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MAPPING UKRAINE'S FINTECH ECOSYSTEM:

An Entrepreneur Resource Map

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INTRODUCTION

In 2016 Ukraine emerged from a historic banking crisis, forcing nearly half the banks in the country to shut down and prompting thousands of banking professionals to reshuffle their careers.

However, as difficult as that crisis was, it opened up new opportunities for Ukraine's fintech scene, as legions of former bankers applied their expertise to the startup space.

The impact of that new influx of talent became clear last month when the Ukrainian Association of Fintech and Innovation Companies (UAFIC), the National Bank of Ukraine and Visa released their second-ever catalogue of Ukrainian fintechs. The catalogue showed that the sector has not only grown quickly but continues to grow: Ukraine now has more than 100 fintech startups, and 58% of them were created in the last three years.

Fintech in Ukraine has been enjoying a renaissance in the wake of crisis, with a proliferation of resources to support startups in the space. Yet the ecosystem still has significant room to grow. Many of those resources are concentrated at certain stages of business growth, or provide similar services — ultimately leaving other areas in need of greater support.

In the coming pages we will explore resources that are available to the growing fintech scene in Ukraine, and also highlight some gaps identified by entrepreneurs, investors and other leaders in the country's startup ecosystem. Read on to learn more.

About this Report

In late 2018, Village Capital visited the campus of Ukrainian organization UNIT.City to hold a forum and competition for Ukrainian startups working around financial health.

The forum, held in collaboration with MetLife Foundation and local co-facilitators (see Appendix A for the full list), included ten Ukrainian fintechs and forty industry experts with backgrounds in finance, banking, insurance, investing and entrepreneurship.

Near the end of the day, the room broke into small groups for a collaborative exercise to map out the assets and gaps in Ukraine's fintech ecosystem, grouped by startup stage (see box, below).

The discussion took hours, but the entrepreneurs in the room immediately flagged up their two main challenges: they need **capital** to grow their business, and they need **mentors**, both formal and informal, to provide them with guidance as they navigate tricky regulatory and financial terrain.

The group then worked to map the local resources available to address those challenges, revealing some interesting trends.

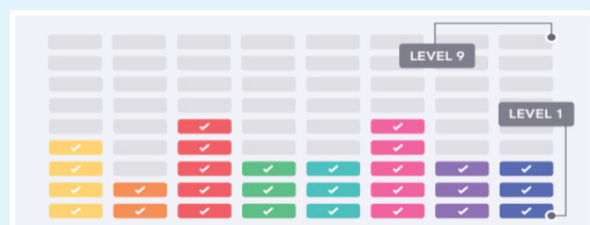


Using Abaca as a Mapping Tool

This report uses Village Capital's Abaca investment framework as a way to group resources according to which startups are most likely to benefit.

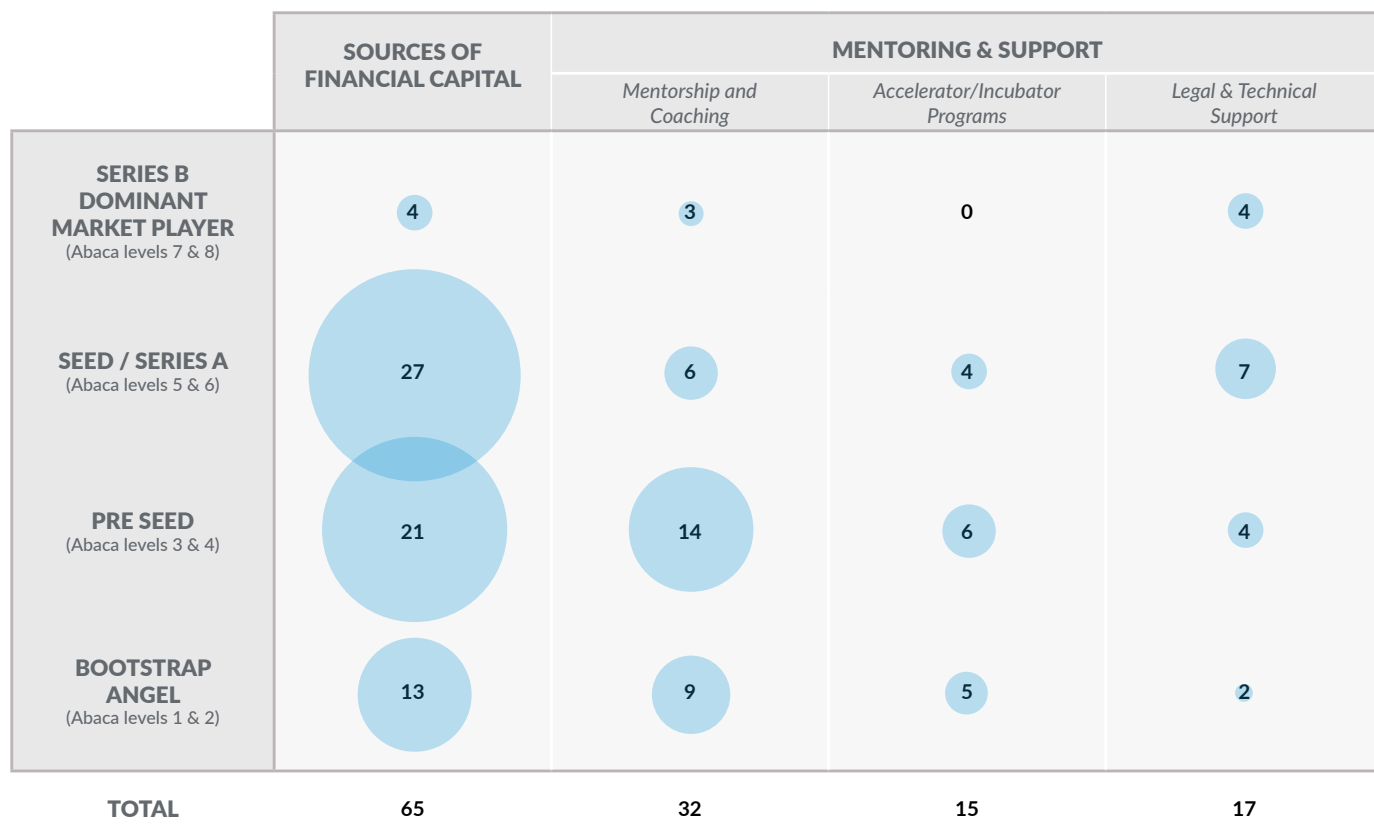
The Abaca framework categorizes entrepreneurs according to their level of "investment-readiness". For the purposes of this report, we've grouped startups into four categories: Bootstrap-Angel (Levels 1-2), Pre Seed (Levels 3-4), Seed-Series A (Levels 5-6), and Series B-Dominant Market Player (Levels 7-9).

See Appendix B for more information on Abaca.

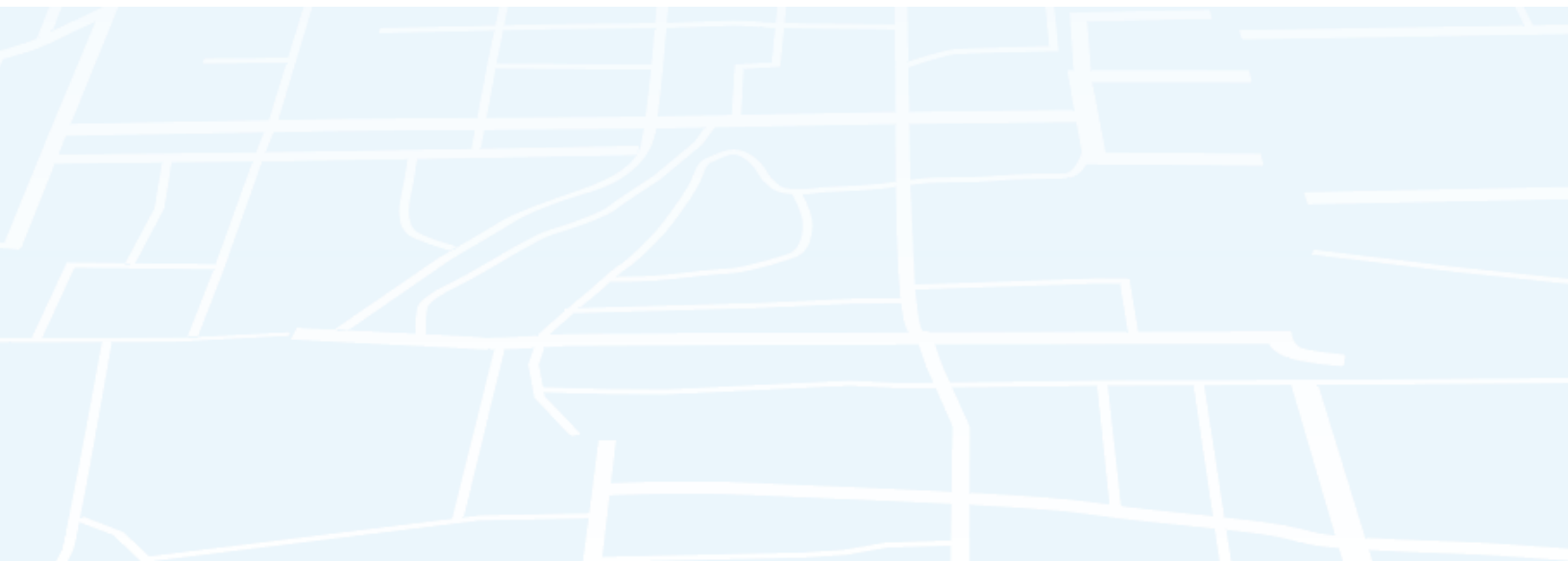


The heat map

The following heat map provides a high level view of resources that exist for entrepreneurs at different stages of “investment-readiness”.



So what exactly does this show? In the coming pages we will dive deeper into the two specific challenges that entrepreneurs identified – access to capital and access to mentorship – and provide a few recommendations from the attendees about how to tackle them.



Obstacle 1: ACCESS TO AFFORDABLE CAPITAL

SERIES B DOMINANT MARKET PLAYER (Abaca Levels 7 & 8)	
SEED / SERIES A (Abaca Levels 5 & 6)	
PRE SEED (Abaca Levels 3 & 4)	
BOOTSTRAP ANGEL (Abaca Levels 1 & 2)	

According to the Fintech UA catalogue, 63% of fintech startups in Ukraine are self-financed. This tracks with what we found to be the most common obstacle to startup growth according to people at the roundtable: access to capital.

We heard two specific challenges:

1. The downside of accepting foreign capital.

It is true that capital has been flowing into Ukraine at an unprecedented rate. Ukrainian companies and startups received \$336 million of venture capital in 2018, a 30% increase on the previous year. The country has celebrated landmark investments in companies like Grammarly (\$110 million), Bitfury (\$30 million), Petcube (\$10 million) and People.ai (\$7 million).

However, domestic investors have not been able to match that new inflow of capital. As one data point, 96% of VC dollars invested in Ukraine in 2017 came from foreign investors. Entrepreneurs at the forum expressed concern about the fine print that comes with a foreign investment. For instance, foreign capital comes with exchange rate risks (the risk of raising capital in dollars when a company's cash flow is based on local currency).

This foreign capital influx also raises concerns about “brain drain” when these startups raise a follow-on round. Ukrainian startups are already tempted to establish a physical presence outside of their home country — in Silicon Valley, Europe or other more investor-friendly countries (see: Grammarly’s decision to staff up an office in California after raising tens of millions of dollars from Silicon Valley VC General Catalyst and others). Taking money from foreign investors only increases this temptation.

2. Lack of a common language between investors and entrepreneurs.

Another common theme at the roundtable was around communication between people with money and people with ideas.

Entrepreneurs recalled meetings with investors who were unclear about their terms, had unrealistic expectations for returns, and offered equity stakes that were perceived as unfair. Meanwhile, investors spoke about entrepreneurs who asked to meet with them but were unable to articulate basic elements of their business model: why their business would make a smart investment, and how they could return VC capital on a reasonable timeline.

OUR RECOMMENDATIONS

Entrepreneurs should look for “smart money”

Not all investors are equal. Entrepreneurs should look for mission-aligned investors who are knowledgeable about their piece of the fintech sector and can work with them as partners to grow their business. That might mean prioritizing a domestic investor over a foreign one.

Stronger coordination among angel investors












































Angel investors account for 6% of investment in the region. They can be a valuable source of pre-seed funding, to get a business off the ground. In other countries, angel networks and groups have proven to be a useful way to build the ecosystem of angels.

Clearer terms and expectations on both sides

We have found that milestone-based conversations can be more productive. [Our VIRAL framework](#) helps provide a common language between entrepreneurs and investors.

Obstacle 2:

ACCESS TO ONGOING MENTORING & SUPPORT RESOURCES

	Mentorship and Coaching	Accelerator and Incubator Programs	Legal & Technical Support
SERIES B DOMINANT MARKET PLAYER (Abaca Levels 7 & 8)	  Independent consultants	—	   
SEED / SERIES A (Abaca Levels 5 & 6)	    	  	    
PRE SEED (Abaca Levels 3 & 4)	       independent consultants	   	   
BOOTSTRAP ANGEL (Abaca Levels 1 & 2)	     Independent consultants	  	

While many entrepreneurs told us that access to capital was their biggest issue, the investors and ecosystem leaders raised a more fundamental issue: that many fintech startups are not yet ready to receive investment. The second most commonly identified obstacle to startup growth was access to mentorship and support.

The need for mentorship.

During the mapping exercise, many investors and ecosystem leaders voiced concern that fintech startups in Ukraine have strong technical teams and concepts, but have room to improve on business skills such as sales, marketing, and partnerships.

As Rostyslav Diuk from UAFIC told us, “Almost all startup teams in Ukraine have great technical ideas or solutions.” But they often “lack any correlation with real market needs”, even to the point that they have trouble identifying their target market, between Ukraine, Europe or the US.”

Mentorship can help bridge that gap. Mentors can be investors, industry leaders, subject matter experts, potential customers or peer entrepreneurs who can offer advice and

guidance through a formal accelerator, or more informally at an incubator or structured networking event.

The few incubators and accelerators that exist in Ukraine have proved very useful. UNIT.City is an incubator that provides space to work and ongoing support. The accelerator Seedstars has run a three-month program for fintechs in Ukraine that provided access to relevant mentors. And earlier this year UAFIC launched an incubator pilot based on its FinTechLabs project. But on the whole, it is still a challenge to access mentors who have expertise at the seed and Series A stages, or who have the proper technical expertise.

OUR RECOMMENDATIONS

More resources for early-stage fintechs

As the heatmap shows, the ecosystem has a gap in mentors that are dedicated to offering legal and technical support for the earliest-stage companies. Fintech is a highly-regulated industry, and experienced mentors can help a founder save significant time and money with just a few pointers, particularly on legal matters like company structure.

Successful Ukrainian companies should help build the startup ecosystem

A startup ecosystem takes time and tending to grow, like a garden. Larger Ukrainian companies are well positioned to both fund and incubate new projects to grow the startup ecosystem. For instance, OTP Bank runs an innovation lab for growth-stage fintechs, where they connect entrepreneurs with banking managers and skilled coaches, and sometimes make financial investments.

Are you a Ukrainian fintech that wants to get connected to these resources?

Reach out to info@fintechUA.org or [learn more here](#).

Are you an entrepreneur support organization interested in doing this ecosystem mapping exercise in your own startup ecosystem?

Reach out to us at info@vilcap.com.

Appendix A:

ATTENDEES AT ECOSYSTEM MAPPING SESSION

Fintech Roundtable Co-Facilitators



Denis Gursky
Co-Founder, 1991
Open Data Incubator



Igor Rusnak
Strategic and Development
Officer, OTP Bank Ukraine



Max Yakover
Managing Partner & CEO,
UNIT.City; Board Member,
Radar Tech



Mykhailo Vidiakin
Director of Strategy and
Reforms Department,
National Bank of Ukraine



Igor Zolotar
Merchant Sales and
Solutions Manager, Visa

Participant Summary

(in alphabetical order by last name)

Olga Afanasyeva, Executive Director, UVCA

Inna Bielianska, Head of Distribution and Member of the Board, MetLife Ukraine

Denys Borisovsky, Founder, SY Works VC Fund

Kateryna Degtyar, Acceleration & Incubation Programs Consultant, Startup Grind Kyiv, Startup Weekend Kyiv

Rostyslav Diuk, Chairman of the Board, Ukrainian Association of FinTech and Innovative Companies

Dmytro Doletskiy, Product and DtC Head, MetLife Ukraine

Olena Fokina, Key Account Executive, Group Administration, MetLife Ukraine

Andriy Gorbokon, Ukraine Technology Head, MetLife Ukraine

Denis Gursky, CEO, 1991 Open Data Incubator

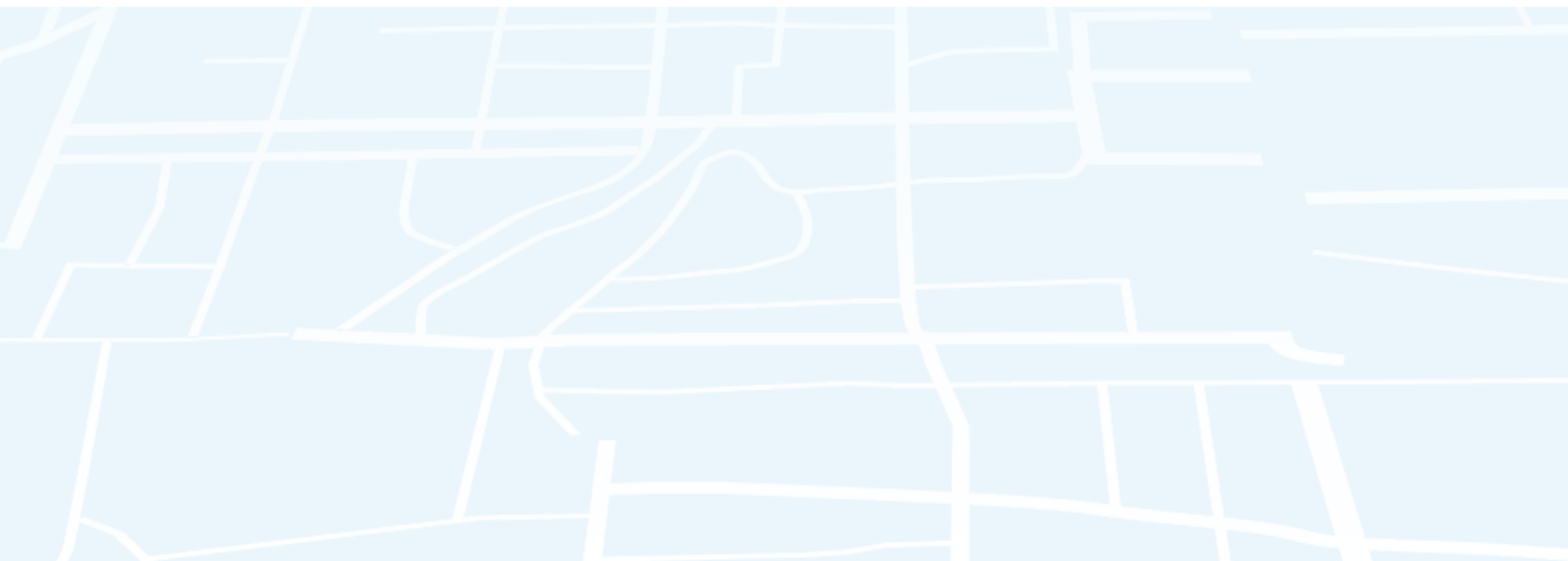
Svitlana Kandyba, Head of Employee Benefits Distribution, MetLife Ukraine

Sergii Kravets, Associate, GR Capital

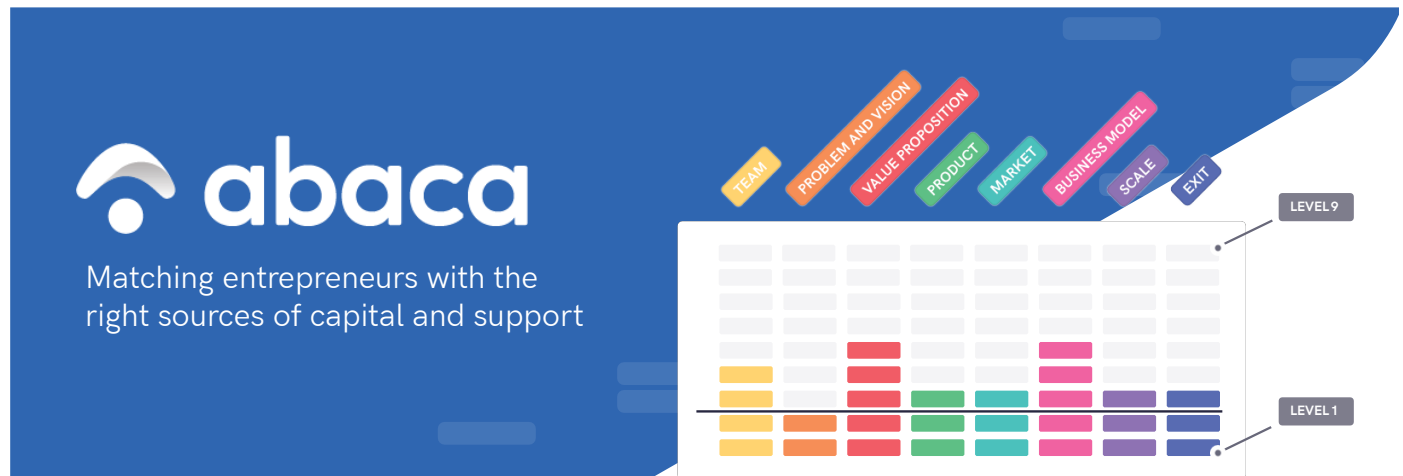
Maryna Kvashnina, Managing Partner, Edenlab

Alexander Lobanov, Partner, USP Capital

Emmanuel Lowe, Consultant and Advisor in Strategy and Business Development
Kirill Mazur, Head of Ecosystem, UNIT.City
Valeriy Muratov, Founder, moneyveo
Kateryna Oliinyk, Partner, Arzinger
Olena Ostretsova, Compliance Specialist, MetLife Ukraine
Regina Overchyk, Acceleration Manager, Seedstars
Stanislav Podyachev, Managing Partner, Blockchain Lab
Sergiy Prudkyi, Head of HR, MetLife Ukraine
Oksana Radevych-Vynnytska, Head of Legal, MetLife Ukraine
Alexander Romanishyn, Co-Founder, Reactor
Tanya Romanyukha, Executive Director, Uangel
Igor Rusnak, Strategic and Development Officer, OTP Bank Ukraine
Dmytro Ruzhytsky, Founder & CEO, Innovations Development Platform
Igor Semenov, Partner, TA Ventures
Liana Sharvadze, Client Support Manager, MetLife Ukraine
Anastasia Shevchenko, CEO and Founder, Fintech Solutions LLC
Sergey Skabelkin, Co-Founder, FinTech Cluster, Ukraine Venture Hub
Oksana Sokoliuk, Ukraine CFO, MetLife Ukraine
Vasyl Soloshchuk, CEO and Managing Partner, INSART
Monika Spadlo, General Manager, MetLife Ukraine
Oksana Strashna, Board Member, Uangel
Anna Syza, Head of Bancassurance, MetLife Ukraine
Anton Verkhovodov, Innovation Strategist, Civitta & Startup Scout, Match-Maker Ventures
Michael Vidyakin Director, Strategy and Reforms Department, National Bank of Ukraine
Taras Volobuiev, Co-Founder, Fintech Cluster
Max Yakover, Managing Partner & CEO, UNIT.City
Vladimir Yumashev, Partner, Tax & Legal, Deloitte
Dmytro Zakhovych, Co-Owner, UAPay
Igor Zolotar, Merchant Sales and Solutions Manager, Visa
Anna Zorya, Partner, Arzinger
Olha Zyl, Treasury & Investment FP&A, MetLife Ukraine



Appendix B: INFORMATION ON ABACA



A Marketplace for Companies, Investors and Resources

Abaca is a dynamic platform that allows entrepreneurs to benchmark their companies' investment readiness and find the best matching capital and resources in their ecosystem

The image shows a laptop and a smartphone displaying the Abaca platform interface. The laptop screen displays a company profile for "Pixelmatters" with details like founder information, website, and a "VIRAL level" of 3. The smartphone screen shows a "VIRAL Grid" with a benchmarking tool.

About the Abaca Solution

1. Calculates a company's overall Venture Investment Level (1-9), using a proven milestone-based assessment
2. Improves founders' self awareness of how investors view their company, making fundraising faster and less frustrating
3. Matches entrepreneurs with the right sources of capital and support, including incubators, accelerators, government programs and incentives.

Who uses Abaca?



Learn more about Abaca at abaca.app