

EXECUTIVE DIRECTOR'S REPORT ON STCU ACTIVITIES 8TH BOARD (May 27, 1999)

GENERAL COMMENTS

The first half of 1999 continued to reflect the busy activities of the Center and was characterized by several significant crises that consumed much of the Secretariat's time and energy. The unexpected resignation of two key long-term staff shortly after the Board compounded the difficulties.

Following the successful completion of the 7th Board meeting in December (32 new projects approved), work started immediately on many new planned initiatives, including a selection process for hiring 8 new staff, in addition to the normal post-Board activities.

I am, however, pleased to report that despite the two major issues that the Center is currently dealing with and the many every-day problems which make-up the regular activities of the Center, all new initiatives and project implementation have been effectively carried out and continue to be carried out in a business-as-usual manner.

ACTIVITIES RELATED TO STAFF

Job ads were placed in January for 8 STCU positions and interviews carried out to select appropriate candidates. Some internal re-classifications were completed and all vacant positions filled. Dr. Frantisek Janouch was nominated to be Deputy Executive Director (European Union) for a one year term. Marianna Carbe accepted the EU supported position of Chief Administrative Officer and began her new duties on April 7, 1999. An advertisement for a CFO was posted in the Kyiv Post and Moscow Times in April. Six applications were received for consideration in Kyiv. In addition, 2 student interns were recently offered summer jobs to provide Center staff with assistance in the summer vacation months and to further their own education in the fields of science and technology.

A complete overhaul of the salary/grant /bonus payment system, started last year, was completed and all changes incorporated. There is now a fairly simple and clear grant payment scale comprised of 4 categories with 8 merit steps based on annual performance appraisals conducted on the anniversary dates of first hire. Personal Services contracts were developed and provided for all other part-time and occasional employees.

A virulent flu epidemic hit Ukraine in February and Center staff was not immune. During the 1st quarter, approximately 30% were affected which resulted in some disruption of activities.

Based on the new STCU logo, new business cards were designed and printed together with letterhead paper, envelopes and folders.

Development of a new collaborator database was quickly completed following the December Board meeting and information provided to all Parties as updates are received. This initiative is intended to assist everyone in their efforts to locate and identify collaborators for all financed projects within a reasonable time period following project-financing approval.

The Executive Director and two Deputies met with the Advisory Committee on March 18 and 19 in Washington, D.C. and spent two fruitful days discussing the many issues facing the Center in the new year.

2 STCU staff have been offered all-expense paid training opportunities in the USA. Tamara Leshchenko will visit the Monterey Institute for International Studies and Natalia Mikhailovskaya has been invited to Des Moines, Iowa, to participate in the International Women in Science & Engineering Leadership Program, funded by Iowa State University and UNESCO

A 2-½ week training program has been confirmed for the Sustainability Group (5) staff at Dalhousie University in Halifax, Canada. The course is planned for July 10 and will focus on strengthening and increasing their knowledge of results management, marketing, business proposal writing etc.. The activities of this group are becoming more important as projects end and enhancing the knowledge and abilities of scientists to apply their work becomes more important to the Center in its continuing role of non-proliferation assistance.

PRESENTATIONS

Management staff presented a 1½-hour briefing and tour for Ambassadors and staff representing more than 10 countries of the European Union in December

Management staff provided a 1½-hour briefing for 2 Canadian Members of Parliament visiting as part of the Prime Minister's visit - Mr. Walt Lastewka, MP & Parliamentary Secretary to the Minister of Industry, St. Catherines, Ontario and Mr. Lou Sekora, MP from Port Moody Coquitlam, British Columbia, in January.

ED participated in several meetings and functions with Canadian businessmen over a two day period as part of the first official visit by the Canadian Prime Minister, Mr. Jean Cretien and Minister of Industry, Mr. Sergio Marchi, in January

ED coordinated writing and presentation of two diplomatic demarches and various meetings with 4-6 Ambassadors and staff as well as with Mr. Ushchenko, the head of the National Bank of Ukraine and with Mr. Smoli, the Deputy Prime Minister, in February, as part of efforts to resolve major issues the Center faces

ED met with the Ambassador of the Republic of Korea in February and again in April to discuss possible future participation with the STCU

ED met with Mr. Eric Yendle, CIDA Manager for Russia, and briefed and discussed Center activities in February

ED met with Mr. Bill Taylor, USA Head of Mission to Gore-Kuchma meetings and presented a briefing describing serious bank and rent issues facing the STCU, Apr.15

ED met with Laura Efros, USA Executive Office of the President, to discuss STCU activities, Apr.16

Management staff provided a 1 hour presentation for a visiting Canadian business delegation (CIDA), Apr.19

ED interviewed by CBIT science newspaper in regards to Third Call for Proposals, Apr.20

ED and Secretariat met with Mr. A. Gerard, ED of ISTC, to discuss mutual topics, Apr.22

ED presented opening remarks at BID-STCU training course "How to Commercialize Innovations", Apr.28

ED presented "The STCU and its Role in Non-Proliferation" to Ukraine Nuclear Activity and Export Control Conference, Apr.28, Kyiv, Ukraine

Presentations on "Third Call for Proposals" to Presidium of Ukraine National Academy of Sciences and National Academy of Agriculture (60 attendees) by ED; to National Scientific Center KPIT (300 attendees) and Institute of Single Crystals (250 attendees) by Deputy ED A. Ducharme, Apr.28

ED met with Japanese delegation from Gifu Prefecture to discuss possible collaborative activities and provided a briefing on the STCU, Apr.30

ED met with USA delegation representing Army, Navy and Air Force International Research Offices from London, England to discuss possible collaborative activities and provided a briefing on the STCU, May 3

ED & Deputies met with DOE delegation to discuss possible collaborative efforts in regard to Y2K in Ukraine, May 6 & 7

ED met with representatives from the University of Saskatchewan, Canada, to discuss possible collaborative activities and provide a briefing on the STCU, May 18

Executive Director Trips

- met with various senior mining officials in Toronto, Canada, to present and promote Partner Program possibilities Mar.16 & 17
- toured Sandia National Laboratory in Albuquerque, New Mexico, and met with various scientists and officials Mar.22 ✓
- toured Los Alamos National Laboratory in New Mexico and met with various scientists and officials Mar.23 ✓

ADMINISTRATIVE & FINANCIAL MATTERS

The final 1998 administrative budget expenditures came in lower than estimated in December at \$912,578 or -12% from the budgeted amount, despite the serious financial crisis which affected the country at the beginning of September and continued into December.

USA Department of Defense auditors started the 1998 audit in April. However, after 2 weeks they felt more time was required to complete the audit and plan to return in June.

The Board approved an inter-Board increase of \$200,000 for contingencies in the Administrative Budget. Current spending is well below budget and there are no significant variances.

- ✓ **Banking Problems** - As previously reported, problems developed in November with the STCU's bank, Bankers House, which were apparently resolved by the end of the month. For 2 months, activities continued normally, although STCU continued to establish parallel processes and negotiate with a new bank on rates and mechanisms of operation. In late January, new developments once more raised concerns about Bankers House and all STCU attempts to meet with bank officials to obtain information were re-buffed. The decision was made to abrogate a previous agreement on maintaining a minimum deposit and instructions issued to transfer \$US on deposit to the new bank. At this time, STCU was informed that the bank did not have the funds (approx.\$382,000) and in fact was deeply in debt. After meeting with the CEO and determining that the bank was basically bankrupt, a meeting was held with banking lawyers who confirmed our fears that the laws are so weak in Ukraine that we had virtually no chance of recouping any funds, once bankruptcy proceedings were initiated. It was decided to approach the NBU as the only possible source of assistance. At the same time, all Ambassadors associated with Parties to the Center were briefed and participated in a written demarche and several meetings coordinated by the ED with NBU officials and State Tax Inspection officials.

On March 11, 1999, STCU was informed by the NBU that they would resolve problems with our bank and that the Center and its scientists would receive their money. Unfortunately, few actions were forthcoming since this time. The USA and Canadian Ambassadors subsequently sent new strongly worded requests for resolution of this issue to the Minister of Foreign Affairs, with copies to other high-ranking politicians on Apr.2 and Apr.19, respectively. A single response was received from the NBU indicating that they were currently reviewing re-structuring/registration requests from Bankers House on Apr.19. Since this time we have learned that the restructured bank has now been registered as the State Joint Stock Specialized Import Export Bank of Ukraine (Ukrspetsimpex Bank) but still has no new funds which were apparently promised to them by the NBU in the form of a special interest

loan. Correspondence recently received from the Banks CEO suggests that they continue to try and obtain new funds and hope to start repayments in the near future. On May 20, the bank offering to fulfill its debt obligations with a combination of vehicles and buildings delivered a payment plan to STCU. Two days ago, the bank indicated a willingness to negotiate a repayment plan but only when their legal problems with 18 claims filed by STCU scientists were settled.

Rent/Security Problems-

Impending problems related to insufficient Ukrainian funding were first highlighted at the December/98 Board meeting. At this time, concerns were raised that 1999 funds budgeted by Ukraine were far short of amounts requested and required (approx.30%). In January, it was discovered that due to several factors (not previously known), the STCU was \$82,000 in arrears on payments to security/rent/communal services. The landlords had provided an eviction letter to take effect on Mar. 1, 1999, and security services had started to apply significant penalties for non-payment. All Ambassadors associated with Parties to the Center were briefed and participated in a written demarche, which was presented to Mr.Horbulin, the National Security Council Secretary. At the same time, the ED met with Deputy Prime Minister Smoli to apprise him of the seriousness of the situation and copies of the demarche were provided to him and the Deputy Minister of Foreign Affairs. A meeting was held with the landlords at the end of February providing assurances that they would be paid by March 31, 1999, in an effort to buy time, if they would delay action. This was determined to be sufficient time for Ukraine to take our request seriously and pay or not pay.

On Mar.12, 1999, a letter was received from the Ministry of Finance saying they regretted last year's shortfall and that they were not responsible for paying previous debts. The first Ukrainian payment for 1999 was received in March (approx. 2 weeks rent) but a new law passed on Jan.1, 1999, prevented withdrawal of the funds and making payment to the landlord. This was resolved after two months of effort.

Since mid-March, the Ukrainian government still has not responded to requests for payment of obligations. At the end of March, with the next quarterly rent payment due and a new letter threatening immediate eviction received from the landlords, the Board decided to increase the STCU contingency fund and authorized the ED to respond to emergency situations as was appropriate. A letter was sent to the Cabinet of Ministers identifying the government's debt of \$106,000 and requesting immediate assistance in resolving this problem.

The USA and Canadian Ambassadors subsequently sent new strongly worded requests for resolution of this issue to the Minister of Foreign Affairs, with copies to other high-ranking politicians on Apr.2 and Apr.19, respectively. No response has been forthcoming since these letters were delivered.

MAJOR ACTIVITIES

1998 Annual Report

Two major crises affected the Center during much of the quarter and together with hiring activities, the annual report preparation and time lines were affected to some degree. However, publication is still planned for mid-June as originally proposed. The report will be shorter and less costly than any previous report. A pre-print Xerox copy will be provided to Board members today. Fewer than 200 copies of the 1997 report remain from a print run of 2,500. As a result, it is planned to print a similar quantity of the new report.

Sustainability Group Formation and Activities

Positions were reclassified and new staff hired to form a group whose activities will focus on developing new mechanisms of assistance to scientists involved with completed STCU projects, results management, and with promoting and facilitating an expanded Partners Program.

The new Sustainability Group prepared and coordinated two new intensive training courses for project managers of completed STCU projects in April and May, in Kyiv and Kharkiv, respectively. These

courses were developed in partnership with the International Management Institute and Center of Small Business Development-Kharkov Technologies (Business Incubator Development Program) and provided an intense but focussed 60 hours of instruction in regards to marketing comprehension, business proposal development, etc.. 15 ISTC project managers attended the Kharkiv course as well. The course was very well received and improvements will be made based on participant input.

Third Call-for-Proposals

A new call-for-proposals was initiated April 26, 1999. Distribution of the announcement was via a front page interview in the NASU newspaper CBIT with accompanying advertisement; distribution of copies by each Field Office; distribution of a 1 page ad to scientists by Project Coordinators; and presentations to large groups of scientists in the cities of Kyiv, Dnipropetrovsk, Kharkiv and Lviv by the ED and Deputy ED's; and subsequent presentations in secondary centers by Field Office PC's. In addition, the advertisement was posted on our web site.

ISSUES

Project #426- Previously identified as a problem project, a new issue arose as a result of actions taken following technical review and monitoring. This project is in Donetsk. Routine financial questioning first revealed that the project manager had verbally forced payment of a certain percentage of pay from project scientists to re-furbish laboratory equipment etc.. The amount of funds involved was less than \$1500. The problem was resolved with a strong letter from the ED to the Director of the Institute in regards to STCU principles and policies and a request to investigate and cease this practice if occurring. A reply was received acknowledging that all proper practices were in place. At the same time, a technical review was completed and results of a Coordinating Institute review concluded that one particular direction of investigation was not providing expected results. Upon request by the Institute heads and consultation with STCU Project Coordinator and Deputy, the Center agreed to the change in direction to more effectively utilize project funds. Since this time, a scientist affected by this decision made many slanderous and unsupported accusations against STCU staff and against the Director of the Institute for following the same practices previously described. No evidence was provided and it was determined that the only response was a follow-up interim financial audit at 6 months (May/99) and a letter to the Director's manager asking him to review the charges if he feels they are warranted. In fact, this is no longer necessary in that the Director accused himself asked the NAS to review these claims.

This issue was closed following a NAS review of the claims of impropriety. They found no irregularities in the project or at Reactivelectron. In any event, the STCU will carry out another monitoring in a few weeks and will pay particular attention to the claims.

Partner Projects #P-08 and P-24- Problems were previously encountered when the Canadian company did not follow proper procedures in regard to contract terms as related to project payments, extensions, changes etc.. Center staff was also at fault to some degree in making verbal commitments with no subsequent internal communication. As a result of this practice coinciding with a currency crisis, \$4,714 was lost. Follow-up discussions with company representatives and the STCU resulted in an amicable and fair resolution of the problem with the company promising to provide 50% of the funds lost and the project was completed as planned.

Since this time, full payment was made on this project (P-08). However, no payments have been made on P-24 and as a result, the Center formally temporarily suspended work on the project on Feb.22, 1999, until payment is received.

Project #378- A disgruntled project scientist complained of financial improprieties in several unfocussed, rambling letters with no proof or justifications provided. Following several meetings with Deputies and review of financial activities by STCU, it was determined that without any proof or corroborating evidence, there was not much that could be done. A letter was sent to the Project manager to look into and verify whether or not there was any basis for the allegations. An interim financial audit-monitoring trip is also planned.

AB Printers Complaint- STCU had requested advance bids for this years annual report earlier this year, providing some general information as to our needs. The company which produced our Annual Report last year (AB) provided a bid along with others which were incomplete and poorly presented. At this time, we met with them and informed them that we were interested in working with them but would require a new bid based on more specific detail of our requirements - at the same time we continued to encourage the other companies to submit proper bids since we still felt AB's bid was too high. Following this, we received a bid from another company, which was about 40% below AB's bid and provided reasonable contract terms. AB was subsequently informed by phone that they were not selected for this contract.

I subsequently received a letter claiming that verbal guarantees were made to them to the effect that they would get this contract. They also claimed we owed them \$3000 in penalties from last year + significant interest for non-payment and would take us to arbitration court if they did not get this contract. An internal review revealed that no one from the Center had knowingly made any verbal commitments. In regards to the penalties, we had indeed met with these same individuals a year ago to discuss their claim and because of some variations had mutually agreed to make payment in the form of a slightly enhanced additional order of 500 copies of the Annual Report and to consider them for bids on the 1998 report. The price determined incorporated the cost of production + a compromise on their penalties. Written notes describing the outcome of this meeting are on file. It is important to note that there are no specific amounts described for penalties in the contract itself.

Several meetings of the Secretariat were held to discuss this issue and review events, which led to this situation. All agreed that this company was in fact trying to pressure us with these claims and that we had done nothing untoward nor in fact owed them any explanations as to our decisions. A lawyer was asked to review their letters and claims/demands, the contract we signed for last year's annual report and copies of notes. He indicated that STCU had an 80% chance of winning against any claims they had. Following further discussion with the Secretariat, the lawyer was asked to draft a response to their claim on the ED behalf which was delivered along with a letter from the CAO officially stating that the terms of the contract they provided to us were unacceptable (eg. 100% payment of the total amount in advance); that they did not win the contract and; that if they believed they had a claim against us to please specify the amounts and laws to which they were referring.

We have since awarded the contract to the competitive bidder. AB subsequently sent a letter reiterating their claims stating that they will request the Board to address this matter when they meet and will take us to arbitration court and have a mass media event. Because of the Board reference, it was decided that the Advisory Committee should be informed of the issue at this time.

V NEW DEVELOPMENTS

VAT

In regards to VAT, STCU was previously informed that a process was finally developed for returning VAT payments through a rebate program put into place as of June/98. A letter was sent to the Cabinet of Ministers requesting resolution of this long-standing problem. In response, the Center has undergone new extensive auditing by the tax inspection authorities. Additionally, the first formal response was received in regards to this issue from the government. They have in effect said that because the Center had not previously reported some here-to-for unknown information to the tax authorities and passage of a new law last year, the government is not responsible for paying back any VAT. VAT issues were presented by USA representatives as part of the Gore-Kuchma Commission meetings held in April. No significant progress was made. The Ministry of Foreign Affairs has now decided to renew ratification efforts for the STCU Agreement.

Partner Program

A Canadian delegation led by Terry Sellen visited various institutes with STCU coordination and staff participation. As a result, several new partners are expected to join together with new activities later

this year. Three new projects are presently in various stages of approval and contracting, including P-23, P-25, and P-26. Project P-20 received inter-Board approval.

Ministry of Science Developments

The Ministry of Science and Technology was desolved and Minister Dovhey and Deputies Dotsenko, Hrynirov, Savchenko & Svishenko were declared redundant in late April. Science & technology functions have been combined with the Intellectual Property Commission mandate and the Ministry re-constituted as the **State Committee of Ukraine on Science and Intellectual Property Issues**, under the Ministry of Education. Mr. Dovhey was appointed as Chairman of this Committee.

Azerbaijan

The Ambassador of Azerbaijan has delivered a letter from the President of the National Academy of Sciences in Azerbaijan requesting consideration to join the STCU. A letter will be drafted requesting information verifying previous WMD involvement of scientists/Institutes of that country.

Moldova

The USA State Department has been approached by the Government of Moldova with an expression of interest in joining the STCU. Senior USA government officials are still considering this request. The Deputy Prime Minister of Moldova has formally requested STCU to consider including Moldavian scientists in joint research works.

Republic of Korea

Several meetings have been held with the Ambassador of the Republic of Korea to discuss possible participation in the STCU. He has recommended to his government that they participate and the possibility is now being reviewed among interested Ministries in the Republic of Korea.

PROJECT PIPELINE

PROPOSALS ABROAD FOR 8TH BOARD REVIEW

<i>NUMBER OF PROJECTS REMAINING FROM THE FIRST 6 GOVERNING BOARDS AND PRESENTLY UNDER EXTERNAL REVIEW (USA ONLY)</i>	30
<i>[1 from the 3rd Brd.; 1 from the 4th Brd.; 8 from the 5th Brd. and 20 from the 6th Brd.]</i>	
<i>PROJECTS REMAINING FROM THE 7TH BOARD (EU)</i>	4
<i>PROJECTS REMAINING FROM THE 7TH BOARD (EU+USA)</i>	7
<i>PROJECTS REMAINING FROM THE 7TH BOARD (USA)</i>	146
<i>NUMBER OF PROJECTS SENT ABROAD FOR THE 8th BOARD (EU+USA)</i>	204
<i>SUBTOTAL (USA BENCHMARK)</i>	387

PROPOSALS FOR 9TH BOARD REVIEW

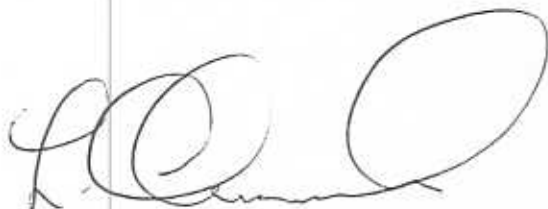
<i>NUMBER OF PROJECTS SENT ABROAD FOR THE 9TH BOARD (May 28)</i>	56
<i>NUMBER OF PROJECTS AT STCU BEING PREPARED FOR THE 9TH BOARD</i>	64
<i>NUMBER OF PROJECTS CURRENTLY AT THE MINISTRY OF SCIENCE</i>	50
<i>SUBTOTAL</i>	170

STATUS OF REGULAR FUNDED PROJECTS

<i>TOTAL PROJECTS FINANCED</i>	197 -
<i>ACTIVE PROJECTS AS OF JULY 1/99</i>	110 -
<i>NUMBER OF PROJECTS COMPLETED TO JUN 30/99</i>	87 -

STATUS OF PREVIOUS GOVERNING BOARD APPROVED REGULAR PROJECTS

<i>CONTRACTS UNDER PREPARATION FROM THE 6TH BOARD</i>	2
<i>PROJECTS APPROVED FOR FINANCING AT THE 7TH BOARD</i>	32
<i>CONTRACTS PREPARED AND AWAITING WORKPLAN APPROVAL</i>	22
<i>WORKPLAN APPROVALS RECEIVED & CONTRACTS SIGNED</i>	3
<i>CONTRACTS UNDER PREPARATION (7th BOARD)</i>	7



Leo Owsjacki
Executive Director
May 25, 1999