



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Mr. E. Gerald Corrigan
Chairman
Russian-American Enterprise
Fund
17 State Street, 26th Floor
New York, New York 10004

APR 12 1994

Grant No. CCN-0011-G-00-3156-00

Dear Mr. Corrigan:

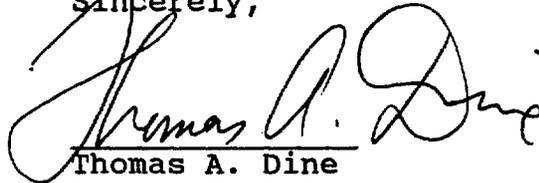
Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the Support for East European Democracy (SEED) Act of 1989, as amended, the U.S. Agency for International Development ("USAID") hereby amends the subject Grant to the Russian-American Enterprise Fund (the "Grantee" or the "Fund") to provide additional funding in the amount of \$50,000,000 and to amend Attachment 1 to the Grant Agreement ("Program Description") and Attachment 2 to the Grant Agreement ("General Provisions").

The Program Description and General Provisions are hereby amended and restated in their entirety in accordance with the Amended Program Description and Amended General Provisions, Attachments 1 and 2 to this letter. The amended terms and conditions stated in Attachments 1 and 2 to this letter are applicable to the Fund, with prospective effect, commencing on the date of this letter.

This amendment increases the total amount of funding under the Grant from \$20,000,000 to \$70,000,000. The Grantee agrees to commit all Grant funds in furtherance of program objectives within three years from the date of this amendment, and to expend all Grant Funds within four years of the date of this amendment, except as USAID and the Grantee may otherwise agree. Notwithstanding the expenditure of all Grant funds by the Grantee, this Agreement shall remain in force until the winding up and liquidation of the Grantee is completed in accordance with General Provision 16.

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 amendment and return all but one copy to the undersigned.

Sincerely,


Thomas A. Dine

Attachments:

1. Amended Program Description
2. ~~Amended General Provisions~~

ACKNOWLEDGED

BY E. Gerald Corrigan / JMK

NAME/TITLE E. GERALD CORRIGAN

DATE 4-12-94

FISCAL DATA

PIO/T Number: 110-0011-3-4662756
Obligation Number: CCN-0011-G-00-3156-00
Appropriation Number: 72-11X1093
Allotment Number: 393-68-110-00-69-41
Budget Plan Code: WNIX-94-36110-KG12
This Obligation: \$50,000,000

ACTION: reserved

INITIALS: SHD

DATE: 4-11-94

**Program Description
Russian-American Enterprise Fund**

A. PURPOSE

The purpose of the Russian-American Enterprise Fund (the "Fund") is to encourage the creation and expansion of small and medium-sized enterprises in Russia. This will be accomplished through transactions which will assist in the initiation and expansion of a wide array of private enterprises, promote and disseminate western business know-how and practices and demonstrate to other potential investors that private sector investment can be undertaken profitably in Russia.

In addition, it is anticipated that the Fund, through its operations, will help identify and promote policies and practices which are needed to encourage and facilitate private investment.

B. THE ENTERPRISE FUND CONCEPT

The Russian-American Enterprise Fund has been established in accordance with the authorities of the Foreign Assistance Act of 1961, as amended. Pursuant to that Act, the provisions of the SEED Act of 1989 concerning enterprise funds apply to the Russian-American Enterprise Fund. The SEED Act of 1989 provides for the creation of enterprise funds to promote private sector development in designated countries through loans, grants, equity investments, feasibility studies, training, insurance, guarantees and other measures.

The Fund has been established in the U.S. as a not-for-profit corporation, that is to say, 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 of top U.S. businesspersons and experts on Russia, as well as Russian citizens of recognized stature. 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 management of the Fund is expected to give consideration to opening regional offices within Russia if Fund operations so justify. The exact structure and staffing requirements of the Fund will be determined by Fund management.

C. DISBURSEMENTS AND DOCUMENTS FOR SUBMISSION TO USAID

As described in the General Provisions, disbursements under the Grant will be made under a USAID Letter of Credit. The Grantee may request funds for administrative costs immediately for immediate needs at the minimum rate necessary to allow Grantee to make timely payments for expenses and start-up activities.

As a condition to requesting funds for investment, loan, or technical assistance purposes or activities, the Grantee must submit to, and have approved by USAID, the following documents:

1. Statement of Corporate Policies and Procedures;
2. Personnel compensation policies;
3. Environmental protection policies and procedures; and
4. A detailed statement of the objectives of the Fund, adopted by the Board of Directors, which includes definitions for the Fund's target group of small and medium size enterprises, and benchmarks or indicators which will be used to measure progress toward the general objectives referred to in Section G below.

USAID has reviewed, and has provisionally approved, such documents, subject to the Grantee amending (i) its by-laws and (ii) Appendix I to its Statement of Corporate Policies and Procedures, in accordance with the section captioned "RAEF Basic Documents" at pages 1-2 of USAID Project Implementation Letter No. 1 to the Grantee, dated March 7, 1994 (attached hereto). The Grantee has agreed to make such amendments and, once those amendments are finalized by resolution of the RAEF Board of Directors, the Grantee may request funds for program activities pursuant to this Grant Agreement.

D. DESCRIPTION OF RUSSIAN-AMERICAN ENTERPRISE FUND ACTIVITIES

This section generally describes the types of activities in which the Russian-American Enterprise Fund is likely to engage. Section E sets forth the investment policies the Fund will

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follow. Section F states certain operational requirements which apply to the Fund.

1. Transactions

Consistent with its investment policies, the Fund will support a number of private sector transactions in Russia. 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.

Loan programs could be undertaken directly by the Fund, through a subsidiary or through existing financial institutions. Despite the weakness of the financial system in Russia, the experience of enterprise funds in Eastern Europe suggests that the financial sector is one area where transactional activities can encourage and support significant changes in broader policies and procedures. The Board of Directors and executive management of the Russian-American Enterprise Fund will pay special attention to opportunities to develop or take part in transactions which will significantly contribute to the development of the Russian financial sector.

The Fund also may make equity investments in promising private sector companies including, where appropriate, state-owned enterprises which have committed themselves to privatization and others which, in addition to privatization, have determined to convert from defense to civilian production. Equity participation will permit the Fund not only to provide capital to these firms, but also to form a strategic partnership that will enhance the success of these firms and demonstrate the impact of sound business practices. Fund management will develop appropriate exit strategies, where possible, for its equity portfolio.

It is anticipated that the Fund will be a leader in investing in middle market companies that most other investors might find too risky because of unproven track records and the fluid political and economic environment of Russia. By demonstrating the viability of investing in these enterprises, the Fund will, over time, reduce the perceived risk of investment in Russia.

2. Technical Assistance

The Fund will provide technical assistance to directly support Fund investments and potential investments. 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 and lending 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 be formalized through periodic joint meetings between the Fund, USAID, the Department of State and the host government.

E. 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 target its investment program on small and medium size enterprises in Russia.

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

The sheer size and diversity of Russia suggests that individual transactions will have a limited development impact unless they have important demonstration or other systemic effects (e.g., assisting a private mortgage bank to participate in the housing sector). Therefore, in carrying out its program, the Fund will seek opportunities to make investments and provide related assistance which have demonstration or other systemic

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effects supporting economic reform and transition to a market economy.

4. Diversification

a. **Sectors.** The Fund will seek to make investments in a variety of sectors, in order to broaden its impact and to minimize investment risk.

b. **Risk.** The Fund will develop a portfolio which includes investments with a range of risks--including "high risk-high reward" investments as well as a select few cash generators that provide a current return and help provide financial viability.

c. **Regional Diversification.** The Fund is not required to develop a regionally diversified portfolio. Whether the Fund should be concentrated in select areas or diversified across a broader range of areas will be determined by the Fund and will be discussed with USAID following the first annual review.

5. Minority Position

As a long-term objective, the Fund generally 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. Joint Ventures

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

F. 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

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or Russian law and no one in the Fund of 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. Prior USAID approval will not be required in order for the Fund to finance small business lending programs through financial institutions.

3. 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 worker 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.

4. Privatization Transactions

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.

5. Size of Investment

No more than 10 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. Until September 30, 1994, "total capital" means the total amount of funds planned to be obligated under this Grant Agreement during U.S. Government fiscal years 1993 and 1994 (projected to be \$140 million). After that date, "total capital" shall mean the total amount of funds planned to be obligated under this Grant Agreement during the life-of-project (projected to be \$340 million life-of-project).

6. 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 prior or subsequent legislation) ("Section 547"), as described in General Provision 9.

7. 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.

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.

G. EXPECTED ACCOMPLISHMENTS

Since Fund management will make the ultimate decisions about the Fund's programs, it is not possible at this time to define specific quantitative measures of success. 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 successful establishment, or strengthening of, a wide-array of small and medium size firms across the different sectors of the Russian economy;
- the generation of new employment opportunities in the Russian private sector;
- investment by other private companies in sectors where the Fund took an initial lead;
- the completion of a wide array of transactions that develop and strengthen financial markets in Russia; and
- development by the Fund of a number of key joint ventures between U.S. and Russian private companies.

Taking into account these general objectives, the Russian-American Enterprise Fund will define specific objectives in a "goal statement" and establish benchmarks for evaluation purposes, in consultation with USAID. These benchmarks will be discussed as part of the semi-annual reviews of the Fund in 1994 and shall be included in the January, 1995, Annual Report by the Fund.