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MINISTRY OF  
FINANCE OF  
UKRAINE



Business Development Fund  
Performance results

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# ANNUAL REPORT 2020



The photo was taken in the fields of Luhansk oblast within the framework of «FinancEast» Program

The background is a solid green color with several large, overlapping, semi-transparent curved shapes in a lighter shade of green, creating a modern, abstract design.

2020  
ANNUAL REPORT  
**CONTENT**

<b>1. Address by Business Development Fund Board and Management representatives</b>	<b>4</b>
<b>2. Establishment of Business Development Fund on the basis of German-Ukrainian Fund</b>	<b>6</b>
<b>3. Business Development Fund’s funding programs for micro, small and medium-sized enterprises</b>	<b>8</b>
3.1 Loan programs	10
3.2 State Program «Affordable Loans 5-7-9%»	26
3.2.1. Interest rates compensation	29
3.2.2 Loan guarantees	43
3.3. «FinancEast» program	46
<b>4. Expansion of Business Development Fund’s circle of partner banks</b>	<b>51</b>
<b>5. Closure of the advisory component of the SME Support Program</b>	<b>52</b>
<b>6. Business Development Fund’s communication activities</b>	<b>56</b>
<b>7. Business Development Fund’s 2020 financial statement</b>	<b>60</b>

## ADDRESS BY BUSINESS DEVELOPMENT FUND BOARD AND MANAGEMENT REPRESENTATIVES



### SERGIY MARCHENKO

Minister of Finance

One of the main tasks of the Ministry of Finance of Ukraine and the Government in general is to form the effective state policy promoting business development. We place great emphasis on the development of micro-, small and medium-sized enterprises (MSMEs), as they reflect the welfare of the majority of our citizens and their social stability.

2020 was a difficult year for most economies, including developed countries. Quarantine restrictions that were introduced to overcome the negative consequences of the COVID-19 pandemic, dealt a tangible blow to business activity, especially to MSMEs, which had been forced to temporarily suspend their activities.

In order to mitigate the negative effects of quarantine restrictions in European and other countries, government agencies that support financing to MSMEs developed assistance programs.

In Ukraine, the Business Development Fund has become such assisting institution. The fund was created in 2020 on the basis of the German-Ukrainian Fund which supporting small Ukrainian businesses since 1996. Now it is managed by the Government of Ukraine, represented by the Ministry of Finance of Ukraine.

To support businesses during these difficult pandemic times, the state program "Affordable loans 5-7-9%" initiated by the President and the Government of Ukraine was launched in February 2020.

The purpose of the program is to develop and support MSME investments. Since April, with the onset of the COVID-19 pandemic, it has become a platform to timely deploy a set of anti-crisis measures.

These measures included support of short-term liquidity of MSMEs affected by the quarantine restrictions at the expense of Ukraine's budget. Moreover, the financial burden on entrepreneurs has been reduced due to a full compensation of interest rates on existing loans of MSMEs. In 2020, the volume of funding for the program amounted to UAH 2 billion, including 500 million into the Fund's capital, enabling new tool – the portfolio guarantees to MSMEs.

Due to the state Program "Affordable loans 5-7-9%" we have succeeded in supporting thousands of micro- and small entrepreneurs in the total amount of UAH 17.4 billion.

I am confident that the implemented measures helped to restore trust and cooperation between the State and the private sector.



### YURIY DRAGANCHUK

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

The Business Development Fund has had a significant impact on the development of small business lending in Ukraine. As of January 1, 2021, the total amount of financial support for small business in Ukraine amounted to almost UAH 48 billion.

Since 1996, Ukrainian entrepreneurs have received 163,991 loans totaling UAH 29.3 billion under implemented loan programs, including loans from the German government provided to the Ministry of Finance of Ukraine through the German Development Bank KfW. A model of lending to small and medium-sized enterprises (SMEs) in the national currency has been introduced. This was made possible with the help of the European Union's financial assistance by hedging currency risks through KfW under EU4Business Initiative. Also under this model, in 2021 a new loan program will be launched to support funding of energy efficiency SME projects.

The state program «Affordable loans 5-7-9%» increased the volume of small business lending by 17% compared to 2019. Interest rates on loans to micro, small and medium-sized enterprises (MSMEs) in the national currency decreased significantly: from 20.7% per annum in early February, 2020 at the start of the program to 12.5% per annum by the end of the year. The level of NPLs under the program constituted to a mere 0.62%, which allowed maintaining the positive dynamics of reducing the level of non-performing loans in Ukraine's banking system.

Since 1996, the Fund has been transformed into a full-fledged institution to support MSME funding.

The expansion of German-Ukrainian cooperation in 2021 will result in a new loan program to support funding of energy-efficiency MSME projects. The program shall be implemented through our longtime partner, the German Development Bank KfW in cooperation with the European Union, which provided financial assistance to Ukraine to mitigate foreign currency exchange risks through EU4Business initiative. I am sure that the Business Development Fund will continue to be a reliable partner for small and medium-sized businesses in Ukraine.



**ANDRII GAPON**  
BDF Executive Director

2020 was a fruitful year for the Business Development Fund not only in terms of the effective implementation of programs to support funding of MSMEs, but also in the introduction of new financial support tools for MSMEs. For the first time in Ukraine a mechanism of portfolio loan guarantees has been introduced within the framework of the state program «Affordable loans 5-7-9%». It allowed a significant number of loans for MSMEs to be issued as part of the program's anti-crisis component characterized by a high level of loan risks. According to the results of 2020, the total loan portfolio of MSMEs which took advantage of the Fund's guarantees amounted to UAH 641.5 million, with a 0.0% level of bad debts.

The beginning of 2020 saw the start of the active phase of the «FinancEast» Program for resuming funding of MSMEs in the east of Ukraine which is implemented within the framework of the "EU Support to the East of Ukraine" agreement between the Government of Ukraine and the European Union.

The «FinancEast» program has demonstrated its high investment potential and demand from small and medium-sized enterprises in eastern Ukraine for investment resources. In 2020, this allowed to use up nearly all of the international aid to support MSME investment projects to a total amount of UAH 602.5 million.

In 2020, thanks to the effective implementation of its loan programs, the Business Development Fund boasted and continued a positive dynamic of its equity growth due to retained earnings, which increased by 208% since 2015 and will be used to expand lending to small businesses in Ukraine.

All these Fund's achievements were made possible to a large extent thanks to long-term support from the German Government through KfW. This year we will celebrate the 25th anniversary of German-Ukrainian cooperation within the framework of the "TRANSFORM" program, keeping in mind Germany's contribution to the development and support of small business in Ukraine.



**VALERIY MAYBORODA**  
BDF authorized representative

I am glad to present our annual report, which is the result of work done not just by the Business Development Fund's team, but also a large number of our partners: the German Development Bank KfW, the Delegation of the European Union to Ukraine, the Office of the President, the Ministry of Finance, the Ministry of Economic Development, Trade and Agriculture, the Ministry of Digital Transformation, the SME Development Office and, of course, our authorized banks.

All Fund programs, without exception, are developed and improved with the participation of our partners, but the main reviewers of the programs are certainly our authorized banks that provide their direct implementation to support and develop micro-, small and medium-sized enterprises. 2020 turned out to be decisive for the Business Development Fund, as it became an agent of the State for the implementation not just of the international but also the state program "Affordable loans 5-7-9%" to support funding for Ukrainian small businesses. That is what was anticipated back in 1996 during its establishment with the support of the German Government and the German Development Bank KfW.

In 25 years of support of funding for MSMEs, the Fund has always been guided by the highest standards of transparency and publicity that were implemented not only by our German partners, but also by the international financial organizations with which the Fund has cooperated during this time.

This year's report presents the results of the Business Development Fund's activities, first of all, to entrepreneurs of Ukraine, demonstrating the availability and efficiency of financial support programs with specific MSME success stories to cement trust between the State and Ukraine's small businesses.

# ESTABLISHMENT OF BUSINESS DEVELOPMENT FUND ON THE BASIS OF GERMAN-UKRAINIAN FUND



In 2020, the German-Ukrainian Fund was transformed into the Business Development Fund. This event, which has been planned at the start of its activities, became decisive for the German-Ukrainian Fund. The main impetus for this event was the initiative by the President and the Government of Ukraine to implement the State Program «Affordable Loans 5-7-9%», which was entrusted to be implemented by the German-Ukrainian Fund (GUF).

In early December 2019, the President and the Government of Ukraine initiated the State Program «Affordable Loans 5-7-9%» to support funding for micro, small and medium-sized enterprises (MSMEs) using financial instruments such as interest rate compensation on loans to MSMEs up to 5%, 7% and 9% per annum, and portfolio loan guarantees in the amount of 50% to 80% of the amount of loans to MSMEs, but no more than 50% of the total guaranteed loan portfolio for MSMEs of an authorized bank.

The President and the Government of Ukraine have chosen GUF as a platform for the implementation of the program given its wide experience, transparent procedures and

effective model of loan program launches through partner banks, which allowed to provide the program's quick start and effective implementation.

The State Program «Affordable Loans 5-7-9%» is based on GUF's implementation model of the Program of support for SME investments funded by a loan from the German Government through the German Development Bank KfW and EU financial assistance for currency loss compensation combined with regional programs for interest rate compensation that the German-Ukrainian Fund introduced in cooperation with local authorities of Ukraine. Under such joint programs, interest rates for the final borrower were compensated at the expense of the regional budget by 50% to the level of 7% per annum. Also, the innovative mechanism of escrow accounts, which was developed by the Fund in collaboration with KfW and tested as part of its other Program of Support for SMEs in Eastern Ukraine, «FinancEast», implemented in accordance with the Funding Agreement «EU Support to the East of Ukraine» between the Government of Ukraine and the European Commission, was applied in the State Program «Affordable Loans 5-7-9%».

Thus, the Fund became the government's agent in the implementation of assistance programs for funding small business in Ukraine.

**TO THIS END, BY ORDER OF THE CABINET OF MINISTERS OF UKRAINE NO. 1273-R DATED 11.12.2019, THE GERMAN-UKRAINIAN FUND WAS TAKEN OVER BY THE GOVERNMENT OF UKRAINE, REPRESENTED BY THE MINISTRY OF FINANCE OF UKRAINE, BY TRANSFERRING TO IT THE NATIONAL BANK OF UKRAINE'S SHARE IN THE AMOUNT OF 50%, FOLLOWED BY THE GERMAN-UKRAINIAN FUND BEING RENAMED INTO THE BUSINESS DEVELOPMENT FUND ON THE BASIS OF ORDER OF THE MINISTRY OF FINANCE OF UKRAINE NO. 5 DATED 11.01.2020.**

Earlier, in 2019, the German Development Bank KfW also left GUF's Board, leaving its EUR 6.1 million share in the fund's capital for further lending to Ukrainian SMEs. This decision was made by KfW after GUF had demonstrated the efficiency and stability of its activities over the past 5 years.

Taking into account these changes, a new version of the Business Development Fund's (hereinafter – BDF or the Fund) charter was registered on 21 January 2020.

It is important to note that a similar scenario for the Fund's development was provided for back in 1996, when a Grant Agreement dated 12.10.1996 in the amount of DEM 12 million was signed between the National Bank of Ukraine and the German Development Bank KfW within the framework of the Federal Republic of Germany's TRANSFORM Program to support the reform process in Ukraine.

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

**At the first stage**, in 1997 the grant was aimed at implementing a Microlending Program for support of Micro and Small Enterprises of Ukraine.

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

The result of the second stage was the establishment of GUF in accordance with the Regulations of the German-Ukrainian Fund, approved by the Cabinet of Ministers of Ukraine in resolution No. 628 dated 19 April 1999, with participation of the German Development Bank KfW, the Government of Ukraine, represented by the Ministry of Finance, and the National Bank of Ukraine.

**At the third stage**, the German-Ukrainian Fund was to be transformed into a state institution for developing SMEs with its takeover by the Government of Ukraine.

Since the establishment of the Business Development Fund, the Government of Ukraine, represented by the Ministry of Finance, ensured the implementation of the third stage of the GUF transformation and the fulfilment of the Grant Agreement terms and the TRANSFORM Program in full.

# 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



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

**1999** – establishment of GUF



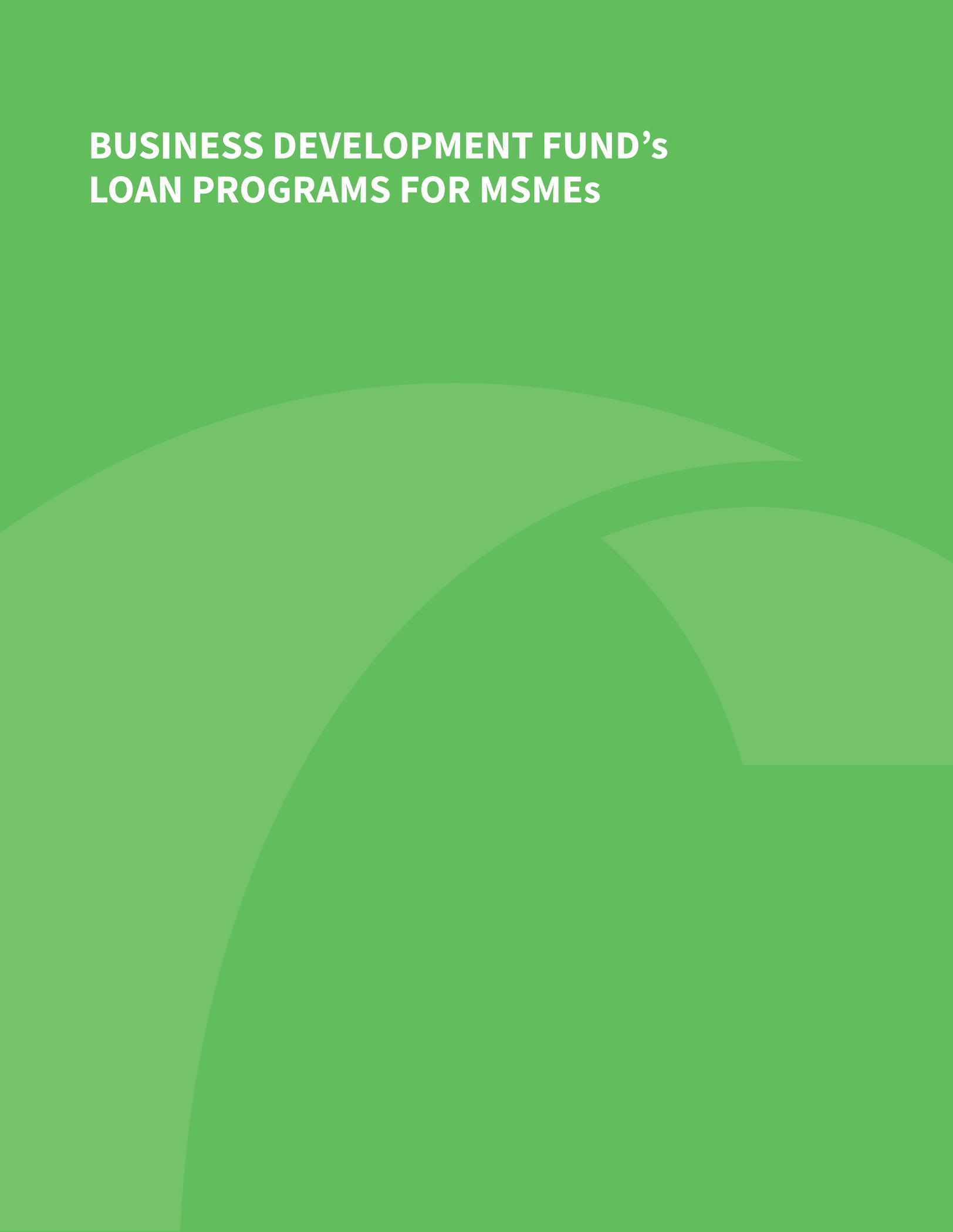
# 3



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

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

# **BUSINESS DEVELOPMENT FUND's LOAN PROGRAMS FOR MSMEs**

The background is a solid green color. In the lower half, there are several overlapping, semi-transparent, curved shapes that create a sense of depth and movement. These shapes are in various shades of green, from a light, almost white-green to a darker, forest green. They appear to be layered, with some in front of others, creating a modern, abstract design.

In 2020, the Business Development Fund expanded its support tools for financing micro, small and medium-sized enterprises – interest rate compensation and loan guarantees within the State Program «Affordable Loans 5-7-9%» were added to its classic loan programs. In addition, in 2020, the Program for Restart Financing of MSMEs in the East of Ukraine, «FinancEast», funded by the European Union through KfW within the framework of the financial agreement «EU Support to the East of Ukraine» between the Government of Ukraine and the European Commission, went into its active phase of implementation.

Due to this expansion of financial instruments, the Fund has become capable of offering small businesses a comprehensive solution to meet their financial needs by combining different programs and instruments through partner banks.

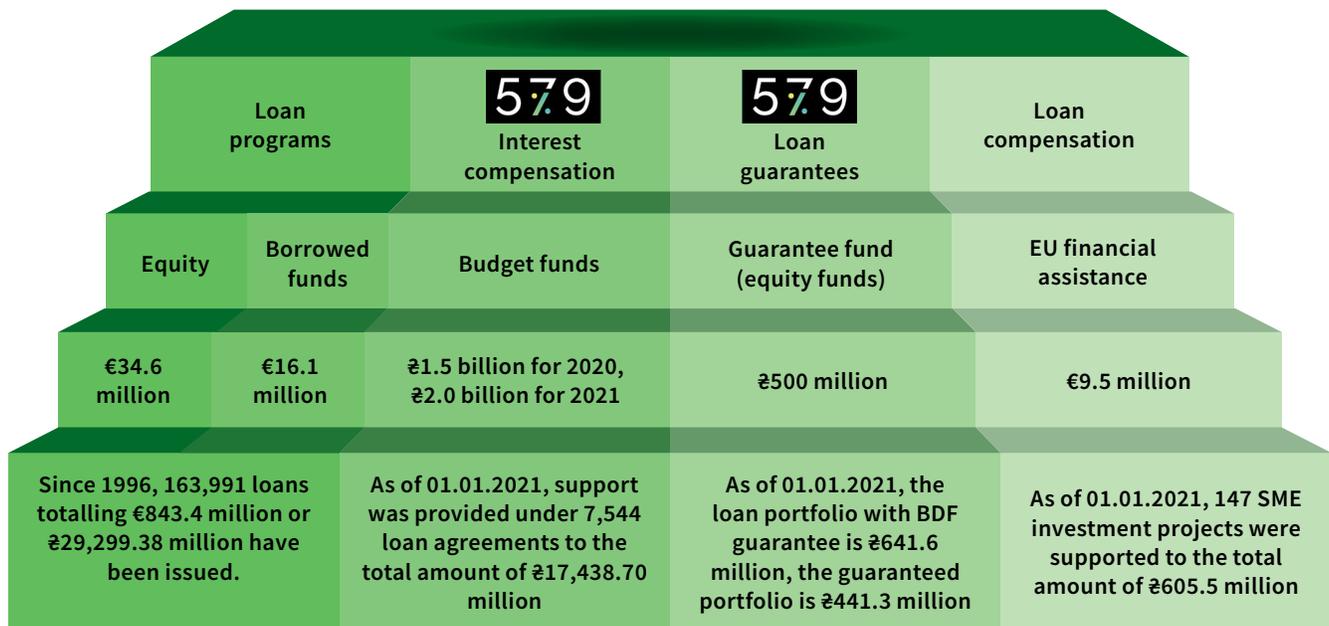
Despite the difficult economic situation in 2020 caused by the COVID-19 pandemic and enforced quarantine restrictions, demand for loan programs from partner banks remained quite high – the level of transformation of the Fund’s funds into partner bank loans amounted to 97%. Also, despite the decline in business activities of small and medium enterprises due to the COVID-19 crisis, the level of transformation of loan funds

provided to partner banks into MSME sub-loan portfolios under the Fund’s three programs – SMEs Investment Support Program in Priority Areas, SMEs Support Program in Rural Areas, MSMEs Lending Program in Priority Areas – remained at an acceptable 70% level. The reduction of this indicator to 50% took place only within the framework of the Microlending Program. One of the main reasons for this, along with the reduction of business activity of business entities, was lending under this program to partner banks in foreign currency, which led to an increase in interest rates for the final borrowers due to an increased margin for currency risk in their structure.

The level of bad debts under the Microlending Program, MSMEs Lending Program in Priority Areas and SMEs Investment Support Program in Priority Areas at the end of 2020 was less than 1%. By the end of the year, the figure increased to 7% only for SMEs Support Program in Rural Areas, although during the year it fluctuated at 2%.

Due to BDF’s significant expansion of programs and financial instruments, which will be presented in more detail further in the presentation, the total volume of the Fund’s financial support for MSMEs as of 01.01.2021 amounted to nearly UAH 48 billion.

BDF has a full set of financial instruments to support lending for MSMEs that combine with each other, offering a complex solution for MSMEs.

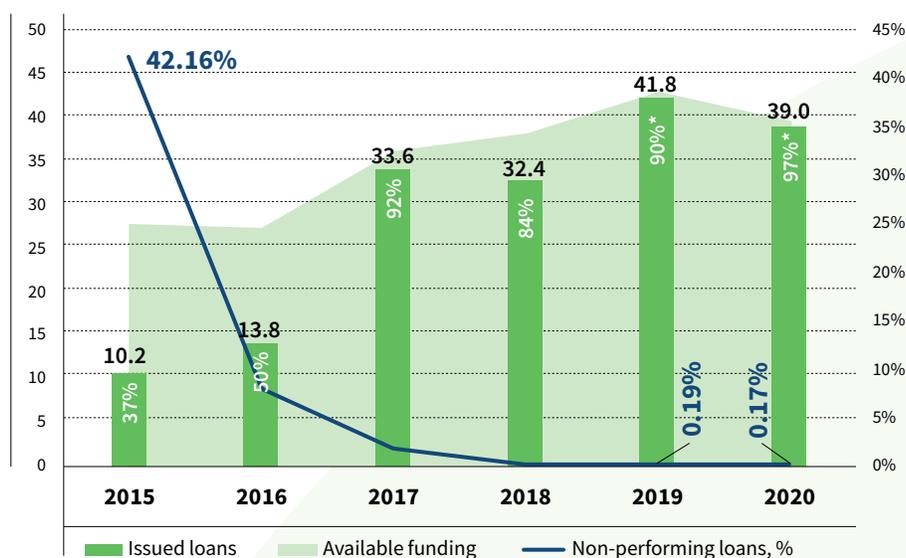


**The total amount of support for MSMEs with all of the Fund’s financial instruments as of 01.01.2021 amounted to €47,982.18 million**

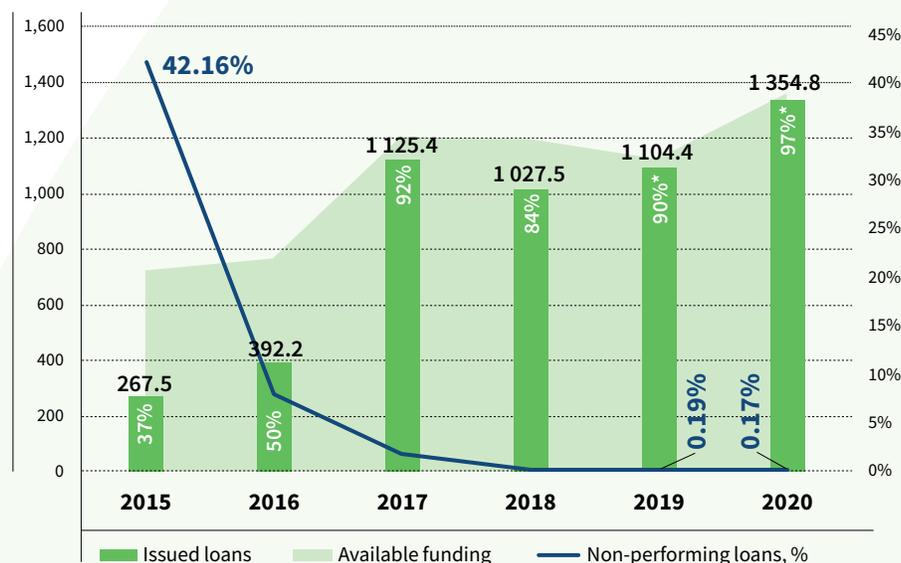
# LOAN PROGRAMS:

**IN 2020, THE LEVEL OF THE BDF'S FUNDS TRANSFORMATION INTO LOANS TO PARTNER BANKS INCREASED TO 97%**

Development of lending to partner banks, EUR million



Development of lending to partner banks, UAH million

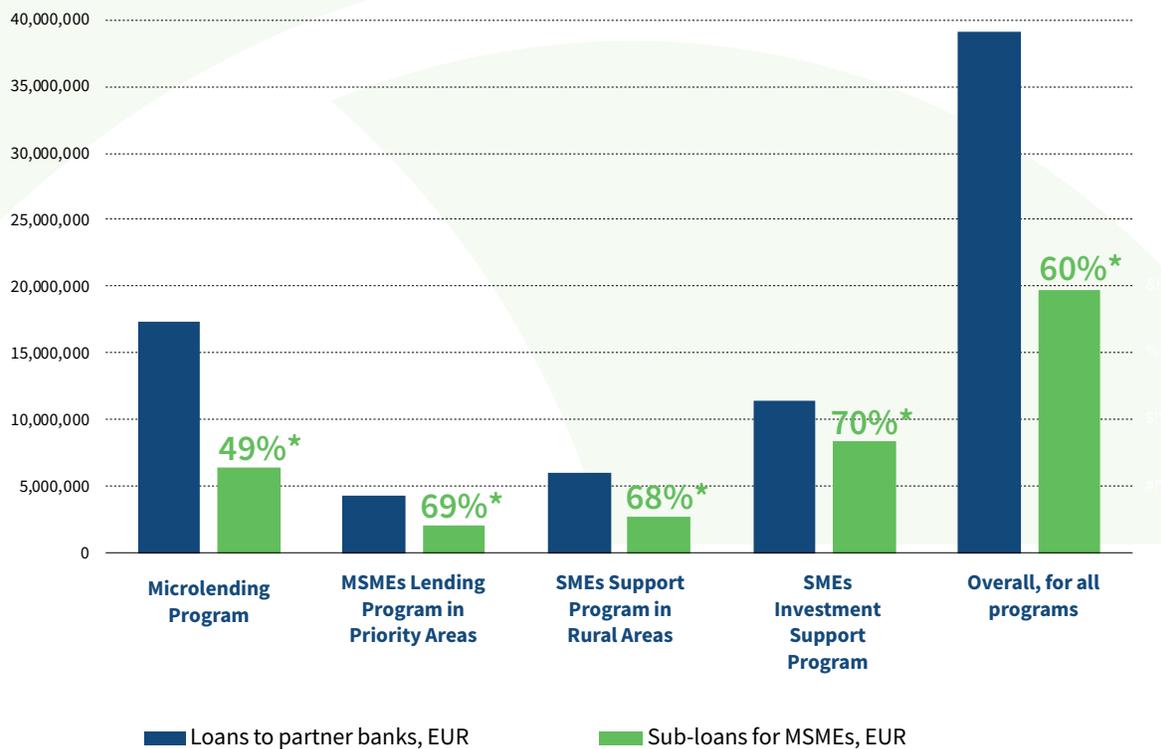


\* – level of transformation, when calculating the indicators, the average numerator and denominator for the reporting period is used – the average for the reporting year is defined as the arithmetic means of the corresponding values at the end of I, II, III and IV quarters of the reporting year and at the end of the year's IV quarter of the preceding year.

The level of bad debts of partner banks in 2020 decreased to 0.17% due to an increase in the calculation base of this indicator.

# LOAN PROGRAMS:

## TRANSFORMATION OF THE BDF'S FUNDS INTO SUB-LOANS FOR MSMEs



\* – when calculating the indicators, the average numerator and denominator for the reporting period is used – the average for the reporting year is defined as the arithmetic means of the corresponding values at the end of I, II, III and IV quarters of the reporting year and at the end of the year's IV quarter of the preceding year.

Due to the global COVID-19 pandemic and the corresponding enforcement of quarantine restrictions in Ukraine, which have slowed down entrepreneurship economic activity, the level of BDF's transformation of loans into MSME's sub-loan portfolio decreased primarily under the Microlending Program, the loan resource for which is provided to partners in EUR, which has low demand from MSMEs.

Under the Fund's other programs, the level of transformation was kept at an acceptable level of 70%.

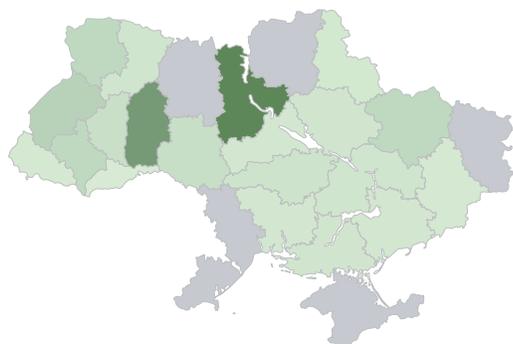
# LOAN PROGRAMS:

## MICROLENDING PROGRAM

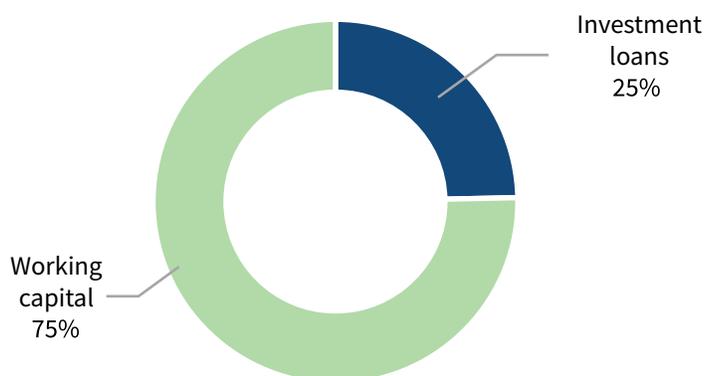
### THE MAIN PARAMETERS

<b>Program objectives</b>	Lending to micro, small and medium-sized enterprises (MSMEs) and the implementation of microlending systems in partner banks
<b>Start of implementation</b>	in 1997
<b>Source of funding</b>	Fund's equity
<b>Amount of funding</b>	€18,0 million
<b>Partner banks under the program</b>	
<b>Current debt of partner banks</b>	€17,35 million
<b>The interest rate for MSMEs</b>	market, without any restrictions
<b>Number of loans granted to MSMEs since the start of the program</b>	162 483
<b>Amount of the loan portfolio for MSMEs since the start of the program</b>	€753,4 million
<b>Priority areas</b>	All MSMEs without restrictions on type of economic activity

Regional structure



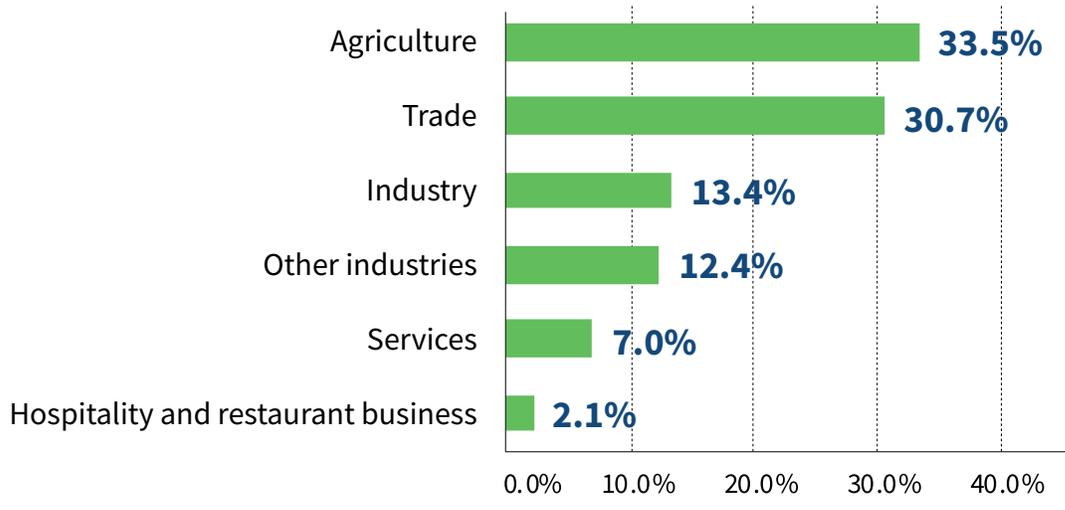
Targeted use of funds



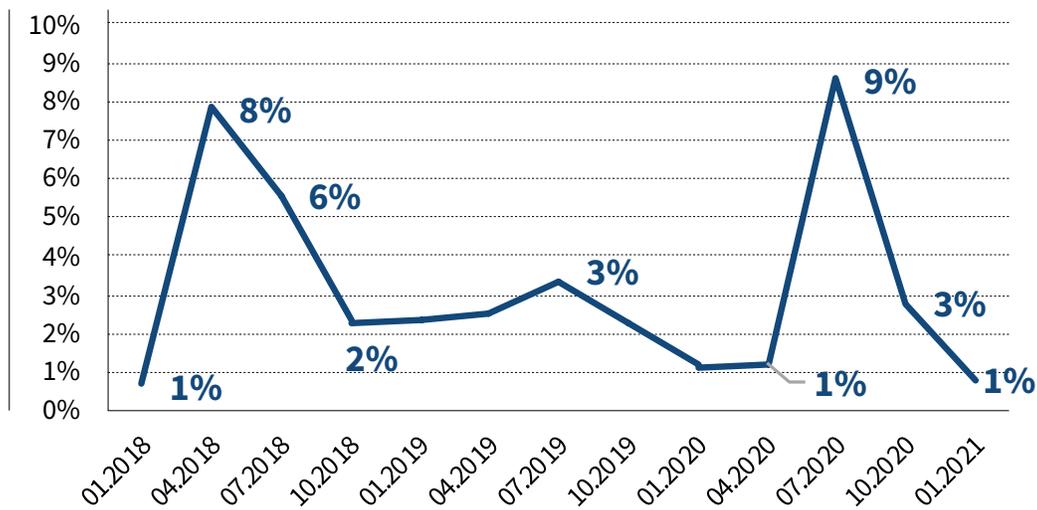
# MAIN RESULTS

## AS OF 01.01.2021

### Sectoral structure



### Level of NPL



# SUCCESS STORIES

## OF SME INVESTMENT SUPPORT PROGRAM

### LLC HC KSENIA

Ivano-Frankivsk

A manufacturer of sweets from natural ingredients. The company learned about the Program through Bank Lviv, prepared an application for an investment project and, as a result, purchased a jig and a turbo mixer worth over UAH 1 million! Now, LLC HC Ksenia produces marshmallows according to a classic recipe without adding various improvers.



### BIOSTIMUL CLINIC

Poltava

A center for shockwave therapy and rehabilitation. Thanks to the program, the clinic was able to buy a Swiss-made focused shockwave device for nearly UAH 1 million. The loan was issued through the partner bank Ukgasbank at 7% per annum. With the new device, the Center's capabilities have grown many times over, as has the effectiveness of treatment.



### PE GAZI

Novy Rozdil, Lviv oblast

Has been producing metal structures for over 25 years. The company's products are sold throughout Ukraine. This year the company succeeded in achieving a new level of production! All thanks to the program. Through Bank Lviv, the company learned about the program, applied for it and received a loan to purchase a sheet bending machine worth \$34 000. This allowed to increase production in a short period of time.



### AGRONIK-STAR FARM

Zlynka village, Kirovograd oblast

A small farm that grows agricultural products in the Kirovograd region. They learned about the program through the partner bank Ukgasbank. The farm prepared an application for an investment project and, as a result, purchased equipment that had previously been leased from contractors at an unfavourable price. Thanks to the State program «Affordable loans 5–7–9» the farm received a loan at 7% per annum.

# LOAN PROGRAMS:

## MSMEs LENDING PROGRAM IN PRIORITY AREAS

### 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** ₺153,2 million

**Partner banks under the program**



**Current debt of partner banks** ₺150,0 million

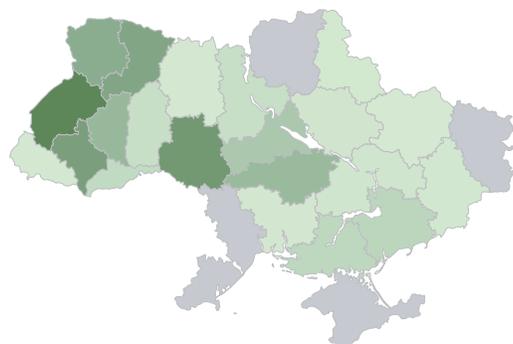
**The interest rate for MSMEs** UIRD + 5pp

**Number of loans granted to MSMEs since the start of the program** 531

**Amount of the loan portfolio for MSMEs since the start of the program** ₺632,8 million  
€18,2 million

**Priority areas** Agriculture, processing industry, hotels and restaurants, green tourism, energy efficiency

Regional structure



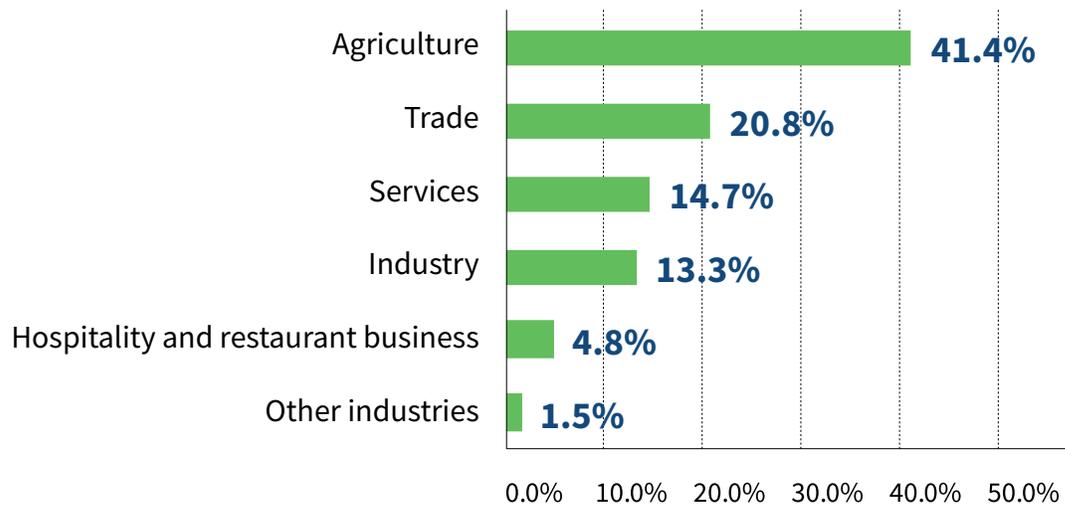
Targeted use of funds



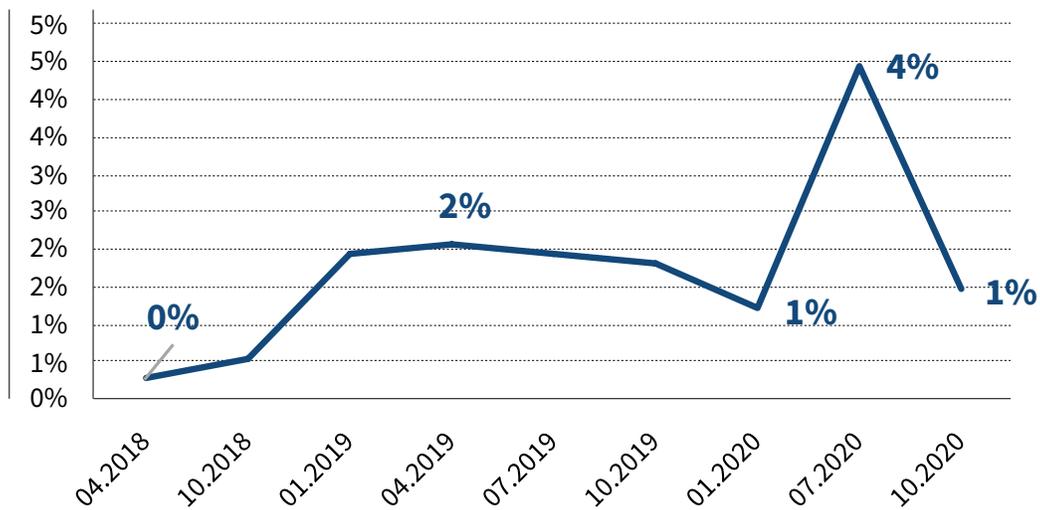
# MAIN RESULTS

## AS OF 01.01.2021

### Sectoral structure



### Level of NPL



# LOAN PROGRAMS:

## SMEs SUPPORT PROGRAM IN RURAL AREAS

### THE MAIN PARAMETERS

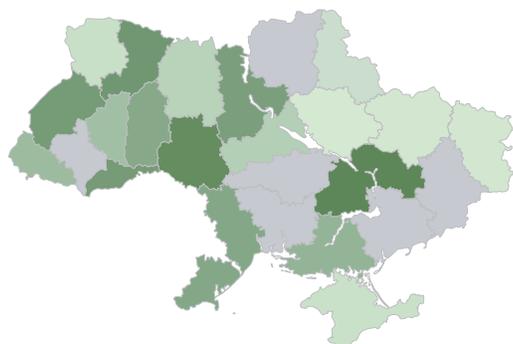
<b>Program objectives</b>	Lending to small and medium-sized enterprises (SMEs) in rural areas
<b>Start of implementation</b>	in 2006
<b>Source of funding</b>	The German Government loan through KfW
<b>Amount of funding</b>	€7,0 million

Partner banks under the program

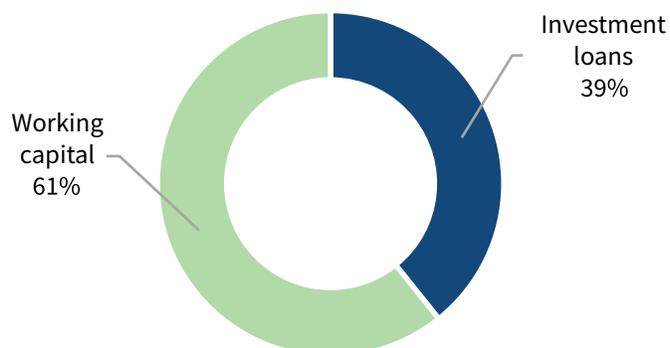


<b>Current debt of partner banks</b>	€6,0 million
<b>The interest rate for MSMEs</b>	market, without any restrictions
<b>Number of loans granted to MSMEs since the start of the program</b>	602
<b>Amount of the loan portfolio for MSMEs since the start of the program</b>	€38,5 million
<b>Priority areas</b>	SMEs in settlements with up to 100,000 inhabitants

Regional structure



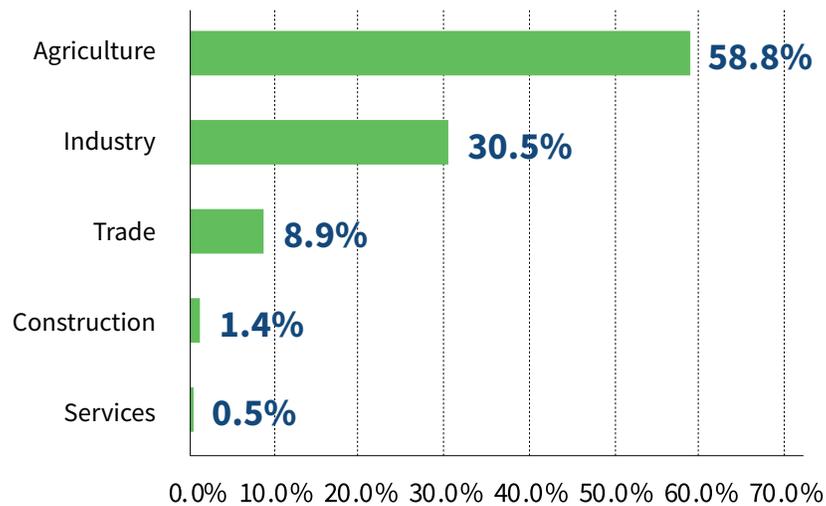
Targeted use of funds



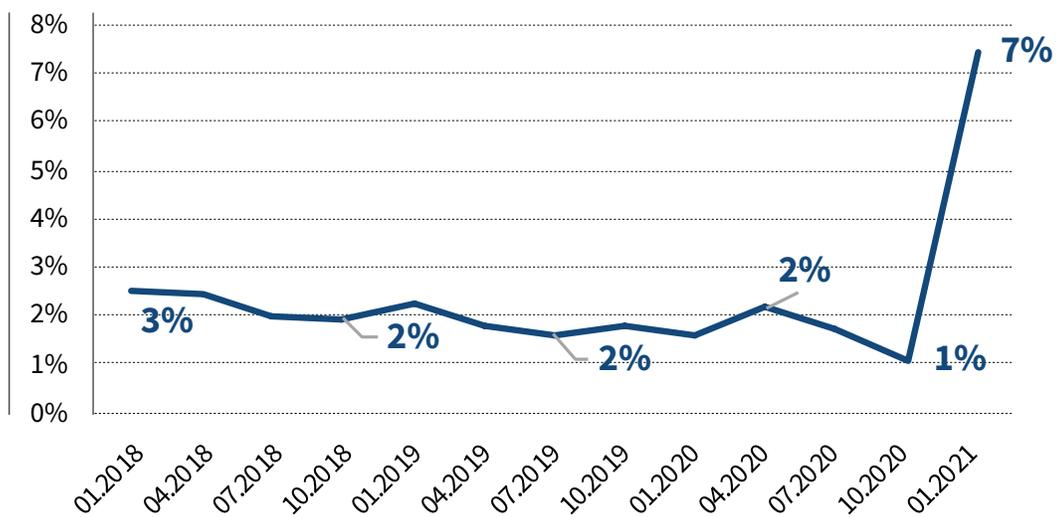
# MAIN RESULTS

## AS OF 01.01.2021

### Sectoral structure



### Level of NPL



# SUCCESS STORIES

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

### 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.



### ALTAIR FARM Pysarivka, Luhansk oblast

The farm has been growing grain and oilseeds for 25 years. Learned about the FinancEast program through the partner bank Oschadbank, where they drew up an application and a project to purchase a powerful English-made tractor. Thanks to the financial support of the EU, the farm has been sowing three times more efficiently.

### **DONETSKE FARM**

**Nykonorivka, Donetsk oblast**

In 2014, the Donetsk farm in Slovyansk district was hit by fighting. For a long time, the fields, with a total area of 300 hectares, stood unsown, as they were at the very epicenter of hostilities.

But last year, the director of the farm learned about the FinancEast program. Having prepared the necessary documents, the farm received a financial lease of a modern tractor worth a total of UAH 2 million.



### **LLC RUBIZHANSKAYA HOSIERY MANUFACTORY**

**Rubizhne, Luhansk oblast**

The company manufactures hosiery, which is characterized by its bright design and high quality. After learning about the FinancEast program through the partner bank Oschadbank, the company applied for a project to purchase Italian-made knitting machines. Thanks to compensation from the EU in the amount of up to 50% of the loan, the company will be able to save on the purchase of equipment and raise its production to a new level.

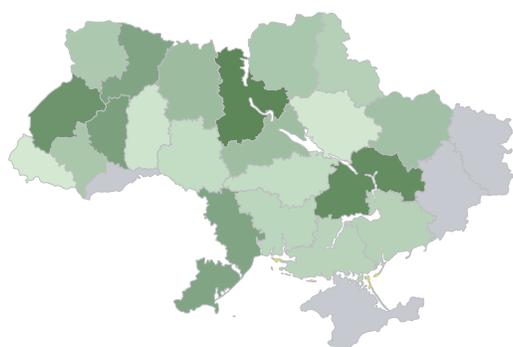
# LOAN PROGRAMS:

## SMEs INVESTMENT SUPPORT PROGRAM IN PRIORITY AREAS

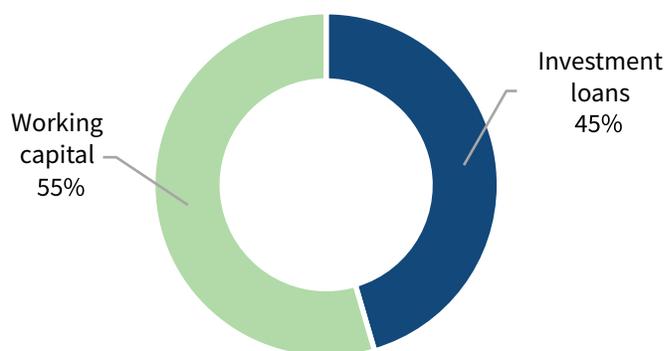
### THE MAIN PARAMETERS

<b>Program objectives</b>	Financing of the SME investment projects in priority sectors of the Ukrainian economy
<b>Start of implementation</b>	in 2017
<b>Source of funding</b>	German Government loan through KfW under the SME Promotion Project and EU financial assistance to compensate foreign exchange losses within the EU4Business initiative
<b>Amount of funding</b>	€397,6 million
<b>Partner banks under the program</b>	
<b>Current debt of partner banks</b>	€397,0 million
<b>The interest rate for MSMEs</b>	UIRD x 1,1
<b>Number of loans granted to MSMEs since the start of the program</b>	375
<b>Amount of the loan portfolio for MSMEs since the start of the program</b>	€1 156,0 million €33,3 million
<b>Priority areas</b>	Agriculture, processing industry, hotels and restaurants

Regional structure



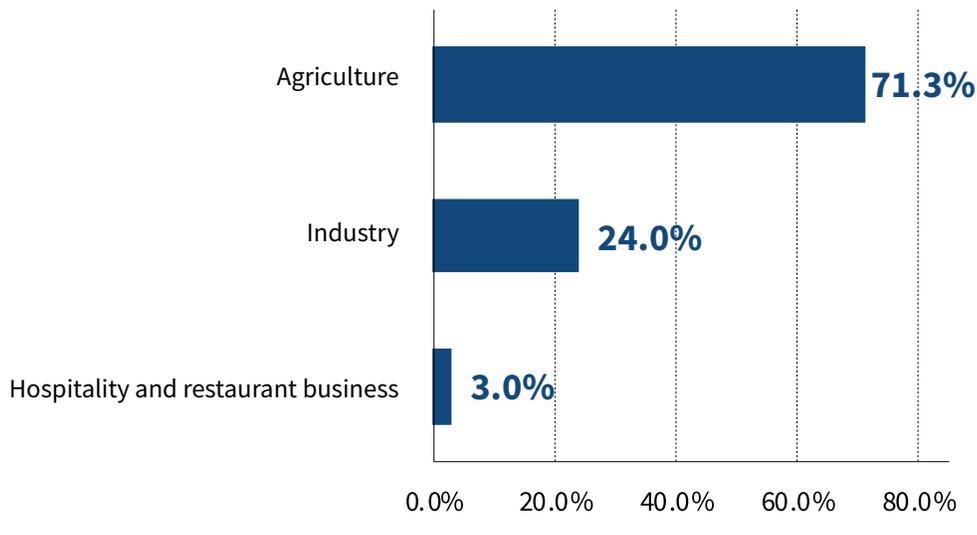
Targeted use of funds



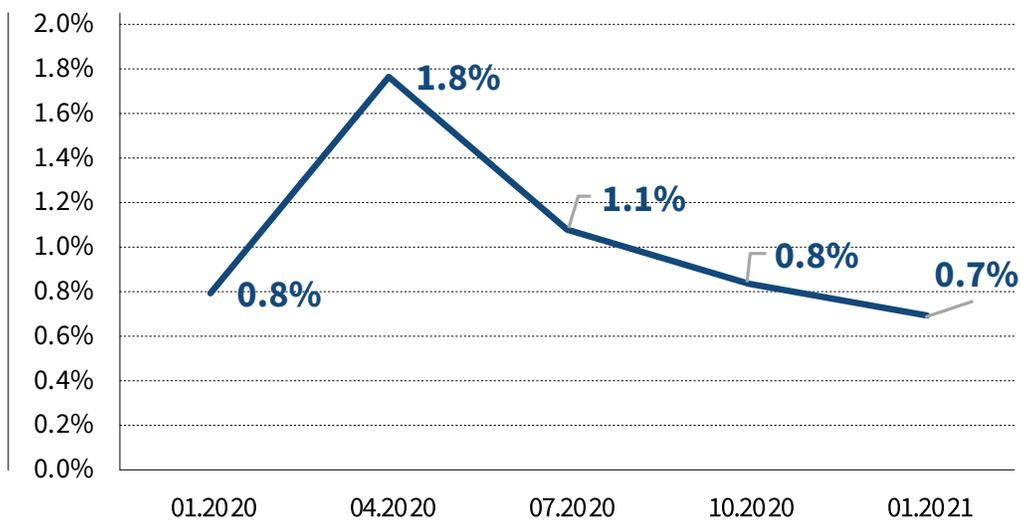
# MAIN RESULTS

## AS OF 01.01.2021

### Sectoral structure



### Level of NPL

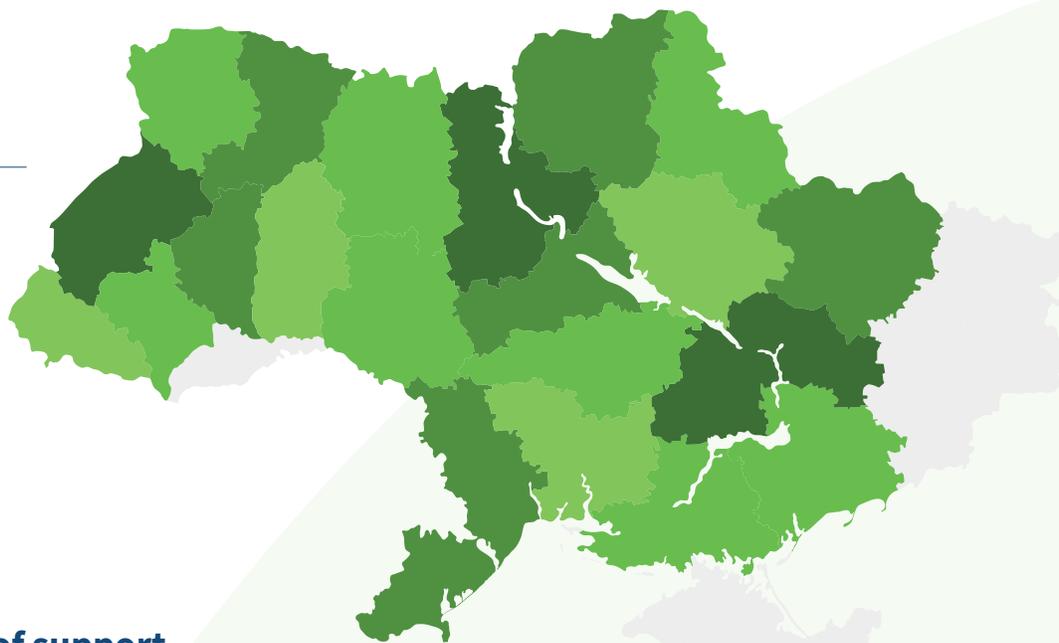


## Main results

# of SME Investment Support Program

as of 01.01.2021

### Regional structure



### The amount of support for SME investment projects

# €1,156 billion

### Business activity structure of SMEs

Agriculture – 73%  
Hospitality and restaurant business – 3%  
Industry – 24%

### Number of loans

## 375

### New jobs

## 2375

### Saved jobs

## 6243

### Partner banks



MINISTRY OF  
FINANCE OF  
UKRAINE

# Asset growth

as of 01.01.2021

• in 2017 •

**€10  
million**

• in 2018 •

**€12,4  
million**

• in 2019 •

**€16,2  
million**

• in 2020 •

**€16,6  
million**

**+66%**

**+ €3,0 million**

net operating profit

**+ €0,1 million**

exchange rate fluctuations

**+ €3,5 million**

the fair value  
of EU hedging tool

**=**

Additional buffer for  
compensation of foreign  
exchange losses –

**€6,6 million**

**€0,00**

European Union  
funds expenditure to  
compensate for foreign  
exchange losses

**1**

Due to the revolving use of the loan, the amount of funds accumulated under the Program has increased by 66% in 3 years.

**2**

Since Ukraine's currency was stable, the model did not spend EU funds.

**3**

Instead, due to the income received, the model created an additional buffer.

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

The background is a solid green color with several overlapping, semi-transparent, curved shapes in a lighter shade of green. These shapes are positioned in the lower half of the page, creating a layered, abstract design.

On 3 February 2020, the State Program «Affordable Loans 5-7-9%» initiated by the President and the Government of Ukraine was launched.

The conditions, criteria and mechanism for implementing the program are determined by the Procedure for State Financial Support for Small and Medium-sized Enterprises, approved by the Cabinet of Ministers of Ukraine in resolution No. 28 dated 24.01.2020, and the mechanism for the use of funds provided in the state budget for the program «Ensuring the Functioning of the Business Development Fund» is regulated in accordance with the corresponding procedure approved by the Cabinet of Ministers of Ukraine in resolution No. 29 dated 24.01.2020.

Government support was provided using such instruments as the Fund's partial interest rate compensation on investment loans for MSEs to the tune of UAH 1.5 billion and the Fund's guarantee on a portfolio basis for MSE loans to the tune of UAH 500 million, a sum by which the Fund's authorized capital was increased.

The interest rate compensation model was based on the mechanism of escrow accounts, which was developed by the Fund in collaboration with KfW and tested under the «FinancEast» program. Through the use of the escrow account mechanism, micro and small businesses began to pay not the full interest rate, but compensated to the level of 5%, 7% or 9% per annum for the first time compared to similar state programs, since the difference is immediately debited from the Fund's escrow account opened in an authorized bank. This approach also minimizes the administrative costs of authorized banks, as there is no need for monthly submission of paper registers by MSEs due to the advancement of escrow accounts in accordance with semi-annual forecasts of interest rate compensation payments for MSEs.

In its original version, the Program focused on a single goal related to simplifying access of micro and small enterprises (hereinafter the MSEs) to bank loans to implement investment projects in order to increase the volume of production, export, import substitution, high-tech production, energy efficiency,

innovation, as well as to facilitate creation of new jobs and return of migrant workers to Ukraine. So, from the very beginning of its implementation, the Program was aimed at supporting MSE investment activity and included an investment component.

**HOWEVER, IN APRIL 2020, IMMEDIATELY AFTER THE START OF THE COVID-19 PANDEMIC AND INTRODUCTION OF QUARANTINE RESTRICTIONS BY THE GOVERNMENT OF UKRAINE, TWO NEW COMPONENTS WERE INTRODUCED TO THE PROGRAM: ANTI-CRISIS AND REFINANCING.**

The anti-crisis component focused mainly on support of short-term liquidity of MSEs by compensating the interest rate for loans to MSEs to replenish the working capital up to 3% per annum, and during the quarantine and within 90 days after – up to 0% per annum. To minimize the loan risks of authorized banks under the anti-crisis component, the Fund's loan guarantees have been introduced with an 80% coverage of the amount of loans for MSEs. Also, under this component state support was provided to investment loans for MSEs for the production of medical equipment and medicinal products.

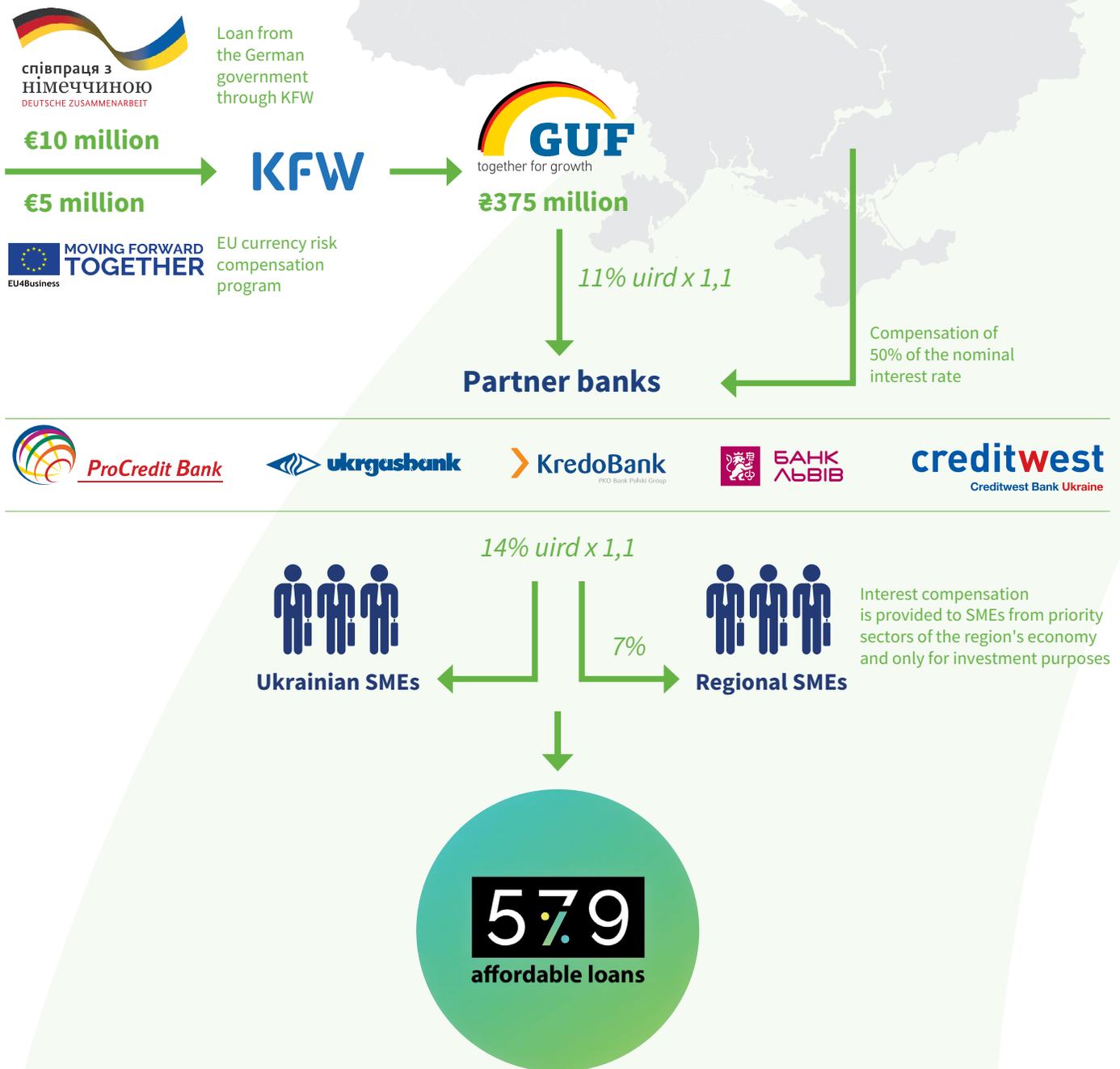
Under the refinancing component, the state completely exempted micro and small enterprises that had debts on existing loans from the financial burden in the form of obligations to pay interest by fully compensating them up to the level of 0% per annum, provided that the stipulated number of employees and the wage fund were maintained.

The implemented set of anti-crisis measures allowed to avoid a significant volume of bad debts of MSEs, thus maintaining the stability of the banking system of Ukraine. The key was the timeliness of anti-crisis measures, which became possible due to the program «Affordable Loans 5-7-9%» initiated by the President and the Government of Ukraine and launched on the basis of the Business Development Fund, which had many years of experience and an effective model for implementing such programs to support funding of MSEs through the banks of Ukraine.

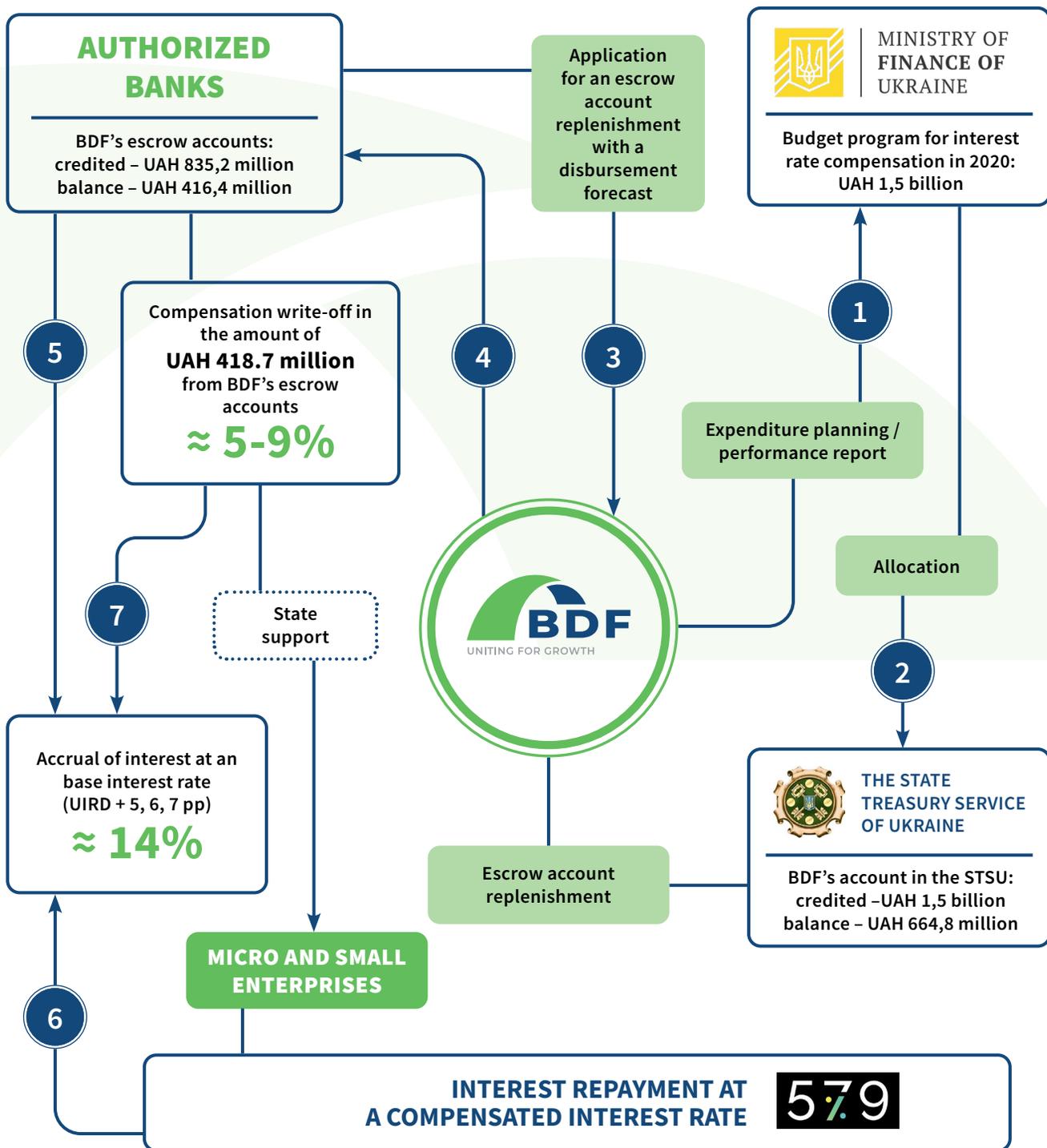
# STATE PROGRAM «AFFORDABLE LOANS 5-7-9%»

## THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION AS OF 01.01.2021

The basis of the State Program «Affordable Loans 5-7-9%» was the implementation model of GUF's SMEs Investment Support Program funded by the German Government loan through KfW and an EU hedging tool, combined with a mechanism of interest rate compensation from local authorities, as well as an escrow account mechanism that was borrowed from another Program of Support for MSMEs in the East Of Ukraine – «FinancEast».



# INTEREST RATE COMPENSATION SCHEME



- To implement the program in terms of interest rate compensation, the following documents were developed:
1. Procedure for Providing State Support to MSEs, approved by resolution of the Cabinet of Ministers of Ukraine No. 28 dated 24.01.2020.
  2. Business Development Fund's Program «Affordable Loans 5-7-9%» .
  3. Copies of cooperation agreement and escrow account agreement.

**23**

number of authorized banks

**7 544**

number of loan agreements (units)

**17 438**

amount of loan agreements (UAH million)

**9 464**

created jobs (pers.)

**121 386**

saved jobs (pers.)

**0,62%**

bad debts

**835,2**

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

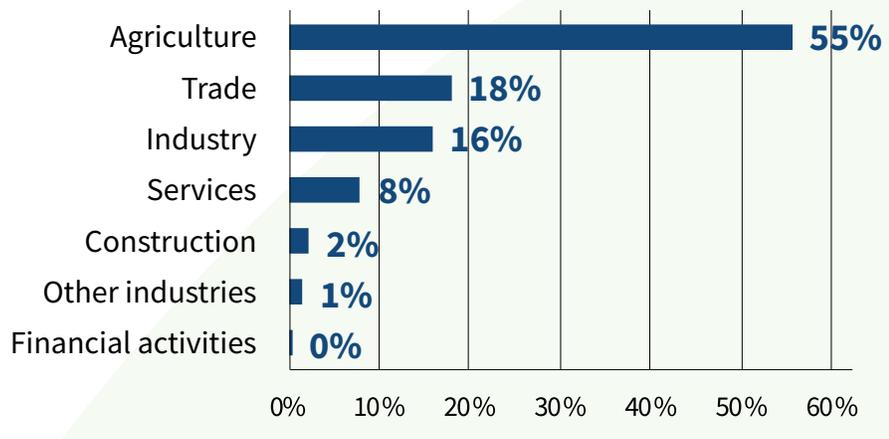
**418,7**

amount of compensation paid to MSEs (UAH million)

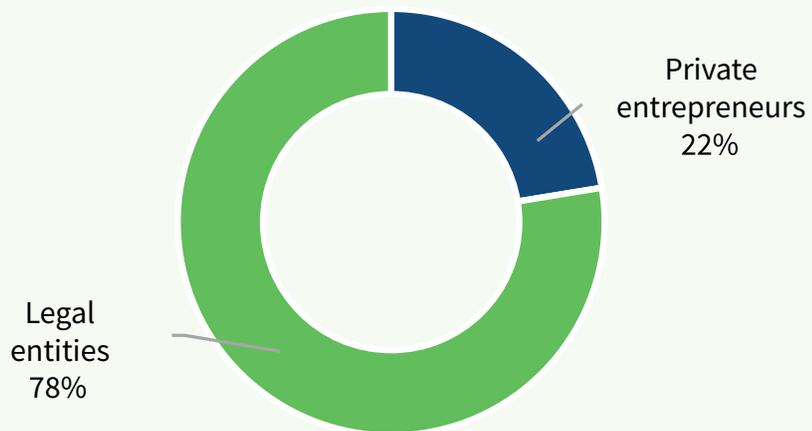
# STATE PROGRAM «AFFORDABLE LOANS 5-7-9%»

THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION  
AS OF 01.01.2021

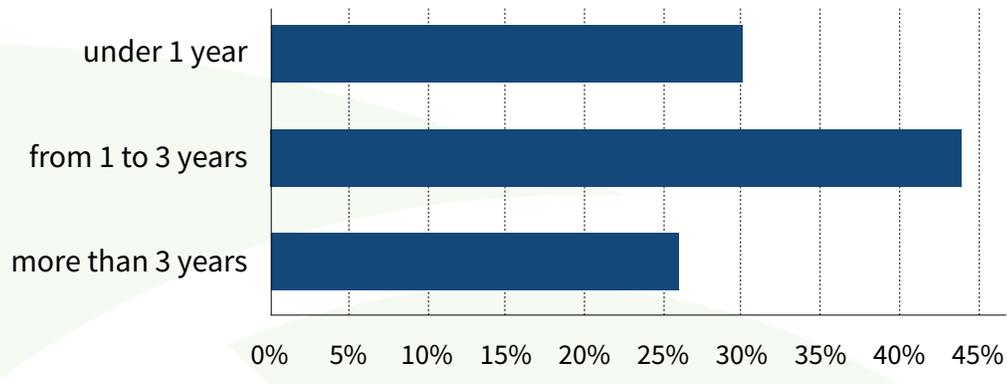
Loan agreements by type of economic activity, %



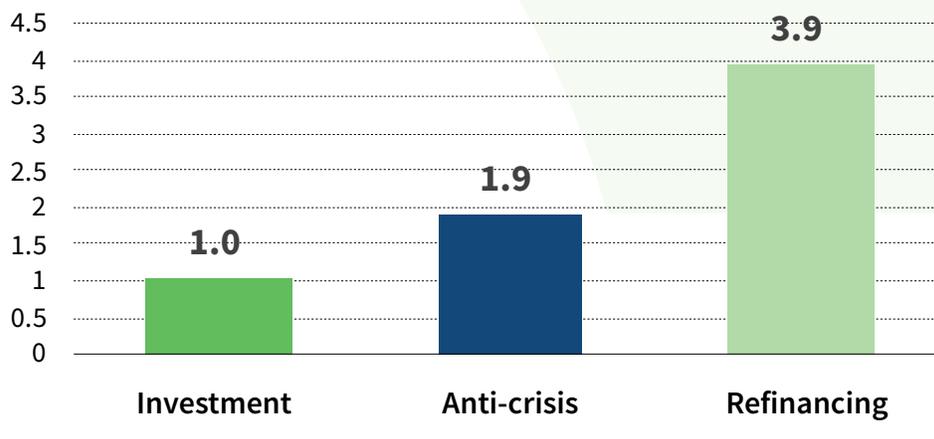
Structure of program participants by number in terms of MSE types, %



### Structure of loan agreements by terms

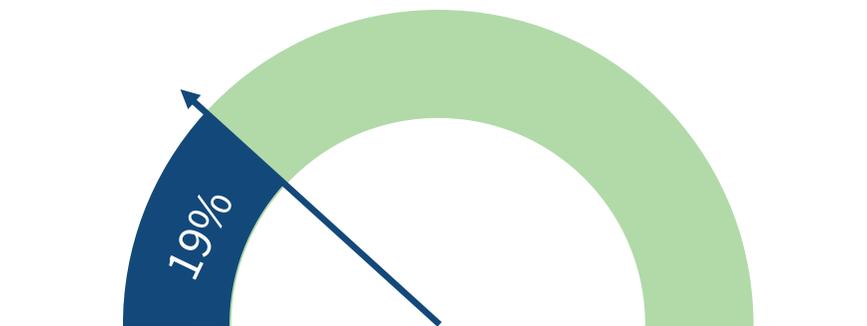


### Average loan amount for MSEs by components, UAH million



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

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

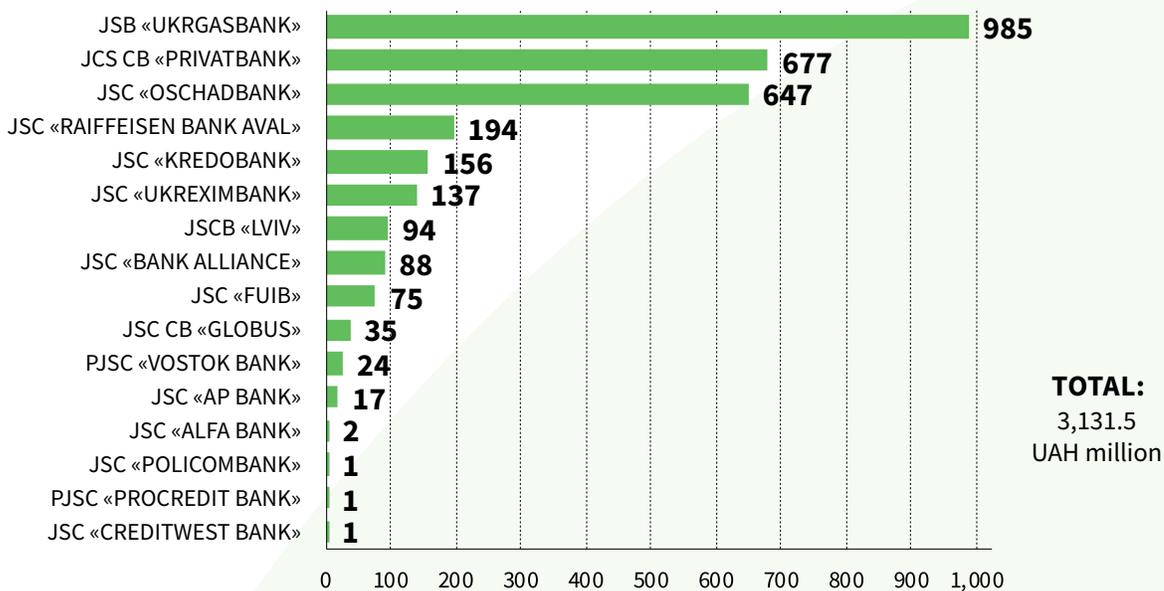


In less than a year of implementation, the program has occupied almost 20% in the total loan portfolio of MSEs of authorized banks, ensuring its growth in 2020 by 17%.

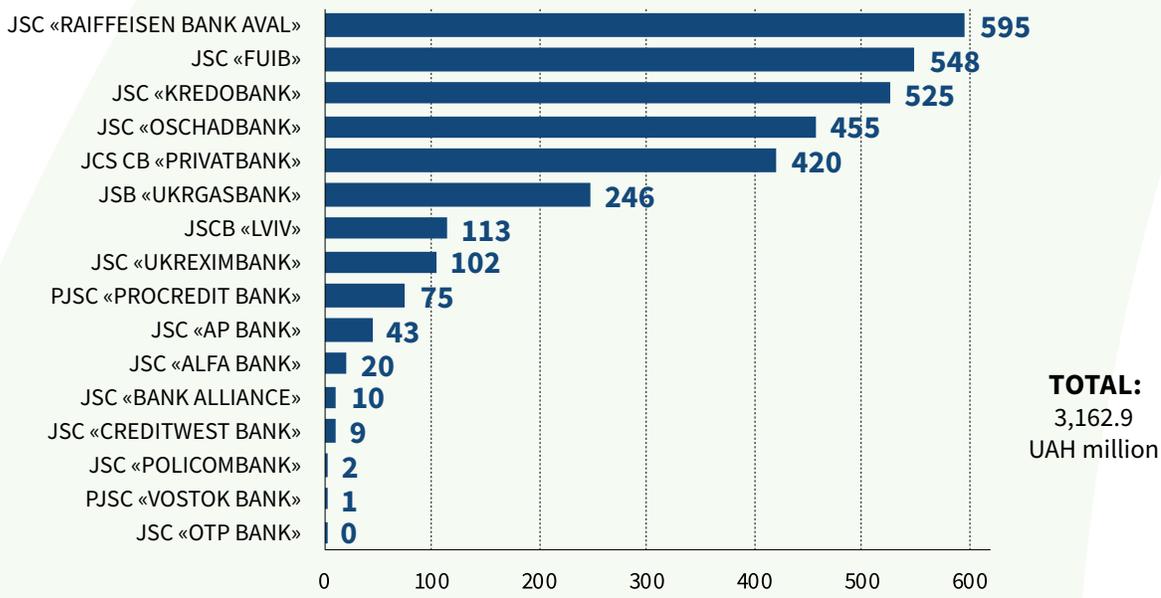
# STATE PROGRAM «AFFORDABLE LOANS 5-7-9%»

AMOUNTS OF CONCLUDED LOAN AGREEMENTS WITH MSEs IN TERMS OF PROGRAM COMPONENTS

Investment component, UAH million

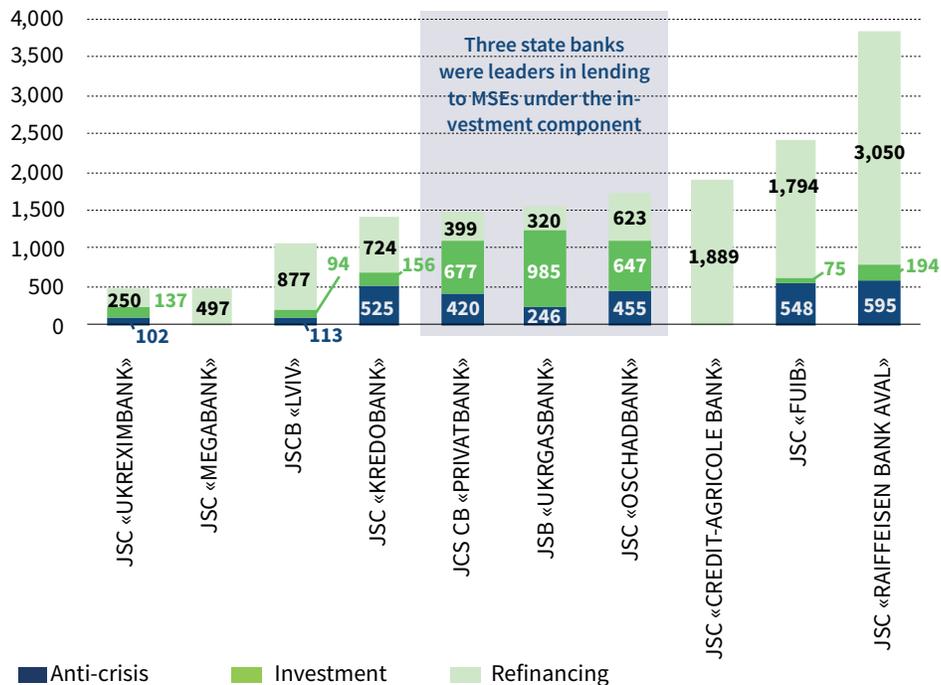
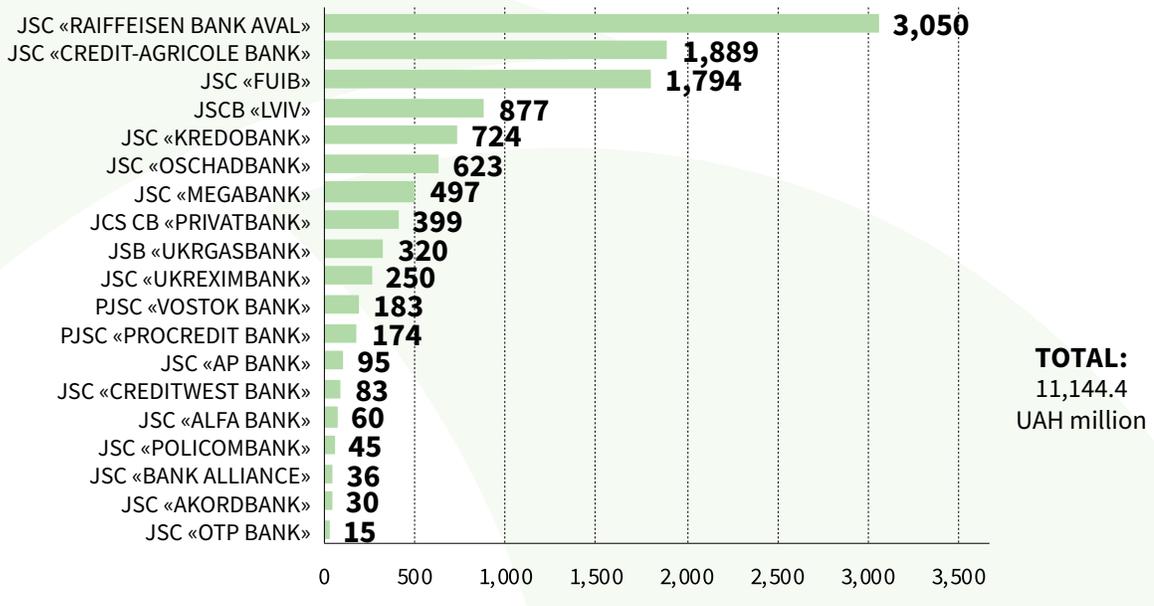


Anti-crisis component, UAH million



# THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION AS OF 01.01.2021

Refinancing component, UAH million



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

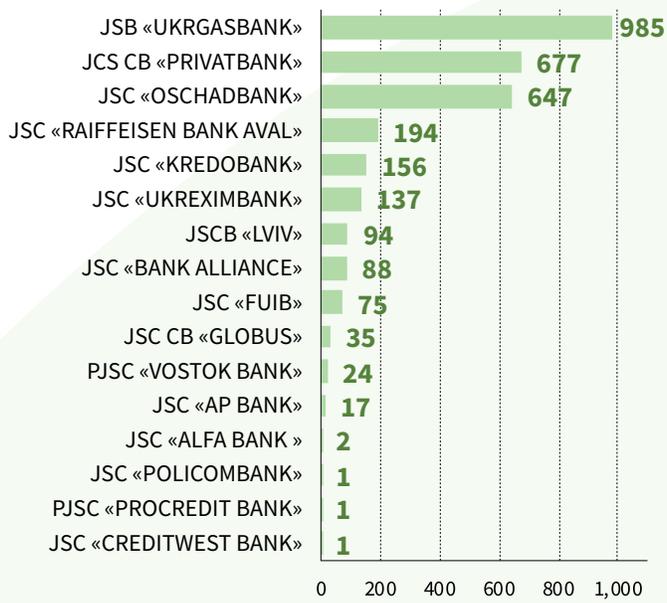
## THE RELATIONSHIP BETWEEN INVESTMENT LOANS FOR MICRO AND SMALL ENTERPRISES AND CREATION OF NEW JOBS

State banks have become the most active in the Investment component which is quite difficult in terms of lending due to financing investment projects of micro and small enterprises involving loan operations which are the most time consuming for banks.

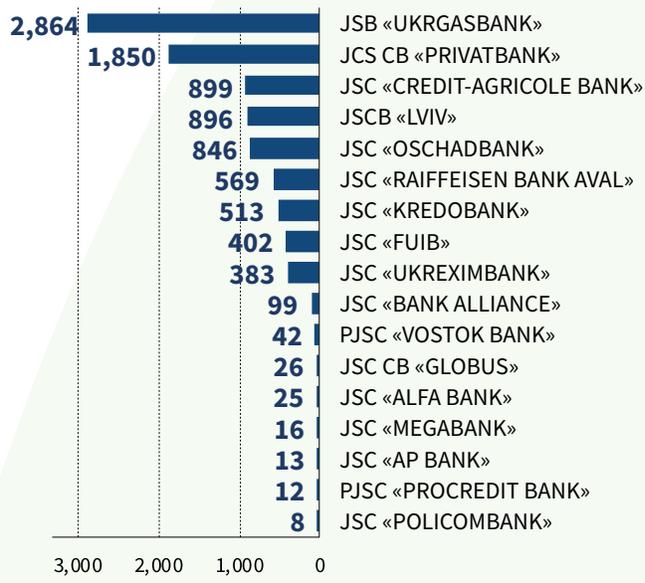
In view of this, state banks have justified their status by ensuring to the greatest extent the execution of the state program's main goal – supporting funding for investments of micro and small enterprises.

This result was greatly facilitated by the advisory support provided by the Fund in the creation of the microlending system at JSB «UKRGASBANK» in 2016 and JSC «Oschadbank» in 2017-2018.

### Investment component, UAH million



### Created jobs, persons



The data shows that the largest number of jobs was created as part of the Investment component.

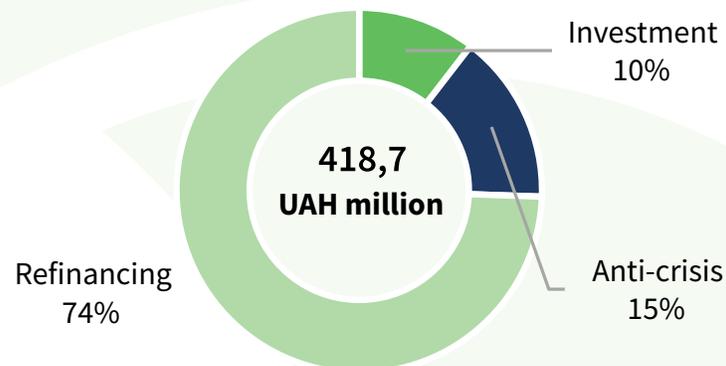
Such figures show a clear correlation between the amount of loans directed to financing of MSE investment projects and the number of jobs created.

Unlike large enterprises, investments in micro and small enterprises that do not have fully automated production processes are accompanied by an increase in the number of employees.

Thus, within the framework of the Investment component, it was possible to achieve one of the program's main goals – to create new jobs in small businesses.

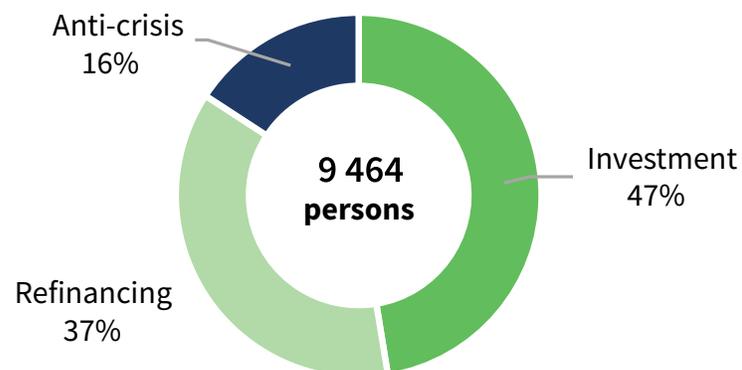
# THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION AS OF 01.01.2021

State support paid to MSMEs by components, %



With a small amount of budget expenditures for the payment of interest rate compensation as part of the Investment component, it was possible to create the largest number of new jobs compared to other program components.

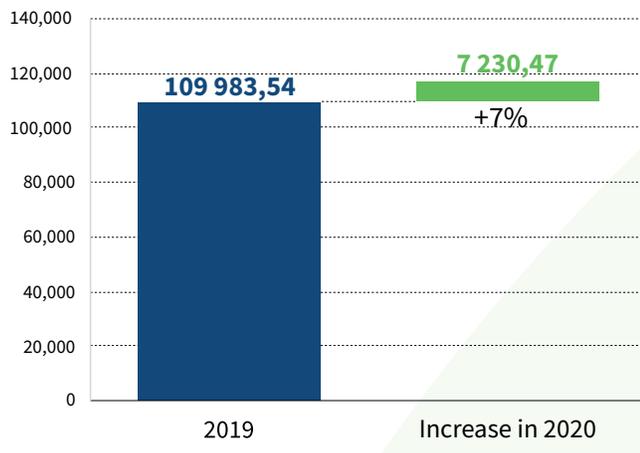
Created jobs by components, %



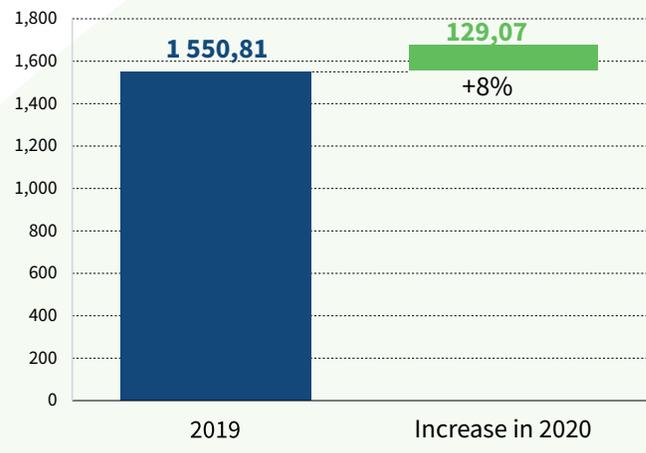
# STATE PROGRAM «AFFORDABLE LOANS 5-7-9%»

IMPACT OF STATE SUPPORT AS PART OF THE PROGRAM ON INCREASE IN KEY PERFORMANCE INDICATORS OF THE ENTERPRISES

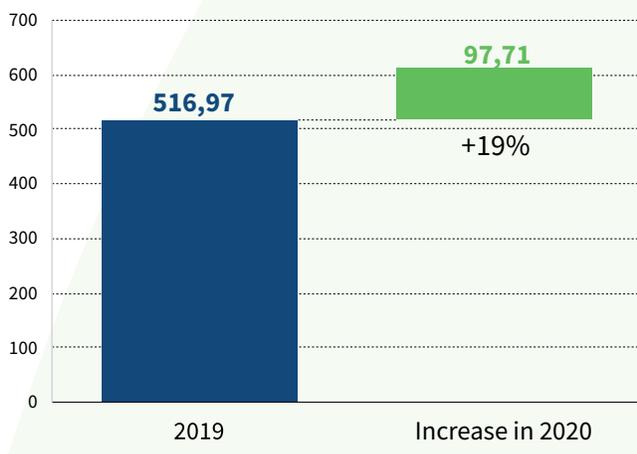
Change in total MSE annual income, UAH million



Change in social contribution tax, UAH million



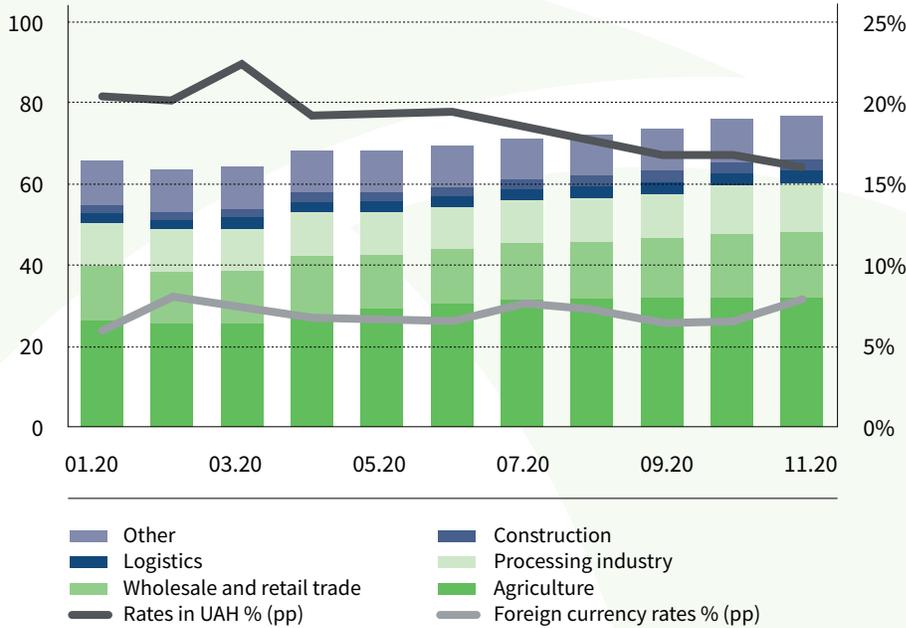
Change in total income tax, UAH million



1. Despite the slowdown in small business activity during 2020, the total annual income of enterprises that participated in the program increased by UAH 7.2 billion or 7%, the total amount of income tax increased by UAH 97.7 million or 19%, and the social contribution tax by UAH 129.1 million or 8%.
2. Thus, state support paid during 2020 on interest rate compensation for MSMEs in the amount of UAH 418.7 million largely affected the increase in budget revenues in the amount of UAH 226.8 million despite the negative development of the economic situation in the country due to the COVID-19 crisis.

# THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION AS OF 01.01.2021

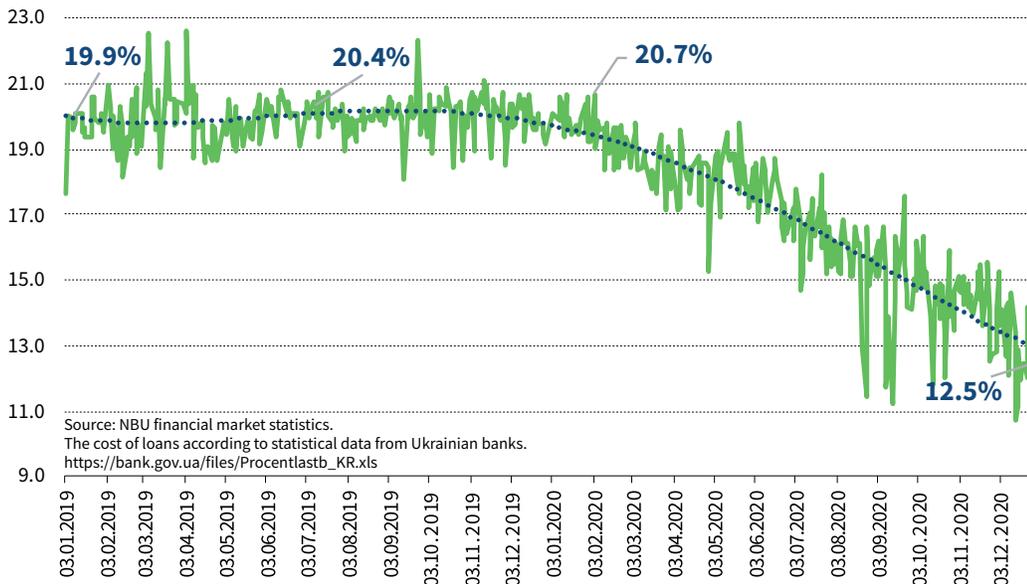
**1** The program has affected the growth of the micro and small enterprise loan portfolio by 17% in 2020.



Despite the introduction of quarantine restrictions in 2020, from which micro and small enterprises suffered to a greater extent, the volume of loans to them in the reporting period increased by 17%. According to the NBU, such a positive trend was facilitated by «Affordable Loans 5-7-9%» program.

Source: NBU financial stability report for December 2020

**2** The program in combination with monetary measures of the NBU has significantly reduced interest rates on loans for MSMEs.



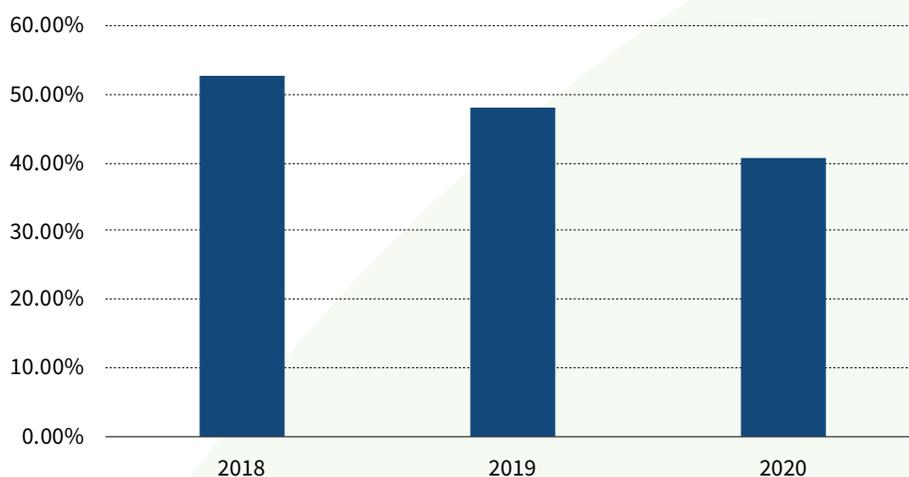
Source: NBU financial market statistics.  
The cost of loans according to statistical data from Ukrainian banks.  
[https://bank.gov.ua/files/Procentlastb\\_KR.xls](https://bank.gov.ua/files/Procentlastb_KR.xls)

Since the start of the program on 01.02.2021, interest rates on long-term loans in national currency for business entities decreased from 20.7% per annum to 12.5% per annum as of 01.01.2021 according to NBU financial market statistics.

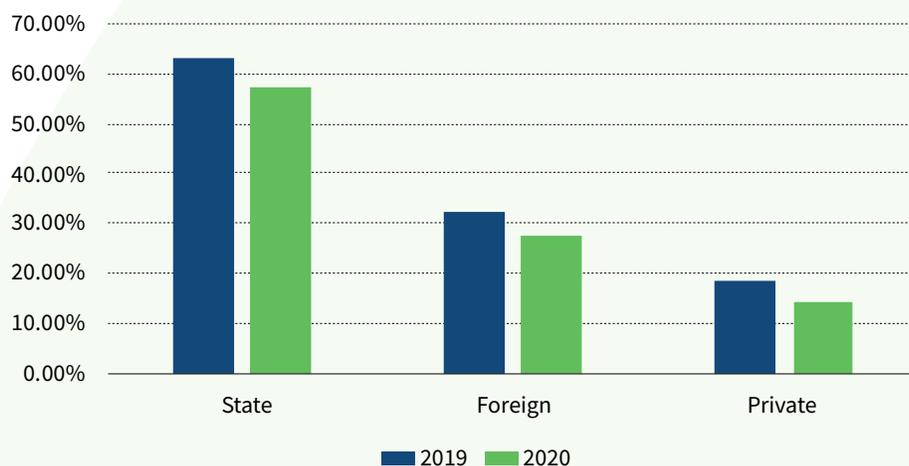
# STATE PROGRAM «AFFORDABLE LOANS 5-7-9%»

**3** The program reduced the financial burden on MSMEs during quarantine restrictions, minimizing bad debts and negative impact on the financial stability of the country.

Share of NPL in all banks



Share of NPL in banks by type of ownership



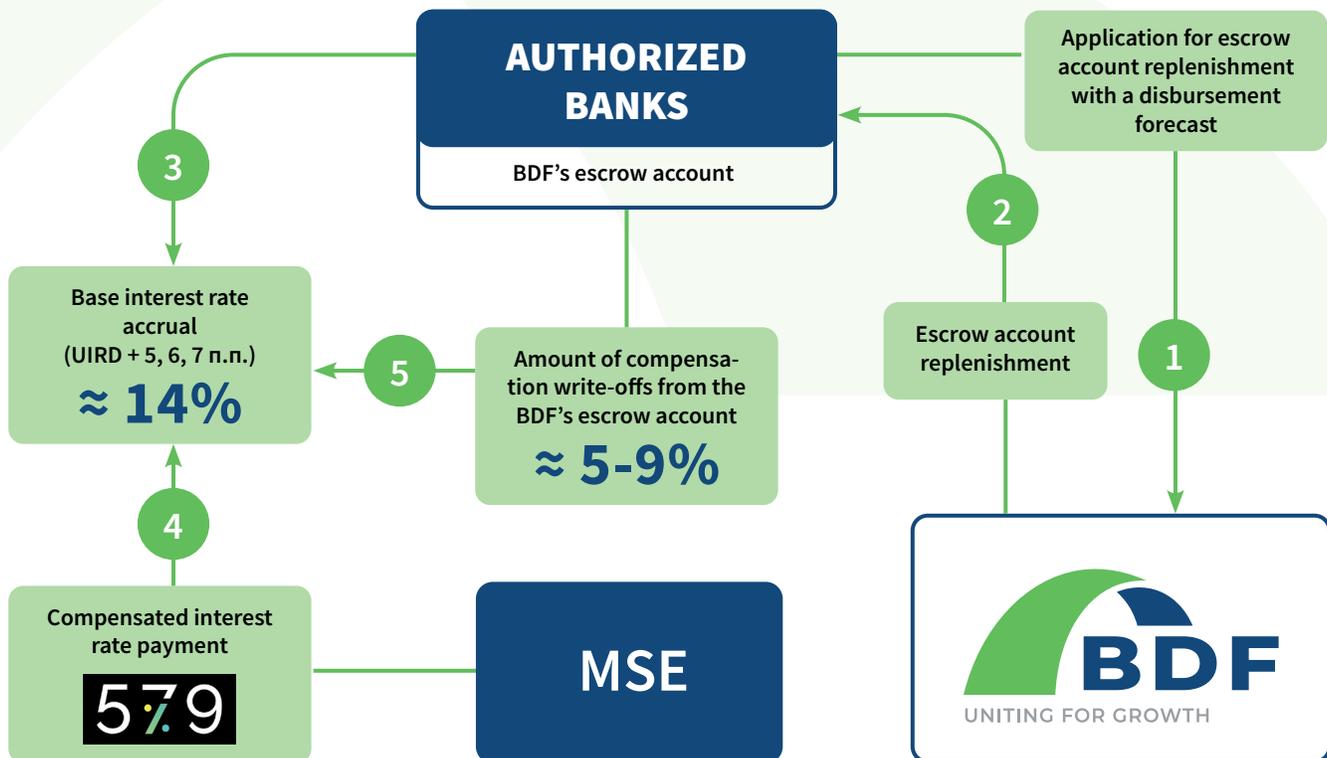
Source: National Bank of Ukraine

The level of bad debts under the program taking into account quarantine restrictions in 2020 was 0.62% as the program facilitates strengthening of the financial discipline of MSEs, without which they may lose the right to receive state support.

Thus, the program has become to some extent a buffer that restrained a possible growth of non-performing loans and provided a positive dynamic of their reduction in the banking system of Ukraine to 41% according to 2020 results.

## THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION AS OF 01.01.2021

**4** A reliable mechanism of budget subsidies with the use of escrow accounts was introduced, due to which there were no gaps in payments under the program between budget years.



The developed mechanism of budget subsidies has significantly reduced the administrative costs of authorized banks to support the program and increased guarantees of future continuous compensation payments in favour of MSEs with advance payments of state support funds to BDF's escrow accounts opened in each authorized bank.

The development and testing of such a mechanism for the state aid payment was implemented under another BDF Program of Support for MSEs in Eastern Ukraine, «FinancEast», in cooperation with KfW and in the framework of an agreement with the European Union.

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

**5** The program is highly popular among Ukrainian banks:



As of 01.01.2021, 23 banks have become authorized banks of the program. They make up nearly 95% of the banking lending market.

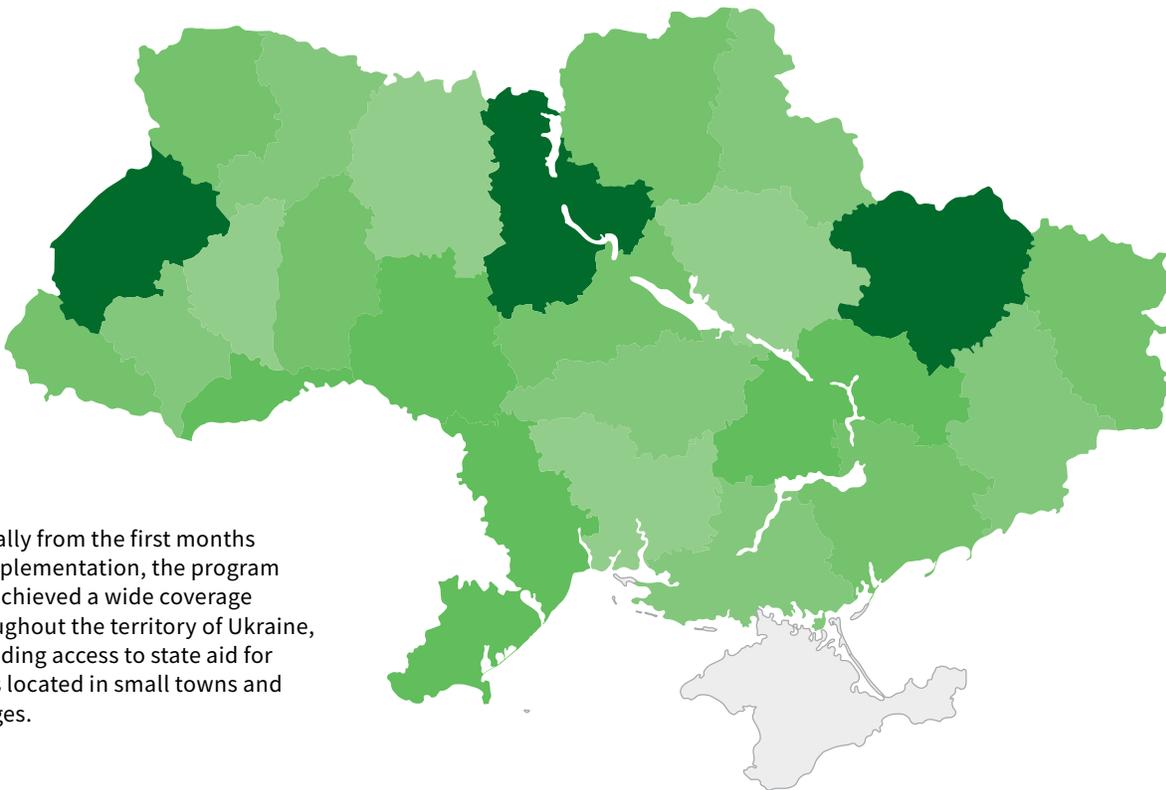
The main factors of the banks' interest in participating in the program were: the program's relevance, especially in the context of the COVID-19 crisis; the banks' confidence in the budget subsidy mechanism with an element of preliminary advanced payments of state support funds; minimization of the banks' administrative costs for interest rates compensation payments in favour of MSEs from BDF's escrow accounts.

**6** The program's impact on reducing interest rates on loans for MSMEs has had a corresponding positive effect on the cost of attracting foreign funding from international private funds under programs of support in financing MSMEs by the banks of Ukraine.

**7** By balancing the cost of lending to MSMEs on the banking market, the program promoted the focus of authorized banks on improving quality, efficiency and effectiveness of lending procedures to MSMEs to strengthen their competitive advantages.

## THE RESULTS OF THE PROGRAM IN TERMS OF INTEREST RATES COMPENSATION AS OF 01.01.2021

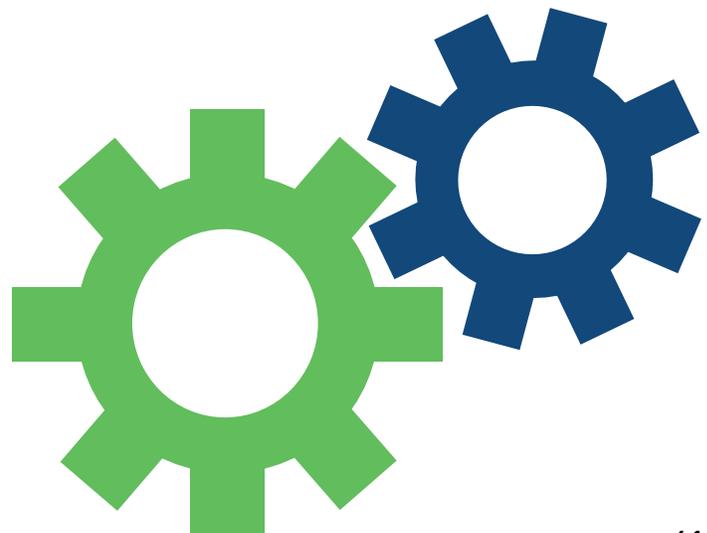
- 8** The program has a wide representation throughout Ukraine due to an extensive network of authorized bank branches.



Literally from the first months of implementation, the program has achieved a wide coverage throughout the territory of Ukraine, providing access to state aid for MSEs located in small towns and villages.

### THE PROGRAM'S MAIN RESULT

A gradual restoration of trust and the mechanism of interaction between the state and small businesses that have received real financial aid, especially in the context of the COVID-19 crisis, will increase the transparency of their activities in the future with the aim of receiving more state support for their own development.



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

## FINANCIAL SUPPORT TOOL FOR MSEs: LOAN GUARANTEES

Within the framework of the State Program «Affordable Loans 5-7-9%» a mechanism of loan guarantees for MSE loans was introduced for the first time in Ukraine, which provided for the state, in fact, sharing small business loan risks with the banking sector in order to expand and increase the volume of loans.

It should be noted that during the development of the loan guarantees mechanism Ukraine used the best world experience studied by Business Development Fund representatives in the framework of the following international projects:

1. Project of the Austrian Development Bank «Austria Wirtschaftsservice» (aws) funded by the Government of Austria for introduction of a loan guarantee system for small and medium-sized enterprises in Ukraine in order to strengthen their competitiveness.
2. The «Creating Conditions for the Launch of a Loan Guarantee Scheme for MSEs in Agrobusiness of Ukraine» Project of the Organization for Economic Cooperation and Development (OECD) funded by the Government of Sweden.
3. The «Loan Guarantee Fund Establishment for MSEs in Ukraine: Analysis and Recommendations» Project of the German Advisory Group funded by the German Government.
4. World Bank's project to establish a Loan Guarantee Agency in Ukraine.

Also, the experience of JSB «UKRGASBANK» in portfolio loan guarantees implementation in cooperation with the European Investment Bank under the European Union EU4Business initiative was used.

Thanks to the ideas developed in the framework of these projects, the Business Development Fund succeeded in developing and implementing a loan guarantee mechanism for MSEs in Ukraine in the shortest possible terms after the announcement of the program.

The main conditions and parameters of the loan guarantee mechanism are determined by the Procedure for Providing State Financial Support to Small and Medium-sized Enterprises, approved by resolution No. 28 of the Cabinet of Ministers of Ukraine dated 24.01.2020. To implement the mechanism of loan guarantees, the Fund's authorized capital was increased by UAH 500 million in accordance with the Procedure for the Use of State Budget Funds to Ensure the Functioning of the Business Development Fund, approved by resolution No. 29 of the Cabinet of Ministers of Ukraine dated 24.01.2020.

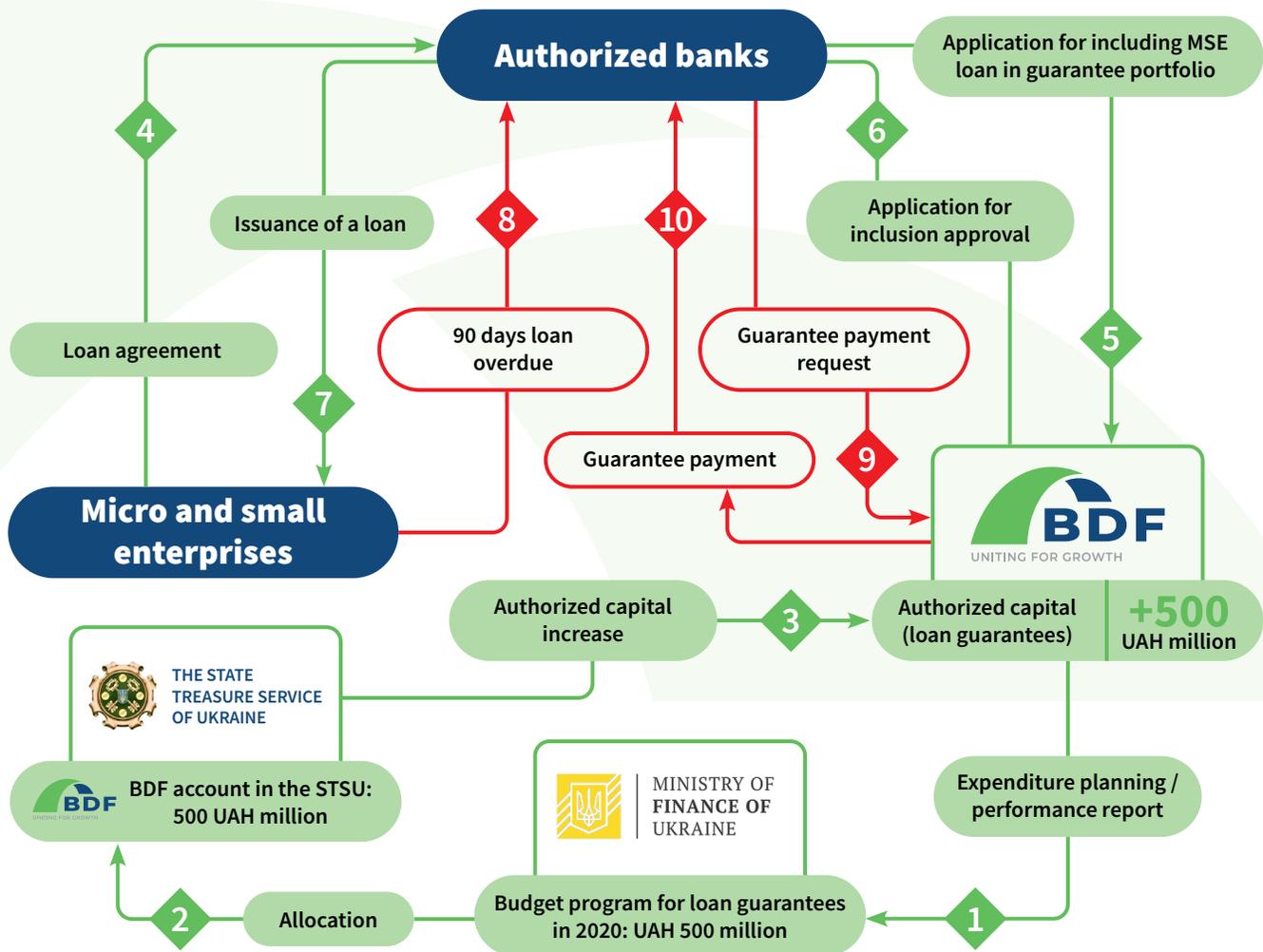
Under the «Affordable Loans 5-7-9%» program, the Fund provides portfolio loan guarantees in the amount from 50% to 80% of the amount of the loan for MSEs, but not more than 50% of the total size of the guaranteed loan portfolio for MSEs of an authorized bank.

According to 2020 results, due to the Fund's guarantees, authorized banks issued loans to micro and small enterprises in the total amount of UAH 603.2 million, at the same time the portfolio guaranteed by the Fund amounted to UAH 411.4 million.

**IT IS IMPORTANT TO NOTE THAT THE SIZE OF BAD DEBTS OF MSEs, WHICH COULD BE THE BASIS FOR GUARANTEE CASES, WITHIN THE FRAMEWORK OF THE MECHANISM OF LOAN GUARANTEES UNDER THE PROGRAM AMOUNTED TO 0.0% AS OF 01.01.2021. AT THE SAME TIME, THE INCREASE IN THE GUARANTEE FUND ACCORDING TO THE 2020 RESULTS AMOUNTED TO UAH 365.8 THOUSAND, WHICH WAS ACHIEVED THROUGH THE COMMISSION FOR PROVIDING THE FUND'S GUARANTEE.**

This data indicates the effectiveness of the introduced loan guarantee mechanism for MSE loans, which will continue to be used to support funding of MSEs under «Affordable Loans 5-7-9%» program.

## LOAN GUARANTEE SCHEME



To implement the program in terms of loan guarantees, the following documents were developed:

1. Procedure for Providing State Support to MSEs, approved by resolution No. 28 of the Cabinet of Ministers of Ukraine dated 24.01.2020.
2. Business Development Fund's Program «Affordable Loans 5-7-9%».
3. Regulations on the loan guarantee mechanism administration.
4. A copy of the guarantee agreement.

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

## THE RESULTS OF THE PROGRAM IN TERMS OF LOAN GUARANTEES AS OF 01.01.2021

**4**

number of  
authorized  
banks

**641,5**

UAH MILLION  
SME portfolio  
with Fund's  
guarantee

**441,3**

UAH MILLION  
guaranteed  
SME portfolio

**500,4**

UAH MILLION  
guarantee fund  
amount

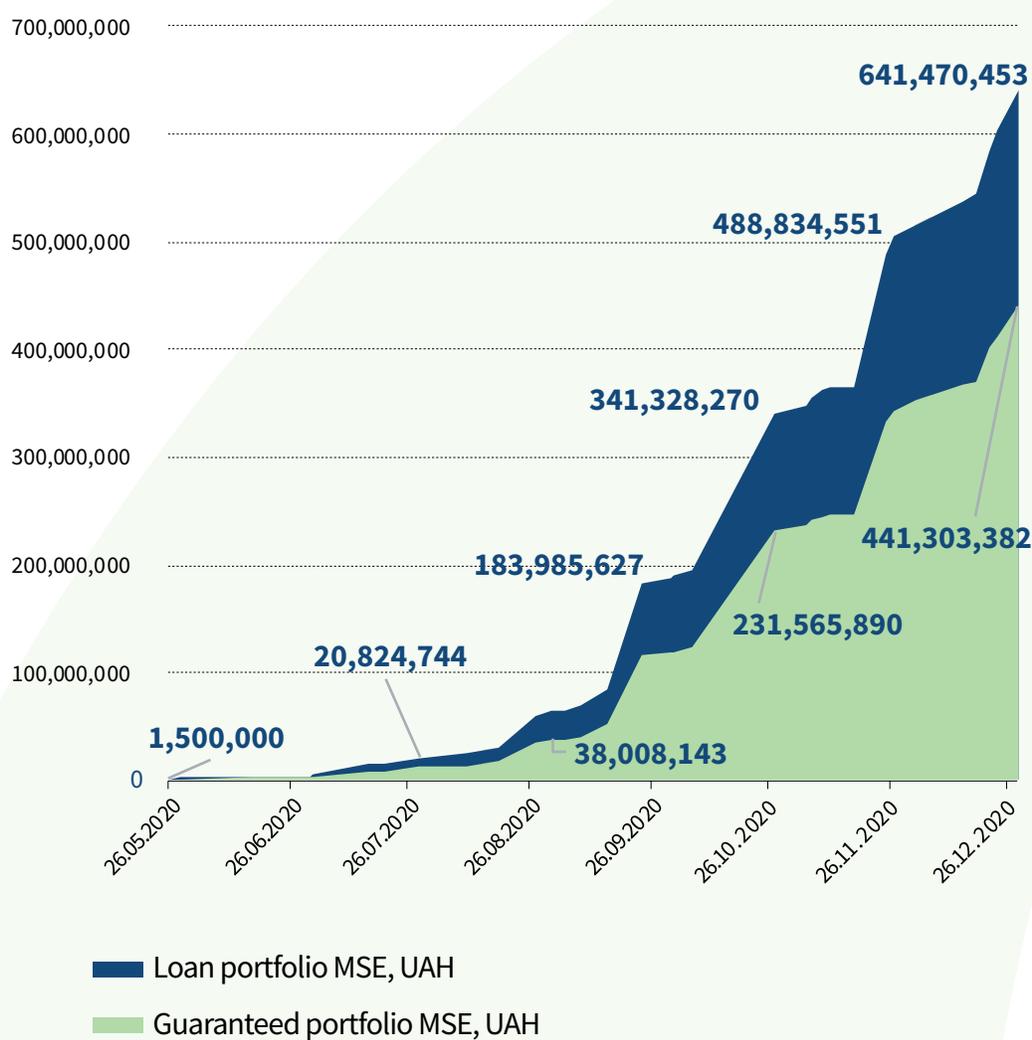
**365,8**

UAH THOUSAND  
guarantee  
fund increase  
(commission)

**0,00%**

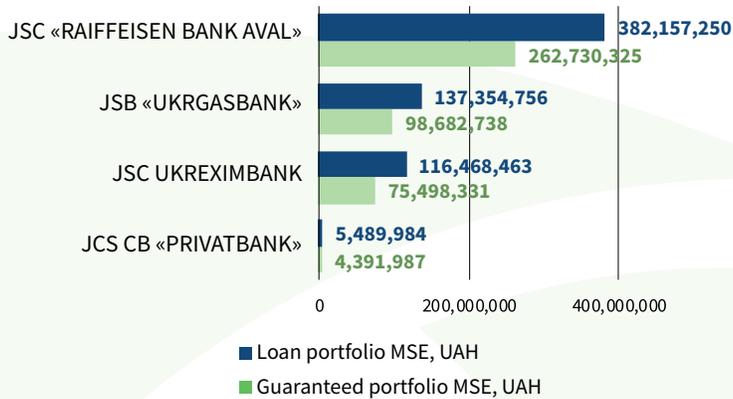
defaults  
level

Development of MSE loan and guaranteed portfolios



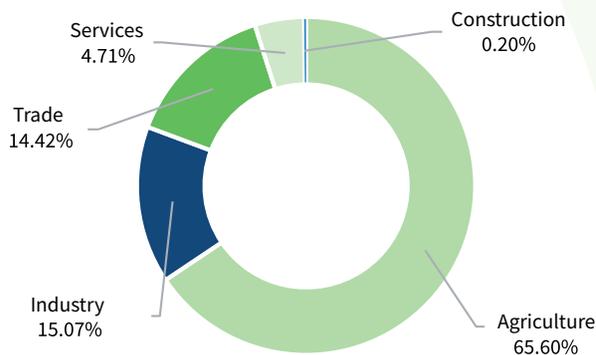
During the first year of the «Affordable Loans 5-7-9%» program, the loan guarantee mechanism introduced under the program has shown a high growth rate of the MSE guaranteed portfolio with a zero level of defaults.

### Loan and guaranteed MSE portfolios in terms of banks, UAH



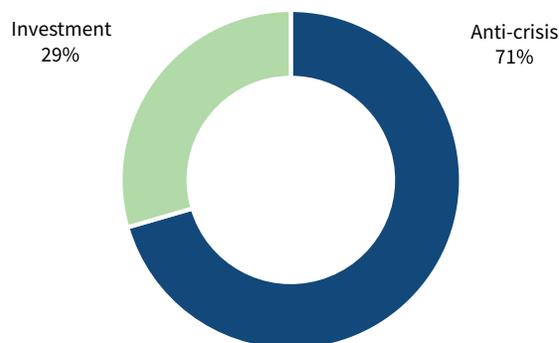
According to 2020 results, 4 authorized banks were active program participants in terms of loan guarantees. They quickly mastered and implemented the loan guarantee mechanism combining it with MSE lending procedures that allowed them to expand funding of enterprises that could not take part in the program without a guarantee.

### MSE guaranteed portfolio structure by economic activities, %



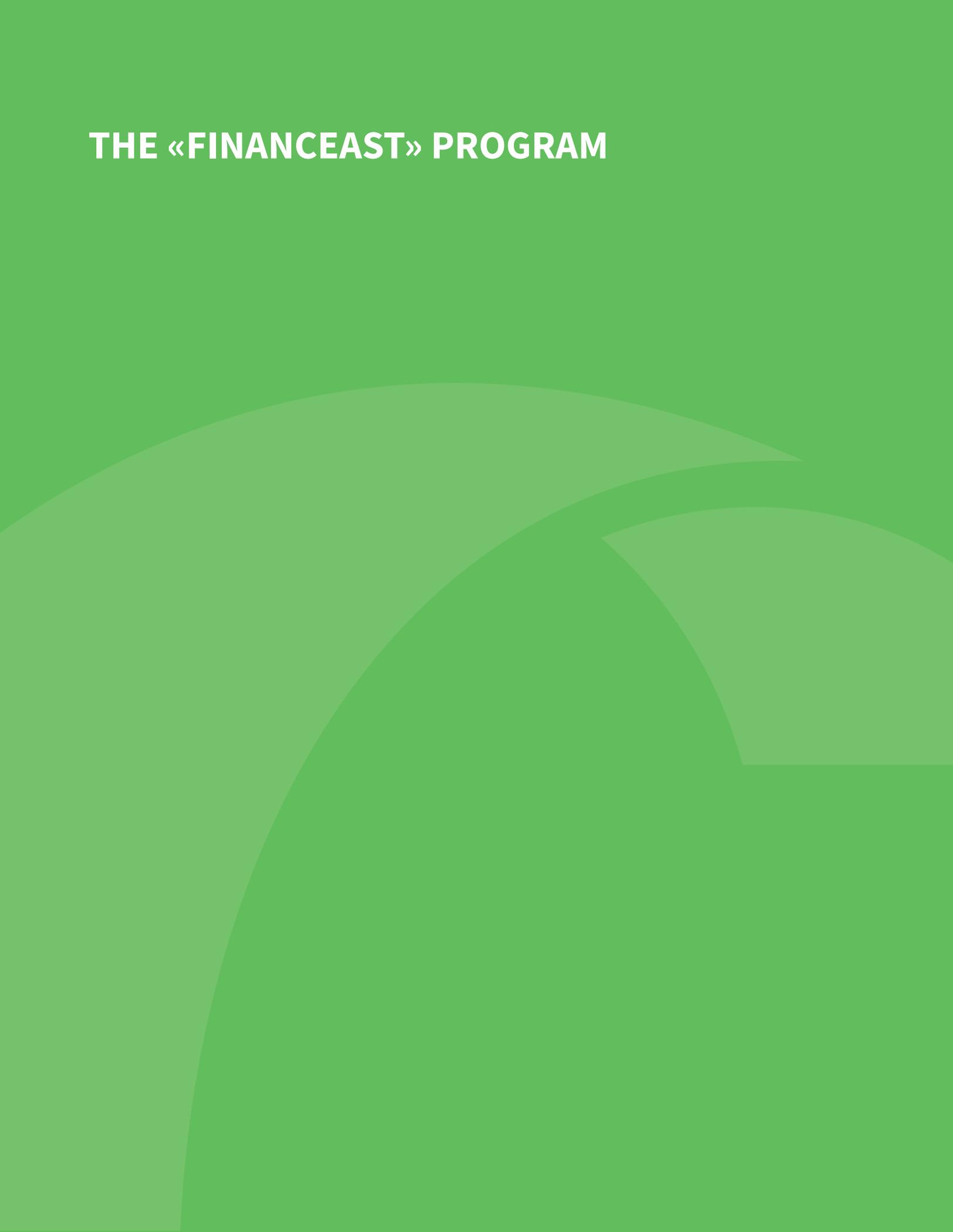
The structure of the MSE guaranteed portfolio by type of economic activity in general repeats the overall trends of the MSE loan portfolio program, which is dominated by enterprises operating in agriculture, industry and trade.

### MSE guaranteed portfolio structure by components, %



Expanding the possibility of using the Fund's loan guarantees within the Anti-crisis component of the «Affordable Loans 5-7-9%» program allowed to support a significant number of MSEs that temporarily faced difficulties associated with short-term liquidity shortage due to quarantine restrictions.

# THE «FINANCEAST» PROGRAM

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## ENTREPRENEURS IN EASTERN UKRAINE HAVE DEMONSTRATED A HIGH INVESTMENT POTENTIAL



The «FinancEast» program is implemented under the Component 2 of «Economic Recovery and MSME Development» of «EU Support to the East of Ukraine» agreement between the Government of Ukraine and the European Commission, as well as EU4Business initiatives.

The program is implemented by the Business Development Fund with indirect management by the German Development Bank KfW, with which a Financial Agreement dated 14.05.2019 was concluded.

Support of financing for MSME investments under the program was provided by using an instrument of compensation of 50% of the investment project cost, which essentially played a dual role: for entrepreneurs, it covered half of the investment costs, thus

**THE MAIN GOAL OF THE FINANCEAST PROGRAM IS TO RESTART FINANCING PROGRAMS FOR MSME INVESTMENTS IN EASTERN UKRAINE, WHICH WILL CONTRIBUTE TO THE ACHIEVEMENT OF THE FOLLOWING STRATEGIC GOALS:**

- economic recovery of eastern Ukraine;
- intensifying MSME business and investment activity in the region;
- expanding the presence of financial and banking institutions that will provide financing to MSME investments on a permanent basis;
- gradual restoration of peace in eastern Ukraine.

## ENTREPRENEURS IN EASTERN UKRAINE HAVE DEMONSTRATED A HIGH INVESTMENT POTENTIAL

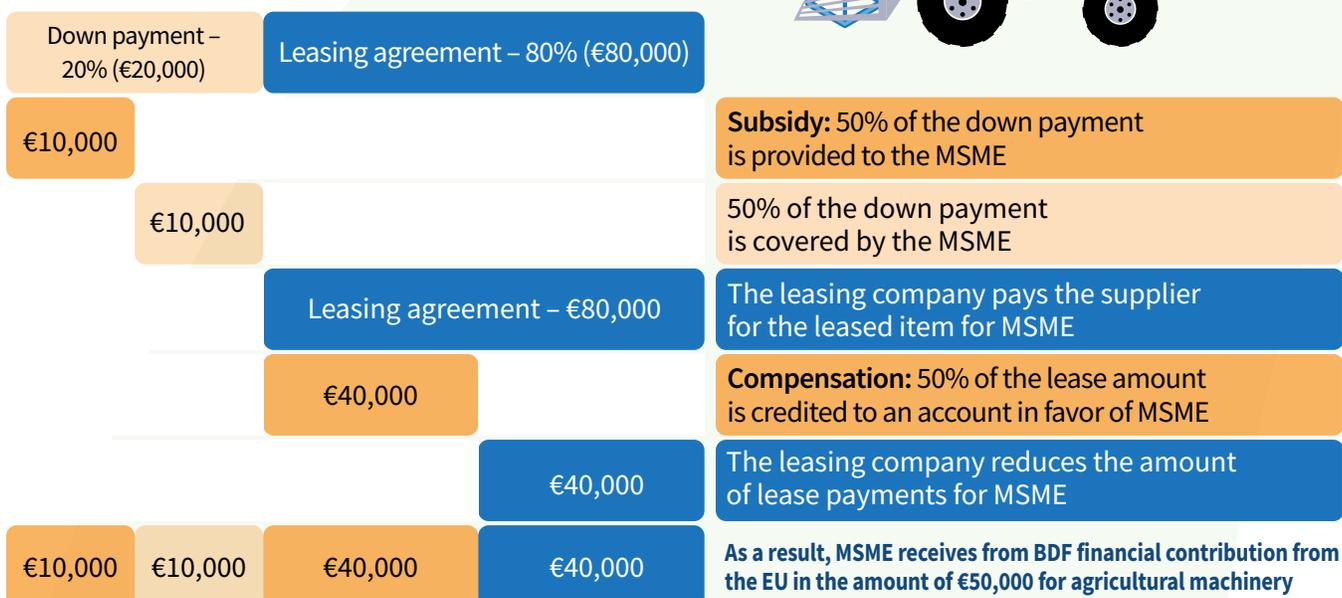
encouraging business activity; and served as a coverage of half of the loan or lease amount guarantee for partner institutions, thus minimizing their risks and increasing their loan and leasing operations in the region.

After the signing of the Financial Agreement on 14.05.2019 between BDF and KfW, a preparatory phase started, which included development of a mechanism for implementing the program by using escrow-accounts, operating manual, draft agreements with partner financial institutions, program eligibility criteria for MSMEs and partner institutions, a selection of partner institutions. According to the results of this selection, OTP Leasing LLC, JSC «Oschadbank» and JSB «UKRGASBANK» became the program's partner institutions.

The active phase of the «FinancEast» program began in January 2020, when partner institutions provided the selection and financing of MSME investment projects. According to 2020 results, MSME investment projects were financed for a total of UAH 602.5 million. The Fund used 92% of the European Union's total financial aid in the form of compensation to cover 50% of the value of investments.

**THUS, ENTREPRENEURS IN EASTERN UKRAINE HAVE DEMONSTRATED A HIGH DEMAND AND INVESTMENT POTENTIAL, WHICH IS AN IMPORTANT PREREQUISITE FOR RAPID ECONOMIC RESTORATION AND ESTABLISHMENT OF PEACE IN EASTERN UKRAINE.**

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



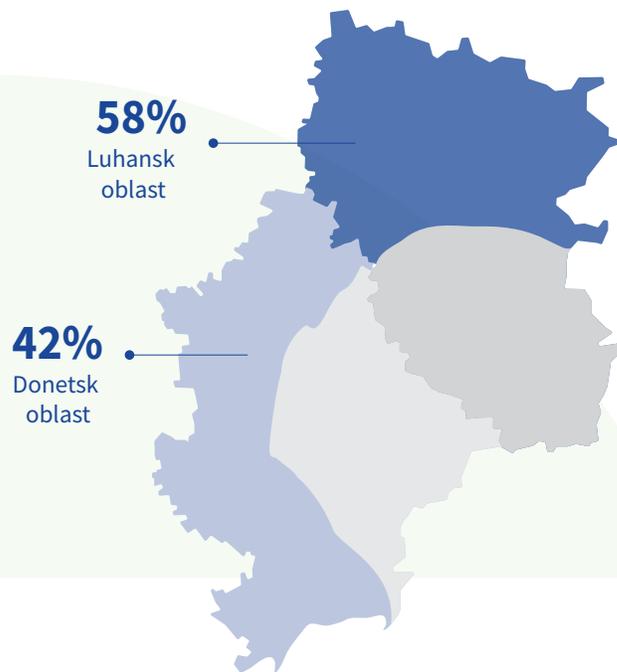
# THE «FINANCEAST» PROGRAM

PARTNER INSTITUTIONS HAVE SIGNIFICANTLY EXPANDED THEIR PRESENCE AND SCOPE OF OPERATIONS IN THE REGION

## 147 MSME investment projects

**602.50 UAH million**

The amount of supported MSMEs investment projects

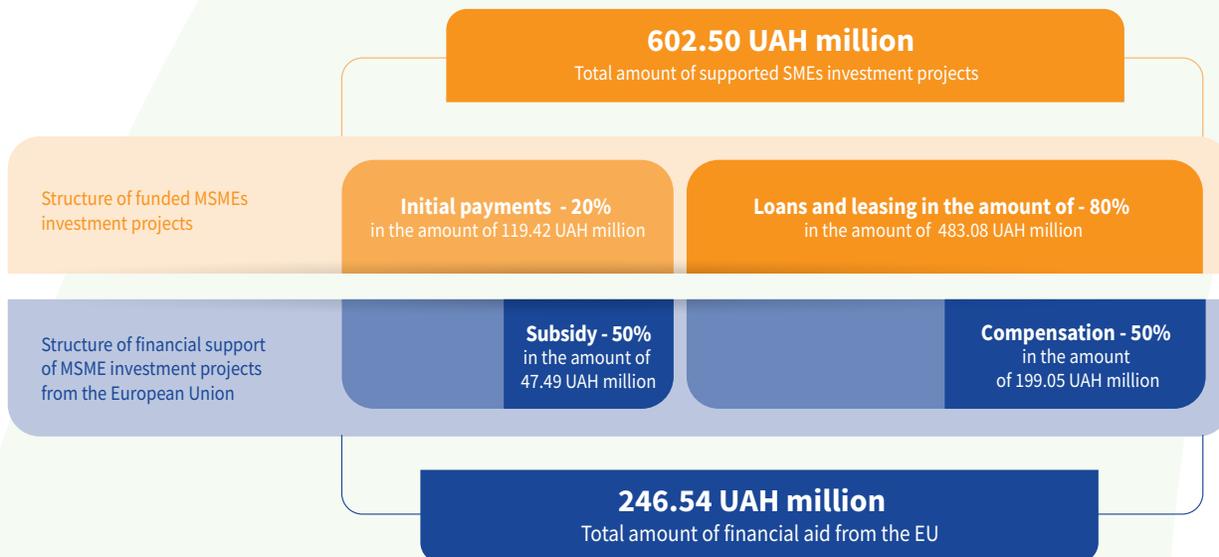
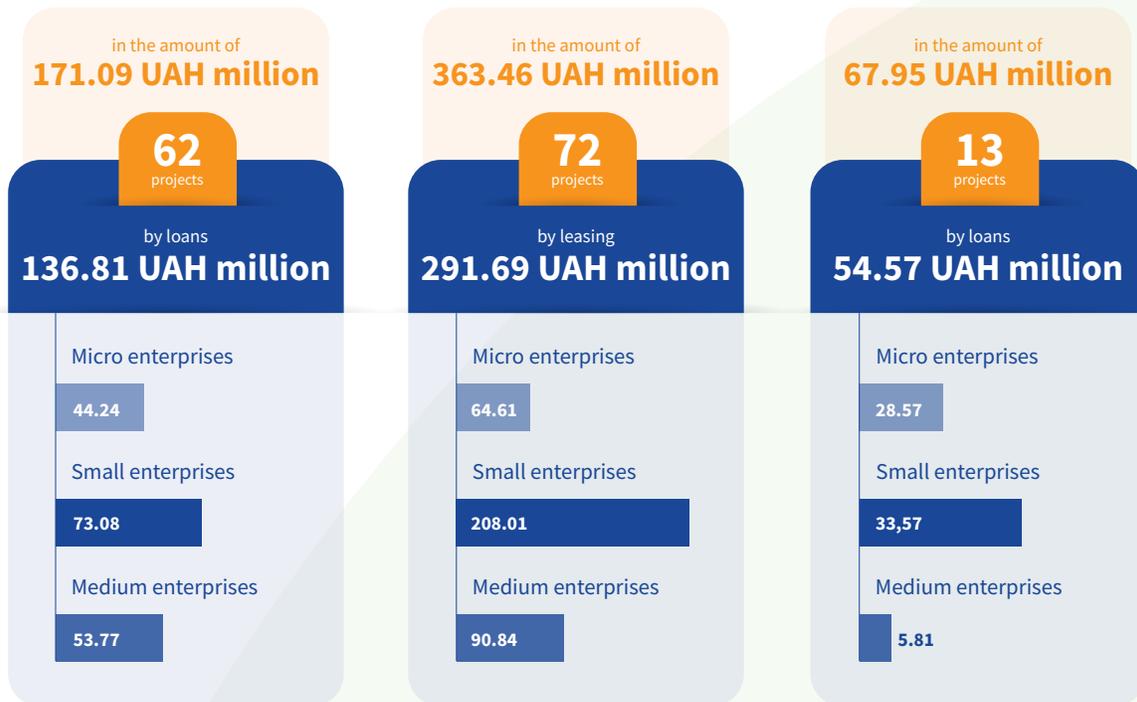
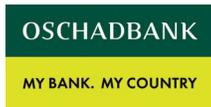


## Scope of activity of MSME program participants



# THE «FINANCEAST» PROGRAM

## THE AMOUNT OF FINANCIAL AID FOR MSMES IN EASTERN UKRAINE FROM THE EUROPEAN UNION



# EXPANSION OF BDF'S CIRCLE OF PARTNER BANKS



## IN 2020, JSC «UKREXIMBANK» JOINED THE LIST OF BDF PARTNER BANKS

Within the framework of the Cooperation Agreement and loan agreements concluded on 06.11.2020 the Business Development Fund provided loans to JSC «UKREXIMBANK» for the SMEs Investment Support Program and for the MSMEs Lending Program in priority areas totalling UAH 60 million.

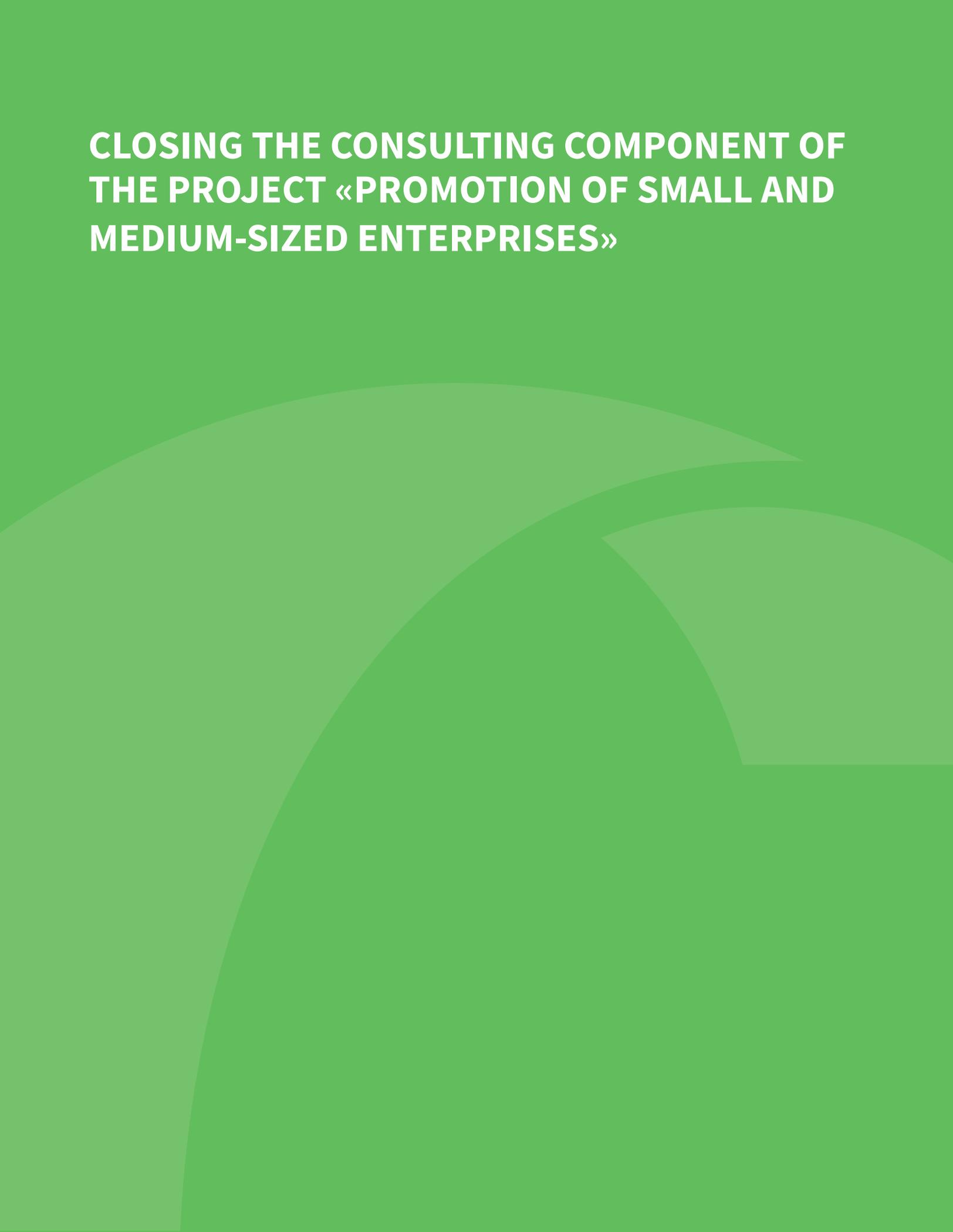


### Reference:

A **partner bank** is a banking institution that participates in BDF's loan programs.

An **authorized bank or partner institution** is a bank or financial institution that participates in BDF's national or international subsidy/compensation programs.

**CLOSING THE CONSULTING COMPONENT OF  
THE PROJECT «PROMOTION OF SMALL AND  
MEDIUM-SIZED ENTERPRISES»**

The background is a solid green color. In the lower half, there are several overlapping, semi-transparent, curved shapes that resemble stylized hills or abstract architectural forms. These shapes are in various shades of green, creating a layered effect.

**BRIEF DESCRIPTION OF THE PROJECT:**

Project implementation started in 2013 within the framework of the Loan and Grant Agreement dated 29.12.2012 concluded between the Government of Ukraine, the Fund and KfW.

**The project consisted of two components:**

**I. Investment component** in the form of a loan from the German Government provided to Ukraine through KfW in the amount of EUR 10 million for 40 years with a grace period of 10 years.

**II. Advisory component** provided by a grant of EUR 2 million for funding of the following advisory activities:

- GUF’s institutional development.
- GUF’s advisory support to partner banks for microlending system development.
- marketing activities, organization and holding of three financial fairs.

The Project was expanded with financial aid from the European Union in the amount of EUR 5 million implicated by KfW in 2017 to compensate for the Fund’s possible currency losses for lending to small and medium-sized enterprises in the national currency through the loan.

The Project’s advisory component was implemented with participation of the Frankfurt School of Finance and Management.

**Consulting component**  
The main areas of institutional development of the German-Ukrainian Fund

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The implementation of the following measures of institutional development of the German-Ukrainian fund has influenced the effectiveness of its activities and GUF’s positioning as a national institution for supporting SME financing.

<p style="text-align: center;"><b>INVESTMENT POLICY</b></p> <p style="text-align: center;">Introduction of a transparent investment policy for lending to partner banks</p>	<p style="text-align: center;"><b>RISK MANAGEMENT POLICY</b></p> <p style="text-align: center;">A flexible risk management policy with the differentiation of requirements depending on individual characteristics of partner banks</p>	<p style="text-align: center;"><b>CHANGE OF ORGANIZATIONAL STRUCTURE</b></p> <p style="text-align: center;">A new organizational structure at the Ministry of finance of Ukraine with an independent investment unit responsible for managing GUF’s activities</p>
<p style="text-align: center;"><b>CORPORATE GOVERNANCE</b></p> <p style="text-align: center;">A new corporate governance structure with a clear division of power between GUF’s governing bodies defined in an updated charter</p>	<p style="text-align: center;"><b>MARKETING CAMPAIGN</b></p> <p style="text-align: center;">GUF’s brand was developed and a large number of communication events was held (financial fairs, conferences, round tables)</p>	<p style="text-align: center;"><b>REMUNERATION POLICY BASED ON KPIS</b></p> <p style="text-align: center;">A new remuneration policy based on GUF’s clear performance indicators (KPIs)</p>

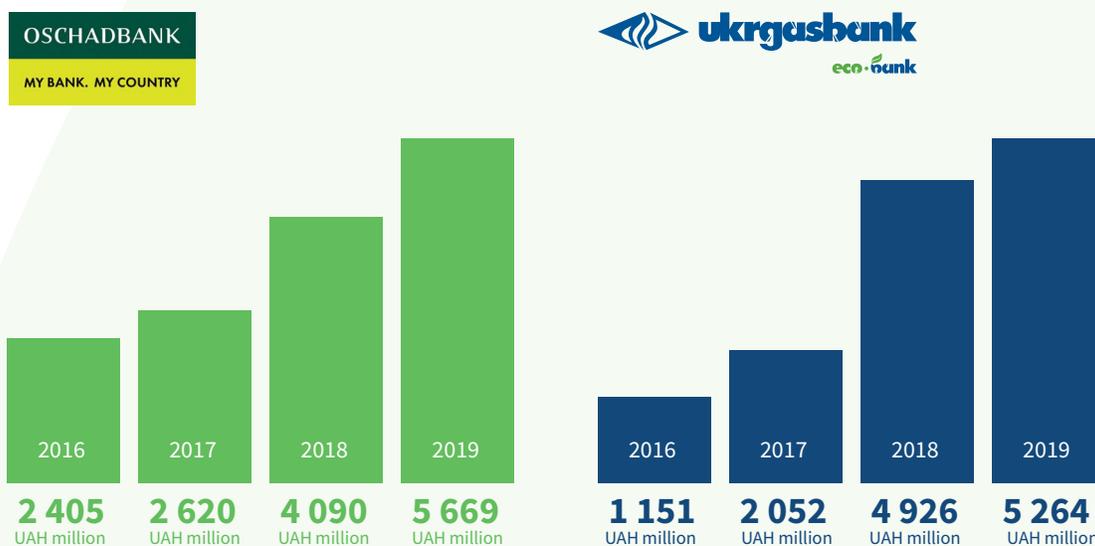
# CONSULTING COMPONENT. RESULTS OF CONSULTING SUPPORT TO PARTNER BANKS

## 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 micro lending technology	Optimization of procedures and processes for SME lending	Development of a new micro lending 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 micro lending technology in regions of Ukraine

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

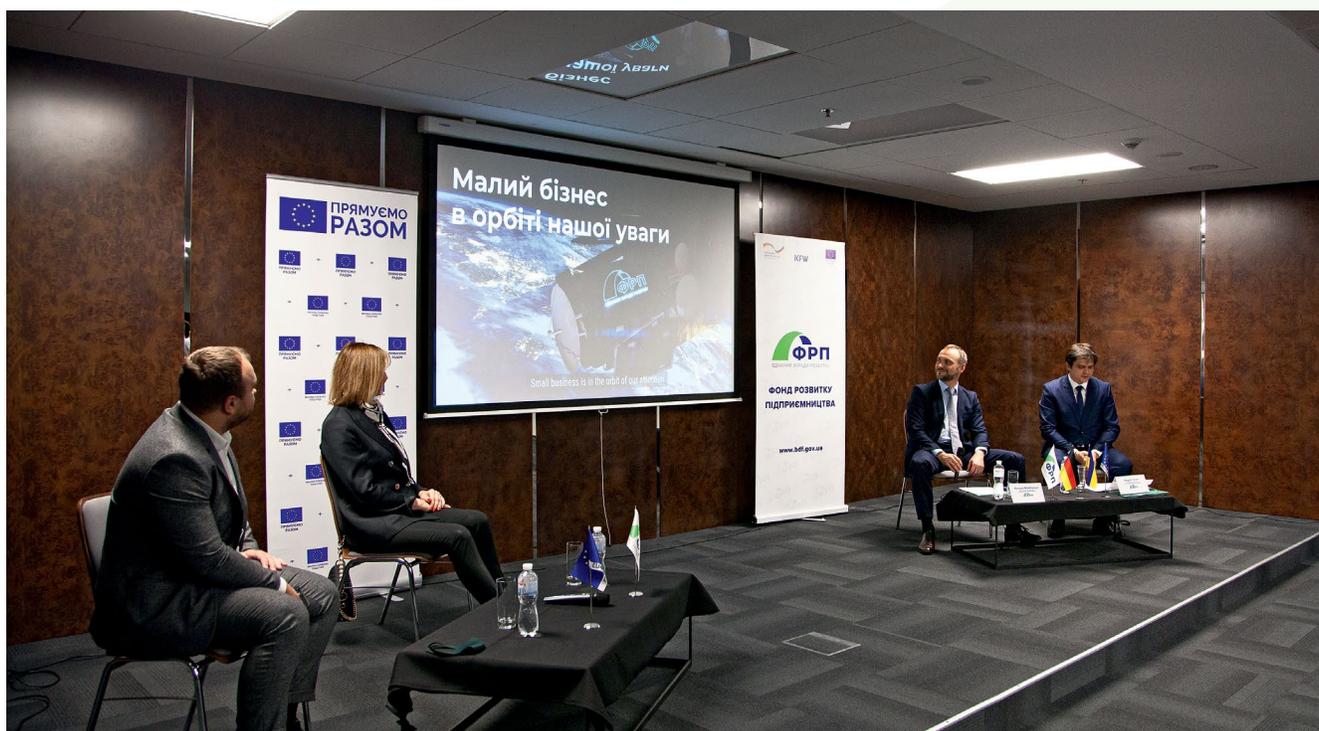
Today JSB «UKRGASBANK» and JSC «OSCHADBANK» are the leaders in lending to micro and small borrowers under the State Program «Affordable loans 5–7–9%».





# BUSINESS DEVELOPMENT FUND'S COMMUNICATION ACTIVITIES IN 2020

A KEY ON-LINE EVENT FOR PRESENTING RESULTS OF THE PROJECT «PROMOTION OF SMALL AND MEDIUM-SIZED ENTERPRISES»



## The event was attended by:

The Ambassador Extraordinary and Plenipotentiary of Germany to Ukraine, Minister of Finance of Ukraine, Head of Cooperation Programs of the EU Delegation to Ukraine, Deputy Director of KfW office in Ukraine, representatives of the Business Development Fund, Frankfurt School of Finance and management, partner banks (Oschadbank, Ukrgasbank, Kredobank, Bank Lviv, CreditWest Bank, Ukreximbank).



## 2 VIDEOS WITH THE RESULTS OF THE PROJECT PREPARED



**ANKA FELDHUSEN**  
Ambassador Extraordinary and Plenipotentiary of the Federal Republic of Germany to Ukraine

Germany was able to provide the basis for the success



Small business is in the orbit of our attention

## A PUBLIC VERSION OF THE REPORT ON THE RESULTS OF THE SME PROMOTION PROJECT HAS BEEN PREPARED



## COVERAGE OF THE EVENT IN THE MEDIA

# 2

2 TV stories

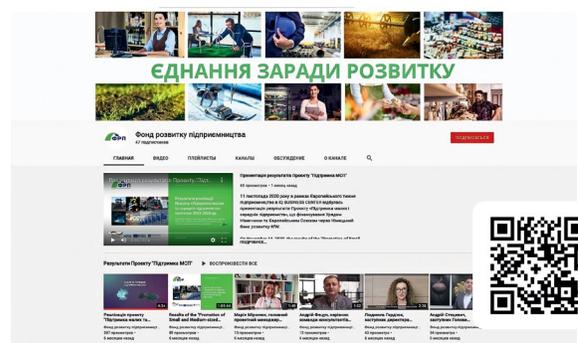
# 1

1 broadcast on the radio

# 32

32 online publications on leading Internet resources

## VIDEOS OF ALL SPEAKERS FOR THE ONLINE FORMAT OF THE EVENT HAVE BEEN PREPARED

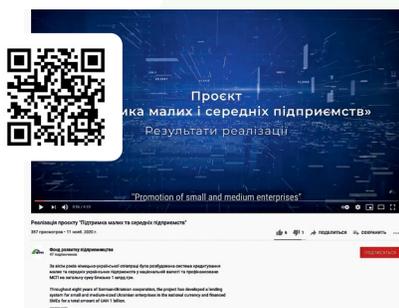


# BUSINESS DEVELOPMENT FUND's COMMUNICATION ACTIVITIES IN 2020

**21 SUCCESS STORIES** HAVE BEEN PREPARED WITHIN THE FRAMEWORK OF THE SME PROMOTION PROJECT AND «FINANCEAST» PROGRAM



BDF's **YOUTUBE** CHANNEL HAS BEEN LAUNCHED.



PARTICIPATION IN **3 RADIO BROADCASTS** ON RADIO «NV» WITH A PRESENTATION OF BDF's AID PROGRAMS TO SMEs



A JOINT PROJECT WITH EKONOMICHNA PRAVDA HAS BEEN INTRODUCED,  
2 ARTICLES HAVE BEEN PREPARED WITHIN ITS FRAMEWORK

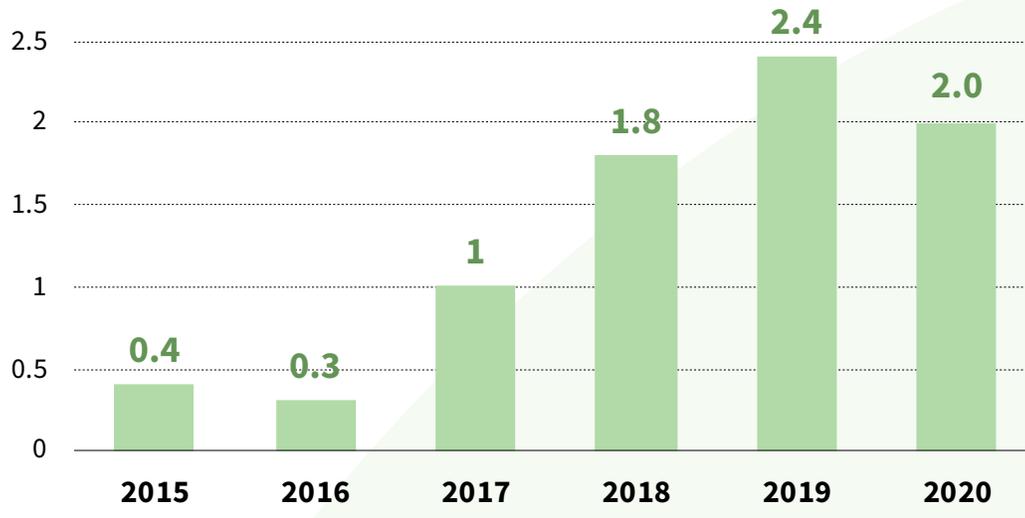


BROCHURES WITH SMEs SUCCESS STORIES HAVE BEEN PREPARED



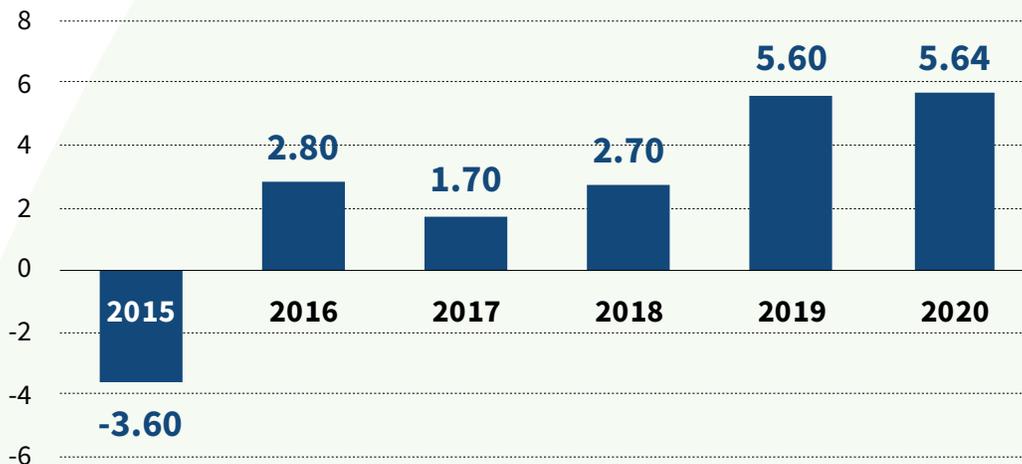
# BUSINESS DEVELOPMENT FUND'S 2020 FINANCIAL STATEMENT

Net interest income, million EUR



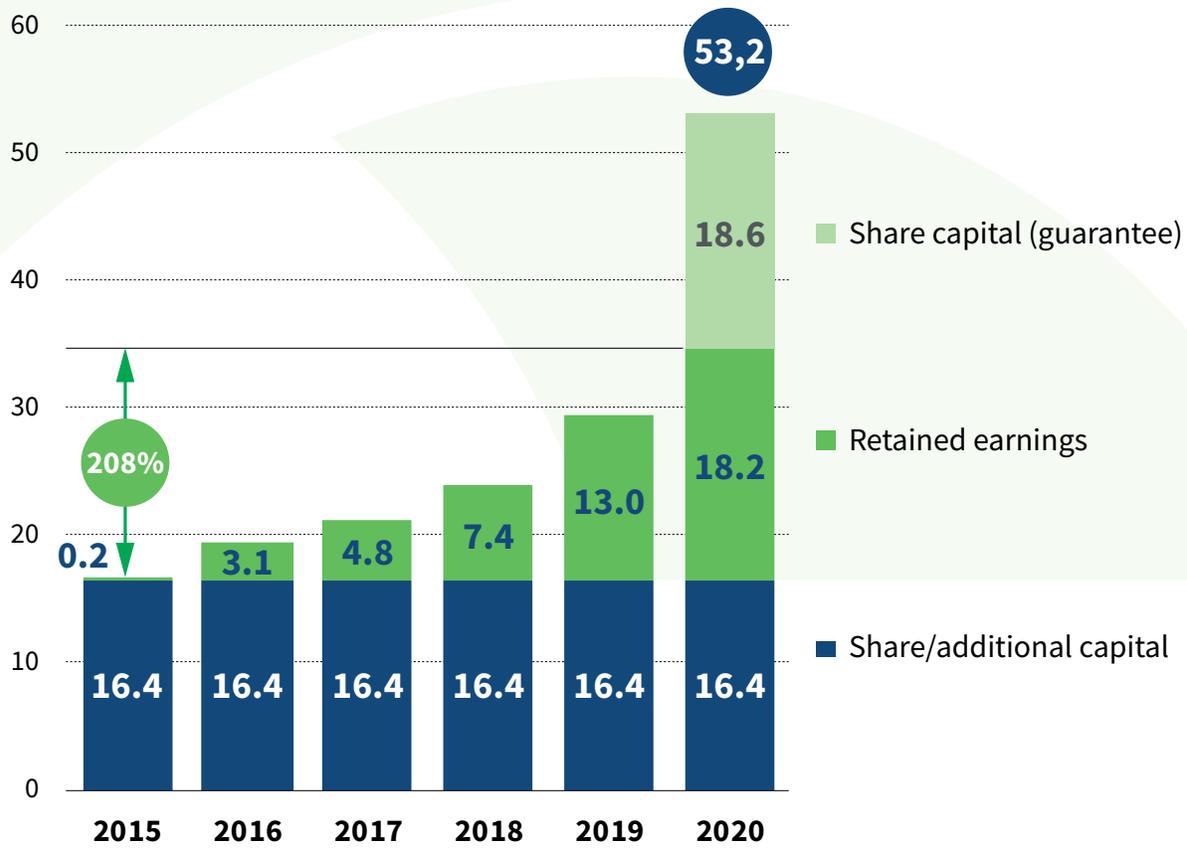
The decline in net interest income was due to the fall of the UIRD index, which is the basis for calculating the Fund's interest rates.

Net profit from lending operations, million EUR



Net profit in 2020 saw a slight increase due to the high transformation of the Fund's funds into loans of partner banks at a level of 97% and a fair revaluation of value of the compensation tool for currency risks from the European Union.

## The Fund's equity, million EUR



The Fund's equity in 2020 continued to grow due to an increase in retained earnings. Compared to 2015, retained earnings increased more than twofold (208%).

The total amount of BDF's equity by the end of 2020 amounted to EUR 53.2 million due to an increase of authorized capital for loan guarantee payments within the «Affordable Loans 5-7-9%» program.

# BUSINESS DEVELOPMENT FUND'S 2020 FINANCIAL STATEMENT

## FINANCIAL STATEMENT AS OF 31 DECEMBER 2020, EURO

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	48 173 057	4 140 139
Loans to banks	39 252 846	42 339 574
Non-current assets	6 736	7 203
Loan commitment fee	180	538
Guarantee fee	7 342	-
Derivative financial tool	3 525 450	2 020 139
Accounts receivable under Grant	47 360	-
Amount of losses from exchange rate fluctuations to be reimbursed	64 250	-
Prepayment for services	672	3 527
<b>Total assets</b>	<b>91 077 893</b>	<b>48 511 120</b>
<b>Liabilities</b>		
Loans received	15 974 000	16 202 000
Remuneration for administration	116 794	91 691
Grant received from KfW under the «FinancEast» program	1 865 163	2 819 511
Grant received under the "5-7-9%" program	31 124 541	-
Reserve for guarantees provided under the "5-7-9%" program	471 084	-
Securing future payments	983	-
Accounts payable under the «FinancEast» program under Grant	22 175	-
<b>Total obligations</b>	<b>49 574 740</b>	<b>19 113 202</b>
<b>Equity</b>		
Share capital	28 881 092	10 225 838
Additional capital	6 135 502	6 135 502
Retained earnings	18 181 369	13 036 578
Total equity	53 197 963	29 397 918
Translational differences	(11 694 810)	-
<b>Total liabilities, equity and translational differences</b>	<b>91 077 893</b>	<b>48 511 120</b>

## TOTAL PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED ON 31 DECEMBER 2020, EURO

	2020	2019
Interest income	2 195 210	2 547 958
Interest expenses	-161 450	-165 253
Net interest income	2 033 760	2 382 705
Provision for loan impairment	1 447	43 652
Reserve for provided guarantees	-478 096	-
Net interest income after deducting the reserve for loan impairment	1 557 111	2 426 357
Commission income	38 269	31 611
Gains minus losses from foreign currency revaluation	3 081 168	3 121 724
Grant's revaluation (discount) in the amount of foreign currency account revaluation	(499 131)	-
Other operating income	5 305	2 740
Income from the recognition (change) in the fair value of a derivative financial instrument	1 569 561	364 562
Operating costs	-601 060	-351 175
Gains from the Grant implementation	18 833 553	51 387
Expenses from the Grant implementation	(18 839 985)	-51 387
Profit before tax	5 144 791	5 595 819
Net profit (loss)	5 144 791	5 595 819
Other comprehensive income and loss	-	-
<b>Total aggregate profits and losses for the year</b>	<b>5 144 791</b>	<b>5 595 819</b>

# BUSINESS DEVELOPMENT FUND'S 2020 FINANCIAL STATEMENT

## CASH FLOW STATEMENT FOR THE YEAR ENDED ON 31 DECEMBER 2020, EURO

	2020	2019
<b>Cash flows from operating activities</b>		
Interest received from bank loans	2 412 748	2 379 963
Operating expenses paid	-555 788	-342 707
Payments and commissions received	13 533	48 570
Other operating income received	2 522	-
Cash flows from operating activities before changes in operating assets and liabilities	1 873 015	2 085 826
<b>Changes in operating assets and liabilities</b>		
Loans to banks	(5 266 562)	-18 285 409
Loans repaid by banks	3 509 437	11 633 318
Net cash received from operating activities	115 890	(4 566 265)
<b>Cash flows from financial activities</b>		
Loan repayment to the Ministry of Finance of Ukraine	(228 000)	(228 000)
Interest and commissions paid for loan commitments	-161 450	-165 253
Net cash used for financial activities	-389 450	(393 253)
<b>Cash flows from other activities</b>		
KfW grant funds receipt under the «FinancEast» program	5 333 000	2 833 000
KfW grant fund expenditures under the «FinancEast» program	(6 116 363)	(12 580)
Grant fund receipts from the Government of Ukraine under the "Affordable Loans 5-7-9%" program	47 662 441	-
Funds received from the Government of Ukraine to increase the Fund's capital to cover guarantees under the "Affordable Loans 5-7-9%" program	18 655 254	-
Commissions received from banks for the provision of guarantees under the "Affordable Loans 5-7-9%" program	3 050	-
Expenditures at the expense of grant under the "Affordable Loans 5-7-9%" program	(12 493 536)	-
Payment to consultant under grants	(89 118)	-
Compensation received from KfW under grants	51 985	-
Net cash used for other activities	53 006 713	2 820 420
Impact of exchange rate fluctuations on cash and cash equivalents	680 559	251 537
Net changes in cash and cash equivalents	53 413 712	(1 887 561)
Cash and cash equivalents at the beginning of the year	4 140 139	6 027 700
Translational differences	(9 380 794)	-
Cash and cash equivalents at the end of the year	48 173 057	4 140 139

## CHANGES IN EQUITY STATEMENT FOR THE YEAR ENDED ON 31 DECEMBER 2020, EURO

	<b>Authorized capital</b>	<b>Additional capital</b>	<b>Retained earnings</b>	<b>Capital, total</b>
Balance as of 31 December 2018	16 361 340	-	7 440 759	23 802 099
Changes in authorized capital	(6 135 502)	-	-	(6 135 502)
Changes in additional capital	-	6 135 502	-	6 135 502
Total aggregate profits and losses for the year	-	-	5 595 819	5 595 819
Balance as of 31 December 2019	10 225 838	6 135 502	13 036 578	29 397 918
Changes in authorized capital	18 655 254	-	-	18 655 254
Total aggregate profits and losses for the year	-	-	5 144 791	5 144 791
Balance as of 31 December 2020	28 881 092	6 135 502	18 181 369	53 197 963

**THANK YOU  
FOR  
FRUITFUL  
COOPERATION!**



**PrivatBank**

**ukrgasbank**  
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**OSCHADBANK**  
MY BANK. MY COUNTRY

**UKR EXIM BANK**

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