

Enterprise Funds in Central and Eastern Europe and Central Asia 1990 - 2007

The U.S. Foreign Aid Program for Central and Eastern Europe and Central Asia Unleashed the Power and Experience of the American Private Sector, which Keeps On Giving, Long After the Grant is Gone

The 1980s were a time of great change and opportunity in Central and Eastern Europe and Central Asia, as people in those countries began to aspire to new forms of governmental and economic freedom. In June 1989, at the Parliaments in Warsaw and Budapest, U.S. President George H. W. Bush pledged that the U.S. would help them make the transition to democratic, free market economies and announced the creation of Enterprise Funds. Subsequently, the United States Congress passed the Support for Eastern European Democracy (SEED) Act later that year and the Freedom Support Act (FSA) in 1992. In total, Congress authorized \$1.2 billion to finance ten Enterprise Funds in Central and Eastern Europe and Central Asia, covering 18 countries with a total population of 364 million people. Today the aggregate capital is fully intact with, in fact, a gain of some \$200 million.

The concept of the Enterprise Funds (EF) was to place U.S. Government funding under the management of qualified and independent boards of directors selected from the private sector. The goal was to encourage the private sector and free market development through loans and investments.

Enterprise Funds invested in small and medium-sized enterprises, supported critical sectors, such as finance, telecom and construction, and provided technical assistance. This delegation of public funds to qualified private citizens (public-private partnership) effectively supported private sector development through a combination of investment and development activities, a dual approach that has proven very successful.

Enterprise Funds developed pioneering know how that can be applied and adapted in other countries, a method through which the original funds produced new capital that continues to build in the host countries today.

The courage and wisdom of those Congressional leaders who allowed public funds to be managed by private sector professionals without political interference has been vindicated. Indeed, the Enterprise Funds idea is a model for future public economic assistance; it has been tested and found to be practical and sound, ensuring the best possible value for both the American taxpayer and the recipient countries. The countries which have benefited from EF programs now have not only a thriving economy but also thousands of new business entrepreneurs who are keen to emulate the best business practices.

Remarkably, more than 15 years later, the U.S. taxpayers' investment is still at work in those countries; the net assets of the Funds exceeding the initial level of funding. This is a first in the history of U.S. foreign assistance. It truly has been a win-win story for all involved.

Launching risk-filled investment and loan programs in countries with scant legal infrastructure or experience in private enterprise provided significant challenges. However, the adaptability of the Enterprise Fund model has allowed each Fund to adjust its investment decisions to local market conditions.

The Enterprise Funds
Exchange of Experiences
www.seedact.com

ENTERPRISE FUNDS (EFs) ACHIEVEMENTS – KEY FACTS

USG Authorized Funding of Enterprise Funds

Fund (in order of establishment)	Year	Country	Capital (\$ in millions)
Polish-American Enterprise Fund (PAEF)	1990	Poland	255
Hungarian-American Enterprise Fund (HAEF)	1990	Hungary	73
Czech and Slovak-American Enterprise Fund (CAEF, SAEF)	1991	Czech Republic, Slovakia	65
Bulgarian-American Enterprise Fund (BAEF)	1991	Bulgaria	58
Baltic-American Enterprise Fund (BaAEF)	1994	Latvia, Estonia, Lithuania	50
Romanian-American Enterprise Fund (RAEF)	1994	Romania	61
Central Asian-American Enterprise Fund (CAAEF)	1994	Kazakhstan, Turkmenistan, Tajikistan, Uzbekistan, Kyrgyzstan	106
Western New Independent States Enterprise Fund (WNISEF)	1994	Ukraine, Moldova	150
The U.S. Russia Investment Fund (TUSRIF)	1995	Russia	329
Albanian-American Enterprise Fund (AAEF)	1995	Albania	30
Total			1,177

Investments

EFs have invested and reinvested some \$1.5 billion in more than 500 small and medium enterprises in host countries. EFs invested in developed as well as green field companies and they actively participated in the privatization of formerly state-owned companies. Every dollar

invested in SMEs by EFs attracted an additional two dollars from local and foreign investors for new technologies and development capital. Thanks to the EFs, new employment opportunities for more than 250,000 people were generated in the private sector of the host countries, at a cost of no American jobs.

Enterprise Funds - Financial Year 2006

Fund	Capital Received (Net of Technical Assistance)	Distribution			Total NA	Total NA/ Capital Received
		U.S. Government	Legacy	Current Net Assets		
PAEF (Poland)	243	120	216	22	358	147%
HAEF (Hungary)	63	5	5	22	32	51%
SAEF (Czech/Slovak)	58			11	11	19%
BAEF (Bulgaria)	54			232	232	430%
BaAEF (Baltics)	50			45	45	90%
RAEF (Romania)	58			118	118	203%
AAEF (Albania)	22			171	171	777%
Europe	548	125	221	621	967	176%
WNISEF (Ukraine/Moldova)	137			104	104	76%
CAAEF (Central Asia)	105			15	15	14%
TUSRIF (Russia)	307			297	297	97%
NIS (Europe/Asia)	549	-	-	416	416	76%
Total	1,097	125	221	1,037	1,383	126%

Loan Programs

At the beginning of the transition to a market economy, EFs provided the largest and most attractive lending programs for a new generation of private entrepreneurs. Some EFs created their own financial institutions in addition to cooperating with local banks, increasing their capital capacity and training their staffs. One Fund established the largest-in-the-region micro lending program: Mikro Fund (PAEF). Funds tailored their lending programs to local needs, creating special programs such as: Loans for Small Hotels (Bulgaria) and the Asian Crossroads Loan Company (CAAEF). The Enterprise Funds were one of the principal providers of small credit to medium-sized businesses in host countries, disbursing almost \$1 billion through their loan programs. Through loans, EFs have backed around 100,000 companies representing all sectors of SME activity.

Technical Assistance

Over \$70 million of technical assistance has been provided by Enterprise Funds to strengthen the private sector. In cooperation with other USAID programs, EFs provided technical assistance to companies, helping them conduct business and financial planning, updating financial reporting methods and providing business training. The U.S.-Russia Center for Entrepreneurship (TUSRIF), The Educational Enterprise Foundation (PAEF) and the Business Plan Contest (SAEF and RAEF) are three of the lasting technical assistance initiatives of EFs.

Support for Local Managers

The vast majority of companies supported by the EFs are managed by talented local people. EFs provided valuable know-how and business experience: Western-trained professionals, bankers, accountants, lawyers and young entrepreneurs became a reservoir of intellectual capital and experience that was leveraged across the Funds' investments. Local managers adapted tested U.S. business practices with westerners serving as their tutors and partners. Many of the EF's partners continue to play important roles in the economies of host countries.

Financial Institutions

Some 30 financial institutions have been established and financed by EFs. A wealth of new jobs has been created through their financing of private businesses. Available loan performance data confirm a lower than average delinquency rate compared to other financial institutions in the host countries. This success was due to EFs working hand in hand with their local partners.

Leading banks and financial institutions that were created or financed by EFs: Bulgarian-American Credit Bank (BAEF); American Bank of Albania and SIGAL Insurance Company (AAEF); DeltaBank, DeltaCredit Bank, DeltaLeasing (TURSRIF); ProCredit, Procredit Moldova, Moldova Agroindbank (WNISEF); First Polish-American Bank and Lukas – Consumer Finance (PAEF), Motoractive – Leasing, Certinvest – Mutual Fund and Estima - Consumer Finance (RAEF).

Lasting, Replicable Patterns

The Enterprise Funds have established models of how to foster business activity in host countries: (1) loans based on sustainable operations (cash flow), (2) creation of private equity funds, (3) new financial instruments such as credit cards, pension funds, mezzanine financing, consumer leasing, (4) new methods of privatization and (5) development of a capital market. These have made host country markets more accessible and attractive to foreign investors.

Mortgages

EFs are leaders in the development of pioneering mortgage legislation and institutions in several of the host countries. Tens of thousands of families have been able to improve their housing conditions thanks to mortgage credit programs initiated by the Enterprise Funds. Today, the mortgage credit market, which did not exist before, represents one of the region's best-developed banking sectors. This is in large measure a result of the Funds' pioneering efforts; mortgage loan production by the financial institutions created by the EFs in FY 2006 alone was more than \$1 billion. EFs created leading mortgage finance institutions through the Baltic-American Mortgage Holdings (BalAEF), International Mortgage Bank (WNISEF), Polish-American Mortgage Bank (PAEF), and Domenia Credit Mortgage (RAEF).

Attracting Foreign Investors to Host Countries

EFs helped foreign investors overcome barriers to entry in the economies of the host countries. EFs' investments and successful exits from companies have proven that host countries can be profitable places for foreign investors seeking competitive returns. International investors, both financial and strategic, have been attracted by the EFs and have brought with them not just capital but also new technologies. Major foreign investors from the U.S. include: Euronet Worldwide, Dryvit, GE Capital Corporation, GM Acceptance Corporation, OPIC, Nynex, Owens Illinois, RR Donnelley, Whirlpool Corporation, Lead-

er Gasket, and European and multilateral companies and institutions: IFC, EBRD, Hochtief, DEG, FMO, Societe Generale Bank and others.

Partnerships for Success

The EFs owe their success to the hard work of their volunteer Board Members, Managers and Employees, as well as the support and professionalism of the numerous partners in host countries. EFs' Boards of Directors maintained positive working relationships with USAID and U.S. Embassies; a model of cooperation worth considering in the long-term strategy of American foreign aid.

Host Countries in the European Union

In 2007, 50% of EFs' host countries became members of the EU. Their further development will be financed largely by European Union funds. EF efforts certainly contributed to their ability to achieve EU membership.

The Mission is Continuing

An important product of the EF program has been the creation of Legacy Institutions.

Business Legacy Institutions

The Enterprise Funds proved remarkably effective in creating management companies and private equity funds that obtained more than \$2 billion for the economies of the region: MAVA (HAEF),

Hanseatic Capital (BalAEF), Delta Private Equity Partners (TUSRIF), Balkan Accession Fund (RAEF with BAEF support), Horizon Capital (WNISEF), and Enterprise Investors (PAEF), which is the largest private equity fund manager in Central and Eastern Europe.

Charitable Legacy Institutions

EFs have set up non-profit institutions as their legacy in host countries: Hungarian-American Enterprise Scholarship Fund, Polish-American Freedom Foundation, U.S. Russia Foundation for Economic Advancement and Rule of Law, U.S. Central Asia Education Foundation and America for Bulgaria Foundation. Using capital gained from the sale of the investments the EFs - through their legacies - continue activities that support and develop entrepreneurship, shape civil society and promote education. Additional EF Legacy Institutions are in various stages of planning and will be launched in the near future.

Original U.S. Government Grant Recouped

An extraordinary achievement of the Enterprise Funds is that their Cumulative Net Assets exceed the original level of funding from the U.S. Government. This is a 'first' in the history of American foreign assistance programs.

Enterprise Fund's Business Legacy Institutions (private equity funds)

Year	Company	Capital attracted from private sources (\$ in millions)
1992	Enterprise Investors (www.ei.com.pl)	1,721
1997	MAVA (www.mava.hu)	50
2003	Hanseatic Capital (www.hanseaticcapital.net)	37
2004	Delta Private Equity Partners (www.dpep.com)	120
2005	Balkan Accession Fund (www.bafund.net)	150
2006	Emerging Europe Growth Fund (www.horizancapital.com.ua)	132
Total		2,210

Enterprise Fund's Charitable Legacy Institutions (foundations)

Year	Name	Capital received from EF (\$ in millions)
1999	Polish-American Freedom Foundation (www.pafw.pl)	216
2003	Hungarian-American Enterprise Scholarship Fund (www.haesf.org)	5
2007	U.S. Russia Foundation for Economic Advancement and Rule of Law	TBD
2007	U.S. - Central Asia Education Foundation	15
2007	America for Bulgaria Foundation	TBD
Total		236