

# BISNIS Bulletin



Facilitating Commercial Success  
in Eurasia

January/February 2005



## Important Notice

**The *BISNIS Bulletin*  
will cease printing after the  
March/April 2005 issue.**

However, BISNIS will continue to publish an email version of the *BISNIS Bulletin* and post it on our Web site. To continue to receive this publication after March 2005, please provide BISNIS with a current email address.

*For inquiries, please contact Ellen House,  
BISNIS Bulletin Managing Editor  
(ellen\_house@ita.doc.gov, 202-482-2284).*

**U.S. Department of Commerce  
International Trade Administration**

## Russian Retail Sector Experiencing Powerful Growth

by Peter B. Necarsulmer

The Russian retail industry is one of the most promising sectors of the country's economy. Over the past five years, retail turnover has surpassed Russia's GDP growth, and forecasts indicate that this trend should continue for the foreseeable future.

A.T. Kearney, the management consulting company, ranked Russia number one in its 2004 Global Retail Development Index among the top 30 emerging markets worldwide, stating "Retailers continue to be attracted by not only the size of the Russian market, which is home to 143 million people and an estimated \$280 billion in annual consumer spending, but also by its potential growth."

More evidence of the growing strength of Russia's retail sector can be found in the "Top 100 Emerging Companies of the Russian Consumer" market survey. Sponsored by The PBN Company and Interactive Research Group (IRG) in late 2003, this study showed that 42 of the top 100 Russian consumer companies produce or sell fast-moving consumer goods, often in competition with big international compa-

nies such as Unilever, Procter & Gamble, or Danone.

Retail trade benefits significantly from the growing income of Russians, as well as from Russia's political stability and economic recovery of the past few years. Currently, the retail market is dominated by small and medium-sized traditional stores, open markets, and kiosks. Low market concentration presents domestic retail companies with promising growth and development potential.

### The Moscow Retail Market

According to Russian statistics agency Goskomstat, Moscow accounts for 27 percent of total domestic retail turnover, making it the country's largest and most developed market. Almost all major domestic retailers are present in Moscow, and most have only recently started expanding into the regions. Although Moscow has the highest number of modern stores in Russia, over 70 percent of Moscow's retail turnover comes from open markets, kiosks, and traditional shops.

In 2003, retail turnover in Moscow exceeded \$41 billion, a 24 percent increase over 2002 in nominal dollar terms. According to the Moscow city government, there was an average of 506 square meters of retail space per 1,000 inhabitants in the beginning of 2003—a nearly threefold increase over the past 10 years. Nonetheless, Moscow is still well behind western capitals in terms of retail space per capita.

Over the next four to five years, Russian retail trade is expected to grow intensively,

*continued on page 4*

**2nd Annual Conference**  
**Investment Opportunities in Russian Banking**

**"The Quickening Pace of Reform"**

**March 2-3, 2005**

**New York, New York**

Organizers: **Financial Services Volunteer Corps,  
Association of Russia's Regional Banks,  
and RusRating bank rating agency**

The conference will address two main issues:

- Corporate Governance
- Anti-Money Laundering Compliance and Know-Your-Customer Due Diligence

Web site: [www.fsvc.org](http://www.fsvc.org)

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**9th Annual Conference**  
**Investing in Russia & CIS**

**March 10, 2005**

**New York, New York**

This year's topics include: Investing in Russia: the Political Context; Telecoms and IT; Financial Regulations; Restructuring UES; M & A; Debt & Equity Capital Markets; Oil & Gas; Ukraine

Organizers: **Sachs Associates and Bloomberg**

Web site: [www.sachsforum.com](http://www.sachsforum.com)

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**International Investment Symposium**

**March 19-22, 2005**

**Miami, Florida**

The Symposium will analyze planning and legal considerations for structuring investments into North America, Europe, and Russia, focusing on practical inbound transactional techniques and solutions, especially direct investments such as real estate, mortgages, resources, and private equities. Leaders in business, professional, and investment communities will attend, and keynote speakers will include eminent experts in the fields of international investing, banking, legal and structural planning, as well as governmental representatives.

Organizer: **Lucius Smejda, Chair, International Law Section  
of the Florida Bar Association**

Web site: [www.international-symposium.com](http://www.international-symposium.com)

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**The Russian Economic Forum**

**April 10-12, 2005**

**London, England**

Organizer: **Eventica**

Web site: [www.eventica.co.uk](http://www.eventica.co.uk)

# BISNIS

Facilitating Commercial Success  
in Eurasia

BISNIS is the U.S. government's primary market information center for U.S. companies exploring business opportunities in Eurasia. A part of the Department of Commerce's **U.S. Commercial Service**, BISNIS disseminates information in print form, electronically, and through consultations by its staff of trade specialists.

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[www.bisnis-eurasia.org](http://www.bisnis-eurasia.org) (Russian)

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# Consulting Services Market in Kazakhstan Developing

by Svetlana Voronina

The consulting services market in Kazakhstan that emerged in the early 1990s now represents a dynamically growing industry with good prospects for further growth, as well as for foreign investment and partnerships. The market has been spurred by positive changes in the country's economy, with its strong oil sector, and government efforts to diversify the economy by shifting development to the manufacturing and high-tech sectors. Meanwhile, the lack of adequate domestic knowledge and practices needed for successful implementation of these efforts, as well as of private efforts toward modernization and development of industry, will likely mean a growing demand for highly professional consulting services, suggesting opportunities for qualified and adventurous U.S. firms.

## Background and Trends

Demand for consulting services in Kazakhstan emerged in the early 1990s and was mainly limited to business planning services—accounting for almost 80 percent of total services, while auditing, legal, and asset valuation services were used to a lesser extent. Intensive economic growth after the devaluation of the Tenge in 1999, the subsequent recovery of the manufacturing sector, and the increasing number of private companies and intensified competition among businesses have all resulted in expansion and diversification of consulting services. Moreover, services offered by consulting companies have become more sophisticated and new areas, such as management consulting, audits to IAS, GAAP, and national standards, human resources and IT consulting, manufacturing consulting, strategic planning, and other professional services have begun to appear.

Recent research indicates that Kazakhstani customers prefer companies that provide comprehensive assistance and professional services that respond to their different aspects and needs in a rapidly changing business environment. This one-stop shop approach is both cost effective and allows building long-term partnership relations between the clients and service providers. Another tendency observed in the consulting market in Kazakhstan is the consolidation of HR services with ISO quality management consulting or advisory services on

strategic planning. In the future, the industry can be expected to improve the quality and diversity of available services, responding to market needs for legal and financial consulting, strategic planning, strategic management consulting, branding, HR, IT, and other services.

*continued on page 6*

## BISNIS Central Asia Regional Outreach Events

These two events, aimed at U.S. companies and distributors of U.S. goods and services, will provide information and resources on business opportunities in Central Asia. Both events will feature presentations and one-on-one meetings with speakers.

### Almaty, Kazakhstan February 7, 2005

Speakers will include the U.S. Commercial Service Almaty, the American Chamber of Commerce in Kazakhstan, BISNIS Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, OPIC, TDA, the U.S. Department of Commerce's ITA Deputy Assistant Secretary for Europe and Good Governance Program, and the State Department's Office of Commercial and Business Affairs.

### Dushanbe, Tajikistan February 9, 2005

BISNIS, the U.S. Embassy in Tajikistan, and speakers from international institutions will give presentations on doing business in Tajikistan and help arrange meetings with local companies interested in working with U.S. companies. There will also be time for individual meetings between businesses and the potential for meetings with Tajik officials interested in promoting U.S. investment in Tajikistan.

*For more information, contact Philip de Leon, BISNIS, at tel: (202) 482-2109 or philip\_de\_leon@ita.doc.gov.*

RUSSIAN RETAIL SECTOR *continued from page 1*

stimulated by macroeconomic factors (GDP growth and increases in consumer income and spending), structural changes in the market, and steady increases in retail company efficiencies. Chain retailers with modern store formats stand to increase their respective market shares significantly.

### **36.6: A Symbol of Russia's Emerging Retail Sector**

Pharmacy Chain 36.6 is symbolic of Russia's fast-growing retail sector. The company ([www.pharmacychain36-6.com](http://www.pharmacychain36-6.com)) was created six years ago out of a drug manufacturing operation after its founders hired McKinsey & Co and the Santa Catalina Group (SCG) brand consultancy to evaluate the potential for a network of integrated health and beauty outlets. The result: 36.6 became the first western-style, open-format pharmacy in Russia.

In 2003, 36.6 became the first Russian retail company to do an initial public offering (IPO), raising \$14.4 million. It used the capital raised in its IPO to expand its presence throughout Russia. Today, the chain owns more than 230 stores across the country, and boasts offerings of "high-quality, affordable health and beauty products at attractive, convenient, customer-friendly stores." By 2008, 36.6 is targeting a 10 percent market share and sales of \$800 million by developing old stores, opening new stores, and acquiring other pharmacy networks. Currently, the chain is focusing on regional expansion of more than 1,000 stores throughout Russia. However, Russia's capital city still accounts for three-quarters of the company's revenues.

36.6 has also attracted the attention of the global retail community. It recently became the first Russian company to become a member of the U.S.-based National Retail Federation; and its CEO, Artem Bektemirov, became the first Russian member of the NRF Board of Directors—a clear indication that Russia is on the radar of retail leaders worldwide.

Overall, the pharmaceuticals and cosmetics/toiletries sectors in Russia have demonstrated impressive growth over the past three years. The retail pharmaceutical market's overall value increased by 62 percent from 2000 to 2003; and the cosmetics and toiletries market grew by 40.2 percent during the same period. In 2003, the entire retail market for these two consumer categories comprised \$8.8 million, representing an increase of 48 percent from 2000.

### **Retail Foods—Supermarkets and Hypermarkets**

Retail chains that sell a wide assortment of foods and groceries are the largest and most dynamic modern retail format in Russia. Many leading retail companies are planning IPOs in the near future and actively attracting external investors.

Supermarket chains first appeared in Moscow in 1994, when the first Sedmoy Kontinent (Seventh Continent) store was opened. By the end of 2002, there were 28 retail food chains comprising a total of 384 supermarkets; and by the end of 2003, the number of stores rose to 550, an annual increase of 45 percent (for 2003).

One of the most successful examples of a supermarket chain is Pyaterochka. The company appeared in 1999 in St. Petersburg. Its shareholders are two limited liability companies and the EBRD, which has invested over \$40 million in the company and retains a blocking stake.

Today, Pyaterochka is the largest food retail chain in terms of sales and number of stores (260 stores in Moscow, St. Petersburg, and several regional cities). Unlike Seventh Continent and other high-end Russian food retailers, Pyaterochka has geared its focus toward the rapidly emerging Russian middle class.

### **Retail Associations**

The increasing prominence of retailer associations has also played a positive role in the development of the Russian retail sector. Together with the emergence of small and medium-size business advocacy associations, these entities have helped foster the development of organic business growth in a country still dominated by oligarch-affiliated, mega-corporations called "holdings." Prominent among these bodies are the Association of Retail Trade Companies ([www.acort.ru](http://www.acort.ru)), the Association of Trade Companies and Producers of Consumer Electronics and Computer Technologies ([www.ratek.org](http://www.ratek.org)), and the Russian Association of Pharmaceutical Chains.

### **A Unique Trade Opportunity**

This transitional period of dynamic growth in Russia's retail sectors provides U.S. producers and suppliers with a unique opportunity to tap into a rapidly evolving market. The combination of the Russian population's relatively high percentage of disposable income and pent-up consumer demand—especially in the regions outside Moscow and St. Petersburg—provides U.S. companies with a window to develop brand awareness and loyalty that won't remain for long. The key, of course, is to develop reliable working relationships with trustworthy Russian business partners. This requires discernment, thorough due diligence, and expert advice from reliable sources on the ground in the target market.

*Peter B. Necarsulmer is chairman and CEO of The PBN Company ([www.pbnco.com](http://www.pbnco.com)), an international strategic communications firm, headquartered in Washington, D.C., with offices in London, Moscow, Kyiv, Chisinau, Riga, and Almaty.*

# The Engineering Services Market in Northwest Russia

by Igor Yegorov

Steady and strong growth in the economy of St. Petersburg and Leningrad Region over the past three years has been led in large part by fixed capital investments, including construction and modernization of industrial facilities. Despite recent investments, depending of the sector, 65-80 percent of fixed capital in the region is depreciated. This fact speaks in favor of ongoing solid demand for capital investment, thus supporting the need for quality engineering services in a wide variety of industries. In particular, the main industries of St. Petersburg and Leningrad Region are machine-tool building and metalworking, food processing, oil processing and transportation, chemical and petrochemical, forestry, wood processing and pulp and paper, power generation and building materials manufacturing. The engineering services market in Northwest Russia has been undergoing a transformation since the collapse of the Soviet system. The ongoing growth of demand in the sector, along with continued struggle for adjustment among domestic engineering firms, presents opportunities for U.S. companies interested in entering the market.

## Engineering Services Market

The supply of engineering services in Northwest Russia is concentrated in St. Petersburg due to the city's scientific and research base. Demand for engineering services is more evenly spread across Northwest Russia, with St. Petersburg, Leningrad Region, and Vologda Region being the core industrial regions, although all the other regions require modernization of their industries as well, for example, port infrastructure in Murmansk and Arkhangelsk, wood processing in Komi, Karelia, and Arkhangelsk, and food processing and manufacturing in Novgorod and Pskov.

In Soviet times, engineering and project design work was performed by state scientific-research institutes, design institutes, bureaus, and laboratories, which specialized in specific industries and combined applied research, engineering, design, management, and implementation capabilities. Usually a sector-specialized design institute was able to act as a general contractor, working with a number of other institutes and design organizations to coordinate the complex process of project design, planning, and implementation. Most of the engineering companies now active in St. Petersburg are privately owned firms created by top executives

of these former Soviet institutes. These companies usually draw from experience and status of their parent institutes to offer engineering solutions to clients.

The main project design companies in St. Petersburg include:

- Gidrotekh ZAO (subsidiary of LenHydroProekt)—hydraulic construction,
- NIIKHIMMASH ([www.niihimmash.com](http://www.niihimmash.com))—chemical, petrochemical, and oil and gas industry projects,
- Giprobum Ltd. Engineering ([www.giprobum.spb.ru](http://www.giprobum.spb.ru))—pulp and paper sector consulting and engineering,
- Dorservice ([www.dor.spb.ru](http://www.dor.spb.ru))—construction and reconstruction of roads, housing, and public utilities facilities,
- Leningradskiy Promstroyproekt ZAO—industrial projects design and urban planning,
- LENNIIPROEKT ([www.lenproekt.com](http://www.lenproekt.com))—comprehensive design of residential and public buildings,
- Transmashproekt OAO ([www.tmproj.ru](http://www.tmproj.ru))—process design of production facilities and public buildings, network design,
- LENMORNIIPROEKT ([www.lenmor.ru](http://www.lenmor.ru))—engineering and consulting firm specializing in port construction,
- Lengiproinzhpoeekt ([www.lgip.spb.ru](http://www.lgip.spb.ru))—designs water treatment plants, tunnels, bridges, overpasses, viaducts, embankments, utilities, electricity supply, cable networks, urban transport systems, and
- AO Harris Group International Project and Construction Services ([www.aohgi.spb.ru](http://www.aohgi.spb.ru))—one of a few engineering companies independent from Soviet-era design institutes. Established in St. Petersburg in 1996 in partnership with U.S.-based Harris Group, it has now parted from its U.S. founder.

Engineering companies that were created from old design organizations face a number of problems as they look to the future. Firstly, the design, technological, and process engineering solutions offered by the majority of engineering companies in St. Petersburg are starting to lag behind worldwide technological trends and innovations. Knowledge and expertise accumulated during Soviet times has been largely utilized, and it is now becoming increasingly obvious that many local engineering companies don't have the necessary skills to propose up-to-date plant design and engineering solutions in many industries. This also pertains to testing and design technology itself, as their design methods, equipment, software, and management practices don't correspond to modern requirements.

Secondly, most local engineering firms can no longer (unlike their parent institutes before) offer complex project design, approval, and implementation services, including pre-feasibility

*continued on page 6*

CONSULTING IN KAZAKHSTAN *continued from page 3*

Some experts believe that the role of strategic management is underestimated by private businesses in Kazakhstan, and predict that demand for these services will reach its peak within two to three years. Currently, major consumers of strategic management services are national companies undergoing institutional changes and requiring solutions for team restructuring, optimization, and evaluation.

It should be noted that 65 percent of all consulting and auditing companies are located in the capital city Astana and the financial capital Almaty. Statistics show that the most active regions in terms of business development and demand for consulting services, other than Almaty and Astana, are Karaganda, West Kazakhstan (Atyrau, Uralsk), Pavlodar, and Ust-Kamenogorsk, all of which have dynamically developing small and medium-sized enterprises and a favorable overall economic situation.

## Market Entry

Recent economic developments in Kazakhstan suggest its market for consulting services is the most developed in the region. The following sectors are currently exhibiting strong growth and might present the best prospects in the near future: IT consulting, manufacturing consulting, HR consulting, advertising and public relations consulting.

However, a U.S. company considering expansion into the Kazakhstani market is advised to conduct a comprehensive market analysis of a selected sector, as well as due diligence of a potential partner, and to consider all pros and cons of such entry. U.S. companies are urged to contact U.S. Commercial Service and BISNIS office for further advice and information.

*For the full text of this report, visit BISNIS online at <http://bisnis.doc.gov/bisnis/isa/isa-consult.cfm>.*

*Svetlana Voronina is the BISNIS representative in Astana, Kazakhstan.*

## Central Asia: Trade & Export Finance Forum

April 18–19, 2005  
Almaty, Kazakhstan

Organizer: **Exporta Publishing & Events Ltd.**

Web site: [www.exportagroup.com](http://www.exportagroup.com)

## Kazakh Consulting Resources

**[www.basp.biz](http://www.basp.biz)**

Official site of Business Advisory Services Program (BASP) Central Asia contains detailed information on the program and a directory of consulting companies.

**[www.consultexpo.iteca.kz](http://www.consultexpo.iteca.kz)**

Contains information on the consulting exhibition held in May 2004 in Almaty, with contact information of exhibitors and organizers, as well as press releases on the show and consulting industry in Kazakhstan.

**[www.amcham.kz](http://www.amcham.kz)**

American Chamber of Commerce in Kazakhstan is an active business organization currently representing 150 companies, including U.S., multinational, and local businesses in 30 industry sectors.

ENGINEERING SERVICES *continued from page 5*

study, budgeting, planning, vendor relations, financial arrangements, implementation, and start-up. Especially important to note is that local engineering firms usually don't offer services to organize equipment and service procurement process and set up financial arrangements. A widespread practice is that the project initiator has an equipment vendor already identified and wants the engineering company to draw up an approvable design and implementation plan. This practice limits access of local companies to modern technology and equipment at competitive prices. The practice of offering full engineering services with an option of procurement, construction management, and commissioning (EPCM and EPC) is not broadly adopted among local engineering companies.

Thirdly, many local engineering firms lack understanding of the crucial importance that investing in personnel and customer relations plays for the future of their businesses. This means that customers are not assured of the ongoing quality of service, while employees are not getting adequate training and reimbursement. Therefore, for foreign investors, as well as for domestic investors, a proven reliable name in the market will mean a lot. An established U.S. engineering firm entering the market will be able to quickly attract talented staff and solid orders.

*The full text of this report is available at BISNIS online at <http://bisnis.doc.gov/bisnis/isa/isa-constr.cfm>.*

*Igor Yegorov is the BISNIS Representative in Northwest Russia.*

# Technology Commercialization Developments

## BISNIS and USIC Team Up to Offer Promising Technology Leads

The BISNIS Search for Partners program announced in December 2004 new collaboration with the United States Industry Coalition (USIC) to present innovative technologies and high-tech products from Eurasia for consideration by U.S. industry.

Seven partnership opportunities in Russia and Ukraine, backed by USIC's rigorous selection process, and representing such industry sectors as aviation and aerospace, plastic materials and resin, electronics, computer software, medical equipment, pharmaceuticals, and transportation, are now available on the BISNIS web site at [www.bisnis.doc.gov/bisnis/search/partnew.cfm](http://www.bisnis.doc.gov/bisnis/search/partnew.cfm).

USIC ([www.usic.net](http://www.usic.net)) is a nonprofit association of U.S. companies that are involved in partnership projects with scientific institutes and companies from Russia and other Newly Independent States (NIS). USIC works to facilitate technology commercialization for the Initiatives for Proliferation Prevention (IPP) program of the U.S. Department of Energy's National Nuclear Security Administration. The IPP mission is to enhance U.S. national security by engaging NIS scientists, engineers and technicians currently or formerly involved with weapons of mass destruction in peaceful and sustainable commercial pursuits.

BISNIS publishes Search for Partners leads to help U.S. companies find partner and investment opportunities in the expanding markets of the former Soviet Union. BISNIS and USIC welcome your feedback on this new collaborative effort.

## United States and Russia to Form Innovation Council for High Technologies

At a signing ceremony on November 16 at the U.S. Department of Commerce, U.S. Under Secretary of Commerce for Technology Phillip Bond and Head of the Federal Agency for Science and Innovation in the Russian Ministry of Education and Science Sergey Mazurenko agreed on the terms of reference for the U.S.-Russia Innovation Council on High Technologies (ICHT).

The council's goals are two-fold: (1) to promote cooperation between the two countries in innovation, commercialization and high technologies, and (2) to promote interaction between U.S. and Russian government agencies, and the business and scientific communities in order to commercialize the results of scientific and technical activities, including those developed through government funding or sponsorship. The agreement on the terms of reference for the ICHT fulfills an objective specified in the Memorandum of Understanding (MOU) on Cooperation in Technology and Innovation signed in April 2004 by Commerce Secretary Donald Evans and the Minister of Education and Science Andrey Fursenko. The MOU was developed in response to a direct request by Presidents Bush and Putin to create a mechanism that promotes U.S.-Russian cooperation on high technology issues. The council will facilitate formation of U.S. and Russian science and technology (S&T) business partnerships, and stimulate dialogue on best practices in commercial S&T innovation and entrepreneurship.

The council will be composed of 20 representatives, each side selecting ten people from government agencies, the business and scientific communities. The next steps are to form the Innovation Council and plan the first meeting to take place in six months.

For more information, visit [www.technology.gov](http://www.technology.gov).

## NATO-STCU Workshop "From Science to Business"

**May 25–27, 2005**  
**Kiev, Ukraine**

Co-sponsors: **NATO and the  
Science and Technology Center  
in Ukraine (STCU)**

International Workshop on security and technology, and matchmaking effort, in four main technical areas:

- Bio- and medical technologies
- New materials
- Aerospace
- Power industries and renewable energy technologies.

Interested Western technology end-users (private firms, governmental bodies, educational institutions) are invited to participate in formal discussions with representatives of CIS scientific institutions.

Web site: [www.stcu.int](http://www.stcu.int)

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## BISNIS Closing Down by March 2006

Dear BISNIS clients,

After nearly 14 years of service, BISNIS will close down its operations in 10 countries and 10 Russian cities, effective March 31, 2006.

Created in 1992 under the FREEDOM Support Act (FSA), BISNIS has become over the years the primary resource center for U.S. companies exploring business opportunities in Russia and former Soviet republics, facilitating over \$4 billion of exports and investment.

The FSA was designed to help the countries of the former Soviet Union make the transition to market-based democracies. BISNIS has made an important contribution to that effort, and the business environment in many countries in Eurasia is markedly better than it was in 1992. In recognition of this progress, economic assistance programs in Eurasia are declining, with funding for some, including BISNIS, phasing out. No alternative

source of funding has been forthcoming by the time this statement went to print.

Although BISNIS will be gradually phasing out its operations, it will remain active through October 2005. BISNIS' hardworking staff will organize and speak at events both overseas and in the United States, distribute useful information and leads to help companies find business opportunities and partners, and make referrals to relevant U.S. government programs and other resources—in short, continue to play a unique role in fostering commercial relations between the United States and Eurasia.

BISNIS would like to thank all those who supported it through the years and wish you luck in your future endeavors.

**Please note:** *U.S. Commercial Service offices in Russia, Ukraine, and Kazakhstan—as well as in Washington, D.C., and throughout the United States—remain available to assist U.S. exporters interested in the region.*