

# A vision for the future development of the Ukrainian CU's sector.

- 1) Changes in CU's market
- 2) Rural micro-finance: Current Situation
- 3) Rural micro-finance: Evolving Situation
- 4) Rural micro-finance: **CONCLUSION**

A vision for the future development of the Ukrainian CU's sector.

## Changes in CU's market

- More and more foreign banks with huge financial possibilities enter the Ukrainian retail - banking market.
- These banks introducing in urban areas high-tech technologies like:
  - *Non contact banking cards*
  - *High-performing automated teller machines*
  - *Internet banking*
  - *Modern deposit, savings and financing tools etc.*

## Changes in CU's market

- New banks introducing highly competitive services like :
  - *Up dated and well adapted deposit, savings and financing tools*
  - *Cheap accounts services*
- New banks financially able to support during a long period low loan's interest rates. (*Dumping technique in order to take a significant market share*)

A vision for the future development of the Ukrainian CU's sector.

## Changes in CU's market **CONSEQUENCE**

- Competition will push urban CUs to restructure and/or turn to villages, where banks are less interested and will remain less active during next 7 to 10 years.
- This probable development gives a “niche” **opportunity** to the CUs dealing with:  
**RURAL MICRO-FINANCE CLIENT/MEMBERS**

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: Current Situation

- The needs for micro-finance in Ukraine are tremendous !
- Most international donors consider rural micro-finance as a compulsory tool for a sound rural economy development.
- Therefore they are ready to provide adapted resources, but don't find the right way to channel the loans to the rural actors.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: Current Situation

- Some Credit Unions already started rural micro-finance operations:
  - **84 CUs declare more than 10% of their loans being provided to rural clients. (farmers and micro enterprises)**
  - **The percentage of rural micro-finance loans raised from 4.4% to nearly 11% during the last year.**
- Nevertheless, legal issues need to be addressed in order to authorize the CUs to play a major role in rural micro-finance.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: Current Situation

- Pilot efforts by commercial banks for rural finance can expand rapidly, but their network is limited and first results uncertain.
  - Aval / Raiffeisen
  - Indexbank / Credit Agricole
  - Nadra
  - Procredit bank
  - Forum
  - Creditprom
- No real micro-finance approach: the loans delivered by the banks represent between 500,000 UHA and 1 million UHA.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: Current Situation

- The new coming Retail Banks will also move to rural areas (villages):
  - when the urban consumption credit demand is more or less saturated (*probably not before 10 to 15 years*)
  - if they already have the experience in rural banking. (*this is the case for example for big foreign Cooperative Banks*)

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: Current Situation

- The CUs have real potential  
**competitive advantage**
  - Issuing small loans (500 USD and less) for farming or another rural income-generating business.
  - Processing the loan application in a very short time, because they know their members.
  - Track the records of rural clients, family wealth, credit history etc.
  - Accepting unsecured and group lending, etc.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: Evolving Situation

- CUs moving from consumer lending to micro-finance in response to the market.
- CUs focusing on working capital loans
- CUs focusing on loans less than 50,000 UAH

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: **CONCLUSION**

- ❖ If CUs decide to enter into rural micro-finance and prepare for this market, they can be competitive and grow.
- ❖ If they do not move fast into this market, the current opportunities will disappear.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: **CONCLUSION**

### To be competitive the CUs need:

- Adapt their organisation and risk approach to the rural economy conditions.
- Raise long term and cheap money
- Participate to regional and national institutions which are to grow into co-operative organisations.
- Eventually the only way for CUs to be competitive is to become a part of a full fledged Co-operative banking System.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: **CONCLUSION**

To increase competitiveness the CUs could benefit from participation in a Co-operative banking system through:

- Establishment of the guarantee fund.
- Lower operational costs
- Full banking services and tools to serve their members at the same level than the new coming banks.
- Increase of the financial strength of the sector.
- Become a major partner for channeling international donor's resources to the Ukrainian rural economy.
- Stability and sustainability.

A vision for the future development of the Ukrainian CU's sector.

## Rural micro-finance: **CONCLUSION**

**Do not forget the client !**

**CU's Competition with Banks will have positive results for rural economy actors (farmers, small and micro enterprises)**

- **Access to banking services in rural areas.**
- **Quality services.**
- **New tailor-made savings and credit products.**
- **Decreased interest rates.**
- **Eventual shareholding of co-operative banks.**
- **Confidence in sound financial institutions.**