

Project under FARM Responsive Mechanism

Project: “*Development of the Approaches for Micro Credits Provision in Rural Area*”

**Project Partners: Very Useful Company &
The Communities Economic Development Fund (CEDF)**

Final Summary Report

July 2006 – May 2007

Executive Summary

The goal of the project was to provide rural dwellers with information and access to financial resources through the development of legal and institutional conditions of credits provision by local banking institutions and non-banking institutions providing financial services. The project achieved its goals by organizing a number of seminars and forums on credit provision to rural dwellers and producing a number of analytical papers on the topics presented.

Project results and information about micro credits provision in rural areas were disseminated through the National Association of Agricultural Extension Services in Ukraine, oblast extension offices, the Ukrainian National Union of Agricultural Cooperatives and its oblast branches, the Association of Private Farmers and Land Owners of Ukraine and its branch offices, donor organizations and other micro credit projects operating in Ukraine.

Background and Rationale for the Project

Access to micro crediting creates new opportunities for rural dwellers and increases the level of agricultural production and thus improves the livelihoods of the rural population. In addition, access to micro credits also provides rural dwellers with new opportunities for rural social development. This was the rationale behind the project activities; to provide rural dwellers with access to information about micro-lending in order to improve their livelihoods.

Achieved Project Goal and Objectives

- **Increased the level of information about micro credits and access to micro credits for rural residents in the Odessa region.** Information and materials on micro credit and the availability of micro credit were developed and distributed throughout the oblast. Direct communication with rural people was the most useful method of communicating information about the availability of micro credits.
- **Facilitated discussion between service providers on issues related to credit provision in the region.** Forums, seminars and workshops on micro credit created the basis for detailed and effective discussion of micro credit problems, especially those related to rural areas.
- **Documented and disseminated best practices on micro credit provision in rural areas.** The information obtained from project activities and VUC's prior experiences was compiled and disseminated throughout the region. Two major analytical papers were produced and a manual for service providers was created, highlighting the project results.
- **Network of service providers established.** The Microfinance Forum organized by the project facilitated the creation of a network of micro credit sector stakeholders. Regular exchange of information continues and micro credit organizations now exchange information on a regular basis regarding their successes and challenges.
- **Consolidated the efforts of various donor organizations and governmental programs and approaches towards available resources and schemes of micro crediting.** The Microfinance Forum, organized by the project allowed the various micro credit organizations and projected the opportunity to exchange information and coordinate activities in order to avoid duplications.

Outcomes and Results

- **Conducted a review and analyses of existing legislation and institutional conditions for provision of credits to the rural population.** Approximately 50 legislation acts were

reviewed and the findings and recommendations were sent to the State Commission of Financial Services Market Regulation.

- **Developed new and improved mechanisms for providing rural dwellers with access to credit resources.** During the duration of the project a number of different micro financing approaches and client groups were discussed and identified:
 - The main criteria for micro credit loans should be: cheap, accessible and transparent.
 - Rural dwellers should have access to financial institutions in their village or region, making the role of companies like VUC essential for improving access to credit for rural people.
 - It was concluded that there are different client groups and each group has different needs with respect to size, interest rates, credit breaks and credit duration and micro credit packages should reflect these needs.
 - Group 1 – private plot holders and entrepreneurs. They are mostly clients of non banking financial institutions because sizes of their loans are not substantial and they often are not able to provide collateral.
 - Group 2 - farmers and businessmen that want to expand their businesses. This category is more attractive for banks; they usually have more experience working with credits.
 - Group 3 - farmers and businessmen that want to diversify their businesses – not only in quantity but also in quality.
- **Coordination and leveraging of donors' technical assistance and state support of micro lending resources, schemes and mechanisms were achieved.** An agreement was reached between the various micro credit organizations to exchange information on a regular basis, participate in the project events, provide information on events and achievements and work collectively to lobby the government on micro finance legislation changes.
- **Information network for exchanged of the best models of micro crediting in the Odessa oblast and other regions of Ukraine was established.** 21 institutions have formed a microfinance network and exchange information on best practises in on a regular basis.
- **Increased awareness and the educational level of rural population regarding microfinance.** As a result of project activities and events, the VUC office realized a 25% increase in requests for information about micro financing options.
- **Developed a set of recommendations on how to better educate potential clients from rural areas:**
 - Creation of short and simple booklets and flyers containing information about microfinance products and instructions on how to apply.
 - Have credit officers visit communities.
 - Additional training for credit officers.
 - Deliver information in conjunction with local entrepreneur programs.
- **Promoted best practices and experiences in micro lending.**
 - Microfinance Forum was held, with over 125 people in attendance. The following topics were presented and discussed during the Forum: legal aspects of micro credit schemes in Ukraine; practical aspects of micro credit institutions registration and operation; state support to micro credit market development; micro credit financing in rural areas; the ability of banking, non-banking and non-financial institutions to provide micro credit financing and how to improve cooperation between different credit providers in order to improve access to finance for rural dwellers.
 - Forum results, materials and recommendations were compiled and disseminated via mail outs, mass media and individual consultations.
 - 1200 brochures highlighting information presented at the Forum were distributed to local authorities with the Odessa oblast and Ukraine.
 - A practical manual entitled: "Development of microfinance models in rural areas" was developed. The main purpose of the manual was to raise the education level of the population living rural areas on micro credit financing. 2000 copies were produced and distributed.

- 5 rayon micro credit fairs were held in Ananyivsky, Berezivskiy, Kodumskiy, Saratskiy rayons.

Canadian Partner Contribution

The Community Economic Development Fund (CEDF) was the project's Canadian counterpart. VUC maintained regular correspondence with Gordon Wakeling from CEDF. Mr. Wakeling assisted VUC with the development of a number of analytical papers on micro credit financing and marketing channels. Mr. Wakeling contributed by offering information about Canada's experience with micro credit and financing; Canada's credit union system and micro credit financing in rural communities in Canada. The information about Canada's micro finance system was informative and help to provide direction for future developments in micro finance within Ukraine.

Conclusion

Access to financing in rural communities is an urgent problem in Ukraine, which cannot be ignored. The project activities have revealed that existing Ukrainian legislation on the micro finance only hinders this problem further. As a result of the project activities, such as the Forum on Microfinance, consultations and seminars project participants are engaged and willing to work together to find a solution to the problem. As a result of the project a network of micro credit providers and stakeholders has been established and they continue to work diligently to lobby the government for changes to legislation regarding micro credit lending. Furthermore, this network of micro credit stakeholders meets on a regular basis to share information on best practices in micro financing, which will ensure the sustainability of the project's achievements.

VUC continues to provide regular consultation to rural communities and potential clients on micro credit financing. In addition, VUC continues to provide workshops, seminars and prepares academic papers on micro credit financing, which further contributes to the sustainability of the project results.