Western NIS
Enterprise Fund

Transforming the lives of ordinary people

Annual Report 2016

Western NIS
Enterprise Fund

Western NIS Enterprise Fund

The Western NIS Enterprise Fund (WNISEF) is a $150 million regional fund, a pioneering initiative in Ukraine and Moldova with over two decades of successful experience investing in small and medium-sized enterprises (SMEs). WNISEF was funded by the U.S. government via the U.S. Agency for International Development (USAID).

The Fund's original mission focused on developing small and medium-sized businesses, supporting solid corporate governance and transparency, and attracting additional capital to Ukraine, Moldova, and Belarus. Since its inception in 1994, WNISEF has provided loans, equity, grants, technical and other assistance to companies operating in a variety of sectors. This included financial institutions, agriculture, manufacturing, and services. WNISEF has invested $168 million in 118 companies, employing over 25,000 people in Ukraine and Moldova. **Since inception, WNISEF has unlocked an estimated $1.5 billion of capital for Ukrainian and Moldovan companies based on the original $150 million grant from USAID.**

In March 2015, USAID approved the launch of a $30 million Legacy Program funded by a portion of the profits earned from investment activities. The program focuses on export promotion, local economic development, impact investment and economic leadership. In April 2016, USAID approved i) expanding the Legacy Program to $35 million; ii) $5 million earmarked for direct investments in SMEs, primarily start-ups; and iii) a $30 million commitment to Emerging Europe Growth Fund III, L.P., a fund to be launched by Horizon Capital and focused on providing financing to SMEs in Ukraine and Moldova.

This new activity inspired the wording for the new mission of the Fund: **Transforming the lives of ordinary people in Ukraine and Moldova.** Presently, WNISEF is funding innovative, transformational, reform-focused programs. The Fund aims to support both countries in this critical period by fostering the development of sound economic policies and leadership.

We are proud to share details of the second year of our Legacy Program, marked by the launch of new projects, the expansion of fruitful cooperation with local partners and continuation of learning from hundreds of individuals involved in our projects in Ukraine and Moldova.

USAID

USAID
FROM THE AMERICAN PEOPLE

USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance, and nurturing democracy in developing countries. USAID's work in transformational countries enables these nations to build the capacity to sustain their own progress. Since 1992, USAID has provided $2 billion worth of technical and humanitarian assistance to Ukraine to further the processes of democratic development, economic restructuring and social reform in the region.

www.ukraine.usaid.gov

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Letter from management

After a tragic 2014 and a tough 2015, the year 2016 allowed Ukrainians to perceive their present in brighter colors. Despite the continuing war in the East, the country made undeniable progress. We are pleased and honored to be at the forefront of this change.

The European Union, in their report on Implementation of the EU-Ukraine Association Agreement, called the reforms across Ukraine's economy and political system intense and unprecedented. Although the country still faces major difficulties, it managed to stabilize its economy and started growing in the third quarter of 2016. Ukraine took considerable steps towards combating corruption, such as implementing structural reforms in the energy sector, public procurement reform, cleansing of the banking system, e-declarations of wealth by public officials, deregulation, and improvements in corporate governance. Also, worthy of mention are the undertaking of decentralization reforms and groundbreaking changes in education.

Moldova has also made notable progress through 2016. The beginning of the year saw appointment of a new government putting an end to months of political uncertainty. Furthermore, the first direct presidential elections since 1996 took place. A crucial outcome of this political stability is that the country stays adherent to its European course.

The second year of the WNISEF Legacy Program proved the importance and effectiveness of technical assistance for societies in transformation. Two years ago, we chose four priority areas as the focus for our assistance: export promotion, local economic development, impact investing and leadership development. Each of these four programs successfully provided impetus for transformation of Ukraine's and Moldova's economies.

We saw a significant passion for change and cooperation in many of our partners: from government officials and local authorities to big business, small enterprises, NGOs, and individual activists. In 2016, we expanded our cooperation within Ukraine by involving more local companies, city and regional authorities and citizen initiatives into joint projects. We appreciate our partners' efforts in supporting the change driven by people. We believe that the initiatives we start together can expand further beyond the Fund's support.

Our belief is reinforced by significant achievements made during the second year of the Legacy Program.

In August 2016, the WNISEF-backed ProZorro electronic procurement system for government tenders became obligatory for every public institution in Ukraine. WNISEF was one of the first institutions to support ProZorro and has championed the development and expansion of this important initiative since its launch. This initiative has been cited as one of the most successful reforms implemented in Ukraine. The platform has saved the state nearly $1 billion, as of the date of release of this report, promotes transparency, creates a level playing field for all enterprises, including SMEs, competing for government contracts for goods and services and is an important anti-corruption tool. Although ProZorro was developed in Ukraine, through the efforts of its team and institutional backers, the system is being launched in Moldova and is expected to yield similar, impressive results. WNISEF is delighted to be a first backer of ProZorro and to continue this cooperation by supporting the launch of ProZorro.Sale, an electronic auction platform for the sale of assets owned by the Deposit Guarantee Fund of Ukraine.

Another important program that WNISEF has founded and financing, in cooperation with the Government of Ukraine, is the Investment Promotion Office (IPO). IPO is an advisory body to the Prime Minister focused on attracting investment to Ukraine. The objective of IPO is to assist in attracting foreign direct investment to Ukraine. The work of IPO complements the efforts of the Export Promotion Office (EPO), which was launched together with the Ministry of Economic Development and Trade of Ukraine (MEDT) last year and addresses the other side of the coin, specifically, supporting the export of Ukrainian goods and services. During the year, we also supported the MEDT's development of a National Export Strategy for Ukraine, which was presented for stakeholder review by the Government of Ukraine in the first quarter of 2017. In collaboration with two bank partners we launched a low-interest loan program for social enterprises and allocated the first loans to three social-impact businesses. Expanding on the first Ukrainian Leadership Academy launched in Kyiv in 2015, we established four additional Academies in Poltava, Lviv, Mykolaiv and Kharkiv in 2016, thereby enrolling 200 new students for the second year of the program. We also awarded eight SEED Grant scholarships to Ukrainian and Moldovan students admitted to the best MBA schools in the United States, two scholarships for study in MPA programs in the United Kingdom and two LLM scholarships for study in the United States. We are delighted to welcome the first five MBA graduates-recipients of SEED Grant scholarships to the region in the coming year.

In cooperation with CANactions School for Urban Studies, we started a small urban grants program and saw the first seven projects implemented in different Ukrainian cities. As a result, we launched an independent small grant program DREAMactions, and by the end of 2016 awarded 10 more small grants for the second round of projects. Finally, in 2016 we held the first International Mayors Congress, which is to become an annual platform for Ukrainian and foreign mayors to exchange experience and share their best practices.

Two years is not a long period of time since we launched the Legacy Program yet we already see concrete results and great potential for our activities in Ukraine and Moldova. Still there is much at stake in these counties and clear reason to support and reinforce the important initiatives that we have launched to date.

We would like to thank all members of the WNISEF Board of Directors and team, USAID in Washington and the Missions in Ukraine and Moldova, the U.S. Embassy in Kyiv and Chisinau and our business and government partners for their contribution to the development of democratic values and economic prosperity in Ukraine and Moldova.

Together, we can achieve more sustainable changes in the region and transform the lives of ordinary people in Ukraine and Moldova!

Sincerely,

Dennis A. Johnson,
Chairman of the Board

Jaroslawa Zelinsky Johnson,
President and Chief Executive Officer


Ukraine
key figures 2016

2016 was a year of economic stabilization and the beginning of growth for Ukraine. The country showed signs of recovery despite the ongoing conflict in the East, a difficult external environment, and a severe economic crisis. After a 9.8% drop in 2015, GDP grew by 2.3% in 2016. While the social and economic cost of the crisis was high, growth is expected to be higher in 2017.

The new coalition government of Ukraine appointed in April 2016 declared its commitment to further implementation and strengthening of economic reforms. A two-party coalition holds a fragile majority in parliament which sometimes challenges policy making.

Nonetheless, the economy stabilized through 2016 showing signs of a gradual recovery which improved the confidence of government, business, and society. Business activity picked up. Industrial production regained competitiveness and de-escalation of the conflict in the East contributed to an increase in coal and metal production. At the same time, output in agriculture and consumer goods sectors was better than expected and demonstrated the broad-based nature of the recovery.

On the macroeconomic level, inflation receded quickly from 43.3% in 2015 to 12.4% in 2016. Gross international reserves (including gold) grew to $15.5 billion in 2016; doubling through 2015-2016. Bank deposits in domestic currency also rose. This progress was mostly possible due to the government's sound macroeconomic policies.

The Ukrainian government managed to cut the budget deficit significantly through rebalancing the tax burden. The 2016 tax reform slashed labor taxes, reduced VAT exemptions, simplified and rebalanced the tax system toward indirect taxes by increasing excise taxes on fuel, alcohol, and tobacco, while lowering the overall tax burden.

Ukraine took several important steps to reform the energy sector by overcoming monopolies and creating sufficient gas and electricity markets. The country also raised energy tariffs to market levels. Additionally, crucially important laws were adopted including a law "On the National Commission for State Energy and Public Utilities Regulation" which provided the foundations for the creation of a transparent and competitive energy market in Ukraine. To further strengthen energy independence, in 2016 Ukraine diversified the sources of gas and nuclear fuel supply, increasing the number of providers from Europe. Furthermore, the Energy Strategy of Ukraine for 2035 was developed and published for wide public discussion.

The government also undertook measures to rehabilitate the banking system. The National Bank continued closure of weak banks and the recapitalization of remaining banks. The state also nationalized the biggest banking institution Privat Bank to prevent its failure because of capital insufficiency.

Considerable steps were taken to advance deregulation and to reform State Owned Enterprises (SOEs). New institutions were set up to improve governance, including the Investment Promotion Office and the Public-Private Partnership office of the Ministry of Infrastructure. New anti-corruption bodies such as the Specialized Anti-Corruption Prosecutor's office (SAPO) and the National Anti-Corruption Bureau of Ukraine (NAB of Ukraine) were created in the wake of the Revolution of Dignity to undertake steps old law enforcement bodies failed to do — overcoming corruption within state bodies.

The year 2016 saw intensified government efforts to widen and develop opportunities for Ukrainian exporters. The Ukraine-EU free trade area was launched January 1, 2016 and the Canada-Ukraine free trade agreement (CUFTA) was signed in July, providing new markets for Ukrainian exporters.

Multilateral and bilateral creditors played an important role in continuing to support government reform efforts with significant financing and technical assistance. The country renewed its cooperation with the IMF and obtained a third tranche of 1 billion USD in September which allowed the continuing gradual liberalization of temporary restrictions on the foreign exchange market.

Government and the IMF experts expect macroeconomic growth to continue and strengthen in 2017 strongly depending on the progress of reforms.

Indicators	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP Growth, %	(14.8)	4.1	5.5	0.2	0.0	(6.6)	(9.8)	2.3
Inflation End of Year, %	12.3	9.1	4.6	(0.2)	0.5	24.9	43.3	12.4
Average Exchange Rate, USD	7.8	7.9	8.0	8.0	8.0	11.9	21.8	25.6
Current Account Balance, %	(1.5)	(2.2)	(6.3)	(8.1)	(9.0)	(3.4)	(0.2)	(4.1)
External Debt (USD billions)	103.4	117.3	126.2	134.6	142.1	126.3	118.7	113.5
FDI (USD billions, net)	4.7	5.8	6.6	7.2	4.1	0.3	3.0	3.3

Sources: International Monetary Fund, National Bank of Ukraine, State Statistics Service of Ukraine.

Moldova
key figures 2016

In 2016, the Moldovan economy also rebounded, growing 4.1% year-on-year. The volume of remittances in 2016 totaled $1.1 billion, decreasing year-on-year by only 4.4% after a significant decline of 30% in 2015. The most significant growth driver was agricultural production, increasing 18.6% in 2016.

The country took considerable steps toward political stability, including the appointment of a new government at the beginning of the year and the first direct presidential elections since 1996. However, political conflict remains in Moldova as the President and the Prime Minister continue to criticize each other's policies in relation to Russia and Transnistria.

Though still influenced by the banking crisis and political uncertainty, the country's economy showed positive signs of recovery. Consumer inflation slowed down through the year. Twelve-month inflation decreased from a peak of 13.6% in December 2015 to 2.4% at the end of 2016, due to good agricultural output, lower import prices and weaker internal demand. This permitted the National Bank of Moldova to soften its monetary policy which was aimed at maintaining low inflation while supporting the functioning of a flexible exchange system. Simultaneously, the National Bank of Moldova sharply reduced the base interest rate from a peak of 19.5% in September 2015 to 9% from October 2016 which is crucial for supporting the banking sector by unlocking healthy liquidity to growing sectors of the economy.

Under the strong leadership of a new Governor at the National Bank of Moldova, solid measures have been taken to improve corporate governance in the financial sector. Continuation of these efforts is crucial to strengthening the independence and supervisory capacity of the National Bank of Moldova and ensuring transparency and good governance in financial institutions.

Meanwhile public finances of Moldova were under pressure due to delays with external funding. The 2016 state budget was adopted only in July, and relied heavily on external funding (from the EU, World Bank, and Romania) to finance the planned deficit of 3.2% GDP. In the January to July period, the state suspended most procurement and capital expenditures because of inadequate external financing. In November 2016, the International Monetary Fund (IMF) approved a $178.7 million, three-year arrangements with the Republic of Moldova to support the country's economic and financial reform program.

According to IMF projections, Moldova's growth is expected to reach around 3% in 2017-2018. However, this calculation relies strongly on the economic recovery of major trading partners and improved consumer and investor confidence, supported by an IMF program and the financing from other partners. To ensure fiscal sustainability, Moldova's fiscal deficit should gradually decline to 2.5% GDP.

Macroeconomic and fiscal stabilization is an important short-term challenge for Moldova. However, long-term sustainable progress requires the country to rebalance the drivers of growth, activating private sector growth and job creation. Therefore, strategic challenges for Moldova for 2017 include strengthening the accountability of institutions, raising the quality and relevance of education, improving the business regulatory framework, and ensuring sound macroeconomic and fiscal management.

Indicators	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP Growth, %	(6.0)	7.1	6.8	(0.7)	9.4	4.8	(0.4)	4.1
Inflation End of Year, %	0.4	8.1	7.8	4.1	5.2	4.7	13.6	2.4
Average Exchange Rate, USD	11.1	12.4	11.7	12.1	12.6	14.0	18.8	19.9
Current Account Balance, %	(8.2)	(7.5)	(11.7)	(7.5)	(5.2)	(5.3)	(4.9)	(3.8)

Sources: International Monetary Fund, National Bank of Moldova, National Bureau of Statistics of the Republic of Moldova.


#ІДЕЇ
#УНІКАЛЬНІСТЬ
#UAEXPORTS

Export Promotion Policy Program

Going global through trade and investment

Ukrainian life traditionally centers around the table, where families, friends and business associates gather to break bread and socialize with one another. So, it is no surprise that participants, including Canada's Prime Minister Justin Trudeau, gathered around a table at the "Made in Ukraine Showcase," which featured over thirty WNISEF sponsored Ukrainian export-ready manufacturers at the 2016 Canada-Ukraine Business Forum in Toronto. What was exceptional, however, was the table the participants gathered around. It was Kodisoft's innovative "smart table" with a touch surface that allows multiple users to perform a whole host of functions simultaneously from placing a food order to shopping on the internet to playing games or watching video programs.

Except for some imported components, this remarkable innovation and centerpiece of Kodisoft's Interactive Restaurant Technology has virtually 100% Ukrainian content from its conception to production, including its Windows OS based software. As explained by Kodisoft's 29 year old CEO and Founder, Dmytro Kostyk, "our product development involved a challenging eight-year process as we moved towards the realization of our idea, step by step, from the original concept to the creation of our new touch recognition technology. Now we mostly concentrate on sales development."

Supporting Ukrainian innovativeness and creativity, WNISEF Export Promotion Policy Program decided to provide Kodisoft and the other small and medium-sized Ukrainian manufacturers, participants in the "Made in Ukraine Showcase" and "Fashion Show" at the Canada-Ukraine Business Forum with the critical support needed to gain valuable market exposure, identify potential business partnerships and promote the export sales of their "Made in Ukraine" products.

Based on the very positive response Kodisoft received to its Interactive Restaurant Technology in Canada, WNISEF encouraged and supported the company's participation in MAPIC 2016, the International Retail Property Market Tradeshow in Cannes, and Ukrainian Innovation Night Exhibit at Davos 2017 to highlight Ukraine's high-tech capabilities and untapped export potential.

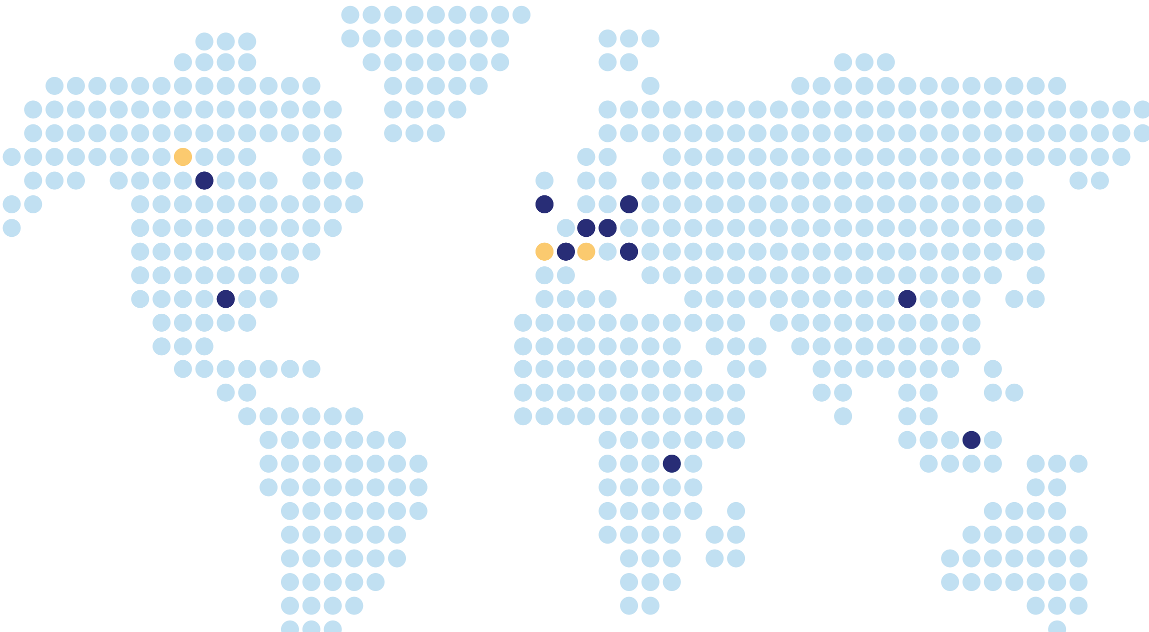
Mr. Kostyk subsequently reported: "We made contacts and had face-to-face conversations with 352 people at MAPIC.

This included meetings with CEOs and VPs of big shopping malls in Singapore, China, UAE, Saudi Arabia, and Turkey; and with the managing director of a company operating over 200 shopping centers across the EU. As a result of our participation, we received new orders for 67 tables by the end of 2016 and expect to sell another 450 tables over the next 24 months."

Kodisoft is only one example of the export-ready small and medium companies that are benefiting from WNISEF's numerous export promotion program activities. In 2016, WNISEF provided assistance to 107 Ukrainian and Moldovan companies that participated in 16 trade promotion events worldwide. These young private enterprises from thirteen regions of Ukraine and Moldova participated in a variety of showcase events, government-led trade missions and international trade shows. In addition to gaining valuable marketing experience and international business exposure, many of our participants succeeded in signing export contracts. RITO, a manufacturer of fashion knitwear started exporting to Lithuania with WNISEF's support in 2015 and reported export sales following participation in the Canada-Ukraine Business Forum. While another apparel producer, Folkmoda, signed a sales contract with Auchan, an international retail chain, following its participation in the WNISEF-supported Ukraine-France Business Forum in October 2016.

The Ministry of Economic Development and Trade of Ukraine's (MEDT) official mission to Malaysia and Indonesia, organized by the WNISEF-supported Export Promotion Office (EPO), produced three memoranda of cooperation with Ukrainian producers Biofarma (a state-of-the-art pharmaceutical company), Spetstechnology (fumigation and pest control product and services provider), and MMI Group (developer of IT solutions for business and government). A more recent EPO organized trade mission to Kenya and Tanzania was credited with a $119 million contract for the sale of Ukrainian corn to Kenya. In addition, 85% of the mission participants reported the start of promising negotiations with prospective partners in these two countries.

Trade promotion event		Number of companies participated with support from WNISEF
International Fashion Showcase 2016	United Kingdom	**14**
ITB 2016 Trade Show	Germany	**13**
China Food and Drink Fair 2016	China	**17**
Constructexpo 2016	Romania	**1**
Budma 2016	Poland	**1**
Interbud 2016	Poland	**1**
Resta 2016	Lithuania	**1**
IMEX 2016 Trade Show	Germany	**6**
Razom IT trip	USA	**3**
SVOD conference	USA	**1**
Made in Ukraine Showcase at Ukraine-Canada Business Forum	Canada	**30**
Trade mission to Malaysia and Indonesia	Malaysia, Indonesia	**12**
Baltic Fashion and Textile Trade Show 2016	Lithuania	**14**
Toronto Ukrainian Festival 2016	Canada	**5**
MAPIC 2016	France	**1**
Trade mission to Kenya and Tanzania	Kenya, Tanzania	**8**
Vinitech-Sifel 2016 Trade Show	France	**1**



Business Forums supported by WNISEF in 2016	Location, date	Total number of participants	Number of Ukrainian companies participated
Ukraine-Netherlands Business Forum	Nootdorp, the Netherlands, March 30, 2016	**350**	**80**
Ukraine-Canada Business Forum	Toronto, Canada, June 19-20, 2016	**450**	**115**
Ukraine-France Business Forum	Paris, France, October 28, 2016	**350**	**30**

WNISEF continues to play a vital role in strengthening cooperation between MEDT and Ukraine's business community through its on-going support of the EPO. In addition to developing a national database with 3,500 manufacturers to improve the ministry's communications and outreach to the business community, the EPO has established an Export Promotion Council as a platform to conduct and manage an on-going dialogue on trade development with the business community. In 2016 over 300 companies participated in meetings of the Export Promotion Council to provide input and feedback on issues related to the government's efforts to develop fair and transparent trade policies and programs.

At the same time, WNISEF is working to engage other donors and technical assistance programs that will enable the EPO to increase its capacity to support firms like Kodisoft and others with a full range of exporter services ranging from market intelligence to trade finance in country and abroad.

Through its Export Promotion Policy Program, WNISEF focuses on providing direct support to trade associations and business organizations that are working on specific export promotion programs and services to benefit their members. Following program guidelines that are readily available on WNISEF's website, trade associations and business organizations may apply and potentially receive funding to cover up to 50% of their project proposal to improve members' trade potential and export success. WNISEF grants supported the development of Ukraine's travel and tourism sector through joint city exhibitions at WTM in London and ITB in Berlin. WNISEF supported both the Ukrainian pavilion at CES-2017, the Consumer Electronics Show in Las Vegas, and the Ukrainian Innovation Night at Davos 2017, in cooperation with the Ukrainian Venture Capital and Private Equity Association. WNISEF also supported the pavilion of Moldovan wine producers at the China Food and Drinks Fair. Additionally, the WNISEF Export Promotion Policy Program supported the Ukrainian Light Industry Exhibition in Vilnius organized by UkrLehProm, the Ukrainian Light Industry Association, and staged in conjunction with an official government trade mission to Lithuania.

Fully recognizing the fact that trade and investment go hand-in-hand, in 2016 WNISEF supported the creation of UkraineInvest, an investment promotion office under the auspices of the Prime Minister of Ukraine. UkraineInvest focuses on supporting existing and new investors, making conditions easier for all investors to do business in Ukraine and projecting a positive image of Ukraine to potential foreign investors.

Last, but certainly not least, WNISEF has dedicated significant time, effort and resources to the development of a National Export Strategy and Five-Year Action Plan for Ukraine. The Strategy and Action Plan are intended to set national priorities and implement government policies needed to improve Ukraine's international trade performance rapidly and significantly. In line with this monumental undertaking, WNISEF has supported MEDT and the EPO in organizing National Stakeholder Consultations hosted in September and November 2016 in cooperation with the International Trade Centre (ITC), a joint agency of the World Trade Organization and the United Nations. These consultations have involved over 100 stakeholders, including: high-level government officials, members of parliament, business leaders, academicians, representatives of civil society and donors. The goal of this all-inclusive effort is to produce a realistic export strategy that will be owned and championed by all who are genuinely concerned and committed to Ukraine's future economic development in the global environment.

Vitaliy Bigdai, Export Promotion Policy Program Manager:

Since the launch of our Export Promotion Policy Program in Ukraine and Moldova in 2015, we have witnessed a remarkable increase in export awareness among government officials and business people alike. Whether attributed to the total breakdown in traditional trading patterns, the "Spirit of the Maidan", or the signing of the Association Agreements and the Deep and Comprehensive Free Trade Agreements with the EU, or a combination of all three developments, there is clearly a new sense of pride, ownership and entrepreneurship among government officials and business people alike. There is also a new and clear recognition among all that they can and should be competing and succeeding in the international market place; and that by doing so they can and will strengthen their international partnerships, secure their economic futures, and reinforce their nations' sovereignty and independence.


GALNAFTOGAZ
CONCERN
IMC
INTERNATIONAL
MAYORS
CONGRESS
Roman
KHANZYN

Local Economic Development Program

Building transformative partnerships

Mykolaiv, historically known as a city of shipbuilders, is a city of 489,000 inhabitants in southern Ukraine. However, most of the city's shipbuilding facilities, founded back in the 18th and 19th centuries, are barely operational now. Despite being located near the Black Sea, the city has no beaches and its industrial-style architecture hardly attracts tourists. Present day Mykolaiv seeks a new identity and new opportunities with the help of WNISEF.

"One of my priority tasks as a Mayor was to eliminate corruption schemes. Another aim was to engage a new kind of public servant in municipality work. We lacked people with impartial work experience, high level of motivation and new ideas about the city development," acknowledged Oleksandr Senkevych, 34 year old Mayor of Mykolaiv, elected in November 2015. Having no previous experience in public service and starting with a low rating in most pre-election polls, Senkevych won the election against all odds. Senkevych, previously head of an IT company, won the loyalty of Mykolaiv citizens thanks to numerous meetings with the voters, openness, and a frank discussion about the city's problems. Citizens actively supported him by volunteering in the candidate's headquarters and voting commissions, becoming election observers, and organizing spontaneous street campaigns.

The expectations for Mayor Senkevych now are high and he must create innovative ways of doing things, involving novel, more flexible and non-bureaucratic actors in the city's transformation processes. With the support of WNISEF, in 2016, the Mayor launched the Mykolaiv Development Agency. "The Agency is a communicator between different actors of city development. It works on strategic planning, fundraising, support of investors and the raising of city competitiveness. The body's main goal is to promote Mykolaiv and to engage businesses and donors to its development, as well as enable local community to act," explained Senkevych. Within three months, a resource center, launched by the Agency, consulted over 100 NGOs on city projects partially financed through the city budget.

The Mayor's actions were not spontaneous. Back in 2015, immediately after his decision to run for office, he applied for the School of Mayors project. "I had not worked a single day as a public servant before, but the School enabled me to adapt quickly to these duties. I acquired knowledge which is helping me now not only to articulate the city development strategy, but also to ensure its implementation, and to solve critical city problems," stated Senkevych. Recognizing the need to train local public officials arising from reforms in government decentralization, in 2016 WNISEF supported the second enrollment of the School of Mayors. This enrollment involved 11 teams from throughout Ukraine and permitted over 50 graduates to set out 11 city development strategies, based not only on the experience of local mentors, but also their Polish colleagues during a field visit to cities in neighboring countries.

Decentralization demands greater flexibility from Ukrainian mayors. It demands the ability to effectively cooperate with local community initiatives. Independent activists can often provide ready solutions to local problems. In addition, our experience shows that empowering such people with knowledge and instruments is extremely important. Witnessing the thirst for best practices, creative solutions, and management tools, WNISEF decided to launch a new platform for city managers called the International Mayors Congress. The first Congress, held in early December in Kyiv, brought together over 250 participants, and was supported by the Prime Minister of Ukraine who previously was the Mayor of Vinnytsia. Over 100 mayors from all regions learned from the experience of their Canadian, Polish, Lithuanian, and Dutch colleagues, and most importantly - shared and learned from best Ukrainian practices.

Local community and active citizens are a big human resource for every mayor. Therefore, the impact of CANactions School for Urban Studies, funded by WNISEF, is measurable at the city level.

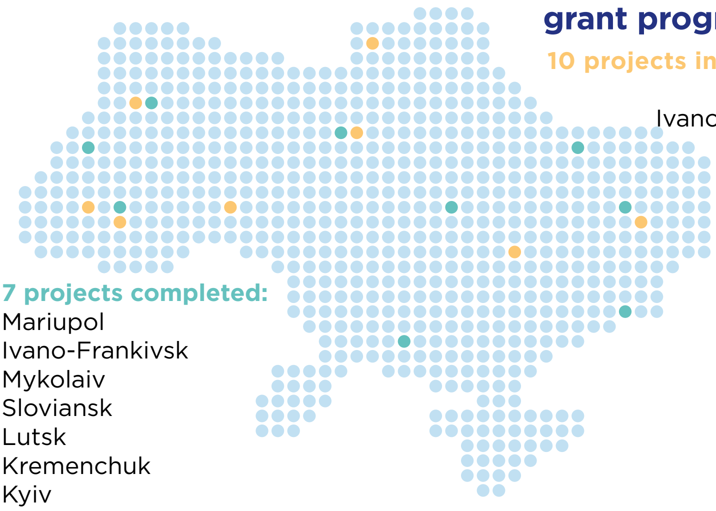
CANactions School for Urban Studies: Studio 1, Studio 2

32 alumni

Advanced Studies in Integrated Urban Development

25 participants

DREAMactions grant program



10 projects in progress:
Dolyna
Ivano-Frankivsk
Horodnia
Dnipro
Kyiv
Lutsk
Bar
Bakhmut

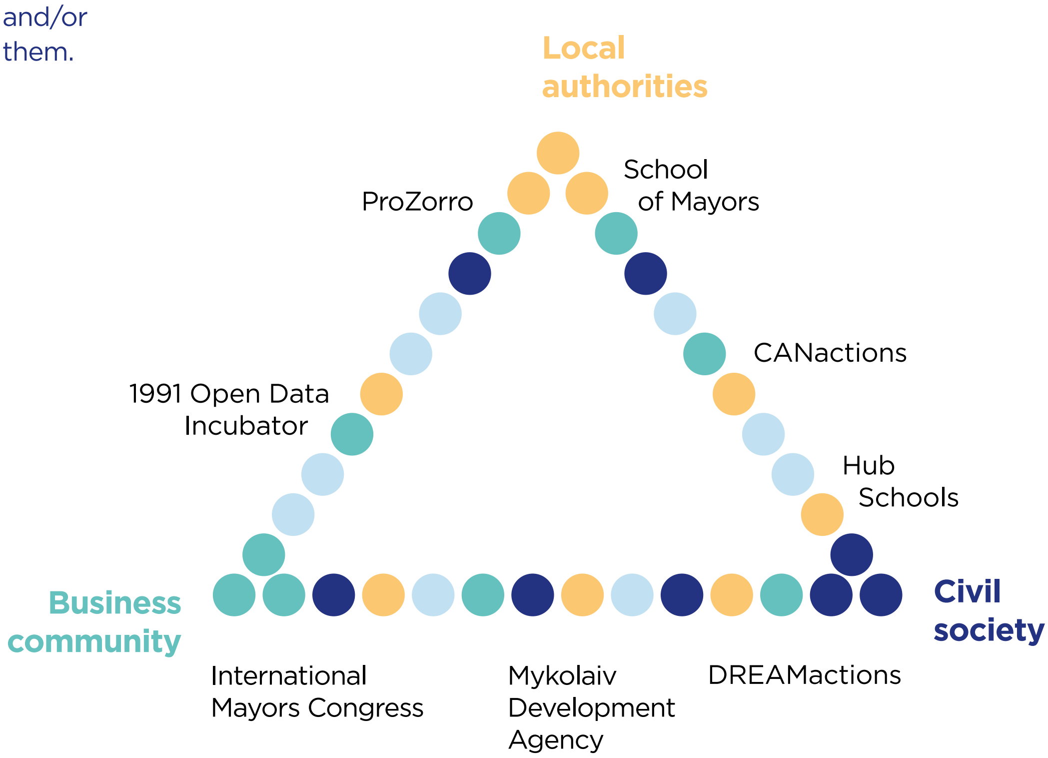
7 projects completed:
Mariupol
Ivano-Frankivsk
Mykolaiv
Sloviansk
Lutsk
Kremenchuk
Kyiv
Lviv
Kharkiv

The School's team includes about 30 international mentors. In total 32 alumni from 14 cities of Ukraine (plus Hamburg and Shanghai) graduated from two enrollments. The new program, Advanced Studies in Integrated Urban Development for local public servants, started in 2016 and involves 25 participants, and is aimed at benefitting the city-planning departments of municipalities.

WNISEF bolstered the CANactions initiative and funded the small urban grants program, now called DREAMactions. The first call gathered 260 applications from all over Ukraine. Seven projects were co-financed and implemented in seven different cities; each of them corresponds to a special need of the community. The second call reached 500 applications for 10 available funding opportunities.

A triangle:

Each project within the Program empowers one or more of these elements and/or connects them.



Joint responsibility is a key to effective transformation. Throughout 2016 we learned that three key elements are crucial for a successful city:

- **Open and progressive local authorities**
- **Active and responsible civil society**
- **Supportive business community**

Additionally we learned that a fourth element – innovation – is also critical as was most vividly illustrated by ProZorro, the online public procurement system. WNISEF is proud to be one of the first backers of a pilot project led by volunteers, ProZorro, that in 2016 became the obligatory platform for all Ukrainian public institutions. To date, Ukraine's state budget has saved nearly $1 billion, far exceeding expectations. ProZorro has also been recognized globally, winning two international awards during the year: The International Procurement Award in London and The Open Government Award in Paris.

Since 2014's Revolution of Dignity, IT tools have became an important enabler of reforms in Ukraine. The use of open and big data initiated a new step towards transparency of the public sector. To enhance this process, WNISEF supported 1991 Open Data Incubator, the largest and most ambitious Ukrainian incubator that uses big data to provide helpful services for citizens. Twenty one startups completed two incubation programs in Kyiv in partnership with Microsoft Ukraine. Some of the first startups later raised approximately $400,000 of angel investment. Similar to the DREAMactions projects, city startups serve as a benefit for ordinary people. These startups include such applications as "Clinic without queues" for patients to register online for a doctor appointment, "Open World", a mobile application facilitating mobility for people with visual impairments, and "007", an analytical tool for public procurement monitoring.

Education grows innovations at various levels. In 2016, WNISEF contributed to the implementation of education reform in Ukraine by launching the Hub Schools project which embraced 24 schools, one in each region, with approximately 9,000 pupils in total. Hub schools are intended to fix a number of the shortcomings of Ukrainian village school education by improving the quality of teaching. The project aims at creating exemplary hub schools in rural areas consisting of several interconnected parts: first, the physical plant of the 24 schools was repaired with funding by USAID. Second, WNISEF provided modern equipment for physics, chemistry, and biology classes for all hub schools. Third, school administrators and teachers (72 persons in total) participated in a special training program on best leadership practices and modern education tools, blended learning, online resources, and mentorship. These teachers become visionary leaders, the true change agents in the Ukrainian educational system.

Iryna Ozymok, Local Economic Development Program Manager:

"Cities have the capacity of providing something for everybody, only because, and only when, they are created by everybody," said Jane Jacobs in her book 'The Death and Life of Great American Cities'. That's the approach we adopted in building the LED Program content: empowering people to become responsible citizens, from school to urban projects, from effective municipalities to startup ecosystem, aiming to bring change through transformative partnerships. The Program will focus on devotedly seeking and supporting change agents, people who are ready to initiate and implement changes on their level of influence.

Impact Investing Program

Small loans, big impact

A small studio in Dnipro city center offers finished clothing as well as a custom sewing and clothes repair service. It makes both casual and smart clothing for men, women and children, producing everything from swimming suits to wedding dresses. The company's special feature is an online dress constructor.

The studio's only two full-time employees are both internally displaced persons (IDP) who relocated to the city because of the war in Ukraine's East. Three other locals help occasionally. Not surprisingly, Andrii Yatsenko, the owner and founder of "My Atelier", is an IDP himself. Basically, the entire atelier operates in exile. Previously Andrii used to own an atelier in Donetsk as well as a stationary apparel shop and an internet-shop. But as the war began he had to abandon his businesses, escape the hostilities and start his business anew, salvaging only a small part of his equipment to Dnipro. In December 2015, he opened a new atelier and launched a website.

Although Yatsenko did not intend to become a social entrepreneur, the social mission found him. "As I came from Donetsk myself, I just wanted to help other IDPs who relocated here. I believe good deeds will be repaid," said Yatsenko.

In addition to the employment of IDPs, "My Atelier" allocates 5% of the value of each online purchase to charitable purposes which permitted the purchase of Christmas presents for displaced children who live in Dnipro. "We brought them some sweets and stationery for the school. Apart from this we launched a special program for IDPs offering them a 50% discount for our services. In less than two months seven people used this discount either to sew new clothing or to renovate their old clothes," recounts Yatsenko.

After the start of the war in the East in 2014, many people found themselves in crisis situations and social entrepreneurship gained recognition as a valuable tool in Ukraine. First, IDPs and war veterans formed two large and new social groups. Those who were enterprising enough, started their own businesses to help themselves, often involving in their business other people experiencing the same life hardship.

Second, many traditionally vulnerable groups (people with disabilities, orphans, or persons in need) received more attention from the private sector due to the present inability of the state to deal with social problems. Businesses used their own resources to provide the needed support.

Finally, social enterprises with an ecological mission appeared in response to the growing awareness of the importance of living a healthy lifestyle in an eco-friendly environment.

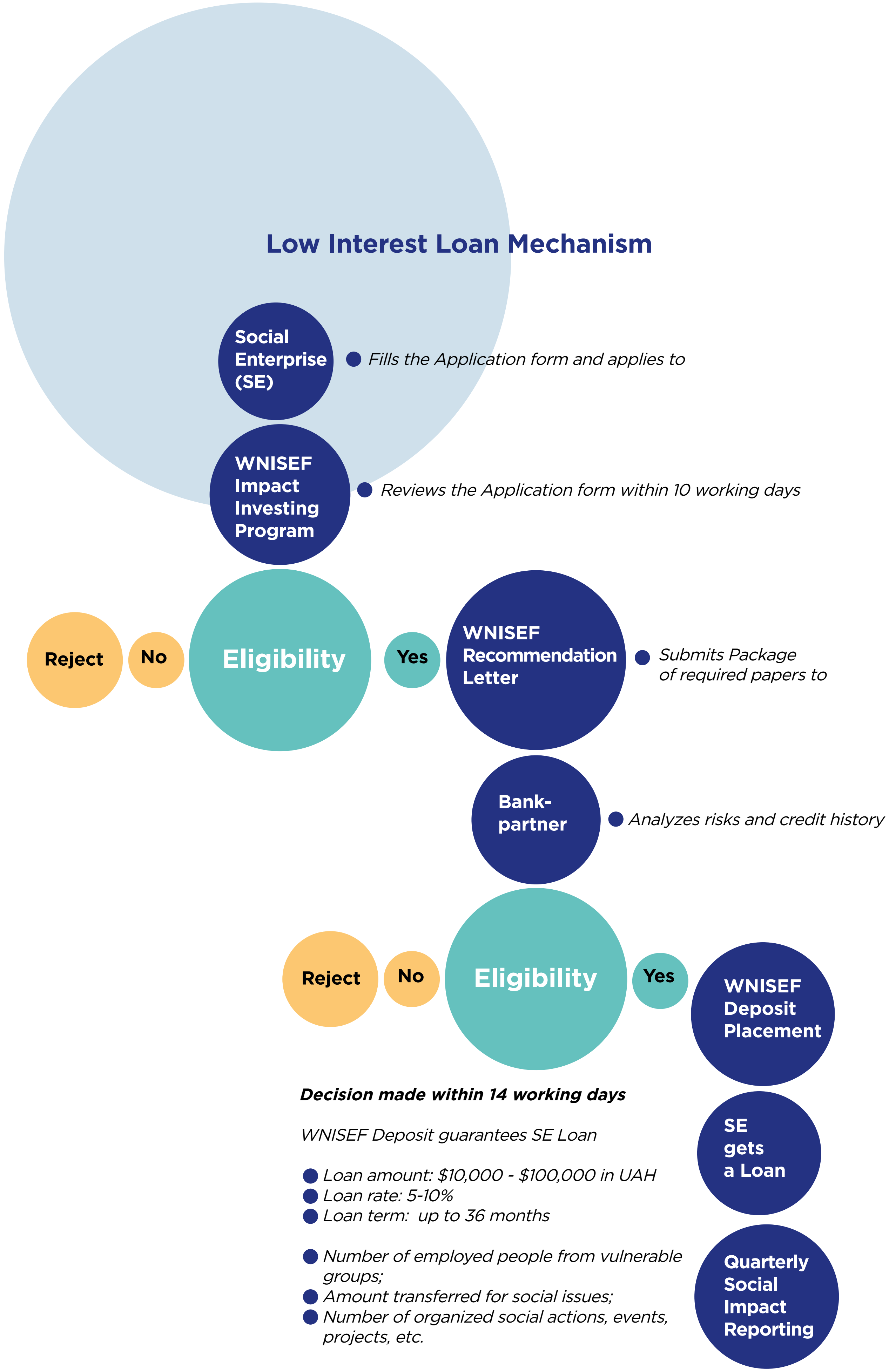
To summarize the experience and the best practices of social entrepreneurship in Ukraine, the Program started Research of Social Entrepreneurship in cooperation with PACT Inc. (USAID program) and the National University of Kyiv-Mohyla Academy. This research will result in the creation of the new Directory of Social Enterprises which will include 80 enterprises registered in 2016. There is a growing interest in social entrepreneurship among small businesses and NGOs and we expect this amount to double over the coming months.

In 2016, the Impact Investing Program launched a low-interest loan program for social enterprises together with two bank partners: state owned Oschadbank and commercial Kredobank. Social bakery "Horikhovyi Dim" in Lviv received the first loan to support women in crisis with jobs and accommodations in its own social hostel. The low-interest loan disbursed in the Ukrainian Hryvnia equivalent of $28,191 allowed the enterprise to expand its business by launching a catering service and simultaneously expanding the social component by opening a social canteen.

"My Atelier" received a low-interest, local currency loan equivalent to $10,390. "We needed additional financing to pay for the materials and to buy new equipment. As of now we already bought some additional machinery that allows us to produce more," explained Yatsenko. Socially-agricultural enterprise "Sadovod" based in Cherkasy region received a low-interest loan in the local currency equivalent of $31,274, which allowed the organization to buy new equipment for its asparagus growing operations.

Methodical work with bank partners on the implementation of the low interest loan program allowed bank employees to better understand the principles of social entrepreneurship. Therefore, the number of applications from social entrepreneurs increased over the year. In 2016, we received a total of 96 applications of which three were funded, eight approved, fifteen rejected and the remainder in-progress.

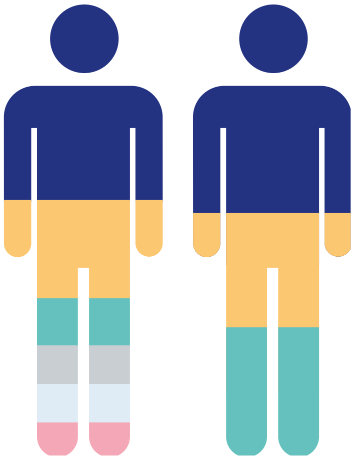
WNISEF is pleased that these three funded projects are solving social issues in their communities. To multiply this effect, the Program also is committed to communicative positive results, encouraging an exchange of experiences so that other NGOs and traditional businesses consider the possibilities of social entrepreneurship. Thus, WNISEF, in cooperation with ChildFund Deutschland, "East Europe" Foundation, British Council in Ukraine, and NGO "SOCIUM-XXI," organized the II All Ukrainian Forum of Social Entrepreneurs in November 2016. The Forum highlighted the significant interest in social business models and demonstrated new opportunities for social entrepreneurs.


Low Interest Loan Mechanism
Social Enterprise (SE)
Fills the Application form and applies to
WNISEF Impact Investing Program
Reviews the Application form within 10 working days
Reject
No
Eligibility
Yes
WNISEF Recommendation Letter
Submits Package of required papers to
Bank-partner
Analyzes risks and credit history
Reject
No
Eligibility
Yes
WNISEF Deposit Placement
Decision made within 14 working days
WNISEF Deposit guarantees SE Loan
Loan amount: $10,000 - $100,000 in UAH
Loan rate: 5-10%
Loan term: up to 36 months
SE gets a Loan
Number of employed people from vulnerable groups;
Amount transferred for social issues;
Number of organized social actions, events, projects, etc.
Quarterly Social Impact Reporting

II All Ukrainian Forum Of Social Entrepreneurs

243 participants:

46% - planning to start a social business
22% - social entrepreneurs
10% - tutors
8% - researchers
8% - speakers and special guests
6% - representatives of SE resource centers



17 speakers
from Ukraine

1 from Germany

1 from the UK

Access to affordable financial resources via low interest loans motivates many companies to become social businesses. The role of the Program is to provide advice and mentorship towards the development and implementation of their social mission.

Besides personal consultations, this task is carried out through education. The Program developed and launched the "Social Entrepreneurship" course, within the bachelor program of the School of Social Work at the National University of Kyiv-Mohyla Academy. The first course was offered from January to April 2016. Additionally, we organized a training course "Social Entrepreneurship" for Lviv Business School (LvBS), at the Ukrainian Catholic University in January 2016.

Vasyl Nazaruk, Impact Investing Program Manager:

The key achievement of the year is the launch of the low interest loan mechanism. It is crucial for us that bank partners understand the essence of social business even though national law does not define it. We also developed the criteria for which applicants should be qualified as a social enterprise. We can compare this mechanism to a catalyst in chemistry that accelerates the reaction but remains unchanged itself. Similarly, the low interest loan accelerates the development of a social enterprise; and after the funding is repaid, the funds can be lent to another enterprise. In 2017, WNISEF plans to increase considerably the number of loans granted given the launch phase is behind us and expects that the impact of these loans will be significantly greater than the money invested.

Economic Leadership Program

Investing in people

“My school was damaged by shelling in July 2014. It was right before my last year in school. So, we kept studying even though the renovation continued throughout the entire year,” recalled 18 year old Valeria Rakytianska, an alumna of the first enrollment of the Ukrainian Leadership Academy (ULA). She comes from Mykolaivka (near Sloviansk, Donetsk region), a town that experienced two days of warfare when the Ukrainian armed forces captured the town from the terrorists. “At that time, I was an ordinary secondary school student with typical goals: to enter university, to receive a diploma. I used to do sport, paint, and wanted to become an interpreter. Most of all I dreamed about moving away from my home region or even my country, which is kind of sad to admit now,” continued Valeria. Her school was one of two schools at the frontline that was reconstructed in 2015 with the support of WNISEF.

Valeria’s graduation from school in May 2015 was also the day of an opening ceremony for the newly reconstructed building. “Jaroslawa Johnson and Roman Tychkivskyy came for the ceremony. They briefly introduced the Ukrainian Leadership Academy (ULA) to us, but for me it was enough to get passionate about the idea. So, in July 2015 I was already among the applicants,” recalled Valeria. She became one of the 39 students of the first Academy in Kyiv. By the time of her graduation from the Academy in June 2016, she claims that her outlook and prospects changed completely. She is not the only one: most of the 39 ULA alumni confirm that they became more confident and learned to treat problems as challenges.

This increased confidence in facing life’s challenges became possible due to intensive group work and the comprehensive program of the ULA curriculum. Studies at the ULA combine physical, intellectual, and emotional education and development components, including lectures by excellent instructors and prominent Ukrainians, as well as study trips within the country and abroad and volunteer work inside the community. The program is designed to allow students to gain a deeper understanding of their national identity and to develop their will to contribute to the country’s development. In addition, they attain a clear understanding of the sphere they wish to work in, according to their own talents. “These 10 months were like five years! We became a real team. I’ve got a feeling that people believe in me and it gives me great motivation,” stated Valeria.

Right before their graduation the ULA students visited Valeria’s home region to work as volunteers in Sloviansk. “We joined the volunteer camp ‘Building Ukraine Together’, helped to rebuild two damaged houses of large local families, and organized activities for children. In addition, we created some wooden decorations for the town.”

Four new branches of the Ukrainian Leadership Academy opened their doors for students in the 2016 academic year. The Academy now operates in Lviv, Kharkiv, Poltava and Mykolaiv, in addition to Kyiv, and includes a total of 200 students chosen from over 7,000 applicants from all regions of Ukraine as well as Crimea. During the selection process, students did not know at which of the five Academies they were going to study. But now virtually all of them are studying and discovering in a region different from that of their origin, in order to develop a deeper connection with Ukraine.

The Economic Leadership Program benefits not only young future leaders, but also supports young professionals with substantial achievements and leadership competences with its SEED Grants. Dmytro Okhrimchuk, a 28 year old student in the MBA program at University of California-Berkeley, also benefits from the program. "I wanted to study abroad since I graduated from Kyiv National University in 2005. I applied to different business schools in Canada and Europe almost every other year since then. And I was admitted to all of them, but every time I did not go due to professional opportunities that opened in Ukraine," said Dmytro. He had worked in an investment banking and venture capital fund before he was admitted to Haas School of Business at University of California-Berkeley in 2015. Dmytro, who is one of the first SEED Grant recipients, has already completed a year and a half studying in an MBA program in the Bay Area which is the only place which matched his professional interest in technologies.

Dmytro considers that being constantly pushed out of one's comfort zone is the main asset of business education. "You must always be open to new experiences and ready to learn something new. On the other hand, you should be self-aware that not all things taught are applicable specifically for your case. I try to examine every new piece of knowledge by asking myself: why does it work here in the US? How could it work in Ukraine?" he explained.

In 2016, the Program awarded 12 SEED Grant scholarships to students from Ukraine and Moldova. Eight scholars study at MBA programs in top US business schools. Two others are enrolled on the Master in Public Policy Programs at the University of Oxford and the London School of Economics (LSE). Two more scholars were admitted to the LLM program at Cornell University. Together with the scholarships awarded in 2015, as of now WNISEF has funded a total of 18 grantees, five of whom complete their education in 2017 and are returning to their home countries to fulfill the grant requirement of working for a minimum of three years to invest their knowledge and experience into the development of Ukraine and Moldova.

For Dmytro, the stipulation to return to Ukraine after study was a significant advantage of the SEED Grant scholarship. "I would take the opportunity to do my MBA at Haas School of Business even without the grant. Although paying for the studies would be an issue for me, I am sure I would be able to secure a loan from the US-based lenders. However, in that case I would have to work in the US for at least five years to pay it back. With the SEED Grant support, I can now return to Ukraine after the graduation as I always planned," stated Dmytro. The second advantage of the scholarship, according to Dmytro, is a possibility to engage in entrepreneurial endeavors after graduation.

All this corresponds to Dmytro's intention to build his career in Ukraine. "Although current business conditions may not seem favorable, I am convinced that even in these times there is a good opportunity to create a successful businesses in Ukraine targeting either internal or external markets. In many cases success can come to you much faster in Ukraine than it would happen, let's say, in the USA."

To bolster this certainty in all SEED Grant recipients, the Program held a 3-day-long event in Chicago in September-October, 2016 where students were engaged with Ukrainian business, civil society, and political leaders, along with members of the WNISEF Board of Directors to discuss future developments in Ukraine and Moldova and their respective roles in it.

WNISEF believes that international experience empowers innovative thinking and professional growth in business and among civil society grassroots activists. Therefore, the Economic Leadership Program, in partnership with the Embassy of Canada to Ukraine and the British Council Ukraine established a Leadership and Communication Development Program for top managers of Ukrainian NGOs. The first seven participants went to Canada as part of an exchange study tour.

The Economic Leadership Program has also embarked on senior leadership development in Ukraine by funding a Master in Public Administration Scholarship Program for ATO veterans to study at the Ukrainian Catholic University (UCU), Lviv. Five former soldiers were awarded scholarships. Furthermore, two "Women in Tech" scholarships were announced in cooperation with UCU Lviv Business School, Management and Technology Program.

Finally, to bring the best Ukrainian practices abroad, the Economic Leadership Program supported the Ukraine Trek project jointly with the Harvard Ukrainian Student Society. The goal of the program is to build links between future world leaders who will become Ukraine's best ambassadors around the globe. Twenty Harvard students with diverse professional backgrounds (policy, business, law) from the US, Germany, Poland, and China were invited to participate. "Before coming, I didn't fully appreciate what a seminal time it is to come to Ukraine. Our panels and discussions have crystallized that Ukraine is at a precipice, a pivotal point in its history. Our meetings showed us that there is a great deal of momentum and support for institutional change. I didn't expect the thriving cultural scene that we've experienced here and have been extremely impressed. It's a beautiful country and I can't wait to share my thoughts and promote Ukraine to others as both a tourist destination, as well as a fascinating country to work on," one of the Ukraine Trek participants stated in their feedback.

The impact of all these projects is hard to estimate at present. The long-term outcome, most likely, will become visible in another five to ten years. But these current achievements pave a broad path for a sustainable change in Ukraine and Moldova.

Roman Tychkivskyy, Economic Leadership Program Manager:

Ukraine and Moldova are countries with great potential. Within the shortest possible time, we are committed to developing a new generation of citizens – people of scrupulous integrity, able to think and act strategically, not only at the level of naive sentiment but at the level of responsible and highly conscious will. Our team has a clear vision that Ukraine and Moldova require large-scale and systemic projects to overcome the political and economic challenges they both face, in the short and long-term terms. To ensure that, we invest in people. The initiatives of all WNISEF programs unite and strengthen the real agents of change in Ukraine and Moldova, the new generation.

Financial Statements Western NIS Enterprise Fund

Years ended
September 30, 2016 and 2015
with Report of Independent
Auditors

Western NIS Enterprise Fund

Financial Statements

Years ended September 30, 2016 and 2015

Contents

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Independent Auditors' Report

The Board of Directors
Western NIS Enterprise Fund

We have audited the accompanying financial statements of Western NIS Enterprise Fund (the Fund), which comprise the statements of assets and liabilities including the condensed schedules of investments as of September 30, 2016 and 2015, and the related statements of operations and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Independent Auditors' Report
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western NIS Enterprise Fund as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

We draw attention to Note 1(b) to the financial statements, which describes the political and social unrest and regional tensions in Ukraine that started in November 2013 and escalated in 2014 and afterwards. The events referred to in Note 1(b) could adversely affect the Fund's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

JSC KPMG Audit

JSC KPMG Audit
January 27, 2017

Western NIS Enterprise Fund

Statements of Assets and Liabilities
September 30, 2016 and 2015
Expressed in US Dollars

	2016	2015
Assets		
Investments, at fair value:		
Equity and debt securities (cost of $39,907,926 and $34,699,691 as of September 30, 2016 and 2015, respectively)	$ 18,059,628	$ 12,514,381
Emerging Europe Growth Fund, L.P. (cost of $10,138,344 and $10,381,188 as of September 30, 2016 and 2015, respectively)	4,920,360	5,144,054
Other financial assets	500,000	-
Cash and cash equivalents *(note 6)*	55,420,824	69,021,841
Interest, dividend and other receivables	187,665	74,166
Prepaid expenses:		
Investment management fees *(note 14)*	155,033	160,179
Program management fees *(note 14)*	131,250	132,329
Other	100,663	117,886
Fixed assets, net of accumulated depreciation and amortization *(note 7)*	51,594	42,852
Impact Investing Program long-term deposit	28,365	-
Other assets	32,572	14,299
Total assets	$ 79,587,954	$ 87,221,987
Liabilities and fund balance		
Deposits received on sale *(note 5)*	$ 325,000	$ 325,000
Accounts payable and other accrued expenses	377,527	239,922
Grants payable *(note 12)*	269,365	27,947
Other liabilities	18,794	35,659
Total liabilities	990,686	628,528
Fund balance (temporarily restricted)	78,597,268	86,593,459
Total liabilities and fund balance	$ 79,587,954	$ 87,221,987

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Statements of Operations and Changes in Fund Balance
Year ended September 30, 2016
Expressed in US Dollars

	Temporarily restricted	Unrestricted	Total
Investment income			
Interest income	$ 113,730	-	$ 113,730
Other income	41,422	-	41,422
Total investment income	155,152	-	155,152
Net assets released from restrictions			
Satisfaction of program restrictions (investing activities)	(1,153,457)	1,153,457	-
Operating expenses for investment activities *(note 10)*	-	(1,153,457)	(1,153,457)
Net investment loss	(998,305)	-	(998,305)
Net realized loss and change in unrealized loss on investments			
Net realized loss on investments *(note 5)*	(382,638)	-	(382,638)
Net change in unrealized loss on investments *(note 5)*	204,868	-	204,868
Net realized loss and change in unrealized loss on investments	(177,770)	-	(177,770)
Net decrease in fund balance from investment activities	(1,176,075)	-	(1,176,075)
Net assets released from restrictions			
Satisfaction of program restrictions (Legacy Programs)	(6,820,116)	6,820,116	-
Legacy Programs			
Economic Leadership Program	-	(3,353,940)	(3,353,940)
Export Promotion Policy Program	-	(1,207,867)	(1,207,867)
Local Economic Development Program	-	(916,480)	(916,480)
Impact Investing Program	-	(133,511)	(133,511)
Administration *(note 11)*	-	(1,208,318)	(1,208,318)
Net decrease in fund balance from Legacy Programs	-	(6,820,116)	(6,820,116)
Net decrease in fund balance	(7,996,191)	-	(7,996,191)
Fund balance, beginning of year	86,593,459	-	86,593,459
Fund balance, end of year	$ 78,597,268	-	$ 78,597,268

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Statements of Operations and Changes in Fund Balance

Year ended September 30, 2015

Expressed in US Dollars

	Temporarily restricted	Unrestricted	Total
Investment income			
Interest income	$ 105,120	-	$ 105,120
Other income	40,113	-	40,113
Total investment income	145,233	-	145,233
Net assets released from restrictions			
Satisfaction of program restrictions (investing activities)	(1,209,319)	1,209,319	-
Operating expenses for investment activities *(note 10)*	-	(1,209,319)	(1,209,319)
Net investment loss	(1,064,086)	-	(1,064,086)
Net realized loss and change in unrealized loss on investments			
Net realized loss on investments *(note 5)*	(375,853)	-	(375,853)
Net change in unrealized loss on investments *(note 5)*	(154,695)	-	(154,695)
Net realized loss and change in unrealized loss on investments	(530,548)	-	(530,548)
Net decrease in fund balance from investment activities	(1,594,634)	-	(1,594,634)
Net assets released from restrictions			
Satisfaction of program restrictions (Legacy Programs)	(1,685,281)	1,685,281	-
Legacy Programs			
Economic Leadership Program	-	(606,447)	(606,447)
Local Economic Development Program	-	(173,446)	(173,446)
Export Promotion Policy Program	-	(167,099)	(167,099)
Impact Investing Program	-	(23,206)	(23,206)
Administration *(note 11)*	-	(715,083)	(715,083)
Net decrease in fund balance from Legacy Programs	-	(1,685,281)	(1,685,281)
Net decrease in fund balance from operations	(3,279,915)	-	(3,279,915)
Deferred exit-based incentive *(note 9)*	42,668	-	42,668
Net decrease in fund balance	(3,237,247)	-	(3,237,247)
Fund balance, beginning of year	89,830,706	-	89,830,706
Fund balance, end of year	$ 86,593,459	-	$ 86,593,459

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Statements of Cash Flows

Years ended September 30, 2016 and 2015

Expressed in US Dollars

	2016	2015
Cash flows from operating activities		
Net decrease in fund balance from operations	$ (7,996,191)	$ (3,279,915)
Adjustments to reconcile net decrease in fund balance to net cash used in operating activities:		
Proceeds from:		
Emerging Europe Growth Fund, L.P. distributions	-	2,406,232
Equity securities – sale to third parties, net of advisory fees	645,286	311,290
Debt securities	-	244,185
Disbursements for:		
Equity securities	(5,994,609)	-
Other financial assets	(500,000)	-
Emerging Europe Growth Fund, L.P. capital calls	-	(405,320)
Debt securities	(150,000)	-
Fixed assets	(70,238)	(42,902)
Depreciation and amortization	18,690	5,129
Net realized loss from sale of investments	382,638	375,853
Net change in unrealized loss on investments	(204,868)	154,695
Transfer of fixed assets to Economic Leadership Program	42,806	-
Deferred exit-based incentive	-	42,668
Increase in interest, dividend and other receivables	(113,499)	(8,800)
Decrease in prepaid investment management fees	5,146	2,398
Decrease (increase) in prepaid program management fees	1,079	(132,329)
Decrease (increase) in other prepaid expenses	17,223	(75,113)
Increase in Impact Investing Program long-term deposit	(28,365)	-
Increase in other assets	(18,273)	(11,832)
Increase in accounts payable and other accrued expenses	137,605	102,229
Increase in grants payable	241,418	27,947
Decrease in exit-based incentive payable	-	(42,668)
(Decrease) increase in other liabilities	(16,865)	25,159
Net cash used in operating activities	(13,601,017)	(301,094)
Cash and cash equivalents, beginning of year	69,021,841	69,322,935
Cash and cash equivalents, end of year	$ 55,420,824	$ 69,021,841

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Condensed Schedule of Investments
September 30, 2016
Expressed in US Dollars

Investments (29.9%)[1]	Principal/ Shares/Interest	Cost	Fair Value
Limited Partnership Interest (6.3%)			
Emerging Europe Growth Fund, L.P.			$ 4,920,360
Total Limited Partnership Interest		$ 10,138,344	4,920,360
Equity (21.0%)			
Ukraine (13.4%)			
IT Services (7.6%)			
Matar Trade & Invest Limited (Genesis)			5,994,609
Manufacturing (5.8%)			
LLC Kerameya			4,250,000
Other			325,000
Moldova (7.6%)			
Manufacturing (5.8%)			
Glass Container Company S.A.			4,505,000
Financial services (1.8%)			1,434,527
Total Equity		38,357,434	16,509,136
Debt (2.0%)			
Moldova (1.8%)			
Manufacturing (1.8%)[2]	$ 1,400,492		1,400,492
Ukraine (0.2%)			
Manufacturing (0.2%)	150,000		150,000
Total Debt		1,550,492	1,550,492
Other financial assets[3] (0.6%)			
Ukraine (0.6%)			
IT Services (0.6%)			500,000
Total Other financial assets		500,000	500,000
TOTAL INVESTMENTS		$ 50,546,270	$ 23,479,988

[1] Percentages indicated are based on fund balance as of September 30, 2016. The Fund's investments are closed-end investments with no periodic liquidity.

[2] The Fund converted the accrued interest receivable from this portfolio company of $1,859,111 in January 2012 to debt on pari passu terms as new debt provided by a third-party lender. This was a condition precedent to disbursement of debt financing by the third-party lender. This amount is not considered to be invested capital as no funds were disbursed; rather overdue interest receivable was converted to long-term debt.

[3] Simple agreement for future equity.

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Condensed Schedule of Investments
September 30, 2015
Expressed in US Dollars

Investments (20.4%)[1]	Principal/ Shares/Interest	Cost	Fair Value
Limited Partnership Interest (6.0%)			
Emerging Europe Growth Fund, L.P.			$ 5,144,054
Total Limited Partnership Interest		$ 10,381,188	5,144,054
Equity (12.8%)			
Moldova (8.5%)			
Manufacturing (6.1%)			
Glass Container Company S.A.			5,300,000
Financial services (2.4%)			2,088,889
Ukraine (4.3%)			
Manufacturing (4.3%)			3,725,000
Total Equity		33,299,199	11,113,889
Debt (1.6%)			
Moldova (1.6%)			
Manufacturing (1.6%)[2]	$ 1,400,492		1,400,492
Total Debt		1,400,492	1,400,492
TOTAL INVESTMENTS		$ 45,080,879	$ 17,658,435

[1] Percentages indicated are based on fund balance as of September 30, 2015. The Fund's investments are closed-end investments with no periodic liquidity.

[2] The Fund converted the accrued interest receivable from this portfolio company of $1,859,111 in January 2012 to debt on pari passu terms as new debt provided by a third-party lender. This was a condition precedent to disbursement of debt financing by the third-party lender. This amount is not considered to be invested capital as no funds were disbursed; rather overdue interest receivable was converted to long-term debt.

See accompanying notes to financial statements.

1. Background

(a) Organization and Description of Business

Western NIS Enterprise Fund (the Fund) is a not-for-profit corporation for tax purposes formed pursuant to the Support for East European Democracy Act of 1989 (the SEED Act) and the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act (the FREEDOM Support Act) to promote the development of the private sector in the Western Newly Independent States region (the Region), which consists of Ukraine, Moldova and Belarus. The United States Government (USG) authorized appropriations of $150 million, which have been committed by the United States Agency for International Development (USAID) for the Fund program purposes and administrative expenditures (the Grant). Grants received from USAID are conditioned upon the Fund's compliance with the requirements of the Grant agreement with USAID and the SEED and FREEDOM Support Acts, which impose certain U.S. policy objectives and reporting obligations. The full amount of the Grant has been provided to the Fund by USAID, with the final tranche received in fiscal year 2007. Under the terms of this Grant agreement, the Fund may retain investment and realized gain income for program purposes.

According to the Grant agreement, USAID must establish a Termination Commencement Date (TCD) after which the Fund cannot make any new commitments or investments without the prior written consent of USAID, and will commence the winding up of its affairs and sale of its assets. Under this authority, USAID originally established the TCD as August 26, 2009, and during fiscal 2009, granted an extension to August 26, 2011. During fiscal 2011, the Fund obtained a second extension from USAID of the TCD to August 26, 2013, based on the understanding that the Fund's proposal for establishment of a future legacy foundation was to be submitted prior to August 26, 2011. The Fund's proposal was submitted to USAID as required, including confirmation that as of August 26, 2011, the Fund will make no new investments, no new follow-on investments in its existing portfolio (beyond one follow-on investment approved prior to this date) and only continue to fund, as legally required, its unfunded commitment in Emerging Europe Growth Fund, L.P. (EEGF). In June 2013, rather than further extend the TCD, the Grant Agreement was amended to establish August 26, 2016 as the Target Liquidation Date (TLD) requiring the Fund to use best efforts to ensure the wind-up and liquidation of all of its assets on or before this date. Effective January 28, 2015, USAID approved the Fund's proposal to continue the mission of the FREEDOM Support Act of 1992 and the Foreign Assistance Act of 1961, through the existing WNISEF structure. As such, the Grant Agreement was amended to change the TCD from August 26, 2013 to December 31, 2017 and change the TLD from August 26, 2016 to December 31, 2018 to allow the Fund to carry out the program activities described in its proposal. Effective April 14, 2016, USAID additionally modified the Grant to change the TCD from December 31, 2017 to December 31, 2022 and change the TLD from December 31, 2018 to December 31, 2023. The TLD may only be extended with the prior written approval of USAID. The Amended Grant Agreement allows the Fund: i) to disburse $5 million to make new investments and commitments in Ukraine and Moldova to encourage the creation and expansion of small and medium enterprises (SMEs);

(a) Organization and Description of Business (continued)

ii) to apply an additional $5 million for its Legacy Programs, thereby increasing total allowable from $30 million to $35 million; iii) to commit $30 million of program income as anchor investor, on pari passu terms with private investors, in the Emerging Europe Growth Fund III, L.P., a U.S.-domiciled fund launched by Horizon Capital that seeks to raise $150 million to provide loans, equity and financial support to SMEs in Ukraine and Moldova.

Legacy Programs

In February 2015, the Fund initiated Legacy Programs based on a proposal submitted to USAID that originally envisioned $30 million three-year Legacy Programs funded by a portion of the reflows earned by the Fund from its investment activities. In April 2016, as a result of a Grant Modification, the Fund was allowed to use an additional $5 million for Legacy Programs, increasing total allowable to $35 million. The TLD was also extended through December 31, 2023. The goals and objectives of the Legacy Programs are to assist Ukraine and Moldova with further development of sound economic policies and leadership during this critical time in their respective histories. Both Ukraine and Moldova signed Deep and Comprehensive Free Trade Agreements (DCFTA) with the European Union (EU) and must now undertake significant changes to their economic policies and to build cadres of well-trained leaders to fully benefit from the DCFTA. The four programs set forth in the Fund's proposal to USAID focus on:

i) mobilizing capital to address complex social issues (Impact Investing Program);
ii) developing innovative market-based solutions linking local government and the business community to improve the provision of services to citizens while supporting the SME sector (Local Economic Development Program);
iii) investing in people to broaden and deepen the human capacity necessary to advance private sector development in Ukraine and Moldova (Economic Leadership Program); and,
iv) improving the ability of Ukrainian exporters to access new markets (Export Promotion Policy Program).

As of September 30, 2016, a cumulative amount of $8,505,397 was expensed for Legacy Program purposes out of an available approved amount of $35,000,000, resulting in a remaining unused balance of $26,494,603.

The fund balance of the Fund is reported as temporarily restricted as USAID has imposed certain restrictions on net assets: on further commitments or investments as described in the Organization and Description of Business subsection and on usage of liquidation proceeds as described in Note 4.

(a) Organization and Description of Business (continued)

Investment activities

The Fund makes no new follow-on investments in its existing portfolio, but continues to fund, as legally required, its unfunded commitment in Emerging Europe Growth Fund, L.P. (EEGF). At the same time the Fund continues to be engaged in a private investment program in the Region, which through equity, debt investments, technical assistance and other measures, emphasizes a commitment to SMEs. Through its direct role in investments in the Region's private sector, the Fund seeks to generate profits that will further support its activities and attract investment by others.

Following the precedent of USAID-financed Enterprise Funds in Central and Eastern Europe, the Fund actively pursued its mission of attracting significant private capital to the Region by supporting the establishment of a private management company, Horizon Capital Associates, LLC (HCA, Investment Manager) and the launch of a private successor fund, EEGF. Based on USAID and Congressional approval, in 2006, the Board of Directors of the Fund committed $25 million to EEGF and approved the sale of five Fund investments to EEGF in anticipation of its initial closing as well as the transfer of one Fund subsidiary to EEGF.

Following the initial closing of EEGF, as of March 1, 2006, all employees, excluding employees based in the Fund's U.S. office, became employees of HCA's wholly-owned subsidiary, Horizon Capital Advisors, LLC (HCAD), resulting in the transfer of employee compensation, operating and other expenses from the Fund to HCA and HCAD. However starting fiscal 2015 the Fund has hired certain employees for Legacy Programs realization. Their compensation is included in the Legacy Programs section of the statement of operations and changes in fund balance.

The Fund supports the launch of a private successor fund, EEGF III as an anchor investor. Based on USAID approval, in 2016, the Board of Directors of the Fund committed $30 million to EEGF III and approved the warehousing of up to $15 million (50% of the $30 million commitment) of investments within the WNISEF which subsequently will be transferred to EEGF III at cost upon its first closing. Subsequent to year-end, in December 2016, based on USAID approval, the Board of Directors increased warehousing to 100% or up to the full $30 million commitment.

(b) Business environment

The Region has been experiencing political and economic change which has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in the Region involve risks that do not typically exist in other markets. In particular, Ukraine's political and economic situation has significantly deteriorated since the end of November 2013 after the former Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union. In late February 2014, the Ukrainian Parliament ousted the former President, this was followed by Russia proceeding with an illegal and internationally unrecognized annexation of Crimea and fomenting unrest and military conflict in the eastern regions of Donetsk and Luhansk. As of the date of issuance of these financial statements, the situation remains volatile and the ultimate outcome uncertain.

(b) Business environment (continued)

The illegal annexation of Crimea and ongoing conflict in Donetsk and Luhansk have deepened the economic crisis facing Ukraine and has resulted in the widening of the state budget deficit, the depletion of the National Bank of Ukraine's foreign currency reserves and further downgrading of the Ukrainian sovereign debt credit ratings. As a result, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and transitioned to a floating foreign exchange rate regime. Since that time, the national currency has devalued from 7.993 to the US dollar as of February 1, 2014 to 25.912 to the US dollar as of September 30, 2016. The final resolution and the effects of the ongoing crisis in Ukraine are difficult to predict but it may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances, continued deterioration in the business environment could negatively affect the Fund's results and financial position in a manner not currently determinable. Deteriorating operating conditions for the portfolio companies may also have an impact on the Fund's cash flow forecasts and assessment of the impairment of financial and non-financial assets. The ability to assess the valuation of Fund's investments is also significantly influenced by the current economic conditions.

These financial statements reflect management's assessment of the impact of the business environment in the Region on the operations and the financial position of the Fund. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Fund may be significant.

Due to the potential for these economic uncertainties to continue in the foreseeable future, there is a possibility that the assets may not be recovered at their carrying amounts in the ordinary course of business, with a corresponding impact on profitability in the future periods. The Fund continually assesses the potential impact of the economic uncertainties on revenues and profitability and, as a consequence, on the recoverability of its current and non-current assets.

2. Basis of Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The Fund is an investment company and follows accounting policies contained in the Accounting Standard Codification (ASC) Topic 946, *Financial Services - Investment Companies* (the Investment Company Guide), which requires investment companies to account for their investments at fair value, as opposed to consolidation or using the equity method. As such this presentation provides more useful information to users of the financial statements regarding performance of an investment company.

In 2015 the Fund started its activities under Legacy Programs and started to follow the Accounting Standard Codification (ASC) Topic 958, *Not-for-Profit Entities,* which requires additional disclosures, resulting in related changes in the presentation of the financial statements and notes to them.

Effective October 1, 2008, the Fund adopted ASC Subtopic 820 *Fair Value Measurement* that requires funds to classify investments into a fair value hierarchy as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or,
- Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk), and are developed based on the best information available in the circumstances, which includes the Fund's own data.

3. Summary of Significant Accounting Policies

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant item subject to estimates and assumptions is the fair value of investments. Actual results could differ from those estimates.

Investments in Equity and Debt Securities

Investments, which include both debt and equity components, are not readily marketable and are typically not listed on an exchange or quoted in an open market and, accordingly, are classified as Level 3 in the fair value hierarchy. These investments are stated at fair value by applying the guidance contained in the International Private Equity and Venture Capital Valuation Guidelines, edition December 2012, which is consistent with the requirements of the Investment Company Guide, as determined in good faith by management and approved by the Board of Directors. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3. Summary of Significant Accounting Policies (continued)

On December 2015, amended International Private Equity and Venture Capital Valuation Guidelines were issued, which are considered in effect for reporting periods beginning on or after January 1, 2016. Early adoption is allowed. The Fund did not early adopt these guidelines. Per management assessment changes to the International Private Equity and Venture Capital Valuation Guidelines are not expected to have a significant effect on the financial statements of the Fund.

Equity investments may be made in cash or with in-kind equipment contributions and are initially reflected at cost. Subsequent valuation is determined by considering relevant available qualitative and quantitative information. This information may include the financial condition and operating results of each investee, current economic conditions affecting operations, recent purchase or sale of securities of the investee, any subsequent events or financing transactions that may indicate a change in fair value and available market comparables. For equity investments in financial institutions, fair value is estimated by applying a multiple to net assets. Multiples are determined based on observed market transactions, adjusted for factors specific to the investment. For equity investments in other companies, the Fund estimates fair value by applying a multiple to earnings before interest, taxes, depreciation and amortization (EBITDA).

Where the investment being valued was itself made recently, cost will continue to be used as fair value, unless a third-party validation has occurred or unless there is evidence that the fair value has changed.

In the case a third-party validation has occurred since the previous valuation, the price of the most recent investment will serve as the initial basis for a revised estimate of fair value, however, such valuation will still be compared to valuations derived via other methodologies and may be discounted or increased.

In some cases, EBITDA may be adjusted to remove non-recurring items or to reflect results on a more sustainable basis. Multiples are determined by reference to third-party data. These factors are subject to change over time and are reviewed periodically. Changes in fair value are reported on an annual basis or in the period in which they become known.

For debt securities, fair values are based upon the Investment Manager's continuing review and evaluation of these investments with consideration of current interest rates for similar loans, past experience, sovereign and currency risk, the financial condition of the borrowers, current conditions in the Region, and other relevant factors such as the non-collection of principal and interest when due in accordance with the contractual terms of the agreement.

The carrying values assigned to the investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be determined with certainty until the individual positions are liquidated, and such differences could be material.

Investment transactions are recorded on a trade date basis with the resulting realized and unrealized gains and losses recorded in the statements of operations and changes in fund balance. For purposes of determining gains or losses on sales of investments, the cost of investments sold is determined on the specific identification basis.

3. Summary of Significant Accounting Policies (continued)

Grants and grants payable

Grants are recorded as grant expense in the accompanying statements of operations and changes in fund balance and grants payable in the accompanying statements of assets and liabilities in the period in which the grantee meets the terms of conditions.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank accounts as well as any highly liquid financial instruments purchased with original maturities of three months or less.

Dividend Income

Due to the irregular nature of dividends from investments, dividend income is recorded on the ex-dividend date, when possible, and on a cash basis when dividends that were not previously known are received.

Interest Income

Interest on debt securities is accrued at the contractual rate based upon the principal amount outstanding and credited to income as earned.

Depreciation and Amortization

Computer equipment and software, furniture and other office equipment are depreciated on a straight-line basis over their estimated useful lives, principally 5-7 years.

Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Translation of Foreign Currency

The functional currency is the U.S. dollar. Generally, operating transactions are denominated in U.S. dollars; however, on occasion transactions are contracted in foreign currencies.

Investments, which are denominated in foreign currencies, are initially recorded at the U.S. dollar equivalent on the date of the transaction and valued at September 30, 2016 and 2015 in accordance with the valuation policies. Items of income or expense that are denominated in a foreign currency are translated at the average rate for the month in which the transaction occurred.

3. Summary of Significant Accounting Policies (continued)

Long-Term Equity Incentive Plan

The Board of Directors established a Long-Term Equity Incentive Plan (the LTEI Plan) with an effective date of October 1, 2002 for certain employees. This LTEI Plan, as approved by Congress and USAID, awards an interest in the net realized gain upon sale of the equity interest in a portfolio company. Interests are granted by the Board of Directors generally at the time of purchase of an investment. For LTEI Plan purposes, the calculation of net realized gain includes proceeds from sale, as well as cumulative dividends and preferred returns received from the portfolio company, net of any applicable financial participation rights. Interests are subject to a three-year vesting period and vest in one-third increments on each anniversary of the date of grant.

Under the terms of the LTEI Plan, the Board of Directors may, in its sole discretion, accelerate vesting, extend the term or period of exercisability, modify the exercise price or waive any terms of conditions applicable to any interests. Accordingly, no liability is recognized and no LTEI Plan expenses are recorded in the financial statements until a sale of an investment is realized.

In February 2006, the Board of Directors amended the LTEI Plan to enable continuation of LTEI Plan rights for eligible participants who remain an officer and/or key employee of the Fund or of HCA, or its affiliate, and HCA is retained as investment manager to the Fund. In February 2012, the Board of Directors further amended the LTEI Plan to extend the termination date of the Plan from September 30, 2012 to September 30, 2018. In November 2016, the Board of Directors further amended the LTEI Plan to extend the termination date of the Plan from September 30, 2018 to December 31, 2022 as well as approved a revised schedule of participation percentages to be used in allocating Proceeds.

4. U.S. Government Grants

The Fund has drawn down the $150 million Grant in full. Under the terms of the Grant Modification, any liquidation proceeds realized by the Fund pursuant to winding up its affairs and selling its assets shall be allocated as follows: (i) 50% of such proceeds shall be utilized by WNISEF to support activities described in the Legacy Proposal; and (ii) 50% of such proceeds shall be utilized by the Fund for new investments and commitments to be undertaken to encourage the creation and expansion of SMEs in Ukraine and Moldova.

5. Investments

In the accompanying statements of assets and liabilities, investments are stated at fair value. During the year ended September 30, 2016, the Fund recorded a net realized loss of $291,089 from the partial sale of one of the Fund's equity investments, and a net realized loss of $91,549, reflecting its pro-rata share of EEGF realized losses incurred during this period, resulting in a total net realized loss on investments of $382,638. During the year ended September 30, 2015, the Fund recorded a net realized loss of $211,283, reflecting its pro-rata share of EEGF net realized losses incurred during this period, and a net realized loss of $164,570 from partial sale of one of the Fund's equity investments, resulting in a total net realized loss on investments of $375,853.

In addition, the Fund recorded a net unrealized gain on investments of $204,868 for the year ended September 30, 2016 and a net unrealized loss on investments of $154,695 for the year ended September 30, 2015, based on valuation of the investment portfolio at fair value as of September 30.

In May 2008, a sale-purchase agreement was entered into to sell the shares of an equity investment for the Ukrainian Hryvnia (UAH) equivalent of $600,000 to be paid in tranches with the last payment to be received in May 2009. Subsequent to December 2008, given the financial crisis, no further payments have been made to the Fund. The Fund has received the UAH equivalent of $325,000 and recorded a full allowance against the remaining amount due pursuant to the sale-purchase agreement. Amounts relating to these transactions are included in deposits received on sale in the accompanying statement of assets and liabilities.

In August 2016, the Fund purchased ordinary and preferred shares of Matar Trade and Invest Limited (Genesis), an on-line media company operating in frontier markets. Valuation of rapidly developing companies operating in this industry is often significantly influenced by prospects of development of early stage projects and may significantly vary in future periods. The purchase of Genesis's shares by the Fund was made at the same share price as by other third party investors at that time. As of September 30, 2016, this investment is valued based on its initial cost as management assessed that there were no changes or events after the acquisition date that would imply a change in the investment's fair value. Management believes that the initial cost of Investment in Genesis represents the fair value of the investment as of September 30, 2016. This investment is warehoused by WNISEF for EEGF III and will be sold to EEGF III at cost upon its first closing. As of the balance sheet date the conditions that allow first closing of EEGF III had not been met. Prior to the first closing of EEGF III, WNISEF is the legal holder of the investment and bears all risks and rewards attached to the investment.

5. Investments (continued)

The following additional disclosures relate to the changes in fair value of the Level 3 investments as of September 30, 2016 and 2015:

Fair value at October 1, 2015	$ 17,658,435
Net realized loss from sales	(382,638)
Net change in unrealized loss on investments in earnings	204,868
Purchases for the year ended September 30, 2016	6,644,609
Proceeds for the year ended September 30, 2016, net of advisory fees	(645,286)
Fair value at September 30, 2016	23,479,988
Change in unrealized loss in earnings relating to assets still held	$ 204,868

Fair value at October 1, 2014	$ 20,745,370
Net realized loss from sales	(375,853)
Net change in unrealized loss on investments in earnings	(154,695)
Purchases for the year ended September 30, 2015	405,320
Proceeds for the year ended September 30, 2015, net of advisory fees	(2,961,707)
Fair value at September 30, 2015	17,658,435
Change in unrealized loss in earnings relating to assets still held	$ (154,695)

The table below presents the ranges of significant unobservable inputs used to value Level 3 financial instruments representing the equity and debt investments. These ranges represent the significant unobservable inputs that were used in the valuation of these financial instruments. These inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the Fund's Level 3 financial instruments.

Level 3 Financial Instruments	Significant Unobservable Inputs By Valuation Technique	Range of Significant Unobservable Inputs as of September 30, 2016
Equity Investments	EV/EBITDA multiple	5.2 – 5.5

5. Investments (continued)

The significant unobservable inputs used in the fair value measurement of equity investments are EV/EBITDA (Enterprise value to EBITDA) multiples for recent, relevant, verifiable, comparable companies. In addition, current multiples have been applied to forecast 2016 EBITDA as this more accurately reflects the current value of these entities and the challenges they face due to market conditions, including devaluation and declining performance. In certain cases, the Fund assesses the fair value of its investments based on third-party offers expressing interest in buying the underlying portfolio companies. Significant increases (decreases) in these inputs may result in a significantly higher (lower) fair value measurement. The Fund's investment in EEGF represents the Fund's limited partnership interest in EEGF. In the process of valuing its equity investments, EEGF applies substantially the same types of unobservable inputs as applied by the Fund with multiples range up to 6.2 as EEGF's investments also relate to entities operating in the Region.

Management also analyzed the range of possible fair values of the Genesis investment by reviewing the multiples used in recent transactions of Genesis's peers. The fair value of the Genesis investment represents a EV/Sales multiple of 4.2. The range of EV/Sales multiples for recent acquisitions of peers as was identified by management was in a range from 1.9 to 12.2. Therefore, management believes that the fair value of the investment in Genesis as of September 30, 2016 falls within the range.

6. Concentration of Credit Risk and Liquidity

By statute, all investments are in business activities conducted in the Region. As such, these investments and cash balances held in the Region's local banks are subject to the political and economic uncertainties associated with doing business in the Region. As of September 30, 2016 and 2015, the Fund had investments in debt securities of $1,550,492 and $1,400,492, respectively. As of September 30, 2016 and 2015, the Fund held cash and cash equivalents of $26,513,374 and $34,938,227 with a commercial bank based in the United Kingdom, $28,694,084 and $34,023,485 with commercial banks based in the United States and held remaining cash balances equaling $213,366 and $60,129 in the Region, respectively.

As of September 30, 2016 and 2015, all assets of the Fund are considered to be current excluding investments, fixed assets and Impact Investing Program long-term deposit.

As of September 30, 2016 and 2015, all liabilities of the Fund are considered to be current.

7. Fixed Assets

As of September 30, 2016 and 2015, fixed assets consisted of:

	2016	2015
Computer equipment and software	$ 157,509	$ 165,087
Automobiles	23,524	-
Furniture, fixtures and equipment	14,789	14,470
Telephone equipment	6,208	3,826
Leasehold improvements	4,646	4,646
	206,676	188,029
Accumulated depreciation and amortization	(155,082)	(145,177)
Fixed assets, net	$ 51,594	$ 42,852

8. Retirement Plan

The Fund established a defined contribution retirement plan (the Plan) designed to be qualified under Section 403(b) of the US Internal Revenue Code. All eligible employees meeting certain age and service requirements may participate. Eligible employees may contribute amounts up to $18,000 in calendar years 2016 and 2015. Eligible employees who are age 50 or over at the end of the calendar year can also make catch-up contributions of $6,000 in calendar years 2016 and 2015 beyond the basic limit on elective deferrals. In addition, the Fund makes monthly contributions to each eligible employee's account equal to 25% of the employee's base monthly salary, as defined, plus 5.7% of the amount of salary in excess of the Social Security Taxable Wage Base ($118,500 as of January 1, 2016 and as of January 1, 2015).

Employees are eligible to participate in the Plan immediately and are fully vested in the employer's portion after two years of service.

Employer contributions to the Plan totaled approximately $58,075 and $46,804 for the years ended September 30, 2016 and 2015, respectively, and the related expense is included in employee compensation and benefits in the accompanying statements of operations and changes in fund balance.

9. Long-Term Equity Incentive Plan

Since the inception of the LTEI Plan as of October 1, 2002, the Fund has realized exits on eight qualifying portfolio companies resulting in incentive awards to LTEI participants during the fiscal years ended 2003 to 2016. As of September 30, 2016 and 2015 and for the years then ended, no exit-based incentive payable are recorded and nil and $42,668, respectively, are recorded as exit-based incentive expense. For the years ended September 30, 2016 and 2015, nil and $42,668 (increase), respectively, are recorded as deferred exit-based incentive and are charged to expense over the remaining vesting period. The exit-based incentive expense, exit-based incentive payable and deferred exit-based incentive amounts include related taxes.

10. Operating expenses for investment activities

The table below provides a breakdown of the operating expenses for investment activities for the years ended September 30, 2016 and 2015, respectively.

	2016	2015
Investment management fees *(note 14)*	$ 631,221	$ 642,609
Professional fees	175,986	213,469
Employee compensation and benefits	127,590	133,725
Business travel	97,480	65,246
Exit-based incentive expense - equity incentive plan *(note 9)*	-	42,668
Occupancy	33,535	30,412
Depreciation and amortization	4,667	4,483
Other operating	82,978	76,707
Total operating expenses for investment activities	$ 1,153,457	$ 1,209,319

11. Administration expenses of Legacy Programs

The table below provides a breakdown of the administration expenses of Legacy Programs for the years ended September 30, 2016 and 2015, respectively.

	2016	2015
Program management fees *(note 14)*	$ 526,079	$ 348,082
Employee compensation and benefits	434,804	244,917
Occupancy	84,472	56,257
Business travel	46,350	36,406
Professional fees	52,798	7,132
Depreciation and amortization	5,660	225
Other operating	58,155	22,064
Total administration expenses of Legacy Programs	$ 1,208,318	$ 715,083

12. Commitments

Investments

As of September 30, 2016 and 2015, the Fund has outstanding investment commitments to EEGF totaling approximately $100,000.

Grants

As of September 30, 2015, under the Economic Leadership Program, the Fund has signed certain conditional awards of grant to support studies of five MBA students. As of September 30, 2016, under the Economic Leadership Program, the Fund has signed certain conditional awards of grant to support studies of twelve MBA, MPA or LLM students. As of September 30, 2016 and 2015, a part of these awards amounting to $609,572 and $144,443, respectively, for which the grantees met the terms of the conditions of the grant is included in Economic Leadership Program expense in the statement of operations and changes in Fund balance out of which $269,365 and $27,947 is included in grants payable in the statements of assets and liabilities. The remaining part of grant awards for which these terms were not met totals $836,181 as of September 30, 2016 and will be disbursed during the years 2017-2018.

As of September 30, 2016 and 2015, the Fund has contractual obligations to others of nil and $40,000, respectively, that will become liabilities in the future when the terms of those contracts or agreements are met.

Operating Leases

Rent expense for the years ended September 30, 2016 and 2015 is $118,007 and $86,669, respectively. In January 2008, the Fund entered into a lease agreement (Lease Agreement) for the Chicago, Illinois premises that took effect on February 1, 2008 and was in effect until January 31, 2010. The lease has been extended on several occasions and is in effect until January 31, 2019.

Monthly rental payments are required under the lease and, as the Grant Agreement with USAID mandates that the Fund maintain a U.S. office, continue to be an obligation of the Fund.

In addition, as of March 1, 2006, the lease obligations in Kyiv, Ukraine and Chisinau, Moldova were transferred to HCAD, except for a nominal portion of these office leases in order to maintain the Fund's status in the Region. These nominal rental payments were paid by the Fund and reimbursed in full by HCAD, in accordance with the investment management agreement between the Fund and HCA. Starting from February 2015 and due to the Legacy Programs launch lease costs in Ukraine are allocated as follows: 1/3 to the Fund and 2/3 to HCAD based on the estimated usage of space by each organization.

Operating Leases (continued)

Future lease payments under both lease agreements as of September 30, 2016 to be paid by the Fund are as follows:

Financial year 2017	$ 119,492
Financial year 2018	56,648
Financial year 2019	11,900
Total operating lease commitments	$ 188,040

On September 17, 2015 the Fund entered into a lease agreement for the premises of the Ukrainian Leadership Academy (UAL). Rent expenses for the years ended September 30, 2016 and September 30, 2015 amounting to $164,748 and $22,616, respectively are included in Economic Leadership Program expenses.

13. Tax Status

United States

Historically, the Fund has been exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), and, because it was funded through U.S. government grants, has been classified as an organization that is not a private foundation as defined in Section 509(a)(1) of the Code. The Fund changed its classification during 2010 from an organization that is not a private foundation under Section 509(a)(1) to a public charity as defined in Section 509(a)(2) of the Code, given that its income is no longer derived primarily from grants. The Fund continues to maintain its 501(c)(3) designation and is exempt from payment of state and local income taxes. The Fund is registered as a Charitable Trust in Illinois.

Western NIS Region

The registration of the Fund's accredited representative offices in Ukraine and Moldova occurred on March 31 and July 28, 1995, respectively. Under a bilateral agreement between the Government of the United States of America and the Governments of Ukraine and Moldova regarding cooperation to facilitate the provision of assistance, the Fund is exempt from taxation on income received in connection with implementation of the United States assistance programs. During fiscal year 2003, the Fund ceased activities of its representative office in Ukraine, electing to conduct its operations as an international technical assistance project, as defined by the Governments of the United States and Ukraine.

14. Related Party Transactions

In February 2006, the Fund entered into an investment management agreement with HCA, approved by the Board of Directors, to manage the Fund's investments on the same terms as the investment management agreement between EEGF and HCA. The agreement envisioned a fee of 2.5% of committed capital to manage its portfolio during the commitment period, payable semi-annually in advance on January 2 and July 1, decreasing to 2.0% of funded commitments after the expiration of the commitment period. As the commitment period of EEGF ended December 31, 2008, the step-down in management fees to 2.0% of funded commitments took effect as of January 1, 2009. The management fee expense from October 1, 2015 through September 30, 2016 totaled $631,221 and a prepaid balance of $155,033 is included in the statement of assets and liabilities as of September 30, 2016. The management fee expense from October 1, 2014 through September 30, 2015 totaled $642,609 and a prepaid balance of $160,179 is included in the statement of assets and liabilities as of September 30, 2015.

In February 2015, the Fund entered into a shared services agreement with HCA, approved by the Board of Directors, to provide additional program management and administrative services for Legacy Programs. The agreement envisioned a fee of $525,000, payable annually in advance on the first business day of January, with the first payment made in May 2015 for the period from February 1, 2015 through December 31, 2015. The Program management fee expense from October 1, 2015 through September 30, 2016 totaled $526,079 and a prepaid balance of $131,250 is included in the statement of assets and liabilities as of September 30, 2016. The Program management fee expense from February 1, 2015 through September 30, 2015 totaled $348,082 and a prepaid balance of $132,329 is included in the statement of assets and liabilities as of September 30, 2015.

The Fund also entered into the following arrangements with EEGF:

- In January 2007, the Fund co-invested $2,000,000 with EEGF in Kerameya LLC. In November 2008, the Fund increased its investment by $1,000,000 to $3,000,000 and in September 2011, the Fund increased its investment by $1,250,000 to $4,250,000;

- In June 2007, the Fund subscribed for 323,897 shares in Banca de Finante si Comert S.A. (Fincombank) for $7,999,740 and entered into an agreement with EEGF whereby EEGF provided $5,000,000 to the Fund and received the option to acquire 202,440 shares or 15.63% in the Fincombank investment and share in the net risks and rewards of this investment. In the statement of assets and liabilities, the $5,000,000 provided by EEGF to the Fund, in relation to these 202,440 shares, is netted against the $7,999,740 acquisition cost for the full share stake. In March 2009, a new share emission was concluded and the Fund's interest in Fincombank had reduced to 24.62%. In January 2015, the Fund realized a partial exit of its stake in Fincombank by participating in a planned buy-back of shares into treasury resulting in a decrease of the Fund's interest in Fincombank to 20.72%, which includes 12.95% relating to this option for purchase by EEGF. In June 2016, the Fund realized another partial exit of its stake in Fincombank by participating in a planned buy back of shares into treasury resulting in a decrease of the Fund's interest in Fincombank to 13.03%, which includes 8.14% relating to this option for purchase by EEGF. Currently, the Fund remains the sole legal owner of all 171,411 shares in Fincombank.

14. Related Party Transactions (continued)

Subsequent to the initial closing of EEGF, a majority of the Fund's personnel, administrative and operating expenses were transferred to HCAD. During fiscal years 2016 and 2015, the Fund made payments on behalf of HCAD totaling $29,748 and $27,773, respectively, and HCAD made payments on behalf of the Fund totaling $178,235 and $177,897, respectively. As of September 30, 2016, there was an outstanding balance of $5,575 due from the Fund to HCAD and included in other liabilities in the accompanying statements of assets and liabilities. As of September 30, 2015, there was an outstanding balance of $25,159 due from the Fund to HCAD and included in other liabilities in the accompanying statements of assets and liabilities. These balances were fully reimbursed subsequent to year-end.

Effective as of January 1, 2007, the Fund and HCAD entered into an agreement for the use by HCAD of the Fund's Chicago office and services of personnel based in this office for a fee of $2,000 per month payable quarterly in advance by HCAD to the Fund. Beginning in 2009 this amount was increased to $3,000. Another agreement was entered into in 2009 in relation to employment by the Fund of an individual based in Chicago, Illinois to perform work on behalf of HCAD and requires $500 per month payable quarterly in advance by HCAD to the Fund as well as reimbursement of agreed-upon expenses.

In August 2016, the Fund entered into a grant agreement with Ukrainian Leadership Academy ("ULA") to provide up to $2,500,000 in operating funding for the period from August 18, 2016 till August 18, 2017. During the year ended September 30, 2016, the Fund provided funding of $311,666 and transferred fixed assets totaling $42,806. WNISEF may at its discretion suspend funding.

In addition, in relation to the ULA, the Fund contracted a service provider, GP Advisors ("GPAS") and its affiliate, GPA, both entities controlled by the spouse of an officer of the Fund, to perform payroll administration services until such time as registration of the Ukrainian legal entity for the ULA was complete as well as to provide other legal services. These services were provided at market terms with the respective officer recused from firm selection, contract negotiation and execution. For the year ended September 30, 2016, the Fund reimbursed these entities for payroll expenses incurred totaling $316,745 with payments made of $64,840 in relation to administration services and other legal fees. As of September 30, 2016, the Fund accrued $28,433 for payroll reimbursement and $4,907 for administration services and other legal fees in accounts payable and other accrued expenses in the accompanying statements of assets and liabilities. For the year ended September 30, 2015, the Fund reimbursed GPAS for payroll expenses incurred totaling $6,750 with payments made of $2,798 in relation to administration services and other legal fees. As of September 30, 2015, the Fund accrued $27,296 for payroll reimbursement and $4,936 for administration services and other legal fees in accounts payable and other accrued expenses in the accompanying statements of assets and liabilities. Subsequent to year-end, payroll administration was transitioned to the ULA NGO.

14. Related Party Transactions (continued)

In March 2016, the Fund entered into an Expenses compensation agreement with Kerameya LLC, the Fund's co-investment with EEGF, to compensate Kerameya's expenses related to export promotion of its products within the Export Promotion Policy Program amounting to $11,500. Funding was provided in April 2016.

During the years ended September 30, 2016 and 2015, the Fund earned $5,422 and $4,113, respectively, of director's fees from its portfolio investments.

The Fund pays certain costs on behalf of its portfolio companies for which the Fund seeks reimbursement. Amounts not ultimately reimbursed to the Fund are written off and expensed in the accompanying statements of operations and changes in fund balance.

15. Contingencies

In the ordinary course of business, the Fund is involved in various claims and legal actions and may bear material legal costs relating to such matters. In the opinion of management, no provision is required and none is included in the accompanying financial statements as the loss, if any, will not have a material adverse effect on the financial position or changes in fund balance.

16. Guarantees

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, management believes the risk of loss to be remote.

17. Financial Highlights

The financial highlights for the years ended September 30, 2016 and 2015 are as follows:

	2016	2015
Ratios to average fund balance		
Net investment loss	(1.2)%	(1.2)%
Net realized loss on investments	(0.5)%	(0.4)%
Operating expenses for investment activities, including exit-based incentive expense – current	1.4 %	1.4 %
Less exit-based incentive expense – current	0.0%	(0.1)%
Operating expenses for investment activities, excluding exit-based incentive expense – current	1.4 %	1.3 %
Legacy Programs	8.3 %	1.9 %
Total return, including exit based incentive expense – current and deferred	(9.2)%	(3.6)%
Less exit-based incentive expense – current and deferred	0.0 %	0.0 %
Total return, excluding exit based incentive expense – current and deferred	(9.2)%	(3.6)%
Ratios to committed capital		
Net investment (loss) gain	(0.7)%	(0.7)%
Net realized (loss) gain on investments	(0.3)%	(0.3)%
Operating expenses for investment activities, including exit-based incentive expense – current	0.8 %	0.8 %
Less exit-based incentive expense – current	0.0 %	0.0 %
Operating expenses for investment activities, excluding exit based incentive expense – current	0.8 %	0.8 %
Legacy Programs	4.5 %	1.1 %

Ratios to average fund balance are computed as net investment gain or loss (total investment income less total expenses), net realized gain or loss on investments (excluding realized losses from the write-off of investments) and expenses divided by the average fund balance for the years ended September 30. The total return represents the change in the value of an investment, and is measured by comparing the aggregate ending value of fund balance to the aggregate beginning value of the fund balance.

The total return and ratios are presented before and after the effects of exit-based incentive expense, which includes expenses related to financial participation rights and the LTEI Plan.

17. Financial Highlights (continued)

Ratios to committed capital are computed as net investment gain or loss (total investment income less total expenses), net realized gain or loss on investments (excluding realized losses from the write-off of investments) and expenses divided by committed capital. Committed capital is the total letter of credit commitment from USAID. As of September 30, 2016 and 2015, this amount was $150,000,000.

18. Subsequent Events

In October 2016, Avalex Investment Limited repaid the $150,000 bridge loan and an additional $3,000,000 was disbursed in relation to this company. In October and November 2016, the Fund disbursed an additional $2,982,724 in relation to Matar Trade and Invest Limited. These investments are warehoused by WNISEF for EEGF III and will be sold to EEGF III at cost upon its first closing. At the date that these financial statements were authorized to be issued, the conditions allowing first closing had not been met.

In November 2016, the Fund disbursed $500,000 in relation to Petcube Inc., an investment in the WNISEF SME program.

In December 2016, based on USAID approval, the Board of Directors allowed the Fund to commit up to $30 million (100% of the $30 million commitment) to warehouse investments within the WNISEF, which subsequently will be transferred to EEGF III at cost upon its first closing.

In December 2016, GCPrim restructured its outstanding loans to creditors. To enable the restructuring to proceed, the Board of Directors of the Fund agreed to: i) extend the maturity date of WNISEF's debt to GCPrim through no later than 2022 and subordinate this debt to those of other lenders; ii) pledge its shares in GCPrim in January 2017 to guarantee GCPrim's debt obligations and iii) negotiate a pledge of GCC shares in 2017.

Management has evaluated events from the date of the statement of assets and liabilities through January 27, 2017, the date at which the financial statements were available to be issued, and has determined that there are no other items to disclose.

Western NIS Enterprise Fund Directory

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Jaroslawa Zelinsky Johnson
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Jeffrey C. Neal
Fmr Chairman Global IB Group
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WNISEF Officers

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