



BUILDING A COMMUNITY OF CHANGEMAKERS

Annual Report
2018

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 \$186 million in 130 companies, employing over 26,000 people in Ukraine and Moldova. **Since inception, WNISEF has unlocked an estimated \$1.8 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 its investment activities. The program focuses on export promotion, local economic development, impact investing 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. (EEGF III), a fund raised by Horizon Capital and focused on providing financing to SMEs in Ukraine and Moldova. In June 2017, the Fund committed \$30 million to EEGF III.

In November 2017, WNISEF launched U.Ventures, a new \$5 million fund for early stage technology startups offering co-financing and scaling assistance for Seed to Series A startups with Ukrainian or Moldovan co-founders.

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 this new phase in our investment activities and the fourth 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 is the world's premier international development agency and a catalytic actor driving development results. USAID's work demonstrates American generosity and promotes a path to recipient self-reliance and resilience, and advances U.S. national security and economic prosperity. USAID has partnered with Ukraine since 1992, providing more than \$3 billion in assistance. USAID's current strategic priorities include strengthening democracy and good governance, promoting economic development and energy security, improving health care systems, and mitigating the effects of the conflict in the east.


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LETTER FROM MANAGEMENT



Change is the word that defines contemporary Ukraine and Moldova. Over the last four years, both countries have worked to transform themselves and achieve sustainable development. WNISEF has backed this process from the start, helping ensure that vital changes become irreversible. We believe that 2017 was a watershed year when the fruits of our labor became visible.


In 2018, to secure the progress of recent government reforms, WNISEF focused on supporting *changemakers* – people who set aside personal interests and advocate for the larger public good by inspiring, mentoring and collaborating with other members of the community. These are the people who can ensure that recent changes in Ukraine and Moldova are truly transformative and help prevent backsliding as both countries confront their future in 2019.

The four *Legacy Programs* as well as U.Ventures and the Healthcare Reform Technical Office prioritized supporting changemakers and connecting individual changemakers with like-minded activists to enlarge their reach and help lead their countries forward.

The *Export Promotion Policy Program* continued to support the Export Promotion Office (EPO), a non-government consultative and advisory body to the Ministry of Economic Development and Trade of Ukraine as it turned into a State institution. The Program also established and funded UkraineInvest, initially a non-government advisory body, now a government agency that assembles a comprehensive network of investors and investment support personnel essential for providing a much-needed impetus to Ukraine's economy. Finally, the WNISEF team supported reformers already at work in the Ministry of Health of Ukraine, changing the country through the most complex medical reform in Ukraine's history.

The *Local Economic Development Program* connected local changemakers by boosting productive cooperation between local officials, international experts, entrepreneurs and active citizens. With Technovation Challenge, it encouraged members of the younger generation to become innovators and inspire others in their communities to cooperate in improving their living environments.



The *Impact Investing Program* continued to build a community of social entrepreneurs who make social change by utilizing market forces to improve lives. WNISEF provides loans to help such companies tackle difficult social issues, from urban development to healthy living to employment of disabled persons.



The *Economic Leadership Program* promoted activism in both business and civil society. The Youth Entrepreneurship projects in Ukraine and Moldova laid the foundation for communities that are eager to innovate and tolerant to risk. The Ukrainian Leadership Academy taught young people how to implement innovation in their communities and promote the culture of changemaking.

The U.Ventures Fund continued to help the startup communities achieve global success by providing funding at critical development phases. In addition, the Fund began building connections with investors in Ukraine to help educate them on the most effective ways to support startups with new ideas and products.


After promoting a variety of change-making programs in 2015-2017 and with the goal of delivering irreversible impact on business and policy across the region, WNISEF continues to emphasize cooperation with people who embody change, and will continue to drive the transformation in Ukraine and Moldova for years to come. It is



worth noting that the impact of WNISEF’s Legacy Programs has reached beyond the countries’ bounds. For example, German entrepreneurs are adopting the crowd-funded social business model used by the Impact Investing Program participant Urban Space 500, and Moldova adopted ProZorro software as a model for its electronic procurement program. The Ukrainian Leadership Academy model was used in a new training program for Ukrainian government officials developed by an alumnus of Stanford University’s Ukraine Emerging Leaders Program, also supported by WNISEF.

In 2018, we identified and reached out to multiple generations of changemakers, from middle school students to government officials. We engaged social activists from a variety of backgrounds, ranging from small communities in the regions of Ukraine to multi-million international investors. Next year, we anticipate working with these successful programs and policies, providing needed support and facilitating the interpersonal connections that enable sharing of experiences and expanding their scope.

We wish to thank members of the Western NIS Enterprise Fund Board of Directors, USAID in Washington and the USAID Missions in Ukraine and Moldova, the U.S. Embassies in Kyiv and Chisinau and our business and government partners for their support and contributions to WNISEF’s various programs and activities designed to enhance development of democratic values and economic prosperity in Ukraine and Moldova.




Sincerely,




Dennis A. Johnson

Chairman of the Board



Jaroslawa Zelinsky Johnson

President and Chief Executive Officer



UKRAINE - KEY FIGURES 2018

Ukraine maintained a confident growth trend with GDP increasing 3.3% YoY in 2018, following the 2.5% YoY growth in 2017. As before, domestic demand remained the primary driver, additionally fueled by a sharp improvement in consumer confidence and growing inflows of remittances from migrant workers. The trend is expected to continue in 2019, albeit with significant risks owing to presidential and parliamentary elections as well as persisting geopolitical threats. GDP growth is forecasted at 2.5% YoY according to the National Bank of Ukraine and 2.7% YoY according to the IMF.

Export-oriented companies and sectors continued to flourish in 2018, with a 8.6% YoY increase in exports boosted by favorable global commodities prices and agricultural exports. Continued implementation of the EU-Ukraine Association Agreement was the biggest driver of growth; exports of goods to the European Union (EU) increased 16% YoY in 2018, with the EU emerging as the top destination for Ukrainian goods at 38% of total exports. The current account deficit widened to \$4.5 billion in 2018 from \$2.4 billion in 2017.

The industrial production index grew by 1.6 % YoY (compared to 0.4% in 2017) driven by the strong performance of chemical, coal, oil and utilities sectors. Organized retail trade accelerated to 5.8% YoY on the back of steady salary growth, inflows of remittances and growing consumer confidence. Inflation dropped to 9.8% YoY at year-end, down from 13.7% YoY in 2017, hitting the lowest single-digit record for the first time in nearly two years, which also positively contributed to domestic consumption.

Support from international financial institutions (IFIs) was limited through most of 2018, as Ukraine struggled to reach an agreement on further disbursement with the IMF under the existing Extended Fund Facility Program (EFF). However, in December 2018 the sides finally agreed to replace the EFF arrangement with a new 14-month \$3.9 billion IMF standby arrangement (SBA), with \$1.4 billion disbursed immediately. The agreement opened the way for funding from other sources, including a \$750 million financial guarantee from the World Bank as well as a EUR 349.3 million loan from Deutsche Bank under the World Bank guarantee. As a result, Ukraine's international reserves reached a 5-year record of \$20.8 billion, covering 3.5 months of imports.

In 2019, Ukraine is looking at slow but steady growth, with the two biggest threats being the upcoming double elections as well as persistent geopolitical threats. The latter came into focus when Ukrainian coast guard vessels were attacked by Russia in the Kerch Strait in late November, which led to further escalation of the ongoing Ukraine-Russia conflict. Following that incident, the Government of Ukraine for the first time in history established martial law in ten regions of Ukraine bordering Russia and in the maritime zone near the Azov Sea and Kerch Strait for one month until December 26, 2018. This had a limited impact on the country's economy: foreign exchange market's reaction was muted; the 2019 election schedule was unaffected; and overall day-to-day business and civilian life continued as usual. However, this episode reminded the business community that a military flare-up is potentially devastating to Ukraine's fragile economy.

Indicators	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP Growth, %	5.5	0.2	0.0	(6.6)	(9.8)	2.4	2.5	3.3
Inflation End of Year, %	4.6	(0.2)	0.5	24.9	43.3	12.4	13.7	9.8
Average Exchange Rate, USD	8.0	8.0	8.0	11.9	21.8	25.6	26.6	27.2
Current Account Balance, % of GDP	(6.3)	(8.1)	(9.0)	(3.4)	1.8	(1.4)	(1.9)	(3.4)
External Debt (USD billions)	126.2	134.6	142.1	126.3	118.7	113.5	116.6	114.7
FDI (USD billions, net)	6.6	7.2	4.1	0.3	3.0	3.3	2.2	2.4

MOLDOVA – KEY FIGURES 2018

The Moldovan economy expanded by 3.9% YoY during the fourth quarter of 2018, with 4.0% YoY growth for fiscal 2018. Growth in 2018 was driven mainly by a 3.8% YoY increase in private consumption and a 14.0% YoY surge in capital investments, while net export impact remained negative. Industry drivers of GDP growth include increased construction activity (+16.0% growth YoY), agriculture (+1.9% growth YoY) and retail and wholesale trade (+5.7% growth YoY). The Moldovan government issued an updated GDP growth forecast of 4.0% for 2019, slowing down to 3.8% in 2020. International institutions estimate Moldova's growth at 3.5-3.8% for 2019-2020.

Moldovan export growth slowed down to 11.6% in 2018, with a focus on EU countries. Moldova's exports with core EU partners maintained a double-digit pace (Romania up 32% YoY, Italy up 31% YoY, Germany increasing 32% YoY), while exports to Russia and Belarus declined by 14% and 21% YoY, respectively. Share of CIS in Moldova's exports continues to fall, dropping to 14% currently versus 16% in the fourth quarter of 2017. During the fourth quarter of 2018, imports grew 13.7% YoY, resulting in the trade deficit increasing by 35.0% YoY to \$836 million.

On the monetary side, the National Bank of Moldova maintained a stable policy. Base rate remained at 6.5%, while interest rates on overnight loans and deposits remained at 9.5% and 3.5% respectively. Banking system health continued to improve, with the share of nonperforming loans decreasing to 12.5% versus 18.4% a year ago.

Continued IFI support also helped the economy's continued growth. In July 2018, Moldova successfully unlocked a \$33.8 million loan tranche from IMF under a three-year aid-for-reforms program. An additional \$66.7 million will be available under the program.

The biggest risks to Moldova's economy going forward are political. The country held Parliamentary elections on February 24, 2019, delivering a split Parliament with a likelihood of repeat elections. Due to this, economic experts expect deceleration of Moldova's economic growth in 2019 and 2020 as the country resolves its domestic political issues.

Indicators	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP Growth, %	6.8	(0.7)	9.4	4.8	(0.4)	4.5	4.5	4.0
Inflation End of Year, %	7.8	4.1	5.2	4.7	13.6	2.4	7.3	0.9
Average Exchange Rate, USD	11.7	12.1	12.6	14.0	18.8	19.9	18.5	16.8
Current Account Balance, % of GDP	(11.7)	(7.5)	(6.1)	(7.1)	(7.2)	(4.2)	(7.6)	(9.9)

WHO ARE CHANGEMAKERS?



Vitaliy Bigdai,

Program Manager,
Export Promotion Policy Program:

“Changemakers are the people who develop, implement, advocate for and promote change. They are the architects and constructors of change.”

Iryna Ozymok,

Program Manager,
Local Economic Development Program:

“For me, changemakers are the people who take responsibility locally, to create an impact on the communities, in which they live. They are ready to lead by example and sacrifice personal interest for the common good.”



Vasyl Nazaruk,

Program Manager,
Impact Investing Program:

“Changemakers are the people trying to resolve the issues of communities where they live, today, without expecting external direction or recognition. They have their own vision of change and mobilize the resources already available to implement it.”





Roman Tychkivskyy,

Program Manager,
Economic Leadership Program:

“Changemakers strive to make the biggest impact in the communities where they live, to improve themselves and serve others.”



Anton Waschuk,

Program Coordinator,
Economic Leadership Program:

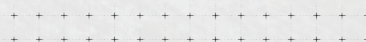
“A changemaker is a person who has the ability to identify the needs of their communities and take conscious responsibility over finding and implementing solutions to issues that matter.”



Andrii Sorokhan,

Venture Lead,
U.Ventures:

“Changemakers are the people who foster environments and ecosystems that enable the society as a whole to drive innovation. They gather and inspire people to form these ecosystems and bring changes to life.”



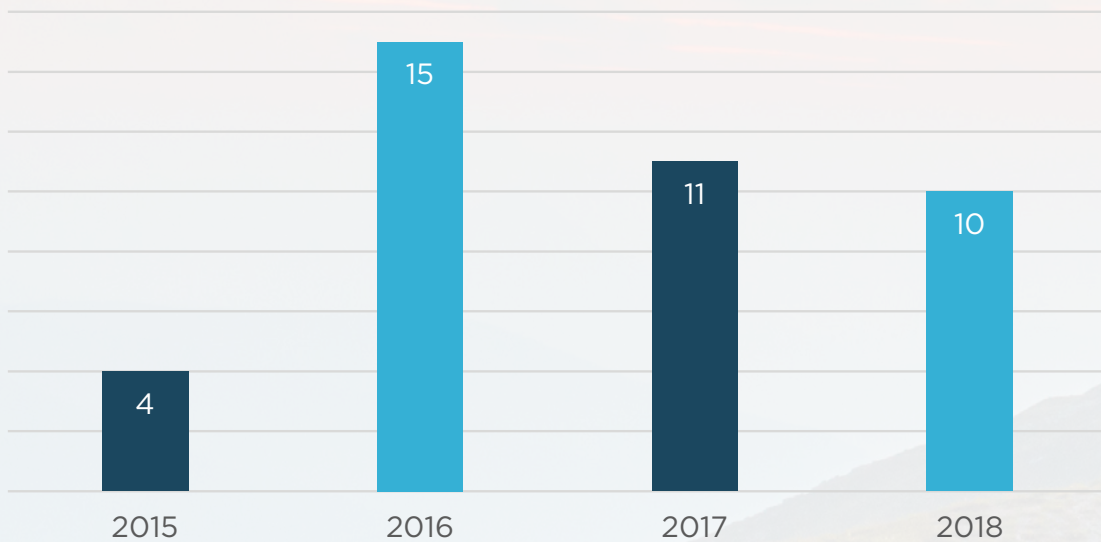
EXPORT PROMOTION POLICY PROGRAM

Throughout its 24 years of work in Ukraine, WNISEF has recognized Ukraine's critical needs to restructure the country's long-standing patterns of trade, to broaden and deepen its exporter base and to open new dynamic markets for its goods and services around the world. When launching its Legacy Program, WNISEF committed to work with the Governments of Ukraine and Moldova to specifically address these needs and established its Export Promotion Policy Program. Within four years, the Program has proven to

be an effective force for change and sustainable trade development.

Our Export Promotion Policy Program has been at the core of Ukraine's official trade development programs and activities, including initial development of the Strategic Trade Development Roadmap, organization of numerous trade conferences, trade missions and exhibitions, with WNISEF sponsoring 40 major events to date.

Number of trade conferences, trade missions and exhibitions sponsored by WNISEF (2015-2018)



Export Promotion Office - Finding New Markets

In 2018, through a coordinated effort with the Ministry of Economic Development and Trade, the Export Promotion Office (EPO) was formally established as a State institution, subordinated to the Ministry with national budget funding and formalized powers and responsibilities. In just three years, EPO evolved from a technical office, funded by WNISEF, staffed by consultants to a full-fledged self-sustained government office, establishing export promotion as an integral part of Ukraine's overall economic development efforts.

This rapid organizational evolution was made possible by the remarkable results produced by the EPO in its first years. Prior to 2015, there was no systematic approach by Ukraine's government in promoting export or increasing business export awareness or providing export support to Ukraine's small and medium enterprises. During its three years of operation, EPO has come to play a visibly significant role in aligning public and private sector stakeholders and making available the resources required to access new foreign markets.

What began with a small team of young dedicated professionals, funded by WNISEF, has grown into a community of international and domestic stakeholders, including over 1,000 current and potential exporters, working together to raise Ukraine's

other donors' attention to Ukraine's trade development. For example, the German Federal Ministry for Economic Cooperation and Development (BMZ) agreed to work with the International Trade Centre (ITC) to finalize work on Ukraine's Export Strategy.

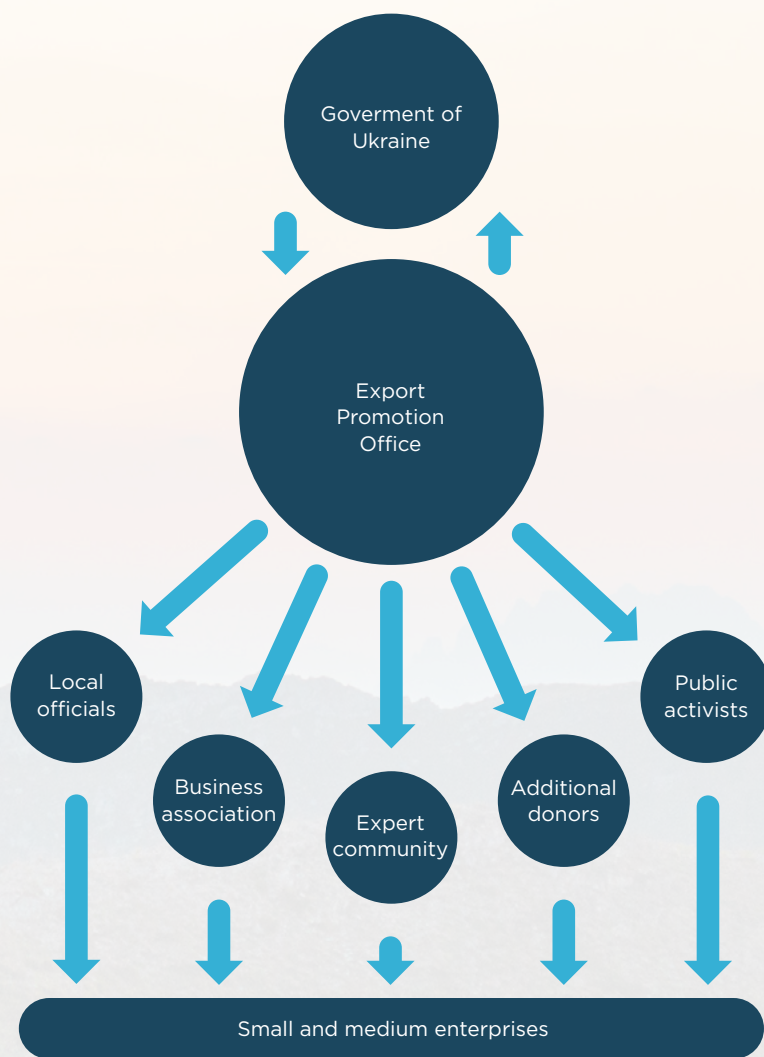
That Strategy will follow up on the successful launch of WNISEF-funded Ukraine's Strategic Trade Development Roadmap of 2017, which provides a framework for developing Ukraine's foreign trade relations. In addition, EBRD extended its "EU4Business" credit line and EU grant funding to Ukraine and Moldova in March 2018, providing support to exporters of innovative goods and services from the region. EBRD also has funded development of the "Trade with Ukraine" export brand, designed to make Ukrainian goods more visible on international markets.

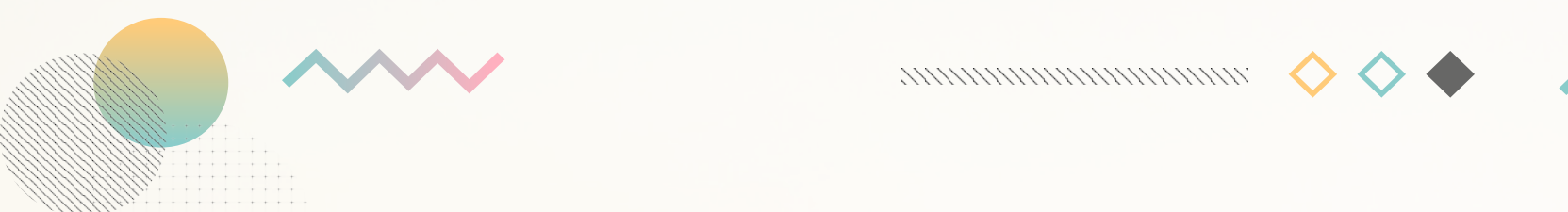
The results speak for themselves. In 2018, Ukrainian exports of goods and services grew by 10.3% and 11.6%, respectively. Moreover, EPO has continued to provide export consulting and education services to help prepare aspiring Ukrainian businesses enter the global marketplace. Partnering companies also received unparalleled opportunities to present their goods and

services on the global market. In 2018, EPO organized three major trade missions to Austria, Turkey, Ghana and Nigeria with 47 participating companies from sectors such as pharmaceutical, IT, machine-building, engineering, chemical industry, food production, consulting, and household goods. As a result, 21 Ukrainian companies began negotiations with prospective partners, two companies signed new export contracts, and one has already supplied a first batch of products to a global buyer.

international business profile. Today, EPO reaches business communities throughout the country, building strategic alliances with other Ukrainian government agencies, business and industry associations, colleges and universities, as well as local communities. EPO has established a strong national network that will support future development of international trade and investment in Ukraine.

WNISEF's support of EPO has served as an important catalyst for attracting





2018
**KEY
CHANGE
MAKER**

Nataliya Mykolska,

Deputy Minister of Trade and Trade Representative of Ukraine (2015-2018)

Nataliya championed creation of EPO and was the primary advocate for formalizing it as an official agency within the Government of Ukraine based on the success that EPO registered during her tenure with the Ministry of Economic Development and Trade.

2018
**KEY
CHANGE
MAKER**

Maryana Kahanyak,

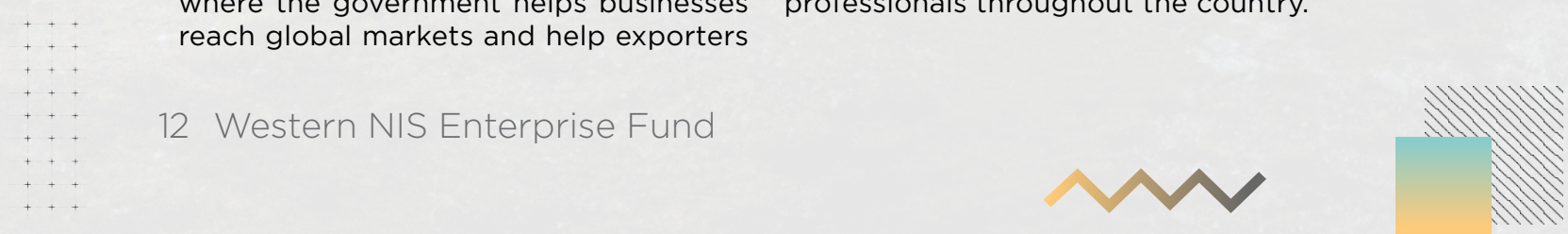
Head of the Export Promotion Office (2015-2018)

The EPO's Director and driving force shaped the office from the earliest stages of team selection and planning to strategic development, coordination and final transformation from an advisory organization to a government office. Her immense role in EPO's success and institutionalization cannot be overstated.



By the end of 2018, EPO's small staff successfully increased awareness of the role that exports play in a nation's economic development and growth. This small enthusiastic team ignited a broad discussion about export promotion, which led to creation of a new dynamic where the government helps businesses reach global markets and help exporters

create new jobs, economic growth and added revenue for the government. EPO has come to be recognized as a valuable building block for Ukraine to further reinforce its global economic presence by tapping into and expanding the community of export-oriented professionals throughout the country.



UkraineInvest – Unlocking Investment Potential

Foreign investment is the key that unlocks the potential of developing economies. Ukraine’s economic challenges make foreign investment even more important for sustainable development and growth. However, the unstable geopolitical situation following 2014 made many investors wary of Ukraine. As an investor with decades of experience in Emerging Europe, WNISEF realized that Ukraine lacked sufficient support of the international business community because existing supporters were disconnected from Ukrainian leadership and from each other.

This is why WNISEF established UkraineInvest in 2016, the Ukraine Investment Promotion Office as an advisory body to the Prime Minister of Ukraine. This new office emerged as the focal point for Ukraine’s international business partners and became their primary point of contact for investment questions and issues related to Ukraine.

As an investment mediator, UkraineInvest has two primary roles. One is to promote

investment into Ukraine by enhancing the country’s visibility among international business leaders using a wide variety of tools such as newsletters, video reels and success stories of foreign investors in Ukraine, investment booklets and statistical investment brochures. In addition, UkraineInvest representatives regularly participate in international business events and conferences in Ukraine to promote Ukraine as a noteworthy investment destination. In connection with its international promotion activity, UkraineInvest developed the “Ukraine NOW UA” export brand, which has proven to be a useful tool to increase the country’s visibility within the global business community.

UkraineInvest’s second role is to facilitate improvement of the business environment inside Ukraine, addressing the various obstacles and roadblocks which foreign investors often complain about. The Office has built a community of investment supporters in Ukraine, both within the government as well as among major business associations, to remove



Daniel Bilak,

Chairman of UkraineInvest

Dan is a key driver and advocate for investment promotion in Ukraine. His extensive knowledge and years of experience working as an international lawyer means he speaks the same language as foreign investors and understands their needs in the country.

2018
KEY
CHANGE
MAKER

Oksana Markarova,

Minister of Finance of Ukraine

When UkraineInvest was established, Oksana was the First Deputy Minister of Finance responsible for investment. Today, she remains a key stakeholder defining Ukraine's investment attraction policy, and as the Minister of Finance, ensures that the Government provides sufficient attention to investor issues.



obstacles to doing business in Ukraine. The Office regularly develops proposals for the Cabinet of Ministers of Ukraine to eliminate or resolve systematic problems and advocates for changes that facilitate smooth and successful investment experiences for foreign investors. The Office also participates in drafting legislation that stamps out harassment of business by law enforcement authorities. Currently, UkraineInvest is coordinating a project aimed at identifying and resolving major bottlenecks that prevent foreign companies from investing in Ukraine.

Between these two roles, UkraineInvest provides a coordinated effort by the Government of Ukraine to attract investments – both in Ukraine and abroad. UkraineInvest's regional team of seven relationship managers cover all 24 regions of Ukraine, support existing foreign investors as well as identify investment opportunities, prepare investment

products and build capacity among local authorities to work with investors.

Over the past two and a half years when funded by WNISEF, the Office has unlocked at least \$2 billion of new funding from existing and new investors and guided investments of IKEA, General Electric, HEAD, Scatec Solar and others with at least \$2.8 billion investments in the pipeline.

To ensure the long-term sustainability of UkraineInvest's work, the Cabinet of Ministers transformed UkraineInvest in 2018 from an advisory office to a permanent government agency within the Cabinet of Ministers. This institutionalization of UkraineInvest's structure and function will ensure the government's continued outreach and cooperation with the investment and business community, providing the basis for continued FDI flows into Ukraine.

LOCAL ECONOMIC DEVELOPMENT PROGRAM

In 2018, the Local Economic Development Program focused on two activities – continuing to develop the annual International

Mayors Summit in Kyiv and continuing to sponsor and develop Technovation, an IT competition for young girls in Ukraine.

International Mayors Summit - Expanding the Reach of Local Changemakers

Given the abundance of business conferences and related events in Ukraine, WNISEF aspired to transform Ukraine's International Mayors Summit into the country's premier business event of the year with a compelling substantive agenda for Ukrainian mayors and their cities and powered by informed international dialogue generated by the attendance of mayors from around the world. The 2018 Summit, attended by 150 Ukrainian mayors, ten international mayors and 140 members of the local community, dedicated to cooperation between municipalities and business as a tool of city transformation, became a platform for not only encouraging practical urban changes, but also for

bringing together business communities and city leaders to create people-centric urban environment. Businesses which invest in R&D often develop solutions for cities, as demonstrated by Summit's partners. Visa created a cashless payment for public transport in Zhytomyr; DataGroup developed wifi & software for city systems in three directions - safe city, e-health and school internet implemented in many Ukrainian cities; Mercedes created innovative bus stops and electrobuses tested in metropolitan areas of Hamburg and Singapore; Danfoss and Interprojekt built clean water systems not only in Kyiv and other Ukrainian cities, but also in Germany.



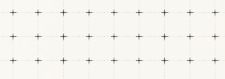



Although Ukrainian mayors are already connected through a variety of associations, the annual Summit provides a platform for them to showcase practical solutions and discuss specific issues, such as urban development and energy efficiency.

Among this year's notable international participants was the Mayor of Oslo, who shared ambitions and efforts of the city to become Europe Green Capital 2019 and described Oslo's focus on environmental-friendly policies instead of multiplying parking spots. The advisor to the Mayor of New York City presented the city's new goal of competing with Silicon Valley for a startup hub. New York is also heading the list of cities for women entrepreneurship, where technological growth is 3 times higher than elsewhere. Both speakers came to Ukraine for the first time to attend the Summit and were also invited by Ukrainian media for interviews.

Although the solutions and approaches used in Oslo and New York seem remote to Ukrainian mayors, these discussions motivate them to aspire to the levels of their international colleagues, especially

in a globalized world with the same faced challenges. An example of urban transformation was presented by the chief urbanist of Eindhoven (Netherlands). After the biggest company in the city Philips moved their production to cheaper countries, remaining shops and production facilities stayed empty to new uses. City urbanists transformed those facilities. One of the abandoned productions sites was transformed into a restaurant where citizens could use then new free Wi-Fi service. Other sites were transformed into public places with Italian architecture. Now it's a landmark of Eindhoven. Former lofts were revitalized into residential buildings and the youth settled there. City urbanists also began to actively cooperate with universities, created a working group together with students who offered innovative solutions. They also started international cooperation and exchange programs for young specialists in the field of urbanism. This Eindhoven example is applicable for post-industrial projects in Ukrainian cities. Exceptionally, two mayors of sister cities - Kielce in Poland and Vinnytsia in Ukraine celebrated 60 years of fruitful cooperation between their cities.



For the first time, the 2018 Summit included a “professional speed networking” event connecting businesses with local leadership. Participants, ranging from local entrepreneurs to representatives of global corporate giants, were given two minutes to make acquaintances with Ukrainian mayors. This helped establish the first contact between audiences.

In addition, the Summit’s business partners sponsored the customary round of mayors’ pitches which entailed presentations of best municipality projects that might be replicated in other cities. Projects were selected based on their citizen impact: energy efficiency in Slavutych and Marganets, implementation of medical reform in place – electronic medical services in Hadyach, civic public space to strengthen local democracy in Fastiv, rehabilitation center for children with disabilities in Chugui), introduction of a startup major in local universities in Lviv. As a reward, the organizers provided mayors with practical “presents”, such as energy audits of schools, construction materials for a social project and water system modernization in a kindergarten. Notably, mayors from smaller cities once again demonstrated creativity and a proactive attitude in their pursuit of external assistance and competences.

The 2018 Mayors Summit introduced its first social campaign directed at the role of community members in fostering urban change. The campaign involved soliciting public responses to the question “Which idea can change your city?” posted on billboards and city lightboards. WNISEF collected and evaluated feedback from proactive citizens in 17 regions and invited three winners to pitch their ideas to the Ukrainian mayors at the event. The winning projects were an education course on energy efficiency and decreasing household energy consumption (Myrgorod), installation of inclusive sports equipment for children with disabilities in a city park (Tokmak) and establishing a network of responsible citizens (Kamyanske). Success of this

new initiative demonstrated that there are potential changemakers in every city although they may be without connections or effective cooperation mechanisms with local authorities to transform the living conditions of the people around them.

Unexpectedly, the International Mayors Summit has become an event attended by not only Ukrainian mayors but members of the larger community who seek and promote local development. The Summit’s vision and format have produced an impact beyond its initial scope. Successful ideas for municipal change inspire other mayors to be more creative and proactive in the pursuit of real changes, and synergies between business and local authorities are being forged at each year’s Summit. In 2018, we also reinforced our partnerships with several commercial sponsors – Visa and DataGroup, big players in municipal solutions markets; we also established a new partnership with Mercedes, which brought public transportation systems expertise of its subsidiary Daimler to the attention of Ukrainian cities. We also welcomed Ukrainian brick producer Kerameya and Veolia, a European leader in waste management. These companies sponsored ten prizes (such as equipment, consulting or other support) for ten local communities that successfully implemented development projects.

Future Summits will continue to create the most practical and productive formats that ignite further discussion about local economic development and serve as a platform that gives birth to new practical solutions to problems in Ukrainian cities. Ukrainians are gradually realizing that innovation and modernization projects are inevitable, and that working together will make the process more efficient, freeing up additional resources to invest in healthy and comfortable living in cities. The annual Mayors Summit will continue to promote responsible citizenship as a key to achieving tangible results.

Technovation Challenge - Empowering Young Changemakers

In its Ukrainian activities, WNISEF has conceptualized its target audiences as spanning conventional categories of social position and age. WNISEF's target groups include civil servants, CEOs, NGOs, social entrepreneurs and even kids. We believe in the capacity for change agency at all points of the life cycle, including children as potential changemakers who can support larger change trends and even influence older generations.

Technovation Challenge is a project that motivates young girls to be determined, self-confident and proactive through IT instruction and exploration of new ideas. First held in Ukraine in 2017, the Challenge encourages young girls aged

10-18 to pursue their interests in STEM education and related careers. This type of empowerment is vital in societies like Ukraine, with a strong culture of education but still often governed by traditional gender and age stereotypes. Technovation's goal is to demonstrate that anyone can be successful at any occupation, given effort and willingness to learn from mentors and each other.

The Challenge provides young girls an objective to pursue - to develop and pitch a mobile (phone) application (an app) and compete locally as well as at the international level. The majority of teams focus on apps that aim to solve specific community problems, and this year's app



solutions ranged from targeting waste management to helping homeless animals to supporting nationwide efforts such as healthcare reform. The latter team was invited to meet with reformers from the Ministry of Health following their pitch, which proved to the girls that their ideas could attract official attention.

Some apps targeted more personal issues such as teen loneliness and parent-child communication problems. Unexpectedly, the program has helped uncover new topics for discussion in Ukraine's society, which adults often overlook. The most successful teams seem to come from small towns, which shows that inspiring ideas can come from anywhere.

Winner of Technovation Challenge 2018 Team Cage from Kremenchuk developed

an app based on academic data to help fight fatigue and stress. They won at the Regional Pitch in Kyiv and, as a reward for successful performance, went to San Francisco as a visiting team at the World Pitch. After the competition, team leader Milena was interviewed on TV and radio to promote girls' leadership among her peers. Though some teams did not win the Challenge this year, this did not stop them from trying again. One of the teams applied for the IT competition in Slovakia and emerged as winner!

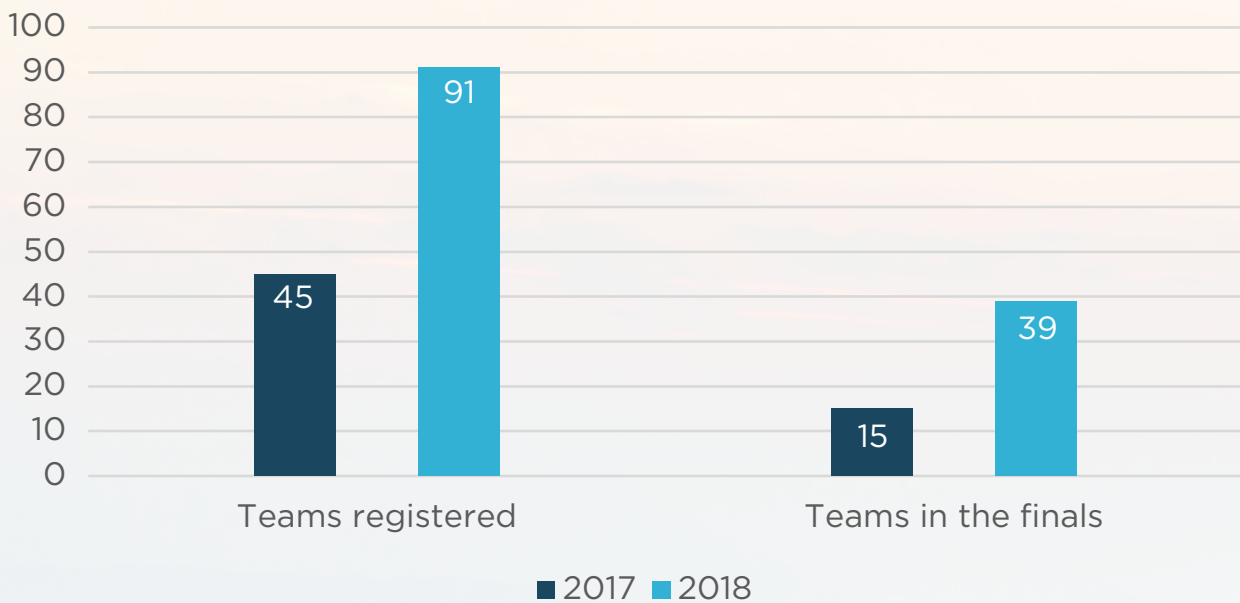
WNISEF is encouraged to see growing Ukrainian interest in the program. Globally, the Technovation movement has reached over 20,000 girls in 100 countries. In just one year, participation in Ukraine more than doubled, while the number of finished pitches grew



almost three-fold. More importantly, most of these girls, including the most successful teams, come neither from Kyiv nor from expensive private schools. Many represented small communities like Shepetivka, Nadvirna, Kremenchuk and other small towns throughout Ukraine, showing that creativity and persistence, not social status, define achievement.

As with most competitions, participation brings larger rewards than victory. Technovation is gradually amassing a community of talented youth as well as forward-looking mentors who help them grow. The latter include representatives of the Ukrainian IT community, Peace Corps volunteers and progressive local teachers. Ukrainian women leaders, embassy

Technovation Ukraine, 2017-2018



representatives, CEOs and artists also are invited as guests at the Regional Pitch. The fact that children are heard and taken seriously provides them with the motivation to continue generating and implementing ideas in the future.

To make the most of Technovation concept for young girls, WNISEF has also organized a Technovation Summer Camp, where program participants work with mentors in a focused environment while exploring new ideas in new places. In 2017, the Camp was held in Lviv, in 2018 in Kharkiv. This allows 30 girls from all over Ukraine to see the similarities and differences between various Ukrainian cities and helps focus their applications on a broader audience. The Camp's program also includes meetings with IT departments, local authorities and innovative companies.

WNISEF's experience with Technovation for young girls has opened eyes to a domain of human achievement and growth ordinarily ignored. We have been moved and inspired by the results of establishing a setting where many bright children can work together as a team, and share their bright ideas with each other and a larger adult audience. The Technovation concept deserves additional scrutiny; if more adults in positions of authority saw just how unstoppable these kids are, perhaps they could in turn also learn to attach more value to youthful ingenuity without regard for longstanding stereotypes about age and gender. WNISEF's experience with Technovation for young girls also demonstrates the kind of intellectual diversity that can transform a country like Ukraine in a short period of time.

IMPACT INVESTING PROGRAM

From the very start, the Impact Investing Program was based on the belief that genuine changemakers can generate their own ideas and motivation, and need only

financial resources to take action. The program's goal is to create an environment that mobilizes available resources to resolve community problems.

A Level Playing Field for Social Enterprises

For three years, we've been working on creating a level playing field for social enterprises in Ukraine so that they can compete on equal terms with other businesses. The results demonstrate a clear demand as well as great potential for further development of social entrepreneurship in the country.

In 2018, the Impact Investing Program became a true social entrepreneurship revolving fund, as three of our earliest loans were fully repaid and over \$100,000 already reinvested in new projects. If this trend continues, the Program can ensure its perpetual operation with minimal to no additional donor support. In addition, we've continued building partnerships within the social entrepreneurship community, as well as with other donors and experts who can help our borrowers improve their business plans or find new sources of funding.

Finally, we have seen considerable indirect benefits of our program, as our borrowers demonstrated rapid development and expanded the reach of their social impact.

Social bakery *Horikhovyi Dim* established a partnership with the Lviv City Administration that provided space to organize a shelter for women affected by domestic violence. *KPP Farm* Enterprise managed to increase profits and support its business expansion, such as purchase of a new combined tractor and harvester. *Daruy Dobro* charity fund managed to establish a new grant program of its own, offering micro-grants to social projects on a competitive basis.

Next year, in addition to continued operation of the loan program, we plan to focus on popularizing social entrepreneurship in Ukraine. In particular, we believe that introduction of a Law on Social Entrepreneurship will help formalize its status and open new opportunities for cooperation with banks, other donors and official structures. Given the right framework, social enterprises can develop rapidly – and independently – to make social investment by private businesses the norm rather than the exception in Ukraine.



Urban Space 500



Ihor Farberov,
Manager of Urban
Space 500



Yuriy Fylyuk,
Author of the Urban
Space business idea

is a community restaurant, operated by a group of 500 social investors, that serves not only as an eatery but also as a platform for a variety of social gatherings and projects. The original investors who financed the business launch, each with a \$1,000 investment, also actively participate in its management and, most importantly, select the social projects financed with 80% of the restaurant's profits. By our program's standards, this makes *Urban Space 500* a 'perfect' social enterprise – it is profitable, socially oriented, it assigns a specific portion of profits to social causes and is governed democratically by its investors.

First implemented in Ivano-Frankivsk by restaurateur Yuriy Fylyuk in 2014, the idea was adapted and upscaled for Kyiv in 2018. *Urban Space 500* is a test case: if it is possible to activate and connect as many as 500 investors in the capital, then the concept can be replicated in other Ukrainian cities on a smaller scale. Rather than assist with direct funding, WNISEF provided a UAH 2.1 million loan (\$75,306) to help the enterprise secure a convenient location in downtown Kyiv. All remaining expenses were financed with external loans or by the investors themselves.

The restaurant's launch in late December 2018 was a notable success. *Urban Space 500* is already holding numerous conferences and gatherings for urban activists and houses *Urban Space Radio*, which broadcasts and popularizes Ukrainian music. The investors are also working on defining the criteria for social projects to be supported by the enterprise, though the focus is likely to be on urban transformation of Kyiv. We are confident that in the nearest future, *Urban Space 500* will become a case study for future social entrepreneurs in Ukraine and in the region.

Manivtsi Sports and Travel Club



Sofia Stupko,
Co-manager of Manivtsi
Sports and Travel Club

is an organization that promotes healthy living and environmental consciousness among children. *Manivtsi* was established as a civil society organization in the Lviv region for arranging sport festivals, competitions and other events for children at cost or free of charge. The Club was so successful, however, that it began receiving requests from corporate businesses to organize recreation for their employees, transforming

Manivtsi from an NGO into a social enterprise.

The loan provided by WNISEF allowed *Manivtsi*, in partnership with local officials, to clean and outfit a local pond in Berezhyna village. The location is now used as a modern facility to provide sports training for children, further expanding the club's social impact. The WNISEF loan also supported the purchase of additional equipment for the club, including a minibus used for active tours.

Drukars'kyi Dim

is a printing house in Kramatorsk, Donetsk region, founded by the Donetsk Regional Organization of Disabled Persons. This social enterprise's main goal is to provide employment for disabled people, and at least 50% of all positions are reserved for this purpose. They additionally provide a variety of material and non-material support for disabled people in the region.

The WNISEF loan helped the company upgrade its printing equipment, making it more competitive on the market.



ECONOMIC LEADERSHIP PROGRAM

WNISEF's Economic Leadership Program operates six Ukrainian Leadership Academy campuses and funds and manages six other programs that promote

entrepreneurship among young people and supports scholarships for Ukrainian and Moldovan students in three areas.

Ukrainian Leadership Academy - Fostering a New Generation of Changemakers

Ukrainian Leadership Academy (ULA) not only seeks out and connects existing changemakers but aims to develop new ones through its 10-month program of instruction and off-campus experiences.

The academies (currently operating in Kyiv, Mykolaiv, Poltava, Kharkiv, Lviv and Chernivtsi), bring together over 240 young people of high school age each

year to nurture them into *zminotvortsy*, or changemakers in the Ukrainian language. This word was selected by the students to define their goal at ULA - to improve themselves and to serve others in their respective communities. The entire ULA program focuses on helping its students realize their vision of changemaker and bringing that vision to as many children across the country as possible.

Being a changemaker is something ULA students and alumni learn to do every day. Some of them have successfully tackled major problems in their communities, which adults have been unable to solve for years.



ULA Mykolaiv students at the Chaika beach

A group of ULA students from Mykolaiv spearheaded the Chaika clean-up and renovation project to revitalize the only public beach in the city which had become an unauthorized dumping ground. The students engaged urban development experts and local entrepreneurs to develop a project proposal and compete for municipal funding. After a successful promotion campaign, the ULA proposal won by over 250 votes of the city council, motivating other young people to compete for local budgets, even if winning was against entrenched distribution schemes.



Second-year cohort, ULA Kharkiv

ULA students from Kharkiv initiated Boomerang, a program to support senior citizens living near the ULA. Elderly persons in the area were invited to visit the Academy, where they could learn more about the concept of changemaker and the necessity for change, as well as receive training in yoga, computer literacy and Ukrainian poetry. Since their initial



visits, over 200 retired persons have been visiting ULA on a regular basis, creating an unusual learning opportunity for both generations. As a result of Boomerang, at least 400 additional elderly persons in the Kharkiv area expressed an interest in partnership with ULA Kharkiv. Other academies throughout Ukraine will be launching similar programs next year.

WNISEF also has been capturing additional opportunities to expand ULA's reach. In October 2018, we organized *Sofia Kyivska - Forum for State Change Agents*. The event provided an opportunity for up to 500 active young people, including

ULA students and alumni, to engage with key government stakeholders. We intend to continue developing this idea to craft a *Davos Forum for Young People*, designed to motivate the new generation to engage with matters of public policy.

We also partnered with the *Povir u Sebe* charity foundation to create *Pidyom!*, a leadership masterclass for young people from small towns and villages. Using ULA campuses as a base, the program convened over 300 students for lectures, discussion and instruction about how to build ideas into initiatives, and how to implement them in their communities. The Foundation also sponsored a competition where participants could win funding for their local projects. The UN Mission to Ukraine recognized *Pidyom!* as one of the top projects facilitating development of youth in rural areas.



Yevghen Morozov

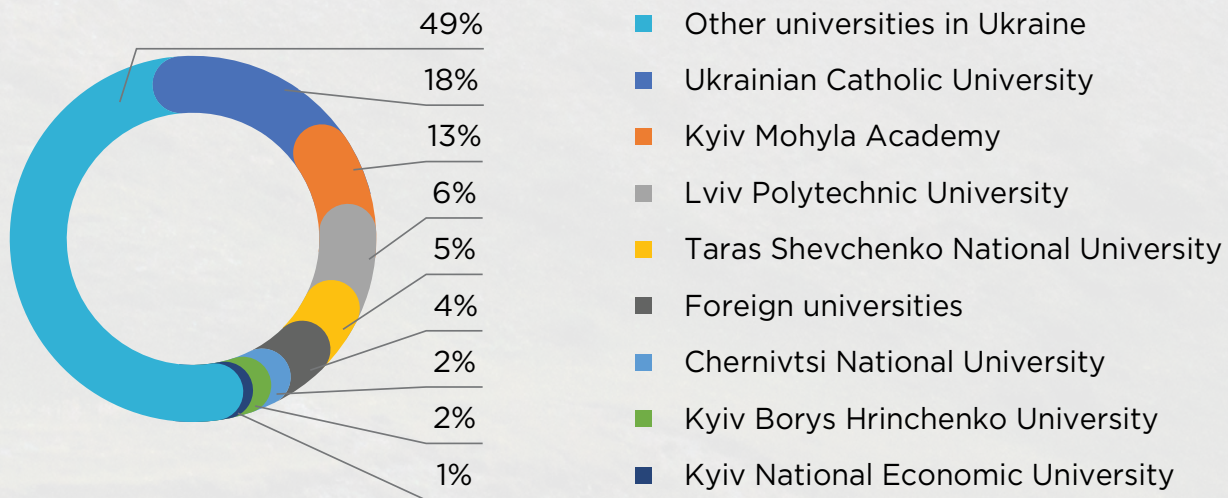
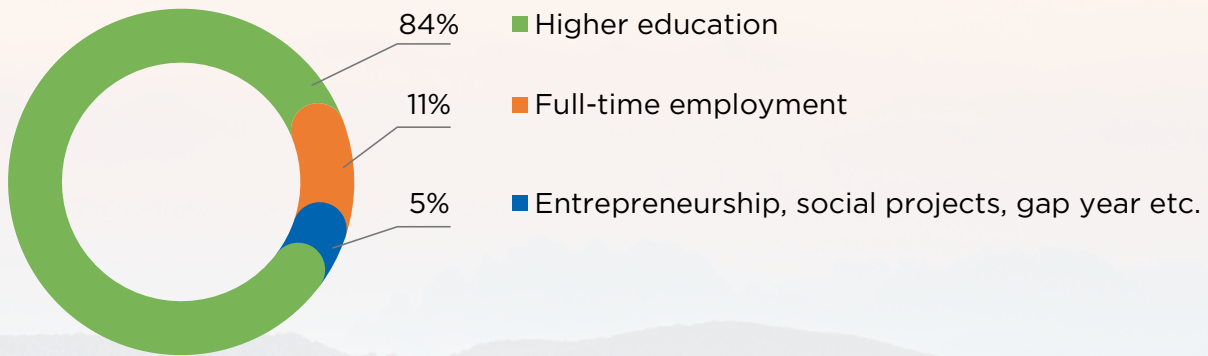
moved from Lviv to Chernivtsi to help develop the new ULA campus and thus expand the leadership movement to a new region. His proactive approach and excellent work received positive feedback from the local community and the city council.

Demand for establishing ULA campuses in other Ukrainian cities has been growing every year. In 2018, the five academies received over 3,200 applications, with 17 persons competing for one spot. In the fall of 2018, a sixth campus opened in Chernivtsi, thanks to local entrepreneurs who secured necessary facilities and funding to make ULA's operation in the region possible. ULA Chernivtsi boasts an almost entirely new team of mentors, which have provided a significant boost to the project team.

ULA Alumni

By the end of 2018, ULA has 408 alumni, implementing what they learned during their ten months at the ULA. Eighty four percent of ULA alumni are continuing their education at Ukraine's top universities in Information Technology, International Relations, Law, Public administration, Management and administration,

Military Science, National Security, State Border Security, Education / Pedagogy, Journalism, Culture and arts, Theology, and Social and Behavioral sciences. Eleven percent are working for local companies. Five percent are starting businesses, social projects and traveling abroad.



Georgiy Dekhtyarenko

started a network of co-living spaces for youth in Kyiv with ULA Alumnus Ivan Syrtsov aimed at creating an environment of trust, inspiration and development by uniting active youth. Georgiy also founded a taxi rental service targeted towards employing people with hearing impairment.



Ivanna Hrebeniak

has been studying at the London University of Arts with full funding from the Zagoriy Family Foundation. After the first year, she moved to study cinematography at the American University in Rome to free up funding for other potential students. Ivanna has been active in the immigrant community, helping Plast (Ukrainian scout organization) in London as well as Ukrainian immigrants in Rome.

Vlad Ilyin

found his career commitment through his ten months with ULA. The Academy's training provided him the drive and motivation to change his life, applying for a military training course and later applying to the Naval Academy in Odesa.



Dmytro Mykhaylis

implements experience gained at ULA in order to improve tourist services in his native city Uman (Cherkasy region). He founded a minibike rental service in Sofiyivka National Park and joined the working group aimed to develop city strategy.

Aglaya Nogina

is driving the establishment and active work of student youth council at National Academy of Fine Arts in Kyiv where she studies cinema arts. She formed a team and together with fellow students implemented legislative changes at the Academy, organized a series of events, established social media marketing (SMM) team and launched themed gift shop. Aglaya also designed and started sales of creative notebooks and continues volunteering in art activities for kids.





Bohdan Skoropad

believes that Ukrainians should take responsibility for their cities and, while studying in Lviv, continues his work to activate youth of his native town Zhovkva, Lviv region. He organized Responsible Youth Leadership Forum for teenagers of his native town that in addition to traditional workshops included volunteer work and a community survey.

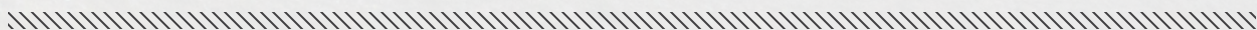
Victoria Stepanenko

applied and was accepted into Minerva Schools at Keck Graduate Institute, a competitive undergraduate school in the US. Victoria became the first Ukrainian to be accepted at Minerva and was elected as administrator for the first-year cohort.



Daryna Sudachek

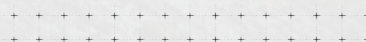
became a head of the Ukrainian Catholic University student government. She studies political science and already did internships at the Civil Network Opora and was a volunteer during Presidential elections in Ukraine.



In coming years, ULA will focus on expanding partnerships with international organizations and donors to ensure sustainability of operation. This year, we launched an endowment fund in the US and Canada with the goal of collecting \$50 million to finance the Academies' operations. Negotiations continue with prospective donors/partners in San Francisco, Chicago, New York, Houston, Pennsylvania, Philadelphia, Toronto, Ottawa, Montreal, Edmonton and other major North American cities. At the same time, we intend to delegate more responsibilities for operating the Academy to local partners, from selecting

local projects to securing funding from local and regional budgets.

Despite an ongoing demand for additional ULA campuses in other Ukrainian cities, additional local funding will be required before more regional branches are opened. Mariupol is particularly interested in having a ULA campus, and it would be an attractive location since it is a strategic city close to the Russian border where a ULA campus could become a strong center uniting young people from the east and south of Ukraine and building productive connections across the country's regions.



Youth Entrepreneurship – Planting the Seeds of Change in Ukraine and Moldova

Entrepreneurs are important links in the changemaking process. They are the persons who implement the changes; they bring ideas to life by offering working solutions. The Youth Entrepreneurship program seeks to create an environment that encourages young people with practical ideas to take the risks inherent to innovation.

This program is designed to develop is innovation economy in Ukraine and Moldova by building an ecosystem to support it. The existing environment in both countries stifles innovation because of low domestic demand for high-tech solutions, low connectivity with the global

market and minimal support for new ideas. By providing support and training, the program aspires to create a network of daring entrepreneurs who can discover innovative solutions and products transforming lives of people not only in Ukraine and Moldova, but worldwide.

In the future, the Youth Entrepreneurship Program will work to further improve connections among entrepreneurs and provide access to the best mentors in the region and globally. We will also continue providing bright young people with access to world-class education to help create a new generation of changemakers in Ukraine and Moldova.

Entrepreneur-in-Residence

project provides free mentorship and networking opportunities for startups. The project aims to share world-class experience with promising young entrepreneurs from Ukraine. Since its launch in March 2018, over 35 startups participated in the mentorship program, and over 100 have attended events organized by EIR.

Tech Village

is a platform that gathers entrepreneurs throughout Moldova, supports their ideas and helps connect them to other entrepreneurs in the CEE region. The kickoff event in September 2018 gathered around 200 mentors, investors and businesses to discuss pressing issues and promising ideas to develop in the coming months.

Coding schools, Moldova

Partnering with iHub, WNISEF established coding courses for teenagers and adults interested in programming in Moldova. The goal of the project is to raise public interest in the IT industry and IT education, as well as to make employment in IT more accessible to a broader range of people. Since their launch in 2018, the schools have already provided training to around 300 people.

US Consumer Electronics Show

For the third consecutive year, in partnership with Ukrainian Venture Capital and Private Equity Association and Conceptor, WNISEF selected the most prominent early-stage Ukrainian hardware startups to sponsor their participation in the annual Consumer Electronics Show in Las Vegas. This effort is intended to increase visibility of Ukrainian talent on the global market, as well as help Ukrainian entrepreneurs grow faster by attracting attention from distributors, customers, investors and media. In 2018, WNISEF supported participation of eight startups. Over three years, WNISEF supported a total of 18 startup CES participants which raised over \$3 million at the CES. Another eight businesses will attend the show in January 2019.

One of the most eye-catching CES startups in 2018 was Kwambio, a Ukrainian 3D printing company focused on ceramics. During CES the Kwambio team presented their new 3D printer, specifically developed for 3D printing of ceramic objects and molds, used in design, healthcare, and aerospace industries. Kwambio owns ceramic powders, industrial 3D printers, and a proprietary 3D printing binder jetting technology. After the CES the Company was accepted by Techstars, a Boston hardware accelerator, and was able to raise \$2 million led by Stanley Ventures, the venture capital arm of Stanley Black & Decker.



Scholarship Programs – Developing Changemakers for Business, The Academy and Government

The **SEED Grant** program has been a leading provider of scholarships for Ukrainian and Moldovan young professionals since 2015. The program addresses a critical gap between a young professional's inability to attain a caliber graduate education due to lack of funding and the demand for quality management, legal and public policy talent on the Ukrainian and Moldovan markets needed for effective economic development. Scholarship recipients attend top universities in the United States and England, including UCLA, UC Berkeley, Duke, University of Chicago, London School of Economics, Yale, Emory, MIT, Northwestern, Oxford, Cornell, Carnegie Mellon, University of Pennsylvania, Harvard and Dartmouth. Recipients and commit contractually to return to their home country upon graduation and apply their newly acquired skills at top Ukrainian and Moldovan corporations and governmental bodies, thereby reducing the gap between the supply of quality talent and the demand for it from the private and public sectors.

Since the program launch in 2015, SEED Grant has administered over 40 scholarships totaling over \$4 million of WNISEF support. By the end of 2018, seventeen graduates have returned to their home countries, five repaid their scholarship in full with interest within the agreed timeframe, and the remaining eighteen are still studying. SEED Grant alumni have gone on to achieve gainful employment at Ukraine's top organizations, and are now leading change in their respective industries such as gas exploration, private equity, ICT, consulting, legal, academics, recycling, public relations, metals and manufacturing, consulting international development and finance For example:

Yulia Gumeniak, upon completing her MBA at Duke University, returned to Ukraine to serve as the Chief Executive Officer of One Philosophy Group of Companies. She oversees a group of five companies which operate in Ukraine and abroad and which provide a full spectrum of advisory services including strategic integrated marketing communications, public affairs, public relations advisory, healthcare management, branding, human-centered design, leadership consulting and holistic talent management. Yulia is making significant impact by driving business development focused on the group's global competitiveness and creating greater customer value through a synergy of the group's various expertise. Yegor Samusenko, upon graduating from The University of Chicago Booth School of Business, now holds the position of



Head of Financial Planning and Analysis at Kernel, the world's largest sunflower oil producer. Yegor is driving changes in managerial reporting and accelerating the shift to data-driven decision-making across the company.

Mitacs Globalink Research Internship

is a highly competitive program that provides STEM research internship opportunities for Ukrainian students. Every year, 50 Ukrainian undergraduate students are selected to study and research under top professors in Canada on a variety of bachelor's thesis topics. The program not only gives students access to unparalleled experience and training to boost innovative thinking, but also connects them to the global academic and entrepreneur community. The students have an opportunity to visit companies such as IBM, Google, Amazon as well as leading Canadian tech companies, and build relations with them. Moreover, the program is intended to connect talented Ukrainian students and create communities of innovators in Ukraine.

Next year, we plan to facilitate interaction between Mitacs alumni and Ukrainian Leadership Academy programs to further expand the network of young active Ukrainians and combine the social awareness of ULA with the business acumen of Mitacs.



Stanford University's Ukraine Emerging Leaders Program

offers three mid-career practitioners working actively as policy-makers, legal professionals, entrepreneurs, and leaders of civil society organizations in Ukraine to visit one of the world's leading research universities for an academic year. The objective of the Ukrainian Emerging Leaders Program is to strengthen fellows' leadership skills and bolster their academic foundation.

One of the most transformative outcomes of the Stanford's Ukraine Emerging Leaders Program is the civic leadership training program for Ukrainian government officials. Initiated by Stanford Program alumnus Oleksandr Starodubtsev, the program will use the Ukrainian Leadership Academy's instructional model and methodology to provide additional training for about 1000 state officials per year, ranging from lower-level officials to Deputy Ministers. The program is intended to help mobilize reform-oriented officials and motivate them to succeed.



OTHER WNISEF ACTIVITIES OUTSIDE FOUR LEGACY PROGRAM AREAS

WNISEF ventured outside the boundaries of its Legacy Programs and returned to its investor role at the end of 2017 when it launched U.Ventures Fund to assist Ukrainian startups in the IT sector. That investment is producing remarkable results, as discussed below.

Another departure from WNISEF's four Legacy Programs was establishing a partnership with Ukraine's Ministry of Health to combat massive corruption in Ukraine's healthcare delivery system. The success of this partnership also is discussed below.

The U.Ventures Fund — Building a Community of Daring Entrepreneurs

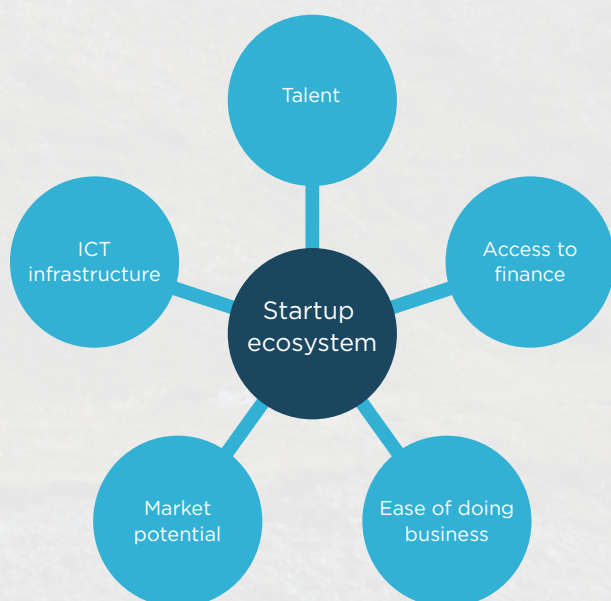
WNISEF launched the U.Ventures Fund to narrow the funding gap for early stage technology startups in Ukraine. These startups represent the new generation of entrepreneurs who dare to design and build impactful innovations for Ukraine and the world. Providing early funding for talented changemakers is intended to advance the development of entrepreneurship in Ukraine.

We soon realized, however, that funding is not the sole roadblock to startup development. To accelerate further growth of Ukrainian startups in number and quality, we needed to look at the ecosystem holistically, including talent,

funding, ease of doing business and ICT infrastructure. And although we cannot influence all elements of the ecosystem, we focused on two core elements where we can bring the biggest impact: providing access to funding at early stages and enabling development of talent in Ukraine.

In 2018, in addition to becoming one of the three most active early stage investors in Ukraine, U.Ventures focused on building relations with and supporting other initiatives that connect startups to a coherent ecosystem. These include (1) cooperating with Unit.City on the Entrepreneur-in-Residence program, which invites experienced entrepreneurs from abroad as high-profile mentors for Ukrainian startups and developing the Tech Ecosystem Guide to Ukraine; (2) cooperating with Ukrainian Venture Capital and Private Equity Association and Conceptor to organize a Ukraine Tech pavilion at the Consumer Electronics Show in Las Vegas; (3) cooperating with iHub Chisinau to support Tech Village in Moldova, a prominent international regional startup that stages competitions and workshops; and (4) cooperating with Youth for Innovation Development and Brainbasket to complete a batch of coding classes for children in Moldova.

Through cooperation with U.Ventures, these projects become platforms for exchange of ideas within the larger IT community that has the capacity to



develop potential innovators and groundbreaking changemakers of tomorrow.

Data show that Ukraine's startup community has seen significant growth over the last three years. According to the Ukrainian Venture Capital and Private Equity Association, venture investments in Ukraine more than tripled over the past three years, from \$80 million to \$265 million. The number of startups also doubled, from 1,000 to around 2,000 in late 2018. Available resources and initiatives to support young businesses have also grown exponentially, with numerous coding schools, bootcamps and hackathons supporting the community of innovators.

U.Ventures' goal is to become an active player in this community. By investing over to \$3.6 million in ten startups over the past 2 year and a half, we think our contribution helped key entrepreneurs realize it is possible to raise start-up funds in Ukraine and that the country can become an effective IT base.

Thanks to WNISEF's consistent efforts, Ukraine's startup community is on the rise with more companies appearing every month. We will continue to track developments and evaluate which projects to support.

*When U.Ventures assesses startups, we focus on people as a primary consideration. There are many ideas on the market, but few persons have the **determination, leadership** and **vision** to transform them into a working product that solves a real problem or pressing issue for consumers. Startups such as 3DLook and YouTeam help connect Ukraine's entrepreneurs with the international community and represent the best of Ukrainian talent on the global marketplace.*



Vadim Rogovskiy,

CEO of 3DLook

2018
KEY
CHANGE
MAKER

Vadim Rogovskiy is the author of several startups with a total revolving \$20 million turnover. In 2018, U.Ventures supported his latest venture - 3DLook, an e-commerce app that uses proprietary state-of-the-art body-measuring technology as well as VR and AI to select a perfect fit of clothing during online shopping. The idea targets an untapped \$1.2 trillion of potential in the online fashion and apparel industry, where over 30% of global purchases are returned every year due to poor fit. If successful, the startup may revolutionize the fashion industry and online shopping.



Anton Mischenko,

CEO of YouTeam



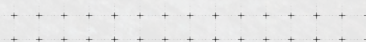
YouTeam is a startup company offering a global marketplace of tech talent for software development teams. As IT companies are increasingly pressured to fill talent gaps quickly and efficiently, and as early-stage startups struggle to hire quality employees with limited funding, YouTeam is attempting to globalize the search while de-emphasizing location. Anton leads an ambitious team of individuals with diverse experience that in 2018 became one of only four Ukrainian startups to be accepted to Y-combinator, the #1 global startup acceleration program.




Healthcare Reform Technical Office - Supporting Exemplary Change-Making


The direct impact of human health on economic development, performance and national security is undeniable. These truths are beginning to resonate broadly at all levels and in all sectors of Ukraine, thanks to a team of changemakers led by Acting Minister of Health Dr. Ulana Suprun and supported by the WNISEF funded Healthcare Reform Technical Office.

Until recently, Ukraine's healthcare system operated on a discredited Soviet model which served the financial and political interests of very few at the expense of millions in need of effective, affordable and efficient healthcare services. Today, a proactive team of changemakers is engaged in major efforts to transform the country's






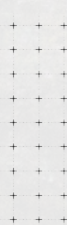
healthcare system, eliminate inherent corruption and implement economic policies that will facilitate transition to a new western model of healthcare management and delivery in Ukraine.




From the very beginning of this healthcare transformation process, Acting Minister of Health Ulana Suprun focused on adopting international best healthcare practices and building partnerships with international organizations, donors and experts. This healthcare reform effort is built on proven international know-how and experience in healthcare and incorporates safeguards that will prevent malfeasance and corruption within the system. For example, by sourcing public purchases of pharmaceuticals and medical supplies through reputable international procurement systems, the Ministry of Health of Ukraine has managed to reduce purchase prices by about 40% on average, with immediate savings of approximately \$200,000 in budget funds. These funds, instead of feeding corrupt interests, are now used to purchase a greater volume of medicines for ordinary Ukrainians.



Understanding the longstanding need for transformation of Ukraine's healthcare system, WNISEF partnered with the Ministry of Health in 2016 to create the Healthcare Reform Technical Office. This office, staffed by a group of young enthusiastic professionals, serves as a dynamic support mechanism ready to do whatever is necessary to facilitate the ongoing healthcare transformation effort. This includes securing support and counsel from leading global medical and legal experts, developing communication strategies to combat misinformation, and educating the public about the objectives and benefits of Healthcare Reform to ensure its broad support among Ukrainians.



Together with other donors, WNISEF helped shape the Ministry's communication strategy since the beginning of healthcare system transformation in 2016. Thanks to



long-term planning and consistent communications, Healthcare Reform has become one of the celebrated public policy topics of the Ukrainian Government, as well as one of the top three media topics in 2018. Active public discourse has helped the Ministry keep the public engaged and informed about the ongoing transformation, knowing well the importance of full transparency in the face of potential manipulations by opponents aiming to undermine public confidence and trust.

One striking dimension of Ukraine's healthcare transformation is the use of social media for ongoing public communication. The Acting Minister's Facebook and Twitter pages are read by millions of Ukrainians and cited in hundreds of traditional media articles every week. These communications, supported by the Healthcare Reform Technical Office, have become the new gold standard for public communications of Ukrainian government officials.

Legal considerations also have been crucial in implementing these transformative changes. Since its launch, the Healthcare Reform Technical Office has provided legal assessments and reviews of draft laws prepared by the Ministry, most notably "On State Financial Guarantees for the Provision of Medical Services and Medicines" and "On State Financial Guarantees of Public Healthcare". These legislative initiatives envisage a new model of healthcare funding that provides state guarantees for healthcare, improved financial security for citizens as well as more efficient distribution of budget resources. In addition, the Technical Office was involved in the revision of insulin reference prices, which resulted in the savings of hundreds of thousands of US dollars in budget funds.

Acting Minister of Health Ulana Suprun and her team, assisted by the capable staff at the Healthcare Reform Technical Office, have demonstrated that genuine, groundbreaking change is possible



Dr. Ulana Suprun,

Acting Minister of Health of Ukraine

Dr. Ulana Suprun and her team are the principal changemakers in Ukraine's healthcare. Thanks to her courageous efforts, vision and determination, she and her team have made significant progress in exposing and upending Ukraine's old corrupt healthcare system, despite significant and aggressive ongoing opposition.



Stanislav Greschchyshyn,

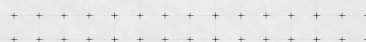
Head of the Healthcare Reform Technical Office (August 2016 - June 2018); Chief of Staff to the Minister of Health (since June 2018)

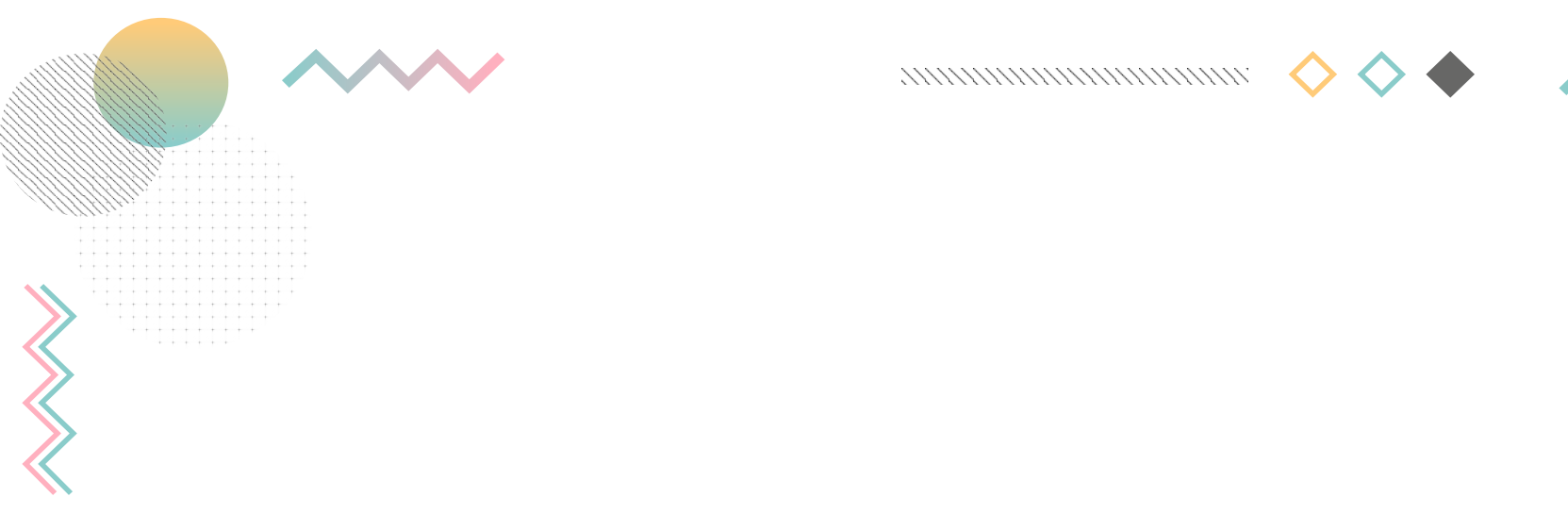
Stanislav coordinated the Office's start-up and operations during the most challenging and difficult phase of healthcare transformation in Ukraine. The advances made to date are in no small part a result of his hard work and dedication to make a difference and bring change and put an end to what had been "business as usual" in Ukraine's healthcare system.



in Ukraine. If something as old and institutionalized as Ukraine's Soviet era healthcare sector can be put on the road to transformation, then success in other areas should also be possible. Transparency, open communications and a sound legal framework along with proven measurable results together create an environment that encourages

other changemakers to step forward with confidence. This is what genuine changemakers are doing in Ukraine: leading by example and achieving significant results in the face of adversity.





FINANCIAL STATEMENTS

Western NIS Enterprise Fund

Years ended September 30, 2018 and 2017
with Report of Independent Auditors





Western NIS Enterprise Fund
Financial Statements
Years ended September 30, 2018 and 2017

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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, 2018 and 2017, 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.

JSC KPMG Audit, a company incorporated under the Laws of Ukraine (EDRPOU Code No. 31032100), a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Certificate No. 2397 of 26 January 2001 issued by the Audit Chamber of Ukraine.

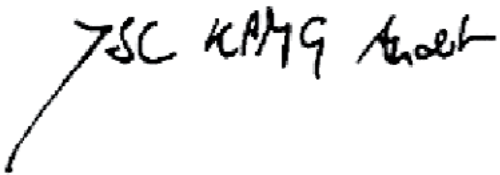


Independent Auditors' Report

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



JSC KPMG Audit
February 13, 2019



Western NIS Enterprise Fund

Statements of Assets and Liabilities

September 30, 2018 and 2017

Expressed in US Dollars

	2018	2017
Assets		
Investments, at fair value (cost of \$51,842,665 and \$52,770,201 as of September 30, 2018 and 2017, respectively)	\$ 35,588,755	\$ 28,776,772
Cash and cash equivalents (<i>note 6</i>)	30,842,218	41,158,756
Impact Investing Program long-term deposits	519,220	271,383
Prepaid expenses:		
Investment management fees (<i>note 14</i>)	162,320	165,792
Program management fees (<i>note 14</i>)	131,250	131,250
Other	258,739	106,541
Fixed assets, net of accumulated depreciation and amortization (<i>note 7</i>)	90,129	116,435
Interest, dividend and other receivables	76,376	91,440
Other assets	140,022	70,731
Total assets	\$ 67,809,029	\$ 70,889,100
 Liabilities and fund balance		
Deposits received on sale (<i>note 5</i>)	\$ 325,000	\$ 325,000
Grants payable (<i>note 12</i>)	231,123	321,439
Accounts payable and other accrued expenses	374,414	318,267
Other liabilities	10,500	14,759
Total liabilities	941,037	979,465
 Fund balance (temporarily restricted)	 66,867,992	 69,909,635
Total liabilities and fund balance	\$ 67,809,029	\$ 70,889,100

See accompanying notes to financial statements.

Western NIS Enterprise Fund
Statements of Operations and Changes in Fund Balance
Year ended September 30, 2018
Expressed in US Dollars

	Temporarily restricted	Unrestricted	Total
Investment income			
Interest income	\$ 285,232	-	\$ 285,232
Other income	50,810	-	50,810
Total investment income	336,042	-	336,042
Net assets released from restrictions			
Satisfaction of program restrictions (investing activities)	(1,226,032)	1,226,032	-
Operating expenses for investment activities (<i>note 10</i>)	-	(1,226,032)	(1,226,032)
Net investment loss	(889,990)	-	(889,990)
Net realized loss and change in unrealized loss on investments			
Net realized loss on investments	(699,549)	-	(699,549)
Net change in unrealized loss on investments (<i>note 5</i>)	7,051,758	-	7,051,758
Net realized loss and change in unrealized loss on investments	6,352,209	-	6,352,209
Net increase in fund balance from investment activities	5,462,219	-	5,462,219
Net assets released from restrictions			
Satisfaction of program restrictions (Legacy Programs)	(8,503,862)	8,503,862	-
Legacy Programs			
Economic Leadership Program	-	(4,666,037)	(4,666,037)
Export Promotion Policy Program	-	(1,917,490)	(1,917,490)
Local Economic Development Program	-	(528,647)	(528,647)
Impact Investing Program	-	(124,835)	(124,835)
Administration (<i>note 11</i>)	-	(1,266,853)	(1,266,853)
Net decrease in fund balance from Legacy Programs	-	(8,503,862)	(8,503,862)
Net decrease in fund balance	(3,041,643)	-	(3,041,643)
Fund balance, beginning of year	69,909,635	-	69,909,635
Fund balance, end of year	<u>\$66,867,992</u>	<u>-</u>	<u>\$66,867,992</u>

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Statements of Operations and Changes in Fund Balance

Year ended September 30, 2017

Expressed in US Dollars

	Temporarily restricted	Unrestricted	Total
Investment income			
Dividend income	\$ 512,496	-	\$ 512,496
Interest income	101,490	-	101,490
Other income	42,755	-	42,755
Total investment income	656,741	-	656,741
Net assets released from restrictions			
Satisfaction of program restrictions (investing activities)	(1,359,771)	1,359,771	-
Operating expenses for investment activities (note 10)	-	(1,359,771)	(1,359,771)
Net investment loss	(703,030)	-	(703,030)
Net change in unrealized loss on investments			
Net change in unrealized loss on investments (note 5)	2,669,694	-	2,669,694
Net change in unrealized loss on investments	2,669,694	-	2,669,694
Net increase in fund balance from investment activities	1,966,664	-	1,966,664
Net assets released from restrictions			
Satisfaction of program restrictions (Legacy Programs)	(10,654,297)	10,654,297	-
Legacy Programs			
Economic Leadership Program	-	(5,860,366)	(5,860,366)
Export Promotion Policy Program	-	(2,411,390)	(2,411,390)
Local Economic Development Program	-	(947,836)	(947,836)
Impact Investing Program	-	(143,388)	(143,388)
Administration (note 11)	-	(1,291,317)	(1,291,317)
Net decrease in fund balance from Legacy Programs	-	(10,654,297)	(10,654,297)
Net decrease in fund balance	(8,687,633)	-	(8,687,633)
Fund balance, beginning of year	78,597,268	-	78,597,268
Fund balance, end of year	<u>\$69,909,635</u>	<u>-</u>	<u>\$69,909,635</u>

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Statements of Cash Flows

Years ended September 30, 2018 and 2017

Expressed in US Dollars

	2018	2017
Cash flows from operating activities		
Net decrease in fund balance from operations	\$ (3,041,643)	\$ (8,687,633)
Adjustments to reconcile net decrease in fund balance to net cash used in operating activities:		
Proceeds from:		
Limited Partnership Interests, distributions	1,295,972	545,492
Equity securities – sale to third parties, net of advisory fees	100,722	-
Equity securities – sale to Emerging Europe Growth Fund III, L.P.	-	13,958,338
Return of equity	-	302,546
Debt securities	-	150,000
Disbursements for:		
Debt securities	(650,000)	(500,000)
Other financial assets	(650,000)	-
Limited Partnership Interests, capital calls	(426,595)	(7,875,725)
Fixed assets	(4,541)	(95,625)
Equity securities	-	(9,013,729)
Depreciation and amortization	30,847	30,784
Net realized loss from sale of investments	699,549	-
Net change in unrealized loss on investments	(7,051,758)	(2,669,694)
Increase in Impact Investing Program long-term deposit	(247,837)	(243,018)
Decrease (increase) in prepaid investment management fees	3,472	(10,759)
Increase in other prepaid expenses	(152,198)	(5,878)
Increase in interest, dividend and other receivables	(114,809)	(97,787)
Increase in other assets	(69,291)	(38,159)
(Decrease) increase in grants payable	(90,316)	52,074
Increase (decrease) in accounts payable and other accrued expenses	56,147	(59,260)
Decrease in other liabilities	(4,259)	(4,035)
Net cash used in operating activities	(10,316,538)	(14,262,068)
Cash and cash equivalents, beginning of year	41,158,756	55,420,824
Cash and cash equivalents, end of year	\$ 30,842,218	\$ 41,158,756

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Condensed Schedule of Investments

September 30, 2018

Expressed in US Dollars

Investments (53.2%) ¹	Principal	Cost	Fair Value
Limited Partnership Interests (18.3%)			
Emerging Europe Growth Fund III, L.P. (EEGF III)			\$ 9,291,797
Emerging Europe Growth Fund, L.P. (EEGF)			2,941,151
Total Limited Partnership Interests²		\$ 14,806,695	12,232,948
Equity (27.8%)			
Ukraine (10.5%)			
Manufacturing (8.2%)			
LLC Kerameya			5,195,837
Other			325,000
Interactive products (1.1%)			750,000
IT Services (1.1%)			720,000
E-commerce (0.1%)			54,904
Moldova (17.3%)			
Manufacturing (15.2%)			
Glass Container Prim S.A.			5,910,203
Glass Container Company S.A.			4,240,000
Financial services (2.1%)			1,434,527
Total Equity		33,560,634	18,630,471
Debt (3.5%)			
Moldova (2.5%)			
Manufacturing (2.5%)³	\$1,675,336		1,675,336
Ukraine (1.0%)			
Manufacturing (0.6%)	\$400,000		400,000
IT services (0.4%)	\$250,000		250,000
Total Debt		2,325,336	2,325,336
Other financial assets⁴ (3.6%)			
Ukraine (3.6%)			
Information and communication technology (3.6%)			2,400,000
Total Other financial assets		1,150,000	2,400,000
TOTAL INVESTMENTS		\$ 51,842,665	\$ 35,588,755

¹ Percentages indicated are based on the fund balance as of September 30, 2018. The Fund's investments are closed-end investments with no periodic liquidity.

² The cost of EEGF and EEGF III limited partnership interests is presented net of cumulative operating income and expenses.

³ 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. In December 2016, the Fund converted the accrued interest receivable from this portfolio company of \$194,012 to debt. In December 2017, the Fund converted the accrued interest receivable from this portfolio company of \$80,832 to debt.

⁴ Simple agreement for future equity (SAFE).

See accompanying notes to financial statements.

Western NIS Enterprise Fund

Condensed Schedule of Investments

September 30, 2017

Expressed in US Dollars

Investments (41.2%) ¹	Principal	Cost	Fair Value
Limited Partnership Interests (16.6%)			
EEGF III			\$ 7,105,950
EEGF			4,444,846
Total Limited Partnership Interests²	\$ 17,065,418		11,550,796
Equity (19.1%)			
Ukraine (9.9%)			
Manufacturing (7.2%)			
LLC Kerameya			4,736,945
Other			325,000
IT Services (1.5%)			1,050,000
Interactive products (1.2%)			800,000
Moldova (9.2%)			
Manufacturing (7.2%)			
Glass Container Company S.A.			5,035,000
Financial services (2.0%)			1,434,527
Total Equity		33,110,279	13,381,472
Debt (3.0%)			
Moldova (2.3%)			
Manufacturing (2.3%)³	\$1,594,504		1,594,504
Ukraine (0.7%)			
E-commerce (0.7%)	\$500,000		500,000
Total Debt		2,094,504	2,094,504
Other financial assets⁴ (2.5%)			
Ukraine (2.5%)			
IT Services (2.5%)			1,750,000
Total Other financial assets		500,000	1,750,000
TOTAL INVESTMENTS		\$ 52,770,201	\$ 28,776,772

¹ Percentages indicated are based on the fund balance as of September 30, 2017. The Fund's investments are closed-end investments with no periodic liquidity.

² The cost of EEGF and EEGF III limited partnership interests is presented net of cumulative operating income and expenses.

³ 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. In December 2016, the Fund converted the accrued interest receivable from this portfolio company of \$194,012 to debt.

⁴ Simple agreement for future equity (SAFE).

See accompanying notes to financial statements.



Western NIS Enterprise Fund

Notes to Financial Statements


September 30, 2018 and 2017



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); ii) to apply an additional \$5 million for its Legacy



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

1. Background (continued)

(a) Organization and Description of Business (continued)

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 EEGF III, a U.S.- domiciled fund launched by Horizon Capital that raised \$200 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 able 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:

- Mobilizing capital to address complex social issues (Impact Investing Program);
- 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);
- Investing in people to broaden and deepen the human capacity necessary to advance private sector development in Ukraine and Moldova (Economic Leadership Program); and,
- Improving the ability of Ukrainian exporters to access new markets (Export Promotion Policy Program).

As of September 30, 2018, a cumulative amount of \$27,663,556 was expensed for Legacy Program purposes out of an available approved amount of \$35,000,000, resulting in a remaining unused balance of \$7,336,444.

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.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017



1. Background (continued)

(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 EEGF and EEGF III. 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.

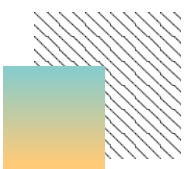
Following the precedent of USAID-financed Enterprise Funds in Central and Eastern Europe, the Fund actively pursued its mission of attracting significant private capital to the Region by supporting the establishment of a private management company, Horizon Capital Associates, LLC (HCA, Investment Manager) 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, beginning fiscal 2015, the Fund has hired certain employees focused solely on Legacy Programs. Their compensation is included in the Legacy Programs section of the statement of operations and changes in fund balance.



The Fund became an anchor investor of EEGF III, the third private fund launched by Horizon Capital. 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 100% of its \$30 million commitment of investments within WNISEF, which were transferred to EEGF III at cost upon its first closing.

In June 2017, EEGF III held an initial closing of \$75 million in aggregate commitments and concluded an investment management agreement with Horizon Capital Associates III, LLC (HCA III, Investment Manager). As of the initial closing of EEGF III, based on USAID approval, securities purchase agreements were signed between the Fund and EEGF III for the sale at cost of two investments: Matar Trade & Invest Limited (Genesis) and Avalex Investment Limited (Anex). EEGF III reached its hard cap of \$200 million in aggregate commitments and held its final closing in December 2018.





Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

1. Background (continued)

(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.

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 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.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017



2. Basis of Presentation (continued)


In August 2016, the FASB issued ASU 2016-14, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU are designed to improve the current net asset classification requirements and the information presented in the financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the ASU is permitted. The Fund is currently evaluating the impact of this pronouncement on its financial statements.

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 2015, 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 in an orderly transaction between market participants at the measurement date.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

3. Summary of Significant Accounting Policies (continued)

Investments in Equity and Debt Securities (continued)

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), multiple to sales or using the discounted cash flows technique.

The price of the initial investment in an investee's equity or debt securities, or other instrument will be deemed fair value for a limited period of time following the date of the transaction if the entry transaction is considered orderly.

In 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.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

3. Summary of Significant Accounting Policies (continued)

Investments in Equity and Debt Securities (continued)

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.

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.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

3. Summary of Significant Accounting Policies (continued)

Translation of Foreign Currency (continued)

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, 2018 and 2017 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.

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 (Proceeds). 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;

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

4. U.S. Government Grants (continued)

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. The Fund recorded a net unrealized gain on investments of \$7,051,758 for the year ended September 30, 2018 and a net unrealized gain on investments of \$2,669,694 for the year ended September 30, 2017, based on valuation of the investment portfolio at fair value as of September 30.

In addition, during the year ended September 30, 2018, the Fund recorded a net realized gain of \$2,036 from the partial sale of one of the Fund's equity investments, and a net realized loss of \$701,585, reflecting its pro-rata share of EEGF realized losses incurred during this period, resulting in a total net realized loss on investments of \$699,549. No realized gain or loss is recorded during the year ended September 30, 2017.

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.

The following additional disclosures relate to the changes in fair value of the Level 3 investments as of September 30, 2018 and 2017:

Fair value at October 1, 2017	\$	28,776,772
Net realized loss from sales		(699,549)
Net change in unrealized loss on investments in earnings		7,051,758
Conversion of accrued interest to equity and debt investments		129,873
Purchases for the year ended September 30, 2018		1,726,595
Proceeds for the year ended September 30, 2018		(1,396,694)
Fair value at September 30, 2018		<u>35,588,755</u>
Change in unrealized loss in earnings relating to assets still held	\$	7,051,758

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

5. Investments (continued)

Fair value at October 1, 2016	\$ 23,479,988
Net change in unrealized loss on investments in earnings	2,669,694
Conversion of accrued interest to debt investment	194,012
Purchases for the year ended September 30, 2017	17,389,454
Proceeds for the year ended September 30, 2017	(14,956,376)
Fair value at September 30, 2017	28,776,772
Change in unrealized loss in earnings relating to assets still held	\$ 2,669,694

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.

<u>Level 3 Financial Instruments</u>	<u>Significant Unobservable Inputs By Valuation Technique</u>	<u>Range of Significant Unobservable Inputs as of September 30, 2018</u>
Equity Investments	EV/EBITDA multiple	5.0 - 7.4
	EV/Sales multiple	5.0 - 14.6
SAFE	EV/Sales multiple	4.9 - 17.5

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. Current multiples have been applied to forecast 2018 EBITDA as this more accurately reflects the current value of these entities and the challenges they face due to market conditions, including devaluation. The significant unobservable input used in the fair value measurement of some of equity investments and financial instrument is EV/Sales (Enterprise value to sales) multiple for recent, relevant, verifiable, comparable companies. 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 investments in EEGF and EEGF III represent the Fund's limited partnership interests in EEGF and EEGF III. In the process of valuing its equity investments, EEGF and EEGF III apply substantially the same types of unobservable inputs as applied by the Fund with EV/EBITDA multiples range up to 7.4 and EV/Sales multiples range up to 10.4 as EEGF's and EEGF III investments also relate to entities operating in the Region.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017, the Fund had investments in debt securities of \$2,325,336 and \$2,094,504, respectively. As of September 30, 2018 and 2017, the Fund held cash and cash equivalents of \$14,958,762 and \$21,633,483 with a commercial bank based in the United Kingdom, \$15,805,254 and \$19,443,481 with commercial banks based in the United States and held remaining cash balances equaling \$78,202 and \$81,792 in the Region, respectively.

As of September 30, 2018 and 2017, all assets of the Fund are considered to be current excluding investments, fixed assets and Impact Investing Program long-term deposits.

As of September 30, 2018 and 2017, all liabilities of the Fund are considered to be current.

7. Fixed Assets

As of September 30, 2018 and 2017, fixed assets consisted of:

	2018	2017
Computer equipment and software	\$ 165,024	\$ 162,097
Automobiles	103,070	103,070
Furniture, fixtures and equipment	21,629	21,277
Telephone equipment	7,151	5,889
Leasehold improvements	4,646	4,646
	<hr/> 301,520	<hr/> 296,979
Accumulated depreciation and amortization	(211,391)	(180,544)
Fixed assets, net	<hr/> <hr/> \$ 90,129	<hr/> <hr/> \$ 116,435

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 \$18,500 in calendar year 2018 and \$18,000 in calendar year 2017. 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 2018 and 2017 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 (\$128,400 as of January 1, 2018 and \$127,200 as of January 1, 2017).

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

8. Retirement Plan (continued)

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 \$58,320 and \$59,301 for the years ended September 30, 2018 and 2017, 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 2015. As of September 30, 2018 and 2017 and for the years then ended, no exit-based incentive payable and exit-based incentive expense are recorded.

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, 2018 and 2017, respectively.

	2018	2017
Investment management fees <i>(note 14)</i>	\$ 638,026	\$ 636,591
Professional fees	226,467	369,223
Employee compensation and benefits	143,560	148,516
Business travel	96,802	85,250
Occupancy	36,742	35,440
Depreciation and amortization	2,779	4,598
Other operating	81,656	80,153
Total operating expenses for investment activities	\$ 1,226,032	\$ 1,359,771

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017, respectively.

	2018	2017
Employee compensation and benefits	\$ 525,192	\$ 496,508
Program management fees (<i>note 14</i>)	525,000	525,000
Occupancy	84,472	84,472
Business travel	44,115	50,952
Professional fees	20,497	79,451
Depreciation and amortization	26,435	23,733
Other operating	41,142	31,201
Total administration expenses of Legacy Programs	\$ 1,266,853	\$ 1,291,317

12. Commitments

Investments

As of September 30, 2018 and 2017, the Fund has outstanding investment commitments to EEGF III totaling \$22,334,397 and \$22,409,897, respectively.

As of September 30, 2018 and 2017, the Fund has outstanding investment commitments to EEGF totaling \$149,413.

As of September 30, 2018, the Fund pledged its 3,866 ordinary shares in Glass Container Company S. A. to European Bank for Reconstruction and Development (EBRD) and B. C. Mobiasbanca - Groupe Societe Generale S. A. (MBSG) as security for loan agreements of Glass Container Company S. A. with MBSG and EBRD. As of September 30, 2017, the Fund pledged its 232,487 ordinary shares in Glass Container Prim S. A. and 196,134 ordinary shares in Glass Container Company S. A. to International Finance Corporation (IFC) and Black Sea Trade and Development Bank (BSTDB) as security for loans provided by IFC and BSTDB to Glass Container Prim S. A. In February 2018, the pledge of the WNISEF shares to IFC was taken over by VR Global Partners LP, the acquirer of debt held by IFC.

Collateral

As of September 30, 2018 and 2017, the Fund pledged a part of Impact Investing Program long-term deposits amounting to \$336,122 and \$166,693, respectively, as security for loans provided by the banks to social enterprises.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

12. Commitments (continued)

Grants

As of September 30, 2018 and 2017, under the Economic Leadership Program, the Fund provided support to students attending masters programs amounting to \$776,535 and \$1,021,963, respectively, which is included as Economic Leadership Program expense in the statement of operations and changes in Fund balance with \$231,123 and \$321,439, respectively, included in grants payable in the statements of assets and liabilities. Grant awards, for which the grantees have not yet met terms of the condition of the grant, total \$556,187 as of September 30, 2018 and are expected to be disbursed during the years 2019-2020.

As of September 30, 2018 and 2017, the Fund has contractual obligations to others of nil and \$48,000, 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, 2018 and 2017 is \$121,214 and \$119,912, 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.

Future lease payments under both lease agreements as of September 30, 2018 to be paid by the Fund are \$33,018.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

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, 2017 through September 30, 2018 totaled \$638,026 and a prepaid balance of \$162,320 is included in the statement of assets and liabilities as of September 30, 2018. The management fee expense from October 1, 2016 through September 30, 2017 totaled \$636,591 and a prepaid balance of \$165,792 is included in the statement of assets and liabilities as of September 30, 2017.

During 2017, the Fund sold two investments: Matar Trade & Invest Limited (Genesis) and Avalex Investment Limited (Anex) to EEGF III as approved by the Board of Directors, at cost. Proceeds from the sale of these entities totaling \$13,958,338 were received in full.



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

14. Related Party Transactions (continued)

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, 2017 through September 30, 2018 totaled \$525,000 and a prepaid balance of \$131,250 is included in the statement of assets and liabilities as of September 30, 2018. The Program management fee expense from October 1, 2016 through September 30, 2017 totaled \$525,000 and a prepaid balance of \$131,250 is included in the statement of assets and liabilities as of September 30, 2017.

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 September 2017, the Fund received \$302,546 from Kerameya LLC as a return of capital. In February 2018, the Fund received \$100,722 of proceeds from Sakonia Ventures Limited (holding company for Kerameya) for sale of 125 shares (0.54% ownership) in Sakonia Ventures Limited to management of Kerameya;
- 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.

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 2018 and 2017, the Fund made payments on behalf of HCAD totaling \$20,510 and \$27,778, respectively, and HCAD made payments on behalf of the Fund totaling \$103,244 and \$120,216, respectively. As of September 30, 2018, there was an outstanding balance of \$6,644 due from the HCAD to the Fund and included in other assets in the accompanying statements of assets and liabilities. As of September 30, 2017, there was an outstanding balance of \$4,259



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017


14. Related Party Transactions (continued)

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.

The Fund provides grant funding to Ukrainian Leadership Academy (ULA) in relation to its operations. During fiscal 2018 and 2017, the Board of Directors approved the expenditure of \$2,600,000 and \$3,750,000, respectively. During the year ended September 30, 2018 and 2017, the Fund provided funding of \$2,600,000 and \$3,350,153, respectively. 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, 2018, the Fund paid \$11,561 for legal fees. For the year ended September 30, 2017, the Fund reimbursed these entities for payroll expenses incurred totaling \$42,153 with payments made of \$16,562 in relation to administration services and other legal fees. During fiscal year 2017, payroll administration was transitioned to the ULA NGO.



In October 2016, the Fund provided funding amounting to \$39,000 to the Fund's investment Glass Container Prim S.A., under the agreement for granting financial aid to be used for development of export strategy and financing of export promotion activities within the Export Promotion Policy Program.

During the years ended September 30, 2018 and 2017, the Fund earned \$2,957 and \$4,557 of director's fees from its portfolio investments, respectively.

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.

Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

15. Contingencies

In the ordinary course of business, the Fund may be 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, 2018 and 2017 are as follows:

	2018	2017
Ratios to average fund balance		
Net investment loss	(1.3)%	(0.9)%
Net realized loss on investments	(1.0)%	-
Operating expenses for investment activities	1.8 %	1.8 %
Legacy Programs	12.4 %	14.3 %
Total return	(4.4)%	(11.1)%
Ratios to committed capital		
Net investment loss	(0.6)%	(0.5)%
Net realized loss on investments	(0.5)%	-
Operating expenses for investment activities	0.8 %	0.9 %
Legacy Programs	5.7 %	7.1 %



Western NIS Enterprise Fund

Notes to Financial Statements

September 30, 2018 and 2017

17. Financial Highlights (continued)

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.

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, 2018 and 2017, this amount was \$150,000,000.

18. Subsequent Events

In October 2018, the Fund received a net distribution from EEGF amounting to \$146,783. This amount represents the distribution of \$179,924 related to the return of capital and proceeds for sale of shares from Sakonia Ventures Limited (holding company for Kerameya) offset by an additional contribution for operating expenses of \$33,141. In addition, in October 2018, the Fund also received \$400,333 from Sakonia Ventures Limited as a return of capital and \$74,667 of proceeds for sale of 112 shares (0.48% ownership) in Sakonia Ventures Limited to Kerameya management, in relation to the Fund's direct investment in Kerameya.

In January 2019, the Fund received a net distribution from EEGF III amounting to \$306,028. This amount represents the equalization payment received from additional partners admitted as of the final closing of EEGF III held on December 18, 2019 of \$723,227 and notional interest of \$31,979, offset by an additional contribution for operating and organizational expenses of \$449,178. Such equalization payments, other than any portion attributable to notional interest, will be added to WNISEF's available commitments and may be redrawn by EEGF III.

Management has evaluated events from the date of the statement of assets and liabilities through February 13, 2019, 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

BOARD OF DIRECTORS

Dennis A. Johnson, Chairman of the Board
Executive Vice President
Cooperative Housing Resources, LLC

Patrick H. Arbor
Shatkin Arbor, Inc.
*resigned in September 2018

Jaroslawa Zelinsky Johnson
President and Chief Executive Officer
Western NIS Enterprise Fund

John E. Herbst
Director, Dinu Patriciu Eurasia Center
Atlantic Council

Jeffrey C. Neal
Founding Partner
Horizon Capital

Marta Farion
Kyiv Mohyla Foundation of America

WNISEF OFFICERS

Jaroslawa Zelinsky Johnson
President and Chief Executive Officer

Lenna Koszarny
Executive Vice President

Natalie Chaus
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Treasurer and Ukraine Country Manager

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