

The Enterprise Funds in Europe and Eurasia: “A USAID/USG Success story”



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With the fall of the Berlin Wall and the collapse of the Soviet Union, 27 countries began the transition from centrally planned economies to market economies. Seeing that these new states lacked the financial sectors necessary to support enterprise creation, the U.S. Congress, through enactment of the Support for East European Development Act (SEED) and the Freedom Support Act (FSA), authorized nearly \$1.2 billion for USAID to establish ten new investment funds, collectively known as the “Enterprise Funds”, throughout Central and Eastern Europe and the Former Soviet Union. The Enterprise Funds hired top financial sector investors who, consistent with their past experiences, focused on the most profitable investments available in their markets. The end results point to numerous additional development outcomes, showing that the pursuit of profits can act as a catalyst to achieve broader development goals.

DEVELOPMENT IMPACT FROM INVESTING

- Invested **\$1.2 billion** of USAID/USG funding into over 500 enterprises in 19 countries
- Leveraged an additional **\$5 billion** in private investment capital from outside the USG
- Reinvested **\$1.2 billion** of net proceeds realized from successful investments
- Expected to recoup **137%** of the original USAID funding
- Provided substantial **development capital** where supply was limited
- Created or sustained over **260,000 jobs** through investment and development activities
- Funded **\$74 million** in technical assistance to strengthen the private sector

In addition to direct equity investments and loans to small and medium-sized businesses, the Enterprise Funds played a key role in introducing home mortgage lending, mortgage securitization, credit cards, mezzanine financing, leasing, and investment banking. In cooperation with other USAID assistance, the Enterprise Funds helped remove institutional and regulatory roadblocks to market-driven private investment. Another positive outcome has been the transformation of renters into home owners and small business owners into stakeholders who are vested in creating sustained economic growth.

DEVELOPMENT IMPACT FROM LEGACY INSTITUTIONS

As the Enterprise Funds complete their investment cycles, assets are liquidated and the investment reflows are used to establish long-term philanthropic or “legacy” activities that will continue to strengthen and promote private sector development. These endowments continue to advance USAID objectives without additional USG funding. For example, the \$238 million endowed Polish-American Freedom Foundation funded \$51 million in legacy activities in its first seven years of operation. Additional legacy institutions are anticipated in the near future. This ensures a USG post-presence in countries long after the Enterprise Funds end their investment phases.

Countries/Regions	USAID Authorized (millions)
Russia	\$329
Poland	\$255
Ukraine, Moldova & Belarus	\$150
Central Asia	\$106
Hungary	\$73
Czech & Slovak Republics	\$65
Romania	\$61
Bulgaria	\$58
Estonia, Latvia & Lithuania	\$50
Albania	\$30
Total	\$1,177

Beyond Financial Returns

- Provision of investment capital
- Sustainable SME growth
- Technical assistance for SMEs
- Financial service development
- Association development
- Privatization of state owned companies
- Education of the next generation of entrepreneurs and managers
- Legal and regulatory reform

Legacy Institutions

- America for Bulgaria Foundation
- 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

DEVELOPMENT HIGHLIGHTS



Banking and Financial Markets

- Established the largest micro-finance institution in Poland, disbursing \$183 million through 69,275 loans
- Pioneered investment banking in Romania to support privatization of state owned enterprises, including two state owned banks, attracting over \$200 million in FDI
- Instituted a nation-wide bank in Bulgaria, making mortgages widely available; in 2007 the bank was selected by Euromoney Magazine as one of Emerging Europe's best managed companies
- Initiated mezzanine financing in the Baltics
- Established a nation-wide bank in Albania, providing Western-style credit cards, ATMs, and mortgages
- Introduced Russia's first Western-style credit cards
- Launched private equity funds in Ukraine, Russia, Poland, Romania, and Bulgaria

LEGACY HIGHLIGHTS

Institutional Reforms

- Developed necessary legal structure in the Baltics to support an annual \$100 million consumer mortgage industry and the first mortgage backed securities in Eastern Europe
- Facilitated residential mortgages and business equipment leasing in Russia through regulatory changes
- Fostered policies and established institutions that contributed to the rapid transformation of the Polish economy
- Helped develop the necessary legal structures for mortgage backed securities and real estate investment trusts in Bulgaria
- Assisted the Albanian government in creating its anti-money laundering strategy
- Helped create the Ukrainian National Mortgage Association

Direct Investment Activities

- Invested in Hungary's EURONET, a start-up developer of ATM networks and back-office bank services in Europe
- Turned around failing Moldovan Glass Container Company, saving 267 jobs and returning the company to profitability
- Funded equipment leasing in Romania and Bulgaria, enabling businesses to expand
- Started two leasing companies in Russia that collectively lease well over a million dollars in equipment each month
- Assisted companies in Ukraine and Moldova in raising over \$100 million of debt financing from third parties
- Acted as lead investor in building the new Mother Teresa International Airport in Albania

Capacity Building

- Funded the \$238 million endowment for the Polish-American Freedom Foundation to strengthen civil society, democracy and education
- Started the Hungarian-American Enterprise Scholarship Fund to bring talented Hungarians to the US for further training
- Founded the US-Russia Center for Entrepreneurship to target specific growth needs of entrepreneurs
- Supported the formation of the National Competitiveness Center in Ukraine
- Currently funding higher education scholarships and Junior Achievement programs in Central Asia

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