



INTERVIEW WITH VOLODYMYR KUCHYN

BC Project Leader
Head of Office for European Integration and International Programs
National Bank of Ukraine (NBU)

“The Twinning Project has been making a significant contribution to strengthening the NBU’s institutional and regulatory capacity to implement the Association Agreement between the EU and Ukraine. This assistance is highly valuable for the central bank.”

The NBU’s Twinning Project team underwent some changes in July of this year. You took over as BC Project Leader in place of Dmytro Sologub, who completed his term as NBU Deputy Governor. At the same time, Liudmyla Labur was appointed RTA Counterpart. How have these staff changes affected the implementation of the Twinning Project “Strengthening the Institutional and Regulatory Capacity of the National Bank of Ukraine to Implement the EU-Ukraine Association Agreement”?

I must assure you that the NBU operates on the principle of institutional continuity. Regardless of any staff reshuffles or any other changes, the NBU continues to pursue its mandate and meet its objectives and commitments, including those to international partners.

We started to work on the Twinning Project in October 2020. I was appointed RTA Counterpart and tasked with implementing the Twinning Project at the NBU, and Liudmyla was appointed NBU Twinning Contact Point. We plunged into this work with enthusiasm and optimism.

This was the second time that both of us had participated in such a form of technical cooperation. The first time was in 2009–2011, when we implemented the Twinning Project “Strengthening NBU Potential through the Approximation to EU Standards of Central Banking,” which, incidentally, was one of the most successful in Ukraine.

So, when the new Twinning Project kicked off, we already had a working knowledge of the EU’s procedures for this institution-building tool and had some experience implementing it.

By the time I took over as BC Project Leader in July 2021 and started discharging my duties, I had already been well-versed in all of the Project’s components and been working closely with the project team. It takes ambition, love of hard work, and inspiration to make any large-scale plan a reality, and our team has it all. As Project Leader, I will make every effort to focus on delivering specific results, which is one of the Twinning Instrument’s key principles. I’m sure that we will achieve such results in all of the Project’s components.

What do you think are the advantages of the Twinning Institution-Building Instrument?

I’m convinced that the success of building Ukraine as a nation that fully shares the EU’s values and meets its standards is dependent on our openness to transformation and our willingness to implement effective reforms. Ukraine has no other way of having a successful future.

The Twinning Institution-Building Instrument provides a platform for direct practical interaction with Twinning partners from EU member states. It’s precisely this interaction that makes it possible to jointly focus on reforming Ukraine’s institutions in a manner that reflects EU practices.

From my standpoint, the Twinning Instrument’s most valuable contribution is that it charts a path to our common European future.



As new Project Leader, what is your perspective on how the Twinning Project should proceed, going forward?

I'm aware that successful implementation of the Project's components is key to laying the groundwork for the NBU's success in pursuing its European integration efforts and the EU-Ukraine Association Agreement.

It's common knowledge that achieving an ambitious and comprehensive goal such as the implementation of the Association Agreement is heavily reliant on the careful planning and step-by-step completion of all objectives involved. To borrow a quote from Pablo Picasso, "Our goals can only be reached through the vehicle of a plan, in which we must fervently believe, and upon which we must vigorously act. There is no other route to success."

The NBU Project team and I as BC Project Leader have been doing our best to achieve the Project goals, thus contributing to the NBU's pursuit of Ukraine's European integration policy.

Ukraine has chosen a European course for its development. This makes EU integration our top foreign policy priority. The strategic course of our country towards full membership in the EU has been enshrined in our Constitution.

According to recent studies in sociology, 62% of Ukrainians support the country's EU aspirations.

The NBU, which leads the financial sector reform efforts, must ensure that all financial service aspects of the Association Agreement are fully implemented. Thanks to the Twinning Partner's cooperation, the central bank's approaches to meeting its European integration commitments will be carried out as effectively as possible.

I must emphasize that the Association Agreement permeates all of the reforms currently being pursued by the NBU. The central bank has placed special focus on drawing up a comprehensive legislative overhaul of regulation, supervision, and payment systems that aims to fulfill Ukraine's obligations under the Association Agreement.

Let me remind you that the EU-Ukraine Association Agreement is the largest international legal document in Ukraine's history. This milestone agreement has 1,200 pages, and the National Action Plan to implement it stipulates a total of about 2,000 objectives. The NBU has taken responsibility to meet more than 70 of them.

I'd like to reiterate that we at the NBU believe that the Twinning Project is making an invaluable contribution to strengthening the NBU's institutional and regulatory capacity to implement the EU-Ukraine Association Agreement. I'm convinced that the assistance of our good partners from Narodowy Bank Polski and the Bank of Lithuania will promote the rapid and efficient development of Ukraine's financial services market in harmony with European best practices.



INTERVIEW WITH LIUDMYLA LABUR RTA COUNTERPART

Head of EU and Bilateral International Relations Division, Office for European Integration and International Programs, National Bank of Ukraine (NBU)

"Everything that the NBU does goes through the prism of European integration. And the priority given by Ukraine's central bank to European integration, not in words but in deeds, means not just bold statements, but the NBU's inclusion of measures to implement the EU-Ukraine Association Agreement in strategic documents, together with the step-by-step implementation of such measures."

How does the NBU prioritize the issue of Ukraine's European integration and the implementation of the EU-Ukraine Association Agreement?

European integration – a complex and comprehensive process – is the focus of the NBU's attention at all times. It wouldn't be an exaggeration to say that the NBU's activities have had a very clear and powerful European integration component for many years.

We clearly understand that getting close to the EU brings innovation and modernization, enables us to get to a new level, and to achieve the best standards, transparent and clear rules of the game, and expanded opportunities for improvement and development.

I, a European integration promoter, have many years of experience under my belt in this area, and I'm very happy to see the profound change in the relationship between Ukraine and the EU that has taken place in recent years. We're not just neighbors, but also strategic partners. We're intensifying dialogue and working together to develop the national economy, transition to European standards, rules and procedures, and integrate European values into our lives.

Our Twinning project, to which I was recently appointed as a RTA Counterpart, is an example of such cooperation, and is designed to ensure that the NBU implements the EU-Ukraine Association Agreement.

It's essential for the NBU to choose a European development model, in order to, among other things, perform its mission of safeguarding

price and financial stability, with a view to contributing to Ukraine's sustainable economic development. The NBU's vision also foresees integration into the European community of central banks.

Everything the NBU does goes through the prism of European integration.

It's a well-known fact that a country's economy operates on the same principles as any holistic organism – it requires balanced work and well-established cooperation between all of its systems to function effectively. The financial sector in this sense ensures the "blood circulation" of an economy. After all, it regulates the movements of money and financial flows from investors and banks to potential consumers.

Undoubtedly, it's a country's central bank that plays the key role in creating a stable financial market. In this context, it's important for us to ensure that financial sector regulations are brought close to EU rules, and that the market's infrastructure is developed.

The priority given by the NBU to European integration themes, not in words but in deeds, means not just bold statements, but the NBU's inclusion of measures to implement the EU-Ukraine Association Agreement in its strategic documents, together with the step-by-step implementation of such measures.



And it's important here that the central bank takes action that's well-considered and factors in the EU's experiences and practices. That's why interacting with our colleagues from the central banks of Poland and Lithuania, and gaining knowledge and advice from them, is a unique opportunity for us to bring Ukrainian regulations more into line with EU ones, and to integrate new approaches into existing practices in Ukraine.

To wrap up, I'd like to quote Johann Wolfgang von Goethe: "Knowing is not enough; we must apply. Willing is not enough; we must do." I assure you that the NBU's team is determined to apply precisely this principle in meeting the central bank's commitments to promote European integration and successfully implement the EU-Ukraine Association Agreement.



INTERVIEW WITH DARIUSZ LEWANDOWSKI
RESIDENT TWINNING ADVISER
Narodowy Bank Polski

This is the second time you are in the position of the Resident Twinning Adviser in the Twinning Project. What are your current impressions?

I am deeply honoured and grateful for entrusting me with this position again, this time in the Twinning Project for the National Bank of Ukraine. In spite of the pandemic we have nowadays, I am optimistic about my work and hopefully my experience gained during the coordination of the Twinning Project realized for the National Bank of Belarus will help me to achieve all goals in the current project as well.

Naturally, countries differ, but in any country a central bank is an institution that plays a critical role in the country's economic development as an institution responsible, subject to the country-specific mandate, for the national currency, financial stability, payment systems and effective banking or financial supervision. The decision to request assistance in the form of the Twinning Project demonstrated deep understanding by the National Bank of Ukraine of the contemporary challenges to the economy related to finance. Moreover, I am positive that the implementation of the EU-Ukraine Association Agreement would help Ukraine make one more decisive step towards the European Union with simultaneous positive impact on the development of its economy. Let me also say that our Twinning is not about lectures or tuition. It is about an equal partnership, experience and expertise exchange that may help better fulfill certain goals related to the Project.

But why is Ukraine such an important partner for Poland?

From the angle of Polish foreign policy, Ukraine is a key partner within the Eastern Partnership initiative, thus Poland always advocated for close cooperation between Ukraine and the EU institutions.

On the ground of economic growth it is worth to underline the role of the National Bank of Ukraine. Being an active partner in multinational cooperation programmes, the NBU has always played an important role in the development of Ukraine. The history of cooperation between Narodowy Bank Polski and the National Bank of Ukraine reaches far back in the past. Despite that, the cooperation intensity increased over the last 15 years and the NBU has become a key partner for the NBP's technical cooperation programme.

Among the central banks supporting the NBU over the last years, NBP has become a leading provider of the technical assistance, in terms of the number of projects delivered and experts involved. It is worthwhile to mention that the first NBP's Twinning Project for the NBU in cooperation with Deutsche Bundesbank was completed ten years ago. That 18-month programme, in which NBP acted as a Junior Partner, was a tremendous joint work among all institutions involved and finished with an indisputable success. I do hope that the current Project will follow the same path.



The Twinning Project concerns important banking areas such as banking supervision, payment system, strategic planning, international cooperation. Could you elaborate more about each of the Project's components? Would it be fair to say that some have greater prominence than others?

In my opinion, all components are equally important. In fact, each component – banking supervision, payment system, strategic planning, international cooperation – is a key element of, let's say, "banking blood system".

To make a story short, we cannot have a stable and sound banking (financial) system without effective prudential regulation and supervision. Payment systems would operate poorly without an effective central bank oversight. Improvements in both cases add value to the financial stability as a whole. Deeper understanding of the overall process of integration with the EU/ESCB will be impossible without international cooperation among relevant institutions, sharing the expertise and lessons learned. And finally each institution cannot exist properly without a well-designed system of strategic planning and management, adequate understanding and managing of its business processes.

What is your opinion on the Twinning project's progress achieved so far? Have you encountered any difficulties?

We are at the halfway point of the implementation of the Project which is running at the high speed right now. Surely, the Covid-19 pandemic negatively affects the Project, especially when taking into consideration the benefits of direct human relations, the opportunity to meet in person and discuss issues face-to-face which,

naturally, would increase the effectiveness of meetings or discussions. Unfortunately, this new unpredictable and unstable situation forced us to find other ways of cooperation and reshape channels of communication. The face-to-face missions have to be put aside at least for a while and replaced by on-line meetings. However, despite all obstacles I am positive about further progress of the Project. Counterparts from the European Union and the National Bank of Ukraine have made every possible effort to ensure that each activity meets the highest standards of excellence and is conducted according to the work plan. The interest in the Project from the NBU colleagues as well as their motivation to work hard have been remarkable. This has greatly facilitated the exchange of information, which is so important for the success of the Project.

Overall, in spite of demanding conditions in which we are working and cooperating for the time being, the Project has been off to a good start and showed a remarkable progress so far, which gives good reasons to expect a productive partnership and good results in the future.



Short description of missions and other events in May – June 2021 for TN No. 3



Component 1

The fact-finding mission in sub-component 1.1 "Support in developing Regulation for banks ILAAP based on EBA- compliant methodologies, share experience of ILAAP implementation and overview the best practices of ILAAP implementation" was held on 3-4 June 2021.

The MS experts acquainted the NBU colleagues with the current practices on ILAAP process implemented in the Euro area, and overviewed in detail the content and scope of the ILAAP Report to be prepared by the NBU and described the type of information which should be disclosed in each section.

The NBU overviewed the existing legal and regulatory framework for Liquidity Risk management, the draft Regulation on ILAAP which has been recently developed, as well as the preliminary plan for ILAAP implementation.

Participants of the meetings also discussed the enhanced version of the Regulation No. 64 with the specific focus on Liquidity Risk management and ILAAP implementation and possible improvements of that document.

The expert mission in sub-component 1.3 took place on 20-21 July 2021.

During the meetings, the NBU colleagues were introduced with the experience and practices of evaluation of banks' ILAAP, liquidity and funding risk management implemented by De Nederlandsche Bank (DNB). The MS experts also described in detail the main elements of ILAAP.

MS experts provided the NBU colleagues with practical examples of ILAAP evaluation and had an active Q&A session. They also discussed

the draft documents prepared by the NBU in that area and agreed to organize the next mission in September 2021 in order to finalize the draft Regulation on ILAAP and prepare it for public consultations. In addition, participants emphasized the importance of wide trainings needed both for the NBU staff and banks.



Component 3

The fact finding mission in sub-component 3.4 "Enhancement of the NBU systematic approach to process management" was held on 25-26 May 2021.

During the mission, the NBU presented its system of process management organization and the evaluation concept for process efficiency currently used.

MS experts shared with the experience of their institutions in the area of process management implementation and lessons learned.

Participants also overviewed the internal controls and operational risk management. The NBU presented its policy to integrate internal controls with process management issues and then discussed with MS experts the integration and cooperation in the field of the operational risk management, internal audit and compliance function and benefits of integrated system of controls management.



Component 4

During the mission, which took place on 26 May 2021 in sub-component 4.2. "Recommendations on enhancing cooperation of the NBU with foreign central banks and international organizations", the MS experts shared with their institutions' experience and provided technical advice in three thematic areas:

- modalities of country-level coordination on IMF issues;
- areas of potential NBU's engagement in WBG and EBRD;
- developing bilateral cooperation with other central banks.

Presentations were followed with Q&A session and the exchange of views on potential additional issues that could be included in the twinning activities.

The mission in sub-component 4.1 "Sharing practical MS experience on the process of their central banks' integration with the ESCB" was carried out on 16 June 2021.

The MS experts shared with their institutions' experience and provided technical advice with regard to a central bank's role in the implementation of Association-related commitments and reporting on the progress, coordination of transposition and implementation of EU law, development of an internal IT tool for the EU-Ukraine Association Agreement implementation-related tasks and measures to enhance the staff awareness of EU developments;

The NBU presented the current internal IT solution for the tasks related to the EU-Ukraine Association Agreement implementation as well as other international projects which have been and are being conducted by the NBU. The participants discussed possible improvements of the tools currently used and further mutual work.

Steering Committee Meeting No. 3

The Steering Committee Meeting (SCM) No. 3 was held on 21 July 2021 in on-line format.

Except for the SCM Members, the meeting was also attended by Component Leaders and their NBU counterparts, other representatives of the NBU, the Government Office for Coordination on European and Euro-Atlantic Integration of the Cabinet of Ministers of Ukraine's Secretariat and the Center for Adaptation of the Civil Service to the Standards of the EU (as observers).

During the meeting, the Interim Quarterly Report for the period of 1 April - 31 June 2021 and the Rolling Work Plan No. 2 until 31 January 2022 (with the forecasted budget for the corresponding period) were presented to participants and approved by the SCM Members.