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Enterprise Funds and U.S. Foreign Aid Policy

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ENTERPRISE FUNDS AND U.S. FOREIGN AID POLICY

SUMMARY

The concept of Enterprise Funds evolved out of the commitment by the U.S. Government to support the transition of former Communist systems to free market democracies. Announced by President Bush in 1989, the first Funds were established in Poland and Hungary, authorized by the Support for East European Democracy (SEED) Act of 1989 (P.L. 101-179).

In the five years since the first Funds were announced, Congress has promoted their use throughout Eastern Europe and the newly independent states of the former Soviet Union (NIS), and the United States Agency for International Development (USAID) has extended the premise to southern Africa. Supporters of the concept believe Enterprise Funds are a viable supplement, if not alternative, to some of the more traditional forms of foreign aid, and would like to see them replicated more widely. Critics, however, note that the existing Funds have experienced some major problems, and suggest that caution should be used in extending this concept to the very diverse array of economic and political situations throughout the developing world.

The Funds are established as private, nonprofit corporations, governed by a Board of Directors whose members are appointed subject to the advice of the President of the United States or his designee. The Board appoints the management team, and has final authority over all investment decisions.

Funding is provided through USAID, and investment activities range from venture capital investments and large loans to microenterprise lending. The investment performance has varied widely, depending on management capabilities and the local political, economic, and legal environment. Financial instability and a weak legal and business environment have been among the major problems encountered in the host countries. Major achievements have included providing credit and investment capital to entrepreneurs and contributing to the development of financial institutions such as commercial banks.

The establishment of the Enterprise Funds was undertaken at a time when an urgency was felt to act quickly in supporting the transition of former Communist countries to free market democracies. Enterprise Funds were considered to be both more flexible and faster than traditional aid projects since they avoided many of the bureaucratic requirements. However, this foreign aid approach is not without cost. While traditional aid projects are often criticized for being cumbersome and rigid, the lack of specificity in the establishment of the Enterprise Funds gave rise to a number of controversies. Major issues include: liquidation procedures; monitoring and oversight issues; the ability of the Funds to be self-sustaining for the life of the project while fulfilling a dual mandate to support development and generate profits; and the costs and trade-offs in terms of alternative uses of resources.

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INTRODUCTION

The concept of Enterprise Funds evolved out of the commitment by the U.S. Government to support the transition of former Communist systems to free market democracies. Announced by President Bush in 1989, the Funds were part of a larger effort that included economic restructuring, humanitarian relief, programs to assist in democracy building, and assistance for the health and education sectors of the economies in transition.

In the five years since the first Funds were announced, Congress has promoted their use throughout Eastern Europe and the newly independent states of the former Soviet Union (NIS), and the United States Agency for International Development (USAID) has extended the premise to southern Africa. Supporters of the concept believe Enterprise Funds are a viable supplement, if not alternative, to some of the more traditional forms of foreign aid, and would like to see them replicated more widely. Critics, however, note that the existing Funds have experienced some major problems, and suggest that caution should be used in extending this concept to the very diverse array of economic and political situations throughout the developing world.

Sections one and two of this report describe the legislative origins and structure of the Funds, and present an overview of their activities. The overall performance of the Funds, including their major achievements and some of the major problems they have encountered, is the subject of part three. The final section of the report examines the major controversial issues which have arisen in the first six years of operation, some of which remain unresolved.

LEGISLATIVE ORIGINS AND STRUCTURE OF THE ENTERPRISE FUNDS

ORIGINATING LEGISLATION

The Support for East European Democracy (SEED) Act of 1989 (P.L. 101-179) authorized the first Enterprise Funds - the *Polish American Enterprise Fund* (PAEF) and *Hungarian American Enterprise Fund* (HAEF) - to support the economic transformation of the East European republics. Section 201 of this Act established two broad objectives for these Funds:

(1) to promote the development of the Polish and Hungarian private sectors, including small businesses, the agricultural sector and joint ventures with United States and host country participants, and

(2) to promote policies and practices conducive to private sector development in Poland and Hungary.

These objectives were to be attained by the use of loans, grants, equity investments, feasibility studies, technical assistance, training, insurance and guarantees.

The Polish and Hungarian Funds were established in 1990, with initial funding levels of $240 million and $60 million, respectively. An additional $10 million was allocated to each Fund for technical assistance.

Between 1991 and 1994 five more Funds were established in Central and Eastern Europe under the SEED legislation. The total projected funding level for the European funds is $584 million. (See table 1 for details.)

TABLE 1. Enterprise Funds, Date of Organization and Projected Funding Levels

Fund Title	**Date of Organization**	**Funding ($ million)**
EUROPEAN FUNDS:		
Polish American Enterprise Fund	1990	264
Hungarian American Enterprise Fund	1990	70
Czech and Slovak American Enterprise Fund	1991	65
Bulgarian American Enterprise Fund	1992	55
Baltic American Enterprise Fund	1994	50
Romanian American Enterprise Fund	1994	50
Albanian American Enterprise Fund	1995	30
Subtotal		**584**
NIS FUNDS:		
The U.S. Russia Investment Fund	1995	440
Central Asian American Enterprise Fund	1995	150
Western NIS Enterprise Fund	1994	150
Subtotal		**740**
TOTAL		1,324

Source: U.S. Agency for International Development.

The Freedom Support Act of 1992 (P.L. 102-511, Section 201) extended the authority contained in the SEED Act to provide for Enterprise Funds in other East European countries as well as the Independent States of the Former Soviet Union. There are currently three Funds operating in the New Independent States of the Former Soviet Union: the U.S. Russia Investment Fund, established in 1995 by the merger of two previously existing Funds; the Central Asian American Enterprise Fund, which covers Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan; and the Western NIS Fund which includes Ukraine, Belarus and Moldova.

In addition to the ten Funds currently operating, there are plans to establish a Fund in the Transcaucases (Georgia, Armenia and Azerbaijan), possibly as a joint venture with the EBRD. With the establishment of a Transcaucases Fund all of the NIS will have Enterprise Funds.

The establishment of an Enterprise Fund in Slovenia was proposed by the Senate Appropriations Committee in a 1993 report, and strongly recommended by the same Committee in 1994.

Supporters of this idea point to the impressive progress Slovenia has made in developing free market systems since Independence in 1991, and suggest that an Enterprise Fund would contribute to this process.

Opponents of the Fund note that with a GNP level of over $7,000 per capita, the country is well above the normal limit for assistance, and, given the scarcity of resources, these funds could be better spent elsewhere. Currently, USAID is not planning to establish an Enterprise Fund in Slovenia, but will contribute approximately $2 million to existing funds financed by the European Bank for Reconstruction and Development (EBRD) in that country.

Outside of the legislation cited above, and after intensive lobbying efforts, an Enterprise Fund for Southern Africa was established in 1995. To date, this is the only Fund established outside of Eastern Europe and the NIS.

STRUCTURE OF THE FUNDS

The Funds are established as private non-profit corporations, under section 501(c)3 of the Internal Revenue Code. Each Fund is governed by a Board of Directors, whose members are appointed subject to the advice of the President of the United States or his designee. Nominees may be proposed by the President, Congress, USAID, the State Department or other Funds. Board members may be private citizens of the United States or "citizens of the respective host country who have demonstrated experience and expertise in those areas of private sector development in which the Fund is involved".[1] A majority of Board Members are required to be U.S. citizens.

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[1]*Enterprise Funds in Europe and NIS*, Unpublished paper, USAID, 1995. P.4.

All of the Funds currently operate under USAID grant agreements. Monies are issued to the Funds through a Letter of Credit mechanism, based on periodic disbursement requests. When the Funds were initially established, it was envisioned that the total funding would be disbursed to the Funds in three annual lump sums. It subsequently became clear that the Funds could not invest these relatively large sums in that time period, and smaller disbursements over a longer time period were introduced. This trend was reinforced by a report of the Inspector General of AID, which suggested that disbursements should be kept to the minimum required by the Funds for foreseeable needs.[2] The Enterprise Funds can hold disbursements in interest-bearing accounts and retain interest earned for program purposes, "without returning such interest to the Treasury of the United States and without further appropriation by the Congress."[3] This system is intended to be sufficiently flexible to enable Fund managers to respond quickly to changing market conditions, relatively unencumbered by bureaucratic procedures.

The lending and investment portfolios of the funds reflect the unique characteristics of the countries in which they operate. Activities range from venture capital investments and large loans for privatization projects, to small business and microenterprise lending. The composition of the portfolio and the success of different investment strategies is largely determined by the macroeconomic and political environment, the degree to which a free market has evolved, the presence of indigenous entrepreneurial and managerial skills, and, most importantly, the philosophy and policy of the Fund's management team. In some instances the range of activities is prescribed by legal restrictions in the host country.

OVERVIEW OF EXISTING FUNDS

EUROPEAN FUNDS

Polish American Enterprise Fund (PAEF)

The PAEF, established in 1990, is by far the largest of the European Enterprise Funds, with obligated funds of $264 million, including $24 million for technical assistance, $14 million of which was granted in 1995. Main offices are located in New York and Warsaw. The Chairman of the Board of the Polish Fund is John P. Birkelund, and the CEO is Robert G. Faris. The PAEF has established a number of subsidiaries to carry out specific investment and technical assistance tasks.

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[2]Regional Inspector General for Audit, Bonn. *Audit of the Economy and Efficiency of Four Central and Eastern European Enterprise Funds*. Audit Report No. 8-180-95-015, August 25, 1995. P.3.

[3]Support for East European Democracy (SEED) Act, 1989, Sec. 201 (h).

Enterprise Credit Corporation (ECC). In 1990, the PAEF established a wholly owned subsidiary, the Enterprise Credit Corporation (ECC) to disburse small business loans. The ECC has its own separate board and administrative structure. Loans are issued through "windows" at twelve cooperating state-owned or commercial banks throughout Poland. These banks guarantee 50 percent of loan principal and share 25 percent in gross revenues. An initial loan ceiling of $75,000 was later raised to $500,000, though the average loan is $28,000 and there are few loans over $100,000. The first loans were granted in 1990.

The Windows program was designed by South Shore Bank of Chicago, a successful manager of similar programs in the United States. The program included the training of 75 loan officers and 30 local staff members to operate the loan windows of the banks. The initial capitalization was $18 million, with another $10 million added in 1992.

Since early 1994, a number of banks have withdrawn from the Windows program. Some banks no longer wish to continue to make small business loans, and others wish to do so independently of ECC. According to a GAO report, at least one Polish state bank established its own program of small business loans after its positive experience with the Polish Fund's Windows program.[4] Since ECC was prohibited from obtaining a local banking license without acquiring or merging with a Polish bank, it recently merged with the Polish American Bank of Krakow. This will enable it to expand its range of services and loan products.

Polish Private Equity Fund (PPEF). The PPEF is a venture capital fund created jointly with the EBRD and other private investors, including Creditanstalt and leading American pension funds. The PPEF was capitalized at $151 million, of which $50 million was from PAEF and the balance from outside investors. As of June 30, 1995, PPEF had made $46 million in direct investments. Unlike its parent Fund, whose broad objective is private sector development, the Equity Fund seeks projects which will provide superior returns on investments.

Enterprise Investors (EI). EI was established as a management company with former employees of PAEF. EI manages both the PPEF and the PAEF, and payments for services come jointly from both enterprises.

Polish American Mortgage Bank (PAMBank). The Polish Fund was a pioneer in mortgage banking in Poland, a form of financing that was previously unavailable. The Polish Fund's legal counsel assisted in rewriting Polish laws to provide a legal framework for mortgage lending. PAMBank is jointly owned by PAEF, which holds 50 percent of the equity, and two private Polish companies, a bank and a construction firm. The initial capitalization of PAMBank was $16 million, including $12 million in equity ($6 million from PAEF) and a $4 million, 10-year loan.

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[4] *Enterprise Funds, Evolving Models for Private Sector Development in Central and Eastern Europe*. United States General Accounting Office. Washington D.C. March, 1994.

Housing Development Corporation (HDC). The HDC was established in 1994 with an initial capitalization of $2 million. The Corporation seeks to complement the activities of PAMBank and stimulate housing construction by providing financing to real estate developers. With loans ranging from $100,000 to $400,000, HDC is providing a type of financing that is not otherwise available in Poland.

Fundusz Mikro. This micro-lending program was created in 1994 to provide credit to small businesses. Five pilot lending outlets were scheduled to begin operations in 1995.

Enterprise Assistance Corporation (EAC). The primary role of the EAC is to provide technical assistance to private sector enterprises. This corporation was initially capitalized at $5 million, with an additional $5 million subsequently allocated.

From inception through June 30, 1995, the PAEF made $121 million in indirect loan and equity investments, and its parallel private investment fund, PPEF, made $46 million in direct investments. In addition, PAEF granted loans totalling $88.5 million through its small business lending subsidiary, the Enterprise Credit Corporation (ECC).

Hungarian American Enterprise Fund (HAEF)

The HAEF is currently capitalized at $70 million, of which $10 million is for technical assistance. This Fund began operations in 1990 and currently has offices in Connecticut, and Budapest. The Chairman of the Board is George Gould, and Eriberto Scocimara is the President and CEO.

Since Hungarian law prohibits the Fund from making direct loans to businesses in which it does not have an equity investment, only 20 percent of the Fund's portfolio is debt. As of March, 1995, the Fund had $45 million in investments, including a $5 million small loan program administered by two local banks. Loans under this program range from $10,000 to $100,000. In addition, a $400,000 micro-loan program was recently established to issue loans for smaller amounts. Both of these loan programs are regarded by HAEF management as non-profit operations contributing to the Fund's developmental mandate.

Of all the Enterprise Funds, the HAEF has come under the most intense congressional scrutiny. In 1993, the Fund was a focus of the House Appropriations Subcommittee on Foreign Operations, in connection with the establishment of a subsidiary, and payments made to an official of the Hungarian Government.[5] In April 1992, HAEF created the subsidiary, EurAmerica Capital Corporation (EA), to provide consulting and investment

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[5] U.S. Congress. House Committee on Appropriations. Report on the Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 1994. Report 103-125, June 10, 1993. Pp. 74-6.

banking services. This enterprise was fully funded by HAEF for $4 million, in contravention of the Fund's stated policies of limiting investments to $3 million and requiring substantial co-financing. Moreover, HAEF paid salaries to the principals of EA which were well in excess of the $150,000 cap on the salaries of Fund managers, and which were guaranteed rather than performance related.

In response to criticisms of these activities, the president of the Fund stated that $4 million was required to establish the organization's credibility in financial markets, and the salaries paid to the principals were in line with the market rate for such personnel.

The Hungarian Fund was also criticized by the House Subcommittee for subsidizing the salary of an American who had been appointed president of the Hungarian State Asset Holding Company, the organization with oversight of companies which the government was privatizing. Fund management contended that the action was taken at the request of the Hungarian Government and with the support of the American Ambassador to Hungary.

The controversy resulted in the resignations of the president of the Fund, and the president of the Hungarian State Asset Holding Company, as well as a reduction in the salaries of the EA principals to $150,000. HAEF subsequently sold its holdings in EA for a profit in May 1994.[6]

In 1995, the Hungarian Fund requested supplemental funding from USAID. This funding has not been granted. However, after discussions between Fund executives and the Senate Foreign Relations Committee, the Senate panel directed USAID to grant an additional $30 million to the Fund.[7] In the meantime, the HAEF is attempting to attract supplementary funding from international institutions and private sources.

Czech and Slovak American Enterprise Funds (CSAEF)

The CSAEF was authorized in March 1991, with an initial capitalization of $65 million, including $5 million for technical assistance. In early 1993, when the Czech Republic and Slovak Republic were formed, the CSAEF created two separate country Funds. A single Board of Directors is responsible for oversight of both Funds. Larry McQuade is the Chairman of the Board, and Brad Miller is the President and CEO. The CSAEF has offices in Washington, Prague, and Bratislava.

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[6]An evaluation undertaken for AID by Development Alternatives Incorporated (DAI) in 1994 commended the HAEF for the professionalism of its operation and the strength of its Hungarian staff. As of September 1994, it was the only Fund to have made a net profit in any one year of operation.

[7]U.S. Congress. Senate Committee on Foreign Relations. *Foreign Aid Reduction Act of 1995*. Report to accompany S.961. Senate Report 104-99. June 23, 1995. P.41.

The initial strategy of the CSAEF was to concentrate on small start-up ventures, since 99 percent of the nation's companies were state-owned and privatization was extremely difficult. With the introduction of mass voucher privatization, the Fund has extended its options to start-ups, privatized companies, and joint ventures with overseas investors who have proven track records. In addition, the Fund has established small loan programs, in both Republics. The Czech and Slovak programs have an initial capitalization of $5 million and $3 million, respectively.

An evaluation of the Enterprise Funds undertaken in 1994 stated that the CSAEF was failing to achieve either commercial success or development impact, and further noted that the Fund was suffering substantial losses on its investments.[8] This was occurring despite the fact that the Czech economy was at this time considered more progressive than most of its East European neighbors. High staff turnover and management problems, including a policy of avoiding investment in the relatively favorable service and retail sectors, were cited as some of the primary causes of this Fund's problems. As of September 30, 1995, the Fund had $23.1 million in investments, comprised of 55 percent loans and 45 percent equity investments.

Bulgarian American Enterprise Fund (BAEF)

The BAEF was established in November 1991, with an initial authorization of $50 million plus $5 million for technical assistance. Overall, the pace of investing activity in Bulgaria has been much slower than in the other countries. An unfavorable political and economic environment made it extremely difficult for the Fund to identify sound equity investment opportunities, and it has thus focused primarily on lending programs. Management problems in this Fund compounded the difficulties due to a weak investment climate, and total investments lagged far behind original expectations in the early years. Furthermore, the first two large investments failed, resulting in approximately $2 million in losses. The Fund has offices in Chicago and Sofia. Stephen Fillo is Chairman of the Board, and Frank Bauer is the President and CEO.

The Fund reoriented its program in late 1993 towards small new enterprises in selected sectors, but the results have been disappointing. As of December 1995, the Fund had approved investments of $19.8 million, of which only $7.4 million was disbursed. Two loan programs are currently in operation. A micro-loan program (Nachala), funded at $1.5 million and operated by Opportunity International, makes loans of up to $25,000 and operates in over 40 cities. A program for medium sized loans (Kompass), developed by South Shore Bank of Chicago, is operated in partnership with four Bulgarian Banks who receive technical assistance and training, and serve as vehicles for BAEF's small business lending in the $25,000 to $250,000 range. The Fund has lost a number of staff recently, and is currently not making new investments. Its future status is uncertain.

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[8] Development Alternatives, Inc. *Program Evaluation of the Central and Eastern European Enterprise Funds.* Washington, D.C., 1995

Baltic-American Enterprise Fund

This Fund is to serve the Baltic states of Latvia, Estonia, and Lithuania, and has an initial capitalization level of $50 million. The Board of Directors was announced in July 1994, with Ambassador Rozanne Ridgeway as Chairperson. Brewster Campbell, the President and CEO, was appointed in January 1995. The Fund has a U.S. office in Washington, and overseas offices in Tallinn, Riga, and Vilnius. The primary strategy of the Fund is to undertake small loans in all three countries. As of December 1995, the Fund had disbursed 5 loans totalling $1 million.

The Romanian-American Enterprise Fund (RoAEF)

The RoAEF is a $50 million fund established in 1994 to promote the creation and expansion of small and medium sized businesses in Romania. In September 1995, the Fund announced plans to finance eight equity and loan activities, totalling approximately $5 million under its Major Transactions Program. In addition, a $5 million small business program has been established which will work in cooperation with 10 branches of Romanian banks. Offices are in Washington and Bucharest. The Chairman of the Board is Robert L. Wald, and John Mullen is the President and CEO.

The Albanian-American Enterprise Fund

This Fund was established in February 1995, with a capitalization of $30 million, to be disbursed over three to four years. It has offices in New York and in Tirana. The first activity of this Fund will be to set up a full service bank in Tirana. Dominick G. Scaglione is the Chairman of the Board.

NIS FUNDS

The U.S. Russia Investment Fund (TUSRIF)

This fund was created in early 1995 by consolidating into a single Fund the Russian-American Enterprise Fund (RAEF), capitalized at $340 million, and the Fund for Large Enterprises in Russia (FLER), with $100 million capitalization. The Fund has offices in New York, Moscow, Khabarovsk, Rostov and Yekaterinburg. Michael Blumenthal is the Chairman of the Board, and Austin Beutner is the President and CEO.

In response to criticism of the RAEF and FLER regarding high staffing levels and overheads in its New York offices, very slow and conservative lending policies, and weak outreach efforts, TUSRIF has implemented new policy directions and reduced staffing levels. In addition, the Fund has devoted substantial resources to outreach efforts throughout the country, and particularly in the Far East of Russia.

The Fund is engaged in two primary areas of activity: 1) high-impact and high-profile direct investments, intended to have a demonstration effect and mobilize other investors; and 2) small business lending programs that are easily replicable and can spread the Fund's impact widely throughout the country. The 1994 Annual Report for the Fund noted that the uncertain political and economic environment, including high inflation and legal and regulatory concerns, are important obstacles to private investment. As of September 1995, the Fund had investment commitments of $80 million, of which $30 million was disbursed.

The Central Asian-American Enterprise Fund (CAAEF)

The CAAEF was intended to promote the creation and expansion of small- and medium-sized businesses in Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan. The Fund is capitalized at $150 million, and has established offices in New York, Uzbekistan, Kazakhstan, Turkistan, Tajikistan, and the Kyrgyz Republic. Stephen Solarz is Chairman of the Board, and Richard Bernstrom is the President and CEO.

Since late 1994, this Fund has approved approximately $25 million in investments, of which $8 million has been disbursed, mainly in Kazakhstan and Uzbekistan. The Fund made two relatively large debt/equity investments: a $3 million investment ($1 million equity and $2 million debt) in a joint stock printing and publishing company, and an $800,000 debt/equity investment in a manufacturing company. Six additional direct investments are approved, and the CAAEF is establishing a small business lending program using local privatized banks in Kazakhstan, Uzbekistan, and the Kyrgyz Republic.

The Western NIS Enterprise Fund (WNISEF)

This fund is designed to promote the creation and expansion of small and medium-sized businesses in Ukraine, Moldova, and Belarus. Established in 1994, with an initial capitalization of $150 million, the Fund has opened offices in New York, Kiev, and Chisinau. The Chairman of the Board is Glenn Hutchins, and Scott Carlson is the President and CEO.

WNISEF has established a $5 million small loan fund to make commercial loans up to a ceiling of $100,000. As of September 1995, however, the Fund was not allowed to lend money because it did not have a banking license. The Fund has spent over $50,000 in legal fees in attempting to resolve this issue. Investments will be focused in three sectors: agribusiness including food processing, construction materials, and furniture manufacturing.

THE SOUTHERN AFRICA REGIONAL ENTERPRISE FUND

The grant agreement for this Fund was signed in March 1995. The Fund is capitalized at $100 million, $50 million of which is for South Africa, and the balance to cover ten countries in the southern Africa region. South Africa is seen as an engine of growth for the continent, and supporters of the Fund see the Fund as a model to be replicated throughout Africa. Interim headquarters for the Fund are in Atlanta, but it is planned to transfer the operation to offices in southern Africa. The Chairman of the Board, Andrew Young, was appointed in November 1995, and an office in Johannesburg will be opened in December. The Fund will be handed over to a southern African Board in ten years.

EBRD FUNDS

All the Funds described above were initiated by USAID. In addition, the United States contributes to a number of EBRD Funds, established by the G-7 donors following the Tokyo Summit in July 1993. The largest of these Funds is the EBRD Russia Small Business Fund (SBF) which provides access to capital and technical assistance to newly created small and micro enterprises. Total funding is projected to be $300 million, of which EBRD will provide $150 million, and the U.S. Government will provide $30 million through USAID. The remainder will be provided by the other G-7 nations.

The SBF is currently funded at $56.5 million, to which USAID has contributed $9 million. The program includes a business advisory division, a micro-lending program, a lending windows program through existing financial institutions, and a small equity program. South Shore Bank of Chicago is the EBRD's consultant on the small business lending program.

A second Russian Fund, the U.S./EBRD Regional Venture Fund for the Lower Volga Region, (RVF), has received $20 million from USAID to fund operating expenses and technical assistance. An additional $30 million of equity capital has been provided by the EBRD. The Board of Directors appointed a fund manager in May 1995, and investment activity is expected to commence before the end of 1995.

In Eastern Europe, the Slovenia Development Capital Fund (SDCF) is an EBRD financed venture capital fund, capitalized at $17 million. USAID is negotiating to have EBRD provide matching funds for a $2 million contribution to finance small and medium sized businesses in Slovenia.

PERFORMANCE OF THE FUNDS

The first Enterprise Funds, established in Poland and Hungary, have now been in operation for over five years, and Funds in Bulgaria and the Czech and Slovak republics have an operating history of almost four years. During this time-period the investment performance of these Funds has varied widely depending on such factors as the local political, legal, and economic environment, the stage of development of the economy, and the strategies of Fund managers. Some of the major achievements of the funds during this period, as well as the difficulties they have faced, are discussed below.

MAJOR ACHIEVEMENTS OF THE ENTERPRISE FUNDS

One of the significant accomplishments cited by supporters is the role they play as catalysts for development of the financial sectors of the countries in which they operate. The Funds support local financial institutions and foreign investors both directly -- through their own investments and the training and technical assistance they provide -- and indirectly -- through demonstration of confidence in the local market. A striking example is the development of mortgage banking in Poland as a result of the pioneering efforts of the PAEF. In addition, in several countries of operation, bank lending to small businesses has expanded significantly as a result of lending programs operated in conjunction with the Funds' small lending programs, and supported by Fund technical assistance. In some cases, banks which previously had no small lending programs graduated from the Enterprise Fund program and established their own independent small loan operations in competition with the Funds which had initiated the bank program and trained their personnel. As well as contributing to the development of the indigenous banking system, some Funds have also contributed to the development of local stock markets and aided in the initial public offering process for company stocks.

A second area of influence is in the provision of credit and investment capital to entrepreneurs. All the Funds either already have in operation, or plan to implement, a micro-lending program which makes funding available to very small enterprises, often in cases where no funding was previously available. The Funds provide both loans and equity capital to small and medium-sized businesses, sometimes in situations where there are few, if any, feasible alternatives. Local banking institutions are in some cases unwilling to make small loans which may have high overhead and inadequate collateral. According to the CEO of one of the NIS Funds, many of the foreign-owned private venture capital firms which are operating in these countries are primarily interested in large loans, often over $1 million, and in maintaining a presence and monitoring the economic situation in these countries.

Another area in which the Enterprise Funds have experienced some success is in providing business education and training, particularly to enterprises in which they invest, or to which they make loans. Such training has encompassed a variety of activities from basic management skills to standard accounting procedures. A notable example of a successful training venture is the video tape series developed by the Hungarian Fund, which, in addition to being widely used by businesses in Hungary, is also part of the secondary school curriculum in that country.

Improving the legal environment for businesses has been a challenging, but on occasion very successful, endeavor of the Funds. One of the more notable examples is the work of the legal counsel to the Polish Fund who assisted in writing laws which introduced mortgage banking into that country. Other Funds are working with privatization issues, and, in fact, it was the effort to do this in ways unacceptable to Congress that was partly responsible for the Hungarian Funds' problems.

MAJOR PROBLEMS ENCOUNTERED DUE TO HOST COUNTRY ENVIRONMENT

The instability of the macroeconomic environment poses major problems for some of the Funds. Financial instability and inflation add risk to any investment and render equity investments particularly vulnerable. Where loans or investments are in local currency, the business risk is compounded by the currency risk. In addition, limited and uncertain progress in privatization due to lack of political will and/or bureaucratic procedures, has been a problem for some of the Funds.

The weakness of existing legal institutions, property rights legislation and contract enforceability are cited by Fund managers as additional difficulties encountered in doing business in the Eastern European and NIS countries. In common with many countries in the early stages of democracy, the institutional framework for establishing and enforcing a rule of law, with transparency and accountability, is not well developed. In several of the countries corruption is widespread. In such an environment, the inherent financial risks are greatly magnified by the unreliability of the legal and regulatory systems.

Other problems the Funds have encountered relate to the weakness of existing management and accounting practices, and the difficulty of compiling and maintaining accurate financial records. According to a 1994 GAO report, loan recipients and other companies in which the Enterprise Funds invested did not always submit timely, complete, and accurate financial statements to enable managers to accurately monitor investment performance.[9] This report further noted that accounting and auditing standards have not been developed in Central and Eastern Europe and basic accounting and financial reporting has not been used as a management tool. Furthermore, the investment agreements entered into by the Funds specified a variety of accounting principles, rather than one standard procedure. In some cases, there were no specific provisions at all.

Finally, the Funds have experienced considerable difficulties related to the weakness of the existing business environment, including the lack of comparable values for many investments. Several of the countries in which Funds are located do not have a stock exchange, for example. One consequence of this is that the book values of the Enterprise Funds' investments do not necessarily reflect the market value of the assets since the market for such investments may be very shallow, or even non-existent in some cases.

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[9] *Enterprise Funds - Evolving Models for Private Sector Development in Central and Eastern Europe* United States General Accounting Office, Washington D.C. March 1994. P.4.

ISSUES OF CONCERN

In addition to the problems relating to conditions in the countries of operation described above, there are a number of issues related to the internal organization and operation of the Funds, which have given rise to considerable controversy. While some of these issues appear to have been resolved, there remain a number of areas which are still contentious.

The establishment of the Enterprise Funds was undertaken at a time when an urgency was felt to act quickly in supporting the transition of former Communist countries to free market democracies. Enterprise Funds were considered to be both more flexible and faster than traditional aid projects since they avoided many of the bureaucratic requirements. However, this approach to foreign aid is not without cost. While traditional aid projects are often criticized for being cumbersome and rigid, the lack of specificity in the establishment of the Enterprise Funds gave rise to considerable dispute regarding their operating procedures. The range of areas which have proven controversial is illustrated in the following discussion of contentious issues.

SUSTAINABILITY AND THE DUAL MANDATE

There are no explicit provisions in the SEED Act or the FREEDOM Support Act requiring Enterprise Funds to be self-sustaining. When the Polish and Hungarian Funds were established, it was anticipated that disbursements would be made in three lump sums and be completed by the third year of operation. Since the Funds were to be in existence for ten to fifteen years, however, it was clearly implicit that they would have to generate sufficient income to cover, at the very least, their operating costs for the remainder of the Fund's life. In practice, the Funds have had difficulty investing the full allocation in three years, and USAID has extended disbursements over a longer period, allowing them to cover operating costs out of initial allocations. Nevertheless, the Funds ultimately must fulfill a dual mandate to generate profits and contribute to the economic development of the country in which they operate.

The need to cover operating costs, as well as the desirability of showing a successful investment record, has led Fund managers to focus on profitable investments. All of the Fund managers have stated policies of generating income from investment revenues, management fees, and the liquidation of assets. Moreover, most of the Funds are very actively engaged in trying to attract outside sources of private capital, although only the Polish Fund has been successful to date. Since all of the Funds except Poland are still receiving disbursements of their initial funding, it is too early to gauge whether the other Funds can be self-sustaining. The Hungarian Fund recently requested, but has not been granted, an additional $30 million in supplementary funding. Moreover, the Polish Fund was granted an additional $14 million for technical assistance to carry out additional activities requested by USAID in 1995. It is not clear if this precedent is likely to be followed by other Funds.

The need for Fund managers to focus on investments which will be profitable has been criticized by those who maintain that the purpose of the Funds is developmental. These critics argue that the primary mandate of Enterprise Funds is to support the private sector in the countries of operation by investing in microenterprises and small businesses, and undertaking technical assistance and training activities. They maintain that the Funds should focus their activities in high-risk activities which would not otherwise be able to attract private capital. In this view, the Fund's role is to support the private sector in areas where it would not otherwise invest.

Supporters of the profit-making activities of the Funds point out the need for the Funds to cover their operating costs, and the need for them to demonstrate that investment in these economies can be profitable, thus encouraging other private investors to enter the market. They further maintain that there is no dichotomy between the developmental and profitable objectives, since successfully developing the private sector requires that it be profitable.

Fund managers are dealing with this issue by trying to maintain a balance between the developmental and profit-making mandate. In most instances, the former is addressed by setting aside a limited amount of funding, generally $5 to $10 million, for small and micro business loans. These are often managed in partnership with local banks and are not expected to generate significant profits. The remainder of the portfolio is allocated to medium and large loans, and equity investments, which are generally expected to be profitable within the project lifetime. Technical assistance funds are allocated to both developmental and for-profit activities.

LIQUIDATION

The authorizing legislation for the Enterprise Funds defined neither how they were to be liquidated nor the disposition of the proceeds. Recipient countries consider them as grants from the United States Government. One Chairman of the Board reportedly expressed the belief that he could contribute any remaining proceeds to a charity of his choosing in the country of operation. Since some board members are also founding members of non-governmental organizations in the countries where the Funds are located, this gave rise to concern among some Members of Congress and USAID officials concerning possible conflict of interest.

In December 1992, citing its concern over lack of sufficient executive branch control over the eventual termination and liquidation of the Enterprise Funds, the House Subcommittee on Foreign Operations placed a hold on the disbursal of congressionally approved allocations from USAID to the Funds, effectively overriding the irrevocable letters of credit issued in their favor. The resulting cash squeeze was particularly severe for the HAEF, which had low cash balances and which was forced to sell its most liquid investments to pay for day to day operations.

The funding freeze continued until the fourth quarter of 1993, when the Enterprise Funds adopted a new clause in their Grant Agreement, providing for the liquidation of the Funds between their tenth and fifteenth years unless otherwise agreed by a Fund's Board of Directors and the President of the United States, after consultation with Congress. Under this agreement, USAID must provide at least twelve months prior notice of the Fund's termination commencement date, after which no new commitments or investments may be undertaken. The Fund is obliged to present a liquidation plan to USAID by the termination commencement date. USAID may approve this plan as is, modify it, or impose its own plan.

The exit strategies which the Funds plan to use to liquidate their holdings depend on the type of investment and the financial environment. Most Funds hold only short term debt of 3 to 8 years which is self-liquidating. Liquidation of equity investments may be undertaken publicly through stock exchanges, or privately to other investment funds. Although several of the Funds planned to eventually sell their holdings through stock exchanges, the portfolios of the Polish, Hungarian, Czech and Slovak Funds appear to be relatively illiquid, as they have not developed sufficiently to attract outside investment, according to the GAO.[10]

The proceeds of the liquidation of a Fund's assets are to be distributed to a non-profit entity within the country, or to the United States Government, or to a combination of the two. While the Funds may propose certain uses for the proceeds, final decisions concerning their distribution are to be made by USAID.

While there is general agreement on the procedures for liquidating the Funds, the actual disposition of these monies is an issue which remains unresolved. Although recipient countries regard the Funds as grants, some Members of Congress believe the funds will be returned to the U.S. Treasury, and a recent Senate Report, noted that "the potential for the United States to receive back funds initially appropriated for their creation underscores the usefulness of the Enterprise Funds".[11]

To date, only the Polish Fund has made any provisions for liquidation. In 1992, when it was seeking outside private investments, the Fund came to an informal agreement with USAID which ensures that it will not have to repay more than the initial grant of $250 million. It is highly possible that the Polish Fund will have resources worth considerably more than this upon liquidation, however, and the disposition of these funds remains to be determined.

A number of possibilities have been suggested for allocation of the funds, most of which would leave the funds in the country where the Fund was located. Ideas currently under consideration include: transforming the Funds into independent institutions to exist in perpetuity; providing support to local

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[10]GAO, op.cit. P.34.

[11]Senate Report 104-99, op.cit. P.40.

organizations which promote private sector development, such as Chambers of Commerce; and establishing bilateral cultural and/or trade institutions. An alternative proposal, which would involve withdrawing part of the funds, is the establishment of a revolving fund for future Enterprise Funds in developing countries.

MONITORING AND OVERSIGHT ISSUES

The Enterprise Funds were designed to be flexible and efficient mechanisms for stimulating private sector development in the emerging free markets of Eastern Europe and the NIS. To permit them to respond quickly to market opportunities, they were to be free of many of the monitoring and oversight requirements of more traditional development projects. A 1990 Senate Appropriations Committee report (101-519) specified that USAID's role was "simply to write the check on a periodic basis when the enterprise funds determine that additional funding is necessary".[12] The SEED Act required only that the Funds submit annual reports and have annual audits, and that recipients of assistance keep separate accounts of their funding and grant the Enterprise Funds full access to these accounts. The Boards of Directors and Fund managers had wide discretion in the design and implementation of programs.

While this flexibility allows for greater efficiency, it has resulted in difficulties in monitoring the performance of the Funds. As noted in a recent audit, the language concerning the oversight role of USAID contains some apparent contradictions.[13] The Agency is required, on the one hand, to take a "hands off" approach, and "simply write the check", and on the other hand, "to keep (the Senate Appropriations Committee) regularly and closely informed about the performance of the funds".[14] To respond to these information requests from Congress, USAID has increased the number of reporting requirements for the funds.

In 1990, USAID added a requirement that annual audits should be submitted to the USAID Inspector General for review, and that USAID could participate in semi-annual reviews of the Funds' performance. In 1991, a draft protocol added provisions for monthly cash balance statements, visits to the Funds by AID project officers, and evaluations of the Funds.

Congress has also increased its oversight provisions. A 1992 House Appropriations Committee report required that "any new relationships or

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[12]U.S. Congress. Senate Appropriations Committee *Report to accompany H.R. 5114*.Report 101-519. October 10, 1990. P.111.

[13]Regional Inspector General for Audit, Bonn, op. cit.

[14]. U.S. Congress. Senate Committee on Appropriations *Report to accompany H.R. 5114*. Op.cit.

structures which have not been justified to the Congress, which these Funds may enter utilizing appropriated funds, require notification" (H. Rept. 102-585). Subsequent interventions by Congress included placing a hold on Funds until liquidation procedures had been clarified, and conducting an investigation into certain practices of the Hungarian Fund, described earlier.

Officers of some of the Funds have complained that Congress impedes their efforts to earn profits by intervening in the Funds, placing restrictions on salaries, imposing what they consider onerous reporting requirements, and freezing disbursements. They state that such activities place the Funds at a disadvantage vis-à-vis other competing private sector enterprises, and deter other investors from making commitments to the Funds. The combination of public funding and private management of the Funds places them in a unique position to fulfill their dual mandate, but there remain unresolved issues regarding the emphasis on each objective and the degree of flexibility given the Funds to carry out their mandates.

RATIONALE FOR SIZE AND LOCATION OF FUNDS

The rationale for establishing Funds in Eastern Europe and the NIS was stated clearly in the SEED Act. These Funds were intended to promote private sector development in areas going through a critical transition and attempting to establish free market democratic societies. These Funds were thus both a foreign policy tool and a vehicle for economic development. As the East European and NIS countries became independent, Enterprise Funds proliferated. Pressures to create new funds came from multiple sources - from ethnic lobbies, who see them as both a status symbol and a grant; and from Congress, the White House, and the State Department, which developed a policy of extending the Funds to all Eastern European and NIS countries.

While the initial Funds were country specific, more recently established Funds cover regions which include three or more countries. According to a State Department representative, the introduction of regional funds resulted in part from the desire to disperse risk in areas which were felt to be particularly vulnerable, and in part from budgetary concerns. There is general consensus among those involved with the Funds that a minimum initial investment of $50 to $60 million is necessary to establish a new Fund. Almost every country undergoing a transition from communism to free market democracy now has an Enterprise Fund, and Funds for the Balkans are under consideration.

Critics of the strategy of establishing Funds on a widespread basis note that the conditions in some countries, such as Bulgaria, may render this aid concept ineffective. They note that the legal, economic and political environment in some nations will not support viable private sector investments, and point to the difficulty experienced by some of the Funds, particularly in Russia, in finding promising investment and loan opportunities. This line of reasoning suggests that investment in activities to reform policies and create an environment conducive to business development would be more appropriate.

Supporters of the Enterprise Funds argue that it is precisely because of the weakness in the institutions of these countries that there is an urgent need for the Funds to be established there. They argue that the role of the Funds is to invest in areas where the private sector would not otherwise invest. By demonstrating confidence in the economy, and showing that it is possible to make profits, the Funds can establish an environment more attractive to private sector investors.

The rationale for the size of these Funds is less clear than the rationale for their location. Capitalization levels range from $440 million for Russia and $240 million for Poland to $30 million for Albania, with no correlation between these allocations and factors such as the size of the country, population or GNP. A State Department representative noted that the size of the Polish Fund is attributable in part to the fact that it was the first Fund, and in part to the very fragile political situation, and the strong desire to support Poland's economic and political transition. With increasingly tight budgets, the levels for other European Funds have decreased, although it is generally agreed that $50 to $60 million is the minimum required for a Fund to be self sustaining. A congressional staff member noted that the strength of the country's lobby is a factor in decisions regarding Fund size.

Critics of the levels of funding have suggested that, given the slow disbursement rate of funds, such as those in Bulgaria and Russia which had difficulty finding appropriate investments, smaller initial levels for pilot projects would have been a more efficient use of aid resources. Supporters of the initial levels of funding note that start-up costs and initial overhead for Enterprise Funds are very high, and that the Funds must know in advance the scale of operation for which they must plan and organize.

While the rationale, if not the capitalization level, of the European and CIS Funds was fairly clear, neither one is evident in the case of the Southern Africa Fund. Proponents of the Fund cite the lack of capital and weakness of financial markets as a major constraint on development in Africa, and suggest the Enterprise Fund concept would address these needs better than traditional USAID projects. They see the Fund as contributing to deepening of financial markets through direct investments and through leveraging other investors. Critics note that such conditions are pervasive throughout developing nations, but scarcity of resources precludes the widespread use of Enterprise Funds.

COSTS AND TRADEOFFS OF ENTERPRISE FUNDS

The introduction of Enterprise Funds as a vehicle for foreign aid was based in part on the belief that they would be more efficient than traditional aid projects. This assumption, however, is not entirely supported by the evidence.

An evaluation of the first four Enterprise Funds undertaken by Development Alternatives, Inc., in 1994 criticized the Funds for high overhead costs and noted that only the Polish Fund had kept its costs in line with more conventional venture capital funds. The primary cause of these higher costs, according to this report, was the maintenance of executive structures and investment offices in the United States. Moreover, some Fund managers spend four to six months per year in the United States. The Funds' response to this claim was to note that the statutory requirement for a U.S. Board of Directors, combined with the U.S. Government's reporting requirements, gave rise to the need for a large U.S. staff. The evaluators stated that reporting could be handled from the field, and that the U.S.-based executive structure contributes little to program performance. A factor which has not been mentioned in existing reports is the difficulty of finding high-quality personnel to manage the Funds who are willing to relocate to Eastern Europe and NIS countries. Funds which tried to insist that executives live in the country full time experienced great difficulty recruiting highly qualified personnel.

The Funds have also been subject to criticism for maintaining cash buffers beyond immediate needs. While the U.S. Treasury requires that Federal agencies must limit cash advances to recipient organizations to the amounts required for immediate disbursement needs, USAID has invoked the "notwithstanding" authority of the SEED Act to allow the Funds to hold larger amounts. An audit undertaken by the Office of the Inspector General of USAID noted that on September 30, 1994, the Polish Fund had a cash buffer on its balance sheet of $2.5 million and the other three Funds had $1.5 million each. The report noted that when added to the cash buffers granted to newly forming Funds, cash buffers outstanding would total over $20 million, costing the U.S. Treasury an estimated $1 million per year in interest costs. The audit recommended that cash buffers be eliminated within 90 days of the date of the audit.

USAID defends the use of cash buffers as necessary to allow Funds to respond in a timely manner to investment opportunities and operating requirements. The Funds themselves, in a joint response to the IG criticism, stated that they were adamantly opposed to the recommendation, and noted that the original Fund agreements provided for yearly allocations of cash in lump sums. In fact, it was originally intended that Funds would be totally disbursed within three years of the establishment of Funds, since it was felt that a rapid inflow of capital was important to the success of the enterprises.

This issue remains unresolved, with the Funds being unwilling to give up the use of cash buffers, largely out of fear of further congressional freezes on funds, which had a negative impact on them in the past. Current requirements are that Funds may request advances for projected disbursements and outlays for a thirty day period, and, if these funds are not used within a further sixty days, they must be returned to the Treasury.

In addition to the actual costs of operation, some development professionals are concerned about the opportunity costs of the Enterprise Funds vis-a-vis other developmental projects and programs. To date, no estimates have been made of these costs, and an accurate quantitative study is not possible with the existing data. However, since Enterprise Fund appropriations are derived from regular economic aid sources and are not additive, it is clear that they replace rather than supplement traditional USAID projects and programs. The Southern Africa Fund, for example, has been financed out of the Development Fund for Africa, at the cost of other economic growth programs throughout the African continent. Alternative uses of Fund appropriations for Europe and the NIS are development programs in those areas.

In a related argument, critics of the Enterprise Fund concept question the use of U.S. Government monies for investing in listed stocks, or providing funds for joint ventures with major international companies such as Pepsi. These critics argue that such funds should be used for more directly developmental activities to stimulate economic growth. Opponents of this view note that the Funds are part of an overall development strategy, that the investments contribute to the countries economic growth and provide funds for development activities in the future, whereas traditional aid projects use up the funding. A counter argument maintains that traditional aid projects are themselves investments in the wide range of sectors in which they operate, including health, education, banking and business activities.

Some development professionals, noting the proliferation of such funds, and the competition between them in some areas for viable investments, suggest that more emphasis should be placed on coordinating with, and leveraging, the monies of existing venture capital funds. They suggest that, given the extreme scarcity of resources and the limited information on the success of existing Funds, funding should be limited to obligations already made, and no new Enterprise Funds should be established. This view was supported in a 1993 Senate Appropriations Committee report which stated that given other needs in the developing world, large scale U.S. assistance to central and Eastern Europe could not continue indefinitely, and that it was not too soon to begin planning for a phase-down. That report further noted that Poland, Hungary and the Czech Republic were candidates for early phasing out of major United States assistance.[16]

Supporters of the Funds see them as an extremely useful tool of development in dealing with the changing situations of newly democratizing societies, not only in Europe and the NIS, but also in other developing nations. A June 1995 report by the Senate Committee on Foreign Relations notes that, 5 years after their creation, the enterprise funds have proven themselves to be highly effective vehicles of U.S. foreign assistance. After further noting the high quality of the persons who serve 'pro bono' on the Boards of Directors, the committee stated its belief that Congress should take strong and clear action to continue to support and expand the Enterprise Fund concept.[16]

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[15] U.S. Congress. *Report to accompany H.R. 2295*. Senate Appropriations Committee. Report 103-142. September 14, 1993. Pp. 88-89.

[16] U.S. Senate. *Report to Accompany S.961*. Senate Committee on Foreign Relations. Report 104-99, June 23, 1995. P. 40.

LEGISLATION

1989

P.L. 101-179 (H.R. 3402)
Support for East European Democracy (SEED) Act approved November 28, 1989.

The purpose of this Act was to promote political democracy and economic pluralism in Poland and Hungary by assisting those nations during a critical period of transition and abetting the development in those nations of private business sectors, labor market reforms, and democratic institutions; to establish through these steps, the framework for a composite program of support for East European Democracy.

Section 201 of this Act authorized the establishment of Enterprise Funds in Poland and Hungary. These funds were intended to promote (1) development of the Hungarian and Polish private sectors, including small businesses, the agricultural sector, and joint ventures with United States and host country participants, and (2) policies and practices conducive to private sector development in Poland and Hungary, through grants, loans, equity investments, feasibility studies, technical assistance, training, insurance, guarantees, and other measures.

Section 201b authorized $240 million for the Polish-American Enterprise Fund, and $60 million for the Hungarian American Enterprise Fund, which would be made available 'notwithstanding any other provision of law'. The President, in consultation with the leadership of each House of Congress, would designate a private non-profit enterprise to receive these funds to carry out the objectives specified above.

Other provisions of this law specified that:

(1) the funds be governed by a Board of Directors, comprised of private citizens of the United States, and citizens of the respective host country, who have demonstrated experience and expertise in those areas of private sector development in which the enterprise fund is involved;

(2) an Enterprise Fund could hold funds granted to it in interest-bearing accounts, prior to the disbursement of such funds, and could retain interest earned on such deposits without returning such interest to the Treasury and without further appropriation by the Congress;

(3) each Fund should provide an annual report, including a comprehensive and detailed description of its activities, investments, financial condition and accomplishments for the preceding fiscal year, the report to be published not later than January 31, each year, beginning in 1991;

(4) annual audits, undertaken by accountants licensed or certified in the United States, were to be included in the annual reports;

(5) the GAO could audit the Funds; and

(6) they were required to keep accounts with all the information required to facilitate an effective audit.

P.L. 101-167
Foreign Operations, Export Financing, and Related Programs Appropriations Act, FY1990 authorized $90 million for the Polish-American and Hungarian-American Enterprise Funds.

Executive order 12703, February 20, 1990, provides that the functions conferred on the President by Section 201 of the SEED Act are delegated to the Administrator of the United States Agency for International Development.

1990

P.L. 101-513
Foreign Operations, Export Financing and related Programs Appropriations Act, FY1991 authorized $90 million for the Polish American and Hungarian American Enterprise Funds.

1991

P.L. 102-145
Continuing Appropriations, FY1992, continued the funding levels of the previous year.

1992

P.L. 102-884
Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992. This Act extended the authorities in the SEED Act, including the establishment of Enterprise Funds, to the independent states of the former Soviet Union.

P.L. 102-391
Foreign Operations, Export Financing and Related Programs Appropriations Act, FY1993 allocated $400 million to SEED Act activities in Eastern Europe and the Baltic States, and provided that priority be given, inter alia, to Enterprise Funds. A further $417 million was authorized for the new independent states of the former Soviet Union, for activities under the FREEDOM Support Act, including Enterprise Funds.

1993

P.L. 103-87

Foreign Operations, Export Financing and Related Programs Appropriations Act, FY1994 authorized $390 million for activities in Eastern Europe under the SEED Act, and $603,820,000 for activities under the FREEDOM Support Act in the NIS.

1994

P.L. 103-306

Foreign Operations, Export Financing and Related Programs Appropriations Act, FY1995 authorized $359 million for activities under the SEED Act, and $850 million under the FREEDOM Support Act, and noted that the President should authorize a Transcaucases Enterprise Fund.

1995

The following legislation is currently under consideration in the Congress:

H.R. 1868

Foreign Operations, Export Financing and Related Programs Act of 1995, as agreed to by a House/Senate conference committee, appropriates $324 million for SEED Act activities and $641 million for FREEDOM Support Act activities in FY1996. Among other directives, H.R. 1868 states that not less than $50 million should be provided to the Western NIS and Central Asian Enterprise Funds. In addition, the bill states that the President shall establish a Transcaucases Enterprise Fund to encourage regional peace through economic cooperation, for which not less than $15 million is to be made available. Further, the legislation stipulates that regional Enterprise Funds may appoint regional advisory councils with citizens of each country, rather than appointing Board members from each country.

H.R. 1561

The American Overseas Interests Act of 1995, as passed by the House, authorizes $643 million for FREEDOM Support Act programs in FY1996 and $650 million in FY1997. For SEED Act programs, the authorization levels are $325 million for FY1996 and $275 million for FY1997.

Section 3211 would amend the Foreign Assistance Act of 1961 by granting the President authority to provide funds and support to Enterprise Funds to promote private sector development in eligible countries. The amendment also grants officers, members and employees of such Enterprise Funds the same status under law as officers, members and employees of the Hungarian and Polish Enterprise Funds. In addition, new Enterprise Funds which are created would be exempt from the requirement to publish annual reports for the first twelve months of operation.

Section 3212 of the Act provides that the Central Asian-American Enterprise Fund may establish an advisory council composed of citizens of each of the host countries, in lieu of appointing citizens to the Board of Directors.

S. 961

Section 301 of the Foreign Aid Reduction Act of 1995, as reported by the Senate Foreign Relations Committee, authorizes $64 million in FY1996 for the President to create Enterprise Funds to promote private sector development, and policies and practices conducive to the development of the private sector, in eligible countries. It further directs the President to create a Transcaucases Enterprise Fund, and authorizes $12 million to remain available for this Fund.

The Senate Committee on Foreign Relations, in a report on S. 961, expressed the opinion that the Funds have been highly effective vehicles of U.S. foreign assistance, and that the Congress should take strong and clear action to continue to support and expand the Enterprise Fund concept. The Committee further directed that any reductions in USAID funding for its Eastern European and Baltic States and NIS accounts neither be applied nor have any effect on USAID's funding of the Enterprise Funds, and that the Agency provide an additional $30 million to the Hungarian Enterprise Fund.