



J.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

PD-ABQ-060  
**FILE** 96159

MAR 25 1994

Mr. W. Michael Blumenthal  
Chairman  
Fund for Large Enterprises in Russia  
c/o Lazard Freres and Co.  
1 Rockefeller Plaza  
New York, New York 10020

Grant No. CCN-0011-G-00-4032-00  
Amendment No. 1

Dear Mr. Blumenthal:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the Support for East European Democracy (SEED) Act of 1989, as amended, the U. S. Agency for International Development (hereinafter referred to as "USAID") hereby amends the subject grant to the Fund for Large Enterprises in Russia (hereinafter referred to as "Grantee" or "Fund").

The purpose of this grant amendment is to increase the total and obligated amount of this grant from \$100,000 (One Hundred Thousand United States Dollars) to \$40,000,000 (forty million United States dollars) by further obligating \$39,900,000 (thirty nine million nine hundred thousand United States dollars) to the Fund.

The specific changes to the Grant Letter by this Amendment are:

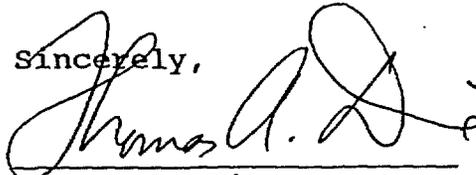
- In paragraph one, to delete "the sum of \$100,000 (One Hundred Thousand United States Dollars) to provide the initial capital", and to insert "the sum of \$39,900,000 (Thirty Nine Million and Nine Hundred Thousand United States Dollars) to provide capital" in lieu thereof.
- In paragraph four, to delete "This Grant represents the first increment of planned grant funding in the total amount of \$100,000,000 from USAID to the Grantee. It is understood that USAID's financial commitment under this Grant Agreement is limited to \$100,000", and to insert "This Grant represents the second increment of planned grant funding in

the total amount of \$100,000,000 from USAID to the Grantee. It is understood that USAID's financial commitment under this Grant Agreement, as amended, is limited to \$40,000,000" in lieu thereof.

Except as amended, all terms and conditions of this Grant remain unchanged.

Please sign the original and three (3) copies of this letter to acknowledge the Fund's receipt of and agreement to the terms and conditions of this Agreement and return all but one copy to the undersigned.

Sincerely,



Thomas A. Dine  
Assistant Administrator  
for Europe and  
the New Independent States

ACKNOWLEDGED

BY W. Michael Blumenthal  
W. Michael Blumenthal  
Chairman of the Board -  
Fund for Large Enterprises in Russia

March 26, 1994

FA/FM/A/NPA & PA

OFFICE OF FINANCIAL MANAGEMENT

ACTION: Oblig  
DATE: 3/29/94 INITIALED TA

FISCAL DATA

PIO/T Number: 110-0011-3-466-3121  
Obligation Number: CCN-0011-G-00-4032-00  
Appropriation Number: 72-11X1093  
Allotment Number: 393-68-110-00-69-41  
Budget Plan Code: WNIX-94-36110-KG-12  
Obligation this amendment: \$39,900,000

ACTION: reserved

INITIALS: WJF

DATE: 3-24-94

2

**AGENCY-ISSUED**

<b>ISSUING AGENCY</b> A. I. D. M/FM/CMP/LC, Rm 700, SA-2	<b>LETTER OF CREDIT</b> Auth: Treasury Department Circular No. 1075, Revised	<b>LETTER-OF-CREDIT NUMBER</b> 72001783  <b>AMENDMENT NUMBER</b> 1
<b>AGENCY STATION SYMBOL</b> 72000004	(FOR AGENCY USE) CCN-0011-G-00-4032(A-1)	<b>EFFECTIVE DATE</b> 05/06/94
<b>TO: Treasury Disbursing Center or Regional Office</b> <b>ACH BY ECS BIRMINGHAM DISBURSING CENTER</b>		<b>ADDRESS: NOT APPLICABLE</b>

In accordance with the authorization of the Fiscal Assistant Secretary, Department of the Treasury, there is hereby authorized for the account and responsibility of the issuing agency a letter of credit:

<b>IN FAVOR OF:</b>  Fund for Large Enterprises in Russia 17 State St., 26 th Floor New York, N.Y. 10004	<b>TREASURY CHECKS TO BE MADE PAYABLE TO:</b> "FOR DIRECT DEPOSIT ONLY"  Fund For Large Enterprises 00164806 021000238 Morgan Guaranty		
<b>AMOUNT AUTHORIZED</b> \$ 40,000,000.00	<b>TIME DESIGNATION</b> <input type="checkbox"/> EACH FISCAL YEAR <input checked="" type="checkbox"/> WITHOUT TIME LIMIT	<b>PRIOR AUTHORIZATION</b> \$ 100,000.00	<b>THIS CHANGE</b> Increase \$ 39,900,000.00 Decrease \$

**Time Designation: Each Fiscal Year**

The unpaid balance of this letter of credit is revoked at the end of each fiscal year and the full amount authorized is reestablished at the beginning of each fiscal year unless you are advised in writing that this letter has been revoked. \*

OR

The unpaid balance of this letter of credit is carried forward at the end of each fiscal year and will remain available during the following fiscal year and, in addition, the full amount authorized is reestablished at the beginning of each fiscal year unless you are advised in writing that this letter has been revoked. \*

**Time Designation: Without Time Limit**

The unpaid balance of this letter of credit will remain available until you are advised in writing that this letter has been revoked. \*

The amount of this letter of credit is hereby certified to be drawn against, upon presentation to you of Standard Form 183, Request for Payment on Letter of Credit and Status of Funds Report, by the official(s) of the recipient organization whose signature(s) appear(s) on the Standard Form 1194, Authorized Signature Card for Payment Vouchers on Letter or Credit, attached hereto or previously or subsequently furnished you.

The amount of each Request for Payment paid by the Department of the Treasury to the recipient organization at a designated commercial bank shall constitute payment to the recipient organization by the United States.

I certify to the Department of the Treasury that the payments authorized herein are correct and proper for payment from the appropriations or funds legally committed and available for the purpose, when paid in accordance with the terms and conditions cited above.

\* This letter of credit is irrevocable to the extent the recipient organization has obligated funds in good faith thereunder in executing the authorized Federal program in accordance with the grant, contract, or other agreement.

DATE CERTIFIED 5/5/94

  
 AUTHORIZED CERTIFYING OFFICER

HENRY S. HOLLAND JR. FINCL. MGT. OFFICER  
 TYPED NAME AND TITLE

cc: T. Dine

**Program Description  
Fund for Large Enterprises in Russia**

**A. PURPOSE**

The purpose of the Fund for Large Enterprises in Russia (the "Fund") is to provide equity, other types of financing and related technical assistance for medium-to-large enterprises which emerge from the privatization efforts underway in Russia.

The Fund has been established and will operate in accordance with the authorities of the Foreign Assistance Act of 1961, as amended. Pursuant to that Act, the authorities and provisions of the Support for East European Democracy (SEED) Act of 1989, as amended, concerning enterprise funds apply to the Fund. Funds provided under the Grant are part of the United States Government's contribution to the multilateral Special Privatization and Restructuring Program agreed upon by the G-7 countries at the Tokyo Summit.

The Fund has been organized in the U.S. as a not-for-profit corporation. The Fund does not have shareholders and will not distribute dividends. The revenues generated by the Fund will be utilized to pay the expenses of the Fund and for reinvestment in new projects and activities in Russia. The Fund will be managed by a Board of Directors comprised initially of U.S. and, later, Russian citizens. As a matter of operating philosophy, the Fund will be run as an investment corporation and will seek to make a reasonable return on its investments. The Board of Directors and executive management of the Fund will have maximum flexibility in the manner in which the Fund is structured and in strategic and operating decisions, subject to the provisions of this Grant Agreement.

The Fund will have offices in the United States and in Russia. The Fund will consider the establishment of offices in the regions which are selected to be the focus of the Fund's investment program. The exact structure and staffing requirements of the Fund will be determined by Fund management.

**B. DISBURSEMENTS AND DOCUMENTS FOR SUBMISSION TO USAID**

As described in the General Provisions, payment under the Grant will be made under a USAID Letter of Credit. The Grantee may

immediately request funds for administrative costs at the minimum rate necessary to allow the Grantee to make timely payments for expenses and start-up activities.

Prior to requesting funds for investment, loan, or technical assistance purposes or activities, the Grantee shall submit the following documents for USAID's approval:

1. By-Laws;
2. Statement of Corporate Policies and Procedures;
3. Personnel compensation policies;
4. Environmental protection policies and procedures; and
5. A detailed statement of the objectives of the Fund, adopted by the Board of Directors, which includes benchmarks or indicators which will be used to measure progress toward the general objectives referred to in Section F below. (This will be required by March 31, 1994, but will not be required for the Fund to receive funds for program activities, if any, before that date.)

After receiving USAID approval on the above documents, the Grantee may request funds for program activities.

### C. DESCRIPTION OF INVESTMENT PROGRAM AND RELATED ACTIVITIES

This section generally describes the investment program and related activities of the Fund. Section D sets forth investment policies the Fund will follow. Section E states certain operational requirements which apply to the Fund.

#### 1. Investment Program

The Fund will support medium-to-large private sector companies, with specific emphasis on those companies that are emerging from the mass privatization program in Russia, through a number of investment and other financing transactions. The exact nature of these transactions will be determined by the Board of Directors and executive management of the Fund. It is anticipated that the Fund will make both equity investments and loans, and will seek to develop financial transactions and instruments which are appropriate to the existing circumstances of the Russian economy and financial sector. To the extent practicable, the Fund will seek to involve Russian citizens and institutions in developing and implementing its operational and investment activities, to enhance sustainability and replication in the emerging Russian private sector. In identifying its investment opportunities, it is anticipated that the Fund generally will not seek to make

investments in firms which are capable of meeting their financing requirements from private sector sources.

The Fund is encouraged to seek the assistance of the Overseas Private Investment Corporation (OPIC) in developing private sector participation in the Fund's investment program. OPIC will cooperate with the management of the Fund to develop mechanisms to raise private capital for investment by the Fund or entities invested in or controlled by the Fund. To assist in this effort, OPIC has reserved a significant portion of its FY 1994 budget for loan guarantees for Fund investments which comply with OPIC criteria.

The President of OPIC will be invited to provide information and advice to the Fund and will also be invited to maintain regular contact with the Fund's staff, both in the United States and in Russia.

The Fund also is encouraged to seek the assistance of other United States institutions, such as Eximbank, to develop transactions which raise additional capital for the Fund's investment program.

In addition, the Fund will make all reasonable efforts to coordinate with the privatization and restructuring programs being implemented in Russia. These include the Local Privatization Centers, other regional equity funds established to provide investment capital to the restructuring of state-owned enterprises, and other technical assistance programs targetted at the development of sound commercial practices and standards in the emerging Russian private sector. It is anticipated that the Fund will attempt to work with these programs to identify appropriate investments and sources of capital, and to coordinate the provision of post-privatization assistance.

## 2. Technical Assistance

The Fund may provide selected technical assistance to directly support Fund investments and potential investments. In providing technical assistance, the Fund will give priority to efforts to improve corporate governance in the enterprises in which the Fund invests.

Technical assistance costs will be managed from a separate account or identifiable source of funds other than the Fund's investment capital.

## 3. Policy Reform

In policy analysis, the Fund will attempt to be in a position through its investment program to highlight for the Russian public

sector, the private sector, and the United States Government, specific policies and regulations (or the absence of specific policies and regulations) that undermine or hamper successful business practices. This process may take place through periodic joint meetings among the Fund, USAID, OPIC, the Department of State, the Department of the Treasury and the host government.

#### D. INVESTMENT POLICIES

The Fund will follow the investment policies set forth in this section. The application of the policies to individual investment decisions will be based on the business judgment of the Fund's board of directors and executive management. (As used herein and elsewhere in the Agreement, the term "investment" means equity investments, loans and other forms of financial commitment, unless the context requires otherwise.)

##### 1. Target Group

The Fund will make equity investments in, and provide other forms of financing to, potentially viable private sector companies in Russia. The Fund will target its program on medium- and large-sized enterprises emerging from Russia's privatization program.

##### 2. Russian Participation

To the extent practicable under the circumstances, the Fund will seek to encourage Russian private sector participation in the ownership and management of the entities in which the Fund invests.

##### 3. Demonstration Effect

In carrying out its program, the Fund will seek opportunities to make investments and provide related assistance which have demonstration and other systemic effects supporting economic reform and the transition to a market economy.

##### 4. Geographic Diversification

The Fund will consult with the U.S. Government and the Russian Privatization Center on the development of the Fund's geographic focus. It is anticipated that two or more regions of Russia will be selected for emphasis by the Fund's Board of Directors after consultation with, and based on the advice of, the United States Government. The Fund will actively pursue investment opportunities in each of the regions chosen for emphasis, but selected activities in other geographic areas are not precluded if they are consistent with the purpose and guidelines set forth in the Grant.

5. Minority Position

As a long-term objective, the Fund will seek to hold minority ownership positions in the firms in which it invests. However, the Fund may take majority ownership positions in such firms if the Fund, in the exercise of its business judgment, determines that it would be prudent to do so. (For instance, in selected cases it may be appropriate for the Fund to obtain a majority ownership position if such action is necessary to consummate a transaction or to protect the interests of the Fund.)

6. U.S. Joint Ventures

In developing joint venture transactions, the Fund will give special attention to opportunities to make investments with U.S. joint venture partners.

**E. OPERATIONAL REQUIREMENTS**

The operational requirements stated in this section apply to the Fund.

1. Changes in Structure

The Fund will not establish, invest in or finance any subsidiary or affiliate which has substantially the same directors, managers or employees as the Fund, without the prior written approval of USAID, unless the subsidiary is being created for the purpose of complying with U.S. law or business practice or Russian law and no one in the Fund or the subsidiary receives compensation in excess of the limit stated in this Agreement.

2. Investment and Financial Services Entities

The Fund may establish, invest in or finance subsidiaries or other entities whose primary business is to make investments or loans or to provide financial services, with the prior written approval of USAID. USAID's approval will be based on the consistency of any such entity's business purpose and investment policies and practices with those of the Fund and the extent to which the requirements of this Agreement will be specifically applicable to such entity.

3. Transactions With State-Owned Enterprises

The Fund may invest in state-owned enterprises provided the investment is made in an entity which is more than fifty percent owned by private sector parties (including the Fund), or is made in connection with a transaction which will result in more than fifty percent of the ownership of an entity being held by private sector parties.

4. Size of Investment

No more than 20 percent of the total capital of the Fund may be invested in, or loaned to, any one entity or group of affiliated entities, without the prior written approval of USAID. "Total capital" means the total amount of funds planned to be obligated under this Grant Agreement, which is \$100,000,000.

5. Section 547

The Fund will not make any investment or take any action which would be inconsistent with the criteria stated in Section 547 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1994 (or similar provisions in subsequent legislation), as described in General Provision 9.

6. Defense Enterprises

The Fund may not enter into transactions with defense enterprises without the prior written approval of USAID, as provided in General Provision 10.

7. Matters to be Taken Into Account

In making investments and otherwise carrying out its program, the Fund shall take into account such considerations as internationally recognized workers rights and other internationally recognized human rights, environmental factors (in accordance with the Fund's environmental policies), United States economic and employment effects, the likelihood of commercial viability and the impact of serious economic policy distortions on the sustainability of the activity receiving assistance from the Fund.

8. Technical Assistance

The Fund may undertake or finance technical assistance activities which directly support investments and potential investments, without the prior approval of USAID. The Fund will not undertake other technical assistance activities without the prior written approval of USAID. USAID will provide the Fund guidance on the manner in which it should consult with, and obtain approval from, USAID for other technical assistance activities.

9. Compensation Policies

In formulating its personnel compensation policies, the Fund will ensure that no salary of a Fund employee or employee of an organization in which the Fund owns a majority interest exceeds \$150,000 per annum. This limitation will not apply to an investment by the Fund which results in the Fund owning a majority

interest in a pre-existing entity which already pays its principal employees more than \$150,000 per year. Compensation or profit-sharing in excess of \$150,000 per annum, if any, will be paid from earnings or sources other than Grant funds.

Additional provisions applicable to the Fund are set forth in the General Provisions.

**F. EXPECTED ACCOMPLISHMENTS**

The Fund will define specific objectives in a "goal statement" and establish benchmarks for evaluation purposes, in consultation with USAID. It is understood that it is unlikely that each investment or project undertaken by the Fund will be successful. Based on the criteria described above, however, the success of the Fund will be characterized by the extent to which the Fund causes or contributes to the goals set forth in the Fund's objectives, as well as:

- the successful restructuring, or strengthening of, a number of privatized Russian firms;
- the development of a number of key joint ventures between U.S. and Russian private companies;
- the generation of projects which leverage U.S. private sector capital.