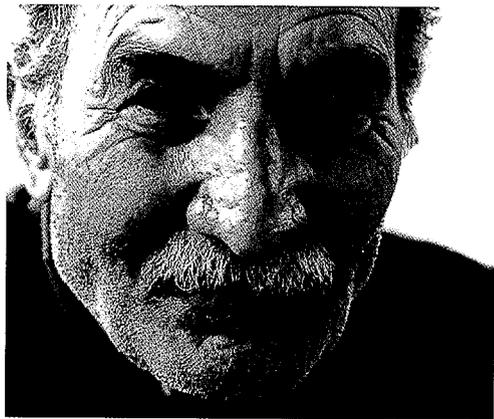


THE EURASIA FOUNDATION



1996-97 REPORT

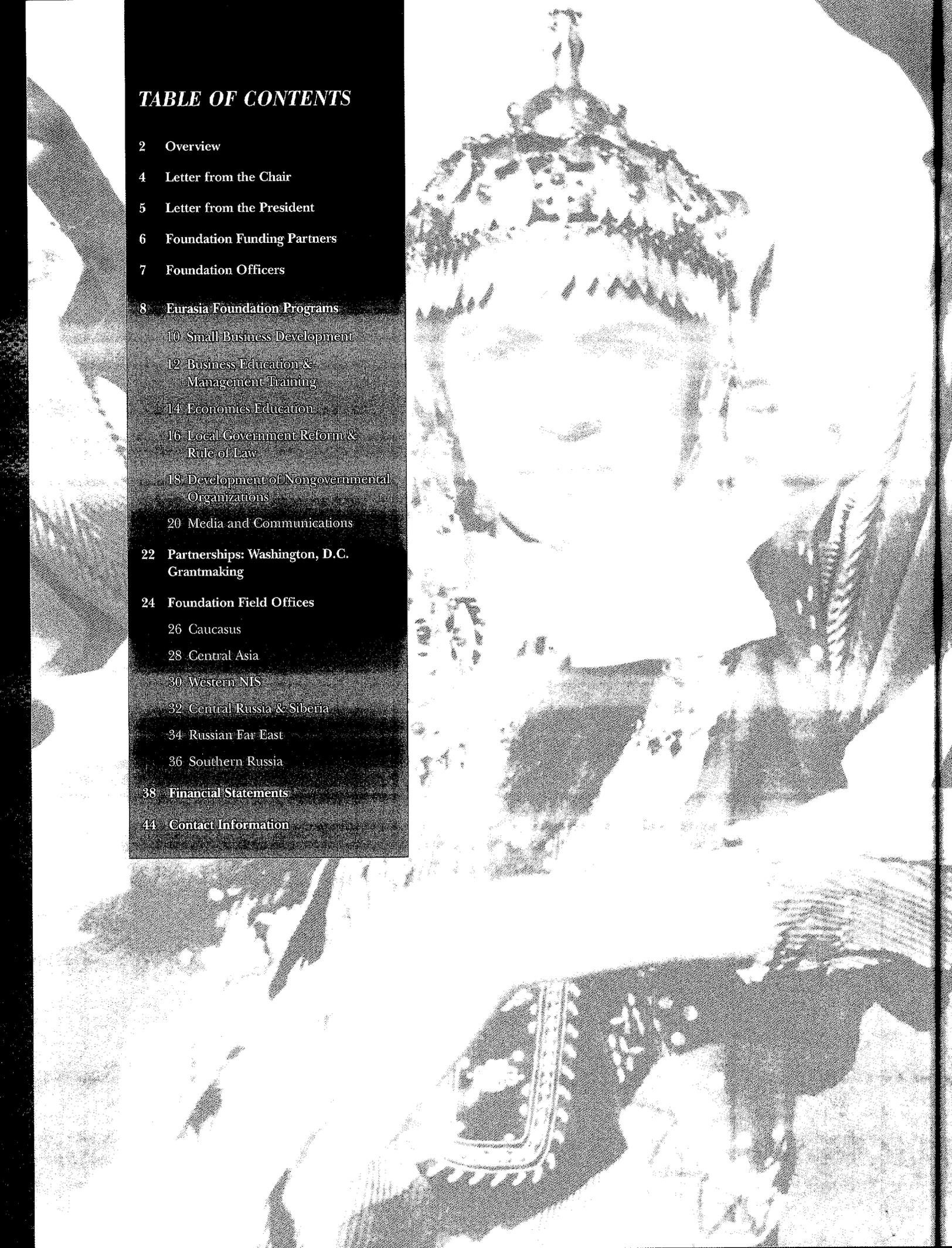
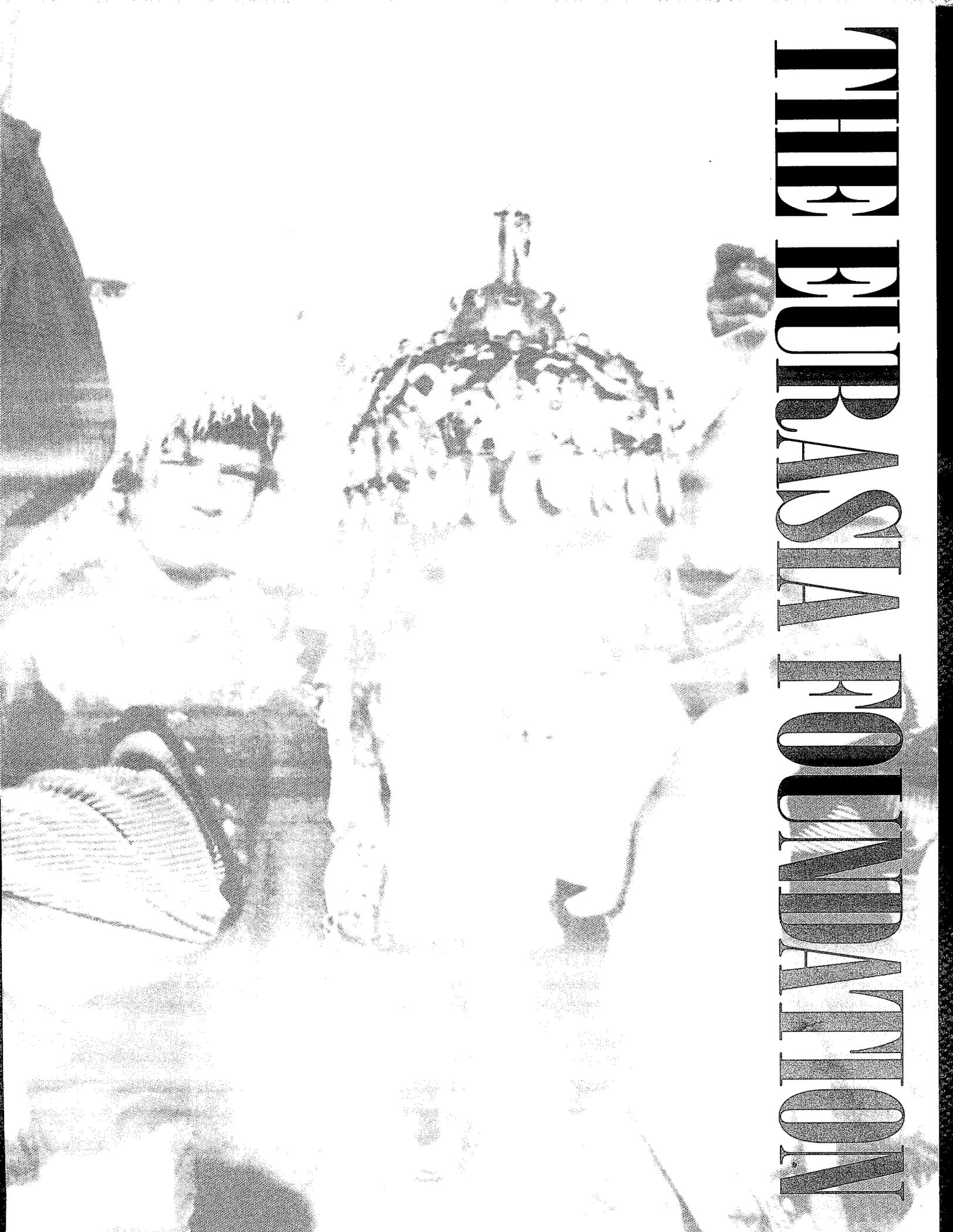


TABLE OF CONTENTS

- 2 Overview**
- 4 Letter from the Chair**
- 5 Letter from the President**
- 6 Foundation Funding Partners**
- 7 Foundation Officers**
- 8 Eurasia Foundation Programs**
 - 10 Small Business Development
 - 12 Business Education & Management Training
 - 14 Economics Education
 - 16 Local Government Reform & Rule of Law
 - 18 Development of Nongovernmental Organizations
 - 20 Media and Communications
- 22 Partnerships: Washington, D.C. Grantmaking**
- 24 Foundation Field Offices**
 - 26 Caucasus
 - 28 Central Asia
 - 30 Western NIS
 - 32 Central Russia & Siberia
 - 34 Russian Far East
 - 36 Southern Russia
- 38 Financial Statements**
- 44 Contact Information**

THE PURASIA FOUNDATION



OVERVIEW

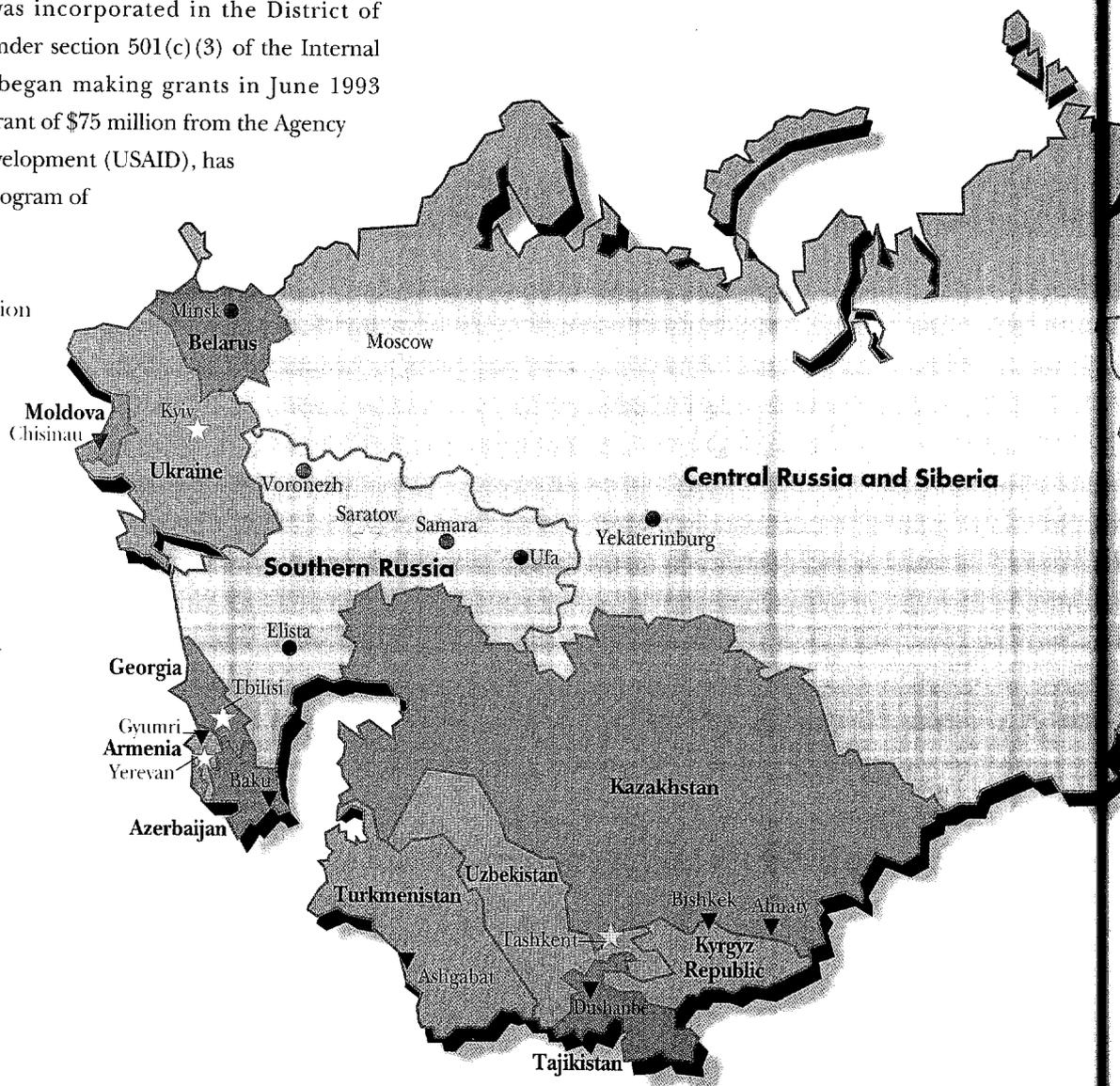
The mission of the Eurasia Foundation is to assist the twelve New Independent States (NIS) of the former Soviet Union—Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan—to build democratic and free market institutions. Its primary tool is an open-door grants program to help strengthen these institutions. In addition, and consistent with that goal, the Foundation also directly manages a limited number of projects designed to encourage professional economic policy research, a rigorous small business sector, and financially independent media.

The Foundation was incorporated in the District of Columbia in 1992 under section 501(c)(3) of the Internal Revenue Code. It began making grants in June 1993 and, with an initial grant of \$75 million from the Agency for International Development (USAID), has maintained a core program of roughly \$20 million a year ever since.

In 1997, the Foundation received additional USAID funding to continue the core program at a comparable level. Those who launched the Eurasia Foundation hoped to create a vehicle for

public-private partnerships. Since 1995 the Foundation has raised over \$9.5 million from non-U.S. government sources to provide additional support to its field programs.

The Foundation works from its headquarters in Washington, D.C., and its seven NIS regional offices in Kyiv, Moscow, Saratov, Tashkent, Tbilisi, Vladivostok, and Yerevan. The Foundation also has branch offices in Almaty, Ashgabat, Baku, Bishkek, Chisinau, Dushanbe, and Gyumri and works with local representatives in eleven NIS cities. The staff includes thirty-eight Americans and more than seventy citizens from NIS countries.

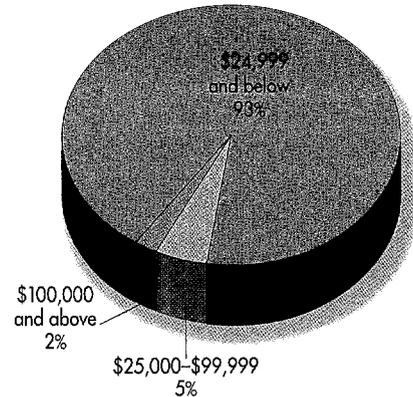


The Foundation is structured to respond rapidly to grant requests from both NIS and U.S. institutions. Its field offices may make grants up to \$25,000. Most grants fall below this level, with the average around \$19,000. Grants over \$25,000 must receive approval from the Washington office. As a matter of policy, the Foundation actively seeks participation in its programs from both U.S. and NIS private sector organizations through cooperative funding and direct contributions.

Thus far, for every Eurasia Foundation dollar invested in grant projects, \$1.83 has been generated from other private and U.S. government sources.

In its four years of existence, the Foundation has authorized three outside evaluations of the programs it has supported. All three have offered strong endorsements of the Foundation's direction. Through these evaluations and its own regularly scheduled monitoring and evaluations, the Foundation ensures that grantees use funds efficiently. This review process also permits the Foundation to assess the changing needs of grantees.

1996 Grants by Size of Award

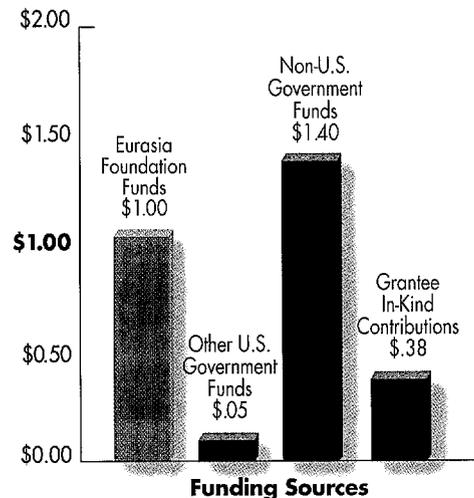


KEY

- Regional Field Offices
- Branch Field Offices
- Local Representatives

Eurasia Foundation Leveraging

For every dollar invested in grants, \$1.83 is generated from other sources.



LETTER FROM THE CHAIR



In 1992, the United States, in a spirit of generosity and with high hopes for a new world, enacted the Freedom Support Act, a \$410 million program designed to provide assistance to the nations of the former Soviet Union (except the Baltic states) in developing market economies and the institutional infrastructure for a civil society. Congress and the U.S. government wisely endorsed the creation of the Eurasia Foundation, a unique institution designed to provide grants in the New Independent States that emerged from the Soviet Union. To be aided were the individuals and the institutions that demonstrated the courage to change their ways and to try to make things a little better in their communities.

The Eurasia Foundation opened its doors in 1993 and quickly established its presence throughout the region. In four years it has made more than 2,000 grants from Minsk to Vladivostok, from Murmansk in the north to Yerevan in the south. While successfully launching its far-flung network, the Foundation has managed to maintain a low overhead and quick turnaround time for grant management that repeated outside reviews have praised. The Foundation has gone into remote regions in an effort to extend the reach of the Freedom Support Act of 1992. It has focused its grantmaking in areas of need and opportunity that the local populations themselves have identified. It has operated at the grass roots as a bottom-up counterbalance to the top-down approach toward reform initiated by larger organizations operating at the national level.

In comparison to the great foundations of the United States, the Eurasia Foundation, now only four years old, is still in its infancy, but it has already registered some hard-won successes. First and foremost, throughout the former Soviet Union, the Foundation has supported new leaders, who, without Eurasia Foundation funding, would have found it difficult, if not impossible, to pursue their dreams of reform. These individuals have come from all walks of life—the media, local government administrations, academia, small businesses, and the emerging nonprofit sector. They are all involved in building new societies.

The Eurasia Foundation has also made a difference in the programmatic areas in which it is involved: small business development, training and lending; local government reform through training, research, and fiscal federalism; and media reform, including access to independent printing presses, training in the business of media management, and access to wire services. From its beginning the Foundation has also encouraged the development of nongovernmental organizations, whose programs help the people of the region achieve economic and social reform.

In the future the foci of the Eurasia Foundation program will continue to change in response to the extraordinary pace of change in the regions it serves. But it is safe to say that the Foundation will continue to serve as a new, successful model for the delivery of U.S. government assistance in a manner that meets both the assistance objectives of U.S. policy makers and the needs of the local populations.

Sarah Carey

Sarah Carey
Washington, D.C., November 1997

LETTER FROM THE PRESIDENT

In 1991 the Soviet Union was no more. The authority of the Communist Party was gone. The Cold War had ended. How would the peoples of the former Soviet Union adjust to the challenges of a free society? How could the United States help ensure that democracies and free-market economies would take root; that desperate and disaffected citizens nostalgic for the old days would not reject the reformers in favor of a new dictator promising bread, land, and peace? How could we help lay the groundwork for thriving economies ripe for U.S. investment; for open, democratic societies that would be with us on the big issues such as the fight against arms proliferation, terrorism, and ethnic unrest?

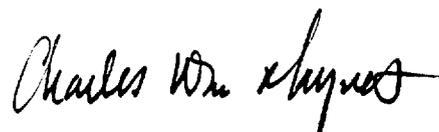
In a creative answer to these questions, the Bush and Clinton administrations established the Eurasia Foundation. The officials involved wanted an institution able to shift directions quickly in response to local needs, to adapt rapidly to changing conditions. They asked that we stress partnerships between institutions in the New Independent States and in the United States, frame our programs to reflect requests from the region rather than directives from Washington, and try to encourage others to join the Foundation in this new approach.

In the four years of its existence the Foundation has more than met the expectations of its founders. It has recruited a young, gifted staff of linguistically competent field representatives who have put in an untold number of hours to push the programmatic mandate into the far corners of the NIS, a vast land area now divided into twelve countries.

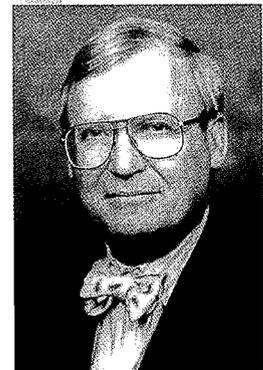
At times, these field representatives have worked in extremely difficult conditions. They have served in countries gripped in civil war, seen friends kidnapped by rival bands, been medically evacuated, and spent winters with limited heat and electricity. Yet morale has remained high because of the importance of the task undertaken.

As the Foundation has matured, it has shifted the majority of its grantmaking activity from Washington to the field, from less than 10 percent the first year of operations to nearly 90 percent today. Foundation field representatives have proven adept at identifying local needs and working with their Washington colleagues to select U.S. institutions that can pair with NIS institutions in a common endeavor. Since 1993 the Foundation made over 300 partnership grants linking U.S. organizations with counterparts in the NIS.

Future plans of the Foundation call for further efforts to push innovative programs into regions still neglected by the center, to look for new opportunities to bring together people and institutions from the region with those of the United States, and to seek out new means of promoting free institutions and markets. Our goal is to remain an institution relevant to the changing realities of countries undergoing a dramatic and promising transition.



Charles William Maynes
Washington, D.C., November 1997



Foundation Funding Partners

The Foundation Thanks

Its Sponsors

The Eurasia Foundation is able to increase its grantmaking and programmatic activities through support from both U.S. and non-U.S. government sources. Since 1995, the Foundation has received funding from individuals, private foundations, foreign governments, and corporations, in addition to major funding from the Agency for International Development. A special effort has been made to build strong relationships with members of the diaspora NIS communities. Members of the Eurasia Foundation Board of Trustees also give generously.

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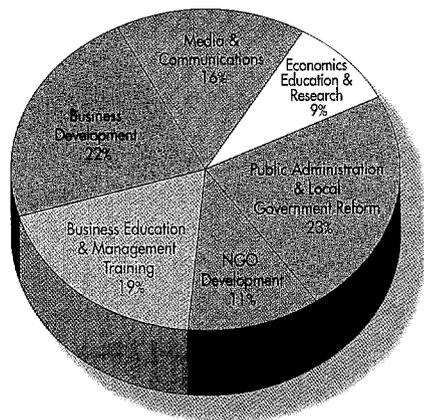
EURASIA FOUNDATION PROGRAMS



In its first two years, the Foundation worked primarily through an open-door grantmaking policy, casting a broad net across the NIS to gather ideas at the local level. Small, efficient grants got a number of good projects underway. After evaluating its ad hoc grantmaking, the Foundation began to pinpoint ways to stimulate change, not only by bringing various NIS groups together to work toward a common goal, but also by building on the successes of the earlier small grants. The effort was to broaden and institutionalize reform. Proactive grantmaking also enabled the Foundation to cooperate more closely with private donors and technical assistance providers in a time of shrinking government support in the NIS.

Students at the New Economic School in Moscow learn new strategies for an economy in transition. Russia.

Grant and Project Disbursements 1993 to Present



The Foundation's grant programs mirror both the challenges and opportunities of economic and social reform in the New Independent States (NIS). Increasingly, programs signal the growing sophistication and creativity of NIS institutions grappling with reform. The Foundation itself has evolved from simple grantmaking into a more complex support system for innovative grassroots projects in the NIS.

One of the most successful and frequently used mechanisms for proactive grantmaking has been the small grant competition. In a competition, field staff identify a priority topic and actively solicit proposals over a set period of time. Grants are made to the best proposals aimed at achieving an overall goal in the region.

Occasionally, the Foundation takes the lead in mobilizing private and government resources to address unmet critical needs. Through mid-1997, the Foundation had launched three new initiatives, which the Foundation manages directly from Washington. Current projects administered by the Foundation include small business lending, economics education, and media loans and technical assistance. These special projects leverage significant amounts of private and government support, nearly \$7.5 million since 1995.

Although competitions and Foundation projects are useful tools for focusing the Foundation's grant portfolio and building on the results of past grantmaking, the Foundation's primary means of proposal solicitation remains the open door for those seeking assistance. This approach to grantmaking allows the Foundation to remain sensitive to the needs of the region as perceived by the potential beneficiaries of the assistance.

Awakening the People

The Eurasia Foundation's Nongovernmental Organization Competition in the Baikal area has dramatically changed the environment for NGOs in the region. Located far from Moscow and receiving virtually no support from private or government sources, the NGO community here has felt isolated and powerless. . . . The Eurasia Foundation competition was much more than a simple distribution of money. It was an important event, not only for those who received grants, but for all the groups that

participated in the process and for the community as a whole. The program educated groups on how to write proposals, develop strategic plans for their projects, work with budgets, conduct public outreach, build relationships with government and businesses, and much more. People woke up; they are now striving to play a much more active role in reforming the region."

—Vladimir Pogrebinsky, *president of the Irkutsk NGO Citizens Information Initiative*

SMALL BUSINESS DEVELOPMENT



Larissa Zolotova, president of the Lidutsa Clothing Company, works overtime to complete a new order for hospital uniforms. Moldova.

Small businesses are a critical engine for growth in any free economy. They are particularly important in the difficult economic environment in the NIS. Small businesses can absorb a large part of the unemployment created as larger enterprises face the challenges of privatization and restructuring.

Yet serious obstacles currently confront small businesses in the NIS, including unfavorable tax policies, an evolving legal framework, corruption, organized crime, and a lack of access to capital. The Foundation has helped to address such problems through funding to assist:

- Small business development centers to provide training and individual counseling;
- Business incubators to provide common office space, services, and equipment that help new small businesses become viable;
- Short-term training programs to improve business skills;
- Legal and tax advising services to offer otherwise prohibitively expensive assistance for start-up businesses;

- Policy research and legislative initiatives to promote change in the legal environment.

In its support of small business development, the Eurasia Foundation works closely with other Western and indigenous programs. Through its grants and loans, the Foundation not only supports small business development generally, but helps spur commercial investment in remote areas of the NIS.

The Small Business Loan Program

Recognizing that training alone is not sufficient to support entrepreneurs who also lack access to capital, in 1995 the Eurasia Foundation launched the Small Business Loan Program focused on Armenia and Ukraine. The program provides capital and introduces small business credit analysis and collection methodology to local bank management. Drawing on Foundation expertise, partner banks are in a position to lend to the local small business community with reduced risk and lower loan losses. Loans are denominated in dollars and generally range from \$15,000 to \$100,000, with the average size less than \$30,000.

In Armenia the program has partnered with four local banks to extend loans throughout the country, creating hundreds of new jobs in the past two years. In 1997, with support from the Lincy Foundation, the Eurasia Foundation opened an office in the earthquake region to respond to the critical need for capital in that area.

The Foundation's program has targeted two regions in Ukraine with the assistance of an experienced local bank. In both regions, outside of Kyiv, the supply of medium term credit is limited, if not nonexistent.

In early 1997, the Eurasia Foundation received funding from the Agency for International Development to launch a lending program in the Saratov Oblast in Southern Russia. This program will focus specifically on agribusiness credit and, like the other programs, will generate growth and new jobs.



Sabri Sargisian (second from right), president of Sargisian and TL Construction, and his staff inside their furniture factory. Armenia.

Sustaining Small Business Through Capital Infusion

In the Caucasus, it seems that everyone wants to renovate, and two brothers in Armenia are taking advantage of the trend. In 1994, they started Sargisian and TL, a business that produces wooden doors and windows. As orders began to grow, they decided to expand the business to include living room furniture. It soon became clear that the company desperately needed capital to reach its new goals. Sargisian and TL turned to the Eurasia Foundation's Small Business Loan Program, where they received

crucial support. "Thanks to Eurasia's loan assistance, we now have twenty-four highly qualified specialists," says Sabri Sargisian. "Our company now provides employment outside of Yerevan." Armen Safarian, the other company founder, adds, "Local demand and orders have increased 300 percent since the production line started working!"



A Sargisian and TL employee works diligently to finish a large request for "Sargisian doors." Armenia.

BUSINESS EDUCATION & MANAGEMENT TRAINING



Kyrgyz-American School for Business Education president receives a grant from an EF officer. Kyrgyz Republic.

As the new private sector emerges in the NIS, managers are beginning to realize that solutions formerly required in a centrally planned economy do not often work in the free market. The Foundation supports institutional development and short-term training programs that transfer to NIS managers skills they need to cope with the new challenges of the free market. The Foundation seeks to address these needs through support for:

- University partnership programs to develop business curricula and teaching materials and to raise the instructional and research skills of NIS business faculty in important disciplines such as accounting, finance, marketing, strategic planning, information systems, and business law;
- Educational programs at the secondary level to introduce business courses and materials into regional schools, exposing young minds to business fundamentals at an early age;

- Internship programs and career advising centers to provide practical learning opportunities for students;
- Short-term management programs to offer hands-on knowledge to current managers and to functional specialists in such areas as accounting and real estate appraisal;
- Targeted seminars to reach managers of specific industries, particularly banking and agribusiness.



Jesse Sibarium, a volunteer at INMARK, explains recent agribusiness legislation to visiting farmer Vasily Osipchuk. Moldova.



A young client of the INMARK Marketing and Information Center demonstrates her newly acquired skills in growing winter produce. Moldova.

Educating the New Agribusiness Entrepreneur: Moldova

A steady stream of people move through a corner office door in the business district of Hiscenti in Moldova. Men and women, young and old, come and go all day long. Some carry large travel bags, others arrive with children in tow, and some drop by as part of their daily routine. To the casual observer, their weathered faces and muddy boots might seem out of place in this urban setting, but these people have come a long way to obtain valuable information and advice and are welcome at the INMARK Marketing and Information Center located inside. The Center was established specifically to assist farmers and other food-producing entrepreneurs who visit every day.

Through an \$18,380 grant from the Eurasia Foundation, the Center's activities have expanded to provide a central information base for the whole region. It also compiles and distributes weekly updates on agricultural product prices and gathers market information on goods and services required for agricultural production and food processing. The Center conducts seminars on ways to obtain credit, write a business plan, market products, understand new legislation, and other topics important to the agricultural business community.



Mikhail Morar, another INMARK client, prunes grapevines in his vineyard. Moldova.

ECONOMICS EDUCATION



Serge Il'chuk and Irina Pinchuk, students in the EERC program at the University of Kyiv-Mohyla Academy, prepare a paper for their class on international economics. Ukraine.

Successful reform depends on a broad-based understanding of market economics. Recognizing this, the Eurasia Foundation has given priority to funding economics education efforts. Foundation funding has targeted four areas of economics education:

- Long- and short-term training programs for faculty and curriculum development;
- Development and dissemination of economics teaching materials;
- Policy-related economics research;
- Public education efforts to improve popular understanding of the fundamentals of market economics. Economics education, as distinct from business training, stresses the conceptual underpinnings of how a market economy works. While faculty and curriculum development are aimed at improving the quality of economics education, Foundation funding for public education helps local communities understand the influence of sound economic policies on prices, employment, and growth.

The Eurasia Foundation's commitment to economics education underscores its long-term approach to supporting policy reform. These efforts help public officials and the public at large to engage in more informed discussion and management of economic policy at the national, regional, and local levels.

The Economics Education & Research Consortium

In 1996, the Foundation launched a major new initiative in economics education: the Economics Education and Research Consortium (EERC). The program seeks to strengthen the economics profession in the NIS, with the long-term aim of improving economic policy making. The EERC program builds professional capacity in economics through support for policy-oriented research and basic economics education. It also helps integrate NIS economists into international professional circles.

To date, two distinctly different EERC programs have been launched. In Russia, EERC conducts semiannual grant competitions for Russian economists working on original policy-related research. These grants are complemented by peer-review workshops, technical seminars, and a publications series to strengthen their professional development. In Ukraine, EERC has joined forces with the University of Kyiv-Mohyla Academy to offer a master's degree in economics. The program's teaching and curriculum parallel those of any leading graduate education program in the world. After graduation, EERC alumni will be qualified to work effectively as economists in policy-making careers in Ukraine or to pursue doctoral studies abroad.

The EERC is a partnership between publicly and privately funded organizations interested in strengthening market economics training in the NIS. In addition to the Eurasia Foundation, consortium members include the Ford Foundation, the Open Society Institute/Soros Foundations, The Pew Charitable Trusts, the Starr Foundation, the World Bank, and the Norwegian Royal Foreign Ministry. Members contribute both financial support and policy guidance. With solid programs in place in Russia and Ukraine, and as new resources become available, the Consortium will seek to expand EERC programs to other NIS countries.



A New Outlook on Economics: EERC Ukraine

"I'll be with you in just a minute," says Serge Il'chuk as he leans impatiently over the printer in the EERC computer lab. Moments later, he proudly displays his first economics research paper, prepared for his course in introductory macroeconomics entitled, "Patterns of Economic Growth and Implications for Ukraine."

"I find international economics and macroeconomic stabilization particularly important for Ukraine today. I mean, questions like why one nation is wealthy and another is poor, why a country may have a rich array of resources, but is still unable to succeed in putting them to effective use. . . . Both my coursework with Faisal Nasr and Daniel Kaufmann's lecture have added important dimensions to my understanding of the issues." Il'chuk, a twenty-two-year-old University of Kyiv-Mohyla Academy economics alumnus, also holds an electronics engineering degree from Vinitza Technical University. He was one of the first students in the new EERC Ukraine master's program in economics.

Students in the master's program come from all walks of life: former engineers, physicists, school-teachers, production managers, even a Red Army tank commander. They bring a wide range of skills and perspectives to their course work at the University of Kyiv-Mohyla Academy, but they all share a belief that understanding free-market economics is crucial to the future of Ukraine.



Lance Brannman lectures EERC students on the fundamentals of econometrics. Ukraine.

LOCAL GOVERNMENT REFORM & RULE OF LAW



A Ukrainian student conducts a poll on civic responsibility. Ukraine.

Improving the delivery of public services, pushing more decision making down to regional and local authorities, promoting rule of law, and creating new linkages between citizens and government are all central to a well-functioning democracy. Central governments in the NIS, increasingly unable to manage public services, are gradually devolving responsibility to subsidiary branches of governments, the private sector, and nongovernmental organizations (NGOs). The Foundation encourages this transition through educational and training programs to improve the professionalism of public servants and sponsors policy research programs to enhance the quality of the information at their disposal. The Foundation also supports programs promoting the rule of law as a critical component of a civil society.

The Foundation's programs in local government reform and rule of law include:

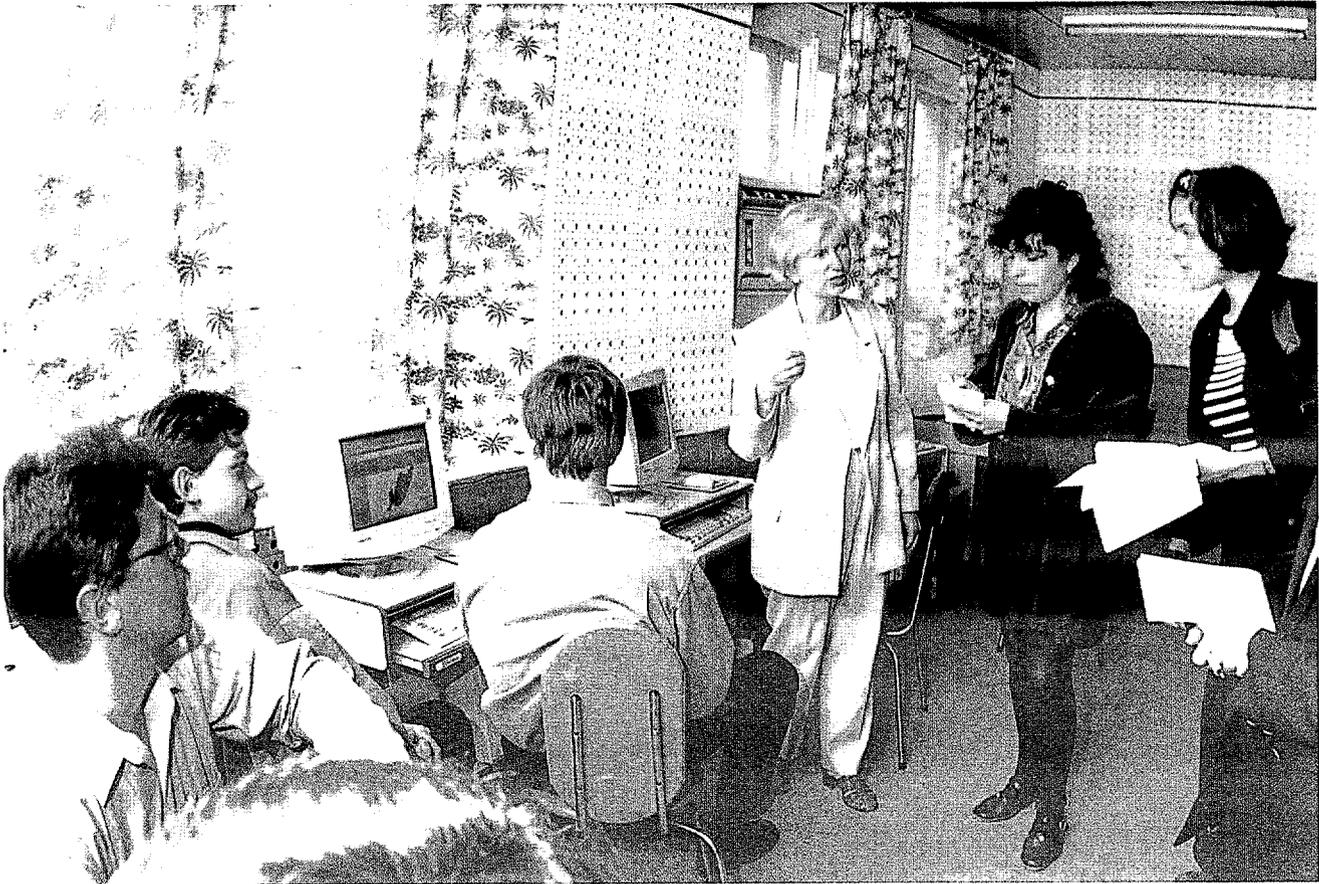
- Creation of institutes of public administration and local government typically awarding a Master of

Public Administration degree or a certificate degree after a one- or two-year period of study;

- Short-term training of NIS administrators in geographic information systems, municipal finance and budgeting, project management, and other topics;
- Reform of local public service delivery systems now suffering from neglect;
- Public policy advice and research on diverse subjects ranging from the challenges that face privatized firms to feasibility studies on municipal bonds issues or education on finance reform;
- Information and communication programs to improve communication among government entities and to increase popular access to information regarding the activities of NIS elected and appointed officials;
- Support for rule-of-law projects promoting basic civil rights, public participation in the legislative process, and increased access to legal information.



Ilko Kucheriv, a Eurasia Foundation grantee, meets with Parliament members at the Ukrainian Parliament building. Ukraine.



Ludmilla Usoltseva, Vladivostok administrator, demonstrates the Geographic Information System (GIS) model at the Far Eastern State University, Russia.

The Vladivostok Administration Gets a Makeover

After enduring a winter of cold apartments and a spring of less than six hours of electricity per day, residents have resigned themselves to expect little relief from their city administrators and officials who are trapped under the inefficient bureaucratic system of the Soviet era. One individual, Ludmilla Usoltseva, is about to give the name "administrator" a whole new meaning. Usoltseva has devised an innovative computer-based system that will offer regional administrators new tools to improve and manage the daily life of their constituents.

Under Usoltseva's guidance and with Eurasia Foundation funding, a Geographic Information System (GIS) has been created that will store,

analyze, and present data to administrators on topics such as population, employment, natural resources, land use and value, susceptibility to natural disasters, and energy production and transmitting systems. This information will be available to Vladivostok administrators and officials, local businesses, foreign investors, media outlets, and the general public. "GIS is an essential tool for anyone involved in public planning," stresses Usoltseva. "It is basically a virtual reality. Administrators and businesses can plan a new highway or method of energy distribution and accurately anticipate who and how they will be affected one year from now, five years from now, and so on."

DEVELOPMENT OF NONGOVERNMENTAL ORGANIZATIONS



Volunteers of Baikal Wave, an environmental action group, display their monthly newsletter. Russia.

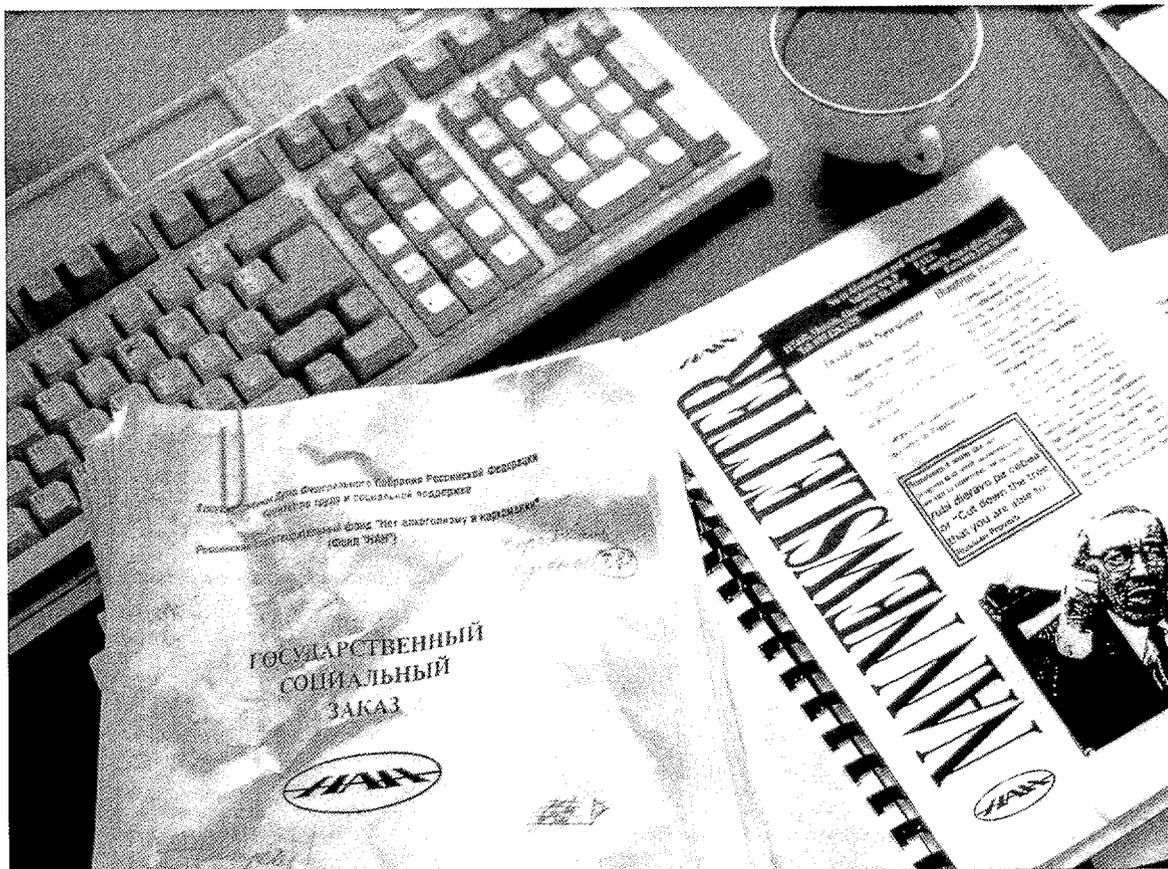
The heart of a civil society lies in the willingness of ordinary citizens to assume responsibility for their own lives. Nongovernmental organizations (NGOs), or the so-called “third sector,” provide citizens with the means to join together and improve their communities, professions, and governments. NGOs also protect the rights of individuals and may provide social services to the needy. NGOs form the layer of society in which ordinary people gather and multiply their collective power in the face of government apathy or abuse. It is a layer that was almost totally absent during the Soviet era when the state dominated daily life.

The development and survival of this sector, however, depends not only on the ability of indigenous NGOs to organize and manage themselves effectively, but also on the creation of a legal and political climate that will allow them to thrive. The Eurasia Foundation is committed to encouraging the development of vital, self-sufficient NGOs, particularly

those working in mandate areas of the Foundation, through grants supporting:

- Advice on legal and tax issues related to registration and operation;
- Legislative reforms to create an environment in which NGOs can operate without government interference;
- Creation of support centers to provide ongoing training, consulting, and networking services;
- Establishment of professional associations to develop standards of educational attainment and ethical behavior;
- Management of communication and coordination among NGOs, government officials, the business community, and the public at large;
- Training in nonprofit management, fundraising, public outreach, and networking;
- Development of public affairs journalism to enhance understanding of NGO activities among the general population.

Recent Foundation grantmaking has supported cooperation between local governments and NGOs for social service delivery; facilitated “East-East” training inside the NIS for NGOs and local government officials; and provided “second tier” support to ensure the sustainability of successful past grantees. The Foundation has also sought to encourage local philanthropic support of NGO activity.



Eurasia Foundation supports programs that result in new local, regional, and federal laws.

Laws in a New Society

A plain white paper with tiny cyrillic type hangs loosely on Oleg Zikov's office wall, stuck with one tack. Smudge marks and dog-eared corners reveal its frequent handling. Zikov and his staff look back to this original draft often to remind themselves of the origins of a new law. "Work in the social sphere, through partnerships with government, helps people help themselves," claims Zikov. "This is the cornerstone of a civil society."

No one knows this better than Zikov. Benefiting from a grant from the Eurasia Foundation, he and his staff at the "No to Alcoholism and Drug Addiction" (NAN) Foundation drafted a blueprint in 1995 for a

federal law on government contracting of social programs. The law would provide mechanisms to competitively distribute government funds for social programs among NGOs, private providers, and state agencies. The law has reached its first reading in the State Russian Duma. "The law would be a major breakthrough for NGOs that previously had to labor endlessly to make sense out of the heavy bureaucratic regulations that blocked funding," explains Zikov.



Oleg Zikov, NAN Foundation director, explains the impact of the new law his organization helped write. Russia.

MEDIA & COMMUNICATIONS



Valentin Kverinin, distribution manager for Volgograd's Gorodskiy Vesty newspaper, describes the benefits of owning a printing press. Russia.

The free flow of information and the free expression of different points of view represent the lifeblood of a democracy. The Eurasia Foundation actively promotes the development of independent media and electronic communications in the NIS, placing priority on the local and regional press.

■ **The Print Media.** The Foundation has supported nine small grant competitions for the print media: six in Russia, two in Ukraine, and one covering Uzbekistan and the Kyrgyz Republic. Competition grants support training, access to new information resources, acquisition of equipment, creation of alternative distribution systems, and the addition of new columns or news supplements connected with economics or business. The Foundation, through open-door grantmaking, also considers proposals that support the development of a self-reliant media.

■ **The Broadcast Media.** The Foundation has underwritten a number of news and public affairs programs over radio and television, such as "America with Michael Taratuta" in Russia and "Pislyamova" in Ukraine. These widely watched programs help explain a market economy to Russian and Ukrainian audiences. The Foundation has also funded specialized programming on such topics as

the role of NGOs, the privatization process, and the emerging role of women in changing economies.

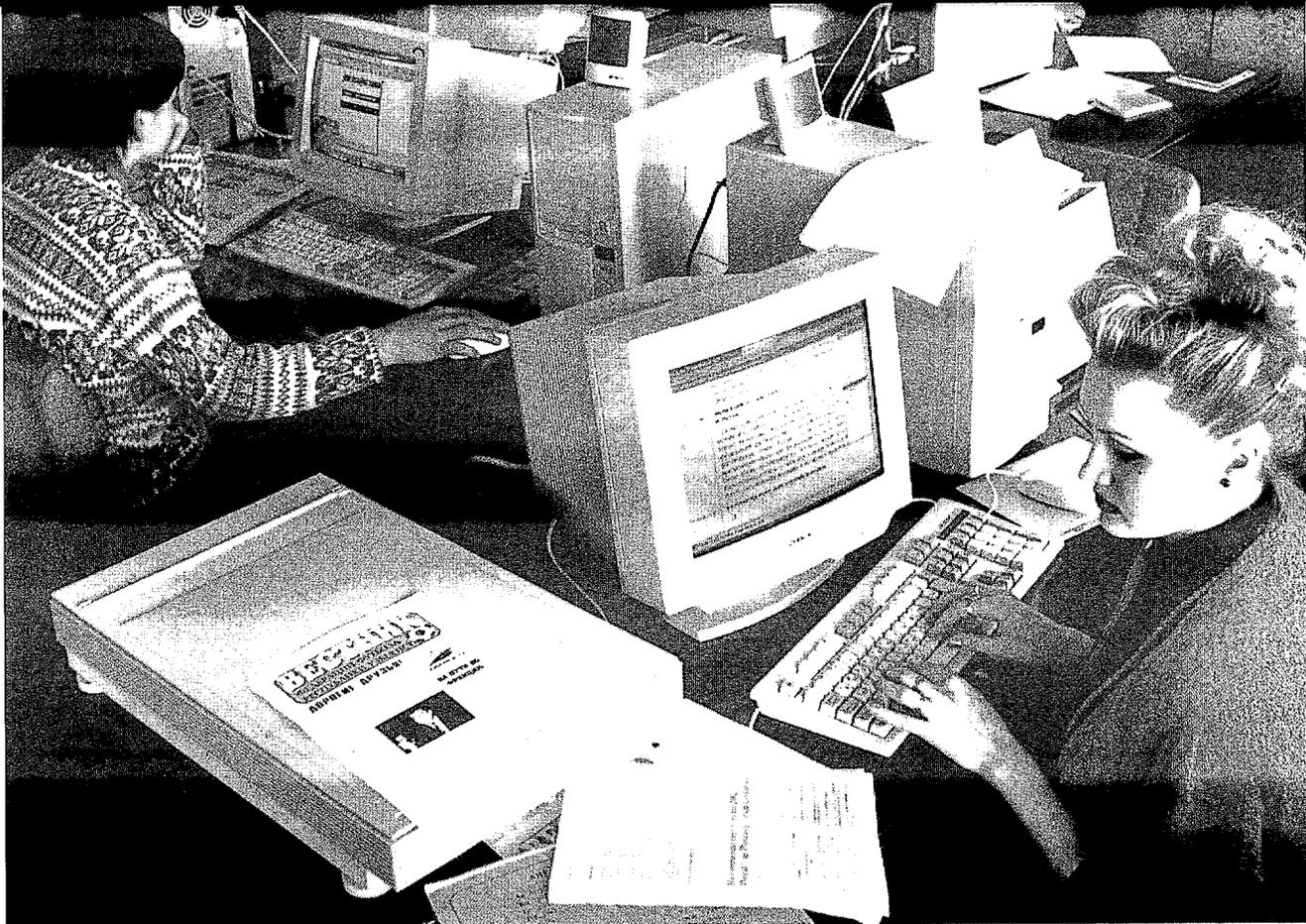
■ **Electronic Communications.** The Internet and e-mail offer remote regions access to the world outside, ending the extreme isolation that contributes to uneven development. The Foundation considers electronic communications as one of the most effective means of information exchange in the modern world and an important tool for promoting democracy and building a civil society.

The Media Viability Fund

Democracy depends on a well-informed citizenry with access to diverse sources of information. In recent years, a wide variety of nongovernmental publications have emerged to provide NIS citizens with news and views from many perspectives. Despite the increasing variety of information available in the NIS, two obstacles continue to hinder the development of a truly independent press. First, most nongovernmental newspapers still rely on government-controlled printing presses and distribution systems. These government monopolies can be used to limit press freedom. Second, editors often lack the management skills necessary to operate their newspapers as financially viable enterprises.

To address these two obstacles, the Media Development Loan Fund and the Eurasia Foundation joined forces to create the Media Viability Fund (MVF). The MVF provides low-interest loans to establish independent printing presses, thus breaking the government monopolies. The MVF also provides long- and short-term training to help nongovernmental newspapers become independent by operating as profitable enterprises in a competitive market. Together, loans and training help change the way local governments and potential investors view the independent press.

The MVF has already achieved success by linking fledgling newspapers in the NIS with more experienced counterparts in Eastern Europe. This allows journalists and editors in the NIS to take advantage of the experience of those who have already overcome the challenges of working in a transition environment. The MVF has launched pilot projects in selected regions of Ukraine and Russia. As it gains experience, the MVF will expand to other regions.



Journalists receive electronic communications training in Tashkent, Uzbekistan.

Building an Independent Press in Uzbekistan

In 1996, the Central Asia Office staff identified the development of an independent and commercially viable media as a prime area of need in Uzbekistan. The Creative Center Ilkhom in Tashkent was awarded a Foundation grant to train Uzbek journalists to use electronic media and information resources. The journalists were quick to see the implications of their new cyber-skills. “News isn’t really news unless it’s timely and accurate,” says Lutfulla Kabirov, director of Ilkhom. “Old or false information won’t keep us in the paper-selling business. That’s why the Internet is so important. Gaining access to world-wide electronic information networks has been critical to improving the free flow of information in Uzbekistan.”

Ilkhom received a second grant to train 300 journalists and editors on the business side of journalism—media management and distribution. After the training, a dozen local newspapers set up independent distribution systems, breaking the monopoly of the centralized delivery system. “Many people forget that running a newspaper requires an effective distribution system as well as talented journalists,” explains Jabbor Razzakhov, editor-in-chief of the *Khiva Tongi* newspaper in Khiva, Uzbekistan. “The quality and substance of your stories mean little if you can’t get your paper out. After the training seminar, we discovered distributing the paper on our own was not only possible, but also profitable.”

PARTNERSHIPS: WASHINGTON, D.C. GRANTMAKING



Students at the American-Belarusian Center for Business Studies pause for a moment of humor during a class on business planning. Belarus.

To augment its grantmaking from the field, the Eurasia Foundation through its Washington, D.C., office awards grants to organizations outside the former Soviet Union for partnership projects within the NIS. Through these initiatives, foreign partners provide expertise unavailable in the NIS and transfer critical skills to NIS organizations. These partnerships strengthen grassroots linkages and improve relations between East and West.

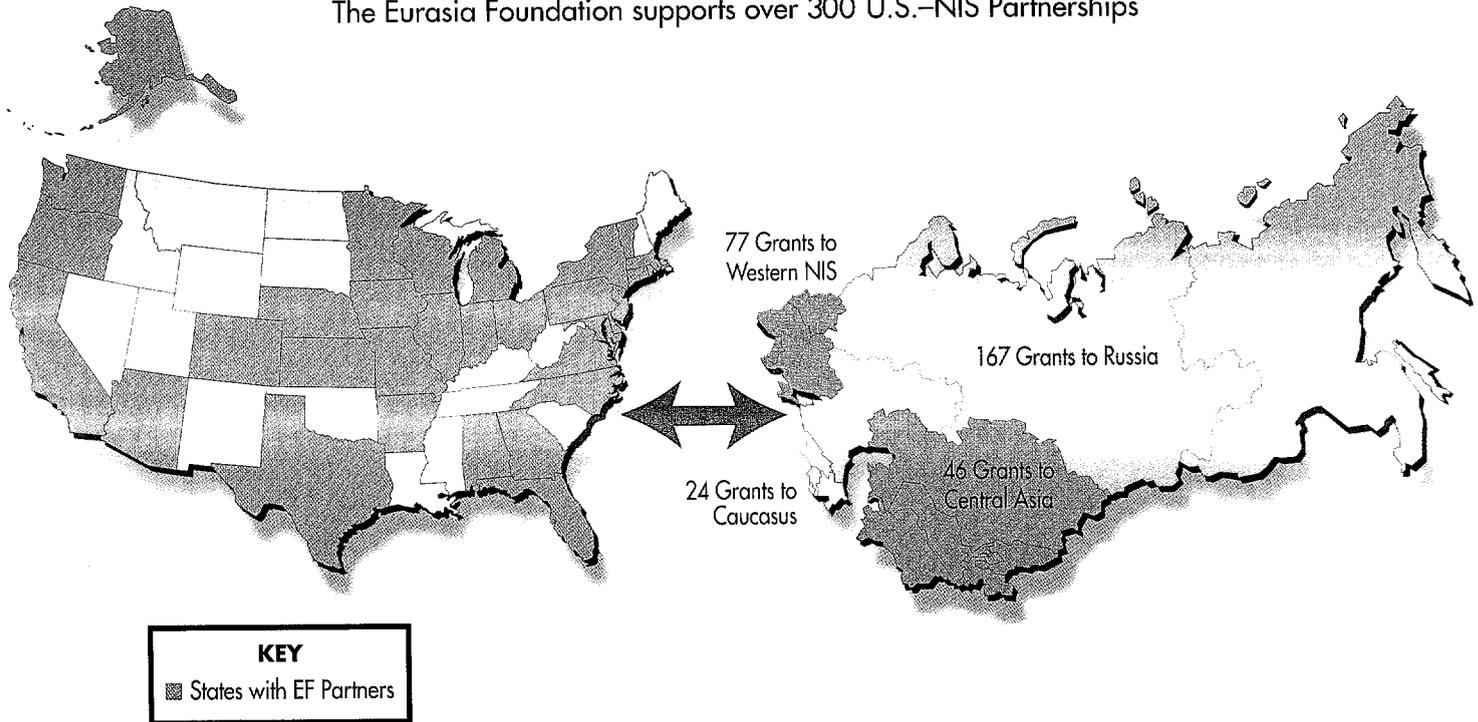
The Foundation was one of the first organizations to support partnership programs. In 1995 and 1996, the Foundation supported 125 initiatives which reached groups in twelve NIS countries and over twenty American states and involved foreign partners in both Europe and Japan. Through 1996, total funds for partnership programs were over \$9 million.

Partnership grantmaking continuously evolves to reflect and complement the changing regional priorities established by each field office. For 1997, the Eurasia Foundation identified the following priority areas:

- Regions that have received relatively little partnership funding, especially southern Russia, the Caucasus, and Central Asia;
- Associations that promote networking and information dissemination in business development, economics education, local government reform, NGO development, and media;
- Combinations of different areas within the Foundation's mandate, such as bringing together local government, NGOs, and the media to promote small business development.

Partnerships For Change

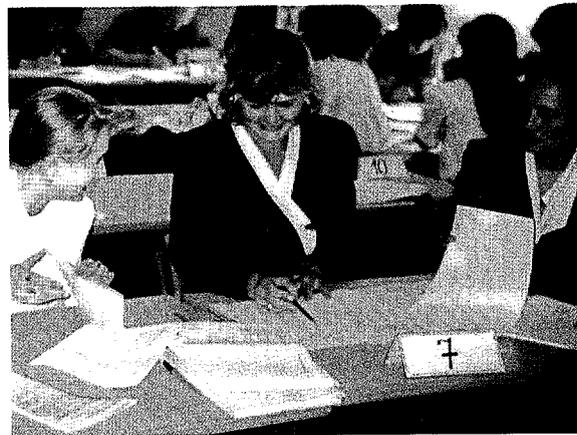
The Eurasia Foundation supports over 300 U.S.–NIS Partnerships



Teaching Russian Administrators—Japanese and American Style

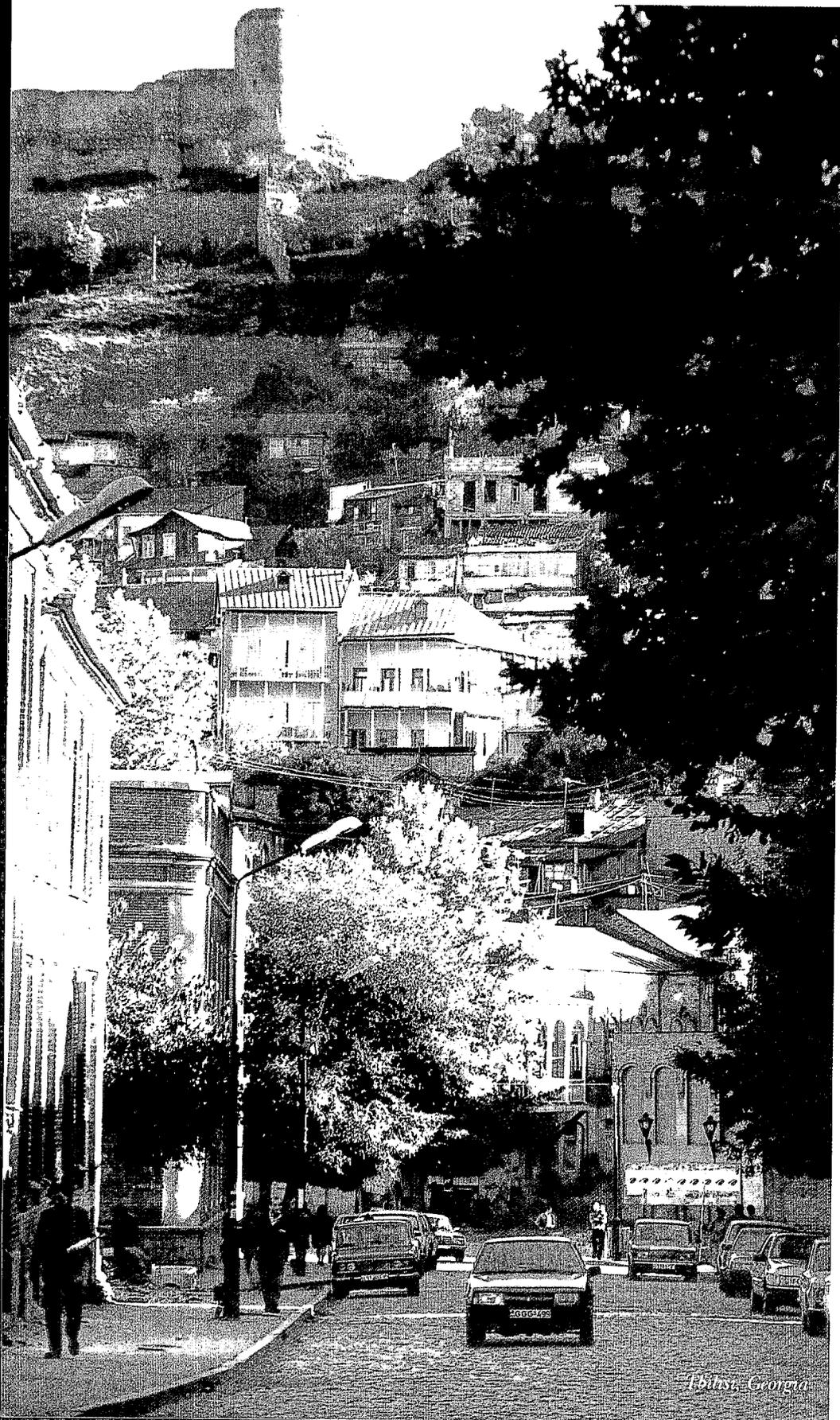
In a unique three-way partnership, the Government of Japan, California State University at Sacramento, and the Eurasia Foundation developed a program to further the public project management skills of fifty local government officials in the Russian Far East. Among the subjects taught in the intensive two-week seminar were cost-benefit analysis, optimization of resources, human resource management, and organizational behavior. The value of exposure to two successful management paradigms from both sides of the Pacific was not lost on the seminar participants. “Not only did we learn valuable skills,” says Elena Alekseevna, assistant vice-governor of Primorsky Krai administration, “but we also received valuable insights from experts with two very different experiences in public administration.”

The project is an early success story in the new age of collaborative grantmaking projects in which several funders work together to maximize the benefits for the grantee.



Administrators from Primorsky Krai in the Russian Far East attend a workshop on cost-benefit analysis. Russia.

FOUNDATION FIELD OFFICES



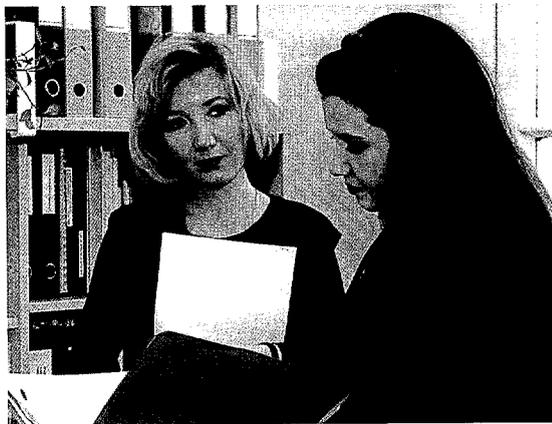
Tbilisi, Georgia

The Foundation conducts the bulk of its grantmaking through field offices located in Moscow, Saratov, Vladivostok (Russia), Kyiv (Ukraine), Chisinau (Moldova), Almaty (Kazakhstan), Bishkek (Kyrgyz Republic), Dushanbe (Tajikistan), Ashgabat (Turkmenistan), Tashkent (Uzbekistan), Tbilisi (Georgia), Yerevan, Gyumri (Armenia), and Baku (Azerbaijan). In 1995 and 1996, the Foundation made 87 percent of its grants through its field offices for a total of more than \$17 million.



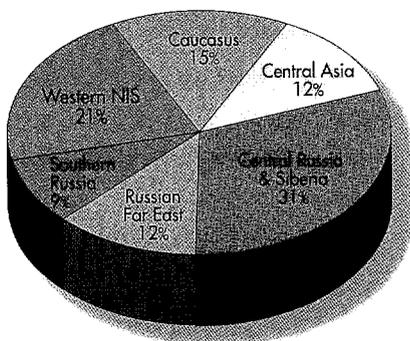
New building construction and renovation are signs of the rapid changes occurring in Central Asia. Uzbekistan.

Field offices normally consist of one American director and from eight to fifteen local professional staff. The Foundation relies heavily on its NIS-based staff to decide on individual grant applications and on larger strategic issues. Decisions are made in consultation with local advisory boards, which consist of foreign and local experts drawn from several professional fields. Advisory boards add significantly to the review process by bringing new perspectives and broad networks of contacts. This degree of decentralization of authority pushes decision making as close as possible to the local level in the NIS.



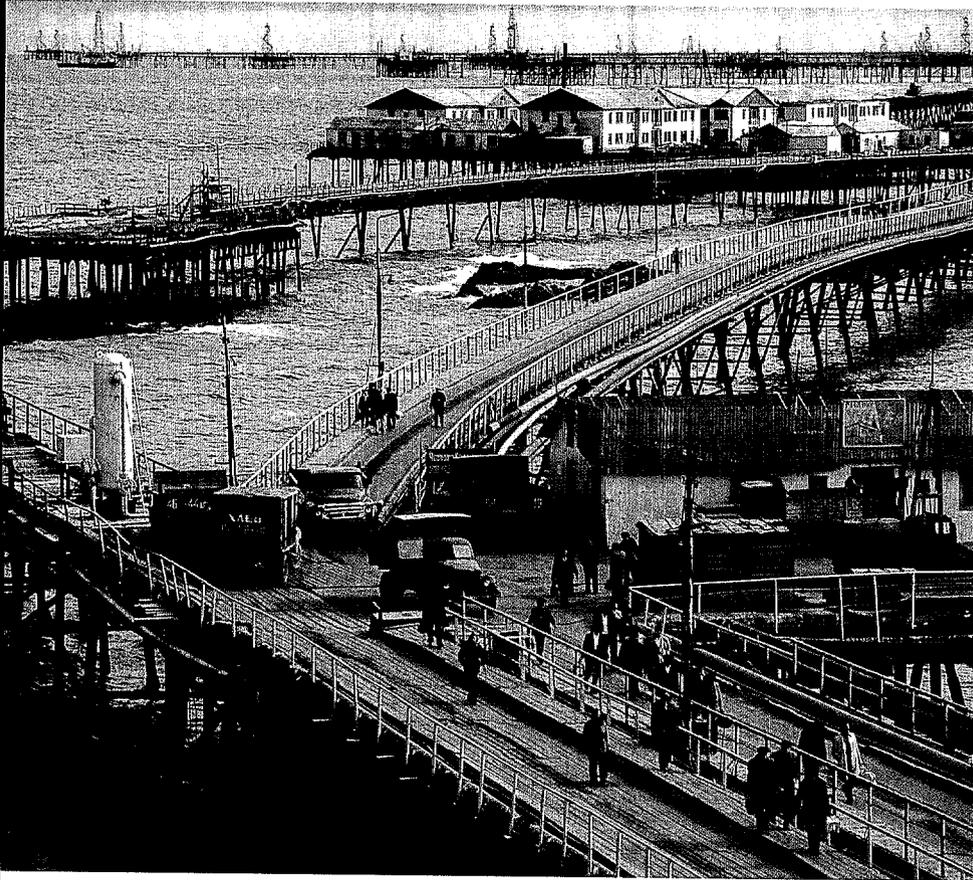
Moscow office employees Olga Golishnikova and Yuliya Timoseeva represent two of the seventy-five locally employed Eurasia staff. Russia.

**Percentage of Total Field Grants by Region
1996**



Because the area in which the Foundation offices work embrace much of the earth's land surface, each Foundation office necessarily faces different challenges. On the following pages, the Americans who head these offices explain how they have adapted Foundation programs to the environment in which they work.

CAUCASUS REGIONAL OFFICE



Commerce is booming in the port city of Baku. Azerbaijan.



Laurens Ayyazian, Director

The three republics of the Transcaucasus—Armenia, Azerbaijan, and Georgia—are home to more than fifty distinct ethnic groups, who live in an area the size of North Dakota. They inhabit terrain ranging from parched desert to citrus-rich subtropics, from green steppe to rock-bound alpine peaks.

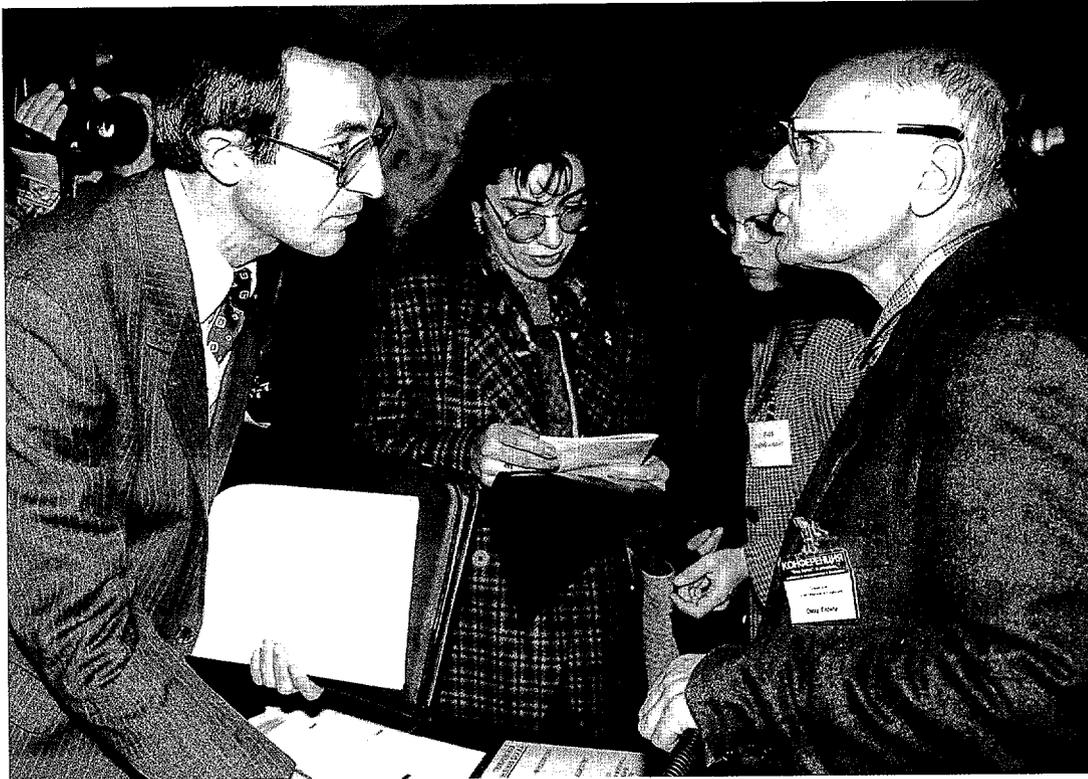
The wealth of the ancient cultures and kingdoms, coupled with its strategic location as the crossroads between Europe and Asia, has long accorded the Transcaucasus a geopolitical importance totally disproportionate to its size and population. As a consequence, rival empires have struggled to control the area, leaving the inhabitants few

opportunities to control their own fate. With the breakup of the Soviet Union, the peoples of the area have a chance finally to be free of foreign domination, but their newly won independence will mean little if internecine conflicts lead to economic dislocation, refugee flows, and closed political systems.

Until 1995, that infighting was the bleak prospect facing the Transcaucasus. Then cease-fires took hold in South Ossetia, Abkhazia, and Nagorno-Karabakh, the region's three conflict zones. Since then, Armenia, Azerbaijan, and Georgia have all been able to hold parliamentary elections, and Armenia and Georgia have adopted new constitutions. Each country introduced a new currency, and other reforms began. Armenia moved aggressively on privatization, while Azerbaijan concluded

an agreement with a multination consortium to transport Caspian oil. In 1996, Georgian legislators crafted new civil and criminal law codes and probed the controversial questions of land privatization and local governance, while the Armenian Parliament began drafting a new civil code. In Azerbaijan early steps toward privatization have begun, and the nongovernmental sector and independent press have begun to stir.

Because of these new openings, the Eurasia Foundation entered the Transcaucasus in mid-1995. At times relying on private generators as the only electricity source, Foundation staff set up twin field offices in Tbilisi and Yerevan and forged programs to respond to the needs of the citizens of the



The Eurasia Foundation leads its first cross-border "synergy conference" for grantees in Georgia and Armenia.

Transcaucasus. In Armenia, the Eurasia Foundation initiated a credit program for small businesses to address the critical shortage of medium-term capital for a business sector ready to restore that country's capacities in light production, agribusiness, and service enterprises. Through August 1997, the Foundation made fifty-six loans ranging up to \$50,000 each. In Georgia, it conducted the first grant competition in support of an independent television sector, providing packages of editing, recording, and computer equipment as well as access to the Internet to seven stations from various regions throughout the country. In Azerbaijan, the Foundation launched a grantmaking program attempting to overcome barriers to business development and to increase employment.

A priority of the Foundation's programs in the region is the encouragement of civic and economic links among the three republics. In 1996 the Caucasus Regional Office launched a

"synergy program" that brought together fifty Armenian and Georgian grantees in October 1996 for a pioneering four-day workshop where participants intensively developed plans for region-wide initiatives. Twenty cross-border project ideas emerged across various sectors, including the establishment of an information server called "Interkavkaz" and the creation of a Transcaucasus joint journalist team to cover breaking stories from a three-country perspective. A grant to the Armenian Internet Users Group enabled Web pages to be established for all Transcaucasus grantees. The Foundation is planning a 1997 grant competition to support cross-border projects in media, business development, legislative reform, and electronic communications. The Foundation believes that the richly diverse cultures of the Transcaucasus region are more likely to prosper and that regional stability will be enhanced if this kind of cooperation grows in the years to come.

CENTRAL ASIA REGIONAL OFFICE



At the Kyrgyz-American School of Humanities, students learn basic computer skills that will allow them to communicate globally. Kyrgyz Republic.



Daniel Bliss, Director

For over a thousand years a bustling trade route known as the Silk Road crossed Central Asia, linking Asia to Europe. In ancient cities like Samarkand and Bukhara, merchants exchanged silk, spices, and jade from China for textiles, pottery, and gold from Europe. Centuries later the region again gained prominence as Britain and Russia struggled to bring it under the control of either London or

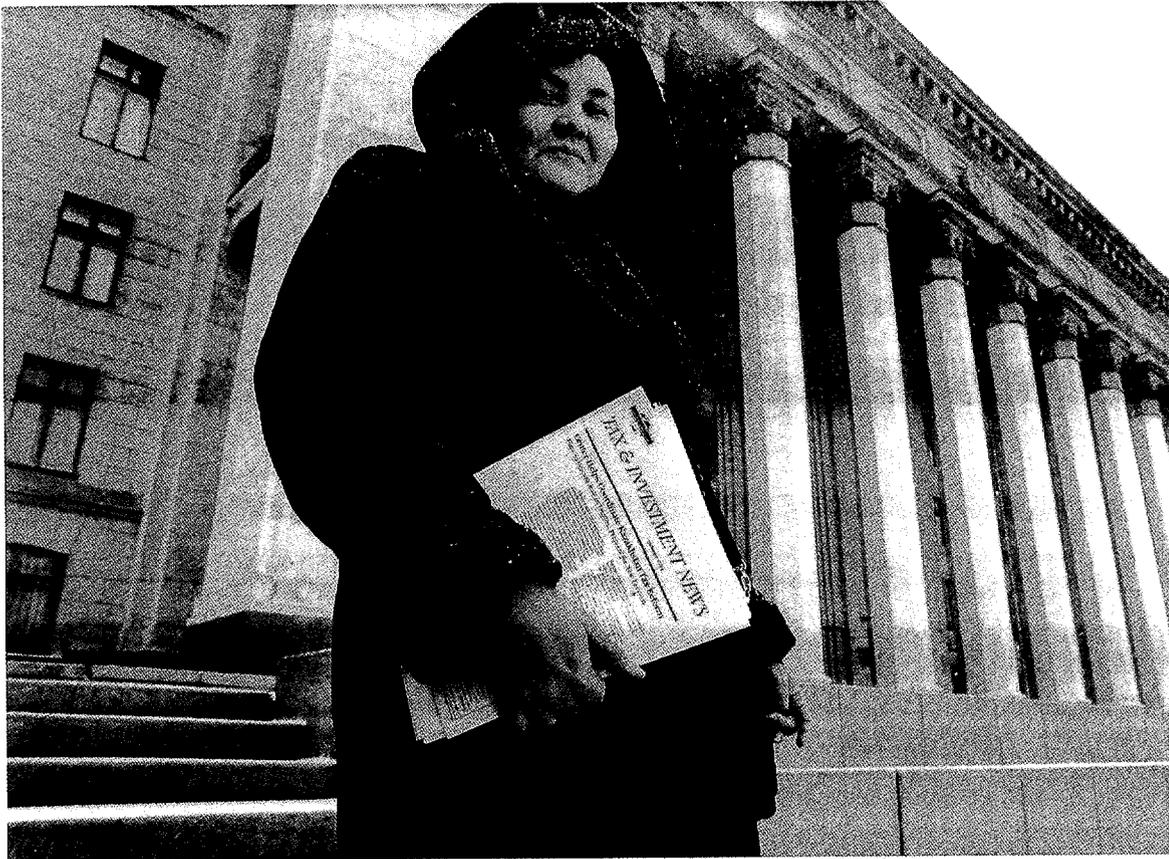
Moscow. Now, for yet a third time, this region is attracting outside interest, this time because of oil and geopolitics.

Each of the five countries in Central Asia—Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan—has its unique political and cultural identity. While each is rich in natural resources, they continue to face obstacles in realizing their economic wealth: a lack of foreign capital, difficulty in reaching foreign markets, and isolation from information.

To join the international system of trade and investment, these countries need to demonstrate that both government and private sectors are able and willing to participate in the world economy. The Eurasia Foundation's Central Asia Regional Office sees its mission in this context. With offices in Tashkent, Almaty, Ashgabat, Bishkek, and Dushanbe, the Foundation has reached across this vast region with over 210 small grants totaling more than \$2.6 million. In 1995 and 1996, the office conducted three grant competitions to address specific needs in the region: the first two, in Uzbekistan, for applied economics research and improved access to information; the third in Uzbekistan and the Kyrgyz Republic to assist the independent regional press.

The Internet in Central Asia is a particularly powerful tool. "Open Communications," a Foundation grantee, was the first nonprofit Internet provider in Uzbekistan to offer general Internet training courses to the public. Local businesses are using it to access information about potential markets, government officials to examine legislation from other countries, and individuals to pursue hobbies and interests.

Another critical element in the region's development is the nongovernmental sector. Cooperation between this sector and business and government is critical in Central Asia where ecological disasters, such as the depletion of the Aral Sea, affect not only the health and lives of citizens in several countries, but also the economic prospects of fledgling businesses.

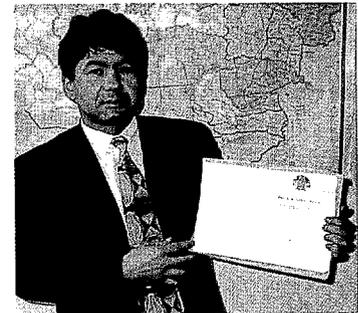


A representative of the International Tax and Investment Center (ITIC) makes one of many calls on Parliament, Kazakhstan.

Tax Reform in Kazakhstan

In the past five years, Kazakhstan has become an important epicenter of international activity and investment thanks to its abundant natural resources. The potential rewards are large; unfortunately, so are the more immediate obstacles, both legal and regulatory. In 1993, the Eurasia Foundation helped to initiate the highly successful International Tax and Investment Center (ITIC) program in Kazakhstan. A grant to underwrite several monthly forums helped provide high-level tax advice to the Kazakh government. A close working relationship with policy makers and legislators enabled

ITIC to play a significant role in the drafting and passage of key market-friendly tax legislation, including the U.S.–Kazakhstan Tax Treaty in the Fall of 1996. “ITIC is our ‘window’ to international taxation practices and provides useful input and assistance as we work to integrate Kazakhstan’s tax system into the world economy,” states the Honorable M.T. Esengaev, head of the tax administration division, Ministry of Finance, Republic of Kazakhstan.



ITIC Director Moukhit Akhanov displays the new tax treaty that he was instrumental in developing, Kazakhstan.

WESTERN NIS REGIONAL OFFICE



Ekaterina Nesterovich, Eurasia Foundation grantee, fills an order for her ceramics and bathroom fixture company, Belarus.



Nick Deychakivsky, Director

The three countries that make up the Western NIS—Ukraine, Belarus, and Moldova—are a region only in name. They are culturally, economically, and politically distinct, despite a shared recent past. All are non-Russian republics on the western edges of the former Soviet empire.

The Eurasia Foundation Western NIS Regional Office tailors its grantmaking to reflect these differences. For example, in

1996 in Moldova the Foundation placed greater emphasis on economic reform, particularly, agribusiness development; in Belarus, the Foundation accorded a greater priority to media and communications; while in Ukraine, the Foundation maintained a more traditional program balance that stressed small business development, as well as government reform and media viability.

Despite these differences, Ukraine, Belarus, and Moldova do share common problems. One is a lack of management traditions that would encourage employees to do something more than simply wait to implement plans issued by others. Another is a prevailing sense of powerlessness before authority. In all three countries, too many citizens still believe that they cannot really do much to help themselves. Many accept that change depends on someone else, usually the government.

The program of the Western NIS Regional Office counters such attitudes. Through its small grants program, the Foundation encourages grassroots activism among Ukrainians, Belarusians, and Moldovans who have the courage to try to change things for the better within their own communities.

In these three societies, the Foundation has identified grantees who now manage small business development centers in seven Western NIS cities; who have developed with Foundation assistance new economics curricula, texts, and training materials in more than twenty Belarusian, Moldovan, and Ukrainian high schools and universities; who have directed public administration training programs for local officials in more than

Building Alliances for Technical Assistance

The Western NIS office in Kyiv has developed a unique partnership approach to technical assistance. By pooling resources rather than committing them separately, the impact of grantmaking has been increased both geographically and programmatically.

On the initiative of the Kyiv office, the Foundation has been participating in a collaborative effort with the Charles Stewart Mott Foundation and the International Renaissance (Soros) Foundation on a variety of assistance programs in Ukraine. Members of the three foundations participate in a monthly “donor’s forum” where they determine the focus and direction of the partnership’s programs.

One result of this new partnership is a network of seven Ukrainian NGO resource centers called



The Kyiv Donor Forum meets to discuss joint funding of NGO Resource Centers. Ukraine.

hromada (“community”). Joint funding for this group of centers is \$500,000, which significantly promotes the development of civil society in Ukraine as a counterweight to the government. The *hromada* network provides consultation, training, and informational support to NGOs in the region. The centers hold bimonthly training seminars and monthly directors’ meetings to reinforce networking and share information.

twenty-five cities; and who work to strengthen the independent media through small equipment purchases, professional training, and marketing support in more than thirty organizations.

Helping these agents of change talk to one another is another critical task. In 1996 the Foundation’s office organized a grant competition to support electronic communications in the Western NIS. Out of 277 proposals received, the Foundation awarded twenty-four grants totaling more than \$500,000 to establish electronic connectivity and provide Internet training

in various institutions throughout Moldova, Ukraine, and Belarus.

Deputy Director Natalia Yasko expresses with direct personal experience what the office strives to accomplish: “Even though reform here depends to a large extent on top-down macro policies, in the end, it will not be successful unless it has support from below. Our grantmaking works to build a critical mass of institutions that will lay the infrastructure of a market economy and a civil society. We take a long-term approach, building on short-term successes.”

CENTRAL RUSSIA & SIBERIA REGIONAL OFFICE



In tight quarters at the Network of East-West Women, students learn how to use the Internet. Russia.



Melanie Peyser, Director

Though many foreigners may equate Russia with Red Square, the heart of Russia is in the provinces. There, young entrepreneurs struggle to understand tax codes that local authorities themselves barely understand; local governments still pressure independent newspapers to conform; and citizens are warier than elsewhere about standing up for their legal rights. Though the Foundation's

Central Russia and Siberia Regional Office is located in Moscow, its primary mission is to reach the provinces. Through outreach trips, participation in

conferences and seminars, and a Russian-language Web page, office staff spread information about the Foundation's activities. The majority of the 439 grants the office has made, worth \$7 million, are outside of Moscow and St. Petersburg. In 1996, six small grant competitions in support of the NGO sector covered Siberia, the Baikal region, the Urals, the Volga region, the Yekaterinburg region, and Central Russia. Five competitions the same year supported small, regional press in Southern and Northwest Russia, the Urals, the Central Volga region, and Siberia. The Moscow office's competition in support of the small business sector in North and Northwest Russia and Siberia reached regions that had previously received so little foreign support that 260 proposals poured into the Moscow office. An upcoming agribusiness competition aims to fill a vacuum in small business development in rural communities.

Most Russians, like most Americans, must find jobs in the small business sector, which is grossly underdeveloped in Russia. Supporting indigenous, sustainable programs on the local level may not be as dramatic as selling off a large factory, but the private sector is where those dismissed from that factory must find employment. The Moscow office is working every day to develop the kind of atmosphere in which private restaurants, shoe stores, and barber-shops may flourish in Russia's small towns. A recent grantee, a woman who started a small sewing business with training from the Eurasia Foundation, is the kind of reluctant pioneer the Moscow office seeks to support: "I wasn't very assured of myself. . . . Everything was a fog. But . . . I realized it was not so difficult or dangerous to start a business."



Eurasia Foundation grants foster small business growth and create new jobs. Russia.

Funding from the Moscow office for the institutional development of the NGO sector, primarily through its NGO competitions, empowers a growing number of average Russians to join the expanding third sector. In 1997 the office plans to run a competition to improve NGO sustainability. In addition, the office supports a series of projects to draft and test legislation that would permit NGOs to bid on government contracts to supply social services.

In the provinces, in part because of their isolation, Russian newspapers lack proper equipment and do not attract high-quality journalists. Press competitions run by the Moscow office provide small, regional newspapers with equipment to modernize and access a wider variety of informational sources. In the words of one grantee, "the grant supplied us not only with the material resources that allowed us to improve our newspaper's external appearance, but also with the capabilities to attract advertisers and become a commercial enterprise."



In Siberia, where communication is difficult, NGOs, small businesses, government, and reform-minded individuals communicate via the Internet. Russia.

The Moscow office is also pioneering a "customer service" survey, asking grantees how the office can improve. Recently, the Moscow office initiated a Russian-language newsletter to help grantees learn about one another and to exchange information.

RUSSIAN FAR EAST REGIONAL OFFICE



A week's journey from Moscow, Vladivostok is the last stop on the Trans-Siberian Railroad. Russia.



Glen Lockwood, Director

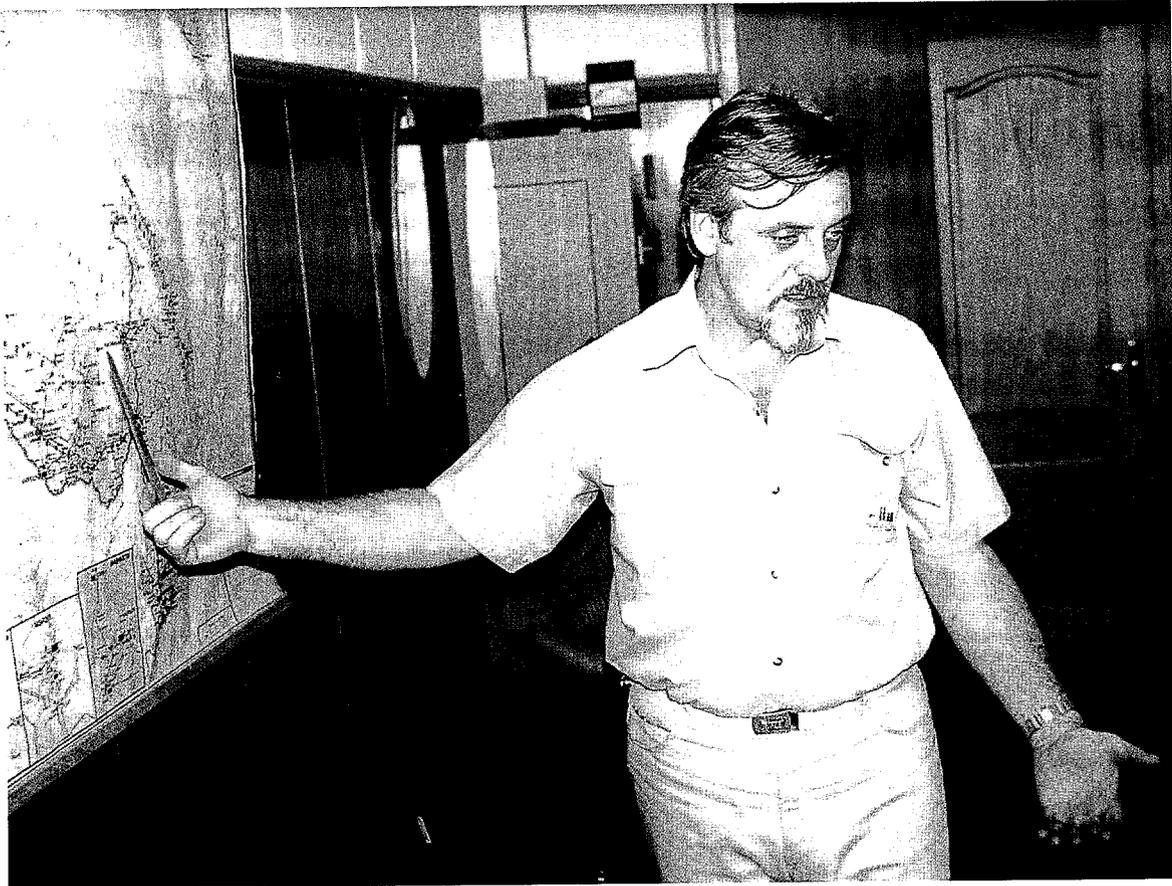
Most Americans today might not be able to find Vladivostok and the Russian Far East on a map, but many of their grandparents, and great-grandparents could. Seventy-five years ago, America and other countries were very active in what was a remarkably advanced and cosmopolitan region. Americans bid heavily to take part in the construction of the Trans-Siberian and Ussuri Railroads.

British, Japanese, and German traders operated successful trading companies. Sinclair Oil had a concession on Sakhalin Island, and Americans were the major suppliers of goods to Chukotka and the northern part of the Russian Far East. Also, McCormick and John Deere exported large quantities of farming equipment and heavy machinery to

the southern sections along the Chinese border. Both the economy and the populace were healthy, and the region had a higher life expectancy rate than France. Against this encouraging history, the Foundation's Vladivostok office retains confidence that this region will become a vibrant part of the world economy in the future.

Today, the Russian Far East suffers from overdependence on defense industries and the extraction of natural resources, as well as from a lack of services needed to make the region a serious player in Russia and the Pacific Rim. The Vladivostok office's small grants program is designed to help address a number of these problems. In 1995 and 1996, the Vladivostok office made ninety-five grants, totaling more than \$1.4 million, in the priority areas of small business development, energy, transportation, governmental/legal reform, and communications.

An example of work in communications is a project on Sakhalin Island. There, notwithstanding cold offshore waters, a "surfing" population has exploded in the span of two months. Young and old alike are becoming electronic surfing professionals as they spend two to five hours a day mastering their skills on the Internet. Thanks to grants from the Eurasia Foundation and the Sakhalin Energy Investment Company, a consortium of companies investing in the region, three local institutions—the Sakhalin Regional Library, the Pedagogical Institute, and the local administration—have received the connectivity to link electronically to any part of the world in less than thirty seconds. "People are using the Regional Library Internet Center for things they otherwise could not afford; now people who never had the money to travel abroad can come into the library and



Gennadiy Yakoz unveils his new management system for energy distribution in the Russian Far East. Russia.

travel to any corner of the world they wish," says Tamara Trofimovna Danilenko, director of the Sakhalin Regional Library. With the success of this initial project, in the summer of 1997 the Foundation's Vladivostok office launched a Sakhalin Internet Project and grant competition to link more than twenty educational institutes and nonprofit agencies to a satellite with Internet access.

In the future the Vladivostok office will continue its work in the social, governmental, economic, and communications sectors, so vital to a strong, democratic society. It will place special emphasis on supporting small business development; educating government officials, particularly in management, law, and taxation; creating capable organizations and associations to represent the interests of the emerging private sector; and developing advanced communications through the Internet and improved print and broadcast media.



Newly renovated buildings displaying both Eastern and Russian influences are appearing throughout Russian Far East cities. Russia.

SOUTHERN RUSSIA REGIONAL OFFICE



Interest in agribusiness training for farmers and entrepreneurs in Southern Russia has grown dramatically. Russia.



Marie F. Stock, Director

For centuries, the Volga River served as the chief thoroughfare of Russia. Running from Nizhni Novgorod in the north to Astrakhan at the entrance to the Caspian Sea, the great river played a critical role in Russia's political and economic development—first, as human teams pulled the many barges upstream, then later as steam began to propel them.

Today, the Volga basin, served by the Southern Russia Regional Office of the Eurasia Foundation, is ready to move forward—technologically, economically, and democratically. This region unites the majority population of Russians with a rich tapestry of other nationalities now citizens of the new Russia—Finnish, Turkic, and Tartar. In circumstances of profound change, ethnic groups suppressed during the Soviet era are now finding their voices,

reacquiring their identities, and forging new roles for themselves in the Russian Federation.

Foundation support for democratic development involves collaborative projects at the local and regional level to promote more effective and responsive government. Thus the Togliatti Avtozavodsky Raion administration received assistance permitting it to work for the adoption of a new tax system. Now there are plans to replicate this project in other cities in the region. In Samara, thanks to a grant from the Eurasia Foundation, thirty municipal officials received training in effective management and assessment of the city's utilities and housing system and in the implementation of a broader strategy for development.

The region's rich *chernozjom* ("black earth") has the potential to transform Russia into one of the world's major agribusiness players. Yet serious obstacles stand in the way. Infrastructure development and land reform, to name only two, will be necessary in order to sustain profitable private farming.

The Southern Russia Regional Office has supported a number of media projects across the territory. Some of the grants support new initiatives by young people. A group of teenagers in the Saratov Oblast, for example, with Foundation assistance, now publish a newspaper and broadcast radio and television programs that address local social issues. Another project, also started by a group of students, established a newsletter that focuses on legal and financial issues facing farmers.

Moving Toward Greater Self-Reliance

Since Vladimir Khurtin started his own business, every nail he hammers goes in a little straighter and every wall looks a bit more plumb. His friends have noticed how quickly he makes his greenhouses these days. "I seem to have more energy, more interest in making this business succeed. If it doesn't," he says, smiling and pointing to himself, "the only one to blame is me." In the summer of 1996, Vladimir was one of the 120 unemployed who graduated from the business and management program at the Ulianovsk Association of Management, which the Saratov office supported with a \$24,000 grant. "The training helped me open my business," notes Khurtin. "I learned how to make a business plan and how to get started. I found my niche."



Vladimir Khurtin receives a graduate certificate in business management from the Ulianovsk Association of Management, Russia.

Fourteen of the program's top students, including Khurtin, received additional counseling and start-up loans from the Ulianovsk Regional Unemployment Agency to launch their businesses. Within three months of the training, over a dozen small businesses had begun and thirty-one jobs were created.

In the area of education, the charitable foundation "Development Through Education" received a grant to establish a city education computer network. The Eurasia Foundation grant helped to purchase five servers now linking city students to regional administrators and the world outside via the Internet.

When the Eurasia Foundation first opened its office in Southern Russia, many areas of which had been closed to outsiders during the Cold War, its program officers sometimes encountered suspicion and doubt. Some local officials openly expressed skepticism about the Foundation's mission and questioned its chances for success. After almost three years of hard work with more than one hundred grants awarded, the mood is

shifting. Anatoly Duryagin, the head of the foreign relations department of the Saratov Oblast government, confirms the new attitudes: "When the Eurasia Foundation first appeared in 1994, we were concerned whether its activities were going to be useful. Now it is evident, the results are positive, and the impact is tremendous."

With the goal of deepening its impact in the region, the Saratov office is establishing "EF Clubs" across the territory that link past grantees, potential applicants, public administrators, and ordinary citizens. The "EF Club" network will water the seeds of change planted by earlier grantmaking into long-lasting and sustainable progress across the Russian heartland.

FINANCIAL STATEMENTS



The Eurasia Foundation considers sound financial controls and cost effectiveness as imperative in managing its programs. The Foundation has developed internal and grantee financial management procedures that protect against inappropriate fund use. The Foundation's cost effectiveness was demonstrated during fiscal year 1996 when just 5 percent of Foundation expenditures went towards management and general Washington headquarters administration costs.

The Foundation has contracted Price Waterhouse for the past four years to perform financial statement audits and audits required for recipients of federal funding. The Price Waterhouse audit of the Eurasia Foundation's financial statements for the fiscal year ended September 30, 1996, follows.

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Price Waterhouse LLP



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
The Eurasia Foundation

In our opinion, the accompanying statements of financial position and the related statements of activity, of cash flows and of functional expenses, present fairly, in all material respects, the financial position of The Eurasia Foundation at September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the organization's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

March 5, 1997
Arlington, Virginia

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	1996	1995
ASSETS		
Cash	\$1,071,088	\$351,149
Investments	559,267	
Grants and accounts receivable	9,125,104	8,002,043
Prepaid expenses	64,208	49,998
Program related investments (loans), net of allowance for possible losses of \$140,000 and \$76,500	559,384	93,500
Fixed assets, net of accumulated depreciation of \$318,607 and \$189,831	370,108	244,735
Advances and deposits	18,730	14,570
Total assets	<u>\$11,767,889</u>	<u>\$8,755,995</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$255,379	\$272,830
Grants payable	9,541,691	8,227,359
Total liabilities	<u>9,797,070</u>	<u>8,500,189</u>
Net assets:		
Unrestricted	1,041,444	11,071
Temporarily restricted	929,375	244,735
Total net assets	<u>1,970,819</u>	<u>255,806</u>
Total liabilities and net assets	<u>\$11,767,889</u>	<u>\$8,755,995</u>

STATEMENTS OF ACTIVITY

	For the Years Ended September 30,			
	1996		1995	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$54,330	\$21,729,087	\$21,783,417	\$18,405,692
Interest income	3,827		3,827	325
Gains on Investments	11,507		11,507	
Net assets released from restrictions:				
Satisfaction of program restrictions	20,907,244	(20,907,244)		
Fixed assets expended or disposed of	137,203	(137,203)		
Total revenues and other support	<u>21,114,111</u>	<u>684,640</u>	<u>21,798,751</u>	<u>18,406,017</u>
Expenses:				
Program	18,987,800		18,987,800	17,488,764
Management and general	968,588		968,588	825,522
Fundraising	127,350		127,350	61,929
Total expenses	<u>20,083,738</u>	<u> </u>	<u>20,083,738</u>	<u>18,376,215</u>
Change in net assets	1,030,373	684,640	1,715,013	29,802
Net assets at beginning of year	11,071	244,735	255,806	226,004
Net assets at end of year	<u>\$1,041,444</u>	<u>\$929,375</u>	<u>\$1,970,819</u>	<u>\$255,806</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended September 30

	1996			1995	
	Program Services	Management & General	Fundraising	Total	Total
Personnel	\$1,311,819	\$ 469,200	\$40,169	\$1,821,188	\$1,501,428
Fringe benefits	320,046	91,937	7,054	419,037	336,638
Professional fees	684,647	128,836	48,973	862,456	727,370
Occupancy	328,593	117,528	10,062	456,183	318,232
Travel & meetings	347,291	52,485	11,182	410,958	342,046
Office expenses	447,956	73,554	6,909	528,419	309,705
Grants	15,384,794			15,384,794	14,651,509
Depreciation	97,991	35,048	3,001	136,040	111,209
Provision for possible losses on loans	63,500			63,500	76,500
Loss on fixed asset	1,163			1,163	1,578
Total	\$18,987,800	\$968,588	\$127,350	\$20,083,738	\$18,376,215

STATEMENTS OF CASH FLOWS

For the Years Ended September 30

	1996	1995
Cash flows from operating activities:		
Cash received from contributions	\$20,659,301	\$15,460,400
Interest received	3,826	325
Cash paid to grantees, employees, and suppliers	(18,591,961)	(15,004,285)
Net cash provided by operating activities	<u>\$2,071,166</u>	<u>\$456,440</u>
Cash flows from investing activities:		
Purchase of equipment	(262,576)	(132,041)
Purchase of T-bills	(559,267)	
Loans disbursed under program related investments	(679,310)	(170,000)
Loans repaid under program related investments	149,926	
Net cash used by investing activities	<u>\$(1,351,227)</u>	<u>\$(302,041)</u>
Net increase in cash	719,939	154,399
Cash at beginning of year	351,149	196,750
Cash at end of year	<u>\$1,071,088</u>	<u>\$351,149</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$1,715,013	\$29,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	136,040	111,209
Loss on fixed asset	1,163	1,578
Increase in provision for possible losses on loans	63,500	76,500
Decrease (Increase) in grants and accounts receivable	(1,123,061)	(2,936,371)
Decrease (Increase) in employee advances/deposits	(4,160)	4,698
Decrease (Increase) in prepaid expenses	(14,210)	43,518
Increase (Decrease) in accounts payable and accrued expenses	(17,451)	91,823
Increase (Decrease) in grants payable	1,314,332	3,033,683
Net cash provided by operating activities	<u>\$2,071,166</u>	<u>\$456,440</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS—SEPTEMBER 30, 1996

NOTE 1—ORGANIZATION

The Eurasia Foundation (the Foundation) was incorporated in the District of Columbia in 1992, as a not-for-profit corporation for the purpose of supporting, through small grantmaking, technical assistance, training, education, and policy programs in the New Independent States (NIS) of the former Soviet Union covering a wide range of activities in economic and democratic reform. The Foundation is a privately managed nonprofit grantmaking organization, which has received substantial funding from the United States Agency for International Development (USAID). The Foundation initiated private fundraising activities in 1995 and has received private donations from a number of nonprofit organizations and other developmental institutions. The Foundation has field offices in the Western NIS (Kyiv); Russia (Moscow, Saratov, and Vladivostok); Central Asia (Tashkent and Almaty); and the Caucasus (Yerevan and Tbilisi). Field office directors, who are language and area qualified, are responsible for carrying out small grant programs in their respective areas.

The Foundation has three major programmatic areas: Economic Reform, which includes management training, business and economics education, small business development, industrial restructuring assistance, policy advice, and information systems; Governmental Reform and the Nonprofit Sector, which includes public administration, public policy advice, and development of nongovernmental organizations; and Media and Communications, which includes projects in print, broadcast, and electronic communications that further the goals of economic reform and democratic institution building.

In 1994, the Foundation added an additional program mechanism, Program Related Investments, which includes loans or recoverable grants for projects that meet the program and charitable areas described above.

In 1995, the Foundation added an additional program mechanism, Foundation Administered Programs (FAPs), in which the Foundation is the implementing agency of the project. To date, three such programs have been launched: Economics, Education and Research Consortium (EERC); Small Business Loan Program (SBLP); and the Media Viability Fund (MVF).

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues and assets are recognized when earned and expenses and liabilities are recognized when incurred.

Unrestricted Net Assets

Unrestricted net assets represent unrestricted revenue and expenses and contributions received without donor-imposed restrictions. These funds are available for the overall operations of the Foundation.

Temporarily Restricted Net Assets Released

Fixed assets purchased with USAID grant funds are considered temporarily restricted until they are expended, disposed of, or until the grant term expires. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors during the years ended September 30 as follows:

	<u>Fiscal Years</u>	
	<u>1996</u>	<u>1995</u>
Purpose restrictions accomplished (USAID)	\$20,227,261	\$18,263,251
Purpose restrictions accomplished (Non-USAID)	679,983	
Fixed assets expended or disposed of	<u>137,203</u>	<u>112,787</u>
Total restrictions released	<u>\$21,044,447</u>	<u>\$18,376,038</u>

Revenue Recognition

Grants and contributions are recognized as revenue in the period in which they are received. Restricted grants and contributions are recorded as temporarily restricted and subsequently released from restriction to the extent that expenses have been incurred for the purpose specified.

Functional Allocation of Expenses

Costs of providing various programs and other activities are presented on a functional basis in the statements of activity. Accordingly, costs are either recorded directly or allocated based upon direct labor to reflect the programs and supporting services benefitted.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line basis over the estimated useful lives of the assets of three to five years. Leasehold improvements are amortized over the life of the lease.

Foreign Currency Transactions

Foreign currency transactions are recorded in U.S. dollars using the exchange rate at the time of the original exchange.

Income Taxes

The Foundation is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code.

Grants

Grant expense is recognized at the time the grant is awarded to the recipient. Subsequent cancellations are recorded as a reduction of grant expense at the time of cancellation.

NOTE 3—INVESTMENTS

As of September 30, 1996, the Foundation maintained \$559,267 in restricted investments, with principal restricted as to use by grant agreements signed with nonprofit and other developmental organizations. Amounts held are invested in U.S. Treasury Bills and money market accounts. Amounts earned on these investments are considered unrestricted.

NOTES TO FINANCIAL STATEMENTS—SEPTEMBER 30, 1996

NOTE 4—FIXED ASSETS

Fixed assets consisted of the following at September 30:

	<u>1996</u>	<u>1995</u>
Furniture and fixtures	\$102,231	\$69,676
Office equipment	441,903	268,350
Automobile	7,600	7,600
Software	70,299	48,726
Leasehold improvements	66,682	40,214
Total	688,715	434,566
Less: accumulated depreciation and amortization	(318,607)	(189,831)
Net fixed assets	<u>\$370,108</u>	<u>\$244,735</u>

NOTE 5—GRANTS

Grant expense for the years ended September 30 consisted of the following:

	<u>1996</u>	<u>1995</u>
Grants awarded	\$15,648,533	\$14,950,740
Cancellations of prior years' awards	(263,739)	(299,231)
Grants expense	<u>\$15,384,794</u>	<u>\$14,651,509</u>

NOTE 6—RESTRICTED FUNDS

In May 1993, the Foundation received a grant from USAID to support the Foundation's efforts to assist in the process of reform by reaching a wide range of diverse groups in the NIS quickly with targeted assistance. The term of this award extends to April 30, 1998, and has an estimated total value of \$75,000,000. As of September 30, 1996, USAID had obligated \$58,816,000 under the grant agreement. Of this amount, the Foundation had not drawn upon \$14,173,000 and had not committed \$5,133,364 as of September 30, 1996.

Additionally, during the year ended September 30, 1996, the Foundation received restricted grants totaling \$1,282,017 from nonprofit and other developmental organizations. Of the total amount received during the year, the Foundation expended \$679,983.

NOTE 7—RETIREMENT PLAN

Effective June 1, 1993, the Eurasia Foundation established the Eurasia Foundation Defined Contribution Retirement Plan (the Plan). All Foundation employees are eligible to participate in the Plan on the date following the six-month anniversary of their employment. Plan contributions in the amount of 6% of participants' regular salary will be made by the Foundation in the years of participation. Total pension expenses for the years ended 1996 and 1995 were \$62,509 and \$65,910, respectively.

In addition, the Foundation established a Tax Deferred Annuity Plan (TDA). All Foundation employees are eligible to participate in the TDA. Plan contributions are made by participants through pre-tax payroll deductions. No plan contributions are made by the Foundation.

Effective January 1, 1995, the Foundation established the Eurasia Foundation Premium Only Plan under section 125 of the U.S. Internal Revenue Code. The plan enables Foundation employees to obtain group insurance coverage through the payment of pre-tax premiums. All employees working 20 or more hours per week are eligible to participate in the plan. No plan contributions are made by the Foundation.

NOTE 8—COMMITMENTS

The Foundation leases office space under various lease agreements that call for escalation in rental payments based upon increases in operating costs of the lessor and increases in consumer price indices. Total rent expense for the years ended 1996 and 1995 was \$283,432 and \$225,115, respectively. Additionally, the Foundation leases office equipment under agreements which expire in 1997. The aggregate minimum rental payments under these noncancelable leases for future years are:

For the years ending September 30

1997	183,675
1998	27,149
Total	<u>\$210,824</u>

NOTE 9—PROGRAM RELATED INVESTMENTS (LOANS)

The Foundation manages a loan program for projects that advance development in the programmatic areas outlined in NOTE 1 above. As of September 30, 1996, \$699,384 in loans, net of an allowance for possible losses of \$140,000, were outstanding in the form of debt-financing to intermediary banks which onward lend to small businesses in Ukraine and Armenia at concessionary rates.

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Please refer to the Foundation's World Wide Web page at <http://www.eurasia.org> for additional information, including a searchable database of the Foundation's grants and information on current competitions and special projects.

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