Access to Finance through Capacity Building of Partner Financial Institutions

UHBDP-FLCGF Learning Agenda—Case Study
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Abstract

With funding support from Global Affairs Canada, MEDA’s Ukraine Horticulture Business Development Project (UHBDP) is a seven-year initiative that aims at improving the horticultural market system for Southern Ukrainian small farmers and entrepreneurs. As part of UHBDP, MEDA partnered with MEGABANK Ukraine, considered one of the “Top 20 most stable Ukrainian banks,”\(^1\) to launch a First Loss Credit Guaranty Facility (FLCGF) of CAD 3M to assist in extending and expanding SMEs’ capabilities and the horticulture value chain through capacity development, linkages to markets, and improved market relationships between agricultural market actors. Despite excellent growing conditions, the agriculture sector is hindered by comparatively low yields and productivity and, particularly in the horticulture sector, small and medium-sized entrepreneurs (SMEs) remain disconnected from markets and isolated from supply chains. By modernizing production and post-harvest handling capabilities and by linking SMEs to markets through both technical assistance (TA), capacity development, and alternative financing opportunities, to date UHBDP has achieved positive impact for more than 45,000 horticulture stakeholders. This brief explores two core research questions that formed the basis of this case study:

1. How has the FLCGF promoted market linkages and access to new markets for horticulture SMEs while extending and expanding their capabilities in the horticulture value chain?

2. How can future FLCGFs, set up and launched under similar conditions, become more responsive to women-owned SMEs, SMEs employing women, and/or SMEs offering products/services empowering women?

Whereas this case study addresses the former research question primarily through qualitative information gathered via field interviews with UHBDP and MEGABANK staff and clients, the latter aims at setting the business case for the integration of Gender Lens Investing (GLI) considerations in subsequent financial guaranty structures to encourage inclusive investment in viable SMEs in the horticulture sector.

This case study contains three parts: (1) a summary of the FLCGF design and overall process; (2) a synthesis of research results; and (3) lessons from the FLCGF experience and recommendations for inclusive investments.

In February 2020, MEDA involved an external consultant to conduct field interviews of UHBDP and MEGABANK representatives and beneficiaries. The report starts with a brief overview of the UHBDP-FLCGF project, followed by a discussion on the methodology implemented by MEDA to set up and launch the FLCGF and provides brief information on the selection rationale for MEGABANK vis-a-vis similar Ukrainian financial intermediaries (FIs). This case study includes client stories to bring light to the impact and benefits of UHBDP-FLCGF on their daily lives as horticulture farmers. The report is concluded by synthesis of the key findings and recommendations for MEDA to consider for similar projects in the future.

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Introduction and Context

UHBDP project overview

MEDA is finalizing the implementation of a multi-year Ukrainian Horticulture Business Development Project (UHBDP) project in four Southern Regions of Ukraine: Odesa, Mykolaiv, Kherson, and Zaporizhia. With the generous support of Global Affairs of Canada (GAC) and a total budget of CAD $19 million, MEDA commenced the implementation of the UHBDP in August 2014. The project works with small holder farmers and horticulture SMEs to improve their production methods, post-harvest handling capabilities, sectoral drivers, and access to financial resources. While sales and production volumes in the sector have continued to increase in recent years, thousands of smallholder farmers continue to be challenged by new market demands, especially in EU countries; participating in effective and efficient supply chains; and benefiting from the full potential of their owned and operated ventures.

UHBDP also employs a highly participatory and gender sensitive approach when planning and implementing its activities to ensure that both men and women equally benefit from the project undertakings. Informed by Canada’s Feminist International Assistance Policy (FIAP), UHBDP closely analyzes the needs of both women and men rural farmers (44% of UHBDP registered clients are women and 55.4% are men) in the four target regions. In 2018, UHBDP also launched the Gender Equality Smart Innovation Grant (GESIG), a program designed to facilitate greater opportunities to access technology for women-owned or managed small businesses and businesses engaging women as suppliers or workers.

Socioeconomic overview

Ukraine has been significantly impacted by a period of severe political and economic turmoil, unprecedented tensions with the Russian government, and an ever evolving and complex situation in the Autonomous Republic of Crimea and in Eastern Ukraine. During this period of rapid socioeconomic and political changes, Ukraine’s real GDP declined by 6.6% in 2014 and by 9.9% in 2015. From that period onward, the nation has experienced drastic currency devaluations, causing banks to interrupt lending periodically due to unexpected drops on the value of their capital assets, restricting liquidity in the economy, therefore, exacerbating non-performing portfolios and increasing risks of insolvency for commercial banks’ clients. Figure 1: Exchange Rate Fluctuation – USD to UAH /Source National Bank of Ukraine: https://bank.gov.ua/en/markets/exchangerate-chart?cn%5B%5D=USD&startDate=2000-01-01&endDate=2021-07-12
Official hryvnya exchange rates

Figure 1. Change in Ukraine’s GDP (annual %) Note: Source World Bank national accounts data, and OECD National Accounts data files: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2020&locations-UA&start=2000

The official exchange rates of the national currency of Ukraine are available from 01.06.1996; from 01.06.1996 to 09.01.1996 inclusive – Ukrainian karbovanets; from 09.02.1996 – hryvnia
To address these challenges, from 2014 to 2019, the national government implemented a series of reforms, including fiscal consolidation; elimination of the fixed currency exchange rate policy and switch over a semi-free floating exchange rate; and other public policy reforms aimed at providing the population with affordable energy tariffs and social assistance, transparent public procurement services, simplified business regulations, stable banking services, and tackling corruption-related challenges. These reforms brought some macro-economic stability and allowed the business ecosystem to show some improvement. The newly elected government of President Volodymyr Zelensky and a renewed Parliament (Rada) started the implementation of a series of new reforms aimed at improving the business environment and attracting more international investments.

Despite the implementation of increasingly ambitious business, fiscal, and investment reforms, Ukraine’s economy continues to experience pressing challenges, including corruption and government perceived mismanagement, significant influence of interest groups in public affairs, and decreased investor confidence. Ukraine’s capital markets, including the commodity market, are also underdeveloped, with limited liquidity and investable opportunities; low levels of transparency; and weak law enforcement, increasing domestic and foreign investors’ uncertainty of Ukraine’s investment attractiveness. Whereas the banking sector has experienced “remarkable progress” since the 2014-2015 crisis, non-performing loans remain one of the greatest challenges of the banking sector in the nation, reaching 48.4 percent of loans in 2019. Additionally, only 63 percent of Ukrainians have a banking account, making financial penetration an additional challenge to the nation’s sustained economic development.

Awareness of internationally accepted standards, including responsible business conduct and corporate social responsibility, is primarily driven by “Ukraine’s vibrant civil society, international companies and investors,” and other key actors of the international development and commerce communities. Corporate governance standards introduced by the national government continue to be voluntary. However, these standards continue to be, for the most part, largely inconsequential for business models and/or operations in Ukraine. For example, the nation continues to experience prevalent gender inequality and discrimination barriers towards women, hindering their economic opportunities and limiting access to women’s employment and income. These practices decrease the nation’s potential for sustained economic recovery and growth. In the agricultural sector, for example, donor agencies have found that women are largely excluded from the benefits of mechanical efficiencies and higher productivity due to limited control over assets, lower training opportunities, and lack of resources to co-manage or manage agricultural operations.

Description Of Methodology

Program design and overall process

HBDP has been designed to improve the livelihoods of 44,000 women and men farmers by increasing their annual sales to USD 40 million and build production to 50,000 tons. The Project targets the horticultural market system for small farmers and entrepreneurs in Odesa, Mykolaiv, Hkerson, and Zaporizhzhia regions of Ukraine. Powered by access to finance, modernizing production and post-harvest handling capabilities of small and medium enterprises could significantly boost agricultural markets and rural income in target regions.

One of the major components of the UHBDP is a flexible finance facility launched in partnership with MEGABANK Ukraine, designed to facilitate access to finance for horticulture SMEs. Leveraging CAD 3 million (~USD 2.3 million) of MEDA’s seed capital, MEGABANK structured a secured lending facility to facilitate capital for horticulture value chain actors—a sector considered to have a risk profile beyond the risk tolerance of commercial banks. From 2017 to

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4 Idem.
5 Yoon et al. “Gender Equality Smart Innovation Grant.” MEDA. May 2020. PDF.
2020, this facility has provided 109 loans, with a total value of CAD 7.3 million (~USD 5.7 million), to 109 horticulture enterprises (30% women borrowers), and zero default claims were submitted during this reporting period. These loans had a maximum size of UAH 10 million (~USD 350 thousand) and a maximum tenure of 24 months.

**Summary of design concepts**

Due to Ukraine’s political and economic transitioning period from 2014 to 2016, national banks significantly decreased their lending activities into the real sector of the economy. Credit risk continues to be a key factor affecting financial inclusion of the horticulture sector. In 2018, the non-performing loan (NPL) ratio reached record levels of 52.9%, with relatively low improvements the following year (50%).

The UHBDP lending facility was designed to address major constraints horticulture SME borrowers face when seeking funding for their businesses. Some of these challenges include high provisioning requirements for uncollateralized loans; lack of access to solid business records; and the perceived dominance of informal business transactions in the acquisition of inputs or selling of products in the horticulture sector. By providing guarantees on approved loans, the lending facility aims at encouraging lending for horticultural SMEs that otherwise would have lacked access to finance primarily due to inadequate collaterals.

With indemnity features covering up to CAD 1M losses in NPL and foreign exchange, MEDA’s catalytic capital allowed MEGABANK to contribute CAD 4M to the fund, boosting trade financing in the horticultural sector. These funds are financing cash flow needs of SMEs (e.g., inventory management, trade receivables, and acquisition of productive assets), enabling them to create value and stimulate local supply chains and market demand for horticulture products. The lending facility also provides for revolving capital features and technical assistance to enhance the streamline capacity of MEGABANK’s gender equality and environmental impact. The ultimate beneficiaries of the lending facility and its indemnity and revolving features are rural farmers and local economies.

**Due diligence process**

As part of the investment due diligence process, MEDA commissioned Sarona Asset Management in March 2017 to assess potential investment partners to advance UHBDP project goals of ensuring credit access for the horticulture SME sector in select regions of Ukraine. At least three different banking institutions were considered in the due diligence process and were assessed against the following criteria: i) SME lending experience—with a particular emphasis on horticultural loans; ii) gender inclusive and environmentally conscious policies and/or an ability to work with MEDA to improve said policies; and, iii) acceptable levels of profitability, risk exposure, and governance. Based on these criteria, MEGABANK demonstrated strong experience offering lending products and services to the SME agricultural sector (with over 10 years of experience with some exposure to the horticultural sector); has substantial recognition in Eastern and Southern regions of Ukraine, where agriculture SMEs dominate the landscape; plans to expand their agricultural SME portfolio during the 2017 – 2020 period; and is partially owned by the International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), and the KfW Bankengruppe (a German state-owned development bank), and has received investment contributions from World Business Capital, Oikocredit, and several other reputable international lenders whom also require strong environmental and social policies as part of their due diligence and investment policies.

During the time of the project’s investment opportunity assessments, MEDA learned that MEGABANK’s Capital Adequacy Ratio (CAR) was trending downward and established a three-year plan to achieve improved profitability. Whereas MEGABANK’s experience and capacity for lending horticulture SMEs did not require additional capacity building support from the project, MEDA facilitated IFC’s support to digitalize and automate cost calculations for agricultural activities that enhanced the bank’s ability to assess the credit worthiness of loan applicants from the horticultural sector. MEDA also learned that both the IFC and EBRD provided comprehensive training on SME and agriculture lending for relevant staff members of the bank.

Following the establishment of an investment and project partnership through UHBDP, MEDA has provided
Monitoring and impact measurement methodology

The UHBDP lending facility functions around two legal agreements established between MEDA and MEGABANK Ukraine, namely an interest-bearing term deposit agreement and a use of proceeds agreement, both documents dated June 30, 2017. The latter agreement indicates that the bank shall deliver both financial and impact performance reports on a quarterly and annual basis. Some of the reports’ performance indicators include:

- Quarterly valuations of qualified loan borrowers within 45 days following the end of each quarter;
- Number of clients served;
- Number of active deposit accounts;
- Number of active loans;
- Percentage of active women borrowers;
- Contact information of qualified borrowers;
- Loan size in hryvnia or US dollar denomination;
- Loan terms in months;
- Loan interest obligations;
- Brief description of the usage of proceeds;
- Expected development impact of financed business activities;
- An assessment of social and environmental risks on every new loan.

UHBDP lending facility model

The UHBDP Lending Facility was established to overcome collateral constraints, off-set risks of lending to SMEs and other sector-related borrowers, and produce additionality. The Facility was structured around an initial deposit by MEDA to increase MEGABANK’s liquidity and a credit guarantee with a coverage of 43% of principal for loans targeting SME clients from the horticulture sector. MEDA’s deposit and guarantee offered MEGABANK security and liquidity and a substitute collateral for lending considered inherently of a higher risk profile. The structure of the facility allowed MEGABANK to share the risks that accompany lending to small businesses that are perceived to be more vulnerable to market and economic changes and that are potentially less resourced to turn around a sustained economic negative growth.

As part of the Facility design, that included gathering and sharing information to assess the riskiness and profitability of the loans, MEDA conducted a scoping mission to MEGABANK main offices, selected branches of the bank, and rural locations linked to UHBDP clients and beneficiaries. This mission allowed the bank to both work closely with target potential clients and capture sufficient information to enable borrowing. Following MEDA’s CAD 3M deposit (~USD 2.35M) on June 30, 2017, MEGABANK agreed to start lending operations. Presently, MEGABANK offers small loans for horticulture farmers and agri-businesses in 16 sales points throughout Ukraine. The loan terms range from UAH 250,000 (~USD 8.97K) without collateral up to UAH 500,000 (~USD 17.94K) with collateral; the repayment schedule is flexible according to the cash flow of the client; and the loans are issued for 1 to 3 years. Depending on the specific liquidity and collateral capacity of clients, MEGABANK has been able to offer loans beyond the specified range as well as issue accompanying loans to support the business activities of high potential clients. Loan proceeds are used to finance working capital, capital expenditures, and other support services for the growth of vegetables, root vegetables, fruits, berries, grains, legumes, and oil plant seedling.
The table indicates a relative slow start in loan intake and processing during the last two quarters of 2017. This reflects the learning curve MEGABANK went through when introducing new SME lending processes and practices to serve the horticulture sector, including loan officers training; customized marketing material; and business optimization through digital and remote banking services. These measures allowed the bank to address challenges regarding a relatively low number of sales representatives available to travel to remote communities where horticulture farmers are located. Raising awareness of these new products and services helped MEGABANK to issue more than CAD 7M in loans, which represents 52% of the project’s established target (total CAD 14M).

MEGABANK’s decision to establish a presence in these remote locations represents a competitive advantage to the bank as fewer financial institutions are willing to offer loans to these clients. Further, the banking sector in Ukraine is highly concentrated and their services primarily target upper-medium or upper clientele, leaving small holder farmers and SMEs with little to no options offering flexible lending and alternative collateral options. The UHBDP Lending Facility allows MEGABANK to solve the unmet demand for financial products and services of horticultural SMEs and small holder farmers.

The bank also reports that the portfolio performance “is very high,” reflecting low delinquency cases, adoption of learnings working with this specific segment of clients, and the development and implementation of optimized loan policies and credit approval systems. MEGABANK now has 21 dedicated staff issuing loans for horticultural SME and smallholder farmer clients in 16 different sale points throughout the nation and is now exploring expanding these offerings beyond southern regions of Ukraine as its institutional capacity has strengthened through its collaboration with MEDA UHBDP.

Prompted by capital raising opportunities that target female SME owners, MEGABANK will also introduce a new loan product for this customer segment.
Implementation Results

Target 1: Improved access of horticulture farmers and SMEs to finance

The Lending Facility’s target of CAD 14M loans to be issued during the life of the UHBDP project, as of the date of this briefing, has only achieved 52% completion by MEGABANK. Analysis of primary and secondary source information point to the following reasons behind the lack of progress in this desired target:

- **Fragile Economic Stability:** The launching year of the Facility, 2017, was also a year where Ukraine’s economy showed marginal improvements, lacking the necessary stability financial institutions required to venture into riskier lending sectors, including horticulture SMEs. Therefore, the target of CAD 14M in loans appeared to be too ambitious. Top executives from MEGABANK confirmed that expectations around a faster economic recovery and public sector and regulators incentives (e.g., stimulation of SME lending and relaxation of regulations by the National Bank of Ukraine) were never met. As a matter of fact, Ukraine’s National Bank conducted a round of stress testing in 2018 prompting banks to increase their levels of capitalization to enhance their resilience against adverse market conditions. In order to meet the National Bank’s capital adequacy requirements, MEGABANK self-imposed risk-averting lending policies—including stricter collateral requirements, decreasing the number of eligible horticulture SMEs and farmers for their financial products.

- **Liquidity:** In 2017, a significant amount of MEGABANK’s loans matured and the bank’s attention and liquid resources were directed to meet their repayments affecting their ability to attract new capital injections. Specifically, whereas the bank had to make repayments of EUR 50M during this period, only EUR 7M were replenished in deposits and other capital injections.

- **New Market Segment:** Serving horticulture SME clients required MEGABANK to develop, update, and/or test simplified lending processes; increase their capacity to address the specific concerns of horticulture farmers—including hiring dedicated field staff to travel to remote rural communities; and dedicate additional resources to create additional awareness about the new lending products. Whereas the adaptation and creation of new resources to serve this segment delayed the acquisition of new clients, MEGABANK was able to optimize their lending processes and generate increased results for the UHBDP in late 2018/early 2019.

- **Risk Aversion:** MEGABANK’s delinquency management policies are not suitable for SME and microfinancing lending. These policies create a chilling effect on existing and new borrowers, increasing the probability of existing clients to leave the banking system, either voluntarily closing accounts to avoid fees or having them closed involuntarily because of large negative balances. Some clients indicated that, notwithstanding their previous good credit standing, the Bank would implement daily penalties of 5% on late payments. MEGABANK’s strict policies and high-quality portfolio targets limited client retention and acquisition. As of the time of this reporting, the Lending Facility has not reported a single default claim.
As of end of June 2020, the UHBDP Lending Facility has issued 109 loans to 90 horticulture farmers and SMEs, averaging CAD 208,081 (USD 159,842). The usage of these loans included working capital, capital expenditures, and farming support services in both open field and greenhouse farming operations. Eligible borrowers indicated that MEGABANK represented the only financing option they had access to as they benefited from additional loan guaranty options, including alternative collateral options. The Bank reported that, as part of an increased access to finance through the Facility, at least 11 clients submitted business plans for new ventures; the average profit growth of existing businesses averaged 15.25%; and the average growth in assets reached 36.73%. MEGABANK’s collaboration with the UHBDP allowed the Bank to gain leadership and experience in Ukraine’s horticulture SME lending, building the business case for commercial banks and financial intermediaries avoiding these clients.

Outcome 2: Financial intermediary capacity building

MEGABANK’s senior management reported that, as a result of their partnership with MEDA and their experience with the UHBDP Lending Facility, the horticulture SME sector is now a new product line the Bank will integrate into its strategic offerings. Whereas MEGABANK’s previous experience with the horticulture sector was limited to larger agribusinesses and enterprises, the new lending products will target micro and SME clients. The Bank’s commitment to this new sector is reflected in its increased capacity to serve clients in rural locations; specifically, MEGABANK now has 16 sale points, 21 trained staff members, and tailored agriculture risk assessment policies developed during the life of the UHBDP project that are now part of the internal capacity of the Bank (e.g., an automated credit approval platform offering up to UAH 250,000 (~CAD 11,250)). MEGABANK also leveraged the Project’s capital to secure additional investment and partnerships for service expansion. In May 2019, the Bank secured commitments of USD 20M from responsAbility Investments AG, a Swiss asset management firm in the field of development investments.
Challenges and Lessons Learned

Future iterations of a Lending Facility can integrate the following considerations and lessons learned from the most recent collaboration between the UHBDP and MEGABANK:

- **Client-Centric Approach:** Offering financial services to smallholder farmers and rural SMEs requires additional human resources, client-centric material, and dedicated systems to reach out remote areas where target small farmers and SMEs are concentrated. MEGABANK increased these resources to tap into the new customer segment—horticulture SME and farmers—while developing additional digital capacities for cost optimization. Furthermore, MEGABANK’s rigid delinquency/default management procedures were considered not suitable for horticultural SMEs and smallholder farmers. Tailoring financial products to meet these clients’ needs would increase this segment’s capture and retention.

- **Technical Assistance:** Financial intermediaries require additional support (i.e., TA) and capacity building to meet implementation obligations and impact measurement and management (IMM) requirements—including enhancing gender equality, access to finance, and environmental sustainability considerations. MEGABANK’s capacity to monitor and implement impact activities was insufficient to meet the Project’s targets (e.g., lending CAD 14M). Similar to MEGABANK, financial intermediaries could benefit from direct TA and training of staff and lending officers to accelerate their capacity on inclusive SME lending—specifically tailored for the rural and horticulture sector.

- **Contracting:** Whereas MEGABANK successfully satisfied Sarona’s due diligence—proving appropriate financial resiliency during challenging economic times in Ukraine—the collaboration of the UHBDP technical specialist teams—including IMM and Gender Equality and Social Inclusion—in the implementation of lending activities was not clearly defined under the contractual collaborations between MEDA and the Bank. Additionally, MEGABANK’s reporting obligations were partially met by providing incomplete information to MEDA (e.g., not including client’s names and/or gender). This can be addressed during both the drafting and negotiation of future contracting between MEDA and financial intermediaries, further assessing whether these partners have the capacity to meet both financial and impact expectations.

- **Gender:** Whereas MEGABANK’s corporate lending portfolio is composed of 30% women, as of the date of this reporting, the Lending Facility served no women clients (i.e., 100% of the Facility’s client portfolio is composed of men). Future collaborations with financial intermediaries in Ukraine can build on MEGABANK’s experience in tapping into a new market segment—horticultural SMEs and SHFs—to enhance their inclusive practices and considerations, particularly around women-centric financial inclusion and economic empowerment. At the time of the establishment of this partnership, MEGABANK had to navigate through many dynamic scenarios and moving targets, including low internal capacity to serve the horticultural sector (i.e., the Bank decided to develop in-house capacity for the horticultural SME sector first, rather than developing both SME and gendered capacity simultaneously); rapid introduction of stricter capital adequacy requirements by Central Bank authorities (e.g., MEGABANK’s primary focus at the time was to address capital adequacy requirements and successfully satisfy stress tests to avoid the withdrawal of their banking licensing by the Central Bank); and high aversion to change from key actors (e.g., the UHBDP team perceived a low awareness of challenges women staff and management might be facing, including low access to social capital and networking opportunities for professional advancement that are usually available for men). These elements directly competed with MEGABANK’s ability to conduct a gendered analysis of its loan origination processes, financial products marketing, and overall staff capacity and representation to build additional capacity and awareness of the business and impact case for inclusive practices.
Client stories

Name: Vitaliy Raznichuk  
Location: Kherson district, Antonyvka village

Vitaliy Raznichuk is a farmer who lives with his wife and daughter in the village of Antonivka, Kherson district of Ukraine. He started his farming activities from scratch in 2002 with hog raising operations in a one-hectare property. Whereas their farm capacity increased sufficiently for Vitaliy and his family to make a profit, the sudden devaluation of the hryvnia in 2008 and rapid acceleration of prices for foodstuff and agricultural inputs in 2011 made their operations unsustainable. In response to these pressures, Vitaliy pivoted towards the horticulture and vegetable sector in 2011 and launched open farming operations in combination with green house farming. Following major loses in 2017 due to crop spoiling, Vitaliy decided to refocus his business towards the green house vertical. With little collateral, commercial banks denied his requests for finance required to expand his green-house operations. MEGABANK, on the other hand, under the UHBDP collaboration did offer Vitaliy a loan following a successful financial and business planning assessment.

Vitaliy’s initial loan with MEGABANK, UAH 400,000, was issued in March 2018, it had a tenure of 18 months (with 12 months of grace), and an interest rate per annum of 26%. The principle amount was paid in four installments at the end of the loan term, with interest payments due every month. The Bank and Vitaliy agreed to a payment schedule that primarily revolved around his farming activities and cash flows. This loan was used for seedling purchasing, capital expenditures (e.g., installing greenhouse structures, irrigation systems, and other farm improvements), and other expenses. In 2019, MEGABANK issued a second loan for Vitaliy, UAH 500,000, same that he used for additional farming improvements (e.g., newer heating systems for greenhouses), which replaced coal heaters with eco-friendly and energy efficient devices.

Vitaliy employs four regular workers (3 women and 1 man), he and his wife also work on the farm, and during the harvesting period he employs 25 or more casual workers from neighboring villages, mostly women. Vitaliy is constantly upgrading his farming and business skills through different formal and self-taught avenues. While doing farming he graduated from a business school in Kherson to learn how to manage his business; he’s taken training and workshops to learn about greenhouse growing and management best practices; and the MEDA organized seminars under the UHBDP collaboration with MEGABANK. Currently Vitaliy markets his products in wholesale markets of Kopani, a nearby town. ATB, a chain of supermarkets also purchases some vegetable from him directly. He foresees greater expansion potential of his business given the perceived increased demand for national and export markets. Vitaliy believes that his additional borrowing capacity can be met by MEGABANK, the only commercial bank available for clients with his profile.

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<th>Vitaliy’s farm output for the last three years</th>
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<td><strong>Years</strong></td>
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<td>2017</td>
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<td>2020 (estimated)</td>
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</table>
Name: Vladimir Khamut  
Location: Mykoloyev district, Mykoloyeva city

Vladimir Khamut is the owner of Agrolife, an agribusiness engaged in horticulture with access to a 10 hectares property. Vladimir started his agribusiness and farming operations in 2006 in Mykoloyev district of Ukraine. In order to tap into the commercial potential of the Paulownia tree — used for both industrial processes and for ornamental purposes—, Vladimir decided to transform his vegetable farm into a seedling production facility. He then learned about MEGABANK’s financial offerings through MEDA’s website in Ukraine and filled out an application for business assessment and due diligence. MEGABANK has issued three (3) loans to Vladimir—UAH 200,000; UAH 250,000; and UAH 250,000—from 2017 to 2019, which have been used primarily as working capital. These loans have been extended to Vladimir with flexible repayment schedules (including a three-month grace period) and no collateral (substituted with two guarantors). Before considering MEGABANK as an option, Vladimir approached different commercial banks (including Credobank, Ovalbank, Oshadbank, and Privatbank), all of which declined his requests for finance due to the perceived risk profile of the sector.

After a successful start-up of his seedling’s lab, Vladimir has built new business partnerships with agri-business owners and private investors. This partnership has leased 65 additional hectares of land for 30 years to increase seedlings production targeting different industries and markets, including the export market in Europe. Vladimir is also exploring including verticals to his business as the growing trees can also house bees with a capacity of 700 kilograms of honey per hectare. Currently, Vladimir’s business employs five workers, most of them women. He has also collaborated with seven volunteers from nearby agriculture universities through MEDA’s apprenticeship program.

Name: Dmitriy Ivanov  
Location: Kharkiv district, Slobajanska village

Dmitriy Ivanov is the owner of Agrofirm “Slobajanskiye Gribi,” a company that grows and sells Veshenka type of mushrooms in the village of Slobajanska village, Kharkiv district of Ukraine. Dmitriy employs four (4) people on a regular basis (all men), and an accountant (woman) on a part-time basis.

Dmitry started his business in 2017, after being both unemployed and underemployed for several years as an agricultural worker. With a poor credit record, Dimitry’s options were limited for access to finance; however, in 2019 MEGABANK offered him a loan, which he used to invest in capital expenditures to launch his own mushroom business. This initial loan was extended for UAH 9 million for additional equipment acquisitions—including cooling machinery, iron shelves, and additional storage—, which have been used to produce 6 to 8 tons of Veshenka mushrooms, a product with high demand in local supermarkets and restaurants. During off-season, Dimitry rents building spaces for growing mushrooms.
Conclusion

Considering the fragile socioeconomic situation in Ukraine, which is being addressed by the National Bank through additional stabilization measures (e.g., increased CAR for commercial banks), access to finance continues to be a major challenge for the sustainability and growth of SMEs and microbusiness. Therefore, the impact of the UHBDP and the Project’s Lending Facility can be considered positive and with great potential for replicability in further iterations. The Lending Facility issued high-quality 109 SME loans, and deployed CAD 7.3M. Through its collaboration with the Project, MEGABANK built its capacity for serving the horticulture SME sectors. This experience allowed the Bank to attract additional capital, including USD 20M in funding, to continue serving this sector. In future Lending Facility partnerships, established to serve similar clients and risk profiles in Eastern Europe, MEDA and their financial partners can implement lessons learned in the UHBDP by further developing the capacity of financial intermediaries—particularly around impact monitoring and management—, enhance the partners’ awareness of the business case for gender mainstreaming, and influencing financial intermediaries to provide clients with tailored, flexible, and collaborative approaches to SME clients. Approaching this segment with a classic delinquency/default management, which is rigid, limits the market share. The collaborative approach in contrast is flexible and encourages active negotiation between the financial intermediaries and their clients to find solutions based on the mutual interest therefore makes the relationship mutually supportive and valuable.