



**TWENTY FIRST MEETING
of the STCU GOVERNING BOARD**

TABLE OF CONTENTS

ITEM OF THE AGENDA	TAB #
List of Delegates and Guests	1
Agenda for the Twenty First Meeting of the STCU Governing Board	2
Minutes of the Governing Board Meeting Held on June 16, 2005	3
REPORTS FROM SECRETARIAT	
Executive Director Report	4
Update on Gals-K/Past Rent Issue	5
Targeted Initiatives: 2005 Results and Future Actions	6
2005 Financial Report	7
2006 Budget Presentation	8
Status on STCU Regional Office in Moldova	9
Reports on Regional Office Activities	10
Proposal for 2005 Annual Report Preparation	11
Discussion Paper: STCU's Evolving Strategic Environment	12
BOARD APPROVAL DOCUMENTS	
Project Approval and Funding	13
21 st Board Record of Decision	14
Press Statement for the 21-st Governing Board	15



STCU TWENTY FIRST GOVERNING BOARD MEETING LIST OF PARTICIPANTS AND INVITEES

CANADA

Mr. Sean Boyd, Canadian International Development Agency, Advisory Committee Member
Ms. Angela Bohdan, Global Partnership Program
Mr. Stephane Lessard, Global Partnership Program, Senior Program Manager

EUROPEAN UNION

Mr. ZORAN STANCIC, European Commission, Board Member and Chairman
Mr. Martin Harris, Deputy Head of Mission of the British Embassy to Ukraine, Council Presidency
Ms. Barbara Rhode, European Commission, Board Member, Advisory Committee Member
Ms. Martha Leonidou, European Commission, Advisory Committee Member

UKRAINE

Mr. Yaroslav Yatskiv, National Academy of Science of Ukraine, Board Member

UNITED STATES

Mr. Victor Alessi, United States Industry Coalition, Board Member
Ms. Jane J. Tannenbaum, US Department of State, Board Member, Advisory Committee Member
Mr. Jason Rao, US Department of State, Bio Industry Initiative

FUNDING PARTIES

EU DELEGATION OF THE EUROPEAN COMMISSION TO UKRAINE

Ms. Helene Chraye, Head of Operations-TACIS Section

UNITED STATES

Mr. John E. Herbst, Ambassador

CANADA

Ms. Abina Dann, Ambassador

OBSERVERS

AZERBAIJAN

Mr. Talat Museib oglu Aliev, Ambassador

UZBEKISTAN

Mr. Salahitdin Salihov, Charge d'Affaires a.i.

GEORGIA

Mr. Grigol Katamadze, Ambassador Extraordinary & Plenipotentiary

MOLDOVA

Mr. Mihail Laur, Ambassador Extraordinary & Plenipotentiary

SWEDEN

Mr. John-Christer Ahlander, Ambassador

JAPAN

Mr. Mutsuo Mabuchi, Ambassador Extraordinary & Plenipotentiary

THE STCU SECRETARIAT OFFICIALS

Mr. Andrew A. Hood, Executive Director, United States

Mr. Borys Atamanenko, Senior Deputy Executive Director, Ukraine

Mr. Esa Manninen, the STCU Deputy Executive Director, European Union

Mr. Landis Henry, the STCU Deputy Executive Director, Canada

Mr. Curtis "BJ" Bjelajac, Chief Financial Officer, United States

Ms. Natalia Polyanska, Executive Assistant, Ukraine

INVITED HONOURABLE GUESTS

Dr. Borys Paton, President of the Ukrainian Academy of Sciences

Mr. Borys Tarasyuk, Minister of Foreign Affairs of Ukraine

Mr. Stanislav Nikolaenko, Minister of Education and Science of Ukraine

Mr. Igor Yuhnovsky, Deputy Head of Committee for Science and Education

Mr. Levan Tsintsadze, Head of Department of S&T of Georgia, Ministry of Education and Science

Mr. Pulat Khabibullaev, Director of Science and Technologies Center of Uzbekistan

Mr. Gheorghe Duca, President of the Academy of Sciences of Moldova

ACCOMPANYING DELEGATES

Dr. Steve Gitomer, US Department of State Science Advisor

Mr. Upendra Rohatgi, US Department of State Science Advisor

Mr. Luis Samaniego-Moffre, European Commission Science Advisor

Mr. Jurgen Sanders, European Commission Science Advisor

Mr. Remi Duflot, EU Delegation to the European Commission to Ukraine

Mr. Michel Zayet, EU Delegation to the European Commission to Ukraine



AGENDA
21st Meeting of the STCU Governing Board
Kiev, Ukraine
Friday, 2 December 2005
EU Delegation of the European Commission to Ukraine
10 Kruhlo-Universitetska St.

1. Opening Session

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| 1.1 Opening Remarks by the Chairman | (Chairman, Governing Board) |
| 1.2 Welcome from the Executive Director | (Andrew Hood) |
| 1.3 Opening Remarks from Board Members | (Board Members) |
| 1.4 Introduction of Guests | (Chairman, Governing Board) |

2. Administrative Topics

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| 2.1 Adoption of the Agenda | |
| 2.2 Approval of the Minutes of the 20 th Governing Board Meeting | |

3. Reports from the Secretariat

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| 3.1 Executive Director Report | (Andrew Hood) |
| 3.2 Update on Gals-K/Past Rent Issue | (Andrew Hood) |
| 3.3 Targeted Initiatives: 2005 Results and Future Actions | (Landis Henry) |
| 3.4 2005 Financial Report | (Curtis "BJ" Bjelajac) |
| 3.5 2006 Budget Presentation | (STCU Management) |

Lunch

4. Reports from Secretariat (Continued)

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| 4.1 Status of STCU Regional Office in Moldova | (Esa Manninen) |
| 4.2 Reports on Regional Office Activities | (Deputy Executive Directors) |
| 4.3 Proposal for 2005 Annual Report Preparation | (Borys Atamanenko) |
| 4.4 Discussion Paper: STCU's Evolving Strategic Environment | (Andrew Hood) |

5. Approval of Projects and Project Funding Sheet

6. Approval of Governing Board Record of Decision and Press Statement

7. Final Topics

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| Statement by the Executive Director | (Andrew Hood) |
| Presentation and Approval of the Press Statement | (Board Members) |
| Date and Location of the 22 nd Governing Board Meeting | (Board Members) |
| Concluding Remarks | (Board Members) |
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EXECUTIVE DIRECTOR REPORT (Reporting Period: 15 June 2005 to 4 November 2005)

Major Issues

STCU-MES Working Group Activity

The three STCU-MES Working Groups created in May 2005 have met several times, with mixed results. The purpose of these groups, established during a meeting between the ED and S. Nikolayenko, Minister of Education and Science of Ukraine, was to improve and increase the communication contact between STCU and MES, and to develop working-level options or resolution to several complex issues in the STCU-MES relationship. While STCU-MES contact has certainly increased because of these groups, little positive progress has been made to address the issues at the core of these groups. In some cases, the results of the working groups has done more damage than good in attempting to improve the atmosphere between STCU and MES:

Gals-K WG (Cleave/Bjelajac): This group was to address two past issues related to the former STCU Headquarters building on 3 Laboratornyy Provulok: (1) the MES request to return its 299,000 UAH funds deposited with STCU in May 2004 during the Gals-K court case and attempts to seize STCU assets in compensation for past rental debt owed to Gals-K, and (2) the outstanding \$139,000 paid by the STCU Parties in 1998-1999 to cover rental payments at a time when the Ukrainian Government was not able or willing to pay these rents

During the first WG meeting on 8 June, MES financial officials requested documentary evidence that (1) the Government of Ukraine approved state budget funds to pay the STCU rent during the years prior to MES assumption of responsibility for STCU (1 January 2003), and (2) there was an agreement between STCU, the GOU (in those days, it would have been MFA), and the Gals-K landlords that the STCU rent would be paid from Ukrainian government funds. Although the STCU had previously requested MES to approach MFA regarding these records, it fell to the STCU to approach MFA and other Ukrainian government sources for this past budgetary information.

At the request of the STCU, MFA financial officials met with the CFO and CAO on 22 August, and MFA agreed to provide what information they had in their financial records, which covered the period 1999-2002. MFA also agreed to be present at the next WG meeting with MES so that both ministries could be present in the discussion. Prior to 1999, MFA was not responsible for providing funds for the STCU rent, and STCU had its own allocation line within the Ukrainian state budget. STCU managed to locate the Ukrainian state budget information from the Verhovna Rada web site, covering the period 1995-1999. The STCU also found in its records a copy of a Ministry of Finance letter stating that, due to the financial crisis in Ukraine, the Ministry could not release funds to pay the STCU rent.

STCU presented all this documentation to MES via a letter with attachments, and called for another WG meeting on 19 September. MES promised to review the documentation, but STCU stated strongly that this information should be enough for the Minister to pursue the \$139,000 with the Cabinet of Ministers, which would allow the Minister to provide a response to the Alessi letter of December 2004,

Instead, the STCU received a letter from First Deputy Minister Gurzhiy addressed to the STCU (not to the Governing Board) stating that (a) the STCU must immediately return the 299,000 UAH, (b) the issue of past rent and the use of the 299,000 UAH were not connected, and (c) the STCU document search did not prove that the Ukrainian government

owed the STCU Parties \$139,000 and that more documentation was necessary before the MES could take that issue to the Ukrainian government.

The Gurzhiy letter is disappointing in that it fails to acknowledge the progress of the working group in responding to the MES demands, it focuses only on the MES funds with the STCU and pays scant respect to the previous rental debt, and generally demonstrates that there is no desire on the part of MES to seriously deal address these issues with STCU (which was the whole purpose of forming a Working Group in the first place).

Results Thus Far: Documentation about the past debt has been collected at great effort by STCU staff, but MES still will not attempt to approach Ukrainian government for funds to reimburse the STCU Parties. MES continues to demand the return of its own funds, while making no attempt to provide a minimally satisfactory response to the STCU Chairman letter of 24 December 2004.

The STCU letter and Gurzhiy response was forwarded to the AC Members for further guidance to the Secretariat.

HGC WG (Manninen). This group has three times, discussing issues regarding the Ukrainian host government concurrence (HGC) process and ways to improve/accelerate the process. In the three meetings, the STCU raised the importance of HGC to the STCU project process and the importance of MES to implement a smooth, rapid, and predictable HGC review process (currently, the MES HGC process is spasmodic, with 50-70 proposals being received in blocks every 3-4 months). MES stated that an improved process was ready for Ukrainian government approval, but changes in the government and other delays had prevented the new system to start. This resulted in a period over the summer months where there was no working HGC process and no proposals being accepted by MES for HGC processing. This situation caused STCU to insist on a WG meeting in September (after a letter from the ED First Deputy Minister Gurzhiy about this situation). MES officials reported at the 9 September meeting that new project proposals would now be accepted according to the old procedure until such time as the new procedure was approved by the Ukrainian Government. A final meeting on 24 October, the MES staff stated that the new process was still waiting for government approval, but in the meantime, MES complained that STCU project decisions were not being made available to MES and that MES wanted regular reporting from the STCU on project decisions and wanted all STCU documentation (including its web site) in Ukrainian language.

Results Thusfar: HGC process remains uneven and unpredictable, new/improved process promised a year ago is still not approved, and MES officials want STCU to provide them project funding information, all in Ukrainian.

Ratification WG (Zimmerman): The first meeting of this group was held on 26 July. Both sides agreed that we understood the problem in the same fashion, i.e., that the use of the word "irrevocable" in Article XIII C(ii) and (iv) of the Statute violates Ukrainian law. Mr. Zharov stated that the granting of irrevocable rights is a subject which according to Ukrainian law, must be dealt with not in a Statute, but in an agreement between the researcher, the researcher's institute and other parties involved in commercializing an invention. The use of "irrevocable" referred to the EU-Ukraine S&T Agreement (which references only irrevocable licenses in connection with publications) was also discussed.

After a brief discussion about finding language which would be acceptable to the Ministry of Justice, the MES officials agreed to develop new language for consideration by the Parties which would roughly achieve the following: In the relevant paragraphs of the Statute, "irrevocable, royalty-free" would be removed entirely from the sentences in which they presently appear and replaced with new sentences that would say licenses granting irrevocable and royalty-free rights would be negotiated between researchers and the parties (research institutes and similar organizations). STCU is currently attempting to arrange a second WG meeting to review the status on the situation.

Results Thus Far: A positive working relationship has been established with the Department of Intellectual Property, which we hope will lead to progress on a variety of IP and patent-related issues. But the STCU still waits for the proposed new Statute text from the Ukrainian side, and has had difficulty in agreeing with MES on a new WG meeting date (this has been complicated further by the departure of DED Zimmerman in mid-October).

STCU in Moldova

Much progress has been made since the 20th GBM on starting STCU operations in Moldova. In early August, the STCU and Academy of Sciences of Moldova agreed to a final version of a “user agreement” which reserves four rooms of the Academy’s main building for the future STCU Regional Office. Signed versions of that agreement were exchanged. In September, the STCU completed hiring a full-time Regional Officer for Moldova. This Regional Officer and the Academy are working through the diplomatic accreditation process with the Moldovan Ministry of Foreign Affairs. A trip to Chisinau by the CAO is planned for mid-November to put in place contracts for renovating the Regional Office space, and to coordinate with the Academy of Sciences leadership and other Moldovan officials. A trip by the ED is planned once the accreditation is granted and renovation activities have reached a suitable point. This trip probably will occur soon after the winter holidays.

First Joint ISTC-STCU Project Proposal

The STCU and ISTC Executive Directors exchanged signed copies of an Administrative Arrangement in September defining the process in which joint ISTC-STCU projects will be handled by both Secretariats. In addition, the STCU forwarded to the ISTC a joint Ukrainian-Uzbek-Russian project proposal as the first test of this process. The proposal had received host government concurrence from Ukraine and Uzbekistan before it had received Russian Federation HGC. This proposal was received at the STCU some time ago, and so it did not follow the proposal processing procedure laid out in the Administrative Arrangement, namely, the STCU received a copy of the proposal before the proposal had completed all the necessary HGC steps (most importantly, the HGC of the Russian Federation). But the STCU Secretariat felt that the joint ISTC-STCU project process needed to be exercised and offered this proposal to ISTC as the first test case. The ISTC reported that it had received Russian HGC and this proposal (STCU 3387/ISTC####) was forwarded to the STCU and ISTC Parties for consideration. The first opportunity for a funding decision on this joint ISTC-STCU Project is during the ISTC’s October 27 Governing Board meeting.

Uzbek Situation

There has been no change in the STCU’s situation in Uzbekistan, and although project processing continues without problem, the unsatisfactory situation concerning STCU banking operations in Uzbekistan continues. Because of security concerns during the summer months, the U.S.-sponsored Defense Contract Accounting Agency (DCAA) project audit schedule for 2005-2006 was adjusted. The ED visited Tashkent on 10-14 October, meeting with the U.S. Ambassador, the President of the Uzbek Academy of Sciences, and the director of the Uzbek Cabinet of Ministers’ Center for Science and Technology. In general, the security concerns of the U.S. embassy have passed, but the political situation between Uzbekistan and western parties remains tense. However, the U.S. Ambassador did not feel that current STCU activities would be affected by the political situation. The President of the Uzbek Academy of Sciences and the Director of the Uzbek Center for Science and Technology both emphasized that the situation in Uzbekistan, both internal and external relations, should not be allowed to impact the STCU’s cooperation with Uzbekistan and its scientists. In general, the ED found Tashkent quieter than in the past but did not sense immediate problems for the STCU. However, it is clear that events can overtake the STCU rapidly, and issues such as the banking situation may not be resolved soon if STCU wishes not to compromise with the Uzbek authorities.

As an example of the underlying problems, there were hints from Uzbek science officials that the Uzbek Regional Office needed to establish a “legal status” with regards to its office expenditures. This would mean opening an account at one of the two state-run banks for Office expenditures, something the STCU has resisted because of the connection to the larger issue of the STCU banking situation in Uzbekistan. Further, the Regional Officer received complaints from the Center of Science and Technology about STCU workshops, training sessions, etc. that often occur during STCU project monitoring trips. The CST official stated that the STCU had to notify the Uzbek Ministry of Foreign Affairs **in advance** of any activity STCU conference, workshop, or other venue. Finally, the CST official informally told the Regional Office that

the current use of a private firm for customs facilitation would have to stop, and that the Center would handle all STCU-related customs clearance actions (for a fee paid directly to the CST by the Uzbek institutes participating in the STCU project). The STCU had chosen to work through this private firm because of the ease and cost-effective service it provided for getting STCU project-related material through the Uzbek customs process.

Current Activities

Installation of ERP Integrated Financial Software

Installation of the NAVISION integrated financial software package began in July, but STCU-driven modifications to the software and testing problems resulted in some delays in the schedule. Originally, the STCU CFO intended to switch all project and administrative financial transactions over to NAVISION on 1 September, but the STCU management agreed that the modifications and testing problems required more time to resolve. To gain confidence in the system, the STCU Steering Committee for the NAVISION installation decided to adjust the plan and pursue a “graduated implementation” whereby a handful of new projects and AOB/SB transactions moved to NAVISION on 1 October, but the old legacy system would continue to process the rest of STCU financial transactions. Once the NAVISION system was in use for a sufficient amount of time and STCU had confidence that the NAVISION was operating properly, more STCU financial transactions would be moved over until the full transition was completed sometime in early 2006.

STCU Targeted R&D Initiatives

The National Academy of Sciences of Ukraine (NASU) completed review of over 60 proposals submitted under the “call for proposals” initiated in April. NASU transferred 14 proposals (all with Host Government Concurrence) to the STCU in late July, which were then made available to the Financing Parties for their review (using the normal STCU proposal review process). NASU advised STCU that it needed 2-2.5 months for institutes to expend the NASU funds earmarked for the Targeted Initiative projects before the end of the Ukrainian fiscal year (31 December). This means that the final Party reviews and recommendations on the proposals are needed by the end of September so as to ensure enough time for STCU and NASU to negotiate final project selection based on this Party input and funds availability. Some Canadian technical reviews were received in August, but STCU still waits for EU and U.S. input. Given the summer vacation period, it is very uncertain whether the Parties’ science experts will have their reviews completed by the end of September, but the STCU hopes that this will be achieved.

The STCU also learned on 19 August that the Georgian government finally established its National Science Foundation, which will be an implementing arm of the Ministry of Education and Science. The Minister of Education and Science had indicated in May-June that he wants the Foundation to act on the Ministry’s behalf in any Targeted R&D Initiative between STCU and Georgia. No movement on the proposed STCU-Georgian Targeted Initiative has occurred since the 20th GBM in June, but the draft text of the cooperation statement will be passed to the Parties again for their input and possible signing ceremony at the 21st STCU Governing Board meeting.

Progress on Process Action Team Recommendations

Since the last report to the 20th Governing Board meeting, the STCU Secretariat has continued to implement the recommendations of the Process Action Teams (PATs). There has been some progress in the following areas:

- Preparations to approach targeted institutes to develop cooperative efforts on improve their tech. transfer capability.
- Examined PAT proposals for new targeted training activities and “pre-seed” programs to jump-start promising sustainability progress with selected teams/institutes (NB: the “pre-seed” idea was dropped because it was felt the current Supplemental Budget activity, “Business Training/Sustainability Development” could cover this new initiative).

- Implementing a more selective and measurable means for granting patent support grants, “Roadshow” travel grants.
- Designing “Thematic Proposal Calls” to match the strengths of specific research units to market information from a U.S. Party study on near-term technology market needs.
- Continuing to develop joint, cooperative activities with Recipient national S&T agencies to leverage funding and target selected scientists toward national S&T programs
- Working on a redesigned STCU Web Site
- Continuing to implement “near-paperless-project processes” using current IT architecture
- Continuing to organize targeted training workshops using Western experts and focusing on sustainability issues such as IPR protection, commercialization, and effective grant-writing skills
- Working to develop standard procedures to exploit Regional Offices in training, performance evaluation.

Initiation of Performance Measures Study with National Academy of Sciences of Ukraine

The STCU initiated a study with the NASU and the Dobrov Institute to develop a survey of institute information that evaluates institute self-sustainability and the impact of STCU activities in contributing to the institutes' development. The Dobrov Institute is a NASU institute that specializes in statistical analysis and survey evaluation. The STCU and NASU will work with Dobrov Institute to design a questionnaire and schedule for the survey, and Dobrov Institute will use this questionnaire to gather information from the NASU institutes of priority interest to STCU. The STCU hopes that this questionnaire will bring useful information from the institutes and allow the STCU to better target its activities in sustainability development. The involvement of NASU is seen as critical to enticing the institutes to provide the most comprehensive and complete information they can, and with the imprimatur of the NASU, the STCU hopes to use this same questionnaire for future, regularly scheduled surveys of institutes in Ukraine (and possibly other STCU members).

Revisions to Model Project Agreement and Adoption of Project Development Grant funding option.

During the Advisory Committee meeting of 22 September (Brussels), the AC approved for GB presentation to the Secretariat proposals to (1) establish the Project Development Grant (PDG) as an official decision option for the Project Funding Sheet, along with standard procedures for processing a PDG-funded proposal; and (2) modifications to the annexes of the Model Project Agreement reflecting the addition of sustainability planning into the workplan (something already adopted as part of the Full Form project proposal) and additional financial definitions and clarifications (based on observations of STCU project monitoring reports and DCAA project audits). The PDG Standard Operating Procedure and the revised Model Project Agreement annexes are included as decisions in this Governing Board Meeting Record of Decisions.

Important Visitors/Meetings

Meeting with U.S. Defense Department Cooperative Threat Reduction Officials

On 15 August, Dr. Andrew Weber (Advisor to the Office of Cooperative Threat Reduction Policy, U.S. Department of Defense), Major Jerry Lucas (International Project Manager, Biological Weapons Proliferation Prevention Program, Defense Threat Reduction Agency) and their team visited the STCU for general discussions. The Defense Department's Cooperative Threat Reduction (CTR) Program is negotiating an agreement with the Ukrainian Ministry of Health to work with Ukrainian biological institutes on issues of pathogen security, laboratory safety upgrades, and collaborator research on issues of mutual interest to the CTR program. A portion of this future CTR work could go through the STCU as partner projects and DTRA sponsorship of workshops, travel support, etc.

Meeting with Canadian Foreign Affairs Department/Global Partnership Officials

A meeting is scheduled for 19 September at the STCU between Ms. Cindy Vestergaard (Program Officer, Chemical and Biological Weapons, Global Partnership Program, Canadian Department of Foreign Affairs and International Trade) and STCU staff to discuss future involvement of the Canadian Global Partnership Program/Chem-Bio activities with STCU. Ms. Vestergaard will be enroute to a biology-related conference in Odessa that week, which was of interest to the Dr. Weber (U.S. DoD/CTR) and of the Canadian GP program. STCU provided conference support funding for this Odessa conference.

Meeting with Official from the Office Science and Technology Advisor to the U.S. Secretary of State. On 2 November, the ED met with Dr. Gene De La Torre, an official to Dr. George Atkinson (S&T Advisor to the U.S. Secretary of State) to discuss the S&T Advisor Office plans and activities involving U.S. S&T policy initiatives in Ukraine and in Central Asia. Building on themes presented at the 31 October – 1 November CRDF conference on the future of Ukrainian science (see note below), Dr. De La Torre discussed general ideas on how the model of the STCU could be applied to broader issues of science cooperation as a tool for building international relations and stability. Noting the limited mandate of the STCU, the ED and Dr. De La Torre discussed areas of a broader context where STCU could be useful now, and also under a revised mandate (that would obviously involve a negotiated expansion of the STCU charter).

Conferences/Workshops

Round-table with Ukrainian Institute Directors. The STCU participated in a round-table discussion on intellectual property and technology transfer organized by the Academy of Technical Sciences of Ukraine. The round-table served as a platform for a public discussion on Ukrainian governmental policy development to encourage and facilitate Ukraine's development of a vibrant technology sector in its economy and make more effective use of Ukraine's S&T potential toward national economic and social development.

ISTC-STCU Working Group on Intellectual Property Rights. On 15 September, DED Zimmerman and staff of the STCU Patent/IPR Support program attended a joint ISTC-STCU working group meeting on IPR at the ISTC, Moscow. Issues included coordination of the ISTC and STCU IPR Handbooks and discussions with the Parties on developing processes for exchanging IP disclosures between the Financing Parties and the Centers.

Baku IPR Workshop. On 27-28 September in Baku, the STCU held an IPR workshop for Azeri and Georgian scientists and administrators. This workshop roughly followed the same agenda as last year's IPR workshop in Kiev. Three speakers from the United States covered a wide range of IPR topics of relevance to researchers seeking to commercialize their ideas. Twenty Georgian scientists and administrators attended. The total attendance was approximately 50+ and included five, specially selected researchers from Ganja as part of our outreach effort within Azerbaijan.

Nanophotonics Delegation. From 19 September to 8 October, the STCU led a delegation of 12 scientists to Sherbrooke, Canada to participate in a photonics conference and hold meetings with Canadian businesses. A training session took place at STCU on September 8 – 9 to prepare the participants.

Lighting Strike Workshop. On 19-23 September, STCU took three leading, Ukrainian aerospace scientists to a workshop in Seattle, Washington, USA on lighting strike hazards/safety research. The scientists also met with officials at The Boeing Company to discuss future Partner projects.

STEP Seminar. The third and final seminar in the STEP (S&T Entrepreneurship Program) series was held in Tbilisi at the end of September. STCU is a co-sponsor of this series with CRDF, and it is intended to bring together researchers, entrepreneurs and business figures at a local level to develop commercial science, as well as to develop the capacity of local scientists and institutes to attract foreign S&T investment. CRDF plans another STEP seminar series in Azerbaijan

in 2006, and has approached STCU about co-sponsoring again. CRDF and STCU are evaluating the effectiveness of the Georgian STEP activities with an eye towards improvements or changes to the approach for 2006.

CRDF Conference on the Future of Ukrainian Science. The ED presented a paper on employment of former weapon scientists as a contribution to the advancement of future Ukrainian science on 31 October. This conference was attended by high ranking officials such as Dr. George Atkinson (S&T Advisor to the U.S. Secretary of State), Oleh Rybachuk (Chief of Staff to Ukrainian President Yushchenko), Dr. Borys Paton (President, National Academy of Sciences of Ukraine), and First Deputy Minister of Education and Science Andre Gurzhiy. Many papers on the status and future needs of Ukrainian science, technology development, and education improvement, were presented. Working panels discussed the many recommendations of these papers, and CRDF will use this input to produce a set of policy recommendations to the Ukrainian government as well as the United States government and to other organizations working in Ukraine. One of the main outcomes of the conference was the recommendation for Ukraine to develop a truly merit-based competitive culture within its S&T and educational communities, and for Ukraine to engage outside organizations in an equal (and co-funded) partnership to define actions, implement policies, and finance programs that encourages the development of excellent, competitive S&T and science education.

Activity Update

Mid-Year Progress on STCU Internal Goals for 2005

Attached to this report is a table summarizing the progress made toward STCU Internal Objectives and Goals for 2005/2006. Some of the 2005 goals have been achieved already, and generally there is positive progress being made towards all of the goals. Two areas where little or no progress has been made are in receiving feedback from Party expert reviews on the "technical quality" of proposals and in implementing a comprehensive Performance Measures activity (although the STCU has succeeded in hiring a Performance Measures officer and can now expect progress on this goal).

Project Activity

As of 1 November, the STCU had 203 active projects underway (154 Regular Projects; 52 Partner Projects), as compared with 235 active projects (190 regular projects and 45 Partner Projects) underway in January 2005. As of 30 August, the STCU has forwarded 123 proposals to the Parties for review; of these, 30 proposals were sent since the 20th Governing Board meeting on 16 June. Receipt of Ukrainian Host Government Concurrence on proposals continues to be spasmodic, with 47 HGC received in February, a total of 22 received during the entire four month period of March-June, and then a group of 50 proposals received in July.

The year 2005 saw a continued reduction in the number active STCU projects. As of 1 November, the STCU had 203 active projects underway (154 Regular Projects, 49 Partner Projects) compared to the 221 active projects a year ago (176 Regular Projects, 45 Partner Projects).

	2003	2004	2005 (as of 1 Nov.)
Proposals Sent for Review	198	191	198
Active Projects	362	221	203
Completed Projects	97	99	67

From the 17th Governing Board (4 December 2003) to the present, the STCU has funded 85 new projects (71 regular, 14 Partner) and has completed 112 projects (88 regular, 24 Partner). As of 22 November 2004, the STCU has 221 active projects underway (176 regular projects and 45 Partner Projects), compared with 362 active projects (291 regular projects, 71 Partner projects) underway at the end of 2003.

In 2004, the STCU sent 191 proposals to the Parties for review (current as of 22 November 2004), as compared to 198 proposals in 2003. Since the 18th Governing Board, the STCU has received 78 proposals.

Also in 2004, the STCU will have completed 99 projects (80 regular projects and 19 Partner projects) with 36 projects (29 regular and 7 Partner) finishing since the 18th Governing Board.

Sustainability Activity Update

As of 30 August, a total of 3 new Partners, all non-governmental organizations, were approved since the 20th Governing Board, bringing the total number of STCU Partners to 122 organizations (19 governmental agencies, 103 non-governmental/private-sector organizations).

Only one new Partner Project was started since the 20th Governing Board, but since the beginning of the year, 23 new Partner Projects have been started totaling over \$4.317 million USD and 89,088 euros. Of these new Partner Projects, 9 were projects from non-governmental Partners (totaling about \$1.5 million USD). For comparison, over this same period in 2004, the STCU has 12 new or extended Partner Projects (totaling approx. \$1.7 million USD and ґ57,500) of which 3 projects (totaling approximately \$266,000 USD and ґ37,000) were non-governmental Partner Projects.

Recently, there has been significant progress made in the areas of Sustainability Development, Partner Promotion, and Patent/IPR Support. In Sustainability Development, STCU worked with two Regular Project teams to develop sustainability strategies for their projects, which were funded at the 19th Governing Board. This means that the Sustainability Promotion Department reviewed the proposals, conducted preliminary in-house market analysis (i.e., testing the scientists' assumptions about their market), and provided recommendations about fruitful paths of investigations to the Senior Specialists. This is the first time that STCU was able to use the "sustainability" sections of Regular Project proposals instituted by STCU last year. The Science Excellence and the Technology Advancement Departments then worked with the Project Managers to strengthen the work plans included as part of the Project Agreement. The goal was to ensure that promised deliverables were both meaningful and "audit-able."

In Partner Promotion, the "nanotechnology" roadshow to Germany, which took place 6-8 June, appears to have resulted in 10 potential "success stories". The event was organized by the STCU in cooperation with the International Bureau of the German Federal Ministry of Education and Research (FMER) and the German Embassy in Ukraine. Five nanotechnology experts from Donetsk, Kharkiv, Kyiv, and Lviv participated in the STCU delegation, and this delegation attended the "Nanotrends: From Research to Industrial Applications, Nanotechnology Business Congress and Exhibition" (Munich) and also traveled to meetings in Berlin, Wetzell, and Dresden. Over 40 contacts were made, and the STCU identified 10 specific cases where there was private-sector interest in follow-up activities with the scientists. This roadshow was the first to employ the new STCU criteria for selecting the scientists who would be invited to participate in the roadshow. The criteria includes having the scientists fill out a specific Technology Profile designed by the STCU as well as having the scientists pre-arrange meetings with local private-sector contacts that are local to the roadshow's travel route. This "targeting" process should make STCU Roadshows more effective in securing Partners and in commercial matchmaking.

In Patent Support, DED John Zimmerman and the staff of the STCU Patent/IPR Support program met with senior Ukrainian officials from the Ministry of Education and Science and the Ukrainian State Patent Office to discuss ways in which the STCU could encourage more applications for foreign/international patents by participating Ukrainian scientists. In the past, Ukrainian scientists on STCU Regular Projects were reluctant to seek STCU assistance in notifying Financing Parties about an invention, or seeking Financing Party expert assistance on writing a strong, comprehensive patent application for the invention, because of an unclear legal requirement for invention disclosures to receive Ukrainian government permission to be released abroad. The meeting was very positive, with the Ukrainian officials stating their support for STCU and STCU Party assistance to help scientists write better patent applications

appropriate for PCT and foreign patents. The officials also described the Ukrainian national review system for approving the release of invention information into foreign national/PCT applications, and it appears that this approval process is not as big a barrier to the STCU as first feared. The STCU intends to continue its discussion and work with these Ukrainian patent authorities to organize a standard process for passing invention disclosures and patent application to the Financing Parties in ways consistent with Ukrainian law.

The STCU also continues to push the Parties for comments or approval to use its IPR Handbook as the guide for scientists on IPR and patenting issues. The STCU intends to participate in the ISTC-hosted IPR working group meeting in mid-September with the objective of making progress on its IPR Handbook as well as continue its long-standing coordination with ISTC on common IPR issues. Since the 20th Governing Board meeting, the STCU has approved for financing 3 patent support grant applications: 2 Ukrainian national patents (costing a total of \$1300 USD) and 1 foreign patent application covering France and Germany (costing a total of \$9600 USD). As the STCU Patent Support program fields more foreign/international patent applications, we are becoming more familiar with the high cost of these applications and will need to factor those costs into the Supplemental Budget – Patent Support budget request for next year.

Andrew Hood
Executive Director

STCU Internal Objectives and Goals for 2005-2006

Objective	Goal	Task	Mid-Year Review	Overall Progress To Date
Improve rate of proposals rated as "competitive" or "strong technical merit" by the STCU Party Experts	Increase percentage of "competitive" proposal ratings to 33% in 2005 and to 50% in 2006	Formulate process for receiving summary technical evaluations of proposals from Parties and develop STCU-in house evaluation process Develop regular practice for passing relevant "market" information from our sources to scientists	No progress on receiving proposal reviews from Parties on regular basis. Are getting more detailed information in proposal comments on Funding Sheet. Assigning SSps to be subject matter experts on specific R&D areas; still searching for Market Analyst; some progress on grant-writing training package and encouraging use of Sustainability Planning section of proposals.	Progress: Poor Cannot make real progress on this until STCU and Financing Parties agree to a system for getting feedback from Party technical expert reviews.
Create a system for organizing research initiatives and encouraging organizations to make use of STCU capabilities to fulfill their own programmatic needs	Organize 2 new large R&D initiatives per year, with 4 active initiatives during each year.	Joint NASU-STCU proposal development in areas of NASU financial focus Solid propellant destruction method study Targeted R&D initiative in URANET or Uzbek bio/chem analytic center	Initiated STCU-NASU Targeted Initiative; proposals sent to Parties in July; target date for project selection: 15 October. Discussions continue between project team, lead European collaborator, and Commission. Proposal being outlined. Waiting for URNET workplan but STCU expressed support to participate as appropriate and feasible. Negotiations with Georgian MinEdSci about cooperative Targeted Initiative for 2006; statement of cooperation prepared and under consideration.	Progress: Good Potentially big success with NASU Targeted Initiative (first time for co-financing from Beneficiary Government) with very enthusiastic support for something similar in Georgia. Need to work through Financing Party review of TI proposals to iron out process issues.
Increase private sector Partner Participation and Partner Project Funding	Increase new private sector Partner Project funding by 100% each year	Organize targeted RFP for Ukrainian proposals using commercialization strategy studies and similar market needs studies Road-show planning and execution	Received U.S. study on potential matches of Ukrainian S&T capability to U.S. near-term market interests, but STCU has yet to articulate study results into tailored "call for proposals" Successful roadshow to Germany with positive indications of future partner activity; roadshow to USA initiated by U.S. Party for September. Workshop postponed until 2006, but STCU training sessions and consultation with potential scientist technical presentations took place. STCU evaluation of previous NATO science projects yielded no strong candidates for commercialization.	Progress: Good Private sector Partner Projects increased to 10 totaling \$1.5 M, compared to 8 projects/\$0.500 M for all of 2004. Potential for more private sector Partner participation with tailored RFP and general improvement in FDI climate in Ukraine/Georgia. Challenges ahead with NATO workshop
Improve recipient institutes'	Increase current percentage	From 2003 survey, choose institutes for	List of 18 institutes identified for focused	Progress: Good

EXECUTIVE DIRECTOR REPORT

<p>ability to sustain themselves</p>	<p>of institutes reliant on commercial or diverse sources of funding to 65% of institutes with commercial or diverse funding sources by end of 2006</p>	<p>focused effort to get them "over the top" in sustainability Establish regular process for obtaining institute sustainability evaluation data Establish invention disclosure, patent application, and patent/licensing procedures within the STCU, consistent with Party processes and STCU IPR requirements.</p>	<p>sustainability development effort. Consultant contract to assist these selected institutes negotiated and to start in September Contract with NASU and Dobov institute signed; contract will develop survey process for STCU (in association with NASU) to gather data from Ukrainian institutes NDAs sent to institutes as first step. MES/STCU working group on STCU ratification process led to meeting with Ukrainian patent officials to work on acceptable invention disclosure/patent application process for STCU Regular Projects</p>	<p>Positive movement toward focusing sustainability development work on key institutes. NASU "buy-in" on sustainability survey critical to institute responsiveness and in developing a "system acceptable" comprehensive evaluation tool. Coordination of STCU IPR Handbook still a challenge, and the lack of a clear, acceptable system for Ukrainian scientists to submit invention disclosures on Regular Projects (plus lack of systems in Canada and EU to accept such disclosures) is hampering progress.</p>
<p>Improve public awareness of STCU activities.</p>	<p>In 2005, implement proactive reporting of STCU accomplishments regular use of web site tools, and local mass media and other organizational web sites</p>	<p>Develop regular procedures for getting well-written, well-presented, informative "recent events" articles onto STCU web site and out to email subscriber list. Develop a plan for establishing STCU's presence in known 2005 public events such as important conferences in 2005, office opening ceremonies, important initiatives, etc. Establish working group for designing and developing 2004 Annual Report Review current partner promotional materials for update or improvement</p>	<p>More "recent events" articles being published, but QC an issue for further review. Email subscriber list created and used for a few high-level announcements, but further review on its best use needed. "Public affairs strategy" still underdeveloped. STCU profile has been raised at several conferences where VIP government officials attended, but these are ad hoc occurrences. More planning is necessary. Editorial Committee created, which oversaw organization and schedule of 2004 Annual Report design/publication Brochure and CD ROM presentation designed for use in roadshows; one-page "technical capability" flyers designed and being evaluated for future improvements</p>	<p>Progress: Good Still need to refine public outreach approach, but CD Training Packages, Annual Report, and roadshow preparations are in place and appear effective.</p>
<p>Increase STCU administrative efficiency and customer responsiveness</p>	<p>In 2005, (A) develop centralized "information point" with less than one-day turnaround for responding to Party information requests; (B) resolve outstanding</p>	<p>In addition to other duties, assign to the new Performance Measurements person the responsibility of acting as the central point of contact for coordinating information requests from external sources</p>	<p>Difficulty in hiring a permanent Performance Measures staff member has delayed implementing this task. General agreement on how information requests should be entered into STCU, but still need a more centralized POC to organize and manage flow of requests and responses.</p>	<p>Progress: Good Strong movement toward paper-less project processing; ERP will remove persistent audit finding and give STCU a fully-integrated project data and financing</p>

EXECUTIVE DIRECTOR REPORT

	<p>auditor observations; (C) reduce paper-based processes and archiving requirements; (D) improve speed and quality of project processing system</p>	<p>Develop improvements to proposal processing and project agreement paper flow within the STCU, making use of STCU IT architecture to move to a reliable system that requires less paper and less movement of paper within the STCU.</p>	<p>STCU Project software released and in use; has vastly improved the organization and accuracy of information in project proposals and Project Agreements. STCU Project Database fully implemented; SSps now responsible for keeping project entries updated and accurate; STCU internal concurrence for proposal transmission to Parties fully electronic and "paper-less", with Project Agreement internal processing next in line.</p>	<p>system. HGC process improvements still a challenge, but direct communications with Ukrainian government a plus.</p>
		<p>Implement ERP financial software</p>	<p>Contract initiated and work underway to implement ERP integrated financial software. Scheduled "go live" date is 1 September.</p>	
	<p>Work with Ukrainian government to improve HGC processing time</p>		<p>MES-STCU WG created to deal with HGC process improvement. MES claims "new committee" created to improve the flow of proposals through the HGC process, but no indication that this "new committee" process is actually been implemented.</p>	

Legend:

No Progress/Poor Progress

Some Progress – Continuing Work

Good/Excellent Progress



PROPOSED STANDARD OPERATING PROCEDURE FOR PROJECT DEVELOPMENT GRANTS (PDGS)

Background. The option for funding a project development grant, or PDG, has gradually slipped into the STCU Project Funding Sheet because of funding decisions made by the Parties. Although an often-used funding decision option in the ISTC, the PDG concept has never been formally approved for use by the STCU Governing Board (as it was by the ISTC Governing Board) and, therefore, the STCU Secretariat has no guidelines or procedures for implementing a PDG. Further, the recipient scientists have had trouble understanding the meaning of a PDG, often mistaking it as approval of their proposal but at a drastically reduced amount of funding. Also, the scientists and STCU Senior Specialist often do not know what to do with the PDG funding because of a lack of instructions or guidance attached to the Financing Party decision.

STCU Proposal. The STCU Secretariat drafted the following Standard Operating Procedure (SOP) for dissemination to the STCU staff, and proposes that the Governing Board approved the concept of Project Development Grant as an acceptable project funding decision option, along with approval of this SOP to govern the implementation of a PDG funding decision.

(DRAFT) Standard Operation Procedure for Project Development Grants (PDGs)

PURPOSE

This document establishes the policy and procedures for implementing the Project Funding Decision “Project Development Grant (PDG)”.

SCOPE:

This policy document establishes “Project Development Grant (PDG)” as an official category of Project Funding Decision for use by the STCU Governing Board on STCU regular project proposals. The goal of a PDG is to provide funds to participating scientists to improve the scientific/technical quality of their proposed STCU regular project. The PDG will replace the existing “Rewrite/resubmit” funding decision option in the STCU lexicon.

PROCEDURES AND POLICIES:

- A. The STCU Governing Board shall have, as a project funding decision option, a category called Project Development Grant, or PDG, on the STCU Project Funding Sheet. .
- B. PDGs shall only be applicable to STCU project proposals that have already received host government concurrence, registration at STCU, and dissemination to the STCU Parties for expert review and funding decision.
- C. Throughout the PDG process described herein the proposal shall be identified using the STCU project number originally assigned to the submitted proposal (unless additional host government concurrence is necessary. See below).

- D. When a Financing Party(ies) approve a proposal for a PDG, the Financing Party(ies) shall provide the STCU with detailed instructions on what actions should be taken by the proposal's Project Manager, using the funds awarded in the PDG. These instructions should be sufficiently detailed to give the Project Manager a thorough understanding of what tasks must be undertaken (using the awarded PDG funds) to modify/improve the proposal, including (but not limited to):
 - i. Specific, detailed technical concerns or questions to be addressed or researched in order to improve the proposed research
 - ii. Specific steps to be taken to satisfy Party requirements, such as recruiting a foreign collaborator, attending a specific conference or symposium, attending training course or meeting, etc.
 - iii. Specific actions to be taken using the PDG funds, such as travel to consult with foreign collaborator, literature searches, attending specified training workshops, etc.
- E. The STCU shall notify the proposal's Project Manager of the Governing Board decision to award a PDG, including the amount of funds in the PDG award and the Party-provided instructions.
- F. The Project Manager shall submit to the STCU a project agreement, workplan, list of participants, and budget to implement the PDG instructions provided by the Party. This workplan and budget shall use the STCU Model Project Agreement template and shall use the same STCU project number assigned to the originally submitted proposal.
- G. Funds provided to support the approved PDG can be used to finance grants to PDG participants, travel support, and training support as called for in the Financing Party(ies) instructions. PDG funds shall not be used for equipment purchases, material purchases, subcontracts, other direct costs, or payment of overhead to the institute.
- H. At the successful completion of a PDG workplan, the Project Manager shall submit to the STCU a revised STCU proposal that includes any modifications/improvements to the original proposal resulting from the PDG work. The STCU shall communicate this PDG-revised project proposal to the Parties for expert review and Governing Board funding decision, following the standard procedures for STCU proposal processing.
- I. Unless otherwise indicated by the Financing Party(ies), the completion and resubmission of a PDG-revised proposal **will not be assumed** to be eligible for the full funding requested in the project proposal. The decision on whether a PDG-revised proposal shall be approved and funded as a Regular Project rests solely with the Financing Parties.

Should the modifications/improvements to a proposal constitute significant changes, such as major changes in the proposed research work, proposed project-related procurements, or in the list of participating institutes, the proposal may require new host government review and concurrence. If this is the case, the Project Manager shall submit the PDG-revised proposal as a new STCU proposal, which will receive a new STCU project number and follow the entire STCU proposal process, including submission for Host Government Concurrence.



PROCEDURE FOR ACCEPTING FINANCIAL CONTRIBUTIONS FROM COLLABORATORS

Background. In the Project Funding Sheet of the 20th STCU Governing Board meeting, there is a Regular Project (STCU #3278) partially financed by the European Union and a European company, S3 Solutions GbmH. This “funding collaborator” sent the STCU a letter of collaboration that included a statement of interest to contribute financially to the project and to assist in its commercial development. Further, the STCU Secretariat notes that EU comments to Project Funding Sheets are increasingly directing proposers to seek European industrial collaborators.

In the case of STCU #3278, the STCU Secretariat has never dealt with a commercial entity that was not an approved STCU Partner. Further, the STCU Secretariat notes that the U.S. Party has requested that there be further discussion between the Parties and Secretariat regarding the procedures to be used when dealing with non-Partner financial contributions to STCU projects [Ref: Email from Jason Witow to Advisory Committee members, 22 June 2005]

STCU Secretariat Concerns. The Secretariat is concerned that it follows a prudent procedure, accepted by all the STCU Parties, with regards to its interactions with commercial, non-Partner financing collaborators. By way of clarification, the Secretariat has the following questions regarding STCU #3278:

- Is S3 Solutions aware of the roles and restrictions that apply to STCU Regular Project collaborators? In particular, given that S3 Solutions is a software company with commercial interests; does S3 Solutions understand and accept the Intellectual Property Right guidelines defined in the STCU Statute and Model Project Agreement?
- Is S3 Solutions acting as an authorized representative of the EU Party with regards to project-related reviews and decisions? Does S3 Solutions have an understanding with the EU Party regarding its involvement in STCU #3278 that goes beyond what is expected of a Regular Project collaborator?
- Has the EU Party and S3 Solutions agreed to an arrangement regarding S3 Solutions' participation as a financial contributor and collaborator on STCU #3278, and if so, does this arrangement require the STCU to develop an amendment or special condition for inclusion in the STCU #3278 Project Agreement?
- Do all of the STCU Parties support the STCU involvement with S3 Solutions even though S3 Solutions is not an approved STCU Partner and therefore has not made any statements regarding its acceptance of the terms and conditions of the STCU Agreement, Statute, and Collaborator Guidelines?

ISTC Experience. At the suggestion of the EU science advisor, STCU asked the ISTC about its experience in dealing with funding collaborators. According to ISTC [Ref: Email from ISTC PDED Sergey Zykov to STCU DED Esa Manninen, 9 Aug 2005]:

- Most (if not all) of the funding collaborators on ISTC Regular Projects are not commercial or industrial entities, but rather are government agencies, national laboratories, or academic institutions. This situation made it easier to deal with the funding collaborator, as typically these non-commercial collaborators were interested in assisting in the success of the research, primarily provided in-kind contributions such as project equipment, and had no interest in intellectual property ownership or other commercial interests.

- In all cases, the ISTC required the funding collaborator be fully informed and accept the principles and guidelines that apply to collaborators on a Regular Project. This was particularly directed to the collaborator's acceptance of the IPR guidelines for Regular Projects (whereby a collaborator has no automatic claim to IP ownership or licensing rights) and that no project funds would go to the collaborator.
- ISTC also required the funding collaborator to enter into a memorandum of agreement which defined the terms, conditions, and schedule of transfer of funds from the collaborator to the ISTC, as well as reflect the funding collaborator's contribution into the integrated project budget.
- The ISTC also requested that the Financing Party and funding collaborator acknowledge in writing or in Governing Board-approved Funding Sheet that the Financing Party supported the financial participation of the funding collaborator and defined the roles and responsibilities (if any) of that collaborator to the execution and monitoring of the project. For example, if the funding collaborator also was to be a technical monitor on behalf of the Financing Party, the ISTC needed the acknowledgment of the Financing Party of this agreed arrangement.

The ISTC noted that, in its limited experience, it was the initiative of the collaborator to offer financial contributions to a Regular Project, usually out of a pure scientific interest to help in the success of the research and to advance the state of science. The ISTC cautioned that if a collaborator (particularly a commercial entity) was encouraged by a Financing Party to make a financial contribution, there may exist certain commitments, implied promises, or presumptions on the part of the collaborator that would be unknown to the ISTC and thus would influence the relationship between the collaborator and the ISTC's management of the project.

STCU Proposal. While this is a new situation for the STCU, it is the Secretariat's view that accepting financial support for project work would be desirable if properly managed. The Secretariat's primary concerns are (1) that the funding collaborator understand and accept the principles and procedures for collaborators on STCU Regular Projects, (2) that the collaborator's role on the project be supported by the project's Financing Party(s), (3) that the collaborator's financial participation on the project be approved by the STCU Parties, and (4) that the terms and conditions for receipt of the collaborator's financial contribution be accepted by both the collaborator and the STCU Secretariat.

To satisfy these concerns, the STCU proposes the following procedures to the STCU Parties:

1. That the funding collaborator send a letter to the STCU stating its intention to provide financial contribution to a project (including the expected amount) and that the collaborator accepts the terms and conditions of the STCU Agreement, Statute, and Guidelines for Project Collaborators.
2. That the Financing Party express its support for including the funding collaborator financial contribution in the project budget, in addition to its own financial contribution to the project (including any specific categories or purposes within the project budget which the collaborator contribution is to be applied). This can be done as a Financing Party comment to the Project Funding Sheet or as a separate letter of authorization to the STCU.
3. That the other STCU Governing Parties be made aware of, and approve, the participation of the funding collaborator, including the collaborator's expressed acceptance of the STCU principles and collaborator guidelines, as well as the Financing Party(ies) acknowledgement and support of the participation of the funding collaborator on the project.
4. By the time of final signature of the STCU Project Agreement, the funding collaborator agree with the STCU and/or Financing Party(ies) regarding the arrangements, scheduling, and terms and conditions on the transfer of collaborator funds to the STCU for the purposes of financing the specific project.



DESCRIPTION OF REQUESTED CHANGES TO REGULAR, GOVERNMENT PARTNER, AND NON-GOVERNMENT PARTNER MODEL PROJECT AGREEMENTS

Background

At the June 14, 2005 Advisory Committee Meeting, the AC members requested the STCU to provide background on the changes requested to the Annexes of the Regular, Government Partner, and Non-Government Partner Model Project Agreements, in order to provide a better basis for the AC members to understand the changes requested.

This document provides the requested background for all changes.

Background for Changes to Annex 1

Clauses 3 through 9 all renumbered from old numbering scheme (10 – 15) to new numbering scheme (3 – 9)

Clause 5 title changed to “Goods, Services, and Other Direct Costs” in order to be more descriptive than the old title of “Goods and Services”. “For the project” added to be more descriptive.

Clause 6 – changed to “country of residence” from “Georgia, Ukraine, etc.” in order to simplify and shorten this clause. The word “display” added to be consistent with other clauses and clean up the language.

Clause 7 – The word “display” added to be consistent with other clauses and clean up the language.

Clause 9 – The word “display” added to be consistent with other clauses and clean up the language.

Background for Changes to Annex 2

Part A, Article 4 – The phrase “(Russian optional, if the project is located in other CIS State)” added to allow non-Ukrainian institutes to complete their proposal in Russian, not Ukrainian.

Part B, Article 6.1– The currency Euro added, because the STCU pays not only in USD, but also EUR. “Interbank Rate of Ukraine” substituted for “National Bank Rate of Ukraine” because banks in Ukraine will no longer provide the National Bank Rate because the National Bank of Ukraine is no longer a player in the foreign exchange market. Because the STCU is no longer able to obtain the NBU rate, the agreement needs to change to incorporate the rate that is available to the STCU from its bank.

Part B, Article 8.1.7 – The responsibilities of Project Managers and Participating Institution Managers added to clearly articulate the responsibilities of these individuals. These responsibilities were originally contained in Article 8.1.10, but are moved up to Article 8.1.7 to have all of the responsibilities related to timecards in one article.

The responsibilities of Project Participants are not changed, but merely cleaned up to put them in the same format (i.e. verbs to start the sentences, etc.) as the responsibilities of the Project Managers and Participating Institution Managers. There are no material changes to these points, just a formatting and language clean up.

Part B, Article 8.1.8 – “as described in Section 8.1.7 above” added to make this clause much more clear, and to be specific in what constitutes a “properly completed timecard”.

Part B, Article 8.1.10 – This article is changed from earlier delineating the responsibilities of Project Managers and Participating Institute Managers as discussed above in Article 8.1.7 to delineating the issue of 220 days and how it impacts STCU project participants.

The STCU and ISTC both have in a requirement that project participants cannot work more than 220 days in a year without permission from the Center. With permission of the Centers, participants can work up to 242 days. Above 242 days is not allowed by either Center.

This Article refers to the written procedure that can be found on the STCU website that the project participants must adhere to related to this 220 day rule. Because the procedure related to this 220 day rule is 6 pages long, the document is referenced in the annex so as to not lengthen the annex by 6 pages.

Part B, Article 8.2.2 – This article is added because of the STCU’s requirement (at the suggestion of STCU’s auditors, which management of the STCU agreed to) to have a procedure for labeling equipment purchased by STCU projects. Again, because the procedure is 3 pages long, the website location is referenced as opposed to adding the entire procedure to the Annex and increasing the length of the Annex.

Part B, Article 8.4 – “Services and” added to title to be more specific.

Part B Article 8.5 – Changes here related to eliminating country names (Georgia, Uzbekistan, etc.) and leaving “Country of Residence”. This change will allow no further changes to this annex because of the addition or removal of recipient countries. Also, reimbursement rate for use of local car increased from \$.10 to \$.15 to provide for inflation.

Part B Article 8.5.1 – Added to point to the STCU procedure for project participant travel which can be found on the STCU website. The procedure contains more information not delineated in Article 8.5 because of the desire to not make the Annex too large.

Part B Article 9.1 – Added “or any other cost at discretion of the institute management” to emphasize that overhead is at the discretion of the Institute Director.

Part B Article 9.2 – Added “total” to bring the STCU’s annex in to line with that of the ISTC’s. Now these clauses are exactly the same in each Center.

Part B Article 10 – Added “direct” to bring the STCU’s annex in to line with that of the ISTC’s. Now these clauses are exactly the same in each Center.



UPDATE ON GALS-K / PAST RENT ISSUE

As mentioned at the June & September 2005 AC / GB meetings, the STCU and the Ministry of Education and Science (MES) established a working group to discuss the issue of two amounts of money:

First, the UAH 299,129.42 originally paid by the State Treasury at the request of the MES to cover the Gals-K claim under the first court case (#3/335 – 26/06/03). In this respect, the MES had verbally and officially requested the return of this amount on various occasions (i.e. letters dated 16/12/04, 09/03/05, 14/03/05) – and more recently in August 2005 – whereby MES asked STCU to sign and confirm this debt amount held in our Bank account. It has been the STCU intention to amend this proforma to also include the US\$139K Ukrainian debt to the STCU so that both amounts are documented in any officially signed confirmation by MES and STCU;

Second, the approximately \$139,000 paid by the STCU for rent due in 1998-1999, due to the non-payment by the GoU, resulting in the outstanding issue of its reimbursement to the STCU and the Parties.

In respect to the MES requests to return this UAH 229K, on each occasion we advised the MES and reminded First Deputy Minister A. M. Ghourji and his staff that the STCU was still expecting a formal response to the letter (dated 24 December 2004) from the STCU Governing Board Chairman, V. Alessi, to then-Minister of Education and Science, M. K. Kremen, to the effect that: “The STCU Parties agree in principle to return these funds to the Ministry. But in return, the STCU Parties strongly request that Minister Kremen pursue with the Cabinet of Ministers the compensation for the amount owed to the STCU (US\$140K) while the expected modifications to the Ukrainian governmental budget are made in the weeks ahead.”

To date no such response has been forthcoming, despite several formal requests.

First WG (Gals-K) Meeting (8 June 2005). The MES representatives advised that more documentation was needed to justify any budget request to cover the US\$139K. The MES reps particularly wanted documentary proof of budgetary approval for the STCU rent made by the Treasury or Ministry of Foreign Affairs (MFA). The MES requested that STCU check to see whether such documents were available at the STCU. Also, MES requested documentary evidence of some agreement between the STCU, MFA, and Gals-K that approved the arrangement for paying the rent to Gals-K using Ukrainian state budget funds approved for this purpose. **NB:** The STCU had previously requested (via official letter) MES assistance to acquire this very same information from the Ukrainian governmental agencies, but MES later requested that STCU to pursue this information from the Ukrainian governmental agencies.

STCU Actions from First WG Meeting. A letter was sent to the MFA of Ukraine on 21 July 2005 requesting the needed budgetary information; a meeting with MFA financial officials followed on 22 August 2005. The outcome of the meeting was the MFA provided the budget funds approved for STCU during the years 1999 to 2003 (the year when GoU responsibility for STCU was transferred to MES). Prior to 1999, the GoU had made a separate budget allocation to the STCU as a “Ukrainian organization” (approved yearly by the GoU parliamentary budget process), and these funds was dispersed through the Ministry of Finance. The MFA also confirmed by letter that there was no agreement between them and the previous (Gals-K) landlord with respect to paying rent.

We located all the GoU-approved budget figures for 1996, 1997, 1998 & 1999 pertaining to the STCU. The missing figures for 1995 proved impossible to find as there was probably no published budget in that year (further, it appears that our rent for 1995 may have been paid out of the budget of the Ukrainian Space Agency).

After obtaining the required information, the STCU sent a detailed letter to the MES defining all aspects of the issues involved (See attached letter from STCU ED to MES, dated 7th September). Subsequently a second session of the STCU-MES Working Group (Gals-K) was held.

Second WG (Gals-K) Meeting (16 September 2005). Mrs. Latpi (CFO-MES) chaired the meeting and the STCU CAO and CFO represented the STCU. After long discussions over the presented budgetary documentation from 1995-2002 plus other documents, Mrs. Latpi initially advised that they did not have sufficient or required documents. The STCU reps stated our position (1) the *de facto* acceptance of the GoU to approve and allocate the budget amounts for rent payment for all those years, plus (2) the GoU obligations under the STCU Establishing Agreement and acknowledgement of such in various other official documents was proof enough. Mrs. Latpi finally agreed and verbally confirmed that the MES would initiate a request to Cabinet of Ministers to provide for a budgetary compensation item in the 2006 state budget for the STCU's \$139K.

The MES representatives then requested that STCU sign their reconciliation debt letter to confirm the debt of UAH 229K. The STCU refused on the basis that the MES had not responded to the STCU Governing Board Chairman's letter of December 2004. The MES representatives thought that they had and tried to find the letter without result. They confirmed that they would write a new letter to the effect that the MES was doing all possible to resolve this problem and it would request the Government to repay the STCU (\$139K) via the 2006 state budget. The STCU also requested that MES provide a copy of the MES request letter to Cabinet of Ministers with respect to the extra budget item for the compensation / reimbursement amount of \$139K in the 2006 Budget. MES agreed to provide.

MES Actions Following Second WG Meeting. STCU received a letter from First Deputy Minister Ghourziy dated 5th October 2005 (see attached letter and translation), apparently in response to the 16 September WG meeting. However, the MES letter appears to overturn the understandings and agreements reached by the STCU-MES Working Group.

First, the MES repeats its request that the STCU to confirm the debt to MES and repay the UAH 299K to a MES-designated bank account. The MES letter goes on to state that the letter from the STCU Governing Board Chairman to former Minister Kremen cannot connect repayment of the MES funds to the question of the STCU's \$139K allegedly owed by the Ukrainian government. MES letter repeated its position that the UAH 299K transferred to STCU was specifically linked to the Gals-K court case, and because this court case was thrown out, the MES funds could not be used for any other reason and must be returned.

Second, the MES letter addresses the documentary evidence gathered by STCU regarding the issue of the STCU's \$139K. Here, the MES questioned the "unreasonable increase" in rent in 1999 and why the STCU had not used the approved Ukrainian state budget funds in 1999. **NB:** Apparently, the First Deputy Minister did not accept the explanations in the 7 September STCU letter to him, namely that the rent increases were due to the dramatic UAH devaluation during the 1998-1999 financial crisis and that the Ministry of Finance had officially informed the STCU that the GoU could not release payments to STCU during this period (see attached MinFin letter and translation).

The MES letter concludes that for the STCU to claim a \$139K debt from the GoU, the STCU must provide yet more documentation that "...confirms the debt, explanation and a proof concerning usage of money for rent payment over limits regarding the law 'State budget of Ukraine for 1999'...".

Current STCU Secretariat Position. The STCU Secretariat now feels that, given the more recent MES letter on this issue, the STCU-MES Working Group cannot achieve any resolution, and that no further discussions with the MES, nor

any further investigation for more documents, will be useful, constructive, or beneficial in resolving this issue. The Secretariat believes that only further discussions with the GoU at a higher political level will achieve any progress.

The Secretariat therefore requests instructions from the STCU Governing Board as to what the next steps should be, particularly with regards to the MES request to return the MES funds.

Letter by STCU to MES

Mr. A. M. Ghourji
Senior Deputy Minister
Ministry of Education & Science

7th September 2005

Dear Mr. Ghourji,

I wish to extend to the Ministry of Education and Science (MES) the appreciation of the STCU for the initial rounds of working group meetings that took place during the summer months. All three groups identified issues that required further work, and I hope that the groups can meet within the next few days to review the status of these issues. I have a meeting of the STCU and its Parties (U.S., Canadian, and European Union) in Brussels in the third week of September, and I will be informing the Parties of the current state of affairs with these working groups.

I wish to draw your attention to the current status of one particular working group, which is addressing the remaining issues involving the former premises of the STCU headquarters. We call this working group the "Gals-K Working Group".

Following the first Working Group Meeting which took place in your offices on 8th June 2005 the STCU and MES mutually agreed to the following tasks:-

The STCU would try to find proof from documentary evidence of the following:

1. What funds were budgeted and approved in the Government of Ukraine's Budget for the STCU and available to either Ministry of Finance, Ministry of Foreign Affairs or other Government body at the time for the payment of rental dues for the years between 1995 to 2002.
2. That there existed an agreement between representatives of the Government of Ukraine with Gals-K to confirm the payment of rent to Gals-K for the STCU office.

The MES would:

1. Also search for proof of documentary evidence of Items 1 and 2 above, and
2. The MES would also pursue an official response to the letter from STCU Governing Board Chairman Dr. Victor Alessi to Minister Kremen (dated 27/12/2004) which deals with the issue of the UAH299,129.42 being held by STCU and the US\$139,199 owed in past rental debt by the Ukrainian Government to the STCU Parties (Annex 9).

Since that initial meeting the STCU met with the Ministry of Foreign Affairs and discussed these issues. The MFA agreed to supply us with the budgeted amounts for the years in which they were responsible for the STCU. This is for

the years covering 2000 to 2002. (See attached letter Annex 1) from the Ministry of Foreign Affairs dated 26/08/05 Ref:212/36 926 2906 for budgeted amounts held by MFA for STCU)

Prior to 2000, the STCU had a specific budget line in the Government of Ukraine's budget where approved state funds were allocated for the payment of STCU rent. We were able to confirm the Government-approved budget allocations for the STCU for the years 1996, 1998, and 1999 through the official Verhovna Rada web site (Rada.Gov.UA site). (See Annex 2). However, the STCU has not been able to find budget information for 1995 & 1997. The STCU has officially requested the Ministry of Finance to provide information for budget year 1995 & 1997; We are currently awaiting these 1995 & 1997 budget figures which we shall forward to you once received.

This completes Item 1 of the STCU tasks as agreed at the first Working Group meeting.

With respect to Item 2, the STCU searched its archives and has not found any documentary evidence of a contract or written agreement between a representative entity of the Government of Ukraine and Gals-K in respect to the lease payments in question. The Ministry of Foreign Affairs also has confirmed that it has no record of such an agreement between Gals-K and the Ministry (See Annex 1).

At this point, the STCU effort has documented the following:

1. Under its international agreement signed by the Government of Ukraine, the Government of Ukraine is responsible for providing, at its own expense, premises in Kyiv for the STCU Headquarters (Article IX of the Agreement on the Establishment of the Science & Technology Centre in Ukraine – See Annex 3).
2. A letter from the Ukrainian Cabinet of Ministers (5 May 1995 – Annex E) signed by B. Plitin, confirms the use of the premises at Labororny Pereulok 3 by the STCU. This position was re-confirmed in a letter from the Ministry of Foreign Affairs (23 January 2003 – Annex 6). The latter refers to the Government of Ukraine's responsibility to provide the STCU with appropriate premises at the expense of the Ukrainian government.
3. The STCU signed a five-year lease agreement between the STCU and Gals-K on 26 May 1995 (Annex 4). The Government of Ukraine provided budgeted funding for the purposes of paying rental invoices on this lease, as provided to the STCU by Gals-K. Sufficient funds from this budget allocation were available for these Gals-K invoices up until the period in 1999 when the rental debt of US\$ 139,199.00 to STCU parties arose.
4. From 1995 to 1999, the STCU was treated as a Ukrainian entity entitled to its own specific budget allocation within the Ukrainian state budget, and state funds were approved and allocated to this STCU budget line for the purposes of financing the rental payments under the STCU-Gals-K lease agreement. Between 1995 and 1999, the Ukrainian government approved and provided state funds to this STCU budget line, and these funds were expended by the Treasury according to rental invoices provided to STCU by Gals-K.
5. In 1999, the amount of state funds approved by the Government of Ukraine and provided to the STCU budget line was UAH 290,000, and in 1998 is was UAH 270,000. However, due to the financial crises in 1998 and various other budget constraints, the Government of Ukraine failed to meet its obligations towards the STCU and stopped paying the rent invoices in 1999. A letter dated 05/03/99 (Annex 7) was received from the Ministry of Finance and in the last paragraph it refers to the Government of Ukraine's inability to pay the debts for rent. This ultimately necessitated the STCU making 3 payments totaling US\$139,199 to Gals-K. The STCU Governing Board (which includes an official representative of Ukraine), in written decisions, had approved the use of STCU Financing Party funds as mentioned above to pay the shortfall in Ukrainian funding for the STCU rent, with the clear stipulation that the Government of Ukraine would recover these STCU Party funds in the next budget year.

6. From 2000 to 2002, the Ukrainian government shifted the STCU budget line under the state budget of the Ministry of Foreign Affairs, and during those years, continued to approve state funds for this STCU budget line. However, these funds were never made available by the Ministry to the STCU to finance the rental invoices received from Gals-K during that period, The STCU worked with the Government of Ukraine through the Ministry of Finance to recover all of the 1999 through 2002 funds approved by the Government for the STCU within the MFA budget. The STCU sent the MFA an invoice for this amount in 2000 and by a letter dated 27/12/2000 from the Ministry of Foreign Affairs (Annex 10) the MFA confirmed money would not be transferred for financing the rent because of building ownership and legality issues with the landlord, Gals-K.

The STCU position is that the payments of the Gals-K rental invoices by the Treasury during 1995-1999 (Annex 8) is de facto evidence of the Government of Ukraine's recognition and acceptance of its continuing obligation under Article IX of the STCU Establishing Agreement (Annex 3). The period of non-payment of the STCU rent between the years 2000-2002 does not negate this de facto acceptance of the Government of Ukraine obligation. Nor do the shortfalls in Ukrainian budgetary financing in 1999 negate the de facto acceptance of the Government of Ukraine that it was (and still is) obligated to fully finance the rental payments for the STCU premises.

Based upon the information that we gathered to date, the STCU feels that it has fulfilled the information requests from the first Working Group meeting, and now the STCU wishes to arrange a second Working Group meeting when convenient, but before 16 September 2005, to discuss the STCU findings and move to the next step. The STCU wishes the Working Group to meet prior to 16 September because of the meeting of the STCU Financing Parties (the governments of Canada, European Union, United States) in Brussels already mentioned. The STCU also wishes to discuss what progress has been made by MES in respect to its tasks cited above, particularly with respect to STCU's required and requested response to the 2004 letter from the STCU Chairman of the Governing Board to Minister of Education and Science Kremen. (Annex 9).

At the next working group meeting, we also request the attendance of Ms. Svitlana Vasilievna Kuzmina of the Ministry of Foreign Affairs, who has indicated her verbal agreement to attend this meeting to discuss these issues in detail.

We look forward to receiving your reply in due course.

Yours sincerely,

Andrew Hood
Executive Director
STCU

c.c:
Curtis Bjelejac CFO STCU
David Cleave CAO STCU
Svitlana Vasilievna Kuzmina - MFA
Maria Burtseva – MES

List of Annex Attachments:

- 1):Letter from the Ministry of Foreign Affairs dated 26/08/05 Ref: 212/36 926 2906
- 2):Budget Information for the Years 1996, 1997, 1998, 1999
- 3):Article IX of the Agreement on the Establishment of the Science & Technology Centre in Ukraine.
- 4):Original Lease Agreement between STCU & Gals-K dated 26th May 1995

- 5): Cabinet of minister letter dated 5th June 1995 signed by B. Plitin
- 6): Letter from Ministry of Foreign Affairs dated 23rd January 2001
- 7): Letter from Ministry of Finance dated 5th March 1999 ref:05-403/86272
- 8): STCU letter dated 22nd March 2005 in response to the MES letter 09/03/05 Ref: 1/11-906
- 9): STCU Governing Board Letter (Mr. Vic Alessi) to MES dated 27/12/04
- 10): Letter dated 27th December 2000 from Ministry of Foreign Affairs Ref: 7.2-578

Letter by MES in reply to STCU letter above – Translation

Unofficial translation

From: Ministry of Education and Sciences of Ukraine
Ref.05/10/05 # 1/11-5823

In view of the current fruitful cooperation between the MES and the STCU, including formation and regular functioning of mutual working groups, we wish to draw your attention to a group regarding financial commitments and ask to quicken making decisions on the two main tasks which are discussed in this group.

1. The first task is concluded in paying back to MES by the STCU the budget money of 299129,42 UAH, which the Ministry had transferred to the STCU by a payment draft dated 30/04/2004 with the purpose to pay off the debt for the STCU premises rent according to the Lease Agreement with Gals-K Ltd. (referring the Civil Court decision dated 12/11/2004 # 3/335-2/308).

As a result of this, the MES more than once informed about the purpose of the sum of money 299129,42 UAH and asked to return this money to the MES bank account in the State Treasury of Ukraine # 35218063000020, MF0820172, code 0027677.

We would kindly remind you that on both special co-working group meetings for financial commitments, held in June the 8th and in September the 16th, the question was raised and the Ministry representatives reminded regarding the repayment of 299129,42 UAH.

Nevertheless, on the 1st of October 2005 the abovementioned funds have not been returned.

Upon the STCU request, we need to draw your attention once more to the proposals, introduced in the letter dated 24/12/2004 # 8286 from the STCU Administrative Board Mr. Victor Alessi to the previous Minister, Prof. Vasyl Kremen regarding the STCU intention to connect repayment of this sum 299129,42 UAH with pay-off so-called Ukrainian Government debt before the STCU Financial Parties. So, referring the Article 4-5 of the Civil Code of Ukraine **the decisions of the Civil Court have to obligatorily be fulfilled on the whole territory of Ukraine and non-fulfillments of its decisions, decrees, and resolutions entail responsibility according to this Code and other Acts of Ukrainian legislation. That is why the aforementioned decision of the Kiev Civil Court is subjected to compulsory execution irrespective of other legal relationships between the Ministry and the STCU.**

Therefore, the question how the STCU will spend the sum of 299129, 42 UAH, which had been placed to the STCU account from the Ministry, is non-legitimate. In view of this fact and also that the so-called Ukrainian Government debt indicated by the STCU had not been registered officially in due course and work is being conducted within the frame of the working group between the Ministry and the STCU, we believe that it is reasonable not to connect the two different questions – a question of paying back the sum of 299129, 49 UAH and review of debt existence of Ukrainian Government before the STCU.

Hence, apart from the above said, and that the budget money has end use and can not be used for other purposes, the Ministry of Education and Science insists on urgent returning the sum of 299129,42 UAH on the account indicated before.

Referring requirements of the active legislation, we kindly ask you to submit to the MES the reconciliation report between the Ministry and the STCU (enclosed), signed by the STCU for the Ministry to be able to report about budget funds usage during 9 months of 2005.

2. The second task is to confirm whether in fact there is debt of Ukrainian Government before the STCU. And if there is, then it is necessary to define its amount.

In view of necessity to calculate a concrete figure which could be a debt of the Government before the STCU, the Ministry has examined additional documents of 1998-1999 given by the STCU, and we have to acknowledge the following problems:

- the sum from the budget for the Center in 1999 referring the Lease Agreement with Gals-K Ltd has been unreasonably **increased** for **214132, 95 UAH**, because according to the Law of Ukraine 'State Budget of Ukraine for 1999' it **exceeds** the amount of budget financing of the STCU for **285500, 0 UAH**.
- The Ministry was not submitted the statements of the STCU debt before Gals-K Ltd in 1998 and 1999, but as partial paying-off in 1998 and 1999 the sums of 39315, 0 UAH, 379273, 13 UAH and 146741, 15 UAH have been paid from the STCU bank account. In the same time, the STCU did not use the money from budget given by the Ukrainian State Treasury:
 - In 1998 – the sum of 39784, 97 UAH;
 - In 1999 – the sum of 56715, 07 UAH.

In this connection and with the purpose to settle this problem, we suggest you to provide the Ministry with appropriate documentation which confirms the debt, explanation and a proof concerning usage of money for rent payment over limits regarding the law 'State budget of Ukraine for 1999'.

We hope that solution of the aforementioned problems will contribute to effective cooperation between the Ministry and the STCU.

Best regards,

Appendix: 2 copies of the Statement of calculation verification

Signature

A.M.Gurjii
Senior Deputy Minister

Reconciliation report between the MES and the STCU
on the 1st of September 2005

Therefore to confirm that concerning the Court decision # 3/335 dated 26/06/2003 and regulation of Cabinet of Ministers of Ukraine # 18346/1/1-04 dated 23/04/2004 debt is 299129, 42 UAH.

	MES		STCU	
	Debit	Credit	Debit	Credit
Demand balance On 1/07/2005	299129, 42 UAH			

Signatures

MES
Senior Deputy Minister
A.M. Gurjii

STCU Director
B.A. Atamanenko



TARGETED INITIATIVES: 2005 RESULTS AND FUTURE ACTIONS

The reorganization of the STCU in 2004 and the resulting new priorities for action made it increasingly important for the Centre to rethink and its range of activities. One of the new activities resulting from the reorganization was the Targeted R&D Initiatives Program, a supplemental budget activity approved at the 19th Governing Board. Our goal was to use the TRDP to enhance self-sustainability of former weapon scientists and institutes while building effective partnerships within and outside of the STCU Recipient Parties through equal partnerships/financial participation from the Recipient Party national government and national science agencies.

Targeted Initiatives (TRDP)

The initial program focused first on engaging the Ukrainian Party, which is the largest STCU Recipient Party and in the best position to work with STCU as we developed the pilot TRDP concept.

In implementing the initiative, it was important to build effective partnerships and alliances within and outside Ukraine. In such an approach, we engaged key stakeholders in order to identify research areas of distinctive competence within Ukraine. Moreover, the research areas had to provide for the possibility of sustainability of technical teams / institutes and for attracting Ukrainian state funds designated for support of research in these priority areas. In implementing the initiative, our activities were guided by the STCU mandate regarding engagement of a significant portion of former weapons scientists (FWS).

Through consultation and engagement, five priority areas were established. The areas: nano/technology – nano/materials; biotechnology; environmental technology; information technology and industrial scale safety related technologies are also reflected in Ukraine's scientific areas of national priority.

In attempting to enhance the country's innovation potential, through the activities of the STCU, the importance of establishing an effective partnership with the country's National Academy of Sciences (NASU) was given a high priority. The success of the relationship is reflected in the historic statement on cooperation signed between the STCU and NASU, wherein both sides agreed to equally co-fund research projects within the targeted technology areas.

Whereas in the past, Regular STCU Projects were designed simply to engage FWS in collaborative research with western peers, it was quickly realised that the existing processes are limited in scope when attempting to enhance innovation in the context of sustainability of FWS and their institutes. As such, certain specific additions to the Regular Project cycle were necessary for projects under the TRDP.

- Partner with elements of the Government to co-fund projects – both the STCU (through combined Financing Party funds) and NASU each committed \$500,000 to TRDP in 2005
- Establish a national-wide program that integrated STCU non-proliferation objectives with Ukrainian national S&T development priorities (including emphasis on inter-departmental and inter-institutional linkages)
- Establish a mechanism to strengthen the technical quality of research proposals – this was accomplished through constructive feedback from western peer reviewers (without revealing the identity of the reviewers), which was conveyed directly to the technical teams

TARGETED INITIATIVES

- Reduce the time required for Host Government Concurrence (HGC) – for Targeted Initiatives project, the NASU acquired HGC within 4 – 6 weeks after receipt of proposals, as opposed to 6 – 12 months average for other Regular Project proposals
- Focusing research within the broad S&T areas identified as being of distinctive competence and National priorities – in 2005, organised National workshop on environmental technologies bringing academics, government and industry together in order to establish research priorities
- Provide training in key areas – training provided in grant writing, industrial partnering, intellectual property and commercialization
- Organise in-coming and outgoing technology missions within the Targeted areas to establish corporate partnerships as means of moving promising technologies from the laboratory to the marketplace –two technology missions to Canada (nano/photonics and nano/materials) and a mission of Canadian companies to Ukraine that made use of TRDP connections to assist in focusing the Ukrainian participation.

For clarification, the timetable of major TRDP events is summarized below:

December 2004: STCU Governing Board approves creation of Targeted R&D Initiatives Program, and approves \$500,000 (shared by the Financing Parties) as a Supplemental Budget item.

February-May 2005: STCU and NASU develop a statement of cooperation and outline of a process under which NASU and STCU will participate in the initial TRDP effort

April 2005: STCU and NASU issue a joint call for proposals within the targeted national S&T areas and with a minimum of 50% FWS on each project team. Within 2 weeks, 62 pre-proposals (short forms) from across Ukraine were submitted to the NASU. Of these, 28 technical teams were requested by NASU to submit full research proposals under the TRDP guidelines.

Mid-July 2005: After an internal review by the NASU, 14 of the 28 proposals were transmitted (with HGC) to the STCU. STCU registered these using the Regular Project proposal format and system and posted the proposals for STCU Party technical and policy reviews.

Mid-July 2005: The STCU Parties were requested to make use of a simplified, standard project appraisal form (developed by STCU) to organize the reviewer comments into a standard format. Also, STCU requested that the Parties submit their priority ranking of the 14 proposals for TRDP funding (i.e., each Party's decision on each TRDP project, organized in priority order).

August-October 2005: Reviews from western peer reviews were received by STCU, translated and passed to NASU and directly to the project proposers. In some cases, the project teams made adjustments to their proposals based on suggestions/critiques of these western reviewer comments.

Mid-October 2005: All STCU Parties responded with their list of the proposals that they approved for TRDP funding. At first, 5 of the 14 TRDP proposals received consensus support for TRDP funding from all three Financing Parties, and these 5 choices were relayed by the STCU to NASU. The STCU relayed a request from NASU to the STCU Parties that the Parties reconsidered 2 additional proposals from the list of 14, and the Parties concurred with adding those 2 additions for TRDP funding. Therefore, based upon the reviews and recommendations from the Parties and NASU, a list of 7 (of the original 14) projects were selected for TRDP funding.

November-December 2005: STCU and NASU began the paperwork necessary to activate the TRDP projects as STCU Regular Projects. The projected operating commencement date for all 7 TRDP projects is 1 December 2005. In addition, STCU and NASU consulted regarding future STCU Financing Party consideration of the 7 proposals not

selected for TRDP funding. It was agreed for STCU to keep the 7 unfunded proposals registered as STCU project proposals for future funding consideration, either by the Financing Parties or possibly by an STCU Partner.

Provision of Needed Training

An important aspect of our TRDP is the provision of targeted training in key areas pertaining to technology development and commercialization. In such an approach, representatives from the institutes that submitted the 14 TRDP projects to the STCU were invited to a training session in July 2005. A panel of international experts (North America and Europe) provided training on grant writing skills, technology development and management (including intellectual property identification and protection) and industrial partnering. The course was well received.

Technology Mission (outgoing & incoming)

The technology missions to and from Canada provided convenient and important contributions to the TRDP process. The first mission (August 2005) involved 5 Ukrainian scientists travelling to Calgary (Canada) to participate in a nano/materials conference. The second mission (September 2005), 11 scientists (10 from Ukraine) travelled to Quebec to participate in a NATO advanced biophotonics workshop. Following the conference and workshop, the scientists met industrial and academic researchers and explored partnership opportunities. In November 2005, a group of small and medium sized Canadian enterprises travelled to Ukraine and explored linkages aimed at moving promising research from the laboratory to the marketplace.

Environmental Workshop

In September 2006, the Department organised a Ukrainian workshop to identify research priorities in the environmental sciences in Ukraine. The workshop (by invitation only) has proven to be a catalyst for increased interactions between STCU and other parts of the Ukrainian government and S&T communities. It brought together senior government official (national and regional), senior industrial managers (representatives from 27 of the largest and most important companies from 13 cities within Ukraine's industrial heartland) and scientists from academia and research institutions. Whereas environmental research is one of STCU priority areas, to date, our involvement was unfocused.

Outcomes of the workshop were the establishment of environmental research priorities; establishing effective linkages with key stakeholders; engagement of the Ministry of the Environment / exploring how said Ministry and STCU could more effectively interact in coordinating and allocating resources to this area of National priority (c.f. STCU interaction with the NASU).

Important Observations / Lessons Learned in 2005, re Targeted Initiatives

Positive Aspects

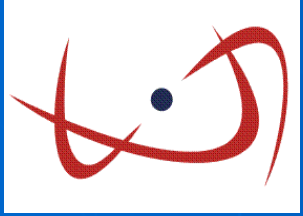
- TRDP has solicited real funding and a truly equal partnership from a Recipient Party (the Ukrainian government) and a commitment to work with the STCU in funding research and technology development using former weapon scientists as the primary research element.
- The activities of TRDP are a unique integration of the mission / policies of the STCU and Recipient Party national S&T and civil-economic development goals, consistent with the direction identified in the STCU Reorganization Concept Paper of 2004.
- The review process was used to strengthen the technical quality of research projects. Ukrainian scientists appreciated, and made use of, the constructive feedback from Western scientists
- TRDP was shown to be an effective vehicle for actively linking Ukrainian scientists and technical institutions to their Western counterparts and provide enhanced mechanism of finding academic and industrial partners
- The holistic approach taken by TRDP address important issues that are linked to sustainability of FWS technical teams and research institutions

- TRDP provides mechanism whereby STCU Senior Specialists can provide value-added input to project managers
- TRDP provides a mechanism for engaging different governmental ministries/agencies within STCU Recipient States
- TRDP provides mechanism to focus research in Recipient States in ways that are consistent with sustainability, particularly self-sustainability of FWS and their institutes.

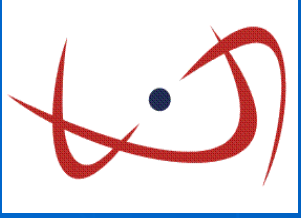
Negative Aspects

- Some of the STCU Parties did not clearly understand the process by which TRDP proposals were selected. STCU Parties need a process that clearly connects STCU Party decisions on the final selection of proposals for funding. Currently, TRDP proposals are funded based on the **consensus** decision of all three STCU Financing Parties, which in turn is based on each Parties' reviews and final recommendations. The STCU Secretariat role is only to convey this consensus position of the STCU Parties, not to be the decision-maker. Iteration, negotiation between the Financing Parties (such as that which takes place during GB Project Funding Sheet development) is necessary to arrive at a final, 3-Party consensus funding decision on all the TRDP proposals. So, the STCU Parties must work with the Secretariat to clarify the current TRDP process and establish faster, more complete communication between Canadian, EU, U.S. Party representatives, and STCU regarding TRDP proposal consideration.
- Time pressure due to the late start in this first TRDP attempt contributed to confusion and misunderstandings over specific steps and goals in the TRDP process. Need to ensure more time for the western review period, so that the interaction and iteration between the STCU Parties, the STCU Secretariat, and Recipient Party agency is clear and comprehensible to all. Need to avoid sending project proposals to Western reviewers during the summer months. Call for proposals must be initiated in January 2006.
- Some STCU Party requirements were raised only in the middle of the TRDP process, e.g., the requirement for project collaborators from certain Financing Parties. Need to design the call for proposals such that these Party-specific requirements are clearly communicated from the start of the TRDP process.
- Some misunderstanding between the STCU / Funding Parties and the NASU, probably due to the fact that the TRDP process is new and adjustments needed to be made. More regular communication and clearly established steps and goals are needed to be made at the start of the TRDP process.
- TRDP funding not enough to finance enough projects in all the priority areas. Spreading the funding over everything weakens the entire TRDP effectiveness. Need to agree with NASU on limit the call for proposals to one or two technical areas in any one fiscal year.
- Work with NASU to ensure that project proposals submitted to STCU are reflective of science competencies/strengths across Ukraine.

Georgian Initiative – At the request of the Georgian Ministry of Science & Education (GMSE), the STCU and GMSE had discussions (April & June 2005) re. the establishment of a TRDP in said country. Currently the basis for collaboration has been established and the priority research areas identified. A draft text has been developed by both sides outlining the scope and nature of the interaction. The proposed Georgian text, has some significant changes to the Ukrainian text. The most significant change is the GMSE (or its representative) would transfer their funds to the STCU and a single Agreement would be required to fund projects as opposed to two Agreements that are needed with the existing STCU / NASU collaboration. Subject to Board approval, the Georgian initiative would commence in 2006.



Summary of 2006 STCU AOB & SB

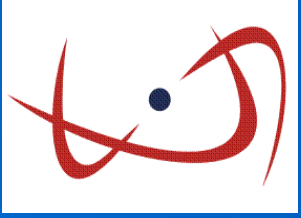


Summary of 2006 AOB

- Recurring Costs of \$1.79M* compared with \$1.80M in '05. No Change.
- Non-Recurring Costs of \$92.25K compared with \$157.60K in '05. 41.47% Decrease.
- Total AOB of \$1.88M compared with \$1.96M in '05. 3.83%** Decrease.

* \$50K of moved from AOB – Bus. Grp. Ops. to Shared SB

** If \$50K not moved, % decrease would be 1.28% Decrease



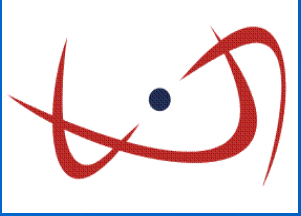
AOB as % of Project Expenses

AOB Expenses

- 2006 Estimated \$1.9M
(11.5%)
- 2005 Estimated \$1.8M
(10.9%)
- 2004 Actual \$1.9M
(10.7%)
- 2003 Actual \$1.8M
(10.0%)
- 2002 Actual \$1.4M
(8.8%)
- 2001 Actual \$1.15M
(11.3%)

Project Expenses

- 2006 Estimated \$16.5M
- 2005 Estimated \$16.5M
- 2004 Actual \$17.7M
- 2003 Actual \$17.9M
- 2002 Actual \$12.3M
- 2001 Actual \$10.1M



AOB as % of Project & SB*

Expenses

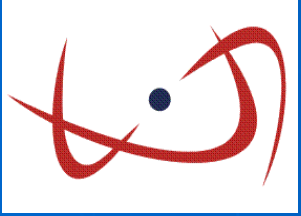
AOB Expenses

- 2006 Estimated AOB \$1.9M (10.6%)
- 2005 Estimated AOB \$1.8M (10.3%)
- 2004 Actual AOB \$1.9M (10.5%)
- 2003 Actual AOB \$1.8M (9.3%)
- 2002 Actual AOB \$1.4M (11.0%)
- 2001 Actual \$1.15M (11.2%)

Project + SB Expenses

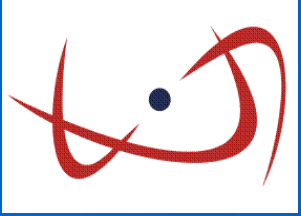
- 2006 Estimated \$16.5M + SB = \$17.9M
- 2005 Estimated \$16.5M + SB = \$17.4M
- 2004 Actual \$17.7M + SB \$410K = \$18.1M
- 2003 Actual \$17.9M + SB \$406K = \$18.3M
- 2002 Actual \$12.3M + SB \$367K = \$12.67M
- 2001 Actual \$10.1M + SB \$128K = \$10.23M

* Does Not Include Service Contracts or EU Expert Review & Advisors



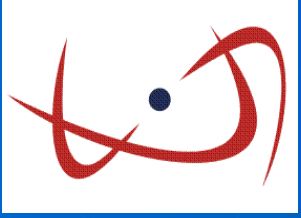
Personnel - Local Grant Payments

- Total Cost of \$752.8K compared with \$789K in '05. 4.6% Decrease.
- No new positions added
- Turnover in staff, resulting in savings
- 11% Increase on existing staff salaries \$72.6K
- Comprised of minimum salary increase 5.0% and 6.0% bonus as per compensation system adopted at Dec. 2003 GBM



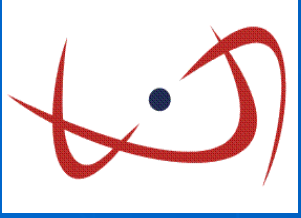
Personnel

- Personnel Costs
 - 2005
 - '05 costs of \$946.1K
 - 48% of total AOB
 - 2006
 - '06 costs of \$956.3K (1.08% increase over '05)
 - 51% of total AOB



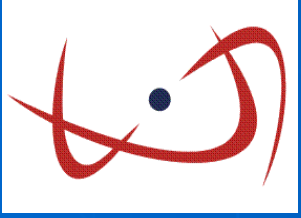
Travel

- International Travel cost of \$37.3K compared with \$32.4K in '05.
 - 15.12% Increase
 - Increased DED travel (participate in Road Shows, etc.)
- Travel w/in CIS cost of \$138.8K compared with \$137.6K in '05.
 - No Increase



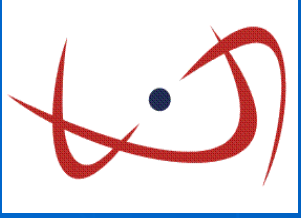
Travel (cont.)

- Travel Costs
 - 2005
 - '05 costs of \$188.6K
 - 9.6% of total AOB
 - 2006
 - '06 costs of \$199.1K (5.5% increase over '05)
 - 10.6% of total AOB



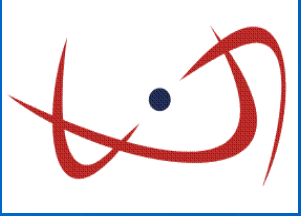
Office Operations

- Branch Off. OH cost of \$87.6K compared with \$90.7K in '05.
 - 3.44% Decrease
 - Chisinau office renov. inc. in '06
- Business Group Ops. cost of \$0K compared with \$50K in '05.
 - Activities moved to SB Bus. Train/Sus. Support – Shared



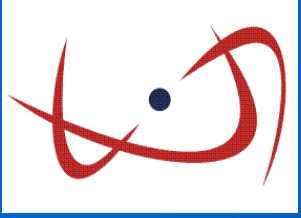
Office Operations (cont.)

- Print & Reproduction cost of \$33K compared with \$24K in '05.
 - 37.5% Increase
 - Funds required for articles in local newspapers, etc.
- Public Affairs cost of \$46K compared with \$34.5K in '05.
 - 33.33% Increase
 - Support more conf. outside of UA



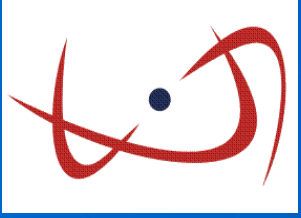
Office Operations (cont.)

- Office Operations Costs
 - 2005
 - '05 costs of \$465.7K
 - 23.8% of total AOB
 - 2006
 - '06 costs of \$450.1K (3.4% decrease over '05)
 - 23.9% of total AOB



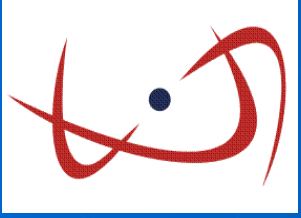
Contracted Services

- Other Professional Services cost of \$74.6K compared with \$98K in '05.
 - 23.9% decrease
 - Phase II of Navision \$20K less than Phase I
- Legal Services cost of \$10K compared with \$10K in '05.
 - No change



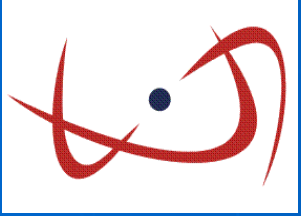
Contracted Services (cont.)

- Contracted Services Costs
 - 2005
 - '05 costs of \$191.3K
 - 9.8 % of total AOB
 - 2006
 - '06 costs of \$176.6K (7.7% decrease over '05)
 - 9.4% of total AOB



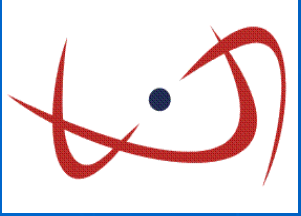
Non-Recurring

- Computer Hardware cost of \$19.3K compared with \$35.7K in '05
 - 46.0% decrease
 - HW modernization effort completed
- Computer Software cost of \$17.0K compared with \$28.4K in '05
 - 40.4% decrease
 - STCU fully licensed, only maintenance required



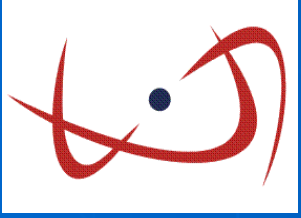
Non-Recurring (cont.)

- Telecomm. Equip. cost of \$5.0K compared with \$13.5K in '05
 - 62.8% Decrease
 - Finalized PABX upgrade in '05



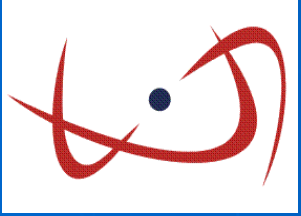
Non-Recurring (cont.)

- Non-Recurring Costs
 - 2005
 - '05 costs of \$157.6K
 - 8.0% of total AOB
 - 2006
 - '06 costs of \$92.2K (41.5% decrease over '05)
 - 5.0% of total AOB



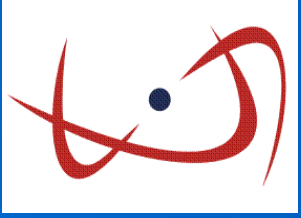
Shared Supplemental Budgets

- Bus. Train./Sus. Supp. add \$137K (\$50K remaining) to bring total to \$187K for '06
 - Road Shows (i.e. Hydrogen & Fuel Cells)
 - Continue Chief Technology Commercialization Officers (CTCO) program
- Travel Grant Fund add \$90K (\$30K remaining) to bring total to \$120K for '05
 - Continued push for private sector partners



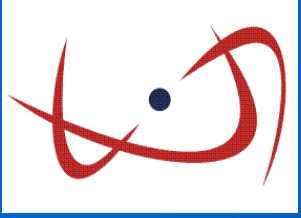
Shared Supplemental Budgets (cont.)

- Seminars/Workshop Support add \$36K (\$64K remaining) to bring total budget to \$100K
 - \$64K to work w/NATO workshop already on hand
- Targeted R&D Initiatives add \$850K (\$0K remaining) to bring total budget to \$850K
- Targeted Training add \$67K (\$37K remaining) to bring total budget to \$104K



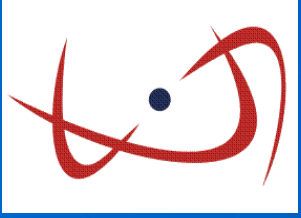
US Supplemental Budgets

- SB Activity 01.01 - Technical, Collaborator, and Contractor Travel Support add \$30K (i.e. travel of technical support for project audits, etc.)



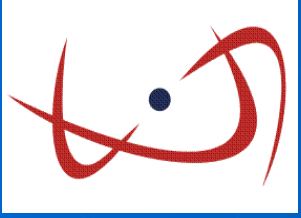
EU Supplemental Budgets

- SB Activity 08.01 – E.U.
Designated Reviewers add €30K
(this is for payment to proposal
reviewers in '06)



PA SB Travel Budgets

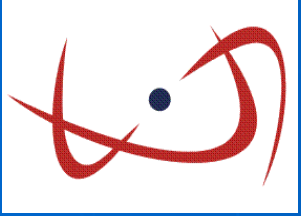
- SB Activity 06.04.01 - U.S. Department of Agriculture Travel and Mobility Support add \$72K



AOB & Shared SB Funding %

- As per the minutes of the A.C. meeting conducted on Dec. 5 & 6, 2000

- All Party representatives agreed that the Parties would equally share twenty percent (20%) of the Administrative Operating Budget. However, the minimum share will be 5% of the 20%, i.e. with three Parties each pays at least 6.67%, if there are 4 Parties each will pay at least 5%
- All Party representatives agreed that the remaining 80% will be allocated according to the projected next year's % throughput (grants, equipment, and overhead) for the Party's projects (regular and non-fee paying partner projects)



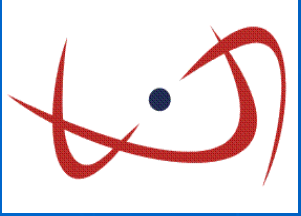
AOB & Shared SB Funding % (cont.)

- Projected throughput (grants, equipment, and overhead)* for 2006:

	U.S.**	Canada	European Union	Total
Projected Project Expenses	\$5,672,629	\$131,203	\$2,218,955	\$8,022,787
% Share of Project Expenses	70.70%	1.64%	27.66%	
	<u>80.00%</u>	<u>80.00%</u>	<u>80.00%</u>	
Distribution of 80%	56.56%	1.31%	22.13%	
Distribution of 20%	<u>06.67%</u>	<u>06.66%</u>	<u>06.67%</u>	
Calculated Sharing %s	63.23%	07.98%	28.79%	

* Does Not Include Projects approved at 21st STCU GBs & Fee-Paying Partners

** Includes Non-Fee Paying U.S. Government Partners



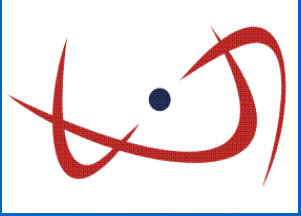
AOB & Shared SB Funding % (cont.)

- Comparison - Actual Project Funding at GB 19 & 20 (grants, equipment, and overhead):

	U.S.*	Canada	European Union	Total
Actual Funding at GB 19 & 20	\$9,374,101	\$170,000	**\$2,438,531	\$11,982,632
% Share of Actual Funding	78.23%	1.42%	20.35%	
	<u>80.00%</u>	<u>80.00%</u>	<u>80.00%</u>	
Distribution of 80%	62.58%	1.14%	16.28%	
Distribution of 20%	<u>06.67%</u>	<u>06.67%</u>	<u>06.67%</u>	
Calculated Sharing %s	69.25%	7.80%	22.95%	

* Includes Non-Fee Paying U.S. Government Partners

** Assumes €1 = \$1.2 for 19th and 20th



AOB & Shared SB Funding % (cont.)

- Calculated AOB & Shared SB

Funding %s

- United States	63.23%
- Canada	7.98%
- European Union	<u>28.79%</u>
Total	100.00%



**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU
STATEMENT OF ADMINISTRATIVE OPERATING BUDGET (AOB) as of September 30, 2005**

		2005	Spent	Projected	Projected	Projected	%
		Budget	as of	Final	Final	Remaining	-Over/
			30.cen	3 Mo. Exp	Year Exp.	Budget	Underspend
Recurring Costs							
Personnel							
161110	LOCAL GRANT PAYMENTS	\$ 789 000	\$ 459 835	\$ 211 120	\$ 670 955	\$ 118 045	14,96%
161140	STAFF EDUCATION & TRAINING	\$ 63 280	\$ 34 550	\$ 26 559	\$ 61 109	\$ 2 171	3,43%
161360	EMPLOYEE MORALE & WELFARE	22 000	16 163	6 000	22 163	(163)	-0,74%
161365	MEDICAL & DENTAL PLANS	71 850	41 007	30 000	71 007	843	1,17%
	Subtotal	\$ 946 130	\$ 551 555	\$ 273 679	\$ 825 234	\$ 120 896	12,78%
Travel							
161210	INTERNATIONAL TRAVEL	\$ 32 400	\$ 14 224	\$ 9 320	\$ 23 544	\$ 8 856	27,33%
161220	TRAVEL WITHIN THE CIS	\$ 137 615	\$ 79 401	\$ 42 909	\$ 122 310	\$ 15 305	11,12%
161230	LOCAL TRAVEL	18 625	13 996	5 000	18 996	(371)	-1,99%
	Subtotal	\$ 188 640	\$ 107 621	\$ 57 229	\$ 164 850	\$ 23 790	12,61%
Office Operations							
161130	REPRESENTATION	\$ 15 000	\$ 6 740	\$ 8 200	\$ 14 940	\$ 60	0,40%
161305	POSTAGE AND DELIVERY	10 000	6 996	3 000	9 996	4	0,04%
161310	CUSTOMS STORAGE	500	282	-	282	218	43,60%
161315	GENERAL OFFICE SUPPLIES	23 000	19 535	4 000	23 535	(535)	-2,33%
161320	OFFICE EQUIPMENT REPAIR/MAINT	7 000	594	2 000	2 594	4 406	62,94%
161325	VEHICLE OPERATIONS	9 000	12 131	4 000	16 131	(7 131)	-79,23%
161330	PRINTING AND REPRODUCTION	24 000	18 762	5 000	23 762	238	0,99%
161335	TELECOMMUNICATIONS SERVICES	40 000	36 335	12 000	48 335	(8 335)	-20,84%
161340	BUSINESS MEETINGS & CONFERENCES	6 000	5 057	1 000	6 057	(57)	-0,95%
161345	SUBSCRIPTIONS AND PUBLICATIONS	8 000	1 772	6 000	7 772	228	2,85%
161350	PUBLIC AFFAIRS	34 500	25 606	9 000	34 606	(106)	-0,31%
161370	BUILDING SUPPLIES	7 000	9 686	2 000	11 686	(4 686)	-66,94%
161375	BRANCH OFFICES OVERHEAD	\$ 90 720	\$ 25 098	\$ 30 000	\$ 55 098	\$ 35 622	39,27%
161380	INSURANCE EXPENSE	9 000	7 944	1 000	8 944	56	0,62%
161385	BANK FEES - OFFSHORE	75 000	51 925	24 000	75 925	(925)	-1,23%
161390	BANK FEES - ONSHORE	57 000	31 727	16 000	47 727	9 273	16,27%
161395	BUSINESS GROUP OPERATIONS	50 000	53 807	-	53 807	(3 807)	-7,61%
	Subtotal	\$ 465 720	\$ 313 998	\$ 127 200	\$ 441 198	\$ 24 522	5,27%
Contracted Services							
161405	LEGAL SERVICES	\$ 10 000	\$ 12 595	\$ -	\$ 12 595	\$ (2 595)	-25,95%
161410	ACCOUNTING AND AUDITING	83 273	83 273	-	83 273	-	0,00%
161415	OTHER PROFESSIONAL	98 000	91 376	15 000	106 376	(8 376)	-8,55%
	Subtotal	\$ 191 273	\$ 187 244	\$ 15 000	\$ 202 244	\$ (10 971)	-5,74%
	Subtotal Recurring Costs	\$ 1 791 763	\$ 1 160 418	\$ 473 108	\$ 1 633 526	\$ 158 237	8,83%
	Contingency - Recurring	10 000	-	-	-	10 000	100,00%
	Total Recurring Costs	\$ 1 801 763	\$ 1 160 418	\$ 473 108	\$ 1 633 526	\$ 168 237	9,34%
Non-Recurring Expenses							
161505	FACILITY IMPROVEMENTS	\$ 10 000	\$ -	\$ -	\$ -	\$ 10 000	100,00%
161510	FURNITURE & FIXTURES	10 000	2 694	7 306	10 000	-	0,00%
161515	TELECOMMUNICATIONS EQUIPMENT	13 450	11 910	-	11 910	1 540	11,45%
161520	OFFICE EQUIPMENT	10 000	8 480	1 520	10 000	-	0,00%
161525	VEHICLE PURCHASE	25 000	22 786	-	-	2 214	8,86%
161530	COMPUTER HARDWARE	35 700	32 959	2 800	35 759	(59)	-0,17%
161535	COMPUTER SOFTWARE	28 445	22 195	5 650	27 845	600	2,11%
	Subtotal Non-Recurring Costs	\$ 132 595	\$ 101 024	\$ 17 276	\$ 95 514	\$ 14 295	10,78%
	Contingency - Non-Recurring	25 000	-	-	-	25 000	100,00%
	Total Non-Recurring Costs	\$ 157 595	\$ 101 024	\$ 17 276	\$ 95 514	\$ 39 295	24,93%
	TOTAL BUDGET:	\$ 1 959 358	\$ 1 261 442	\$ 490 384	\$ 1 729 040	\$ 207 532	10,59%



SELECTION OF AUDITOR FOR YEAR THE END FINANCIAL STATEMENTS 2005 AND 2006

Background

In accordance with Article XVI (C) of the STCU Statute, which states the following: "An annual audit by an auditor approved by the Board shall be conducted of the Center's expenditures and related financial activities. Results of the audit shall be reported to the Board within 30 days after completion."

The STCU Annual Financial Statement Audit has the following objectives:

- a. Report to the Governing Board (GB) whether the financial statements present fairly the financial position of the STCU and whether the financial statements are in conformity with the accounting principles recognized by the International Accounting Standards Committee.
- b. Conduct the annual audit in accordance with the International Standards on Auditing (ISA). The ISA require that the audit is planned and performed to obtain reasonable assurance about whether the financial statements are free of material misrepresentations.

Status of Current Request for Proposal for Annual Financial Statement Audit

1. Request for Proposal Issued 13 June, 2005
2. Due Date For Notification of Interest 29 July, 2005
STCU received Notifications of Interest from the following firms:
 - ✓ Lubbock Fine Chartered Accountants (London Office)
 - ✓ Deloitte Touche Tomatsu (Toronto Office)
3. Proposals were due by 17:00, 2, September 2005
4. Approval and Award by Evaluation Committee
 - ✓ The Evaluation Committee was comprised of the following people: David Cleave – Evaluator, Roman Pischalov – Secretary, and Curt Bjelajac – Evaluator.
 - ✓ The proposal opening session occurred on September 5, 2005 at 11:00 a.m. local Kyiv time.
 - ✓ The Evaluation Committee reviewed the proposal and the committee recommends that the contract be awarded as follows:

Rank	Supplier	Evaluated Offer Price	Contract Price upon Award, US\$
1	<u>Lubbock Fine (London)</u>	<u>\$191,775</u>	<u>Year 2005: 92,001</u> <u>Year 2006: 91,624</u>
2*	Deloitte, Touch, Tomatsu (Tokyo)	\$232,307	Year 2005: 105,000 Year 2006: 110,000

*The proposal ranked 2nd is subject to reconsideration in the event that Lubbock Fine does not deliver the offered services.

5. Board Approval By Governing Board

Presented for approval to the 21st STCU Board of Governors on December 02, 2005

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU
STATEMENT OF SUPPLEMENTAL BUDGET ACTIVITY
as of September 30, 2005

Activity	Sub-Activity	Supplemental Expense	Budget	Booked Expenditures	Projected 3 Mo. Expenses	Remaining Budget
01	TECHNIC., COLLABOR., CONT. TRAV. SUPP.		\$ 310,000 + € 130,000	\$ 256,973.5 + € 4,497.77	\$ 23,000 + € 0	\$ 3,002,650 + € 125,502.23
	01.01	- U.S. DESIGNATED TRAVELERS	\$ 310,000.00	\$ 256,973.50	\$ 23,000.00	\$ 3,002,650.00
	01.02	- E.U. DESIGNATED TRAVELERS	€ 130,000.00	€ 4,497.77	€ -	€ 125,502.23
02	INFORMATION TECHNOLOGY SUPPORT (USA)		\$ 350,000.00	\$ 168,713.79	\$ 11,000.00	\$ 170,286.21
	02.01	- U.S.DATABASE PROJECT	\$ 20,000.00	\$ 20,415.38	\$ -	\$ (415.38)
	02.02	- STCU SERVER UPGRADE	\$ 10,000.00	\$ 9,808.61	\$ -	\$ 191.39
	02.03	- Internet Initiative in Uzb., Geo., and Ukr Pilot	\$ 231,490.00	\$ 138,499.80	\$ 11,000.00	\$ 82,000.20
	02.04	- UNIDENTIFIED	\$ 88,510.00	\$ -	\$ -	\$ 88,510.00
03	COMMUNICATIONS SUPPORT (USA)		\$ 332,785.00	\$ 7,698.80	\$ -	\$ 325,086.20
	03.01	- Government of Ukraine's Registration Communication	\$ 7,500.00	\$ 5,143.67	\$ -	\$ 2,356.33
	03.02	- CASRI	\$ -	\$ 2,555.13	\$ -	\$ (2,555.13)
	03.03	- UNIDENTIFIED	\$ 325,285.00	\$ -	\$ -	\$ 325,285.00
04	BUSINESS TRAINING/SUSTAIN. SUPP.		\$ 575,942.00	\$ 128,913.28	\$ 23,000.00	\$ 424,028.72
	04.01	- SHARED	\$ 170,772.00	\$ 96,900.06	\$ 23,000.00	\$ 50,871.94
	04.02	- U.S. DESIGNATED	\$ 400,000.00	\$ 32,013.22	\$ -	\$ 367,986.78
	04.02.01	3 Pilot Trainings (IPR Prot. Present. Bus. Plan)	\$ 38,419.20	\$ 32,013.22	\$ -	\$ 6,405.98
	04.02.02	Pilot Internship Project	\$ 25,000.00	\$ -	\$ -	\$ 25,000.00
	04.02.03	Unidentified	\$ 336,580.80	\$ -	\$ -	\$ 336,580.80
	04.03	- EU DESIGNATED	\$ 5,170.00	\$ -	\$ -	\$ 5,170.00
05	PATENT SUPPORT		\$ 268,592.00	\$ 88,975.84	\$ 21,000.00	\$ 158,616.16
	05.01	- SHARED	\$ 150,000.00	\$ 88,975.84	\$ 21,000.00	\$ 40,024.16
	05.02	- U.S. DESIGNATED	\$ 100,000.00	\$ -	\$ -	\$ 100,000.00
	05.03	- EU DESIGNATED	\$ 18,592.00	\$ -	\$ -	\$ 18,592.00
06	TRAVEL AND MOBILITY SUPPORT		\$ 1,428,736.98	\$ 856,673.90	\$ 62,000.00	\$ 510,063.08
	06.01	- TRAVEL GRANT FUND (SHARED)	\$ 380,000.00	\$ 307,832.82	\$ 42,000.00	\$ 30,167.18
	06.02	- U.S. DESIGNATED TRAVELERS	\$ 378,000.00	\$ 265,410.93	\$ 20,000.00	\$ 92,589.07
	06.03	- E.U. DESIGNATED TRAVELERS	\$ 111,676.00	\$ 15,393.64	\$ -	\$ 96,282.36
	06.04	- PARTNER DESIGNATED TRAVELERS	\$ 446,325.00	\$ 215,333.48	\$ -	\$ 230,991.52
	06.04.01	U.S. Department of Agriculture	\$ 205,000.00	\$ 119,924.96	\$ -	\$ 85,075.04
	06.04.02	U.S. National Cancer Institute	\$ 171,325.00	\$ 74,480.19	\$ -	\$ 96,844.81
	06.04.03	U.S. Department of Energy/IPP Program	\$ 70,000.00	\$ 20,928.33	\$ -	\$ 49,071.67
	06.04.04	U.S. Environmental Protection Agency	\$ -	\$ -	\$ -	\$ -
	06.05	- SW DESIGNATED TRAVELERS	\$ 104,199.86	\$ 4,655.59	\$ -	\$ 99,544.27
	06.06	- CA DESIGNATED TRAVELERS	\$ 8,536.12	\$ 48,047.44	\$ -	\$ (39,511.32)
07	EXPERT CONTACT (PROGRAM RELATED)		\$ 50,000.00	\$ 81.90	\$ -	\$ 49,918.10
	07.01	- U.S. DESIGNATED TRAVELERS	\$ 50,000.00	\$ 81.90	\$ -	\$ 49,918.10
08	EXPERT REVIEW AND ADVISORS		€ 60,000.00	€ 50,310.99	€ -	€ 9,689.01
	08.01	- E.U. DESIGNATED REVIEWERS	€ 60,000.00	€ 50,310.99	€ -	€ 9,689.01
09	SEMINARS/WORKSHOPS SUPPORT		\$ 386,884.00	\$ 215,528.62	\$ -	\$ 171,355.38
	09.01	- SHARED	\$ 225,800.00	\$ 161,387.37	\$ -	\$ 64,412.63
	09.01a	- SHARED - NATO	\$ 64,000.00	\$ 12,303.53	\$ -	\$ 51,696.47
	09.02	- E.U. DESIGNATED SEMINARS/WORKSHOPS	\$ 47,084.00	\$ -	\$ -	\$ 47,084.00
	09.03	- U.S. DESIGNATED SEMINARS/WORKSHOPS	\$ 50,000.00	\$ 41,837.72	\$ -	\$ 8,162.28
10	SERVICE CONTRACTS		\$ 386,734.00 + € 14,417.45 + \$ 350,731.04 + € 1,389,461.71	\$ 3,507,310.43 + € 1,389,461.71	\$ 200,000.00 + € 68,000.00	\$ 1,600,299.57 + € -1,5715.8
	10.01	- U.S. DESIGNATED CONTRACTS	\$ 386,734.00	\$ 3,507,310.43	\$ 200,000.00	\$ 160,229.57
	10.02	- E.U. DESIGNATED CONTRACTS	€ 1,441,745.90	€ 1,389,461.70	€ 68,000.00	€ (15,715.80)
11	TARGETED R&D		\$ 500,000.00	\$ -	\$ 500,000.00	\$ -
	11.01	- SHARED	\$ 500,000.00	\$ -	\$ 500,000.00	\$ -
12	TARGETED TRAINING		\$ 117,000.00	\$ 56,734.15	\$ 23,000.00	\$ 37,265.85
	12.01	- SHARED	\$ 117,000.00	\$ 56,734.15	\$ 23,000.00	\$ 37,265.85
		Total Supplemental Expenses	\$ 8,187,279.98	\$ 5,287,604.21	\$ 863,000.00	\$ 2,036,675.77
			€ 1,631,745.90	€ 1,444,270.46	€ 68,000.00	€ 119,475.44

*TWENTY FIRST MEETING
of the STCU
GOVERNING BOARD*



Science and Technology Center in Ukraine

**2006 ADMINISTRATIVE OPERATING BUDGET
AND SUPPLEMENTAL BUDGET PRESENTATION**

1 November 2005

Executive Director Office

Overview

The Executive Director Office provides the strategic leadership for STCU and conducts the strategic-level planning and management policy guidance for the entire organization. The office is also responsible for developing and implementing Center-wide policies, procedures, and practices to ensure the professional effectiveness and integrity of the STCU.

Performance in 2005

In 2005, the ED office led the internal effort to implement all aspects of the STCU reorganization, which began on 1 October 2004. Actions taken included:

- Working with DEDs, initiated the Targeted R&D Initiative Program, the Targeted Training Program, a general Sustainability Development program (including a ranking of the recipient institutes in terms of their sustainability development need), a Public Outreach effort, a variety of smaller programmatic activities under their supervision
- Created a Process Action Team effort in order to communicate and directly involve the STCU staff in revising/creating practices implementing the new STCU objectives and programs
- Worked with SDED (UA) to initiate several actions to measure the effectiveness of STCU activities, and worked with DED (US) to target specific institutes for sustainability development and Targeted Initiatives focus.
- Led STCU staff efforts to move proposal processing into electronic format, improve STCU web site utility, LAN access to project documentation, project agreement processing, and install integrated financial/procurement software system.
- Through Process Action Team process, guided STCU staff toward creating recommendations for new initiatives in patent/IPR support, in selection of Partner “roadshow” participants and training participants, and in commercialization/marketing capabilities of recipient scientists.
- Participated in several national conferences/forums, conducted press interviews, and initiated creation of a more pro-active system for promoting the STCU's successes and usefulness to national, regional, and international audiences

The ED office worked with senior officials of the Ukrainian, Georgian, and Uzbek governments to expand active relations and cooperative activities with these governments, striving to promote the STCU as a value-added organization connecting its nonproliferation mission to national science development goals. This effort included ED travel to Kharkiv, Tbilisi, and Tashkent. The ED oversaw the negotiation of statements of cooperation with the National Academy of Sciences of Ukraine, the Academy of Technical Sciences of Ukraine, and the Georgian National Science Foundation. The ED also engaged the Ministry of Education and Science of Ukraine to improve communication and cooperation with this ministry. This engagement included creating STCU-Ministry working groups to address the STCU ratification process, the close-out of the Gals-K/unpaid rent issue, and the delays in processing host government concurrence on STCU proposals.

The ED Office led STCU actions to engage S&T agencies and establish joint financing and cooperation in areas of mutual interest to STCU and these agencies. The STCU-NASU Targeted Initiative, the innovation forums and technology transfer workshops with the Academy of Technical Sciences of Ukraine, and a potential cooperative Targeted Initiative with the Georgian government are examples of this effort.

The ED Office has led STCU actions to establish an STCU Regional Office in Moldova. An ED trip to Chisinau at the end of 2005 remains a possibility, although an early 2006 trip is more likely. The ED Office also performed all the arrangements, planning, and organization activities for the 20th Governing Board meeting (16 June 2005, Tbilisi,

Georgia) and the upcoming 21st Governing Board meeting (December 2, 2005, Kyiv, Ukraine). This included the travel of the ED, ED Executive Assistant, and STCU Executive staff and chief officers.

The ED Office also made consultation visits to Brussels (2 times) and Washington DC. The ED Office did not travel as much as it should have to other STCU Party capitals or to STCU Regional Offices (e.g. Baku, Lviv, Dnipropetrovsk) due to unforeseen events and pressing activities in Kyiv during the February-June 2005 timeframe, which caused necessary adjustments to the ED Office travel plans..

Plan for 2006

For 2006, the ED Office expects to maintain the level of activity as sustained in 2005, with the exception that more ED travel should actually take place. This is because, with the STCU reorganization now fully implemented and operating, there will be a need for the ED to make appearances and conduct discussions/negotiations with Member Party officials outside of Kyiv, in order to advance the STCU activities in sustainability development, partnership-building with Beneficiary Parties, and effective targeting of STCU programmatic efforts.

Staff Travel (2005 Budget Allocation = \$35,100. 2006 Budget Request = \$34,500)

The ED Travel Budget for 2005 will be underspent, but the number of planned trips in 2006 will be the same or a little higher, requiring travel for the ED, and on occasion for the Executive Assistant. Much of the 2005 underspend was used to cover the expenses of other DED and staff travel. Within the ED Office travel budget will be included travel to two Advisory Committee meetings (one in the spring of 2006 and one in the autumn of 2006) and one Governing Board meeting outside of Kyiv (possibly in Moldova) for the ED and some of the STCU management staff. The ED also plans to visit the Financing Party capitals at least once during the year.

Travel (within CIS):

- AC/GBM Meeting outside Ukraine = 5 staff + 1 admin (\$6,000)
- Regional Officers Meeting = 7 Kyiv-based executive staff (\$2,500)
- ISTC consultation meetings in Moscow = 2 trips (\$2,500)
- ED travel to Regional Offices outside Ukraine = 3 trips (\$4,500)
- ED travel to Ukrainian Regional Offices = 3 trips (\$3,000)

Travel (International):

- Spring 2006 AC meeting in Europe/North America = 4 staff (\$5,000)
- Autumn 2006 AC meeting in USA = 3 staff (\$7,000)
- ED travel for STCU business = 2 trips (\$4,000)

Staff Training (2005 Budget Allocation = \$5,300. 2006 Budget Request = \$4,500 for ED Office staff plus \$5,000 for STCU-wide Staff Training)

The ED Office will continue to ensure the professional integrity and standards of the STCU operations and its staff through established "management by objectives" policies, employee evaluations and performance reviews, and review and improvement of STCU standard operating procedures. To accomplish this, the ED Office itself will strive to maintain its own level of professional training, particularly in areas of management skills and language skills. That said, a reduction in the Staff Training budget is anticipated due to the departure of the previous ED Executive Assistant, who was in the last year of an MBA program financed by the ED Office Staff Training budget. In addition, the STCU

management plans to schedule a "team building" training day for the STCU staff and is requesting \$5,000 in general staff training funds to support this event.

Representation (2005 Budget Allocation = \$15,000. 2006 Budget Request = \$15,000)

Based upon Representational activities over 2005, which include financing official receptions involving executive-level officials and visitors or executive-level meetings, it is anticipated that number of events and functions appropriate for hosting by the ED Office will be approximately the same in 2006.

Office Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Party	1	1	1	0
- Local	1	1	1	0
Staff Total	2	2	2	0
Staff Support				
- Travel (Inter'l)	16,300	11,500	16,000	-300
- Travel (CIS)	18,800	18,725	18,500	-300
- Staff Training	5,300	5,300	4,500	-800
- Gen'l Training	0	0	5,000	+5,000
Staff Support Total	40,400	35,525	44,000	+3,600
Representation	15,000	15,000	15,000	0
Department Total				
Staff	2	2	2	0
Funding	55,400	50,525	59,000	+3,600

Administrative Office

Overview

The Administration Office is responsible for the administration of the Center's assets, including maintenance and security, support to financial, project monitoring and project management needs; administration of project and Center's procurement. The office also administers the Center's HR functions, maintaining contractual documents and relationships with the STCU local staff.

Administration Support and Back Office Processing

Performance in 2005

Projects/Procurement - During 2005 the 4 procurement officers dealt with approx. 300 projects (total includes active, new and completed). Also, the procurement & customs training initiative begun in 2004 (intended to train STCU project managers and other participating scientists) was continued, with training taking place in Baku and Tbilisi and training planned for Dnipropetrovsk, Lviv, Kharkiv, and Tashkent.

In other activities during 2005, Procurement Officers traveled to the ISTC as part of a regularly planned exchange between the two Centers' Administrative staffs, and the STCU Administrative Office continued its initiative to document

procurement/customs procedures, training guides, and manuals as well as develop the database of vendors and preferred suppliers is an ongoing process.

During 2005 the Administration Office was faced with redistributing tasks and responsibilities among the staff due to the departure of a staff member, the maternity leave of a Procurement Officer as well as another Procurement Officer being seconded to the ERP NAVISION project team for 5 months. This entailed training the CAO's Administrative Assistant and the Travel Coordinator to take on additional duties for projects and procurements tasks. This method was considered as a better approach than taking on outside temporary staff.

Customs – Volumes in the area of STCU and Project-related import & export work have surprisingly continued to increase during 2005. The total predicted STCU customs volume (number of customs-related actions, be it importing or exporting items) will increase 23% in 2005 over 2004 levels, compared to the 32% volume increase between 2003 and 2004. With the current trend of active Regular Projects actually decreasing during 2005, the customs activity seems contrary to the trend. But it is likely that the volume of customs clearing should decrease over time, if the Regular Project volume continues to decrease.

As approved in the 2005 Budget Request, the Administrative Office hired a second full-time Customs Officer starting in May. The Administration Department now has a competent and reliable back-up for the Customs Officer position which was lacking and badly needed.

Travel – During 2005, a total of approx. 2,000 travel requests will have been processed (75% internally in UA, and 25% outside of UA). Monthly, approximately 25 STCU staff-related travel arrangements are made. This Travel Coordination function is currently handled by one person, and should the amount of travel-related support increase further, the Office will need to evaluate its staff workload to compensate.

Moldova Office - A visit to Chisinau by the DED (EU) & the CAO took place in February to interview candidates for the position of Moldovan Regional officer, as well as find suitable premises for the regional office. A User Agreement for locating the STCU Regional Office in space within the Academy of Sciences building has now been signed by the STCU and Moldovan Academy of Science. The STCU now is commencing the official process of diplomatic accreditation with the Government of Moldova and has hired a full-time Regional Officer. A CAO trip to Chisinau is provisionally planned in November to continue the office renovation process and also to develop procurement, customs, tax, and Banking procedures.

Plan for 2006

In the future, the Office will continue to work on proposed improvements in Procurement processes (e.g., establishing electronic databases of preferred vendors, standard equipment lists for STCU projects, etc.), to automate standard administrative data and documents, and to organize a more standard set of pre-planned training courses and workshops for STCU staff.

Implementation of ERP Financial System. Implementation of the new ERP NAVISION integrated financial system will require changes to the Administration Office practices and processes. There will be changes in processes, reporting, and data entry and 2006 will see ways in which the new system can be used to facilitate improved work processes, information gathering, and storing both for normal work processes as well as Management information. Changes in the reorganization structure post-ERP NAVISION implementation may have some initial effect on administrative operations from a learning perspective, but the general administrative support and back-office functions will remain mostly routine (although we shall look for ways to improve the automation and efficiency of all processes and use the new ERP NAVISION system to improve current operations and processes). It is hoped that the new system can also improve the administrative efficiency and customer responsiveness through better integration of financial-related operating

procedures and systems and also to move towards the goal of a reduction in paper-based operations and archiving requirements. (i.e to achieve the goal of moving to a more “paperless” office).

Opening Moldova Regional Office Final issues regarding Moldovan Regional Office operations, such as completion of any remaining legal, accreditation, customs, tax, VAT and procurement issues, will be finished in the first part of 2006.

ISTC - Closer liaison and interchange with ISTC will continue in respect to joint project cooperation and general administrative cooperation. A visit of ISTC staff to STCU is anticipated, although the Office will remain flexible on a possible STCU staff trip to Moscow. We see the need for closer coordination with the ISTC especially after we have recently formalized the Administrative Arrangement between the ISTC and STCU on the joint projects and proposal documents / forms.

STCU Staff Salary & Bonus Budget (2005 Compensation = 10%. 2006 Compensation Request = 11%)

In 2005, the CAO continued to oversee the STCU Personnel & Remuneration Policy as approved by the Governing Board in December 2003. The dealings with RaiffeisenBank Ukraine on the salary accounts and cards procedure was improved and also the STCU has made an corporate agreement with RaiffeisenBank which will enable STCU staff to take out personal Bank loans at preferential rates. This will be implemented in the final quarter of 2005.

The STCU Management will continue to follow the flexible and incentive/performance objective-driven remuneration policy originally established in January 2004.

Compensation Request for 2006

<u>Salary % increase 2006</u>	v	<u>2005</u>	<u>Bonus % increase 2006</u>	v	<u>2005</u>
5.0%		3.5%	6.0%		6.5%

The proposed total Local Grants (Full-Time Staff) budget increase for 2006 is 11%, divided into a 5% basic, across-the-board salary adjustment and a 6.0% provision on total salaries for an annual bonus to be distributed based upon performance appraisals. The 5% increase in basic salary adjustment in 2006 is a slight increase to the 3.5% basic salary increase approved for 2005. While the 5% increase does not represent any comparison to current national inflation figures or local currency exchange rate fluctuations, it does partially offset the current cost of living increases for the STCU staff. Further, the STCU has experienced a turnover in certain key job categories because of the competitiveness of the local job market in these categories. In 2006, a review will be performed to evaluate the STCU salary categories against local market salaries, particularly in critical functions within the STCU operations.

The 2006 requested 6% bonus figure; (slightly lower than bonus amount approved for 2005) is calculated based on an approximation of awarding a 1 month’s salary bonus (or more for exceptional cases) to the staff at the year’s end, with the total bonus amount awarded not exceeding the budgeted amount.

Registration of Staff Labor Books. Progress was made with the Ukrainian government agency, GDIP, regarding registration of the staff’s labor books under STCU’s name. Previously, this had never been possible and staff had to either make their own arrangements or not have their employment registered at all. It is hoped that this new development will commence by the year end. This will entail a one-off expense in 2006 of \$3,500 USD (approximately \$50 USD per staff member) to register all staff labor books with GDIP.

Staff Training (2005 Budget Allocation = \$16,000. 2006 Budget Request = \$22,190)

Performance in 2005

Of the 16 staff in the department and with the increased training budget available for 2005, 6 staff already managed to undertake relevant professional training or familiarization courses during 2005 and 4/5 more staff will undertake training before the year end. One Admin staff member started a sponsored MBA course and will continue her second year in 2006.

Plan for 2006

The Administrative Office plans for 12 staff to take training in 2006, given the addition of a new Customs Officer plus changes in other staff positions. Special emphasis will be on the procurement and customs practices and also to have other people trained in these skill sets in order to create more flexibility when juggling staff workload. The Office plans for 5 staff to enroll in Procurement / Contract Skills related courses. These are usually run out of Moscow; if a local course become available at lower cost, this will be considered. Additional courses are planned for staff professional development and some language training, and the continuation of the one staff member's second year in the MBA course.

Staff Travel (2005 Budget Allocation = \$7,000: \$6200 within CIS; \$800 International. 2006 Budget Request \$6,000: \$5000 within CIS; \$1,000 International)

Performance for 2005

During 2005 the CAO made trips to Moldova, Kharkiv, and Lviv to carry out administrative fact-finding, review and follow up related administrative work. There are additional plans to visit Moldova, Dnipropetrovsk, ISTC, and either Baku or Tashkent before the end of 2005.

Plan for 2006

The plan for 2006 is to make a follow-up visit to Moldova in relation to setting up of the new Regional Office. Additionally, 2 visits are budgeted to other Regional offices (e.g., Tashkent, Tbilisi or Baku) and 1 trip is budgeted for each of the 3 Ukrainian Regional Offices. Issues regarding Regional Office leases or other matters in Kharkiv and Dnipropetrovsk may necessitate additional trips to these Offices.

The Administration Office will continue to develop its external training initiative started in 2004 on the procurement and customs training and will make visits to all offices in 2006 to give workshops to scientists, project managers, regional officers and other interested parties.

Also budgeted is a visit by the CAO to the EU Commission in Brussels (\$1,000, International Travel) to meet the with EU Party representatives.

Facility Improvements, Furniture & Fixtures, Office Equipment, Telecoms Equipment (2005 Budget Allocation. = \$43,450: \$10,000 for Facility Improvements; \$10,000 for Furniture/Equipment, \$10,000 for Office Equipment; \$13,450 for Telecoms Equipment). 2006 Budget Request = \$31,000: \$6,000 for Facility Improvements; \$10,000 for Furniture/Fixtures; \$10,000 for Office Equipment; \$5,000 for Telecommunications Equipment).

Performance in 2005

As of 2005, the STCU Headquarters building is fully equipped and functional, and few improvements are seen to be required in 2006, save for normal maintenance. Arrangements for 8 (6 Kyiv based) new staff, including furniture, were

successfully made. During 2005 we replaced the old PABX switchboard system with a new system and upgraded the line capacity. A new large Xerox photocopier capable of sorting was purchased as planned plus other small items including minor equipment for the office (replacement mobile phones, tools, furniture items etc).

Plan for 2006

Some existing furniture and carpeting may need to be replaced or refurbished. Provision is made to purchase new STCU Country flags for all the Regional Offices. On the fixed asset equipment side, we do not foresee much requirement in 2006 for major item expenses as current equipment should be sufficient for continued operations.

Vehicle Operations (2005 Budget Allocation = \$34,000. 2006 Budget Request = \$20,000)

Performance in 2005

As approved in the 2005 Budget Request, STCU purchased a new Peugeot 407 Estate car to replace the old Mazda 626. However, due primarily to drastic increases in fuel prices as well as other price increases, the budget figure for 2005 of \$9000 for Vehicle Operations (excluding the \$25,000 for the purchase of a new vehicle) was found to be inadequate. The STCU requested Governing Party permission to overspend the Vehicle Operations line by 10% to accommodate these unanticipated expenses. In fact, the estimate of \$9,000 for vehicle maintenance and operations was the same figure requested in the 2004 budget, and in both the 2004 and 2005 budget years, the STCU was forced to overspend.

Plan for 2006

Since 2004, the price of fuel has increased from approximately UAH2.00 per liter to approximately UAH 4.6 per liter and consequently this has been a major cost factor in the running of the 3 STCU vehicles. Further, the continued increase in Customs Clearance activity kept the two cargo-capable vehicles (the Mercedes van and the Peugeot wagon) busy, as well as strained the workload of the STCU's two drivers. To cope with the increase in vehicle operational expenses, the Administrative Office initiated a weekly report watch to better monitor and control vehicle costs. The use of taxis by STCU staff will still be the normal practice if STCU vehicles are not available, but this taxi use is likely to increase in 2006 due to the additional use of STCU vehicles on customs-related trips.

Also during 2005 several high costs; both standard and unexpected, were incurred due to a regular yearly service check for the Mercedes; (which is now more than 5 years old plus 125Kms), which involved replacing the brake system, and a new fuel pump, new sets of summer & winter tires for the Nissan, plus purchase of winter tires for the Peugeot. The Nissan's 3 year warranty period has expired, and the maintenance expenses have also started to increase.

Office Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Party	1	1	1	0
- Local	15	15	15	0
- Part-Time	3	3	3	0
Staff Total	19	19	19	0
Staff Support				
- Travel (Inter'l)	800	1,000	1,000	+ 200
- Travel (CIS)	6,200	6,000	5,000	-1,200
- Staff Training	16,000	15,800	22,190	+6,190
Staff Support Total				

	23,000	22,800	28,190	+5,190
Admin Programs				
- Facility Improve	10,000	-	6,000	-4,000
- Furn. & Fix.	10,000	10,000	10,000	0
- Office Equip.	10,000	10,000	10,000	0
- Tel. Equip.	13,450	12,000	5,000	-8,450
- Veh. & Oper.	9,000	16,000	20,000	+11,000
Programs Total	52,450	48,000	51,000	-1,450
Department Total				
Staff	19	19	19	0
Funding	75,450	70,800	79,190	+3,740

Finance Office

Overview

The Finance Department is responsible for the financial operations of the Center, which include accounting, banking, auditing and budgeting functions and the assembling, and preparation of financial and budget information. The office oversees the development of all policies and procedures related to the internal financial control of the Center.

Enterprise Resource Planning (ERP) Installation (2005 Budget Allocation = \$94,700: \$15,000 for Software; \$79,700 for Other Professional Services. 2006 Budget Request = \$70,700: \$8,000 for Software; \$62,700 for Other Professional Services).

In April 2003, in response to auditor requirements and to growing demands for financial and administrative information, the STCU launched a project to replace its core financial and administrative systems with an off-the-shelf enterprise resource planning (ERP) software package. The STCU moved aggressively to replace the previous aggregation of systems with an integrated, enterprise-wide solution utilizing a robust ERP package that will be used to perform all financial and administrative functions.

Performance in 2005

The goal of the program plan for 2005 was to replace the multiple systems previously utilized by the Administrative and Finance Offices with the integrated NAVISION ERP software by September 1st, 2005. The resources required to fulfill the program plan for 2005 consisted of the following three major parts: (1) payment for remaining portion of software (\$15,000) (2) payment of \$65,000 (54,470 EUR) for implementation services (3) temporary replacements for seven months (March 1 to September 30, 2005) for three (3) STCU full-time Finance Office staff (3 X 7 mo.'s X \$700/mo. = \$14,700).

Originally, the goal of the NAVISION installation was for the new system to be tested and implemented "in-full" (i.e., all financial and administrative activities moved completely from the old systems and the old systems "turned off") as of September 1, 2005. This "go-live" date was delayed by one month (from September 1st, 2005 to October 1st, 2005) because of difficulties encountered during the testing phase of the project.

The delay did not result in the project exceeding the originally budgeted amount (54,470 EUR). However, because of the problems experienced during testing, the original plan for an "in-full" implementation was deemed too risky by management. Thus, the STCU took a "scaled" approach (i.e., only AOB & SB activities and newly-started projects entered into the new system after October 1, 2005) until the NAVISION system has passed a number of critical

milestones (e.g., quarterly report processing, etc.). Once those milestones are achieved, the old systems will be “turned off” and NAVISION will become the primary system.

NAVISION Implementation Timeline

- | | |
|---------------------------------|---|
| 1. May 16, 2005 | Project Started |
| 2. June 9, 2005 | Design Phase Completed (Functional Requirements Document signed off |
| 3. August 8, 2005 | Testing Started |
| 4. August 25, 2005 | Steering Committee decides to reschedule “go-live” date to October 1, 2005 and implement on a “scaled” approach |
| 5. September 27, 2005 | Steering Committee decides to “go-live” on October 1, 2005 |
| 6. October 1, 2005 | STCU goes live with NAVISION for all Admin and Supplemental transactions. |
| 7. October 31, 2005 | Ten projects imported and are now active in NAVISION |
| 8. 2 nd quarter 2006 | Convert projects in legacy systems to NAVISION (approx. 150 projects) |

Plan for 2006

In 2006, the STCU will completely move away from its legacy systems to the new NAVISION integrated system, with all finance and administrative transactions being processed in the NAVISION system. After this stage is complete, the STCU will begin the second phase of the implementation project, which is to move the legacy data (beginning with data for the years of 2001 – 2005) from the STCU’s old systems (ACCESS and ACCPAC) into NAVISION, in order to have history in the NAVISION system.

In order to complete Phase II, the STCU will require additional consulting services from Innaware (the NAVISION service provider which performed the initial installation), as well as the assistance of temporary personnel to complete the required preparation of the legacy data for import into NAVISION. As the STCU generates on average approximately 25,000 transactions per year, Phase II of the project would involve working with 125,000 transactions to import into NAVISION. The plan is to import most of the transactions electronically, but there will still be a need to prepare the data manually. Thus, the STCU estimates that it will require three temporary workers for a year in order to accomplish the necessary manual work required to prepare the 125,000 transactions for import.

The resources required to fulfill the program plan for 2006 consist of the following: (1) three temporary workers for a year @ \$700/mo. = \$25,200; (2) payment for the annual NAVISION maintenance fee (\$4,000); the purchase of developer module (\$4,000); (3) and two payments of \$37,500 (30,000 EUR) for Innaware consulting services.

Assistance with Annual Audit of December 31st Financial Statements (2005 Budget Allocation = \$2,100 for Other Professional Services. 2006 Budget Request = \$0 for Other Professional Services).

Performance in 2005

The scheduled completion date of the Financial Statement audit for 2004 was April 15, 2005. However, due to delays in collecting confirmation letters, the sign-off of the audit opinion was not achieved until the beginning of May 2005. As planned, the STCU Finance Office utilized a temporary worker to assist with the reconciliation of STCU’s two legacy systems, in order to provide the information for the December 31, 2004 financial statements.

Plan for 2006

In 2006, the scheduled completion date of the Financial Statement audit for the year 2005 will remain April 15, 2006, the earliest the STCU will have completed the financial statement audit of the eleven (11) audits that will have been

completed at the Center during its financial lifespan. For 2006, the STCU Finance Office will not require a temporary worker to complete the financial statements as the transition to NAVISION will allow the STCU to do this "in-house".

Staff Travel (2005 Budget Allocation = \$7,440: \$4,240 within CIS, \$3,200 International. 2006 Budget Request = \$5,440: \$2,240 within CIS; \$3,200 International Travel).

Performance in 2005

In 2005, travel for the Finance Office was for three purposes: (1) attendance of annual DCAA audit planning conference, (2) establishment or support of banking operations, and (3) travel to Moscow to work with the ISTC.

The annual planning meeting in Wiesbaden, Germany was held this year in July. The STCU conducted twenty-three project audits in three countries during May 2005 and October 2005. Results of the May 2005 audits are available from the U.S. Party; and the results of the October 2005 audits will not be known until early 2006.

The 2005 plan for banking support travel consisted of two parts: (1) establishment of banking operations in Chisinau, Moldova, and (2) re-establishment of local banking operations in local currency (Tsum) and hard currency in Uzbekistan. Because of delays in establishing a Regional Office in Moldova, the plans for establishing banking operations there were delayed until 2006 to coincide with the office opening. In addition, the STCU decided to postpone the CFO's trip to Tashkent until 2006 due to a lack of progress on the Uzbek banking issue. Thus, no funds were expended for these two planned trips in 2005.

The STCU still plans to travel to the ISTC in late November 2005. A number of topics will be discussed, with the most important focusing on the issues confronted with the installation of the new integrated Finance and Administrative systems.

Plan for 2006

In 2006, the STCU estimates that it will conduct twenty five project audits for the U.S. Department of State, U.S. Department of Agriculture, and U.S. Department of Energy. The STCU plans on sending the CFO and Deputy CFO (\$3,200) to the annual planning conference in Wiesbaden Germany in the summer of 2006.

Also, the STCU will again budget for the CFO to travel to Chisinau and Tashkent, for the same reasons as outlined in 2005 above.

In 2006, the ISTC is scheduled to travel to the STCU at a date to be determined in 2006.

Staff Training (2005 Budget Allocation = \$12,280. 2006 Budget Request = \$16,780).

Performance in 2005

For 2005, the following staff training was completed:

- Association of Certified Chartered Accountants (ACCA) Training for three people.
- Certified Management Accountant (CMA).
- Financial project management training for one person.
- Internal financial audit training for one person.

Plan for 2006

For 2006, the following staff training is planned (total \$16,780):

- ACCA Training for four people at \$1,000 per person (total of \$4,000).
- CMA Training for three people at \$760 per person (total of \$2,280).
- Financial project management training for two people at \$3,500/person (total of \$7,000).
- NAVISION training for Finance Department (\$3,500).

Office Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Local	10	10	10	0
- Party	1	1	1	0
- Part-Time	0	0	0	0
Staff Total	11	11	11	+0
Staff Support				
- Travel (Inter'l)	3,200	3,095	3,200	0
- Travel (CIS)	4,240	2,100	2,240	-2,000
- Staff Training	12,280	12,280	16,780	+4,500
Staff Support Total	19,720	17,475	22,220	+2,500
Programs				
- Audit Assistance				
○ Other Prof Svcs	2,100	2,155	0	-2,100
- ERP Installation				
○ Software				
○ Other Prof Svcs	15,000	14,380	8,000	-7,000
	79,700	88,000	62,700	-17,000
Programs Total	96,800	104,535	70,700	-26,100
Department Total				
Staff	11	11	11	+0
Funding	116,520	122,010	92,920	-23,600

Information Technology Group

Overview

The IT Group is responsible for all aspects of IT and telecommunications system management at the STCU, including the hardware and software upgrade and maintenance, IT asset control, the STCU website and related databases, and the day-to-day activities including problem solving and customer interaction. The IT Group currently consists of five people, led by the IT Group Manager.

Performance in 2005

The STCU Project Database and the in-house designed STCU Project Software, officially launched in February of 2005, have provided an invaluable tool to the STCU and our clients. The STCU Project Software has been through two major revisions in 2005; the first revision added additional user-requested capabilities, the second revision corrected some

minor errors and expanded the functionality as it related to STCU administrative and financial functions. A third revision, including the Partner Project Processing, is expected by the end of 2005.

As approved in the 2005 budget, the STCU purchased a second Apple/ Mac OS X server to be the "hot backup" system for the existing OS X server.

As approved in the 2005 budget, the STCU upgraded its telecommunications equipment from an outdated analog system to a digital system, including a new Nortel / Meridian PBX switching system and new digital telephone handsets to the majority of the Kyiv-based STCU staff. This has allowed for direct extension dialing from outside the STCU and voicemail at all of the office work stations.

The year 2005 was the final year of the three-year IT replacement cycle begun in 2003. As a result of these efforts, currently there is no employee of the STCU with information technology equipment more than three years old. This has resulted in the marked decrease of equipment-related complaints and problems received by the STCU IT staff. Although individual users are using up-to-date IT resources, some items within the Information Technology infrastructure will require replacement during the 2006, namely a few Network Printers.

Plan for 2006

Hardware (2005 Budget Allocation = \$35,700. 2006 Budget Request = \$19,295)

In 2006, the IT Group hardware focus will be largely on increasing system redundancy, improving reliability and ensuring adequate storage space. One of the two new computer servers installed in 2005 must be coupled with a companion server so that if one component or server fails, the other server will take over that responsibility immediately and automatically, (informally known as a "Hot Backup"). The IT Group is planning to purchase and install a new Dell server to serve as the "Hot Backup" system for the existing Dell server. The additional Dell server purchase also will include four additional Hard Drives to increase the storage capacity of both Dell servers. Additional rack-mounted appliances, a KVM switch and additional cables will also need to be included in the Server upgrade.

As the need for more storage space is realized, so is the need for an increase in our capacity to "backup" the information and archive data. In 2006 the STCU IT Group is planning on increasing our back up capacity from 20GB's to 80GB's and install a DVD Writer to archive information and data on DVDs. A multi-port smart Ethernet switch also is planned for purchase in order to simplify and optimize the configuration of the four servers, network printers, data backup devices, and archiving devices.

Software (2005 Budget Allocation = \$13,445. 2006 Budget Request = \$8,950)

In 2004, the STCU was recognized by the Microsoft Corporation as a non-profit government organization and was granted an Open Ended License for all the Microsoft software used at the STCU. Due to the varied license expiration dates, a few software licenses still need to be obtained during the first quarter of 2006. The IT Group is attempting to establish the same license agreements with Symantec (Norton Antivirus and Norton Ghost), Apple, and Adobe that was accomplished last year with the Microsoft Corporation, enabling the STCU to reduce some of its Software License costs in 2006 and beyond. Additional Language Software has been requested by users and the IT Group is planning on providing this new software in 2006. The IT Group is planning to deploy Windows XP with service pack 2 in all the Kyiv office computers and in the STCU Regional Offices during early 2006. To ensure a timely and seamless transition to Windows XP, four (4) temporary workers will be needed for approximately 3 days.

Staff Training (2005 Budget Allocation = \$6,000. 2006 Budget Request = \$3,150)

The Training budget continues the effort, started in 2005, to provide all IT staff with training in the other three staff positions. Because the IT Group has a small staff, it is important that when one staffer is absent on vacation or sick leave, that any of the other IT staff can fill in as necessary. The IT Group has budgeted for 9 training courses throughout

the 2006. This training will include "MS SQL" Server Administrative and Programming Courses, Apple "OS X" Server Administrative training and "Unix" programming training.

Staff Travel (2005 Budget Allocation = \$3,500. 2006 Budget Request = \$3,500)

The STCU IT Group is planning travel in 2006 to the remaining STCU Regional Offices not visited in 2005 (Tashkent, Baku, & Tbilisi) by one member of the STCU IT Group Staff and a trip to the ISTC Offices in Moscow. The travel to the STCU Regional Offices will continue the deployment of Windows XP, test and possibly deploy a Voice-Over IP telephone capability, update IT equipment, and establish the Virtual Private Network (VPN) and Virtual Network Client (VNC) connections (which will allow the Regional Offices direct connection to the main STCU LAN in Headquarters building). These trips also will allow the IT staff to provide on-site training in the use of the STCU Project Software to people who have not received it. Travel for two members of the STCU IT Staff is also being planned for continued collaboration talks with the ISTC information technology department.

IT Group Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Party	1	1	1	0
- Local	4	4	4	0
- Part-Time	0	0	0	0
Total	5	5	5	0
Staff Support				
- Travel (Int'l)	0	0	0	0
- Travel (CIS)	3,500	3,500	3,500	0
- Training	6,000	6,000	3,150	-2,850
Total	9,500	9,500	6,650	-2,850
Programs				
- Hardware	35,700	35,700	19,295	-16,405
- Software	13,445	13,450	8,950	-4,495
- Other Prof. Services*	2,000	2,000	2,360	+360
Total	51,145	51,150	30,605	-20,540
Department Totals				
Staff	5	5	5	0
Funding	60,645	60,650	37,255	-23,390

* Other Professional Services includes off-site back up tape storage, Internet Initiative fees and Temporary Staffing costs for Windows XP Deployment.

Science Excellence Department

Overview

The Science Excellence Department coordinates the processing and management of STCU Regular and Partner Projects and Proposals, initiates seminars, workshops, organizes scientific presentations and show cases, and liaises with science foundation outreach. The Department is also responsible for the Tbilisi Office and the future Moldovan Office.

Project Management

Performance in 2005

The Department provided assistance in preparing a tender for industrial utilization of antipersonnel land mines, based on the results of two STCU projects. The Department also worked with Ukrainian scientists and a European expert to prepare a project proposal focused on the technical assessment, hazard evaluation, and utilization options for solid propellants in obsolete ammunition stored in Ukraine. Joint preparation of a project proposal with the TACIS Office in Kyiv in the frame of the TACIS Action Program for Ukraine-2005 continued, and as did STCU discussions with the German Aerospace Centre on 6th Frame Work Program Specific Targeted Research Project (STREP) and with the European Space Agency on their possible STCU Partnership. The Department continued to build cooperative relations, and assist the STCU recipient scientists in pursuing research project opportunities, with organizations and programs like CRDF, TACIS, INTAS, DOE/IPP, and others.

Plan for 2006

The Department expects to encourage proposal submission in targeted areas of current international and national research interest. In case the Project proposed within the TACIS Action Program for Ukraine will be funded in 2006, the Project itself will be done in partnership with the STCU. The newly developed project fiche has been prepared by TACIS Kyiv office and the STCU.

The Department also will work with the European Space Agency, which is extremely interested to have projects done in cooperation with the STCU. In general, the Department will continue to build further our cooperative relations with organizations and programs like CRDF, TACIS, INTAS, DOE/IPP and USIC, and assist our recipient scientists in pursuing research project opportunities in these other programs.

To follow up Process Action Team recommendations, the Department will include "Technology Profile Forms" to be completed during projects monitoring activities. This form will assist the STCU and the institutes to follow-up on research result exploitation. The Department also would study possibilities to invite collaborators to conduct technical monitoring or final monitoring together with the STCU representatives, to improve understanding of the needs of R&D in the area of research.

Project Proposal Processing

Performance in 2005

As part of the STCU reorganization, the proposal processing procedures were modified so that incoming STCU project proposals are assigned to Senior Specialists by decision of the Deputy Executive Directors using an approved set of criteria (R&D area of project, location of project work, Senior Specialist workload etc.). The Department also led the internal study (based on Process Action Team recommendations) of eliminating the STCU Short Form proposal and streamlining the STCU Internal Concurrence procedures. The Department staff worked closely with their counterparts in the ISTC to implement administrative procedures for STCU–ISTC joint project proposal and project agreement processing. The Department also represented the STCU in a joint working group on Host Government Concurrence issues with the Ministry of Education and Science of Ukraine.

Plan for 2006

In 2006, the Department will continue the task of streamlining Proposal and Project Agreement processes. This means to continue the improvement in the Ukrainian HGC process in partnership with the Ministry of Education and Science of

Ukraine. The goal would be to reduce and steady the time required for Ukrainian proposals to go through the Ukrainian governmental concurrence review (particularly private sector Partner Project proposals). Another goal is to clarify with MES on when changes to a project require a resubmission to the HGC process and agree on certain types of project modifications that would not require resubmission (e.g., approvals of Partner Project extensions).

Workshops/Seminars (2005 Budget Allocation = \$ 95,800. 2006 Budget Request = \$70,000, including the STCU – NATO Workshop Funds 50,000 Euros/\$ 64,000 already in hand)

Performance in 2005

From August 2004, the Department was working on joint STCU-NATO Workshop “From Science to Business” which was planned to be held in May 2005. Unfortunately, due to logistical and scheduling difficulties, that workshop was postponed by mutual agreement between STCU and the NATO Public Diplomacy Division. NATO and STCU agreed to attempt another planning effort in 2006, with a goal of putting on this workshop before the end of the year. A training workshop, intended to prepare participating scientists for the NATO workshop, was held in spite of the postponement: the two-day event, “Aspects of Commercialization of Technologies – New Opportunities for Ukraine” was held in cooperation with the British Council and the Oxford Centre for Innovation, Ltd.

The Department participated in organizing committees for several international science conferences, including “Modern Material Science, Achievements and Problems” (National Academy of Sciences of Ukraine and the Frantsevich Institute for Problems of Material Science) in September and “Problems and Perspectives of Innovation Development of Economy” (Creative Union of Scientific and Engineering Communities of Crimea, and NASU) in Crimea, September 12-16. Also in September, the Department provided support to the Technology Advancement and Performance/Public Outreach Departments in the STCU-organized workshop “Establishing Research and Development Priorities in the Environmental Sciences within Ukraine” in Dnipropetrovsk. The Department also organized a one-day Round Table on science foundation outreach at the premises of the European Delegation in April. The aim of that event was information change between the different international and national programs and organization supporting R&D in Ukraine. There were about 30 participants from various local bilateral and international programs. Department sponsored and helped in organizing an international conference.

Plan for 2006

The following conferences and workshops are planned for STCU support:

- The STCU-NATO Commercialization Workshop (50,000 euros already awarded by NATO Science Program plus approx. \$64,000 from STCU funds already in hand)
- Presentation Skills and Proposal Writing Training in Moldova (\$1,000). This will be a one-day orientation workshop in Chisinau on the STCU and on STCU proposal writing.
- Scientific Seminar (\$5,000). In 2006, a workshop connected to an STCU proposal development activity is anticipated. Possible themes for this workshop include on a other promising avenues for scientific commercialization or a kick-off for a thematic call for proposals in a high-interest R&D area.

Staff Training (2005 Budget Allocation = \$8,500. 2006 Budget Request = \$11,700)

Performance in 2005

Four Department Senior Specialists received staff-related training during the year 2005 on project management and commercialization of technologies during the STCU – British Council commercialization training mentioned earlier

above, and at the training course "Project Management in World Bank-funded Projects" in Italy at the 11-th Annual EARMA Conference "Research Management and Governance: Strengths and Weaknesses of Europe". One Senior Specialist successfully completed a Kyiv-based training course on project management outside of working hours.

Plan for 2006

In 2006, staff training will be organized for Senior Specialists in their specific R&D areas (trends, priorities, technology transfer). The budget for staff training of a staff for the entire Department is budgeted for \$10,000. Additionally, professional training for the Department Assistant is budgeted for \$1,700.

Staff Travel (2005 Budget Allocation = \$11,800: \$4,500 within CIS; \$7,300 International. 2006 Budget Request = \$13,300: \$8,800 within CIS; \$4,500 International)

Performance in 2005

In 2005, DED (EU) visited Moldova (to establish STCU Regional Office), Moscow (consultations with ISTC), and to Alushta, Crimea (participate in a conference). One Senior Specialist traveled to Dnipropetrovsk to attend a conference and the Project Information Officer accompanied the DED (EU) on his trip to Moscow (ISTC).

Plan for 2006

In 2006, DED travel within the CIS will include one visit to the Regional Office in Tbilisi, Georgia (\$1,300), two visits to Moldova to STCU Regional Office (\$1,500), and up to two visits to Moscow to meet with the ISTC representatives (\$2,000). One trip outside the CIS is planned, for consultations in Brussels or participation in an STCU roadshow in Europe (\$1,500).

In 2006, Senior Specialist travel within the CIS includes travel to events such as workshops and seminars, orientation and presentation of STCU activities in different cities, etc (estimated \$4,000). The Department anticipates that two Senior Specialists will travel to conferences or participate in the STCU promotion missions outside the CIS (estimated \$3,000).

Regional Offices (Georgia and Moldova)

Moldova Office Startup (2005 Budget allocation \$12,000. 2006 Budget Request = \$12,000)

The STCU continues to work to establish operations in Moldova. Office space was secured in the Moldovan Academy of Sciences building in Chisinau in August and a Regional Officer was hired in September. Given the slow progress in securing these premises, it may be that the needed renovations will take place in early 2006. The originally approved funds for renovating the premises and equipping it to STCU standards will expire at the end of 2005. Therefore the same amount will be requested again in 2006.

Regional Officer Travel (2005 Budget Allocation = \$6,000. 2006 Budget Request = \$6,000: \$3000 for Georgia; \$3,000 for Moldova)

Performance in 2005

The Regional Officer in Georgia traveled to Kyiv on three (3) occasions, and travel to Prague, the Czech Republic to attend an international conference. The new Moldova Regional Office traveled to Kyiv in October for orientation training, and both Regional Officers will be in Kyiv in November for the STCU Regional Officers meeting.

Plan for 2006

Travel within CIS

- 3 trips to Kyiv for Georgia Regional Officer, two of which will be for Regional Officer meetings and training in Kyiv (\$3,000).
- 3 trips to Kyiv for Moldova Regional Officer, two of which will be for Regional Officers' Meetings and training in Kyiv (\$3,000).

Office Operations and Other Professional Services (2005 Budget Allocation = \$11,440: \$5,320 for Georgia; \$6,120 for Moldova. 2006 Budget Request = \$11,440: \$3,720 for Georgia; \$7,720 for Moldova including \$1,600 for Part-Time Assistance)

In 2005, the Georgia Regional Office hired a part-time temporary assistant during the planning and preparations for the 20th Governing Board meeting. It is anticipated that the 22nd Governing Board meeting might be held in Chisinau; therefore funds for a part-time assistant are requested to help in the preparations for that anticipated event (\$1,600).

Department Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Local	8	8	8	0
- Party	1	1	1	0
- Part-Time	0	0	0	0
Staff Total	9	9	9	0
Staff Support				
- Travel (Inter'l)	4,500	0	4,500	0
- Travel (CIS)	7,300	7,000	8,800	+1,500
- Staff Training	8,500	8,600	11,700	+3,200
RO Operations				
- Off. Startup	12,000	0	12,000	0
- Travel	6,000	4,000	6,000	0
- Overhead & Oth.Prof. Serv.	11,440	6,600	11,440	0
Staff Support Total	49,740	26,200	54,440	+4,700
Workshops, Seminars (addl. Funds)	95,800	31,800	70,000	-25,800
Programs Total	95,800	31,800	70,000	-25,800
Department Total				
Staff	9	9	9	0
Funding	145,540	58,000	124,440	-21,100

Technology Advancement Department

Overview

This Department was initiated with the arrival of the Canadian DED in mid-October 2004. This Department coordinates the processing and management of STCU Regular and Partner Projects and Proposals, initiates seminars, workshops,

and focuses on facilitating development of applied science and technology development. It also manages the Targeted R&D Initiatives program and STCU's Ukrainian Regional Offices.

Project Management (2005 Budget Allocation = \$0. 2006 Budget Request = \$30,000: \$30,000 in Supplemental Budget; Workshops/Seminars – Shared)

Performance for 2005

Highlights of the Departments performance during its first year of operation are:

- Established internal procedures for improving the quality of STCU-abstracted technical information included on Proposal Cover Sheets submitted for Western review.
- Engaged other Western science grants organizations (e.g., CRDF) in partnering with STCU in the advancement of promising Ukrainian technologies
- Evaluated state of specific Georgian & Ukrainian “bio-institutes” in anticipation of Financing Party program to engage said institutes.
- Assumed STCU role in meetings with the Kyiv Polytechnic Institute/University of Lyon Industrial Marketing Program to obtain free, student-developed, marketing plans for selected STCU Regular Projects.
- Organized Environmental Issues Workshop in Dnipropetrovsk, which brought together western environmental science experts with Ukrainian scientists, government officials, and industrialists to establish environmental research priorities for future STCU-Ukrainian cooperation in 2006. The conference has led to STCU discussions with the Ministries of Industrial Policy and Environment.
- Organized the Uzbek portion of the Central Asia Seismic Regional Initiative (CASRI) initiative

Plan for 2006

The Department will continue to engage in those activities begun in 2005 and continuing through 2006, including support to the KPI/Lyon Industrial Marketing program and CASRI projects. In addition, the Department plans the following new activities for 2006:

- International Workshop (\$30,000). Organize another major International Workshop using the model established with the Dnipropetrovsk Environmental Issues Workshop. The Workshop will focus on an area of national science and technology priority, possibly Biotechnology.
- Technology Watch Newsletter. Establish a newsletter for regular e-publication (and some printed versions) that will provide information on existing technologies and capabilities within Recipient Party scientific institutions, as a method for collecting and identifying promising technologies for potential Partner Projects or other types of follow-up development.

Targeted R&D Initiatives (2005 Budget Allocation = \$500,000 in Supplemental Budget – Targeted R&D Initiatives. 2006 Budget Request = \$850,000)

The goals of the Targeted R&D Initiative continue to be: seek true partnership, national support, and joint financing from Recipient governments; select projects for financing through peer review and consensus agreement based on both Recipient government national priorities and on STCU nonproliferation priorities; provide western technical reviewer feedback to participating project teams to strengthen and enhance their proposed research and make project teams more competitive in other research venues.

Performance in 2005

The initial attempt to organize a Targeted Initiative with the National Academy of Sciences of Ukraine (NASU) was generally successful, with recommendations for improvements in the process suggested by both STCU Parties and NASU. The STCU-NASU Targeted Initiative began in April with agreement on cooperation and on a step-by-step process for organizing up to \$1 million USD (\$500,000 from STCU and \$500,000 from NASU) in jointly financed projects in five research areas identified as national priorities by the Ukrainian government. From then:

- A joint call for proposals was issued in April, with 62 proposals received by NASU. In July, NASU eventually forwarded to STCU 14 Full Form proposals, with HGC approval, that represented NASU preferences for its own financing.
- STCU forwarded these 14 proposals to STCU Financing Parties for technical peer reviews and financing decisions. STCU Parties, after some adjustments which caused delays, provided reviews and recommendations in October.
- STCU and NASU reviewed the STCU Party recommendations and agreed on 7 projects for financing, with certain adjustments to the project details to accommodate STCU Party recommendations.

Other Recipient Parties, in particular Georgia, have approached STCU to explore the possibility of a future Targeted Initiative with them. Based on the confidence and experience gained from this initial Targeted Initiative effort in Ukraine, STCU began to outline a similar Targeted Initiative with the Ministry of Education and Science of Georgia (later, the Ministry delegated this responsibility to its newly-established implementing agency, the National Science Foundation).

Plans for 2006

The Department plans to pursue a second, slightly expanded Ukrainian Targeted Initiative (possibly focused on Ukrainian government environmental priorities), making the necessary adjustments to the proposal review and approval process based on STCU Party and NASU comments. The Department plans to launch a Targeted Initiative with Georgia, pending agreement on the goals/process and availability of matching Georgian governmental funds.

Staff Training (2005 Budget Allocation \$5,000. 2006 Budget Request \$10,500)

Performance in 2005

Two Department Senior Specialists participated in international (Italy and Canada) training in areas identified as National priority that contributed to STCU mandate whilst enhancing career development.

Plan in 2006

The Department anticipates an expanded number of opportunities for professional training of its entire staff, including potential training opportunities internationally as well as local training initiatives.

Staff Travel (2005 Budget Allocation = \$9,600: \$6,600 within CIS; \$3,000 International. 2006 Budget Request = \$16,000: \$11,000 within CIS; \$5,000 International)

Performance in 2005

The Department staff undertook the following travel:

- Four visits (2 by DED, 2 by other staff) to Dnipropetrovsk (including one DED visit to Odessa and to Zaporizhiya)
- One DED visit to Donetsk
- Two staff visits to Lviv
- Two visits (one DED and one staff) to Georgia

As a result of the number and extent of these trips, the Department's Travel Budget within CIS was expended sooner than expected and DED travel to the Lviv and Kharkiv Regional Offices was not possible in 2005.

Plan for 2006

An estimate of the planned Department staff travel is as follows:

- o a minimum of two DED visits to each of the three Ukrainian Regional Offices; one DED trip to Moscow for ISTC consultations; one possible DED orientation trip to Uzbekistan (\$5,500).
- o two staff trips within CIS to attend conferences/workshops (\$3,000).
- o In support of the possible Georgian Targeted Initiative, a minimum of two trips is required to Tbilisi (Georgia) (\$2,500).
- o One international DED trip (not associated with Advisory Committee meetings) to Europe, Canada, or USA for consultations; one possible staff trip for conferences/meetings in Europe or North America (\$5000).

Regional Offices (Kharkiv, Dnipropetrovsk & Lviv)

Regional Officer Travel (2005 Budget Allocation = \$9,500. 2006 Budget Request = \$7,500: \$3,500 for Kharkiv; \$2,000 for Dnipropetrovsk; \$2,000 for Lviv)

Regional Officers in Ukraine traveled within their locality to stay in contact with the project teams, institutes, and situation within their regional areas. In 2006, the Regional Officers plan the following travel: 3 trips to Kyiv for consultations and local travel (\$7,500).

Office Operations and Other Professional Services (2005 Budget Allocation = \$23,940: \$10,620 for Kharkiv; \$7,380 for Dnipropetrovsk; \$5,940 for Lviv. 2006 Budget Request = \$23,820: \$10,620 for Kharkiv; \$6,420 Dnipropetrovsk and \$6,780 for Lviv).

In 2005, both Lviv and Dnipropetrovsk offices had part-time administrative support, given that these offices have only the one Regional Officer and no other staff. In the past, these single-person Regional Offices were forced to close at intervals throughout the year, particularly during the summer vacation period, during project monitoring visits, and when the Regional Officers had to accommodate foreign visitors (e.g. CIDA mission). The part-time office assistant allowed the Lviv and Dnipropetrovsk Regional Offices to be more responsive in their regions and to the STCU Headquarters.

In 2006, the Department is requesting part-time office assistance (1–2 days /week) to all Ukrainian Regional Offices (total = \$5,400), so that all these Offices may be better positioned to engage the local science communities and local authorities on a pro-active basis, while still having the Offices manned for basic operations and administrative support to the STCU.

Department Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Local	8	8	8	0
- Party	2	2	2	0
- Part-Time	0	0	0	0
Staff Total	10	10	10	0
Staff Support				

- Travel (Inter'l)	3,000	3,000	5,000	+2,000
- Travel (CIS)	6,600	7,600	11,000	+4,400
- Staff Training	5,000	5,000	10,500	+5,500
RO Operations				
- Travel CIS	9,500	7,275	7,500	-2,000
- Overhead & Oth. Prof. Serv	23,940	22,200	23,820	-120
Staff Support Total	48,040	45,075	57,820	+9,780
Programs				
Shared SB Programs				
- Workshops/ Seminars	0	0	30,000	+30,000
- Targeted R&D Initiatives	500,000	500,000	850,000	+350,000
Programs Total	500,000	500,000	880,000	+380,000
Department Total				
Staff	10	10	10	0
Funding	548,040	545,075	937,820	+389,780

Sustainability Promotion Department

Overview

The Department seeks to increase the number of opportunities for STCU recipient scientists to enhance their abilities to support research activities through their own efforts by developing stable sources of income. The Regional Offices in Baku, Azerbaijan and Tashkent, Uzbekistan are managed by this Department.

Partnership Promotion (2005 Budget Allocation = \$ 140,000: \$50,000 from AOB – Business Operations; \$50,000 from Shared Supplemental Budget – Bus.Training/Sus.Support; \$40,000 from Party-designated Supplemental Budget – Rus.Training/Sus.Support (US). 2006 Budget Request = \$140,000: \$100,000 from Shared Supplemental Budget – Bus.Training/Sus.Support, \$40,000 from Party-designated Supplemental Budget – Rus.Training/Sus.Support (US).)

Performance in 2005

Partner Program. So far in 2005, twelve (12) organizations have become new Non-Government Partners (NGP), including Tetra Sies, Inc., the University of Stuttgart and Intel Corporation. In 2005, twelve (12) NGP projects were started, totaling over \$1.6 million. Also in 2005, two new Government Partners (GP) were approved: the International Research Centre for Telecommunications and Radar (Netherlands) and the Office of Global Nuclear Material Threat Reduction of the U.S. Department of Energy. To date in 2005, sixteen (16) new GP projects were started, totaling \$4.05 million USD and 89,000 euros.

German Nanotrends Conference: Organized in cooperation with the Kyiv office of the International Bureau of the German Federal Ministry of Education and Research and the German Embassy, STCU prepared and led a team of five scientists in June to Munich, Dresden and Berlin for this Conference and follow-on German company visits. Out of a total of some 40 serious contacts which the scientists made during the trip, at least 10 appear to have potential for real success (mostly in the field of nanopowders). We held a pre-trip training session and also had a booth at the Conference.

TII2005. STCU traveled with officials from the Ukrainian technology transfer firm, "Nauka," to the conference, "Technology Innovation Information 2005," in Fribourg, Switzerland. As a result, the organizers of TII2005 have now given "Nauka" access to a specialized database as a means of promoting Ukrainian technologies. STCU will work with Nauka to provide promising technology profiles from STCU recipient scientists for promotion on this database.

Photon-based Nanoscience Conference. STCU led a group of 12 scientists in September to Sherbrooke, Canada for this NATO Advance Study Institute conference and associated calls on Canadian businesses (Six of these scientists were sponsored directly by the Government of Canada, through CIDA funds). The trip resulted in over 50 contacts established, including 15 promising contacts likely to result in new Partners (with 4 of these contacts to join the mid-November CIDA mission).

INTEC (Germany). In cooperation with the Kyiv office of the Otto von Guericke Foundation, STCU led five Ukrainian researchers to matchmaking meetings in Dusseldorf and Berlin in June and to participate in the INTEC trade show.

Lightening Strike Workshop (U.S.). Working closely with The Boeing Company, STCU brought three scientists to Seattle for this conference in late September. As a result of this trip, Boeing plans to increase its level of investment in research projects in Ukraine (Boeing is an STCU Partner).

STEP Seminars. Held on three occasions in Tbilisi in February, June and September, STCU co-funded with the U.S. Civilian Research and Development Foundation (CRDF) a series of seminars to bring together researchers, entrepreneurs and business figures. Besides providing business skills training to over 120 scientists and science administrators, STEP gave the participants a means to engage directly the Georgian business community and support organizations, such as the Georgian Marketing Association, the Association of Georgian Bankers, the Caucasus School of Business and the Georgian Federation of Businessmen.

AIChE Conference (U.S.). At the request of the U.S. Party, STCU (along with ISTC) presented material and brought four Ukrainian scientists with their presentations to the Annual Meeting of the American Institute of Chemical Engineers (AIChE) held in November in Cincinnati, Ohio. ISTC also came with its own presentation and group of scientists.

Plan for 2006

The Department has formulated an aggressive program for next year:

- Because of the success with STCU delegations to Germany in the field of nanopowders, STCU plans to send a group of nanomaterial scientists to a similar but somewhat expanded event, the "Hydrogen + Fuel Cells" trade show in Hannover, Germany in April 2006. The European powder metallurgy community has a major trade show in autumn 2006; again, sending STCU scientists to this event would allow us to build on strength of Ukrainian applied science (\$50,000).
- In addition, STCU will plan to organize a second Partnership Promotion roadshow for 2006, possibly to the United Kingdom or to North America (\$50,000).
- STCU will request \$40,000 to continue to support seminars/workshops that provide entrepreneurial skill training or real-world experience for STCU-selected scientists, technical units, or institutes. One likely use of these funds will be co-sponsorship in the next round of CRDF STEP seminars in Baku to foster innovation training and engaging STCU-selected scientists directly with the greater Azerbaijani business community. Additional co-sponsors, including the Azerbaijan National Academy of Sciences, are expected.

Market Analysis (2005 Budget Allocation = \$3000. 2006 Budget Request = \$4000 for Subscriptions and Publication purchases)

Performance for 2005

Because of delays in hiring new staff for the Sustainability Development activity, and the loss of one Party-provided staff, only a small amount of market research was performed. At the initiative of the University of Lyon, France, STCU arranged for business management post-graduates at Kyiv Polytechnic Institute to develop *pro bono* market analysis/business strategies for commercialize the results of a handful of STCU projects. The effort was cost-free to the STCU, but the results suffered because of misunderstandings within this inaugural educational program between Lyon and KPI (STCU's Technology Advancement Department has assumed this program and has addressed these shortcomings with the Lyon/KPI team).

Plan for 2006

This function will continue to build up its capability to access technology trend reporting, based on the needs of the STCU, particularly the STCU S&T area experts. The bulk of activities will be structured around defining the marketing needs of the institutes involved in the Chief Technology Commercialization Officers study. The budget request for this activity will focus on purchasing subscriptions and tailored marketing reports in specific S&T areas.

Sustainability Development (2005 Budget Allocation = \$41,500 from Shared Supplemental Budget – Bus. Training/Sus. Support. 2006 Budget Request = \$87,000 from Shared Supplemental Budget – Bus.Training/Sus.Support)

Performance for 2005

Working closely with the results of the STCU's 2003 institute survey and in consultation with the Financing Parties, STCU selected a group of 14 institutes which were the best positioned to benefit from specialized commercialization support and training to be given in the Chief Technology Commercialization Officers (CTCO) program. With the assistance of a technology transfer/management consultant, this study will work with as many as 10 Ukrainian institutes from the priority list of 14 institutes, based on the strength of commitment to this study by the institute leadership as well as the availability of suitable CTCO candidates within the institute executive staff. A Sustainability Development Officer (SDO) was hired to coordinate the CTCO program and aid the integration of this effort with the STCU training program.

Plan for 2006

Placing the CTCO program on a firm footing will occupy the bulk of time of the new SDO. We foresee the following major start-up activities in 2006:

- Ensure the placement of CTCOs at each of the selected institutes;
- Development CTCO capability to use business strategies, market reports;
- Provide STCU-based training and workshops;
- Include CTCOs in trade show delegations;
- Enhance the ability of the institutes to promote themselves via the Internet and other means.

Estimated costs for CTCO-related training are \$35,000 (in-house and vendor-provided), while CTCO participation in trade show delegations will costs \$25,000 in travel expenses, and Web development expenses and strategy development will be approximately \$17,000.

Also, the Department will support selected cases of prototype production/testing activities when there is a strong opportunity to promote STCU participant-developed technologies to a potential commercial/industrial Partner. This recommendation from the Process Action Team process intends to address a common situation where a potential private sector Partner wishes to evaluate samples of a technology before committing to further cooperation, but the recipient scientist needs assistance in providing these samples. As a first step, this activity will be limited to less than \$2,500 per case (\$10,000 total) and each case will be evaluated by Sustainability Promotion Department for eligibility to receive such support. Further evaluation of the success or problems with this "prototype support" activity will determine future adjustments to the decision-making process or financial ceiling on each supported case.

Patent and IPR Support (2005 Budget Allocation = \$ 70,000 from Shared Supplemental Budget – Patent Support. 2006 Budget Request = \$ 33,000 from Shared Supplemental Budget – Patent Support.)

Performance in 2005

- STCU negotiated Non-Disclosure Agreements with 32 institutes with active or just-completed projects. The text of this agreement was coordinated with the Center of Intellectual Property and Technology Transfer of the National Academy of Sciences of Ukraine.
- The Patent Officer, working with a Senior Specialist, revised the STCU Patent Grant Application form to improve STCU's ability to track how well a researcher progresses in commercializing an invention.
- Provided tailored support to a Ukrainian entrepreneur (a past STCU project participant) to have his invention promoted in the U.S.
- Continued coordination with ISTC IPR staff on common patent/IPR issues, including participation in a joint ISTC-STCU IPR Working Group meeting in Moscow.
- Hosted a September IPR Workshop in Baku that included both Azeri and Georgian STCU project participants.
- Consulted with Ukrainian Ministry of Education and Science officials and other Ukrainian state bodies on the Ukrainian Government approval processes for releasing invention/patent application information to foreign specialists.
- To date in 2005, STCU supported 22 patent application grants totaling over \$25,000.

Plan for 2006

With the continuation of STCU-provided IPR training and with its focus on sustainability, commercialization, and technology transfer, the STCU estimates that patent application support for next year will equal \$33,000 based on the performance of 2005. Also, STCU will budget for staff travel to Moscow in anticipation of a meeting of the ISTC-STCU IPR Working Group.

Staff Training (2005 Budget Allocation = \$ 6,200. 2006 Budget Request = \$10,700)

Performance in 2005

- Senior Specialist to IPR training (Licensing Executive Society) in Moscow.
- Baku Regional Officer attended course on attracting European project funding.
- Training course for new SDO on sustainability.

Plan for 2006

Proposed staff training for 2006 will include:

- Licensing Executive Society IPR training course in Moscow for Senior Specialist and Patent Officer (\$2,600).
- Training course for Tashkent Regional Officer in Europe (\$3,000).

- Training course on market analysis (\$2,100).
- Training course for Assistant (\$3,000).

Staff Travel (2005 Budget Allocation = \$8,300: \$6,700 within CIS, \$1,600 International Travel. 2006 Budget Request = \$15,400: \$10,800 within CIS, \$4,600 International Travel.)

Performance in 2005

DED travel consisted of the following:

CIS – Baku/Tbilisi (February; internet sites/STEP seminar)
Moscow (September; ISTC-STCU IPR Working Group)
Baku (September; IPR Workshop)

Int'l – Wiesbaden, Germany (July; DCAA conference)

Staff Travel consisted of the following:

CIS - Senior Specialist to Baku for Bio-Chem Redirect delegation.
Two staff members to Baku IPR Workshop
Sustainability Development Officer to Ukrainian institutes

Plan for 2006

DED within CIS (\$3,600): one trip to Tashkent (\$1,200) and Baku (\$1,200) Regional Offices; one trip to Moscow for ISTC consultations (\$1,200)

Staff within CIS (\$7,200): one Senior Specialist to the Caucasus for Bio-Chem Redirect delegation (\$1,500); two Senior Specialists to Tashkent for workshop (\$2,500); Sustainability Development-related travel to Ukrainian institutes (\$2000); Patent Officer trip to Moscow (ISTC) (\$1,200).

DED International Travel (\$2,600): one trip to consult with U.S. Party representatives in Washington D.C.

Staff International Travel (\$2,000): Travel with CTCO candidates to trade shows/conferences.

Regional Offices (Azerbaijan, Uzbekistan)

Regional Officer Travel (2005 Budget Allocation = \$9,000: \$4,500 for Azerbaijan; \$4,500 for Uzbekistan. 2006 Budget Request = \$8,000: \$3,000 for Azerbaijan; \$5,000 for Uzbekistan)

Performance in 2005

The Uzbek RO and Administrative Assistant traveled to Kyiv during the spring for consultations and project monitoring. Both the Uzbek and Azeri ROs attended the Regional Officers' Meeting during November. No international travel was carried out.

Plan for 2006

The Regional Officer in Tashkent will attend a training course (likely, in Europe). The Uzbek and Azeri ROs will attend two Field Officers' Meetings in Ukraine and the Administrative Assistant will hold consultations in Kyiv

Office Operations and Other Professional Services (2005 Budget Allocation = \$ 18,840: \$7,320 for Azerbaijan; \$11,520 for Uzbekistan. 2006 Budget Request = \$18,840: \$7,320 for Azerbaijan; \$11,520 for Uzbekistan)
Performance in 2005

The RO in Baku hosted a gathering of some 60+ participants for an IPR Workshop in September, as well as made presentations to international conferences organized by the Azeri Academy of Sciences. He also completed work on a new internet café at the Institute of Geology and began setting up one at the Institute of Medical Prophylaxis

The Party-funded Senior Specialist at the Tashkent Regional Office departed in June. A new Administrative Assistant was hired. Over 2005, members of the Tashkent Office represented STCU as several S&T events, including two international agricultural conferences Uzbekistan and a workshop in Kazakhstan organized by the UK Department of Trade and Industries Closed Nuclear Cities Program (this program has a project that includes an Uzbek nuclear institute).

Plan for 2006

An additional phone line needs to be installed in the Baku office to ease pressure on the combined phone/fax line. The Regional Offices will continue to engage international organizations and private companies with the objective of coordinating activities with them.

Department Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Local	10	10	10	0
- Party	3	3	2	-1
Staff Total	13	13	12	-1
Staff Support				
- Travel (Int'l)	1,600	3,500	4,600	+3,000
- Travel (CIS)	6,700	8,000	10,800	+4,100
-Staff Training	6,200	6,000	10,700	+4,500
Staff Support Total	14,500	17,500	26,100	+11,600
AOB Programs				
- Business Group Operations - Road Shows	50,000	54,000	0	-50,000
- Market Analysis (subscriptions)				
- RO Operations	3,000	1,000	4,000	1,000
Travel				
Overhead				
Shared SB Programs	9,000	4,000	8,000	-1,000
- Bus. Train/Sus. Oper.	18,840	11,000	18,840	0
- Patent Support				
Party SB Programs	91,500	71,500	187,000	+95,500
- Bus. Train/Sus. Oper. (US)	70,000	50,000	33,000	-37,000
	40,000	40,000	40,000	0
Programs Total	\$282,340	\$231,500	\$290,840	+\$8,500

Department Total				
Staff	13	13	12	-1
Funding	\$296,840	\$249,000	\$316,940	+20,100

Performance / Public Outreach Department

Overview

The department provides targeted training, travel and conference participation support, and promotional materials to best showcase the talents and successes of recipient scientists as well as provides the STCU with promotional materials for its own public outreach. The Department also performs data gathering and analysis of STCU activities to assist the STCU executive staff and the Parties in evaluating and improving the STCU performance and effectiveness.

Printing and Reproduction (2005 Budget Allocated = \$24,000. 2006 Budget Request = \$33,000)

The main objective of the program is to expand and improve public awareness of STCU and its activities, develop professional presentation materials to assist recipient scientists in designing effective presentations of their capabilities, and promote STCU's successful work to the local, national, and international science and technology communities.

Performance in 2005

- Annual Report 2004 (\$8,000). This year the Annual Report was printed in three languages: English version = 1,500 copies, Russian version = 500 copies, Ukrainian version = 300 copies.
- Brochures and Other Marketing Materials (\$4,600). Nanotechnology Brochure (\$700), a book "Technology Transfer to the USA" (\$1,200), Nanophotonics Brochure (\$1,500), posters (\$100), Chemical Engineering Brochure (\$800), Governing Board Binders (\$300).
- News Articles (\$6,000). Newspapers (Uryadovy Kurier, Svit), 4 promotional events with internet and paper media coverage and a press conference.
- CD-ROMs and Miscellaneous (\$5,000). Promotional products (folders, pens, watches, business card holders, certificates, presents)

Plan for 2006

One of the major goals of all Public Affairs / Publications activities in 2006 will be to provide better publicity of all STCU activities, successes and opportunities through the use of own printed materials and mass media coverage. Through this function, the Public Outreach Department will also assist institutes and scientists in promoting their efforts and achievements.

- Annual Report 2005 (\$10,000). The Annual Report 2005 will have the structure, and will contain information, necessary to meet the needs of STCU donor and recipient countries.
- Brochures and Other Marketing Materials (\$10,500). This will be used for producing support materials for STCU events, as well as provide information to partners / authorities / officials about STCU. This total also includes \$1,000 for a limited number of "Technology Watch Newsletters" proposed by the Technology Advancement Department, and also includes \$4,500 to develop a promotional video on STCU for use on Partner Promotion roadshows, booth presentations at conferences, etc.

- News Articles/Public Media Publications (\$7,000). Publications about STCU, its projects, and its activity will appear in major governmental, scientific, specialized periodicals on a regular basis.
- Miscellaneous Promotional Material (\$5,500). Products such as business cards will be produced as needed. Other promotional products such as stationery with the company logo, key chains, folders, business card holders, watches will be produced and used as gifts for STCU partners / VIP visitors (mostly during business missions). Also, special folders for the "Technology Profile" portfolio will be designed and produced.

Travel Grant/Conference Grant Support (2005 Budget Allocation = \$154,500: Public Affairs – Conference Support \$34,500 and Supplemental Budget - Travel Grants Shared \$120,000. 2006 Budget Request = \$166,000: \$46,000 for Public Affairs – Conference Support and \$120,000 Supplemental Budget - Travel Grants Shared).

The Travel Grant/Conference Support program will be sponsoring, on a competitive basis, visits by scientists and technological personnel from the STCU Recipient Countries to research, public and industry organizations located at the territories of the STCU donor and other countries.

Performance in 2005

- Public Affairs – Conference Support. In 2005, 20 international conferences were supported and 20 more were co-sponsored. Funds for 2005 Conference Support grants was expended long before the end of 2005, forcing the STCU to refuse providing support to several worthy conferences.
- Travel Grants (\$120,000). The STCU assisted in travel arrangements, and expended a total of \$90,000 for 91 approved travel grants, which were awarded on a competitive basis in accordance with new Travel Grant Guidelines effective February 1, 2004.

Based on feedback from 2005 travel support grantees, the following data is presented: 47% were to meet industry representatives; 27% were for targeted travel initiated by STCU; 21% of trips were to meet project partners/collaborators, 5% were for attending conferences and workshops.

Plan for 2006

- Public Affairs - Conference Support (\$46,000). A similar number of conference support applications are expected in 2006 as received in 2005. In addition, STCU plans to participate in several public round-table forums for mid-level scientific community representatives; for leading NASU scientists / directors of scientific institutions; and for governmental officials. STCU plans to co-develop and sponsor three round-tables in 2006 which will focus on STCU issues. Up to \$6,000 will be budgeted to support these round-table forums.
- Travel Support Grants (\$120,000). There should be an increase in Travel Support (Party-requested and STCU-planned travel) to meet the needs of new business missions and matchmaking efforts. More scientists will be involved in the program (in 2005, more than a third of all applications were rejected).

Performance Measures (2005 Budget Request = \$ 14,200 from Other Professional Services and \$25,000 from Supplemental Budget Bus. Training/Sus. Sup. - Shared. 2006 Budget Request = \$ 9,500 from Other Professional Services)

This function will design and implement methods for evaluating the performance and effectiveness of STCU activities and programs, particularly in relation to targeting STCU "self-sustainability" development assistance to recipient scientists and institutes.

Performance in 2005

- Development of Measuring Methodologies (\$25,000). It is a joint National Academy of Sciences of Ukraine (NASU) and STCU effort. Work Group meetings are planned to be held monthly. A list of 83 of NASU institutions has been approved.
- Polls/Interviews, Program Effectiveness, Miscellaneous (\$14,200). Part-time staff conducted interviews with leading science officials from National Academy of Sciences of Ukraine. Work on developing the responses to these interviews continues. The development of a matrix for evaluating effectiveness of STCU programs has begun. To date, however, the full amount of this funding has not been spent due to hiring and scheduling delays resulting from STCU search for qualified part-time staff.

Plan for 2006

- Training on Performance Measures (\$2,000). This STCU-developed course will give STCU staff an orientation on performance measurement concepts leading to a better understanding of the Performance Measurement activities undertaken by this Department.
- Tracking study results (\$4,500). Part-time staff will be needed to assist STCU Performance Measures Officer in gathering data on STCU Regular Projects and evaluating this data against selected criteria. Part-time staff may also be needed to follow up on institute survey results from the NASU-STCU institute sustainability study.
- Evaluating STCU programs effectiveness via focus groups (\$1,000 for a professional group moderator). A professional moderator will organize the discussion and encourage participants to express their opinions. The vertical focus groups will allow getting the opinion from different levels – from a director to an average scientist.
- Consultation on Program Performance Measurement System (\$2,000). Using a consultant group, a study on STCU's goals, activities, and available data will be analyzed for recommendations on developing or improving STCU's current methods and tools for program and activity performance evaluation. .

Target Training Program (2005 Request = \$ 117,000 in new Shared Supplemental Budget line, "Targeted Training". 2006 Budget Request = \$104,000 in Shared Supplemental Budget – Targeted Training).

Targeted Training Program was initiated in 2005. Target Training Program is composed of two major blocks: trainings for STCU countries Technical Units and training for STCU staff.

Performance in 2005

Much was accomplished, but progress was hampered by the sudden departure of the STCU Training Officer in July. A replacement Training Officer came on board but time and momentum were lost in the process.

- CD-based Training Packages. Two CD-ROM Basic Training packages were delivered in the spring and autumn of 2005. Packages included presentations on commercializing science results, intellectual property protection, and commercial licensing issues.
- Business Coaching. Several Business Coaching courses were developed, including some in support of the STCU Partner Promotion roadshows and selected Party-directed travel events.

Plan for 2006

- Computer-Based Training (\$20,000). Modules will be designed to cover the topics: Turning Good Science into Good Business, Business Planning, Strategy and Management Tools, Commercialization of Intellectual Property.
- Partner Event Preparation (\$10,000). Short courses on presentation skills and other skills will be provided to scientists invited to participate in Partner Promotion events such as STCU roadshows.
- Commercialization Short Course (\$50,000). This course concerns the issues of taking a new technology/product to market: commercialization and communication of research results, Intellectual Property management, patent and licensing procedures, etc.
- Business Coaching (\$5,000). Business coaching courses will be conducted for Medical Devices/Technology Developers.
- STCU Staff Training Modules. They will help STCU accomplish the STCU Reorganization Plan. Senior Specialists will receive trainings on their specific areas of R&D, Technology Transfer, and Innovation aspects.
- Training Modules for the Administrative Office (\$9,150). Planned by the Administrative Department, this is a continuation of procurement practices and customs procedures training for project managers. The Administrative Office provides the trainers; funds from Targeted Training will cover the logistical costs (except for the Administrative Office staff travel).

Department Budget Request for 2006

	2005 Planned	2005 Actual	2006 Request	Change from 2005
Staff				
- Local	5	5	5	0
- Party	1	1	0	-1
Staff Total	6	6	5	-1
Staff Support				
- Travel (International)	\$3,000	\$1,500	\$3,000	0
- Travel (CIS)	\$4,000	\$2,000	\$4,000	0
- Staff Training	\$4,000	\$2,000	\$4,000	0
Staff Support Total	\$11,000	\$5,500	\$11,000	0
AOB Programs				
- Printing and Reproduction	\$24,000	\$24,000	\$33,000	+\$9,000
- Public Affairs	\$34,500	\$34,500	\$46,000	+\$11,500
- Other Prof. Services	\$14,200	\$14,200	9,500	-\$4,700
SB Programs				
- Travel Grant Shared	\$120,000	\$90,000	\$120,000	0
- Bus. Training/Sust. Supp. Shared	\$25,000	\$25,000	0	-\$25,000
- Targeted Training Shared	\$117,000	\$70,000	\$104,000	-\$13,000
Programs Total	\$334,700	\$257,700	\$312,500	-\$22,200
Department Total				
Staff	6	6	5	-1
Funding	\$345,700	\$263,200	\$323,500	-\$22,200

STCU 2006 BUDGET REQUEST SUMMARY

	ED	AO	FO	IT	SE	TA	SP	PO	Line Total
Staff (# in 2005)									
Party	1 (1)	1 (1)	1 (1)	1 (1)	1(1)	2 (2)	2 (3)	0 (1)	9 (11)
Local	1 (1)	15 (15)	10 (10)	4 (4)	8 (8)	8 (8)	10 (10)	5 (5)	61 (61)
Part-Time	0 (0)	3 (3)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	3 (3)
Dept. Total Staff (Full, Part Time)	2 (2)	16 (16)	11 (11)	5 (5)	9 (9)	10 (10)	12 (13)	5 (6)	70 (72) FT
		3 (3)	0 (0)	0 (0)	0 (0)	0(0)	0 (0)	0 (0)	3 (3) PT
Staff Support									
Travel (Int'l)	16,000	1,000	3,200	-	4,500	5,000	4,600	3,000	37,300
Travel (CIS)	18,500	5,000	2,240	3,500	8,800	11,000	10,800	4,000	63,840
Training	9,500	22,190	16,780	3,150	11,700	10,500	10,700	4,000	88,520
Dept. Staff Supp.	44,000	28,190	22,220	6,650	25,000	26,500	26,100	11,000	189,660
Programs (AOB)									
Representation	15,000	-	-	-	-	-	-	-	15,000
Public Affairs	-	-	-	-	-	-	-	46,000	46,000
Fac. Impr.	-	6,000	-	-	-	-	-	-	6,000
Fixed Assets	-	25,000	-	-	-	-	-	-	25,000
New Car/Veh Ops	-	20,000	-	-	-	-	-	-	20,000
Subscriptions	-	-	-	-	-	-	4,000	-	4,000
Printing and Rep.	-	-	-	-	-	-	-	33,000	33,000
IT Hardware	-	-	-	19,295	-	-	-	-	19,295
IT Software	-	-	8,000	8,950	-	-	-	-	16,950
Bus. Group Ops.	-	-	-	-	-	-	-	-	-
Oth. Prof. Services	-	-	62,700	2,360	-	-	-	9,500	74,560
Regional Offices	-	-	-	-	29,440	31,320	26,840	-	87,600
Dept. Total Prgms (AOB)	15,000	51,000	70,700	30,605	29,440	31,320	30,840	88,500	347,405
Shared Supp. Budget Programs (SB)									
Workshops/Seminars	-	-	-	-	70,000	30,000	-	-	100,000
Patent/IPR	-	-	-	-	-	-	33,000	-	33,000
Travel Grants	-	-	-	-	-	-	-	120,000	120,000
Targeted R&D Initiative	-	-	-	-	-	850,000	-	-	850,000
Targeted Training	-	-	-	-	-	-	-	104,000	104,000
Bus. Training/Sus. Support	-	-	-	-	-	-	187,000	-	187,000
Supp. Budget Programs (SB)	-	-	-	-	70,000	880,000	220,000	224,000	1,394,000
U.S. Supp. Budget Programs (SB)									
Training/Sus. Support - US	-	-	-	-	-	-	40,000	-	40,000
Dept. Total Prgms Voluntary (SB)	-	-	-	-	-	-	40,000	-	40,000
Total Request									
Staff	2	16	11	5	9	10	12	5	70 full
Funding	0	3	0	0	0	0	0	0	3 part
	59,000	79,190	92,920	37,255	124,440	937,820	316,940	323,500	1,971,065



TWENTY FIRST MEETING
of the STCU
GOVERNING BOARD

Supplemental Programs Budget Request 2006 (For the EU these costs are associated with BFA 2005 Article 1.1)

BUDGET ITEM	2005 Projected Ending Balance (USD)	2006 REQUESTED (USD)	2006 NET REQUESTED/NEED ED (USD)	2006 Allocated (Euro)	2006 Allocated (USD)	EU (Euro) Note (1)	US (USD)	Canada (USD)
In-Place Shared Supplemental Programs								
4.01 Business Training/Sustainability Support	50,000	187,000	137,000	32,868	97,558	32,868	86,625	10,933
5.01 Patent Support	40,000	33,000	x	x	x	x	x	x
6.01 Travel Grant Fund	30,000	120,000	90,000	21,593	64,089	21,593	56,907	7,182
9.01 Seminars/Workshops	64,000	100,000	36,000	8,637	25,636	8,637	22,763	2,873
11.01 Targeted R&D Initiatives	0	850,000	850,000	203,929	605,285	203,929	537,455	67,830
12.01 Targeted Training	37,000	104,000	67,000	16,074	47,711	16,074	42,364	5,347
In-Place Party Designated Supplemental Programs								
1.01 Technic., Collabor., Cont. Travel Supp. - US	30,000	60,000	30,000	x	30,000	x	30,000	x
4.02 Business Training/Sustainability Support - U.S.	367,000	40,000	x	x	x	x	x	x
08.01 E.U. Designated Reviewers	x	x	x	30,000	x	30,000	x	x
10.01 Service Contracts - US	160,000	1,000,000	840,000	x	840,000	x	840,000	x
TOTAL CONTRIBUTION	778,000	2,494,000	2,050,000	313,101	1,710,279	313,101	1,616,114	94,165

Note: (1) For the purposes of this spreadsheet a 1:1.2 Euro to Dollar ratio is assumed

x = No Funding Required

(For the EU these costs are associated with BFA 2005 Article 1.2)

BUDGET ITEM	2005 Projected Ending Balance (EURO)	2006 REQUESTED (Euro)	2006 NET REQUESTED/NEED ED (EURO)	2005 Allocated (Euro)	EU (Euro)
In-Place Party Designated Supplemental Programs					
10.02 Service Contracts - EU	-15,000	317,300	302,300	302,300	302,300

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU
Draft 2006 Administrative Operating Budget 01 January - 31 December, 2006

TWENTY FIRST MEETING
of the STCU
GOVERNING BOARD



	2005 Budget	Spent as of 30.cen	Projected Final 3 Mo. Exp	Projected Final Year Exp.	Projected Remaining Budget	Draft 2006 Budget	% Change in AOB Line Y-O-Y	Note
Personnel								
LOCAL GRANT PAYMENTS	\$ 789 000	\$ 459 835	\$ 211 120	\$ 670 955	\$ 118 045	\$ 752 800	-4,59%	1
STAFF EDUCATION & TRAINING	\$ 63 280	\$ 34 550	\$ 26 559	\$ 61 109	\$ 2 171	\$ 88 520	39,89%	2
EMPLOYEE MORALE & WELFARE	22 000	16 163	6 000	22 163	(163)	25 000	13,64%	3
MEDICAL & DENTAL PLANS	71 850	41 007	30 000	71 007	843	90 000	25,26%	4
Subtotal	\$ 946 130	\$ 551 555	\$ 273 679	\$ 825 234	\$ 120 896	\$ 956 320	1,08%	
Travel								
INTERNATIONAL TRAVEL	\$ 32 400	\$ 14 224	\$ 9 320	\$ 23 544	\$ 8 856	\$ 37 300	15,12%	5
TRAVEL WITHIN THE CIS	\$ 137 615	\$ 79 401	\$ 42 909	\$ 122 310	\$ 15 305	\$ 138 840	0,89%	6
LOCAL TRAVEL	18 625	13 996	5 000	18 996	(371)	22 925	23,09%	7
Subtotal	\$ 188 640	\$ 107 621	\$ 57 229	\$ 164 850	\$ 23 790	\$ 199 065	5,53%	
Office Operations								
REPRESENTATION	\$ 15 000	\$ 6 740	\$ 8 200	\$ 14 940	\$ 60	\$ 15 000	0,00%	8
POSTAGE AND DELIVERY	10 000	6 996	3 000	9 996	4	10 000	0,00%	9
CUSTOMS STORAGE	500	282	-	282	218	500	0,00%	10
GENERAL OFFICE SUPPLIES	23 000	19 535	4 000	23 535	(535)	26 000	13,04%	11
OFFICE EQUIPMENT REPAIR/MAINT	7 000	594	2 000	2 594	4 406	5 000	-28,57%	12
VEHICLE OPERATIONS	9 000	12 131	4 000	16 131	(7 131)	20 000	122,22%	13
PRINTING AND REPRODUCTION	24 000	18 762	5 000	23 762	238	33 000	37,50%	14
TELECOMMUNICATIONS SERVICES	40 000	36 335	12 000	48 335	(8 335)	47 000	17,50%	15
BUSINESS MEETINGS & CONFERENCES	6 000	5 057	1 000	6 057	(57)	6 000	0,00%	16
SUBSCRIPTIONS AND PUBLICATIONS	8 000	1 772	6 000	7 772	228	8 000	0,00%	17
PUBLIC AFFAIRS	34 500	25 606	9 000	34 606	(106)	46 000	33,33%	18
BUILDING SUPPLIES	7 000	9 686	2 000	11 686	(4 686)	12 000	71,43%	19
BRANCH OFFICES OVERHEAD	\$ 90 720	\$ 25 098	\$ 30 000	\$ 55 098	\$ 35 622	\$ 87 600	-3,44%	20
INSURANCE EXPENSE	9 000	7 944	1 000	8 944	56	9 000	0,00%	21
BANK FEES - OFFSHORE	75 000	51 925	24 000	75 925	(925)	75 000	0,00%	22
BANK FEES - ONSHORE	57 000	31 727	16 000	47 727	9 273	50 000	-12,28%	23
BUSINESS GROUP OPERATIONS	50 000	53 807	-	53 807	(3 807)	-	-100,00%	24
Subtotal	\$ 465 720	\$ 313 998	\$ 127 200	\$ 441 198	\$ 24 522	\$ 450 100	-3,35%	
Contracted Services								
LEGAL SERVICES	\$ 10 000	\$ 12 595	\$ -	\$ 12 595	\$ (2 595)	\$ 10 000	0,00%	25
ACCOUNTING AND AUDITING	83 273	83 273	-	83 273	-	92 001	10,48%	26
OTHER PROFESSIONAL	98 000	91 376	15 000	106 376	(8 376)	74 560	-23,92%	27
Subtotal	\$ 191 273	\$ 187 244	\$ 15 000	\$ 202 244	\$ (10 971)	\$ 176 561	-7,69%	
Subtotal Recurring Costs	\$ 1 791 763	\$ 1 160 418	\$ 473 108	\$ 1 633 526	\$ 158 237	\$ 1 782 046	-0,54%	
Contingency - Recurring	10 000	-	-	-	10 000	10 000	0,00%	35
Total Recurring Costs	\$ 1 801 763	\$ 1 160 418	\$ 473 108	\$ 1 633 526	\$ 168 237	\$ 1 792 046	-0,54%	
Facilities								
FACILITY IMPROVEMENTS	\$ 10 000	\$ -	\$ -	\$ -	\$ 10 000	\$ 6 000	-40,00%	28
FURNITURE & FIXTURES	10 000	2 694	7 306	10 000	-	10 000	0,00%	29
TELECOMMUNICATIONS EQUIPMENT	13 450	11 910	-	11 910	1 540	5 000	-62,83%	30
OFFICE EQUIPMENT	10 000	8 480	1 520	10 000	-	10 000	0,00%	31
VEHICLE PURCHASE	25 000	22 786	-	-	2 214	-	-100,00%	32
COMPUTER HARDWARE	35 700	32 959	2 800	35 759	(59)	19 295	-45,95%	33
COMPUTER SOFTWARE	28 445	22 195	5 650	27 845	600	16 950	-40,41%	34
Subtotal Non-Recurring Costs	\$ 132 595	\$ 101 024	\$ 17 276	\$ 95 514	\$ 14 295	\$ 67 245	-49,29%	
Contingency - Non-Recurring	25 000	-	-	-	25 000	25 000	0,00%	35
Total Non-Recurring Costs	\$ 157 595	\$ 101 024	\$ 17 276	\$ 95 514	\$ 39 295	\$ 92 245	-41,47%	
TOTAL BUDGET:	\$ 1 959 358	\$ 1 261 442	\$ 490 384	\$ 1 729 040	\$ 207 532	\$ 1 884 291	-3,83%	



1. Local Grant Payments **\$752,800**

61 Full-Time Staff (including 11% increase)	\$732,600
Labor Books	\$3,500
Supplemental Security	<u>\$16,700</u>
Total	<u>\$752,800</u>

2. Staff Education & Training **\$88,520**

a. Training for ED and ED's secretary. Cost of Training:	\$ 9,500
b. Training for SDED and his direct reports. Cost of Training:	\$ 4,000
c. Training for DED-EU and his direct reports. Cost of Training:	\$11,700
d. Training for DED-CA and his direct reports. Cost of Training:	\$10,500
e. Training for DED-US and his direct reports. Cost of Training:	\$10,700
f. Training for CFO and Finance and IT Departments. Cost of Training:	\$19,930
g. Training for CAO and Administrative Department. Cost of Training:	\$22,190
Total cost of Staff Education and Training	\$88,520

3. Employee Morale and Welfare **\$25,000**

Center subsidizes the cost of lunch for staff members. Furthermore, includes cost of bereavement contributions, Christmas and birthday activities, family functions, and special occasions. Increased by \$3,000 over 2005 because of inflation.

Total Cost:	\$25,000
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4. Medical & Dental Plans **\$90,000**

Medical Plan cost increased in 2005, due to increase in health insurance premiums.

- Medical Plan	\$70,000
- Dental Plan (Maximum \$250/family)	<u>\$20,000</u>
Total Cost	<u>\$90,000</u>

- 5. International Travel. \$37,300**
- a. Senior STCU staff travel (including Advisory Committee Meetings) as required and approved by the Executive Director.
Cost: \$16,300
 - b. Travel Costs associated with travel to Wiesbaden for annual audit planning conference.
Cost: \$3,200
 - c. Other travel associated with management and staff (CAO to Brussels, etc.)
Cost: \$17,800
- Total Cost: \$37,300
- 6. Travel within the CIS. \$138,840**
- a. Senior Specialist monitoring in Azerbaijan, Ukraine, Georgia, and Uzbekistan.
Cost: \$43,430
 - b. Project Accountant monitoring in Azerbaijan, Ukraine, Georgia, and Uzbekistan.
Cost: \$31,570
 - c. Secretariat trips to non-Kyiv cities in Ukraine, as well as travel to Uzbekistan, Georgia, and Azerbaijan, including possible Governing Board to be held in Chisinau, Moldova.
Cost: \$63,840
- Total Cost: \$138,840
- 7. Local Travel. \$22,925**
- Consists of taxis utilized by STCU staff when STCU vehicles are unavailable. Also, includes cost of providing transport to and from Libidskaya Metro Station to the STCU headquarters in the mornings and at night, as well as the cost of providing secured cash transport to and from the STCU's bank (as per the auditor's recommendation to the Governing Board).
- Taxis \$ 6,000
 - Secure Cash Transport \$ 5,625
 - Bus to and from Kyiv Headquarters \$11,300
- Total Cost \$22,925
- 8. Representation. \$15,000**
- Maintained same as 2005.

9. Postage and Delivery.		\$10,000
Maintained same as 2005.		
10. Customs Storage.		\$500
Maintained same as 2005.		
11. General Office Supplies.		\$26,000
Increased because of inflation from \$23K in 2005 to \$26K in 2006.		
12. Office Equipment Repair/Maintenance.		\$5,000
Decreased from \$7K in 2005 because of continued policy of replacing older office equipment with newer equipment before old equipment becomes obsolete.		
13. Vehicle Operations.		\$20,000
Because cost of fuel has increased from approximately \$.40 per liter to approximately \$.91 per liter, this budget line increased from \$9K in 2005 to \$20K in 2006.		
Total Cost:	\$20,000	
14. Printing and Reproduction.		\$33,000
- Annual Report	\$10,000	
- News Articles	\$7,000	
- Brochures and Marketing Materials	\$10,500	
- Miscellaneous (stationary, business cards, etc.)	<u>\$5,500</u>	
Total Cost	<u>\$33,000</u>	
15. Telecommunications Services.		\$47,000
Increased from \$40K in 2005 to \$47K in 2006 because of increased usage (addition of Moldova) and inflation in UA.		
16. Business Meetings and Conferences.		\$6,000
a. Board meetings.	2 * 1,500 =	\$3,000
b. Advisory committee meetings.	2 * 500 =	\$1,000
c. IO and FO Meetings	2 * 1,000 =	<u>\$2,000</u>
Total cost of business meetings and conferences:		\$6,000
17. Subscriptions and Publications.		\$8,000
- Journal Subscriptions and Market Analysis		\$8,000
18. Public Affairs.		\$46,000

2006 BUDGET PRESENTATION

Co-sponsoring technical conferences	\$41,500
Promotional Video	<u>\$4,500</u>
Total	\$46,000

19. Building Supplies. **\$12,000**

Increased in 2005 because of overspends the last two years (AOB 2004 and 2005) due to continued maintenance of building (21 Kameniariv).

20. Branch Offices (Kh, Lviv, Dnip, Tashkent, Baku, Chisinau & Tbilisi). **\$87,600**

- Tashkent	\$16,520
- Tbilisi	6,720
- Baku	10,320
- Chisinau	22,720
- Kharkiv	14,120
- Dnipropetrovsk	8,420
- Lviv	<u>8,780</u>
Total Cost	\$87,600

21. Insurance Expense. **\$9,000**

Three vehicles, the contents of the building and life insurance for the local staff.

- Vehicles	\$4,000
- Assets	\$3,500
- Staff Life Insurance	<u>\$1,500</u>
Total Cost	\$9,000

22. Bank Fees Off-shore. **\$75,000**

Maintained same as 2005. Based on forecasted 2006 STCU transactions and includes increased bank fees associated with Uzbekistan which occurred in 2004.

23. Bank Fees On-shore. **\$50,000**

Fees charged by STCU's local banks (FUIB, Georgia, & Uzbekistan) to conduct operations. Based on forecasted 2006 STCU transactions.

24. Business Group Operations. **\$0**

This account will be eliminated beginning with the 2006 AOB. All activities associated with this budget going forward are included in Shared Supplemental Budget – Business Training/Sustainability Support.

25. Legal Services.		\$10,000
Maintained same as 2005.		
26. Accounting and Auditing		\$92,001
The 2005 and 2006 financial audits were contracted to Lubbock Fine. According to the contract, the 2005 Financial Audit will cost \$92,001.		
27. Other Professional Support.		\$74,560
- Consulting for Phase 2 of Navision Install	\$ 62,700	
- Off-Site Backup Tape Storage	\$ 2,360	
- Performance Measures	<u>\$9,500</u>	
Total Cost	\$ 74,560	
28. Facility Improvements.		\$6,000
Decreased to \$6K in 2006 from \$10K in 2005 due to desire to minimize renovations to building until user agreement becomes more clear.		
29. Furniture and Fixtures.		\$10,000
Maintained same as 2005.		
30. Telecommunications Equipment.		\$5,000
Mobile Phone and Phone Replacement	\$ 5,000	
31. Office Equipment.		\$10,000
Replacement	\$2,500	
New Fax machines, etc.	<u>\$7,500</u>	
Total	\$10,000	
32. Vehicle Purchase.		\$0
33. Computer Hardware.		\$19,295
(1) New Dell Server (for redundancy)	\$5,590	
(1) Cisco Firewall	3,659	
(4) Replacement printers	2,336	
Other Miscellaneous	<u>7,710</u>	
Total	\$19,295	

34. Computer Software. **\$16,950**

Navision Maintenance Fee	\$ 4,000
Navision Developer Granule	4,000
Other Miscellaneous	<u>8,950</u>
Total	\$16,950

35. Contingency. **\$35,000**

Normal Recurring Contingency	<u>\$10,000</u>
Total Recurring Contingency	\$10,000
Normal Non-Recurring Contingency	<u>\$25,000</u>
Total	\$35,000



UPDATE ON OPENING MOLDOVA REGIONAL OFFICE

The following report summarizes the progress made since the 20th GBM, regarding the start-up of STCU operations in Moldova.

Since the 20th GB Meeting, the STCU has been in contact with Academician Duca, and also engaged in informal contact with other Moldovan officials (Mr. M. Tkachuk – Presidential Administration & Presidential Councillor and Mr. Leonid Culiuc – former Presidential Administration & Director of Institute of Applied Physics MAoS)..

As a result, in September this year, Dr. Alfreda Roca signed the Service Contract with the STCU and since then she works for the STCU Regional Officer for Moldova. Additionally, the STCU and the Moldovan Academy of Sciences have signed the final User Agreement for suitable office premises in the Academy of Science building, which the STCU found to be the best choice from among the other locations examined in February 2005 by the STCU DED EU and CAO.

In November, the STCU ED wrote a letter to the Minister of Foreign Affairs in Moldova advising him of the STCU situation regarding office space, and requesting his ministries assistance in completing the official process of diplomatic accreditation. That letter was copied to Acad. Duca and to Mr. Tkachuk (the letter expressly thanks the Academy and Acad. Duca for achieving agreement of locating the STCU office in the Academy's central building). Unfortunately, there appears to be some confusion regarding diplomatic accreditation in Moldova; a formal request from the Academy of Sciences to the MFA for granting diplomatic accreditation was rejected by the MFA. Alfreda Rosca is now preparing all documentation in this respect and will visit the MFA to pre-brief the MFA before submitting the next request since it appears that there may be some misunderstanding and lack of information and documentation which caused the rejection to the Academy's request.

Dr. Alfreda Rosca visited the STCU Headquarters in November. The aim of that visit was to familiarize with the STCU staff in Kyiv, receive training on issues related to the STCU and STCU Regional Office routine activities, and processes. Additionally, she received a list of standard STCU Regional Office furniture and equipment, to start searching for appropriate vendors for STCU procurement of furniture, computer and office equipment.

Dr. Rosca participated in a regular meeting of the Moldovan Academy Of Sciences offered to her by Academician Duca, and she was introduced to the members of the Academy, and additionally she made an STCU presentation and presented her plan of activities. Her presentation was met with high interest. Dr. Rosca will also participate in the STCU's Regional Officers meeting in Kiev on 17th/18th November.

As per the STCU's request in November, Dr. Duca sent to the STCU a letter confirming that the Moldovan Academy of Sciences will be the organization giving the Moldovan HGC for the STCU Proposals coming from Moldova. Dr. Roca is clarifying the details of the process of receiving HGC presently. There are already Moldovan proposals supplied to the STCU and these are waiting for final establishment of the Moldovan HGC process.

The main task for the STCU and Dr. Rosca presently are: receiving quotations and finding vendors for the renovation of the office, purchase of the furniture and office equipment and, of course, receiving the Moldovan diplomatic accreditation as soon as possible.

A trip to Chisinau is provisionally planned by the STCU CAO in November as part of the office renovation process and also to find out about procurement, customs, VAT, tax and local banking procedures etc. It is still in the STCU plans to push ahead with establishing operations in Moldova as quickly as possible, and at this point, we foresee only a few possible bureaucratic delays with diplomatic accreditation and office preparations.



REPORTS ON REGIONAL OFFICE ACTIVITIES

On a routine basis the STCU Regional Offices are responsible for a range of administrative services across their regions. These include:

- responding to new and or repeat project applicants
- training of local scientists on STCU Project Software, proposal and project agreement preparation
- providing broad administrative support to STCU project managers
- arranging and conducting project monitoring visits and oversight
- compiling and transmitting regional information to the STCU Headquarters in Kyiv
- updating and maintaining information in the STCU web site and Project Database

Ukraine's Regional Offices

In Ukraine, all STCU activities outside of Kiev are coordinated through the Regional Offices in Lviv, Dnipropetrovs'k and Kharkiv. In 2005, the Lviv and the Dnipropetrovs'k had part- time administrative support (1 – 2 days / week) which enabled the regional managers to more extensively manage STCU activities across their regions. No administrative support was provided to the Kharkiv Regional Office in 2005.

In 2005, all three regional offices were extensively engaged in promoting the Targeted Research & Development Program (TRDP), in organizing the September Environmental Workshop (Lesnoy, Dnipropetrovs'k), screening and selecting scientists for participation on the technology missions to Canada (August and September) and providing key linkages in support of the incoming CIDA mission (November).

Lviv Regional Office – Currently, this Regional Office is responsible for managing 9 active STCU projects, for preparing 2 Project Agreements, and for overseeing 19 project proposals (12 of which are under STCU Party review). A total of eight (8) Travel Grants were processed for local scientists.

It is noteworthy that 25% (15 of 62) of all the STCU-NASU Targeted Initiative applications originated from the Western region of Ukraine. Of these, 2 were among the 14 proposals transmitted to the STCU by the NASU and one was selected for funding.

Other major activities undertaken by the Lviv office in 2005 include:

- participation of local scientific teams in the KPI / Univ. Lyon / STCU Industrial Marketing initiative targeted training; seminar on Intellectual Property (IP) management
- developing success stories from the region to promote STCU's programs and services, namely; the Magneto Sensor Laboratory of the Lviv National Polytechnic University and the State Enterprise Scientific Telecommunication Centre of the Institute for Condensed Matter Physics (UARNet)
- initiated discussions and currently exploring with local technology transfer group at the Lviv State Centre of Scientific, Technical and Economic Information how the STCU Regional Office can collaborate in areas of mutual interest.

In August 2005, the Lviv Regional Office Manager accompanied the Ukrainian delegation of scientists to the materials conference in Calgary, Canada. The mission provided an excellent opportunity to establish important linkages between scientists from across Ukraine with Canadian scientists in both academia and industry. Institutes visited during the mission, included; the National Research Council, Institute for Nanotechnology, Alberta Research Council, Canada's National Microbiology Laboratory, the Universities of Alberta and Manitoba. This mission was an important element of STCU Targeted Initiative Program.

Kharkiv Regional Office – Although the scientific potential is concentrated in the city of Kharkiv, other cities in the region (Donetsk, Sumy, Poltava, and Lugansk) have major research institutions that engage former WMD scientists. In 2005, 50 projects (40 Regular + 10 Partner Projects) from across the region received funding. Currently, the Kharkiv Regional Office is responsible for managing 18 active STCU projects, for preparing 4 Project Agreements, and for overseeing 35 project proposals (23 of which are under Party review).

Since June, the other major STCU activities of the Regional Office included:

- increased engagement of bio- and medical scientists / institutes, with a focus on Institute for Mechnikov Institute of Microbiology and Immunology, and Institute of Experimental and Clinical Veterinary Medicine
- local training in grant writing and STCU administrative procedures.

Dnipropetrovsk Regional Office – This is a very large geographic area with several major cities, including; Dnipropetrovsk, Odessa, Zaporozhye, Sevastopol, Nikolaev. Currently, the Dnipropetrovsk Regional Office is responsible for managing 6 active STCU projects, for preparing 3 Project Agreements, and for overseeing 20 project proposals (11 of which are under Party review).

In 2005, major activities of the office included:

- seminars to institutes promoting STCU new vision following the reorganization of 2004. Cities targeted included, Odessa (Anti-plague institute, Filatov eye institute), Zaporozhye (S&R Institute of Titanium; The State Engineering Academy; –The Titanium / Magnesium Plant), Nikolaev (Center of Perspective Technologies, Institute of Automatics and Electronics, Ship-building Institute, Center of Applied Research on Energy, Inst. of Ecology and Energy Saving and National State University)
- Increased engagement of the Anti-plague Institute (Odessa) and other bio-institutes in region.

Azerbaijan Regional Office (Baku)

At present, there are 2 active STCU Regular Projects with Azeri scientists involved, with another 8 projects approved for funding and are in the Project Agreement preparation stage (7 of these funded projects are joint Azeri-Ukrainian projects). Currently, the Azeri Regional Office is responsible for managing 2 active STCU projects, preparing 4 Project Agreements, and processing 1 project proposal.

The Azerbaijan Regional Office has participated and organizing the several events in the region:

- STCU Seminar for Azeri Scientists in Ganja: The Seminar for Scientists in Ganja (the second administrative center in Azerbaijan) was held in June. Among of participants (more than 20 people) were representatives of various scientific and educational centers of Ganja. The main subject of this seminar was a presentation about STCU (using a prepared variant in Azeri language) and explanation of filling of the new STCU application submission form.

- Participating in Conference of CRDF. Azerbaijan National Science Foundation (ANSF) and U.S. Civilian Research and Development Foundation (CRDF) were held in 28 of October in Baku the Scientific Business Venture Conference. In the conference have taken part authors of projects-semifinalists and also representatives of the scientific-researchers and industrial organizations.
- Establishing of second STCU Internet Cafe in Azerbaijan, this one at the Institute of Medical Prophylaxis.
- Organized and held an STCU IPR Workshop in Baku (27-28 September of 2005). This workshop was part of a series of STCU training events aimed towards assisting scientists in their sustainability efforts. More than 50 Azerbaijani and Georgian scientists were selected to participate in order to obtain an improved understanding of Intellectual Property Rights (IPR), licensing and other related issues. Among the speakers at the Workshop were: Mark R. Powell (U.S. Patent and Trademark Office), Judson R. Hightower (Associate General Counsel, Oak Ridge National Laboratory), and Victor Korsun (Consultant Coordinator, Science Centers Partners Program, US Department of State).

Uzbekistan Regional Office (Tashkent)

Since June, the Uzbekistan Regional Office has operated without disruption, in spite of the continued situation with the STCU local financial operations, the uncertain period of political relations between Uzbekistan and some of the STCU Parties, and the departure of Mr. Lawrence Leahy, a U.S. Party-provided Senior Specialist.

At present, there are 50 active STCU projects with Uzbek scientists involved: 16 Regular Projects involving only Uzbek scientists, 17 joint projects involving other STCU member state scientists, and 17 Partner Projects. Currently, the Uzbek Regional Office is responsible for managing 14 active STCU projects, for preparing 3 Project Agreements, and for overseeing 13 project proposals (7 of which are undergoing Party review).

The major activities for this office since June include:

- Hosting a visit from the STCU ED, with meetings at the Institute of Bioorganic Chemistry, the Uzbek Academy of Sciences, the Institute of Nuclear Physics, and the Center for Science and Technology.
- Assisting in preparations for a US Department of Agriculture (USDA) Workshop highlighting numerous STCU Partner Projects between USDA and Institutes in Uzbekistan. This workshop is planned for the beginning of December 2005 in Tashkent.
- In October, Uzbekistan Regional Officer, Dr. Regina Sattarova, gave a presentation about STCU at the Khoresm Branch Academy of Sciences RU during the international conference "Termites of Central Asia".
- Dr. Sattarova also represented STCU at a meeting hosted by the UK Department of Trade and Industry's Closed Nuclear City Program (CNCP) in Moscow, in connection with results of the first DTI project implemented by Uzbek colleagues at the Institute of Nuclear Physics as well as development next proposals under this program.
- Uzbekistan office staff also participated in the Conference "Physics in Uzbekistan" at the Academy of Sciences RU and the Workshop dedicated to opening ceremony of the Center on Chromatography and STCU Internet Caf  at the Institute of Polymer Chemistry and Physics AS RU.

Georgian Regional Office (Tbilisi)

At present, there are 19 active STCU projects with Georgian scientists involved: 6 Regular Projects involving only Georgian scientists, 11 joint projects involving other STCU member state scientists, and 2 Partner Projects. Currently, the Uzbek Regional Office is responsible for managing 8 active STCU projects, for preparing 4 Project Agreements, and for overseeing 29 project proposals (21 of which are undergoing Party review).

The dynamic of collaboration between Georgian scientists and other scientists in STCU member states is quite positive. Starting from joining Georgia to STCU since 1998 more than 150 joint GEO-UA, 2 UZ-GEO and 3 AZ-GEO project proposals were registered. As a result, 27 joint project proposals were approved for funding.

Other major Regional Office activities since June include:

- Participated in EURO PM 2005 World congress and exhibition in Prague.
- Participated in STCU IPR Workshop, held in Baku in September.
- Participated in 3 S&T Entrepreneurship Program (STEP) seminars, arranged and financed jointly by CRDF and STCU.
- Visited different scientific Institutions and Universities of Imereti and Adjara regions of Georgia.
- Participated in a 2-day seminars entitled "Practical aspects to make purchasing within STCU" in Tbilisi organized together with the STCU Headquarters.



PROPOSAL FOR 2005 ANNUAL REPORT PREPARATION

In 2005, one of the major changes in STCU's approach to working with scientists and institutions was the change in project technical areas. The STCU Management has defined a new set of nine S&T categories for STCU projects and activities which will be used instead of the old ones.

The new list of nine categories eventually will replace the old list of 13 project technical areas assigned by the project managers in the STCU project software and Project Database. These categories will allow to better classify STCU projects and to make the categorization more logical and clear.

The new categories are

1. AEROSPACE & AERONAUTICS
2. BIOTECHNOLOGIES, AGRICULTURAL SCIENCES AND MEDICINE
3. MATERIAL SCIENCES
4. CHEMISTRY
5. ENVIRONMENTAL RESEARCH
6. INDUSTRIAL TECHNOLOGIES
7. SENSORS
8. NUCLEAR ENERGY & SAFETY
9. PHYSICS

One Senior Specialist will be responsible for one of the categories and will have one back-up Senior Specialist for providing assistance if the primary person is unavailable.

The Annual Report 2005 would be a good means to explain these changes, provide definition of new categories, and show success in each category.

Proposal of the structure of the Annual Report 2005:

1. Total pages (with the cover) = 32-36
2. Table of contents:
 - a. Table of contents (1 page)
 - b. Welcome from the Chairman of the Board (1-2 pages)
 - c. Welcome from the STCU Executive Director (1-2 pages)
 - d. Event and Accomplishments in 2005 (2 pages)
 - e. Financial activity in 2005 (2-3 pages)
 - f. IT activity (introduction of a new website) (1 page)
 - g. New project areas + success stories (18 pages total)
 - h. Contact information (1 page)

PROPOSAL FOR 2005 ANNUAL REPORT PREPARATION

The body of the new Annual Report would be devoted to new S&T categories of STCU. There will be, on average, two pages for each S&T category. The information included in these two pages is the following:

1. Brief information on the S&T research area, what it was before and what it is now.
2. General data on STCU projects and partners (statistics, project activity, actions and decisions undertaken).
3. Future plans for the development of this specific area.
4. Programs and events that were (will be) carried out with regards to this project area.
5. Success stories (contracts concluded, research finished, patents issued, sustainability reached, partners found) for each category.

Also, one page will contain information on the latest changes in STCU's website design and structure. A short, clear summary of these changes and a description of how to use the new website will be supported by screenshots.

The English version of the new Annual Report should be produced by the end of March, 2006 (if the financial figures are not available by that time, the production date should be shifted two-three weeks later). The number of copies to be printed is 1500.

TWENTY FIRST MEETING
of the STCU
GOVERNING BOARD



STCU IN 2005 AND BEYOND

A Changing Strategic Environment?

A Discussion Paper for the STCU Governing Parties


Andrew Hood
Executive Director,
Science and Technology Center in Ukraine

STCU Strategic Environment Undergoing Change

The STCU has seen the emergence of two significant trends that will have implications for its future operations and organizational structure. First is the decline in the level of STCU Regular Project activity (both proposals received and projects approved for funding) and the subsequent rise in “programmatic” activities that target projects and activities toward specific research objectives or directions, as defined by the sponsors of the activities (Financing Party, Beneficiary Party, or governmental and non-governmental Partners). Second is the gradually improving civil and economic situation in some of the STCU Beneficiary Parties, which not only impacts the STCU’s nonproliferation mission but also offers opportunities for the Beneficiary Parties to take a more substantial role in STCU activities. If one assumes that these two trends will continue in the future, and given that the strategic timeframe of the STCU reorganization was limited to 2010, the STCU will need to review its current strategic direction with an eye towards its status after 2010. Will there be an STCU after 2010, and if so, what kind of organization should it be?

History: The Two Previous Phases of the STCU

First Phase of Operations. Graph 1 below depicts one simple way (but perhaps not the only way) of viewing the evolution of the Science Centers, divided into three phases. When the STCU began operations in 1995, its primary strategy was to engage former weapon scientists in peaceful research projects that would give them incentives not to spread their weapons knowledge to others. The primary response tool for this engagement strategy was the Regular Projects financed by the Financing Parties (the governments of Canada, Sweden and then the European Union, and the United States). The STCU Partners Program, established in 1997, was another response tool for this same engagement strategy, and has been a growing portion of the overall STCU project funding ever since its inception. Other tools such as a travel support grants, conference sponsorship, patent assistance, training programs, etc. were also developed to provide other incentives to former weapon scientists.

<u>Science Centers Strategic History</u>				
	1992 - 2004	2005 - 2010	2010 - ?	
Threats	Spread of FSU WMD Expertise	Dependency on Science Centers	Ad Hoc, Politically-Sensitive S&T Problems? NIS S&T Competitive Erosion?	
Goals	Stabilize FWS Situation in situ	Redirect FWS into Self-Supporting Peaceful, Employment	Develop Avenues for National or Multilateral S&T Development in NIS? Multilateral Response Mechanism for Politically Sensitive Regional/Global Threats?	
Strategy	Engage FWS in Coop. Research Grants	Develop Engage FWS in Self-Sustainability/ Integrate FWS into National or Regional Socio-Economic Development Efforts	Nationally/Regionally Supported And Flexible, Multilateral S&T Tools to Respond to Different S&T Needs or Sensitive Tasks?	
Response	ISTC/STCU Regular Projects plus Supporting Activities (Travel Support, Training, Workshops, etc.)	ISTC/STCU Programmatic Activities plus Partner Programs and “Evolution to Partnership” With Recipient Member Countries	Broaden ISTC/STCU Mandate Beyond WMD Nonpro Mission? Move Beyond One-Way Assistance from non-NIS Parties and into Cooperative, Equal Partnership of All Parties?	

Graph 1

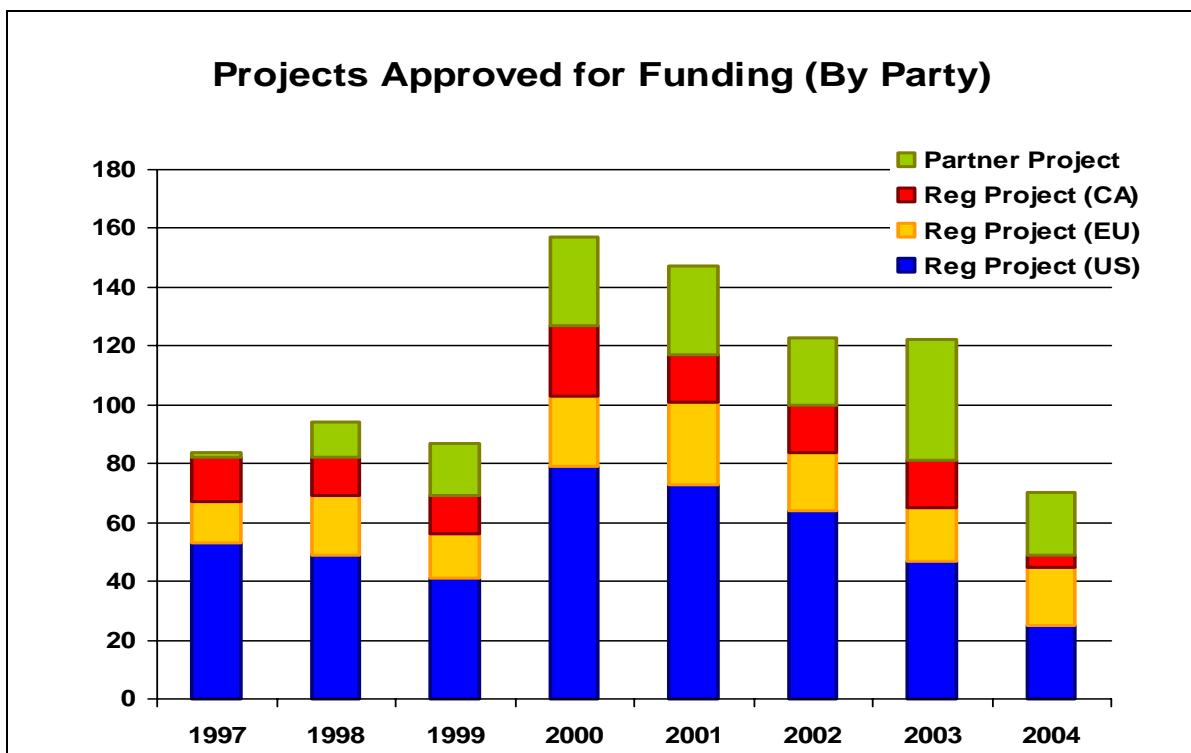
Even so, from 1995 to 2004, managing Regular Projects was the dominate STCU activity, and the level of Regular Project activity grew steadily (and sometimes at an accelerated rate). Thus, Regular Project activity was the primary driving factor in STCU administrative planning for ten years. The STCU administrative procedures, programs, and staff structure, were centered on the supporting, managing, and supplementing the Regular Project activity. Even with the emergence of Partner Project funding and Supplemental Budget programs, the STCU administrative operations continued to be dominated by the demands of the Regular Project activity.

Second Phase of Operations. Beginning in 2002, the Governing Parties of both the STCU and ISTC initiated a re-evaluation of the two science centers, based on perception that after 10 years of operations, the situation with cooperative threat reduction in the former Soviet Union had evolved. For the STCU, this review resulted in the 2004 Governing Board approval of the Secretariat's reorganization and shift in primary strategic focus from engagement to permanent redirection: the transition of former weapon scientists into long-term, self-sustaining, civilian careers that contribute to the development of market economies and peaceful R&D capacity within the Beneficiary Parties. Within this reorganization, the STCU Governing Parties stated that continued Party political support (political and financial) for the STCU and its nonproliferation mission was expected to remain generally steady until at least 2010.

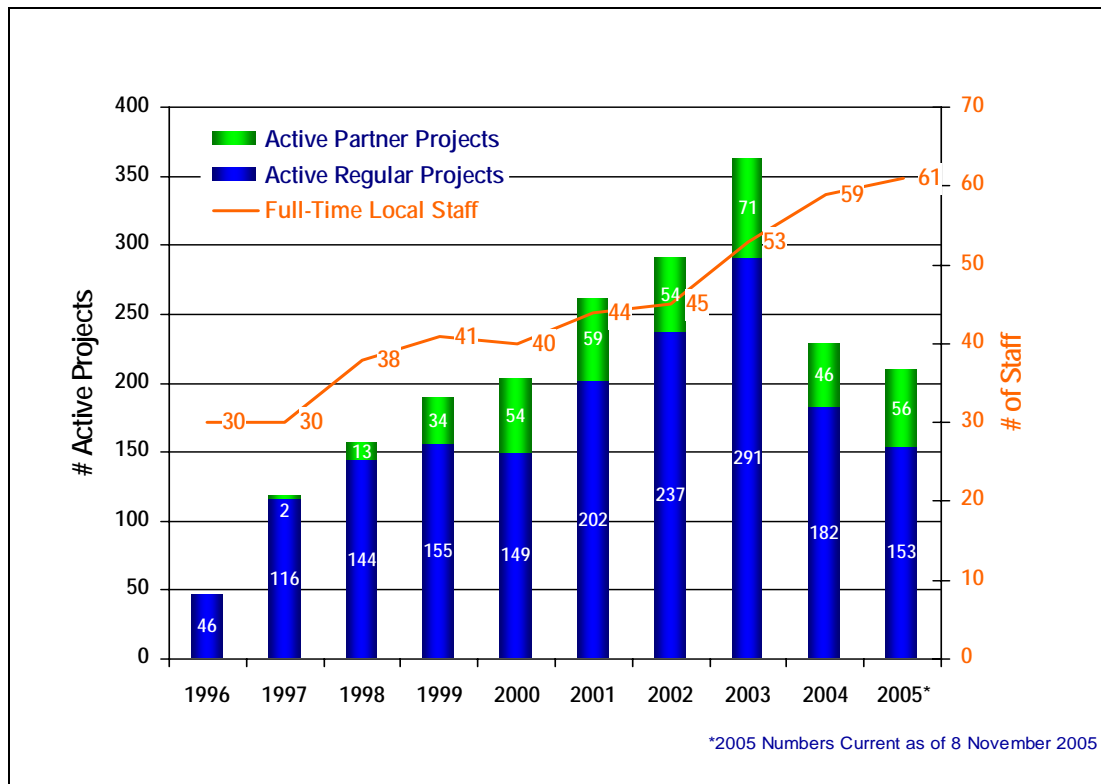
Situation Changing Faster Than Predicated?

Since the implementation of the STCU reorganization, several trends have emerged which could have material impact on the current structure of the STCU, in terms of programs, procedures, and staff assignments and responsibilities. These trends are attributable directly to the relative reduction in Financing Party funding for projects since 2000.

- Since its peak in 2000, the STCU has witnesses a steady reduction in the number of projects being approved and funded each year. This is primarily due to the reduction in the number of Regular Projects being funded (namely, U.S.-funded Regular Projects) after 2000 (Graph 3). This reduction in approved/funded projects has led to a reduction in the number of active projects being managed by the STCU staff beginning in 2004 (Graph 4).



Graph 2



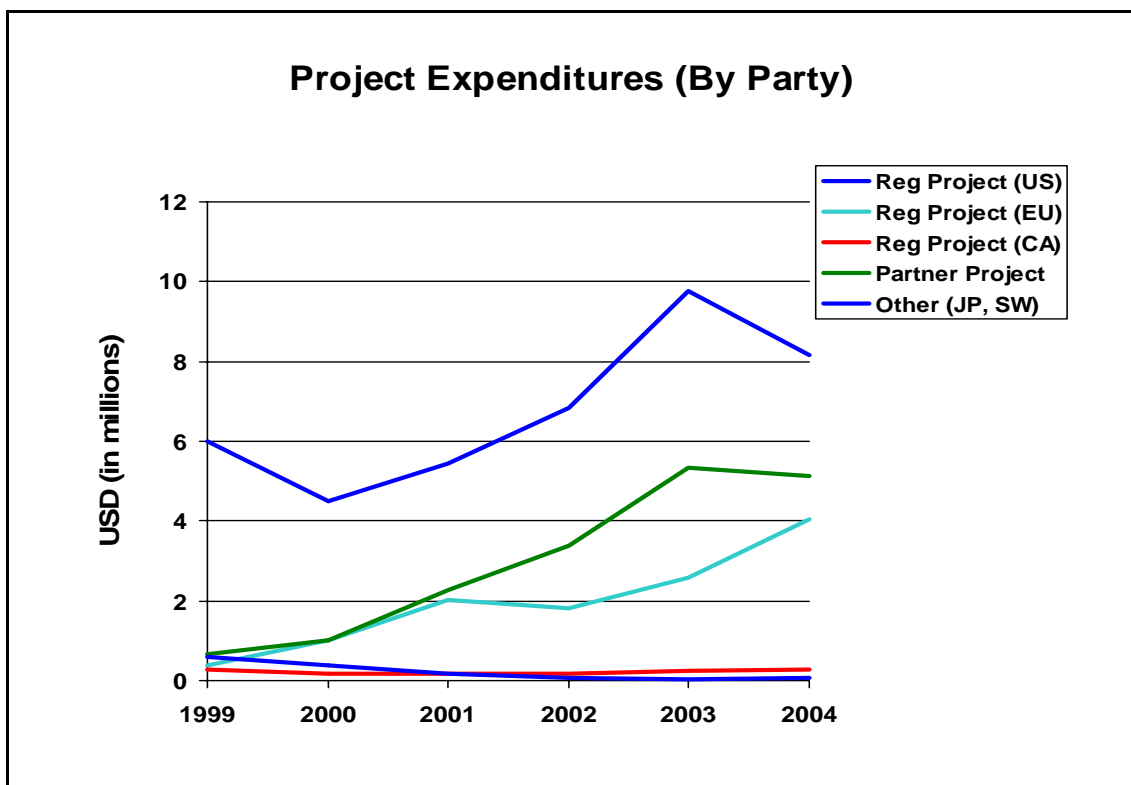
Graph 3

- As of 2004, for the first time in its history, the STCU has experienced near-zero growth in its annual Project expenditures. The STCU Annual Financial Statement for 2004 shows that between 2004 and 2003, the STCU saw a slight reduction (1.5%) in project expenditures, compared to the strong expansions in project expenditures since 2000 (46% increase between 2003 and 2002, a 22% increase between 2002 and 2001, and a 42% increase between 2001 and 2000).
- During several official meetings, the U.S. Party has warned that, given current fiscal budget constraints and other national security priorities, U.S. project funding for Regular Projects would be difficult to maintain at its previous levels. Typically, the U.S. Party funding has represented nearly 70% of the new STCU Regular Project funding each year. In 2003, the U.S. Party committed over \$9.138 million USD to new STCU projects; in 2004, the U.S. Party commitment to new projects was \$7.661 million USD—a 16.2% reduction.

These indications point to a much lower level of STCU Regular Project activity in the next few years, with a consequent shrinking proportion of STCU administrative burden. But there are other changes in the STCU strategic environment to be considered:

- By 2010, the STCU will have been operating for 15 years and one assumption could be that much of its nonproliferation objectives will have been accomplished by then. This assumption is based on some information suggesting that the STCU is successfully meeting its original nonproliferation objectives:
 - o According to informal estimates made in 1995, there were approximately 20,000-23,000 former weapon scientists (FWS) in the STCU Beneficiary countries. From 1995 to the end of 2004, the STCU has engaged 8,150 FWS in project work, or about 40% of the 1995 estimate (if that estimate was valid). In some Beneficiary Parties, such as Ukraine, the STCU engagement of FWS is higher than in new member states such as Azerbaijan or Uzbekistan.
 - o To STCU's knowledge, no new groups of FWS have been discovered for several years and the STCU has engaged all of the known significant FWS groups and research institutes in the STCU membership.

- Given the march of time and the average age of FWS in the former Soviet regions, it is quite likely that the current number of senior WMD scientists engaged in STCU activities now represent the absolute majority of such scientists that can be reached.
- STCU Beneficiary Parties are generally recovering from the post-1992 crises, although economic recovery has been generally more widespread than political or civil reform. Yet in specific cases (particularly Ukraine and Georgia), STCU Beneficiary Party governments are progressing on political, economic, and civil societal reform programs. This means that, in these specific cases, the domestic environment for absorbing underemployed former weapons scientists and technicians is improving—a key criteria for judging the continued relevance of the STCU nonproliferation mission.
- Focused programs that develop specifically targeted projects, such as the Partner Program, the Y2K program, the NASA-NASU joint projects, and Targeted R&D Initiatives, are assuming a larger percentage of the STCU project activity, and hence a larger proportion of STCU administrative work. Graph 4 shows that Partner Project expenditures have been growing at a much faster pace than general Regular Project expenditures. In spite of the slight reduction in Partner Project expenditures between 2003 and 2004, the proportion of Partner to Regular Project expenditures is projected to remain the same, or even increase slightly, in 2005. By 15 August 2005, the STCU already has over \$4.4 million in new STCU Partner Projects started (and \$2.2 million in Partner Projects awaiting final approval and signature) compared to the approximately \$4.4 million in new Regular Projects approved for funding thus far in 2005.



Graph 4

- The STCU reorganization set a new strategic orientation that: (1) focused the STCU on targeting activities towards building the capacity of high-priority former weapon scientists to achieve complete redirection and self-sustainability, (2) improved the effectiveness of the Partners Program in encouraging private-sector entities to engage the STCU's former weapon scientists and institutes, (3) encouraged development of cooperative partnerships between STCU and a variety of multilateral and bilateral S&T initiatives involving the STCU Financing and Beneficiary Parties (e.g., G8 Global Partnership, EU-Ukraine bilateral initiatives, CRDF, British

Council, NATO Science for Security), and (4) created new perspectives within the Beneficiary Parties that view the STCU as a valuable partner in addressing a broad set of objectives, encouraging these Parties to make material and financial contributions to joint activities with the STCU.

Is STCU Approaching Its Third Phase Faster Than Expected?

In considering all of the above, several questions regarding the future STCU should be addressed.

Will the STCU nonproliferation mission still be relevant in the next 5 years?

With its reorganization, the STCU is now focused on accomplishing the second part of its mission: integrating former WMD scientists into the global S&T communities and encouraging the development of their own long-term civilian careers in ways that contribute to their country's national market economy and civil societal development. One can argue that the risk proliferating WMD expertise from STCU member countries is still relevant so long as FWS are dependent on the STCU or on inadequate single-sources of income.

- According to the STCU survey of institutes in 2003, 16% of the institutes reported that they are "reliant" on STCU project funding while another 34% report that they depend on their governments for more than 60% of their annual financing. The primary goal will be to reduce the number of "STCU-reliant" institutes and to work with the "government-supported" institutes to ensure that they have sufficiently diverse sources of income to complement the still-weak governmental financial support.

What is the general outlook for STCU funding support from the Financing Parties in the next 5 years?

The STCU appears to be entering a period of generally zero growth (or even reductions) in total Regular Project funding. However, with the emphasis now on accomplishing the "permanent redirection" portion of the STCU's nonproliferation mission, and with the potential for Beneficiary Parties to become more active partners in the STCU activities, there is the possibility that non-Regular Project activities—Supplemental Budget programs, private-sector Partner promotion, targeted initiatives jointly financed with the Beneficiary Parties, jointly sponsored activities with other multilateral/bilateral programs—will increase in priority compared to general Regular Project activities. Aside from the noted increase in Partner Project expenditures, it is also noteworthy to observe that expenditures from the Supplemental Budget activities (not related to Party service contracts or technical auditor expenses) has risen from roughly 15% of total budgetary expenditures in 2001 to 20% of such expenditures in 2004. With the creation of Targeted Initiatives and Targeted Training programs, the Supplemental Budget activities will increase its share of STCU expenditures even more in 2005. Therefore, even if the overall funding of STCU remains steady, the nature of the funding is shifting toward broad, holistic programs rather than disparate groups of individual projects.

Are there future possibilities for new funding that would offset the decline in Regular Project activity?

Partner funding notwithstanding, there seems to be only a small likelihood that new financial sources will join the STCU and contribute significantly to project activity. One possibility would be the addition of a new Financing Party; in recent years, the STCU has received informal requests for information or statements of interest (but no further action) from officials of Turkey, Japan, the Republic of Korea, and South Africa. Another possibility would be the approval of the Governing Parties to allow other funding programs to operate through the STCU, i.e., participants in the G8 Global Partnership initiative, various bilateral/multilateral threat reduction, arms control, or science research programs, etc. However, other than possible Global Partnership-related funding, the STCU Secretariat currently sees no real possibility of new funding sources on the horizon. Even considering these few possibilities, the experience at the ISTC (where Canada recently joined as a new Financing Party) suggests that any new STCU financing sources would not devote a large amount of money to the STCU, and those funds would likely be targeted to supporting STCU's pursuit of the "permanent redirection" objective. For example, the Canadian Global Partnership contribution through the ISTC (albeit

substantial) is targeted toward certain objectives such as accelerating biological/chemical institute redirection, or the ISTC supplemental training and commercialization programs. It is an assumption, but it appears that any possible new sources of financial support would direct their relatively small amounts toward activities that would give the financiers visible impact and support for the future attainment of STCU nonproliferation goals; this suggests a continued emphasis on the trend toward non-Regular Project programs and targeted activities.

Are the STCU Beneficiary Parties ready to move toward a more equal partnership with the Financing members?

A critical component of the STCU mission is the ability of the Beneficiary Parties to absorb their formerly isolated military scientists into the national economic systems. The 1998 financial crisis in Russia showed that the emerging political, economical, and civil societal systems of the former Soviet states would take longer to develop than many had hoped. But today, some of these emerging economies seem to be on a positive path of growth and development: Ukraine, Azerbaijan, Georgia, and Uzbekistan all experienced sustained economic growth since 2001, and political reforms in Ukraine and Georgia hold the promise for a more attractive business environment for foreign and domestic investment.

But all of these countries continue to lag in the effective use of their science and technology potential. None of the STCU Beneficiary Parties rate highly in terms of global competitiveness, and only a couple are managing to improve (slightly) the financial and systemic support to their science communities. Ukraine, for example, was rated 75 out of 80 national economies in terms of competitiveness by the World Bank, and high technology exports represent only 4-5% of Ukraine's GDP activity. Further, while Ukraine has managed to implement some raises in government-financed salaries to scientists, the current Ukrainian governmental funding for science stands at less than 1% of GDP, far less than the 2-3% that is seen in developed economies like the United States or European countries.

These issues are recognized in some of the STCU Beneficiary Parties, and governments like Ukraine and Georgia are taking some steps towards developing a more "knowledge-based" economy linked to the Euro-Atlantic economic spheres, with increased technology transfer and more effective implementation of the S&T talent. As the STCU beneficiary countries begin to establish governmental strategies, policies, and budgetary support for long-term economic development, there may be opportunities for former weapon scientists and institutes to play a major role in these processes. STCU already has been approached by Ukrainian and Georgian governmental officials who are keen to have the STCU play a partnership role with the Beneficiary Parties in those Parties' S&T reform initiatives, and are willing to assist the STCU in developing cooperative initiatives (including joint financing) to integrate former weapon scientists and institutes into these governmental reform activities.

Near-Term Outlook (2006-2010)

All of this leads us to surmise that the STCU strategic environment is changing gradually, but perhaps sooner than originally envisioned in 2002. This strategic change certainly will impact the STCU's near-term administrative and budgetary planning. But it also suggests that the strategic framework for STCU's "third phase" should begin to be outlined so that the STCU is not left in a planning gap as it approaches this next phase of its existence. For the near-term (2006-2010), shifting administrative emphasis from managing of hundreds of individual Regular Projects to managing fewer, but broader programmatic activities will mean not only possible redefinition of STCU programs, but also changes in STCU administrative patterns. And these changes will need to be considered, planned, and implemented faster than originally thought because of the pace of change in STCU's strategic environment. Some the near-term considerations and changes include the following:

- Re-evaluation of the STCU administrative staff structure, which is currently geared to support approximately 400 active projects (Regular and Partner) that span the spectrum of S&T research areas.

- The STCU staff will need to be less like “project monitors” (because of fewer projects to monitor) and more “program managers” because of the emphasis on holistic, programmatic approaches to building FWS self-sustainability. The STCU staff profile will require more expertise in evaluating the capabilities and needs of recipient scientists/institutes so as to match them to where their talents are needed within Beneficiary Parties and with external interests (commercial and non-commercial).
- Broader programmatic activities, targeted project proposal development (e.g., Targeted R&D Initiatives), and Partner Projects—all of which focus or contribute to building successful FWS self-sustaining capacity for FWS—will take precedence over general, unsolicited Regular Projects in terms of STCU strategic planning and budgeting.
- Institutes and scientists will be selected and prioritized in favor of those in the greatest need of assistance in moving toward self-sustainability. Those that are already successful may no longer receive their past levels of financial support from the STCU, so that limited resources can be directed at those entities that are not yet able to sustain themselves. And some institutes may be deemed too far behind in self-sustainability development for the STCU to assist with its expected resources. STCU will need to establish a different type of working relationship with the “successful” institutes, and will need to work with the Parties on what general relationship the STCU should have with the “beyond our help” institutes that require more time and effort than the STCU can afford.
- Alternative (and appropriate) schemes for financing Board-approved STCU activities might need to be developed, such as expanding the Partners Program to include private-sector entities from within the Beneficiary Party, co-financing or “phased financing” of projects with potential Partner entities, etc.
- Developing additional, equal partnerships with Beneficiary Party governmental agencies, leading to joint financing of mutually-beneficial activities, will be necessary to leverage Financing Party funds and increase the value of the STCU to the Beneficiary Party governments.
 - Opportunities exist to combine the STCU nonproliferation objectives with Beneficiary Party S&T reform and social-economic development objectives, allowing STCU to leverage Beneficiary Party funding in these areas while simultaneously influencing the Beneficiary Party to include specific former weapon scientists in its national development activities, directly contributing to the STCU FWS redirection objective.

Far Term Outlook (post-2010)

Looking beyond 2010 should now become an active, not theoretical, consideration, as there already exists a catalyst to start these discussions: the accelerated pace of change in the STCU’s strategic environment pointed out in this paper. While the future paths for the STCU must be defined by the Parties, one can suppose at least these possible directions:

1. Disestablish the STCU, once Parties agree that its nonproliferation mission is complete.
2. Transition the STCU into an S&T grants foundation under the care of one or more of the Beneficiary Parties, with the possible involvement of other Parties.
3. Continue STCU as a multilateral, intergovernmental mechanism for cooperative partnership, expanding its mission beyond nonproliferation and into multilateral S&T cooperation on specific (sometimes politically sensitive) issues, or as a valuable tool for technology innovation or research initiative organizer that serves the S&T interests of the Parties.

The long-term future status of the STCU depends completely on the agreement of the STCU Parties, particularly the Governing/Signatory Parties to the STCU Establishing Agreement. Adequate time is needed for the Parties to discuss, negotiate, and come to mutual agreement on any changes to an international agreement. But the recent changes in the financial support to STCU activities have occurred even while the STCU reorganization was just being implemented, an indication of how fast the STCU strategic environment may be changing. Every change in STCU's strategic outlook has subsequent impact on the STCU as an organization, therefore the STCU executive management and Governing Parties must attempt to stay ahead of these changes in order to ensure adequate time to make the necessary plans and adjustments to the STCU administrative and operational structures.