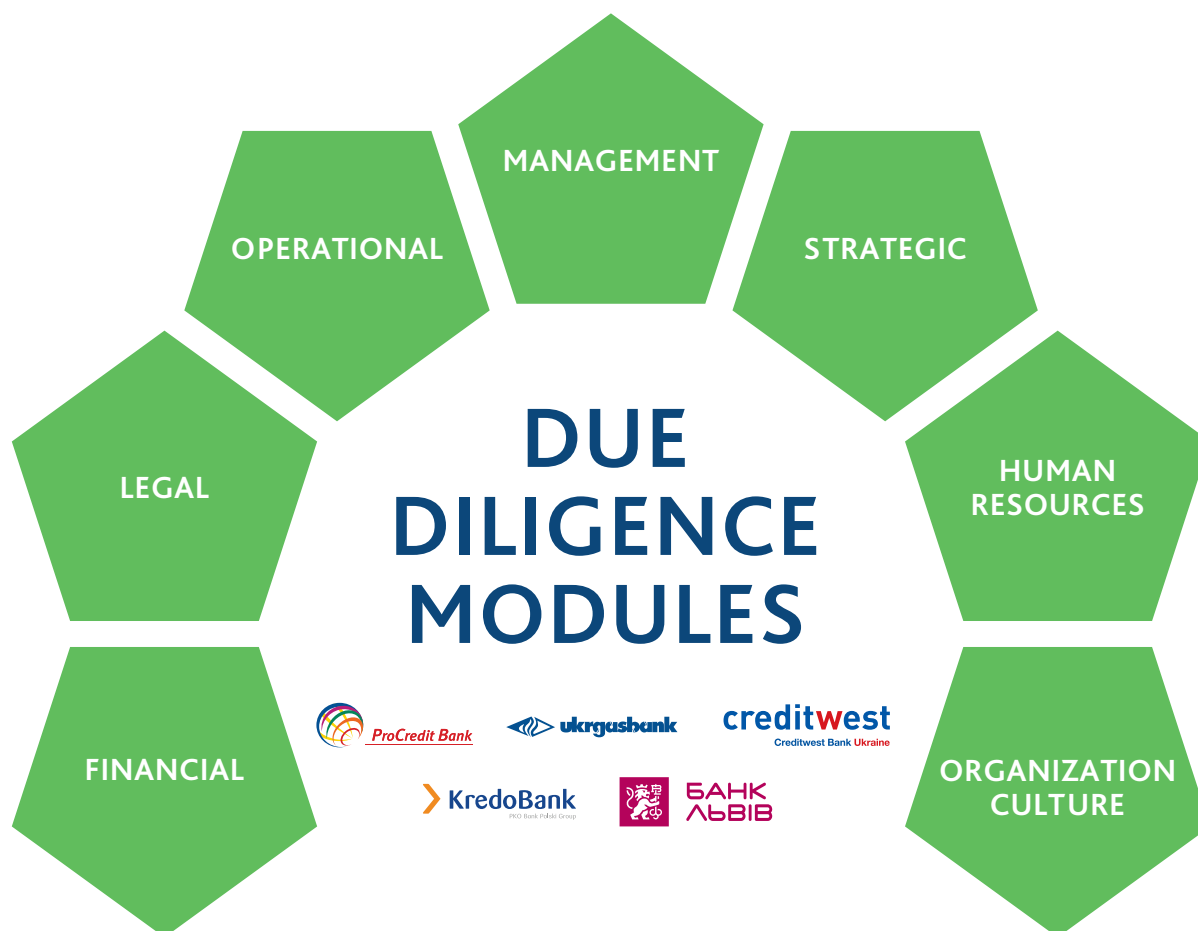
## THREE LINE MODEL. ROLE OF INTERNAL CONTROL SYSTEM



# INTERACTION WITH BDF's PARTNER BANKS



## IN 2021, DUE DILIGENCE OF BDF'S PARTNER BANKS WAS CONDUCTED



In terms of updating investment proposals for issuing new loans, due diligence was conducted in 6 partner banks. Based on its results, these partners have the following level financing in BDF's loan portfolio:

JSC «PROCREDIT BANK» - 7.2%  
 JSB «UKRGASBANK» - 25.9%  
 JSC «CREDITWEST BANK» - 7.3%  
 JSC «KREDOBANK» - 6.6%  
 PJSC JSB «LVIV» – 20.15%

### Structure of issued collateral for Fund's loans:

International company guarantee (investment grade) – 8.8%  
 Domestic government bonds – 79.9%  
 Property rights claims under sub-loan agreements – 38.9%

**The overall level of security of the BDF loan portfolio is 127.6%**

### Note:

**Partner bank** is a banking institution participating in BDF loan programs

**Authorized bank or partner institution** is a banking or financial institution participating in BDF state or international subsidy/compensation programs



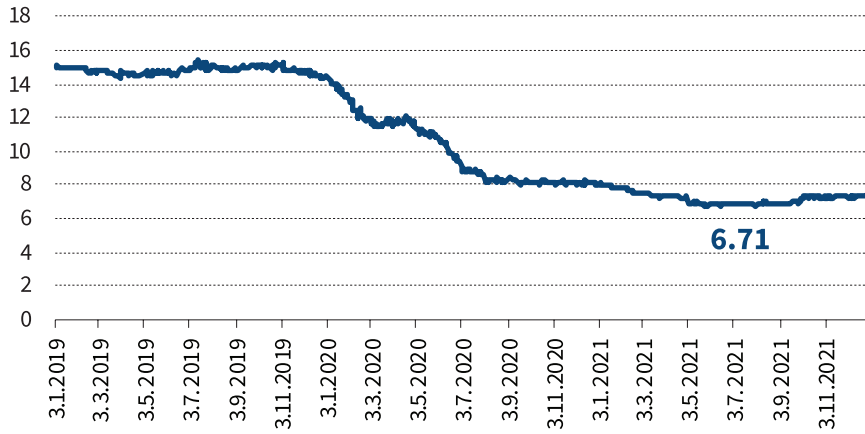
# MAIN INDICATORS OF THE FUND'S ACTIVITY IN 2021

BDF's own capital, EUR million



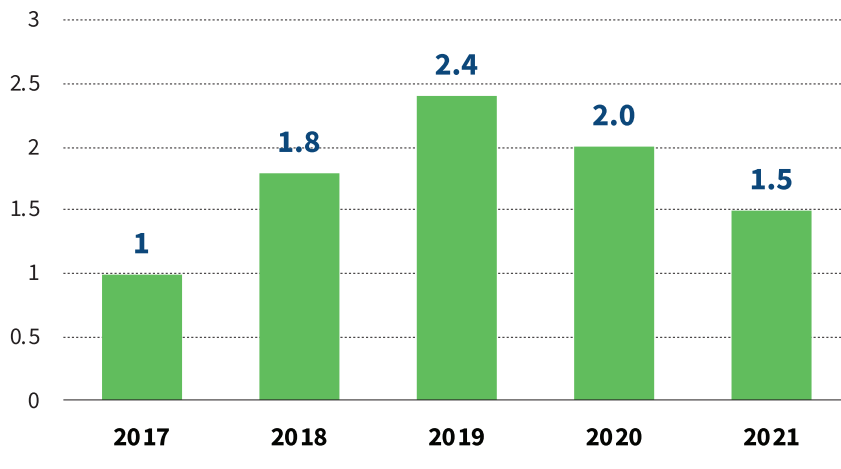
According to the results of 2021, the Fund's equity did not undergo significant changes, amounting to EUR 53.3 million.

### Increase of the UIRD index (3 months) 2019-2021



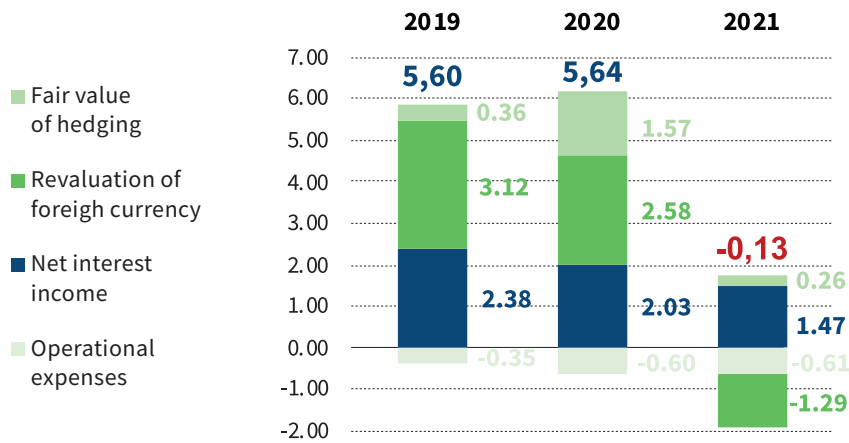
In 2021, there was a downward trend of the UIRD index (3 months), falling to a minimum level of 6.71% per annum, which had a negative impact on BDF's interest income.

### Net interest income, EUR million



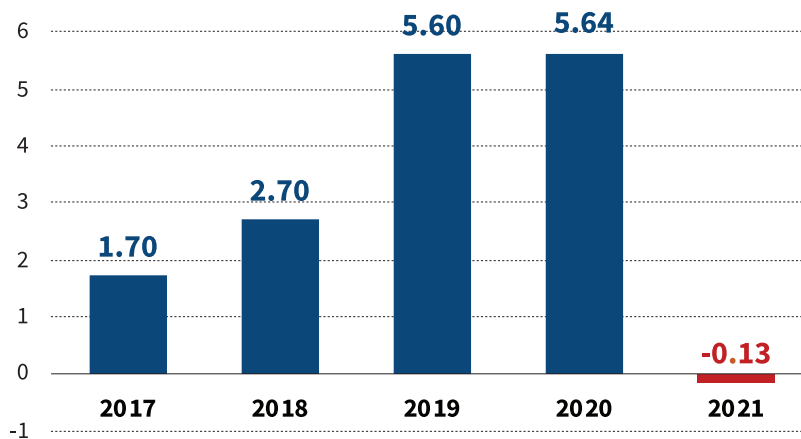
The decrease in net interest income was caused by the continuing trend of the UIRD index reduction, which is the basis for calculating interest rates on the Fund's loans in national currency.

### Structure of net profit/loss from loan operations, EUR million



Increase in costs of foreign currency revaluation and decrease in the instrument of fair value of hedging of BDF's exchange losses against the background of a reduction in the net interest income caused a loss from loan operations in the amount of EUR 0.134 million.

### Net profit/loss from loan operations, EUR million



In 2022, BDF received a compensation for currency losses in the amount of EUR 1.4 million from the EU, which made it possible to partially compensate the loss from loan operations to continue lending to MSMEs in national currency.

# SUCCESS STORIES

OF SME INVESTMENT SUPPORT PROGRAM

## NYVA FARM

Chernykhivtsi, Ternopil region

It is engaged in the cultivation of both oil and grain crops on 1,300 hectares of land. After learning about the program, the farm prepared an application for an investment project and, as a result, purchased a powerful German-made combine harvester. "This harvester has greater productivity and will help us to harvest the crops faster in the future."



## OLEKSIUK DENTISTRY

Ternopil

For 12 years, it has been providing Ukrainians not only with healthy smiles, but also with work - in the company's permanent staff of up to 30 people. Thanks to the program, the clinic purchased two Ukrainian-made dental chairs and a top-quality sterilization device. And in the fall of 2020, Oleksiuk Dentistry began accepting patients in the new centre.

# BUSINESS DEVELOPMENT FUND'S 2021 FINANCIAL STATEMENT

## FINANCIAL STATEMENT AS OF 31.12.2021, EUR

Assets	2021	2020
Cash and cash equivalents	63 077 243	48 173 057
Loans to banks	38 865 932	39 252 846
Non-current assets	14 069	6 736
Right-of-use leased property assets	77 428	180
Loan commitment fee	378	
Guarantee fee	35 600	7 342
Derivative financial tool	2 386 257	3 525 450
Accounts receivable under Grant	27 980	47 360
Amount of losses from exchange rate fluctuations to be reimbursed	1 400 488	64 250
Prepayment for services	755	672
Future expenses	2 216	91 077 893
Accounts receivable under the program	5 160	
FinancEast (Consulting Agreement)	105 893 506	
<b>Total assets</b>		
<b>Liabilities</b>		
Loans received	15 746 000	15 974 000
Remuneration for administration	-	116 794
Grant received from KfW under the FinancEast program	47 972	1 865 163
Grant received under the program 5-7-9%	33 741 864	31 124 541
Reserve for guarantees provided under the program 5-7-9%	763 968	471 084
Securing future payments	21 271	983
Accounts payable under the FinancEast program under Grant	3 905	22 175
Grant received under Regional program with the Lviv Regional State Administration	84 150	49 574 740
Grant received under the program «Affordable mortgage 7%»	5 601 854	
Grant received under the program «Affordable financial leasing»	3 233 881	
Lease liabilities	72 725	
VAT calculations	256	
<b>Total liabilities</b>	59 317 846	49 574 740
<b>Equity</b>		
Capital	28 881 092	28 881 092
Additional capital	6 397 682	6 135 502
Retained earnings	17 985 640	18 181 369
Total equity	53 264 414	53 197 963
Translational differences	-6 688 754	(11 694 810)
<b>Total liabilities, equity and translational differences</b>	105 893 506	91 077 893



	2021	2020
Interest income	1 624 488	2 195 210
Interest expenses	-159 170	-161 450
Net interest income	1 465 318	2 033 760
Provision for loan impairment	662	1 447
Reserve for provided guarantees	-211 775	-478 096
Net interest income after deducting the reserve for loan impairment	1 254 205	1 557 111
Commission income	152 455	38 269
Gains minus losses from foreign currency revaluation	(1 310 356)	3 081 168
Grant's revaluation (discount) in the amount of foreign currency account revaluation	22 104	(499 131)
Other operating income	6 024	5 305
Income from the recognition (change) in the fair value of a derivative financial instrument	261 295	1 569 561
Operating costs	-614 548	-601 060
Gains from the Grant implementation	122 731 041	18 833 553
Expenses from the Grant implementation	-122 697 949	(18 839 985)
Profit before tax	195 729	5 144 791
Net profit (loss)	195 729	5 144 791
Other comprehensive income and loss	-	-
<b>Total aggregate profits and losses for the year</b>	<b>-195 729</b>	<b>5 144 791</b>

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**FOR GROWTH, VICTORY**  
**AND RECONSTRUCTION!**





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