



Conference White Paper

**Building Entrepreneurial Economies:
Lessons from the Enterprise Funds' Experience
in Central and Eastern Europe and
Central Asia 1990–2007**

Sponsored by the Woodrow Wilson International Center for Scholars
and the Ewing Marion Kauffman Foundation

Prepared by the Beyster Institute at the Rady School of Management
University of California, San Diego

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Table of Contents

Historical Background	1
Creation of the Enterprise Funds	1
Enterprise Funds: Doing Well	4
Western NIS Enterprise Fund	4
The U.S.-Russia Investment Fund	5
Slovak-American Enterprise Fund	6
Romanian-American Enterprise Fund	7
Enterprise Funds: Doing Good	8
The U.S.-Russia Investment Fund	8
Polish-American Enterprise Fund	9
Albanian-American Enterprise Fund	9
Central Asian-American Enterprise Fund	11
Enterprise Fund Experience: Broader Legacies and Future Applications	11
Baltic-American Enterprise Fund	12
Romanian-American Enterprise Fund	13
Albanian-American Enterprise Fund	13
Delta Private Equity Partners, LLC (Russia)	13
Western NIS Enterprise Fund	14
Conclusion	15
Acknowledgements	16
Background: Enterprise Funds in Central and Eastern Europe and Central Asia 1990–2007	17
Featured Speaker Remarks	23

■ Historical Background

Enterprise Funds have been operating since 1990 and were established by the U.S. Congress in response to the dissolution of the Soviet Union and the thawing of the Cold War. In Poland, labor unrest in the late 1970s led to the formation of the independent trade union Solidarity in 1980, with Lech Walesa at the helm. As the first non-communist trade union in a communist country, Solidarity precipitated a seismic shift in power within the Eastern Bloc countries. After years of government attempts to shut it down, Solidarity prevailed in Polish national elections in August 1989 and became the lead member of a new coalition government.

As Solidarity was taking power in Poland, other changes were brewing in the Eastern Bloc. In August 1989, Hungary dropped travel restrictions along its border with Austria, unleashing a torrent of 13,000 East German freedom seekers to the West. In September, anti-government protests broke out in East Germany, and on November 9, 1989, the Berlin Wall fell. During the spring of 1990, the Baltic states of Lithuania and Latvia declared independence from the USSR, followed by Estonia in August 1991.

Against this backdrop of political unrest and change within the Soviet satellite nations, momentous changes were also afoot within the Soviet Union itself. Beginning in the late 1980s, a number of Soviet republics began to increase their independence from the Soviet central government. After a new law was passed allowing individual republics to secede from the USSR upon a two-thirds majority vote of the populace, many of the republics elected to do just that. In June 1991, Boris Yeltsin was elected the first President of the Russian Federation and—after a failed coup attempt against Soviet President Mikhail Gorbachev by communist hardliners and the subsequent erosion of Soviet central government power to a resurgent Russian state—the USSR was officially dissolved in December 1991, and the Cold War ended.

■ Creation of the Enterprise Funds

All of this rapid and unprecedented change in the geopolitical environment offered the Western democracies a unique opportunity to lend a helping hand to the new democracies emerging from decades of Soviet oppression and economic decay. There was a significant economic vacuum in these newly independent countries, but they had neither the expertise nor the capital to fill it. In a 1989 speech to the Polish Parliament, U.S. President George H. W. Bush announced the creation of a new American foreign policy program that would seek to address these needs. The goal of this program was to help these emerging governments make the transition from command to free-market economies. Congress put this promise into action by including the enterprise fund

concept in the Support for Eastern European Democracy Act (SEED Act) and, later, the Freedom Support Act. This legislation later allowed \$1.2 billion to finance the creation of ten funds in eighteen countries in Central and Eastern Europe and Central Asia.

The Honorable Daniel Fried, Assistant Secretary of State for the Bureau of European and Eurasian Affairs, noted that the idea for the Funds was an outgrowth of discussions about radical new opportunities for U.S. development assistance in the former Soviet bloc. As Fried recalls, “It was Condoleezza Rice who raised the question with me and

...the idea for the Funds was an outgrowth of discussions about radical new opportunities

John Cloud, now U.S. Ambassador to Lithuania. She said ‘What if we had \$100 million for the Poles, what would you do? How do you take advantage of this?’ John and I brainstormed the idea of a fund roughly based on the one that had been established in Northern Ireland. The concept was to provide a wide charter, but without the standard development bureaucracy. Give it to people who know about free markets—nobody in government. Give it an independent board. Give it a charter. And get out of its way.” President George H.W. Bush

announced the new program initiative in a speech in Poland. “Congress ultimately thought \$100 million was awfully paltry,” noted Fried, “and raised it to \$240 million, and that’s how the concept was born.”

The Enterprise Funds Conference, “Building Entrepreneurial Economies: Lessons from the Enterprise Funds’ Experience in Central and Eastern Europe and Central Asia 1990-2007”—held on May 24, 2007 at the Woodrow Wilson International Center for Scholars in Washington D.C.—gave presenters and attendees alike an opportunity to assess what has worked and what has not in the Enterprise Fund program, what remains undone, and what lessons can be drawn from this experience for economic development and U.S. foreign assistance in the future.

In his remarks opening the conference, Senator Richard G. Lugar summed up the idea behind enterprise funds: “The Enterprise Fund concept is simple: U.S. Government funding placed under the management of a qualified and independent board of directors with experience in investments, banking, and economics. The goal was to take the unique combination of public funding and private skill and encourage free market development through the provision of loans and equity investments.”

Not only was the idea behind enterprise funds simple, it worked. According to the Honorable Lee H. Hamilton, former U.S. Congressman and President and Director of the Woodrow Wilson International Center for Scholars, “The Enterprise Funds have made remarkable progress over

a period now of nearly two decades, providing vital assistance and, of course, seed money in an area covering 18 countries and 346 million people.” During this period of time, more than \$1.5 billion has been invested in more than 500 companies, and loans have been provided by the Funds to more than 100,000 companies—creating more than 250,000 jobs. In addition, the Funds have provided more than \$70 million in technical assistance to entrepreneurs and businesses and have founded and financed 30 banks and other lending institutions. To date, more than \$1 billion in mortgage loans have been made by Fund-created lenders. In addition to this direct financial impact, every dollar invested by the Funds has attracted an additional two dollars from other investors.

The focus of enterprise fund investing was small and medium-sized businesses, with support to key enterprise infrastructure sectors such as telecommunications, construction, and finance. The Funds also provided technical assistance to entrepreneurs, professionals, managers, and prospective businesspeople. In addition to their direct funding activities, the Enterprise Funds attracted and facilitated capital flows from a variety of U.S.-

based companies, including GE, Whirlpool, RR Donnelley, Owens Illinois, and Nynex, as well as European and global companies and financial institutions such as IFC, Société Générale, and DEG, among others.

The Enterprise Funds are unique in being perhaps the only foreign assistance program in which current net assets exceed the initial level of funding. Today, the combined net assets of the Enterprise Funds show a gain of more than \$200 million over the initial investment capital received from the U.S. government. The lessons learned by the Enterprise Funds over more than a decade of experience are many, including:

- Show a favorable return on investment and meet the expectations of commercial investors.
- Have patience — the Funds should not be pressured to produce fast returns.
- Consider measures of success other than return on investment, such as companies and jobs created, investment professionals trained, women employed, and so forth.
- Deploy technical assistance and training funds strategically to secure transparency and best business practices.
- Engage highly talented people, especially board members and staff, and entrepreneurs.

The goal was to take the unique combination of public funding and private skill and encourage free market development...

- Have a board and staff with the skill and vision to define the goals and legacy in a way that is rich and kaleidoscopic in its inter-relationships.
- Understand the role that boards can play in keeping the public engaged in the efforts and successes of the Funds.
- Have a broad and robust statute and set of policies.
- Focus on principles and goals, not organizational structures.
- Understand that the Funds are all different: they face different conditions and different issues, and will arrive at different solutions.

...the Funds' progress often required creating new ways of doing business and building financial infrastructure where there was none.

- Make continued and persistent efforts to enforce the rule of law and the rights that are key to developing a healthy business environment.
- Leverage the Funds' legitimacy to make important contributions to public policy.
- Don't be timid about making money as public-private organizations.

■ Enterprise Funds: Doing Well

The Enterprise Funds have done well in the past, they are doing well today, and the prospects are bright for the success of their legacy organizations. Success was not immediate however—the Funds' progress often required creating new ways of doing business and building financial infrastructure where there was none. While the legislation that led to the creation of the Enterprise Funds provided uniform guidelines, the Funds soon found out that they would need to adapt these guidelines to their own particular circumstances.

Western NIS Enterprise Fund

Profitable, stable firms are vital for the countries in which they do business. When firms do well financially, they create jobs and pay taxes—helping to create and expand their country's infrastructure while setting a good example for other firms to follow. The Western NIS Enterprise Fund works in two countries—Ukraine and Moldova—where it has demonstrated how to operate effectively in a market fashion while meeting investor expectations.

One notable success for the Western NIS Enterprise Fund is SBK, a brick manufacturer in Ukraine. In 1995, Ukraine had been in an economic freefall for some 20 years, and the country had little market experience. When the Western NIS Enterprise Fund began its search

for enterprises and entrepreneurs to back, it looked at what segments of the economy would be growing more quickly than the others and saw that people were spending what little consumer disposable income they had on improving their lifestyles and improving their living quarters. Ukraine is a country rich in natural resources, including clay, so brick manufacture became one of the first business opportunities considered.

Over a few years, the Fund invested more than \$5 million in SBK. The company was located in a town without a single functioning enterprise, so it became the primary source of jobs in the city. An independent economic institute measured the economic impact of the Fund's initial investment of \$5 million in SBK and determined that the company, as of 2002, had created a \$30 million additional effect within the Ukraine economy. In 2002, SBK was sold for a 250% return to the Enterprise Fund.

SBK also became a stalwart against corruption and other improprieties that were typical in the Ukraine economy a decade ago. Says Fund president and CEO Natalie Jaresko, "The reputation of the Fund to bring this type of value added to SBK has helped the Fund attract other management teams who also wish to be involved in a successful entrepreneurial experience."

The U.S.-Russia Investment Fund

By most every financial measure, The U.S.-Russia Investment Fund (TUSRIF) has met or exceeded its goals. In 2003, the Fund's portfolio consisted of 26 companies with a cost basis of about \$145 million. During the period 2004-2007, TUSRIF sold 19 of those companies and invested additionally in the Delta Russia Fund, L.P., a partially-private successor fund raised by the management company, Delta Private Equity Partners (DPEP). The combined gross proceeds from these investments over this three-year period were \$320 million. The Delta Russia Fund has since liquidated six of its portfolio companies, with a cost basis of \$50 million, to yield a total of \$146 million, including \$53 million in proceeds to TUSRIF.

TUSRIF's total gross proceeds from inception in 1995 through mid-2007 were \$407.2 million compared to the \$328.9 million government grant. Because a portion of the proceeds were recycled programmatically, a total of \$793.9 million was put to work in the Russian economy.

The success of TUSRIF can be traced to four key factors: strategy, people, timing, and leadership. As the organization matured, TUSRIF focused

The Fund originated home mortgage financing in Russia, demonstrating in the process that Russians will repay their loans.

its strategy in four particular areas: financial institutions, consumer products, media and technology. The Fund originated home mortgage financing in Russia, demonstrating in the process that Russians will repay their loans. DeltaBank, a TUSRIF portfolio company, initiated consumer credit, becoming the largest issuer of Visa cards in Russia. DeltaLeasing similarly led in equipment leasing finance and in both broadcast and cable television. TUSRIF invested, also with great success, in information technology for businesses. The Fund has specifically avoided investing in natural resources, petroleum, minerals, timber, and in privatizations of state-owned enterprises, and has stayed away from investments in risky inventions and technologies, real estate, and agriculture.

Chairman Steven Pease attributes much of TUSRIF's success to the quality of its people, including the organization's professional staff, its board, and the entrepreneurs it supported. Pease also cites return on investment as an important measure of success. "When I joined the board, we weren't sure we were going to be able to yield a positive return. We had \$329 million and, when the smoke clears, we'll probably have an impact of well over a billion dollars in Russia. That's a fairly impressive number, along with the fact that we've encouraged so many entrepreneurs, thousands of jobs, and products and services that didn't really exist in that culture before."

Slovak-American Enterprise Fund

The Slovak-American Enterprise Fund began in 1991 as the Czech and Slovak-American Enterprise Fund with a grant of \$65 million. The Czech portfolio was sold at a substantial loss in 1996, and the organization was reconstituted as the Slovak-American Enterprise Fund. The board was strengthened, a new CEO was hired, local management was reorganized, and the Fund started life anew with about \$26 million in funds available for investment. The Fund and its portfolio began to grow substantially in 1998, and it has had a number of successes since, including software company Profesia.

When the Fund first encountered Profesia, the company was losing money and had no hard assets. The Fund agreed to invest \$300,000 in exchange for a two-thirds interest in the company. Profesia grew dramatically over a five-year period, and was sold to a third party for about \$4.5 million, more than a ten-fold increase over the original investment. Although the liquidation value of the Fund's overall portfolio is not as high as the initial investment, those running the Fund expect this situation to improve in the coming year or two.

The Fund did a number of things right as it built its position in Profesia. It provided hands-on management expertise from its experience with other investments; set up accounting protocols and regular

reporting procedures; guaranteed adequate capital during a two-year startup period; and left management with a major stake in the business—providing significant motivation for success.

Profesia received a Deloitte and Touche Rising Star Award for the fastest-growing technology company in Slovakia, greatly enhancing the image of the Fund for creative, high-risk but successful venture investing.

Regarding how to best measure success, Richard Yancey, Vice Chairman of the Fund's board of directors, places return on investment at the top of the list, but also believes that other measures are important. Says Yancey, "Return on investment is important, but so is training staff and bringing the people in the country—the young people, and particularly the students—to consider entrepreneurial activities as an approach to succeeding." To this end, the Fund set up a program that provides an incentive for students to come up with ideas for entrepreneurial investments. Once a year students present their investment ideas to a panel of prominent Slovak professionals. The panel reviews the presentations and awards the winner \$10,000—a good deal of money in Slovakia. According to Yancey, "Spreading the entrepreneurial concept through that medium has been very important to Slovakia and to the Fund."

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Romanian-American Enterprise Fund

The actions that made the Romanian-American Enterprise Fund successful were no different from the things that would make any business successful in the West. The Fund looked at unfilled needs and chose its investments accordingly. According to John Klipper, CEO and board member of the Romanian-American Enterprise Fund, "Our most successful story started with a little company in which we invested \$300,000 in 1995 and more a bit later. It was a consumer finance company that financed anything people wanted to buy—a fax, mattresses, anything." Consumer financing was clearly a need that was not filled by the banks or other existing institutions in Romania at that time. The company grew and grew until it was sold last year for approximately \$61 million to GE. A couple of years later, other consumer finance companies came along, but being first to market gave the Fund a major advantage against the competition.

One of the reasons the Romanian-American Enterprise Fund succeeded was that the board didn't put pressure on staff to produce fast returns. The Romanian economy—like the economies of most other

countries in which Enterprise Funds work—goes through periodic cycles. Romania’s economic contraction from 1997 to 2000 required patience—pulling the investments then would have meant losing out on the opportunities for growth that occurred later.

■ Enterprise Funds: Doing Good

The Enterprise Funds are not just doing well—creating financial returns in excess of their initial investments—but they are doing good within their host countries. For many of these countries—with economies that stagnated during their years under Soviet domination—the impact of new opportunities brought about by entrepreneurial activity has been widespread and liberating.

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The U.S.-Russia Investment Fund

According to Jenne Britell, a board member of The U.S.-Russia Investment Fund, Enterprise Funds have an impact that goes far beyond the dollars-and-cents return on investment. Says Britell, “The Fund really becomes a champion, if you will, of Western and American values. I think that has been shown clearly in terms of its staff and the culture and our professional organizations. Ordinary

Russians, after years of skepticism—and that was true of this entire part of the world—now believe in the stock market, and they themselves are buying shares in Russian companies. Again, the culture has changed and people believe in the future, the growth of independent businesses, and the improvement in many ways of the banking sector despite the political environment. I think this is partly due to what’s been done through the Enterprise Fund and the companies that it invests in.”

TUSRIF demonstrated to the Russian people that equity investments could be made and protected. In addition, the Enterprise Fund has trained young Russian leaders—not only those who are part of the Fund themselves and who learn how to invest, but also people who learn how to run and manage companies. The TUSRIF-funded U.S. Russia Center for Entrepreneurship, established in 2002, has demonstrated that people can learn the skills they need to be successful entrepreneurs. TUSRIF has created businesses with tremendous value added not just because they are profitable platforms, but because they are transparent, with internal financial controls, and good leadership and governance. Says Britell, “GE cannot afford to buy companies that will lead to their being splashed on the front page of *The Wall Street Journal* or *The Financial Times* because of scandals. I have had people tell me that when they

buy a company run by an Enterprise Fund, they know they don't have to worry about that."

Polish-American Enterprise Fund

For Douglas Ades, Senior Advisor to the PAEF and a founding director of the Polish-American Microfund, which the PAEF created, the impact that enterprise funds are having on ethics and corporate social responsibility is an important outcome of the program. In one example, the Polish-American Enterprise Fund had a substantial financial interest in a stone quarry located adjacent to a former Nazi prison camp. Says Ades, "In 1994, Zbigniew Brzezinski, who's on the board of the Polish fund, received a letter from a former inmate at Gross-Rosen Nazi prison camp, which said, 'I went there to visit this place where I was incarcerated and the granite quarry where I was forced to work, and I hear the trucks and I hear the dynamite and all this noise and it's the place where I had to work—it's right next to the prison camp. You own the majority share and you should shut it down.' That letter went from Brzezinski to John Birkelund, then to Bob Faris. Bob said to me, 'Go take a look and see what we should do.'"

...the impact that enterprise funds are having on ethics and corporate social responsibility is an important outcome of the program.

Ades visited Gross-Rosen. It was clear to him that this should be a place of remembrance and not a place of business. Bob Faris went to several Polish employees in the organization who had been responsible for the original investment in the quarry. They objected to closing down operations, pointing out that the business showed potential financial returns. The Fund's Board, however, supported the idea of closing down the stone quarry, and the Polish employees began to understand that this would be the right thing to do. The Fund eventually shut down the business and then sold its interest some years later. The Fund set aside \$160,000 from the sale to create the Gross-Rosen Foundation, which ultimately—after eight years of working with various government agencies—made the quarry a part of the Gross-Rosen Museum in Rogoźnica, Poland. While this transaction was a financial loss to the Fund, it was an excellent demonstration of the best of American corporate social policy and ethics.

Additionally, he noted that PAEF had established the largest micro loan program in the region, helping some 46,000 micro entrepreneurs grow their businesses with more than 100,000 loans totaling nearly \$300,000,000. Fundusz Micro continues to operate on a profit-making basis and is now able to access capital from the financial marketplace.

Albanian-American Enterprise Fund

The Albanian-American Enterprise Fund began its activities in 1996 and launched a major initiative in financial services in 1998. In 1998, Albania's economy had been decimated by pyramid schemes and political instability. The U.S. Embassy was working with a skeleton staff and there were tanks in the streets because of unrest resulting from the murder of an official of one of the major political parties. The Albanian banking system consisted of a couple of State-owned banks and a handful of outposts of Greek and Italian banks. The loan portfolio for the entire

The efforts of the Albanian-American Enterprise Fund reverberated throughout the Albanian economy...

country was about \$100 million—home mortgages and consumer loans were unknown; there was no check clearance capability; and there was only one insurance company, a State-owned company which provided compulsory auto insurance and property insurance.

According to Michael D. Granoff, Chairman of the Albanian-American Enterprise Fund, the organization was faced with a challenging situation—but one that could be successfully addressed by the Fund. Says Granoff, “We decided that financial services was an area where certainly there was a great need by individuals and for the economy in general, but also an area where you could make significant public policy and institution building kind of progress.”

Early on, the Fund identified a critical need for a Western bank. Within two-and-a-half years, the Fund started the American Bank of Albania. Today, the American Bank of Albania has a portfolio of about \$286 million in loans, versus \$100 million for the entire country in 1996. The Bank introduced a number of financial innovations to Albanians, including 10-year mortgages, syndicated loans, and infrastructure loans to the government. The Bank has the lowest rate of loan losses of any financial institution in Albania, having written off only \$496,000 since 1998. In June 2007, the Fund sold 80% of its shares in the Albanian American Bank to the Italian banking group, Sanpaolo IMI. The profit realized from the liquidation of these shares contributed significantly to the Fund's impressive 7.5 times return on initial investment capital.

The efforts of the Albanian-American Enterprise Fund reverberated throughout the Albanian economy, and its impacts were felt by many of the country's citizens—helping to move Albania out of the gray market and into a modern, formal banking system. Things like setting up customs clearance online not only benefited importers, but also benefited the government by providing reduced opportunities for

corruption and increasing revenues from custom duties. This led to programs where people could pay their taxes and utilities through the bank and programs where government ministries could also pay their salaries through the bank. For many people, this was the first time they ever had a bank account.

The Fund worked with the Albanian government to improve the central registry office for land ownership, helped to make check clearance a reality, defined the privacy expectations of customers, and established due process for government requests for customer information. The Fund's anti-money laundering manual became the policy of the government that every bank had to adopt. Today, a number of international banks have come into the Albanian market. There are ATMs on most street corners, and much of the country looks like what one would find in any other place in Europe or in the United States—a far cry from when the Fund was founded in 1996.

Central Asian-American Enterprise Fund

Enterprise Funds have demonstrated the importance of contract rights and obligations in business dealings, and helped countries strengthen their court systems and establish the rule of law. Fund Chairman Margaret M. Grieve recalled an illustrative case involving the Kazakhstan-based Almaty Commercial Bank (ACB). The Fund and Almaty Commercial Bank (ACB) had entered into a letter of intent that contained two key conditions. The bank wasn't able to meet either of the conditions, so the investment was shelved.

The Central Asian-American Fund was sued by ACB for \$2.9 million for the profit lost from the Fund's decision not to invest in the bank. The bank managed to proceed in the Almaty Civil Court, which Grieve describes as “a cross between traffic and housing court.” The Fund went to court and challenged the jurisdiction of the court to hear the \$2.9 million ACB claim. The court ruled against the Fund, but that did not deter its leadership team. The Fund continued to pursue its rights, arguing not on the merits of the case—because the Fund was confident that those would be won in an impartial hearing—but rather on the importance of the rule of law and independent judiciary.

The Fund appealed to the Supreme Court of Kazakhstan, and the local decision was overturned, which allowed the Fund to move forward and successfully conduct its business. The Fund's continued and persistent efforts to enforce rights that are key to developing a healthy business environment were critical to helping Kazakhstan's economy to flourish over the long term—an important and lasting legacy of its work in the country.

■ Enterprise Fund Experience: Broader Legacies and Future Applications

While bringing private enterprise experience to the emerging economies of Central and Eastern Europe and Central Asia has had a significant and positive impact, of perhaps equal importance are the broader legacies and future applications of the Enterprise Fund concept. To this end, conference panelists were asked to identify lessons of the Enterprise Funds and how these lessons could be used in future assistance programs, as well as preconditions for success.

Baltic-American Enterprise Fund

According to Rozanne Ridgway, Chairman of the Baltic-American Enterprise Fund, the private sector in the United States has a great deal to contribute to advancing the cause of global development—in personnel, methodology, and experience.

The Fund's leadership decided that its task was to secure the change in democracy and market economy that was taking place in these countries.

Ridgway stressed a key advantage of the implementing legislation for the Funds was that it made them responsible and accountable for the investments they made, but freed them from the day-to-day burdens that most civil servants had when accounting for the expenditure of public funds. Though each Fund is different, the founding legislation is the same for all the Funds and over the course of 15 years, each Fund has been tailored to fit the unique circumstances of the host country. Enterprise Fund boards also play a key role both in managing the Funds and as a tie to the American public—keeping people engaged in what the Funds are doing.

Considering what legacy the Funds should leave in the countries where they operated, Ridgway noted that, “We asked, what, in fact, is our task?” The Fund’s leadership decided that its task was to secure the change in democracy and market economy that was taking place in these countries. Following Margaret Thatcher’s idea that a home-owning middle-class is the cornerstone of democracy, the Fund went into the business of mortgage lending. The result is \$300 million in mortgages in the Baltic countries. According to Ridgway, “Our legacy, I think, is shared by all of those who went into the mortgage business, which is to secure a stable, home-owning, middle-class population, which will help the countries survive the ups and downs in their futures.”

Romanian-American Enterprise Fund

John Klipper, member of the Board and CEO of the Romanian-American Enterprise Fund, points out a number of lessons learned from the experience of his Fund that may be of benefit to the establishment of new enterprise funds. "Don't avoid investing in greenfields, invite local dignitaries to serve on boards, and be patient" says Klipper. "Whether this example can be duplicated in other countries, my answer is not such a resounding yes. Certain aspects of the Enterprise Fund activities perhaps, such as micro loans, but you can't do private equity investments in areas that don't have companies that need it."

Albanian-American Enterprise Fund

Michael D. Granoff believes there are a number of lessons learned from the Enterprise Fund experience that can be of great benefit to new funds. Says Granoff, "While I am not sure that private equity or venture capital can work everywhere, I think private investment can. One of the things that we early on realized in Albania was that while we were looking for private equity returns from investments, that didn't mean that the structure we chose for the investment was necessarily an equity investment." In the Fund's experience, the structures used are not as important as defining the underlying principles and exactly what the Fund is trying to accomplish.

The Albanian-American Enterprise Fund worked because of its efforts to improve the private sector and the lives of people throughout the country. According to Granoff, "There's an important contribution to public policy that can be made because these Funds occupy a very interesting place in the public debate. People want to meet you and talk to you and listen to what you say because they know you don't have an ax to grind."

Fund leaders believe that the success of the Enterprise Funds is a result of having the:

- Right kind of structure.
- Right kind of board.
- Right kind of management.
- Support of local government to get things done and make sure you can run the business right.

Delta Private Equity Partners, LLC (Russia)

Patricia M. Cloherty, member of TUSRIF's board for over a decade and now Chairman and CEO of Delta Private Equity Partners, LLC (Russia), believes that the Enterprise Fund's implementing legislation is the business and financial equivalent of an art supply store for a painter. Says Cloherty, "I think what you need first is a broad and robust statute

and implementing policies. That's what interested me in doing this initially, because the SEED Act and Freedom Support Act together provide the tools. You have unstretched canvases. You have paints, brushes, turpentine, and rags. Then you have to figure it out—the end game is not defined. The language of the statute is really very interesting. It is 'open private markets using any combination of equity investments, loans, guarantees, technical assistance, insurance, and training.' That is a toolkit that is magnificent, and it can be turned into anything that is responsive in a particular geography."

The Enterprise Funds can spark fundamental and lasting change by embracing constructive capitalism.

According to Cloherty, Enterprise Fund success requires a board and a staff with the skill and the vision to define the goals and the legacy in a way that is rich in its inter-relationships. Not only that, but it requires a mind that is open to many different ways to create a lasting legacy in a country. Says Cloherty, "To me, the legacy of these Enterprise Funds could be a center for entrepreneurship alone. It could be microlending. Or it could be something completely different.

The Enterprise Fund legacy consists of many of the things that have been mentioned and much, much more. Creating 54 companies in Russia through an investment of \$500 million is only one of our legacies."

Finally, Cloherty suggests that public-private organizations engaged in economic development cannot be timid about making money. The Enterprise Funds can spark fundamental and lasting change by embracing constructive capitalism. "It's as simple as that. You have to understand and believe in your mission, clarify it, and make it as broad, rich and deep as you possibly can. Then have the skills and the courage of your convictions to carry it through. "

Western NIS Enterprise Fund

Dennis Johnson, Chairman of the Western NIS Enterprise Fund, believes there are three lessons that can be drawn from his Fund's experience. The first lesson is the importance of the board of directors in the ultimate success of the organization and its programs and initiatives. The second lesson is the contribution of public policy. Says Johnson, "I think almost all of us have had some role in the financial services sector in these countries, which has impacted their laws. In Ukraine, we started the Ukraine Mortgage Association, which ultimately led to the drafting of legislation in Ukraine to support individual home mortgages and everything that goes with that, including the need to

foreclose if necessary. All of that is part of public policy.”

The third lesson is the importance of the people who worked with the Fund, their skills, and the training that the Fund provided to them. Says Johnson, “I think in almost every one of our Board meetings, we talk about the number of local Ukrainians and Moldavians who have worked for us at one point in time and where they are today and what they are doing in terms of contributing to the business and economic environment in those countries, as well as the entrepreneurs we financed. They, too, have gone on. With the SBK example, we are now into multiple backings of the same entrepreneur. In fact, one of our Board members early on said the strategy we ought to use is to find a successful entrepreneur and keep backing him in all of his various ventures.”

■ Conclusion

The Enterprise Funds have fulfilled the goals that Congress set forth in the Support for Eastern European Democracy Act and the Freedom Support Act. The road has sometimes been bumpy, but patience and perseverance have brought success to the Funds and to the entrepreneurs and enterprises they have supported. The Funds have learned many lessons along the way, including:

- Show a favorable return on investment over time to ultimately meet the expectations of commercial investors.
- Recruit, reward, and retain talented people.
- Be patient.
- Promote transparency and the rule of law.
- Focus on principles and goals, not organizational structures.
- Achieve positive public policy changes through effort and example.
- Promote constructive capitalism by making money responsibly.

As for the future, the Enterprise Funds are moving forward with the creation of legacy institutions—business and charitable organizations designed to continue to promote the principles and values of freedom, democracy, and the rule of law, and to support and develop entrepreneurship, promote education, and help to shape civil society. Examples of business legacy institutions include private equity funds and management companies such as Horizon Capital, Delta Private Equity Partners, the Balkan Accession Fund, and Hanseatic Capital. Charitable legacy institutions include nonprofits such as the Polish-American Freedom Foundation, the Hungarian-American Scholarship

Fund, the U.S.-Russia Foundation for Economic Advancement and the Rule of Law, the U.S.-Central Asia Education Foundation, and the America for Bulgaria Foundation.

The success of the Enterprise Funds in sparking entrepreneurship is something the people of the United States can be proud of, and it is an example that can be replicated to promote private sector development in other countries, such as those in the Middle East and North Africa, Southeast Asia, Latin America, and elsewhere, such as Cuba. Jenne Britell remarks, "Enterprise Funds would work in other settings - particularly in microlending environments. The Funds celebrate independence of the individual, the opportunity for achievement and accomplishment and recognition."

When Congress seeks innovative approaches to promoting private sector development in other countries using the enterprise funds concept, it will be able to draw on a deep well of experience and success from the current Enterprise Funds.

Acknowledgements

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Background: Enterprise Funds in Central and Eastern Europe and Central Asia 1990–2007

*By Ryszard Kruk, Consultant
Polish-American Enterprise Fund*

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 Parliament in Warsaw, U.S. President George H. W. Bush pledged that the U.S. would help them make the transition to democratic, free market economies, and then 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 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 (SMEs); 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 Enterprise Fund 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.

■ Enterprise Funds 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

Enterprise Funds have invested and reinvested some \$1.5 billion in more than 500 small and medium enterprises in host countries. The Funds invested in developed as well as greenfield companies and they actively participated in the privatization of formerly state-owned companies. Every dollar invested in SMEs by Enterprise Funds attracted an additional two dollars from local and foreign investors for new technologies and development capital. Thanks to the Enterprise Funds, 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		Current Net Assets	Total NA	Total NA/ Capital Received
		U.S. Government	Legacy			
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%
BalAEF (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, Enterprise Funds provided the largest and most attractive lending programs for a new generation of private entrepreneurs. Some Enterprise Funds 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 (Polish-American Enterprise Fund). Funds tailored their lending programs to local needs, creating special programs such as Loans for Small Hotels (Bulgarian-American Enterprise Fund) and the Asian Crossroads Loan Company (Central Asian-American Enterprise Fund). 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, Enterprise Funds 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, Enterprise Funds 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 Enterprise Funds.

Support for Local Managers

The vast majority of companies supported by the Enterprise Funds are managed by talented local people. Enterprise Funds 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 Enterprise Funds' partners continue to play important roles in the economies of host countries.

Financial Institutions

Some 30 financial institutions have been established and financed by Enterprise Funds. 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 Enterprise Funds working hand-in-hand with their local partners. Leading banks and financial institutions that were created or financed by Enterprise Funds are: Bulgarian-American Credit Bank (BAEF); American Bank of Albania and SIGAL Insurance Company (AAEF); DeltaBank, DeltaCredit Bank, DeltaLeasing (TURSRIFF); 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 and 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

Enterprise Funds 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 hous-

ing 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 Enterprise Funds in FY 2006 alone was more than \$1 billion. Enterprise Funds 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

Enterprise Funds helped foreign investors overcome barriers to entry in the economies of the host countries. Enterprise Funds' 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 Enterprise Funds 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, Leader Gasket, and European and multilateral companies and institutions: IFC, EBRD, Hochtief, DEG, FMO, Société Générale Bank and others.

Partnerships for Success

The Enterprise Funds 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. Enterprise Funds' 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 Enterprise Funds' host countries became members of the EU. Their further development will be financed largely by European Union funds. Enterprise Funds efforts certainly contributed to their ability to achieve EU membership.

■ **The Mission is Continuing**

An important product of the Enterprise Funds 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 resulted in 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

Enterprise Funds 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 Enterprise Funds, through their legacies, continue activities that support and develop entrepreneurship, shape civil society and promote education. Additional Enterprise Funds 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.horizoncapital.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

More information can be found at www.seedact.com.

Featured Speaker Remarks

Reflections on the Enterprise Fund Experience

John P. Birkelund, Chairman, Polish-American Enterprise Fund
and Polish-American Freedom Foundation

First off, I would like to thank Lee Hamilton and the Wilson Center for their remarkable hospitality, which they are displaying for us today. It's the second time that the Enterprise Funds have been here and his patience is remarkable. I would also like to thank Kenny Meyers, Mike Van Dusen, Sharon McCarter, and Maria Stella Gatzoulis for all the work you've done to make this day possible. It is a real honor to be here with Senator Lugar and Congressman Hamilton. It is very fitting because for the last 17 years they have been incredibly dedicated to the cause of the Enterprise Funds. They were there at the beginning. They helped bring the legislation through the Congress that enabled us. But over and beyond that, the country has been blessed with their statesmanship, their judgment and their dedication. Two more remarkable public citizens do not exist and without further ado, but with great admiration, I would like to introduce Lee, who will then introduce Senator Lugar.

The Hon. Lee H. Hamilton, President & Director,
Woodrow Wilson International Center for Scholars

Good morning to all of you and thank you very much for coming to the Woodrow Wilson International Center for Scholars. John, thank you for your very magnanimous comments. It is my pleasure to welcome you, of course, to this very important conference, "Building Entrepreneurial Economies: Lesson from the Enterprise Funds' Experience in Central and Eastern Europe and Central Asia, 1990-2007." Let me thank president Carl Schramm and the Ewing Marion Kauffman Foundation for joining with the Wilson Center and co-sponsoring this event.

The Enterprise Funds have made remarkable progress over a period now of nearly two decades, providing vital assistance and, of course, seed money in an area covering 18 countries and 346 million people. Many of you in this room, of course, have worked on and studied different aspects of these innovative funds dating back to 1989 and I would think that you would look back on your work with a full measure of satisfaction for the remarkable accomplishments that have come about through these funds. Today, we come together to assess what has worked and what has not, what remains undone, what lessons can

be drawn from this experience for economic development and U.S. foreign assistance in the future.

Very early an influential supporter of these funds is our first speaker, the distinguished Senior Senator from Indiana, Richard Lugar. By any measure, Dick Lugar is one of America's foremost public servants and particularly so with regard to matters of foreign policy. He is easily one of the most respected and influential voices on international affairs in the Congress and indeed in the country. Dick has been a member of the Senate from Indiana since his election in 1976. He is now the longest serving Hoosier in United States history and won re-election to his sixth term, a very tough, hard election for him. He only got 87 percent of the vote. Throughout his tenure, he has distinguished himself through his work on the Foreign Relations Committee. He serves there now, as you all know. He is the ranking member after a stint as chairman. Among his many accomplishments, and I will certainly not try to go into all of those, but I would single out his leadership on the bipartisan Cooperative Threat Reduction Program most of us know as the Nunn-Lugar Program. This program has deactivated more than 6,800 nuclear warheads in the former Soviet Union, but Dick's leadership, of course, extends across all of the world and he has had a very great interest in Eastern Europe. His support for NATO enlargement and his leadership on the Enterprise Funds, we all have noted and applaud.

Before serving in the Senate, I knew Dick as a very successful Mayor of the City of Indianapolis from 1968 to 1975. I count him among my very good friends in this city and, of course, in our home state of Indiana. Incidentally, it was Dick who envisioned the unification of that city, Indianapolis, into one government with the surrounding Marion County, a very successful initiative. He served as President of the National League of Cities as well.

So, Dick, we're delighted to have you here. We are privileged to hear your reflections on this landmark program and we welcome you.

The Hon. Richard G. Lugar, USS Ranking Member,
Senate Committee on Foreign Relations

Thank you, Lee. I appreciate your kind words and introduction. It is a pleasure to be here today at the Woodrow Wilson International Center for Scholars. I commend you for holding this important conference focusing on one very unique and successful foreign policy tool. Enterprise funds constitute a revolutionary public-private partnership and this event at the Wilson Center is a fitting tribute to this often overlooked and under-appreciated concept. I am glad to see so many friends: John Birkelund of the Polish-American Enterprise Fund; Pat Cloherty of the U.S.-Russia Investment Fund; Roz Ridgway from the Baltic Fund; Rob

Odle, who has played an indispensable role on behalf of so many of the funds here in Washington; and others.

The Beginning:

In 1989, President George H.W. Bush announced to the Polish Parliament the creation of a new American foreign policy program. The goal was to assist in making the transition to democratic, free-market economies. Congress agreed and met President Bush's challenge and included the enterprise fund concept in the Freedom Support Act and the Support for Eastern European Democracy Act. The legislation authorized \$1.2 billion to finance the creation of ten funds in eighteen countries with a total population of 364 million people in Central and Eastern Europe and Central Asia.

The Enterprise Fund concept is simple: U.S. Government funding placed under the management of qualified and independent boards of directors with experience in investment, banking and economics. The goal was to take the unique combination of public funding and private skill and encourage free market development through the provision of loans and equity investments.

This partnership brought an inventive and fresh approach to American foreign policy. There is no better way to contribute to the establishment of market-based economies than to directly support the entrepreneurial spirit by investing and providing loans to the best and the brightest minds with the most promising business plans.

Congress studied these concepts carefully. Some of our colleagues were concerned about turning tens or hundreds of millions of dollars to private citizens without direct government oversight. I remember that I was intrigued about our government's ability to create a hybrid version of a venture capital company. I was excited about having the best business minds lend their skills to accomplishing U.S. foreign policy goals.

How Do They Work:

Today this important leap of faith has been vindicated. The enterprise fund concept has become a model for international economic assistance. Time and again, in numerous countries, it has been tested and proven to be practical and sound because it capitalizes on public funding and the skill and ingenuity of the business community.

Enterprise funds focus investment in small and medium-sized enterprises in critical areas such as finance and telecommunications. A number of the funds have pioneered home mortgage financing in their respective countries. This was an important step forward in the business environments where local populations seek to avoid borrowing

and underreport incomes because of fears of tax authorities. Other funds allocated resources for small business micro-loans amounting to sums of a few hundred dollars. I remember reading one of the annual reports from a Fund in which they outlined a \$400 loan to start up a bike repair shop. In isolation that loan will not change the economic fortunes of a country but in combination with similar investments in other small business startups, the building blocks of a successful regional economy are set in place.

As important as the investments and loans are to economic development, the provision of technical assistance to clients and partners is equally indispensable. By combining investment and business knowledge the funds provide an effective catalyst for economic development. A number of funds do not stop there. The Russian Fund established the U.S.-Russia Center for Entrepreneurship that focuses on the importance of sound corporate governance. The Center's educational workshops develop the skills entrepreneurs need to further their companies' successes, such as leadership, recruiting and retaining high-quality talent, cash flow and financial management, and strategic planning.

Enterprise Funds Success:

More than fifteen years later, the U.S. Government's investment in the enterprise funds is still at work. To date the funds have invested some \$1.5 billion in more than 500 companies. What is most impressive is that every dollar invested by the funds attracted an additional two dollars from other investors. This is a testament to the way in which the funds are respected by others in the business and investment communities.

More than 250,000 jobs have been created by the funds. Some 30 banks and financial institutions have been established and financed. The lending institutions created by the funds have produced more than \$1 billion in mortgage loans. Equally important is the more than \$70 million in technical assistance provided to strengthen the private sector of the former communist countries.

I have monitored U.S. foreign assistance for more than 30 years and the Funds are the only foreign assistance mechanism that I am aware of, in which the current net assets exceed the initial level of funding. In another foreign policy first, the Polish-American Enterprise Fund became the first foreign assistance program to ever return back to the Treasury the funding it received from the U.S. Government. Let me repeat that, the enterprise fund concept has been so successful that some of the Funds returned portions of their initial grants to the U.S. taxpayer. The other half was left in Poland to establish the Polish-American Freedom Foundation, which finances grants to private institutions and individu-

als to support development in the following areas: economic reform, leadership development, civil society, local government and the business climate, and legal reform. In 2003, the Hungarian Fund returned half of its assets to the Treasury and the other half endowed the Hungarian-American Enterprise Scholarship Fund. Its objective is to advance the purposes of the SEED Act by sponsoring scholarship awards, student loans, and exchange programs throughout Hungary.

The legacy entities established by these and other funds are huge successes. Unfortunately, the contributions by the Polish and Hungarian Funds to the Treasury have gone unnoticed. This is a shame.

I say “unfortunately” because over the last several years U.S. foreign assistance levels to the countries of Central and Eastern Europe and Central Asia have declined. Today, the funds returned to the Treasury by the Enterprise Funds represent a missed foreign policy opportunity. Congress and the Administration must recognize that the full amount of reflows in legacy foundations can make a dramatic impact on promoting U.S. values and policy objectives in a foreign country.

The Russia Fund is seeking to create a foundation in Russia to support projects in the fields of civil society, democracy, and the rule of law. At a time when U.S. funding is declining in Russia, the reflows provide an opportunity to make important contributions and to achieve results. Such a private foundation can play a pivotal role by using grants to promote pro-democracy forces, and rule of law, and civil society objectives, something badly needed in Russia at this time.

As the leaderships of the funds sought to increase their investment capacity, they devised a process to establish parallel private funds through which they could raise funds from the private sector. The Polish fund did it first and a number of its siblings have followed suit. While separate from the funds provided by the U.S. Government, the private monies increase the fund’s leverage to achieve change and accomplish its goals.

Not every investment environment entered into by an enterprise fund has proven reliable. In fact most funds operated in countries with an immature legal infrastructure and the absence of investment or banking regulations or laws. But the brilliance of the concept permitted each fund to adapt to the local market conditions. Skilled boards and management teams had the flexibility to construct a corporate mechanism best suited for conditions on the ground.

More Enterprise Funds:

I see many parallels between the lessons learned from the application of the enterprise fund concept and the Administration’s innovative Millennium Challenge Corporation. The MCC provides assistance

through a competitive selection process to developing nations that are pursuing economic reforms in three areas including promotion of open markets and sustainable budgets by fostering enterprise and entrepreneurship.

The concept of the MCC is based on the premise that economic development succeeds best where it is linked to free-market economic and democratic principles and policies, and where governments are committed to implementing reform measures in order to achieve such goals. We should consider establishing enterprise funds in those countries where the MCC is working. The two concepts work hand-in-hand and should prove to be an effective foreign assistance mechanism.

As the MCC's operations continue to mature in its partner countries, the development concurrently of an enterprise fund would provide a proven tool to kickstart the economic proposals required. This one-two punch would not only assist in the creation of a free market business environment but it would also empower entrepreneurs to stimulate the economy.

Conclusion:

Enterprise funds have succeeded because of the professionals who run them and advise them. The directors of the funds have all worked for free, completely pro bono, for more than a decade. Their hard work has paid off and their recommendations deserve serious consideration. Few, if any, other foreign assistance grantees ever show up in Congress with profits from their grants.

In sum, I want to thank my friend Lee Hamilton for hosting this important conference. This is a celebration of the great contributions of the enterprise funds to U.S. foreign policy. But it is also an opportunity to consider new opportunities and directions for the fund concept. As long as our government can call on great Americans to serve, the Enterprise Funds will be an effective foreign assistance and developmental mechanism.

I look forward to working with everyone here today to think creatively about new opportunities and places where enterprise funds can succeed and thereby contribute to U.S. foreign policy goals.

Michael Van Dusen, Deputy Director,
Woodrow Wilson International Center for Scholars

We are very happy to have Assistant Secretary Dan Fried with us. I just want to start by thanking you all for coming to the Woodrow Wilson Center and ask that you keep the Director of our Middle East Program, Haleh Esfandiari, who has been imprisoned in Iran, in your thoughts and prayers. Assistant Secretary Fried, we are very happy to have you.

He has served thirty years in the Foreign Service. He's completed just over two years as Assistant Secretary for European and Eurasian affairs and, previous to that assignment, was on the NSC staff and before that was our Ambassador to Poland. But thank you for being with us and the podium is yours.

The Hon. Daniel Fried, Assistant Secretary, Bureau of European and Eurasian Affairs, U.S. Department of State

It's great to see so many old friends, friends of previous battles. I was saying to Roz Ridgway that she was the best Assistant Secretary that the European bureau has ever had and is remembered very fondly by all.

In the days when I worked for Roz Ridgway, there was a Soviet Union and there were certain truths that could not be questioned. The Cold War would go on forever. The Soviet Union, as awful as it was, was a mighty and fearsome entity, probably ahead of us in most measures of power. The Cold War line was permanent and the most that could happen in Eastern Europe was, on the good side, a little fake liberalization and, on the bad side, more Soviet troops. That history had pronounced for Europe and Europe would always be divided. There would always be a West Germany and an East Germany. And those of us who went through 1989 learned humility and learned that history has a way of overturning the judgments that great people with titles have pronounced. It overtook everyone's expectations. And so in early 1989, some of us, younger then, found ourselves in a new world and that new policy world of dealing with the end of Communism was so new and so shocking and so unexpected that we didn't have a lot of bureaucratic encrustations to deal with. Post-Communism was something no one had thought about. We thought about rollback and made incantations in that direction since John Foster Dulles or before, but nobody really believed it. It was trotted out once a year during Captive Nations Week and here it was before us in the reality. And we hadn't the slightest idea what to do. AID had not the slightest clue nor desire to get involved in Eastern Europe. It wasn't what they understood, and the State Department institutionally had no knowledge whatsoever of what you do in a post-Communist transformation. So Condi Rice asked me a question. I was the Polish Desk Officer, which in those days for those of you who know the system, is akin to saying I was nothing and Condi Rice was a very new, junior Director for the Soviet Union, which counted in Eastern Europe, which people thought didn't, so she got to do things all on her own. She called me up and said "Well, if we had \$100 million for the Poles, what would you do? How do you take advantage of this?" So we had a discussion and John Cloud—who, as some of you know, is our Ambassador in Lithuania—and I got together

and he said, “You know, there’s this fund for Northern Ireland that does stuff. Suppose we had a fund for free enterprise?” And I said, “You know, give it a wide charter, but don’t put in the bureaucracy. Give it to people who know about free markets—nobody in government. Give it an independent board. Give it a charter. And get out of its way.” So we did a concept paper and George Bush 41 announced it in Gdansk. And then the Congress thought \$100 million was awfully paltry and raised it to \$240 million and that’s how the concept was born. If we had to do it again, we probably couldn’t because we would have meetings and we would have done studies and we would have opinions and then, well, you know what would have happened then. So it’s a good lesson and I can’t think of a foreign assistance initiative that has been simultaneously so successful and so innovative and done so much to marry private and public interests, bringing in the expertise of bureaucrats without letting them choke it—us choke it—and an assistance project which, in the end, returned money to the U.S. Treasury and had enough money left over to endow a permanent Foundation. It made money. What a fabulous achievement and some of the people responsible for Enterprise Funds’ success in other countries are here today. You ought to take pride in what you’ve done, but don’t listen to me. I had Poles tell me after a couple of vodkas, rather cheery, tell me that the Enterprise Fund had created a generation of honest investment bankers who are now, after working in the Enterprise Fund, going out to make their country a better place. And that model has been replicated throughout the post-Communist world and you should feel proud of what you’ve done. It showed that the U.S. Government can come up with an initiative which gets things right and it shows that relying on people who know how money works can be done, that a charter works. And I can’t think of anything else that is more successful.

Now, Enterprise Funds work with the countries in which they’re located and are doing the right things. It’s not just macro policy; it’s micro policy. And in Russia, unlike Poland, you have a mixed picture and we’re dealing now with a world that recalls a little bit of Poland in the early days, a lot of Russia before the Russian Revolution, a kind of weird mix of the modern and authoritarian all at once. Now, those of you working on the Russian Enterprise Fund know this better than I do, but the Legacy Foundation in Russia that we’re now debating—and Rob Odle and I have been trying to shepherd through for a long time—is designed to assess not the successes in Russia, but the incomplete transformation. But it is still a good thing and the Russians have agreed to it.

So I want to thank you. I am really here to thank you for everything you’ve done and to express my support of the Enterprise Funds and to

tell you that Condi Rice looks back on those early days as some of the best days she's had in government, and were instructive for her and for the way all of us who worked in 1989–1990 see the world. We ought to use this model for the future. We ought to think of Enterprise Funds as a model for bringing together private entrepreneurship for public purposes. We ought to think of the model of government holding the reins loose. To make that work, it requires strong boards of people that get along. It requires strong on-the-ground management, which you had in Poland, and it requires the backing of the U.S. Government which will know how to back a board, but stay out of the way.

The notion of post-authoritarian transformation and the notion of relying on entrepreneurship and the development of a middle class and the funding of new institutions outside the control of the corrupt State institutions is critical if we're going to make countries emerging from conflicts work. In Afghanistan or Darfur or in other countries whose names we can't come up with now, stability may lie through funding small entrepreneurs, which aren't so small after a few years, or creating microcredit programs so that people in villages take \$50 worth of capital and turn it into livelihood for themselves. And it will require rethinking our own bureaucratized approach and making public-private partnerships work in reality. And I hope it doesn't take a crisis in a New World as we had in 1989 to make it work because, if it does, we are going to have far more crises that are bad than crises that are good. But I want to thank you all again for what you've done and express my support for the Enterprise Fund concepts.

Now, I was told that I should say something nice about the Enterprise Funds, which I am happy to do because I believe this, but I also want not just to talk and give you my views. We face policy challenges in Russia and in Eurasia today that are serious. I was with Secretary Gates in Moscow three weeks ago. I was with Secretary Rice in Russia two weeks ago and with your permission, I would like to stop here, but answer questions and have a real discussion with you about some of the challenges we face and to get your views of what's happening in Russia of how we're doing and your suggestions about what we should do next. I have spoken to the Enterprise Funds and I cannot be happier with the way that turned out, but having, because Enterprise Funds got into the guts of post-Communist societies and successfully, I want to talk with you and hear about that giant post-Communist economy, which is now going in directions many of us find troubling. So if that's all right, I would like to do that and then the only thing we need are a couple of volunteers to start it off. So, thank you very much, and I look forward to a good discussion now.

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