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EVALUATION

Europe and Eurasia Enterprise Funds and Legacy Foundations Final Evaluation Report

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Albena Godlove
Evaluation Team Leader

ACRONYMS

AADF	Albanian American Development Foundation
AAEF	Albanian-American Enterprise Fund
ABA	American Bank of Albania
ABF	America for Bulgaria Foundation
ACLC	Asian Crossroads Loan Company
AIG	Assistant Inspector General
AML	Anti-Money Laundering
AUBG	American University in Bulgaria
BACB	Bulgarian-American Credit Bank
BAEF	Bulgarian-American Enterprise Fund
BAF	Balkan Accession Fund
BAFF	Baltic-American Freedom Foundation
BalAEF	Baltic-American Enterprise Fund
BID	Business Improvement District
BSTDB	the Black Sea Trade and Development Bank
CAAEF	Central Asian American Enterprise Fund
CAEF	Czech-American Enterprise Fund
CEO	Chief Executive Officer
CFE	U.S. Russia Center for Entrepreneurship
CFF	Crimson Finance Fund
CFO	Chief Financial Officer
CIEE	Council on International Educational Exchange
CIO	Chief Investment Officer
COI	Conflict of Interest
COR	Contracting Officer's Representative
CSAEF	Czech and Slovak-American Enterprise Fund
DAI	Development Alternatives Incorporated
DevTech	DevTech Systems, Inc.
DOS	Department of State
DPEP	Delta Private Equity Partners
DRF	Delta Russia Fund
E&E	Bureau for Europe and Eurasia
EBRD	European Bank for Reconstruction and Development
EEGF	Emerging Europe Growth Fund
EI	Enterprise Investors
EU	European Union
EVP	Executive Vice President
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FLER	Fund for Large Enterprises in Russia
FMO	Dutch Entrepreneurial Development Bank
FREEDOM	Freedom for Russia and Emerging Eurasian Democracies and Open Markets
FSA	Freedom Support Act
FY	Fiscal Year
GAO	General Accounting Office
GDP	Gross Domestic Product
GE	General Electric

GOR	Government of Romania
GP	General Partner
HAEF	Hungarian-American Enterprise Fund
HAESF	Hungarian-American Enterprise Scholarship Fund
HHTVCF	Hungarian High Technology Venture Capital Fund
HITF	Hungarian Innovative Technologies Fund
HR	Human Resources
ICPS	International Center for Policy Studies
IESC	International Executive Service Corps
IFC	International Finance Corporation
IMB	International Mortgage Bank
IMF	International Monetary Fund
JA	Junior Achievement
KII	Key Informant Interview
KPI	Key Performance Indicator
LP	Limited Partner
LTEI	Long Term Equity Incentives
MAIB	Agroindbank
MCI	Mercy Corps International
MRI	Magnetic Resonance Imaging
MSME	Micro-, Small- and Medium Enterprise
MTP	Major Transactions Program
NACD	National Association of Corporate Directors
NGO	Non-governmental Organization
OI	Opportunity International
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PAEF	Polish-American Enterprise Fund
PAFF	Polish American Freedom Foundation
PIP	Professional Internship Program
PPEF	Polish Private Equity Funds
PSD	Private Sector Development
RAEF	Romanian-American Enterprise Fund
RAF	Romanian-American Foundation
RIEEC	Romanian Industrial Energy Efficiency Company
RIF	Romanian Investment Fund
SAEF	Slovak-American Enterprise Fund
SAF	Slovak American Foundation
SAR	Semi-Annual Report
SEED	Support for Eastern European Democracy
SLP	Small Loan Program
SME	Small and Medium Enterprises
SMIF	Small Business Investment Fund
STEM	Science, Technology, Engineering and Mathematics
TA	Technical Assistance
TID	Tourism Improvement District
TUSRIF	the U.S.-Russian Investment Fund
UBS	Universal Business Systems
UK	United Kingdom
US	United States

USAID	United States Agency for International Development
USD	United States Dollars
USG	United States Government
USRF	U.S. Russia Foundation for Economic Advancement and the Rule of Law
WNIS	Western New Independent States of Belarus, Moldova, and Ukraine
WNISEF	Western New Independent States Enterprise Fund

EXECUTIVE SUMMARY

The United States Agency for International Development (USAID) contracted DevTech Systems, Inc. (DevTech) to carry out an evaluation of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992, and Legacy Foundations set up in the host countries between 2000 – 2015, funded with some of the proceeds from the investments of the Enterprise Funds. The period of performance for the evaluation is September 27, 2016 to July 27, 2017 with work locations in the United States and Albania, Bulgaria, Romania, Hungary, Ukraine, and Moldova.

Purpose

The overall purpose of this evaluation was to provide USAID and other stakeholders, including the American public, with an account of the experience, successes and shortcomings, and accomplishments of the Enterprise Funds and Legacy Foundations. The evaluation also aimed to assess the effectiveness of the Enterprise Funds and Legacy Foundations as development tools in practice and to make recommendations for adaptations, should policy makers consider using these mechanisms in other settings in the future.

The evaluation team began the analysis with a recognition of the turbulent times in which the Enterprise Funds began operating in Central and Eastern Europe. The unpredictable political and economic local dynamics necessitated maximum flexibility in the Boards decision-making and Funds management teams. After all, the first Funds were making private equity investments while the Russian Army was still in Central Europe. In rapid succession between 1991 and 1995 Enterprise Funds started operations in economies faced with much steeper learning curves than that of Central Europe during the transition – from Central Asia to Ukraine, Belarus and Moldova, to Albania. In the 1990s and 2000s, these countries went through the deep convulsions of the transition to democracy and market economies – shock therapy in Poland and Bulgaria, severe crisis in Albania in 1997, collapsing banking sector in Bulgaria and the introduction of a Currency Board, similarly Currency Boards in some of the Baltic republics, the Russian crisis, the global financial crisis, two revolutions and a war in Ukraine, and more.

Despite the enormous challenges of the transition from planned to market economy, the former Soviet bloc countries were very different from today's developing countries in several important ways: they had an educated workforce and urbanized populations, fairy modern industrial and service sectors with well-structured value chains, and functioning bureaucracies. These countries did not have, however, a private sector, and in particular, a diversified private financial sector that could support the financial investments needed to transform the economy into a market-based system. This is the gap that the Enterprise Funds were designed to help to address. They were a solution to a problem in a very specific context. Policy makers deliberating potential replications of the Enterprise Funds should take into consideration the contexts in which new Funds would operate and determine how their models, structures, investment and development strategies, operations, and governance practices may need to be adapted to address effectively different sets of challenges, while protecting adequately United States Government (USG) interests.

The data and information collected as part of this evaluation will provide policy makers with a richer understanding of the likely effects of investments and grants for private sector development in each country where the Enterprise Funds and Legacy Foundations operate. Interviews with current and former Directors of the Boards and staff of the Funds and Foundations, current and former USG policy makers, investees and grantees, and third party stakeholders as well as the applications of a corporate governance assessment tool with several Legacy Foundations re-invigorated internal discussions among Foundation staff and conversations with stakeholders about the role the Funds and Foundations have

played in the local context and the importance of governance and measuring results, among other things. The findings of this evaluation and the lessons learned should add value to the deliberations of policy makers tasked with the assessment of the effectiveness of these mechanisms in different contexts and with the design and implementation of future interventions building on the successes and avoiding some of the challenges faced by the Enterprise Funds and Legacy Foundations.

The financial performance of the Enterprise Funds has been well-documented and verified. Despite all challenges, the Enterprise Funds have proven a success story, with a few exceptions. USG invested about $1.2 billion in ten Enterprise Funds that operated in 19 countries. As of 2013, these Enterprise Funds have leveraged an additional $6.9 billion in private investment, reinvested $1.7 billion of net proceeds realized from investments, returned to the U.S. Treasury $225.5 million of the original USAID investment, and endowed nine legacy institutions with about $1.3 billion. Some indicators measuring development impact have also been reported, although not all such reported results have been properly defined in the first place and verified and validated after they had been reported. One such example is the reported number of jobs created or sustained.

This report does not attempt to re-examine known and verified facts such as the financial performance of the Funds. The value this report adds is the examination of the performance of the Enterprise Funds along the other dimensions incorporated in their Grant Agreements, namely the balance between financial returns and development objectives; the track record of the Boards of Directors of the Funds in adhering to best practices in corporate governance to ensure that Funds were managed in the best interest of investors, including the USG; and the ability of USAID to exercise adequate oversight of the Funds within the architecture set up by the USG, including the emphasis on strategic and operational independence of the Enterprise Funds.

Another significant and entirely new element in the evaluation of the Enterprise Funds and their impact is the evaluation of the Legacy Foundations established with some of the proceeds of the Funds upon their liquidation. Given the total size of the endowments ($1.3 billion), the even greater independence of the Legacy Foundations and programs from USG oversight, the varying levels of maturity of the foundations, and the range of approaches and programs implemented by them, USAID requested an evaluation of the legacy programs.

The questions of corporate governance as practiced by the Boards of Directors of Funds and Foundations as stewards of these institutions and of USAID's ability to execute adequately and timely its oversight role have not been examined closely before. These elements, however, are just as critical for the success of ventures of this kind, as is the provision of funding, and they arguably affect outcomes in ways that previous reports and papers have not considered. Specifically, an examination of the role of the Boards is closely linked to considerations such as:

- The setting of strategic direction and emphasis, or lack thereof, on development impact;
- The models and the risk appetite framework adopted by the Funds (focus on lending or equity; establishment of banks, setting up of parallel funds and management companies) and their effect on performance incentives;
- The rigorous adherence to a clear grant-making strategy and consistent and prudent evaluation of all funding alternatives by Foundations (except for foundations focused solely on scholarship administration);
- The Funds' structure of fees such as management fee and carried interest, other fees such as shared services fees, fees paid by Funds to investment advisors and other affiliates, fees paid to Funds by portfolio companies, as well as the structure of Long Term Equity Investment (LTEI) Plans and bonus pools and their impact on performance incentives;

- Demonstration effect – providing an example of well-governed institutions that scrupulously adhere to best practices in corporate governance in environments that do not always have many such examples; and
- Reputational impact (positive or negative).

The analysis of the adequacy of USG oversight focuses on some characteristics of the Funds and Foundations' set-up (that provided them with greater independence than other USAID implementation mechanisms) that should be considered by decision-makers, if the Enterprise Funds and Legacy Foundations models are replicated in the future.

The questions addressed in this evaluation report are presented below in abbreviated form.

Purpose of Evaluating the Enterprise Funds:

1. Examine how each Enterprise Fund balanced and pursued its development objectives and financial goals in its management, strategic direction, operation, and staffing arrangements over the course of its lifespan.
2. Assess the nature and reliability of existing evidence that Fund investments resulted in direct, positive gains in private sector development.
3. Determine how effective pro bono Boards of Directors were in their stewardship, strategic leadership, and corporate governance roles.
4. Assess USAID's relationship to and oversight of the Enterprise Funds over the course of their operation and identify any key lessons learned, barriers, or constraints that the agency should factor into planning and design, if, and when, these or similar investment funds are supported in the future.

Purpose of Evaluating the Legacy Foundations:

1. Take stock of the Foundations' strategic priorities and grant-making practices as they relate to their mandate to promote private sector development and policies and practices conducive thereto.
2. Compare the Foundations' governing and staffing structures, grant-making models and procedures, and day-to-day management with international standards of best practices and accountability for the stewardship of Foundations and, when applicable, offer constructive and realistic recommendations for more closely adhering to those standards.
3. Determine the extent to which existing forms of USG engagement—namely reviews of annual reports and participation of ex officio non-voting liaisons on Foundations' governing boards—constitute sufficient oversight for the USG to exercise its responsibility to ensure the Foundations' adherence to their grant agreements with their "parent" Enterprise Funds.

Methodology

The evaluation team used a combination of approaches and tools that varied by country depending on the availability of interviewees and data, the allocated level of effort, the nature of the programs and investments supported by the funds and foundations, USAID recommendations, and other factors. The evaluation team drew on several primary and secondary sources of information. Primary sources included field visits in Albania, Bulgaria, Hungary, Moldova, Romania, and Ukraine and meetings with USG representatives, current and former Fund and Foundation staff, and site visits with samples of Enterprise Funds' investees and Legacy Foundations' grantees as a verification method for initial findings gathered from the document review, key informant interviews (KIIs), and focus group discussions (FGDs).

Prior to the fieldwork and while in the field, the team used KIIs with stakeholders employing a semi-structured interview approach to gather qualitative information to address the above-noted evaluation

questions. The evaluation team conducted separate FGDs with the staff of Legacy Foundations. The team also used anonymous electronic surveys through the Google Forms online platform to collect information from a broader group of stakeholders in Romania and Hungary. Surveys were used to complement interviews conducted during field visits, when time, distances, and a large number of sites and beneficiaries made it difficult for the evaluation team to cover an appropriately sized sample of foundation grantees.

The evaluation team performed a desk review of secondary sources beginning with relevant USAID and Enterprise Fund / Legacy Foundation documentation, including grant agreements and modifications, quarterly, semi-annual, and annual reports, Fund and Foundation strategy, governance, and compensation documents, a very limited selection of minutes of Board meetings for a few Funds, mission reports and related memoranda. Over the course of the evaluation, as additional questions emerged, the evaluation team worked with USAID to identify and research additional documents from the USAID archives.

The evaluation of the Enterprise Funds consisted of the following components: desk reviews; KIIs with Directors of the Board or Senior Executives; and a sample of site visits with investees, where these were available during the fieldwork. The evaluation of the Legacy Foundations consisted of desk reviews; KIIs with Directors of the Board and executives of contractors implementing scholarship programs on behalf of Foundations; sampling of grantees and site visits during the fieldwork; e-surveys for grantees in Romania and Hungary; and FGDs with foundation staff as part of the assessment of the Legacy Foundations' adherence to best practices in corporate governance. The evaluation team adapted a structured framework to assess corporate governance, which was finalized with extensive input from USAID. It incorporated recognized principles of corporate governance in the areas of governing and staffing structures, strategic planning and management, grant-making practices, monitoring, evaluation, accountability, and communication, as relevant to the scope of this evaluation.

The evaluation team used a combination of probability and non-probability sampling methods to identify investees and grantees interviewed in the field. The team used a random number generator to choose participants among investees and grantees of Funds and Foundations from comprehensive lists validated with the Foundations and Western New Independent States Enterprise Fund (WNISEF) (i.e. simple random sampling). The Evaluation Team also broke the target population (i.e. all investees and grantees of Funds and Foundations) into strata, and then applied the sampling technique within each stratum to ensure that we had enough participants from each stratum to be able to draw conclusions. Stratification reduced probability for sampling error, because it ensured that all relevant portions of the target population were included in the sample.

Non-Probability Sampling, or convenience sampling, refers to identifying respondents that are accessible during the evaluation. The evaluation team used non-probability sampling with regard to key informants such as Board Members of Funds and Foundations, USG officials, including U.S. Missions in the target countries, Government representatives in host countries, and international donors. On occasion, in coordination with the Foundations and WNISEF, the team replaced investees or grantees in the initial sample with other ones with the same characteristics due to lack of current contact information, distance and time constraints. This method also included 'snowball sampling', an approach used for locating information-rich key informants. Using this approach, pre-identified key informants were contacted and asked whether they could recommend other potential key informants with the characteristics that the evaluation team was looking for in this final evaluation. A discussion of the limitations of our sampling approach is included in the Methodology section of the report.

Findings, Conclusions and Recommendations

The summary below provides a brief overview of the generalized conclusions reached in response to each evaluation question.

Fund Evaluation Question #1: How successful were the Enterprise Funds in balancing their dual mandate of achieving specific economic development objectives and achieving financial returns, as laid out in their original Grant Agreements with USAID? To what extent and how reliably did the Funds measure progress toward their development objectives?

The Support for Eastern European Democracy (SEED) Act of 1989, the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act of 1992, and the Grant Agreements between USAID and the Enterprise Funds defined the objectives of the Funds in very broad terms and did not delineate clearly between development and financial objectives. Broadly defined objectives were not conducive to the establishment of expected results and measurement of progress towards such results. This was further complicated by the fact that the expectations about the performance of the Funds were not clear from the beginning, as USAID had not had prior experience with private equity and venture capital funds. Further, the transition in Central and Eastern Europe in 1989-1990 was unfolding rapidly, and the economic situation required a decisive but flexible response. It was not clear if the Enterprise Funds would be successful and what that success would look like. As a result, USAID did not include in the Grant Agreements a set of indicators relevant both to USAID and the Funds beyond the basic financial reporting requirements.

Different Enterprise Funds interpreted and addressed development impact mandates very differently. Some Enterprise Funds attempted to clarify with USAID the expectations regarding development impact and the relative weight the Agency placed on development results. As part of their mandate to develop an investment strategy, Fund management teams also grappled with the concept of the dual objectives and articulated their views on the matter. The evaluation team received and reviewed documents that showed written exchanges between USAID Washington, USAID staff in the field, and Enterprise Fund management teams on the topic of investment objectives, their alignment with USAID priorities, and appropriate performance measurements.

Some Enterprise Funds were much better in balancing their dual mandates. Funds – such as those in Russia, Poland, and Western New Independent States of Belarus, Moldova, and Ukraine (WNIS) – were deliberate and consistent in their approaches and documented in detail the resources invested in capacity building of portfolio companies, subsidiaries, and financial institutions they had created or invested in. Other Funds spent less on capacity building and technical assistance but were successful in their support for the development and enactment of legislative reforms that would enable their own strategies and protect their investments while having a broader, positive, systemic impact and a multiplication effect as they improved the enabling environment, encouraged additional capital flows or the uptake of new financial products and services introduced by the Funds, created business associations, and more. Examples include the facilitation of residential mortgages and leasing in Russia, the development of legal structures in the Baltics and Bulgaria to support the development of a consumer and residential mortgage industry, the mortgage backed securities and real estate investment trusts in Bulgaria, the strengthening of financial institutions in Romania, the development of an anti-money laundering strategy in Albania, and more.

There were also Funds that adopted a different view and simply considered any investment in the local economy to be development impact. Some of these Funds did contribute to the development of enabling legislations and the introduction of new products and services; however, arguably their focus veered off in the direction of profit maximization and their key performance indicator was financial

success. Such Funds invested very little in technical assistance and capacity building, considered such costs detrimental to the performance of their portfolios and deducted these costs, and did not report against development impact objectives.

Even the Funds that invested significant resources in development activities that were not strictly related to investments and lending did not attempt to measure development impact beyond a few proxy indicators included in a required Strategic Framework Matrix incorporated in the Funds' Semi-Annual Reports (SARs) since 1997-1998. Proxy indicators meant to measure development impact, such as "Jobs", were not properly defined by USAID or the Funds and were not consistently reported by some Funds. USAID did not have the capacity and resources to validate the reported numbers. It is too late to validate employment creation by the Enterprise Funds at the time of this evaluation. Other development impact-type metrics such as policy development work, technical assistance and capacity building, organizational development of financial institutions or regulators are included by most Funds in reports in the form of lists of activities with little-to-no impact analysis. The one exception is WNISEF, which commissioned two economic impact studies of its activities in 2002-2005 and in 2015.

It should be noted that USAID's initial plan was that all Funds would participate in mid-term and end-of-project evaluations that would assess such impact. There was no expectation that the Funds would be producing impact analyses.

Fund Evaluation Question #2: Is there evidence that the Enterprise Fund's investments contributed to improved management, business growth, employment generation, and/or additional investment inflows among recipient companies?

In accordance with their Grant Agreements, Enterprise Funds could provide technical assistance only to the companies in their portfolios or to potential investees. Some Funds received additional technical assistance grants that were managed and accounted for separately from the Funds' investment capital. Some of the factors that determined the approach to and utilization of the technical assistance option by the Enterprise Funds included:

- The existence of a technical assistance recommendation in the Grant Agreement or a separate grant as in the Hungarian and Polish cases;
- The view of the Fund's management team on the utility of technical assistance in the context of their investment strategy;
- The Fund management's perception of the relative importance of technical assistance (an expense) vis-à-vis their chosen principal performance metrics (generally financial performance metrics);
- The assessed need for technical assistance and types of assistance provided; and
- The perceived or assessed results of the technical assistance on the performance of the portfolio companies.

Some Enterprise Funds – largely the ones cited above as placing an emphasis on the improvement of the capacity of their portfolio companies – did so in the belief that such investments would reduce the investment risk in investees and would makes these investees more attractive down the road to other investors. One notable example is the business optimization program, started by WNISEF to build the capacity of potential portfolio companies up to western standards and do so by ensuring that these companies also had 'skin in the game.' Other Enterprise Funds invested in building up investees' internal operational, risk and management capacities to ensure profitable exits. Examples include the investments made by the Romanian American Enterprise Fund (RAEF) in strengthening the performance of the privatized Banca Agricola and Banca Romaneasca before a profitable exit for the Fund. The fund also created Domenia Credit, a mortgage lending institution to which it attracted foreign capital and later

successfully exited. The Bulgarian and Albanian Enterprise Funds created their own banks, which became leaders in the banking sectors of the two countries, leveraged large amounts of capital, and delivered impressive financial results for the Funds once they were sold.

Generally, the Funds were successful in attracting addition capital to their portfolio companies; the exceptions were the Hungarian American Enterprise Fund (HAEF), which did not report any such debt or co-investments, and the Central Asia American Enterprise Fund (CAAEF), which attracted a very small amount in proportion to its size.

Few and, at best, careful conclusions can be drawn from reported technical assistance costs. These numbers likely underestimate the cost of internal capacity building associated with a strategy focused on setting up and building financial institutions such as the banks in Albania and Bulgaria, and the necessary cost of building the capacity of many of the bank customers afterwards as a risk mitigation strategy. Such technical assistance costs to the bank do not appear in the Strategic Framework Matrix (they could appear as additional salary and benefits expenses, if the bank had to hire additional staff). Technical assistance costs would probably be more accurately accounted for by Enterprise Funds taking equity stakes in portfolio companies that have required a systematic capacity building approach. Not all Funds took a proactive approach to building the capacity of their investees, and not all investees required the same approach. Some Funds also benefitted from access to MBA Executive Corp and International Executive Services Corp volunteers. This appears to have been a cost-effective way to address critical gaps on a short-term basis.

The SAR template and the Strategic Framework Matrix, incorporated in it after 1997, do not provide sufficient detail regarding the types of technical assistance, the cost of providing this support, any contributions from portfolio companies or others to this technical assistance, the cost of leveraging external funding to Funds' investment vehicles, internal capacity building costs, consulting contracts for such activities, and other relevant costs. Further, capacity building activities are generally listed in reports in a sentence or two with little information on objectives and results of the assistance and how those results were measured. Based on the available reported information, in most cases it is not possible to attribute improved financial or business performance of an investee or additional funding raised to some specific capacity building or technical assistance activity provided by the Fund. There is certainly evidence that Funds provided technical assistance to investees in different forms, but a rigorous analysis of the impact of this assistance, its cost effectiveness or other similar measurements is not possible on the basis of the existing reports.

Further, Funds often took a minority stake in companies, per the instructions provided in their Grant Agreements, did not provide management teams or become very involved in the day-to-day management of portfolio companies. Some of these companies also attracted additional, external investments. Therefore, even when there were improvements in the performance of a portfolio company, it is not possible to attribute this improvement solely or primarily to a Fund's investment. Some exceptions include, in addition to the examples of Funds that created and built up commercial banks, Fund investment officers taking on the responsibilities of CEOs of portfolio companies or wholly owned Fund enterprises and successfully expanding the operations of these enterprises.

Finally, it is not possible to validate at this time the employment creation numbers quoted as part of the impact of the Enterprise Funds. Employment creation was never properly defined by USAID or the Funds as a metric, the reported numbers did not provide detail on the types of jobs counted, and the numbers have not been validated. At the time of writing of this report, some of the Funds' portfolio companies are no longer in existence. Therefore, the evaluation team has not been able to verify the 260,000-300,000 jobs reported as created or sustained by the Funds.

Fund Evaluation Question #3: How effective was the Enterprise Fund's pro bono Board of Directors in providing guidance, direction, and oversight in the operations of the Funds and in the operations of the SMEs in which the Fund invested? Did the Board's composition or decision-making processes conflict with international best standards for investment fund governance and/or work to the detriment of the Fund's abilities to achieve their stated objectives?

The record is mixed and it provides some insight into additional considerations for decision makers. USAID considered the Boards the first line of defense against missteps. While most Boards performed their role relatively well, there were some high-profile situations that required and received a prompt and decisive USG intervention, once the issue was identified. Interviews with Board Directors also identified the Board as the biggest success factor in the performance of an Enterprise Fund. This generally meant appointment of technically strong business people with appropriate backgrounds rather than appointees based on political imperatives.

There are several areas of best practices in corporate governance that most Boards did not pay a lot of attention to, at least until the transition to the Legacy Foundations. These were the existence of term limits for Board memberships (not only in terms of years but in terms of numbers of rotations), succession planning, performance appraisal of Board members, and on-boarding of new Board members.

One area where Boards may have overlooked potential implications is the alignment of the models and structures adopted by different Enterprise Funds with the performance incentives and behaviors of investment managers. The more complicated the fund model, including multiple parallel funds and management companies, the less transparent some of the fee structures and compensation incentives, and the more likely the existence of potential and real conflicts of interest.

Fund Evaluation Question #4: Did USAID have adequate access to information, staff expertise, and management arrangements in place in Washington, D.C., and/or countries of operation in Europe to effectively exercise its oversight role throughout the duration of each Enterprise Fund's operation, as established in the original Grant Agreements? If yes, what proved most critical? If no, what was missing?

Enterprise Funds and their Boards resisted USAID oversight in the early days, which they interpreted as interference. It took a few missteps in the early years for Congress to consider the need for some additional oversight of the Enterprise Funds. As a result, the oversight process was regularized and strengthened. USAID received the annual reports and semi-annual updates it was entitled to, as well as annual external auditor reports. Often that was the extent of the information provided to USAID. In general, USAID was not invited to Board meetings and did not receive minutes from Board meetings, which limited the Agency's visibility into the inner workings of the Board. There were a few exceptions to this rule.

In addition, the USAID Washington Office – responsible for the oversight of the Enterprise Funds – was chronically overstretched and under-funded, further limiting its ability to exercise proper oversight. It should also be noted that the subject matter of these grants was fairly complex in nature and required specialized technical expertise that very few USAID employees possessed. To their credit, USAID and U.S. Department of State (DOS) employees sought counsel and discussed in great detail issues as they emerged, kept good records, and persisted in their inquiries. Still, it appears that some additional legal and technical analysis may have been beneficial in the case of discussions of fund models, details of fee structures and various management agreements for LTEI Plans and shared services contracts. The issue at hand was the proper alignment of incentives for investment managers and some Board members with

the best interest of the Funds, especially the interests of the Limited Partners (LPs) in parallel equity funds managed by these managers, and by implication the USG investment in these funds.

USAID's Bureau for Europe and Eurasia (the E&E Bureau) struggled to get in touch with a counterpart in the Asia Bureau responsible for Central Asia and knowledgeable about the Central Asian American Enterprise Fund and the Legacy Foundation, and the evaluation team was never able to interview this counterpart. It appears that the handover of the oversight of the Central Asian Fund and Legacy Foundation has not been successful. E&E Bureau staff kindly managed to locate a limited number of old Central Asian Fund and Foundation documents and shared the information and local contacts they had with the team. The evaluation team notes that it is beyond our scope to chronicle the transition of oversight between the E&E and Asia Bureaus and the manner in which it happened. In our scope, the Central Asian region was identified as a desk review assignment. The evaluation team obtained the limited documents we used for the review from the E&E Bureau, the American Councils, the Foundation's Board, and other USG staff; however, the first time we received comments from the Asia Bureau and the Mission was at the time we were already circulating the draft report for feedback. The evaluation team confirmed with the American Councils information also provided at the same time by the Asia Bureau that the foundation maintains some communications with the USAID regional office in Central Asia and with the State Department but not with the Asia Bureau in Washington, D.C.

The evaluation team hopes that these findings will create an impetus to engage more closely with the Legacy Foundation in Central Asia, especially now as it accepts its final four-year cohort of students and considers alternatives to sustain the accomplishments achieved to-date.

Foundation Evaluation Question #1: To what extent do Legacy Foundations' strategic priorities, grant- making practices, and other activities adhere to their mandate to "promote private sector development and policies and practices conducive thereto" in host countries, as specified in their original Enterprise Fund Grant Agreements and Legacy Foundation proposals as approved by USAID? If and when Foundations have pivoted strategic direction and shifted programmatic focus, what linkages (if any) did those deviations have with evolving private sector development needs in the country of operation? For those foundations focused primarily/exclusively on education activities, how closely have foundation- supported scholarships, internships, fellowships, and exchanges been aligned to private sector workforce needs in their home countries?

Overall, Foundations have remained faithful to the objectives set in the Grant Agreements. Where strategies have evolved, as in the Romanian case, the objectives still support private sector development, and the adaptations were substantiated by an analysis and underpinned by an updated strategy coupled with statements of expected results and performance metrics to monitor progress. The Slovak Foundation shifted its focus from scholarships to activities supporting entrepreneurship, which were firmly planted in the private sector development realm.

One exception is the America for Bulgaria Foundation (ABF), whose priorities shifted in a direction that is not fully compliant with the objectives of the Grant Agreement and the mandated private sector development focus. This has been a serious point of contention between the foundation and USAID, which remains unresolved. ABF has stated that the Foundation held at least twelve meetings with USAID between 2015 and 2016 and participated in numerous phone calls, in which differences were resolved, as indicated in a Memorandum of Understanding dated July 12, 2016, according to ABF. The evaluation team has reviewed the referenced Memorandum. This Memorandum documented an agreement between USAID and ABF to share semi-annual updates — and included the agreed contents of a report ABF was to provide to USAID semi-annually.

In this Memorandum, USAID noted that ABF had provided its "existing strategy – including its mission statement, guiding principles and core values, areas of interest and goals, and illustrative indicators and data sources," which was attached to the Memorandum. The evaluation team has reviewed this five-page attachment titled "Mission Statement" and confirms that the documents is precisely that, a mission statement coupled with descriptions of the priority areas of ABF, but not a strategy. Further, the evaluation team reviewed a previous letter of concern from USAID to ABF dated June 15, 2015, which seems to have prompted the discussions, in which USAID informed ABF that the Foundation needed a "much stronger strategic framework to guide ABF's grant-making so that the outcomes are sustainable and contribute to broader private sector development in Bulgaria." USAID advised ABF that some areas needed a stronger focus and others detracted resources from private sector development. The Agency requested that ABF kept to a minimum grant-making in three areas pending further review of ABF's strategy, offered to assist in the development of a new strategy, and provided guidance on what should be included in the strategy. ABF's 2016 Mission Statement does not reflect USAID's recommendations regarding the contents of the strategy.

To ensure full consideration of ABF's point of view on the matter of the intent of the 2016 Memorandum, the evaluation team followed up with USAID to inquire about the discussions with ABF between 2015-2016 and was informed that the 2016 Memorandum documented agreement only on the frequency of communication, but the issues documented in the 2015 letter of concern remained. USAID stated that they had not been able to communicate their concerns to ABF in writing afterwards (but have communicated them verbally) due to inability to reach agreement and formulate one USG position on the situation with ABF. This is a critical finding in this evaluation. Further discussion is included in the report.

The Russian Foundation faced another unique challenge. As relations between the U.S. and Russia deteriorated, the U.S. Russia Foundation for Economic Advancement and the Rule of Law (USRF) found itself operating in an increasingly difficult environment. USRF (which was designated an "undesirable organization" by the Russian Government in December 2015) has restructured its organization and programming to continue advancing the core dimensions of its mission under new realities. Implementation of existing grants continued and new grants were awarded, with overall grants in place remaining close to pre-2016 levels. In response to the new legal situation, the USRF moved its headquarters and grants management operations to the United States, closed down its office in Russia, and adjusted its grants administration to comply with the new Russian legal requirements. Concurrently, in discussions with USAID, partners, other foundations and experts knowledgeable about private sector development, USRF developed a new strategy to promote USRF's core mission by working with organizations in the U.S., Europe, and elsewhere that continue to conduct effective programming with Russian partners. In making these adjustments and revisions, USRF has also undertaken a full review of its management structure and operating procedures with a view to maximizing efficiencies that can reduce overhead costs and institute practices appropriate for the new realities within which USRF now operates.

Foundations supporting scholarship programs did take into consideration local market demand and employment opportunities in the private sector when choosing the types of scholarships to offer. In the Hungarian case, the Board of the scholarship fund shifted the focus slightly to reduce the number of research-based educational opportunities and increased the emphasis on private sector-related programs. This decision was based on the evidence that only about 25 percent of scholarship recipients were going into private sector careers. All scholarships provided by the Central Asia Legacy Foundations are in business-related areas such as finance and accounting, economics, and marketing. All graduates find employment. So far, 96 percent of the graduates have remained in Central Asia, 22

percent are pursuing post-graduate degrees, while 14 percent are working in start-ups, some of which they founded. Foreign and local private sector employers are delighted to hire the graduates, according to the Board of the Foundation and the manager of the scholarship program, the American Councils.

Foundation Evaluation Question #2: To what degree do the Legacy Foundations' governing and staffing structures, grant-making practices, and day-to-day management align with international standards of practice and accountability for the stewardship of foundations? Have any particular governing or operating models proven more or less effective in terms of the foundations fulfilling their mandate?

The Legacy Foundations operate in two spending modes: *spend down* and *in perpetuity*. The spending mode is a function of the size of the endowment received by the Legacy Foundation from the respective Enterprise Fund.

The Legacy Foundations have adopted three types of modes of operations:

1. Direct implementers such as the Albanian Foundation; WNISEF and ABF currently manage their own scholarship programs, in addition to making grants in support of other priority areas.
2. Grant-makers; this is the approach chosen by the majority of the foundations.
3. Outsourced scholarship fund management, characteristic of foundations that only implement scholarship programs, such as the Hungarian American Education Scholarship Fund (HAESF), the U.S. Central Asia Education Foundation (CAEF), the Baltics American Freedom Foundation (BAFF), previously the Slovak American Foundation (SAF), or the Polish-American Freedom Foundation (PAFF), which provides funding for other programs as well.

Some of the common strengths of the Legacy Foundations include engaged and committed Boards who champion the work of the Foundations; well-articulated bylaws, management and operational procedures; and strong grant making processes that include robust monitoring at the grant level. Among the Foundations visited in the field, all but the HAESF, which manages a scholarship program, require co-investment and cost-sharing with grantees, thus further building the equity of these grantees in the projects, their commitment and capabilities to ensure the sustainability of the investment after the end of the funding cycle. All Foundations have instituted regular grantee meetings and progress reports and place increasing emphasis on robust monitoring and evaluation as a means to ensure alignment with and progress towards long-term strategic objectives. Foundations such as the Albanian American Development Foundation (AADF) are pursuing some ambitious and innovative monitoring and evaluation objectives. AADF is planning on including corporate governance Key Performance Indicators (KPIs) in grants, monetizing project impact (the first step is the development of a manual planned for 2017), and strengthening quality assurance as part of grant monitoring. Other Foundations such as HAESF, AADF, and ABF are utilizing external evaluators to assess independently their accomplishments.

All Foundations have developed communications strategies tailored to their portfolios and target audiences and used to promote their programs and successes. Communications strategies include online and other media strategies as well as public relations outreach, pro-active engagement via professional networks, participation in events, and promotion of the work of grantees. RAF has a more sophisticated strategy that also involves the utilization of the technical capabilities of a grantee, Friends for Friends, that provides strategic branding, training and mentorship in the areas of positioning and communication for RAF grantees.

Some of the more common weaknesses among Foundations are in the area of corporate governance. They stem from the fact that some Boards have not considered the inclusion of new skill sets following

the transition from Funds to Foundations and have not implemented term limits or disciplined succession planning strategies.

Some Foundations such as ABF, as well as WNISEF, need to develop well-articulated and coherent grant making strategies focused on private sector development and supplemented with robust monitoring and evaluation strategies at the Foundation / Legacy Program level. The development of a set of measurable objectives and parameters to help guide grant-making strategically is a prudent approach to selecting funding alternatives most aligned with objectives. To quantify impact, ABF and WNISEF need to be able to define success and the metrics they will use to establish baselines, measure progress and success, as well as identify proactively unanticipated outcomes or correct deviations in the strategic approach.

Based on the desk reviews and fieldwork, our assessment points to the conclusion that the effectiveness of a particular Foundation does not necessarily depend much on the spending or operational model but on the robustness of its strategy and its use to assess alternative investments and choose the ones best aligned with objectives, manage risks, deploy resources in the most effective manner, and identify partners that could bring value and resources in line with strategic priorities. In addition, an approach to measuring results further strengthens the performance of a foundation.

Foundation Evaluation Question #3: To what extent are existing forms of USG engagement sufficient and relevant for providing the information necessary for the USG to exercise its responsibility to ensure Foundations' adherence to their grant agreements with their "parent" Enterprise Funds, in some cases into perpetuity?

USAID is a third party to the Grant Agreements between the Enterprise Funds and the Legacy Foundations. The Agency has even less visibility into the operations of the foundations and their Boards compared to the situation at the time of the operation of the Enterprise Funds. USAID has also lost its ex-officio seat on the Boards of Foundations, with a few exceptions, including:

- WNISEF, which is an Enterprise Fund;
- the Romanian Foundation, which has elected to have two USG ex-officio seats on its Board, one of them set aside for USAID; and
- USRF, whose Board members recall having regular participation by USAID /USG representatives.

The Bulgarian, Albanian, and Polish Foundations also enjoy a good relationship with and support from the U.S. Embassies. USAID is generally not invited to Board meetings by other Foundations and does not receive updates from Board meetings.

U.S. Embassies perceive Foundations as an asset and a potential policy instrument, especially in countries with no USAID presence. The relationships between Foundations and U.S. Embassies are cordial and collaborative, as both sides consider them mutually beneficial. Although some Embassies appear to have some differences with Foundations in terms of their rate of spending (some Embassies think that Foundations should spend faster) or possible priorities, U.S. Embassies are supportive of the Foundations, and the views expressed by the Ambassadors and staff in Albania, Romania, and Bulgaria were universally positive. Embassies do not see themselves in an oversight role vis-à-vis the Foundations. There does not seem to be a regularized mechanism for routine updates on the work of the Foundations from the Embassies to USAID Washington.

Foundations are required to publish annual reports publicly, with the exception of the Hungarian and Polish Foundations. Although USAID has made some recommendations regarding the contents of the annual reports, there is no prescribed template for these reports. Foundations are not required to submit these reports to USAID. Not all foundations publish regular annual reports, however, based on a

review of their websites. Some Foundations mentioned that they file mandatory annual reports in the U.S. for tax and compliance purposes, which are publicly accessible.

In this context, it seems that USAID lacks adequate direct communication and information channels with the Foundations. In fact, USAID has been unable to properly investigate and address potential compliance failures of Foundations. This creates obvious risks for the USG, among them compliance risks related to USG regulations, as well as reputational risks, as these foundations are associated with USG in the countries where they operate, regardless of their legal status, a point made by interviewees in several foundations. USAID's only option at present seems to be the "nuclear option," initiating a formal procedure to request back the funding from a Foundation, which may be too blunt an instrument in some cases and has not been initiated to-date.

Summary of Recommendations

For USG Consideration

- Consider the creation or utilization of existing communication and knowledge management platforms within USG to share knowledge about the experience of Enterprise Funds and Legacy Foundations.
    - Case studies and analyses of the models and strategies used by the Funds and Foundations and their performance under different circumstances should be studied further.
    - Regional Funds such as CAAEF, WNISEF, Baltic-American Enterprise Fund (BalAEF), and to some extent Czech and Slovak-American Enterprise Fund (CSAEF) in terms of political risk, and their Legacy Foundations offers additional lessons learned – about successes and failures and risks specific to regional constructs that should be taken into consideration.
    - Lessons learned should be incorporated in grant agreements, monitoring templates, and guidance documents to enhance the quality of the data collected on development outcomes.
    - External evaluations should be planned and conducted to verify and validate reported results and address gaps in data collection and analysis.

  Thus, even if there is no consensus on whether Enterprise Funds are development tools or private sector approaches to pooling and investing capital to take advantage of investment opportunities and generate returns, there will be greater awareness and understanding of how they function and can be applied.
- An even more structured alternative to knowledge sharing would be a consolidation of the management of the Enterprise Funds.
- Define what a reasonable expectation from the Funds in terms of effecting development impact would be and what appropriate and sufficient reporting metrics would be expected.
- Consider setting up a structure such as an Advisory Board of professionals with relevant private equity, venture capital, commercial and investment banking, advisory and legal experience as well as retired USAID personnel. The Advisory Board could supplement the existing relevant expertise within USAID and provide counsel as needed. The key will be to utilize the expertise effectively.
- Consider using legal counsel with experience in private equity and the financial industry when negotiating contracts and compensation plans with Enterprise Funds' Boards. As part of these consultations, create templates for the different types of contractual needs that protect the interest of USG and the portfolios in the best possible manner.
- Consider carefully the incentives created by different Enterprise Fund models and especially matters such as compensation, fee structures, LTEI and option plans, and dividend policies. Consideration should be given to the question whether external (non-grant funding) compensation should be capped, what the appropriate cap would be, and what the implications for the Fund structure would be.

- USG should use its authority to review re-appointments and engage in the process to ensure that Fund Board members' performance and appraisals are included in the decision-making. Both Fund Boards and USG should be proactive in addressing problems on the Boards. USG should create a formal mechanism within USG to raise such concerns to the White House and minimize subjective decision-making and political dynamics.
- Consider current Board structures, size, turn over patterns, and reliance on recusal and recognize that there may be situations in which the current Board structure may not be as effective as previously thought. Evaluate alternatives to strengthen the role of the Boards as a first line of defense, including additional steps in the due diligence process for Board nominations and re-appointments, stronger conflict of interest disclosure rules, term limits, not allowing Board members to have business and financial relationships with parallel funds, investment managers, and advisors of the Enterprise Funds, and more.
- If the Legacy Foundation model is considered for replication, USG should re-evaluate the current Legacy Foundation Grant Agreement template in light of legal, oversight, governance, and communication constraints it imposes on USG involvement. If possible, it should consider a privity of agreement/contract option to minimize compliance risks. This change does not have to affect significantly the level of independence of a Foundation – the Enterprise Funds offer a good example.
- USG should consider including more specific guidance regarding what constitutes private sector development in the preparation of liquidation proposals, grant agreements, and related documentation underlying the establishment of Legacy Foundations. This would serve to preempt interpretation of terminology, divergence of views on private sector development, and the role and mandate of foundations in the deployment of resources and program design.
- Legacy Foundation Grant Agreements should incorporate the Office of Management and Budget (OMB) Uniform Guidance (2 CFR 200) §200.307 Program Income language on program income use and a statement on the consequences of lack of compliance.

Enterprise Funds and Legacy Foundations

- New Board members should receive proper and sufficient on-boarding, including extensive briefing on corporate governance, and if needed, a developed expanded orientation package for local Board members who may lack prior Board experience.
- Existing Board members should undergo appraisals, ideally by an independent party at agreed frequencies.
- Strong, clear, and adequate conflict of interest policies for Boards and management teams should be developed as templates and provided up-front for incorporation in bylaws. Conflict of interest reviews should also be part of the nomination process for Board Directors and the hiring process for Fund and Foundation management.
- Boards should have limits on the numbers of terms served; a staggered board structure should be implemented. Both of these recommendations were included in an early internal USG issues paper on Enterprise Funds that recommended that Boards be staggered with members serving a maximum of two terms, each a maximum three-years in length. In exceptional cases, where it may be difficult to recruit new members, financial interest disclosures and conflict of interest policies should be strengthened.
- Each Board should develop a succession planning strategy and be responsible for its execution. Enterprise Fund Boards should include progress in annual reports.

Enterprise Funds

  - The Funds' strategic and operational decision making should maintain maximum flexibility.

- Strategic flexibility does not obviate the need for measurable objectives – both financial and development. These, as well as an appropriate set of well-defined metrics, should be established at the outset in coordination between the Funds and USG.
- The creation of any parallel funds and other investment structures should be based on clearly defined terms ("guard rails") – the objectives, strategy, limited time to set-up any parallel funds and raise additional capital, the minimum investment required from the General Partner (skin in the game), the time horizon of a fund, fee structures, and more.

Legacy Foundations

- Foundations should consider adhering to corporate governance best practice, which suggests term limits and appropriate succession planning for board members and senior management positions, meaning identification of qualified individuals, from either within or outside the organization, to fill positions vacated by staff reaching their term limits. For future application, USAID may consider including language requiring such adherence in grant agreements and relevant legal documentation, alongside such language in Foundation bylaws. Exceptional situations, where it may be difficult to recruit new Board members or senior executives, should be reviewed on a case by case basis. Foundations in close-down mode can be exempt from the term limits requirement.
- Communications between the legacy foundations and USAID should be open without entailing any diminution of the foundation's independence. Such communication would also facilitate identification of synergies or complementarities between the foundation's work plan and that of USAID and other USG agencies that may be providing foreign assistance in a given country, resulting in efficiency gains and heightened impact. In cases where there is a USAID mission in-country, respective roles of the resident mission and those of USAID headquarters should be clarified to maximize synergies in strategy and work plans.
- Legacy foundations should ensure that their outreach, communications and grant solicitation strategies maximize the range of partners, grantees, and stakeholders to ensure fair and transparent identification of project implementers.
- Legacy foundations should ensure that they have an appropriate and adequate strategy in place to support partner and grantee sustainability.
- Legacy foundations should ensure that monitoring and evaluation of projects are handled by dedicated staff to ensure that sufficient resources are spent on assessment of project performance and that such assessments are impartial. Foundations should include staff dedicated to monitoring and evaluation in the organizational structure.

SECTION 1: INTRODUCTION

The United States Agency for International Development (USAID) contracted DevTech Systems, Inc. (DevTech) to carry out an evaluation of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations set up in the host countries between 2000 – 2015, funded with some of the proceeds from the investments of the Enterprise Funds. The period of performance for the evaluation is September 27, 2016 to July 15, 2017 with work locations in the United States and Albania, Bulgaria, Romania, Hungary, Ukraine, and Moldova.

The overall purpose of this evaluation was to provide USAID and other stakeholders, including the American public, with an account of the experience, successes and shortcomings, and accomplishments of the Enterprise Funds and Legacy Foundations. The evaluation also aimed to assess the effectiveness of the Enterprise Funds and Legacy Foundations as development tools in practice and to make recommendations for adaptations, should policy makers consider using these mechanisms in other setting in the future.

Data and information collected as part of this evaluation provide users with a richer understanding of the likely effects of investments and grants for private sector development in each country where the Enterprise Funds and Legacy Foundations operate. Interviews with current and former Directors of the Boards and staff of the Funds and Foundations, current and former United States Government (USG) policy makers, investees and grantees, and third party stakeholders as well as the applications of a corporate governance assessment tool with several Legacy Foundations re-invigorated internal discussions among Foundation staff and conversations with stakeholders about the role the Funds and Foundations have played in the local context and the importance of governance and measuring results, among other things. The findings of this evaluation and the lessons learned should add value to the deliberations of policy makers tasked with the assessment of the effectiveness of these mechanisms in different contexts, and with the design and implementation of future interventions building on the successes and avoiding some of the challenges faced by the Enterprise Funds and Legacy Foundations.

The questions addressed in this evaluation report are presented below in abbreviated form.

Purpose of Evaluating the Enterprise Funds:

1. Examine how each Enterprise Fund balanced and pursued its development objectives and financial goals in its management, strategic direction, operation, and staffing arrangements over the course of its lifespan.
2. Assess the nature and reliability of existing evidence that Fund investments resulted in direct, positive gains in private sector development.
3. Determine how effective pro bono Boards of Directors were in their stewardship, strategic leadership, and corporate governance roles.
4. Assess USAID's relationship to and oversight of the Enterprise Funds over the course of their operation and identify any key lessons learned, barriers, or constraints that the agency should factor into planning and design, if, and when, these or similar investment funds are supported in the future.

Purpose of Evaluating the Legacy Foundations:

1. Take stock of the Foundations' strategic priorities and grant-making practices as they relate to their mandate to promote private sector development and policies and practices conducive thereto.

2. Compare the Foundations' governing and staffing structures, grant-making models and procedures, and day-to-day management with international standards of best practices and accountability for the stewardship of Foundations and, when applicable, offer constructive and realistic recommendations for more closely adhering to those standards.
3. Determine the extent to which existing forms of USG engagement—namely reviews of annual reports and participation of ex officio non-voting liaisons on Foundations' governing boards—constitute sufficient oversight for the USG to exercise its responsibility to ensure the Foundations' adherence to their grant agreements with their "parent" Enterprise Funds.

SECTION 2: BACKGROUND

On July 6, 1989, in a speech to the Council of Europe in Strasbourg, France, President Mikhail S. Gorbachev outlined his vision of a "common European Home" from the Atlantic to the Urals, and stated that "any interference in domestic affairs and any attempts to restrict the sovereignty of states – friends, allies, or any others – are inadmissible." He also declared that "social and political orders in one country or another changed in the past and may change in the future. But this change is the exclusive affair of the people in the country and is their choice." The speech, which deliberately distanced the Soviet Union from the so-called Brezhnev doctrine,[1] was a timely introduction to the new Soviet thinking on the design of the European continent's architecture, just a few days before the visit of President George H. W. Bush to Poland and Hungary.

On July 11, 1989, on his first visit to Eastern Europe as President, President H. W. Bush unveiled a six-part program of American economic assistance to Poland in a speech to a joint session of the Polish Parliament. In addition to proposals for new loans from the World Bank, support for debt forgiveness and rescheduling, and development assistance, President Bush announced a $100 million proposal to the United States Congress to capitalize an Enterprise Fund that would reinvigorate the Polish private sector. A day later in Hungary, President Bush announced a $25 million grant for an Enterprise Fund to spur free enterprise growth in the country.

By July 1989, both the Polish and Hungarian people had already witnessed rapid and dramatic political changes. Poland's earlier memories of massive anti-communist protests in 1956, 1968, 1970, and 1976 had been revived in 1980 with a wave of strikes that resulted in the creation of the independent self-governing trade union "Solidarity," led by Lech Walesa, the establishment of many groups with political character, and the rise of renewed hope. This short-lived optimism was crushed by the introduction of martial law in December 1981 by General Wojciech Jaruzelski, who had just come to power, the liquidation of Solidarity and other organizations, and a brutal crackdown on protesters, thousands of whom had been arrested, imprisoned or sent to special camps. Hope had been sustained by the Catholic Church and its support of independent culture; three pilgrimages by Pope John Paul II in 1979, 1983, and 1987; the establishment of numerous independent radio programs and underground papers; the award of the Nobel Prize to Lech Walesa in 1983; as well as through sustained external pressure, including international isolation and U.S. economic sanctions until 1986. Following the provision of amnesty for the opposition in 1986, renewed strikes in 1988, and roundtable discussions in early 1989, Poles had just voted in semi-democratic parliamentary elections on June 4, 1989, in which Solidarity had won a landslide victory. In a compromise deal, General Jaruzelski was elected President in July that year. When President Bush spoke in the Polish Parliament, the Polish economy laid in tatters, burdened by billions in

[1] After the Warsaw Pact invasion in Czechoslovakia led by the Soviet Union and the crackdown on the pro-reform movement in 1968, the Soviet Premier, Leonid I. Brezhnev, declared that the Soviet Union had the right "to protect Communist regimes even if it means the use of force." Further, the article declared that "world socialism is indivisible, and its defense is the common cause of all Communists." Soviet leadership was concerned that after the 1956 Hungarian uprising, Czech reforms might provoke other revolts against Moscow in Eastern Europe and might encourage the Baltic Soviet Republics or Ukraine to demand more liberal policies. "*Sovereignty and the International Obligations of Socialist Countries*" *Pravda*, September 26, 1968.

U.S. Dollars (USD) in foreign debt incurred in the 1970s, decreasing GDP per capita, chronic shortages and price hikes over a number of years, failed attempts at economic stabilization, and rampant inflation, which turned into hyper-inflation in the second half of 1989. There was urgent need for an economic assistance package. In August 1989, Tadeusz Mazowiecki, a Polish opposition leader and Solidarity representative, was elected the first non-communist Prime Minister in the Soviet bloc.

Hungary was also going through economic and political crises, although its transition processes were much smoother than those in Poland. By 1989, the collapse of the Hungarian Socialist Workers Party was inevitable. In September 1989, Hungary opened its border to the West. Anti-communist protests erupted in East Germany in October 1989, where the East German communist leader Erich Honecker resigned, while a new Hungarian constitution declared the virtue of democracy and allowed a multi-party system and competitive elections. In November 1989, the Berlin Wall and all East German borders were opened and the West German Chancellor Helmut Kohl unveiled a plan for German reunification; the Bulgarian communist leader Todor Zhivkov was peacefully removed from power and free elections were announced to be held in 1990; and anti-communist protests began in Prague. In December 1989, the Romanian dictator Nicolae Ceausescu, who had refused any reforms, was overthrown amid bloodshed and executed; and a new, non-communist government took control in Czechoslovakia, while Václav Havel was elected President the same month. By the summer of 1990, all former communist regimes were replaced by democratically elected governments.

These were the turbulent times in which the Enterprise Funds began operating in Central and Eastern Europe. The unpredictable political and economic local dynamics necessitated maximum flexibility in the Boards decision-making and Funds management teams. After all, the first Funds were making private equity investments while the Russian Army was still in Central Europe. In rapid succession between 1991 and 1995 Enterprise Funds started operations in economies faced with much steeper learning curves than that of Central Europe during the transition – from Central Asia to Ukraine, Belarus and Moldova, to Albania. In the 1990s and 2000s, all of these countries went through the deep convulsions of the transition to democracy and market economies – shock therapy in Poland and Bulgaria, severe crisis in Albania in 1997, collapsing banking sector in Bulgaria and the introduction of a Currency Board, similarly Currency Boards in some of the Baltic republics, the Russian crisis, the global financial crisis, two revolutions and a war in Ukraine, and more.

Despite the enormous challenges of the transition from planned to market economy, the former Soviet bloc countries were very different from today's developing countries in several important ways: they had an educated workforce and urbanized populations, fairy modern industrial and service sectors with well-structured value chains, and functioning bureaucracies. These countries did not have, however, a private sector, and in particular, a diversified private financial sector that could support the financial investments needed to transform the economy into a market-based system. This is the gap that the Enterprise Funds were designed to help to address. They were a solution to a problem in a very specific context. Policy makers deliberating potential replications of the Enterprise Funds should take into consideration the contexts in which new Funds would operate and determine how their models, structures, investment and development strategies, operations, and governance practices may need to be adapted to address effectively different sets of challenges while protecting adequately USG interests.

Despite all challenges, the Enterprise Funds have proven a success story, with a few exceptions. USG invested about $1.2 billion in ten Enterprise Funds that operated in 19 countries. As of 2013, these Enterprise Funds have leveraged an additional $6.9 billion in private investment, reinvested $1.7 billion of net proceeds realized from investments, have returned $225.5 million of the original USAID investment, and have endowed nine legacy institutions with about $1.3 billion.

This report does not attempt to re-examine known and verified facts such as the financial performance of the Funds. The value this report adds is the examination of the performance of the Enterprise Funds along the other dimensions incorporated in their Grant Agreements, namely the balance between financial returns and development objectives; the track record of the Boards of Directors of the Funds in adhering to best practices in corporate governance to ensure that Funds were managed in the best interest of investors, including the USG; and the ability of USAID to exercise adequate oversight of the Funds within the architecture set up by the USG, including the emphasis on the strategic and operational independence of the Enterprise Funds.

Another significant and entirely new element in the evaluation of the Enterprise Funds and their impact is the evaluation of the Legacy Foundations established with some of the proceeds of the Funds upon their liquidation. Given the total size of the endowments, $1.3 billion, the even greater independence of the Legacy Foundations and programs from USG oversight, the varying levels of maturity of the foundations, and the range of approaches and programs implemented by them, USAID requested an evaluation of the legacy programs.

The questions of corporate governance as practiced by the Boards of Directors of Funds and Foundations as stewards of these institutions and of USAID's ability to execute adequately and timely its oversight role have not been examined closely before. These elements, however, are just as critical to the success of ventures of this kind, as is the provision of funding, and they arguably affect outcomes in ways that previous reports and papers have not considered.

SECTION 3: METHODOLOGY

3.1 Data Collection

3.1.1 Desk Assessment

For all Enterprise Funds and Legacy Foundations – Albania, the Baltics, Bulgaria, Central Asia, Czech Republic and Slovakia, Hungary, Moldova, Poland, Romania, Russia, and Ukraine – the evaluation team performed comprehensive desk research beginning with relevant USAID and Fund / Foundation documentation including:

- Grant agreements and modifications;
- Quarterly, semi-annual, and annual reports;
- Mission reports and related memoranda;
- Liquidation plans and legacy proposals;
- Past evaluations and historical reviews;
- Procedural and strategic documentation, including bylaws, Long Term Equity Investment (LTEIs), loan manuals, and strategic plans; and
- Selected Board meeting minutes for a few Enterprise Funds.

Research also covered internal USG correspondence and correspondence between USG and Funds and Foundations. In addition, the team reviewed some media reporting on the Foundations to gain initial insight on public perceptions and opinions regarding their performance, impact on private sector development and attendant benefits to societies within which the Foundation operate. In coordination with USAID and U.S. Embassies, the evaluation team put together a list of additional documents and contacts requested from the Missions and designated points of contact for the Funds and Foundations in Albania, Bulgaria, Hungary, Moldova, Romania, and Ukraine.

3.1.2 Field Visits

Due to resource constraints, five Funds and Foundations – Albania, Bulgaria, Hungary, Romania, and Western New Independent States (WNIS), including Ukraine and Moldova – were selected for increased attention, including but not exclusively, via field visits conducted by the Team Leader, Grants Specialist, and Financial Sector Specialist. Field visits included meetings with USG representatives from USAID Missions and State Department. The field visits – including briefings, solicitation of guidance from and reporting to USG Missions – focused on gathering on-site information and data to further develop content and preliminary conclusions regarding the governance, efficacy and effectiveness of the Enterprise Funds and the Legacy Foundations operations. The evaluation team conducted site visits with samples of Enterprise Funds' investees and Legacy Foundations' grantees as a verification method for initial findings gathered from the desk assessment, key informant interviews (KIIs), and focus group discussions (FGDs), to get a first-hand exposure to some of the results of the investments made and the grants awarded by the Funds and Foundations, and to gain a deeper understanding of particular investments in WNIS that became part of a case study.

3.1.3 Key Informant Interviews

Prior to the field work and while in the field, the Team Leader, Grants Specialist, and the Financial Sector Specialist conducted KIIs with stakeholders using a semi-structured interview approach to gather qualitative information to address the evaluation questions. DevTech worked closely with the USAID's Bureau for Europe and Eurasia (the E&E Bureau) and Missions to develop KII participant lists, questionnaires and interview protocols, ensuring their feedback is incorporated. The evaluation team conducted additional KIIs by phone and in-person with U.S.-based key stakeholders prior to- and post-fieldwork.

The evaluation team identified individuals from the following groups to participate in KIIs:

- Board members (including Advisory Boards in some countries, both for Enterprise Funds and Legacy Foundations);
- Senior managers (i.e., people who had a say in the investment strategy such as CEOs, CFOs, and investment managers);
- Staff (both Enterprise Funds and Legacy Foundations);
- Public authorities in host countries (Ministries of Economy, Finance, Small and Medium Enterprises (SME) and / or Economic Development — names may vary depending on the country);
- Third party stakeholders, including donors, regulators, other private and/or public partners;
- Clients of Enterprise Funds and Legacy Foundations, i.e. companies, grantees, other direct beneficiaries (e.g., scholarship recipients in the case of some Foundations); and
- USAID and U.S. Department of State (DOS) staff, including field mission staff.

3.1.4 Focus Group Discussions

The evaluation team conducted separate Focus Group Discussions (FGDs) with the staff of WNISEF and Legacy Foundations in the six countries visited as well as with USG Mission staff in Albania, Romania, Bulgaria, and Ukraine. The evaluation team developed discussion agendas to ensure that discussion points were relevant and adequately answered the seven evaluation questions.

3.1.5 Surveys

The evaluation team used anonymous electronic surveys through the Google Forms online platform to collect information from a broader population of Foundation grantees in Romania and Hungary. Surveys were used to complement interviews conducted during field visits, when time, distances, and a large number of sites and beneficiaries made it difficult for the evaluation team to cover an appropriately sized sample of Foundation grantees. The decision to conduct e-surveys also depended on whether the

evaluation team could obtain the contacts of former and current grantees and scholarship recipients as well as on considerations such as political sensitivities in Bulgaria, as advised by the America for Bulgaria Foundation (ABF).

3.2 Sampling

The evaluation covered key informants from all groups identified above as discussed with and approved by the USAID Contracting Officer Representative (COR). The evaluation team sought to ensure participation from all fieldwork countries: Albania, Bulgaria, Hungary, Moldova, Romania, and Ukraine. A detailed list of respondents and key informants is attached to the final evaluation report.

3.2.1 Sampling Methods

Probability sampling, also known as random sampling, refers to a sampling method where the chance of any given individual being selected is equal, and these individuals are sampled independently of each other. The evaluation team used a random number generator to choose participants among investees and beneficiaries of Funds and Foundations (i.e. simple random sampling). The probability sampling was used to generate the list of enterprises and grantees who were interviewed in person during the field missions, or by Skype if they were no longer in their country of origin.

The evaluation team also divided the target population (i.e. all investees and grantees of Funds and Foundations) into strata, and then applied this sampling technique within each stratum to ensure that there were enough participants from each stratum to be able to draw conclusions. Stratification reduced the probability for sampling error because it ensured that all relevant portions of the target population were included in the sample.

The evaluation team used the following criteria to identify the subset of the population:

- **Sectors**: Funds and Foundations have supported over the years a number of programs focusing on different sectors — agriculture, entrepreneurship, civil society, ecotourism, etc. When programs appear to be cross-cutting several sectors, the evaluation team made a judgement call to determine the sector based on agreed classification and definitions for each category.
- **Type**: Distinguish between grants (individual vs. organizations) and investments.
- **Size**: Distinguish between amounts, e.g. small (0 – 10,000 USD), medium (10,001 – 500,000 USD), and large (> 500,001 USD).
- **Location**: Distinguish between different cities and regions (i.e. clustering).
- **Gender**: Ensure participation of both male and female respondents.

Non-Probability Sampling, or convenience sampling, refers to identifying respondents that are accessible during the evaluation. The evaluation team applied this method with regard to key informants such as Board Members of Funds and Foundations, USG officials, including USG mission staff in the target countries, Government representatives in host countries, and international donors. This method also included 'snowball sampling,' an approach used for locating information-rich key informants. Using this approach, pre-identified key informants were contacted and asked whether they could recommend other potential key informants with the characteristics that the evaluation team was looking for in this final evaluation.

3.2.2 Sampling Frame

E-survey

The evaluation team conducted e-surveys in Hungary and Romania. The e-survey in Hungary was emailed in English to the entire list of grantees provided by the Foundation. The Evaluation Team received 60 replies of a total of approximately 280 sent and delivered emails.

In Romania, two e-surveys — in English and Romanian — were sent out to the Foundation's 56 institutional grantees and a maximum of 100 individual recipients (it was not clear if all individual recipients' e-mails were up-to-date). The evaluation team received 31 responses from institutional grantees and 32 responses from individual recipients.

The evaluation team did not conduct e-surveys in Albania, Bulgaria, and WNIS, where the legacy programs started only in 2015.

Country Samples for Albania and Bulgaria

The evaluation team initially developed random samples for Albania and Bulgaria, but had to settle for convenience samples developed jointly with the Albanian and Bulgarian Foundations. In both cases, the evaluation team agreed with the Foundations on the sampling approach and on basic rules for the development of the samples such as adequate representation of all priority areas for the Foundation, a good mix of grantees located in the capital and outside of the capital locations, and inclusion of existing Fund portfolio companies, if possible. In the Albanian case, there was limited time to secure commitments for meetings and at the same time a number of meetings included visits with national government officials at ministerial level and mayors, whose schedules the Foundation staff managed to accommodate. In the Bulgarian case, the team and the Foundation followed the same sample development rules and principles and took into account the Foundation's concerns regarding on-going political attacks and potential misrepresentation of the purpose of the evaluation in this context. In both countries, the samples complied with the agreed selection principles and ensured a good mix of all priority areas, regional coverage, and meetings with a diverse set of grantees, stakeholders, and some Enterprise Fund investees.

In Hungary, the evaluation team could not run a sample due to the limited duration of the field visit (two days). Individual meetings with several scholarship recipients, a group of scholarship recipients who are working for a start-up, and a focus group discussion with another group of recipients as well as several meetings with former Fund investees, and a Fund Board member have been supplemented with an e-survey sent to all scholarship recipients of whom the Foundation has e-mail addresses.

In Romania and WNIS, the evaluation team shared a random sample with the Romanian American Foundation (RAF) and WNISEF, applied convenience sampling to narrow down the geographical scope, given time and budget constraints, and finalized the sample jointly. The list of investees and grantees consulted during the field trips are attached as Annex A to this report.

Romania Foundation: A random stratified and weighted (80 percent) sample was applied to the list of grantees to take into account the four programs:

Program	**Total**	**Sample**
Technology and Innovation	11	2
Rural Economy	22	4
Education	25	5
Community Development	18	3
Individual scholarships	1	1
TOTAL	**77**	**15**

In addition to the capital Bucharest, the Romanian sample covered Cluj and Iasi.

Romanian American Enterprise Fund (RAEF): The list of investees comprised 44 organizations. The random sample and weighting (20 percent) generated a list of 8 entities, which was further randomly reduced to 6 to take into account the Foundation part of the scope of the field trip.

WNISEF Legacy Programs: There are a total of 76 grantees: one (1) in Moldova and 75 in Ukraine. Applying the 80 percent weighting and random sampling, the list contained a total number of 61 grantees to meet: 60 in Ukraine and one in Moldova. WNISEF runs four (4) programs. The table below summarizes the total randomly generated numbers of grantees to meet per program:

Program	**Total**		**Sample**	
	Ukraine	**Moldova**	**Ukraine**	**Moldova**
Export Promotion	18	1	14	1
Local Economic Development	11	0	9	0
Impact Investment	7	0	6	0
TOTAL	36	1	29	1

The Economic Leadership program is more nuanced as grantees are spread over four (4) countries. The 80 percent weighting and random sampling was applied with the following results:

Economic Leadership Program	**Total**	**Sample**
Moldova	0	0
Ukraine	21	18
Ukrainians based in the USA	16	12
Ukrainians based in the UK	2	1
TOTAL	**39**	**31**

Due to time and budget constraints, in Ukraine, the evaluation team focused on the capital city Kiev. The list of grantees was thus randomly shortened to 16 grantees, of which 12 were in Kiev and four outside (interviewed by Skype). The sample included respondents from all programs and respected the principle of proportionality (e.g. the economic leadership program was the largest in size, and therefore had more respondents).

WNISEF: There are 36 investees in total; 28 of whom are in Ukraine and eight in Moldova. The 20 percent weighting and random sampling was applied to Ukraine, generating a list of six (6) investees to meet during the field trip. No weighting or sampling was applied to Moldova as the total number was too small, and all investees were included in the list of interviewees for the field trip.

All Foundations and WNISEF provided invaluable assistance to the evaluation team in the coordination with grantees and investees and in ensuring that the evaluation team was able to conduct the planned field visits and interviews.

3.3 Data Analysis

3.3.1 Methods

The evaluation team examined the findings within the predefined evaluation framework, which reflects the evaluation purpose and specific objectives.

Data analysis was conducted in three main stages:

1. **Gather and consolidate information.** The evaluation team collected and consolidated findings from the desk review and U.S.-based data collection, as well as the trip information from all travelers incorporated in trip reports and in the final evaluation report. The team drew together and critically assessed the results from field findings. The team selected the evidence-base according to clear criteria and conducted the review using a standardized protocol. Following the aggregation of all relevant data, the team appraised the quality of the information using the clearly defined criteria and drew conclusions only from the data that met the quality standards.
2. **Organize findings.** Data that met the defined criteria were analyzed and grouped per country, theme, question, and type of deliverable (case study, final report). This was determined in consultation with USAID after fieldwork was completed.
3. **Code data.** The evaluation team developed a coding framework, which consisted of a list of codes used to index and divide material into descriptive topics.

3.3.2 Corporate Governance Framework

The evaluation team adapted a structured framework to assess corporate governance, which was finalized with extensive input from USAID and incorporated recognized principles of corporate governance in the areas of governing and staffing structures, strategic planning and management, grant-making practices, monitoring, evaluation, accountability, and communication, as relevant to the scope of this evaluation.

3.3.3 WNISEF Case Study

The WNISEF case study focuses on the Export Promotion Legacy Program of the WNISEF. The evaluation team discussed potential topics and finalized the selection with input from USAID Ukraine and in coordination with WNISEF. In preparation for the case study, the evaluation team conducted interviews with WNISEF senior staff as well as with the WNISEF manager responsible for the Export Promotion Policy Program, the Trade Representative of Ukraine, the Head of the Export Promotion Office, senior staff from the Ukrainian Ministry of Economic Development and Trade, and USAID Ukraine and USAID Moldova staff. The case study analysis complements the findings of the evaluation of WNISEF.

3.4 Evaluation Matrix

The Evaluation Matrix is included in Annex B to the final evaluation report.

SECTION 4: LIMITATIONS

4.1 Timeframe and Recall Bias

This evaluation was intended to evaluate both past and current activities, spanning the course of 25 years. As such, some respondents may have recalled activities inaccurately. The evaluation team considered this when analyzing data for the report and strived to verify all information through the document review or confirmation from other interviewees.

4.2 Oversight

The nature of the Grant Agreements between the Enterprise Funds and Legacy Foundations limits significantly USAID's ability to oversee the performance of the Legacy Foundations and require their participation in this evaluation. The evaluation team had to rely on the willingness of the Legacy Foundations to collaborate with this project for the sake of mutual learning.

4.3 Respondent Bias

The evaluation findings are based largely on the views of key informants and survey respondents with a vested interest in the Enterprise Funds and Legacy Foundations, and, therefore, their responses may have been potentially biased regarding impact and outcomes. Several measures were taken to reduce the effect of respondent biases and validate interview results, including the following:

- Ensuring that respondents understood the confidentiality of responses;
- Incorporating responses from key informants and survey respondents who have no vested interest or were unsuccessful in their loan / credit applications; and
- Requesting that respondents provide a rationale for their answers, including examples of specific activities and actions that contributed to reported outcomes.

4.4 Attribution/Contribution

Other factors contributed to the expected results and outcomes of the Funds / Foundations' activities. These factors included, for example, multiple funding partners (related to investees' outcomes); influence of advisory boards and other initiatives delivered in partnership with other organizations; the relatively small size of the initial investment portfolio of the Funds; a very limited initial pipeline of investment deals; most Funds' preference for minority equity investments in portfolio companies; the EU accession of the Central European countries and later of Bulgaria and Romania and the influx of additional funding; the financial, economic and political crises target countries experienced during the performance of the Funds; and more. These confounding factors limited the team's ability to isolate the Funds/Foundations' specific influence on the development of a sector or the economy in each country.

4.5 Availability of Key Informants

One of the limitations in gathering relevant data was that some of the Fund and Foundation staff were no longer there and were difficult to reach. The fact that the Enterprise Funds were created over 25 years ago and most have already been liquidated limited the evaluation team's ability to gather extensive and relevant data.

4.6 Coverage

The team had to restrict the sampling frame to subsets of the population of interest, e.g. sampling only clients in certain areas and excluding populations in other, more rural areas, which have different characteristics than the urban populations. This limitation was a concern in all visited countries and occurred because of limited time in each country and the difficulty associated with covering large distances, especially during the winter. The team faced severe winter conditions, and thus unreliability of local transport means, particularly in Bulgaria and Romania and to some degree in Ukraine, as the field trips occurred during February - March.

4.7 Response Rate

In the case of Enterprise Funds, in some countries some portfolio companies no longer existed and people were no longer available or had left the country. In such cases, the evaluation team increased the sample size and included more participants to have an appropriate sample size.

4.8 Social Desirability Bias

During interviews or FGDs, participants could have been, on occasion, uncomfortable or unwilling to share information that would not reflect well on them and their social environment. For example, the team found that, when compared with directly verifiable information obtained in the desk assessment and other documentation, some participants understated or overstated the extent to which they experienced growth or success. Others might have hesitated to sound critical or too open about shortcomings during the group discussions on corporate governance. The evaluation team did its best to

facilitate open and honest exchanges that focused on constructive dialogue and made it clear in individual interviews that anonymity was going to be preserved for all participants.

SECTION 5: EVALUATION QUESTIONS FOR ENTERPRISE FUNDS

5.1 Evaluation Question 1

How successful were the Enterprise Funds in balancing their dual mandate of achieving specific economic development objectives and achieving financial returns, as laid out in each of their original Grant Agreements with USAID? To what extent and how reliably did Funds measure progress toward their respective development objectives?

The answer to the first evaluation question focuses on the following key facts and findings:

1. The SEED Act, the FREEDOM Support Act, and the Grant Agreements between USAID and the Enterprise Funds defined the objectives of the Funds in very broad terms and did not delineate clearly between development and financial objectives.
2. Broadly defined objectives were not conducive to the establishment of expected results and measurement of progress towards such results. This was further complicated by the fact that the expectations about the performance of the Funds were not clear from the beginning, as USAID had not had prior experience with private equity and venture capital funds. Further, the transition in Central and Eastern Europe in 1989-1990 was unfolding rapidly, and the economic situation required a decisive but flexible response. It was not clear if the Enterprise Funds would be successful and what that success would look like. As a result, USAID did not include in the Grant Agreements a set of indicators relevant both to USAID and to the Funds beyond the basic financial reporting requirements.
3. Different Enterprise Funds interpreted and addressed development impact mandates very differently. Even the Funds that invested significant resources in development activities – not strictly related to investments and lending – did not attempt to measure development impact beyond a few proxy indicators included in a required Strategic Framework Matrix incorporated in the Semi-Annual Reports (SARs) since the late 1990s. The one exception is the WNISEF, which commissioned two economic impact studies of its activities in 2002-2005, and in 2015.
4. The proxy indicators meant to measure development impact, such as "Jobs" (interpreted by the Funds as jobs sustained and newly created), were not properly defined by USAID or the Funds and not consistently reported by some Funds. USAID did not have the capacity and resources to validate the reported numbers. It is too late to validate employment creation by the Enterprise Funds at the time of this evaluation. Other development impact-type metrics, such as policy development work, technical assistance and capacity building, organizational development of financial institutions or regulators are included by most Funds in reports in the form of lists of activities with little-to-no impact analysis.
5. It should be noted that USAID's initial plan was that all Funds would participate in mid-term and end of project evaluations that would assess such impact. There was no expectation that the Funds would be producing impact analyses. Since independent end-of-project evaluations were not conducted, the development impact of the Enterprise Funds is anecdotal and self-reported.
6. The self-reported development impact also tends to discuss the Enterprise Funds in isolation from the influx of USAID and other funding, technical assistance, development banks' lending and Foreign Direct Investment (FDI) inflows, especially in Central and Eastern Europe, during the transition, as well as European Union accession funding. According to the European Bank for

Reconstruction and Development (EBRD)[2], net[3] FDI in the more advanced Central European countries reached $16.1 billion in Hungary between 1991-1998; $15 billion in Poland in the same period; and $10 billion in the Czech Republic between 1992-1998. Although a lot of this capital targeted larger privatization opportunities, some of it arguably competed for deals of interest to the Enterprise Funds. Hungary, for example, attracted the largest amounts of FDI in Central and Eastern Europe until it was overtaken by Poland in the second half of the 1990s; enacted a Venture Capital law in 1998; enjoyed considerable attention from investors who considered the country the "Switzerland of middle Europe;" and saw a rapid rate of small business creation in the 1990s.

5.1.1 The Basis of Broadly Defined Enterprise Funds' Objectives

Purpose and Designation of Enterprise Funds in the SEED Act of 1989 and the FREEDOM Support Act of 1992

Title Two of the SEED Act of 1989, Private Sector Development, defines the purpose and designation of the Enterprise Funds for Poland and Hungary and highlights their private character[4]:

"*Sec. 201. Enterprise Funds for Poland and Hungary.*

(a) Purposes. – The purposes of this section are to promote -

(1) 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) policies and practices conducive to private sector development in Poland and Hungary, through loans, grants equity investments, feasibility studies, technical assistance, training, insurance, guarantees, and other measures...

…

(d) Designation of Enterprise Funds. –

(1) Designation. - The President is authorized to designate two private, nonprofit organizations as eligible to receive funds and support pursuant to this section upon determining that such organizations have been established for the purposes specified in subsection (a). For purposes of this Act, the organizations so designated shall be referred to as the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund (hereinafter in this section referred to as the "Enterprise Funds").

(2) Consultation with Congress. - The President shall consult with the leadership of each House of Congress before designating an organization pursuant to paragraph (1)…

(5) Private Character of the Enterprise Funds. – Nothing in this section shall be construed to make an Enterprise Fund an agency or establishment of the United States Government, or to make the officers, employees, or members of the Board of Directors of an Enterprise Fund officers or employees of the United States for purposes of title 5, United States Code.

(e) Grants to Enterprise Funds. – Funds appropriated to the President pursuant to subsection (b) shall be granted to the Enterprise Funds by the Agency for International Development to enable the Enterprise Funds to carry out the purposes specified in subsection (a) and for the administrative expenses of each Enterprise Fund…"

[2] *Transition Report 1999. Ten years of transition*. European Bank for Reconstruction and Development, 1999.

[3] Balance of payment data based on banking statistics and presented on a settlement basis.

[4] "H.R. 3402 – 101st Congress: Support for East European Democracy (SEED) Act of 1989." https://www.congress.gov/bill/101st-congress/house-bill/3402/text http://www.seedact.com/seed-act-fs-act

The SEED Act was amended through the International Affairs Authorization Act of 1990[5] to include other eligible European countries,[6] which allowed the creation of the Czech-Slovak American Enterprise Fund (CSAEF) in 1991, the Bulgarian-American Enterprise Fund (BAEF) in 1991, and an Enterprise Fund covering the Baltic Republics of Estonia, Latvia, and Lithuania (BalAEF) in 1994. The FREEDOM Support Act (FSA) of 1992[7] incorporated the provisions of the SEED Act and provided the President with the authority to task USG agencies with authority under the SEED Act to expand activities in the New Independent States of the former Soviet Union. In 1994, an Enterprise Fund was established in Romania (RAEF) and two regional Enterprise Funds were respectively established to cover the five Central Asian Republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan (CAAEF) and the Western New Independent States of Belarus, Moldova, and Ukraine (WNISEF). In 1995, The U.S. – Russia Investment Fund (TUSRIF)[8] and the Albanian-American Enterprise Fund (AAEF) were created.

The above–referenced legislative language is, in several ways, pertinent to the evaluation question.

1. **The SEED Act and the FREEDOM Support Act defined the purpose of the Enterprise Funds in very broad terms.** USAID incorporated the same language in the Grant Agreements with the Enterprise Funds. Grant Agreements incorporated both objectives and a definition of success included under section G of an enclosed Program Description. Similar to the objectives, the definition of success was generic and typically followed the outline below:

   "…*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-sized firms across the different sectors of the economy in Country X;*
   - *The generation of new employment opportunities in the 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 Country X;*
   - *Development by the Fund of a number of key joint ventures between private companies of the U.S. and Country X; and*
   - *Consistent with the Fund's sound business judgment, the conduct of activities intended to further investment in Country X.*"

   Part of the explanation for this general definition of objectives was the fact that USG was under tremendous pressure to establish the Polish and Hungarian Enterprise Funds as quickly as possible, given the high-profile commitment made by President Bush in July 1989, and the bad shape in which the Polish and Hungarian economies were at the time. Thus, between July and November of 1989, USG policy makers had developed an Enterprise Fund concept paper that defined this new development instrument, and Congress had adopted the SEED Act. In May 1990, both the Polish American Enterprise Fund (PAEF) and HAEF launched operations.

2. A larger part of the explanation for the general objective statements is embedded in the **SEED Act's designation of the Enterprise Funds as private in character**. **The stated intent was to allow the Funds maximum flexibility in strategy development and operations.** The

[5] "S. 2944 – 101st Congress: International Affairs Authorization Act of 1990." https://www.congress.gov/bill/101st-congress/senate-bill/2944/text

[6] Eligibility was subject to "Presidential Discretion — With respect to the exercise of any specific authority provided in this Act, a European country shall be regarded as 'an eligible East European country' if the President determines that the use of such authority would assist the emergence or transition of that country from communist rule through the development or strengthening of democratic institutions and the practices of a free-market economy." S. 2944 – 101st Congress: International Affairs Authorization Act of 1990. Section 3 (2).

[7] "S. 2532 – 102nd Congress: FREEDOM Support Act of 1992." https://www.congress.gov/bill/102nd-congress/senate-bill/2532/text?q=%7B%22search%22%3A%5B%22FREEDOM+Support+act%22%5D%7D&r=1

[8] An Enterprise Fund for small and medium businesses in Russia was created in 1993. In 1994, USG established the Fund for Large Enterprises in Russia with the objective to provide comprehensive financing packages for medium and large enterprises with employees between 1,000 and 10,000. The Fund for Large Enterprises was part of the Unites States' contribution to the privatization and restructuring funds provided by the world's seven largest industrialized countries. The funds eventually merged and formed TUSRIF.

Directors of the Boards of the Enterprise Funds, who were appointed by the President or his designee, were responsible for the independent development of the Funds' strategies and the proper and accountable management of the Funds' portfolios.

According to several interviewees, the general thinking among policy makers in 1989-1990 was that USAID was not well-equipped technically to direct the implementation of the Enterprise Funds since the agency lacked staff with experience in private equity, venture capital, or development of financial institutions in Eastern Europe. Therefore, Boards of Directors comprising seasoned businessmen in sectors of relevance to the expected Funds' investments, who occasionally were also members of the diaspora or had some experience in the region, as well as policy experts in the region were viewed as a better alternative to USG government bureaucrats directing this high-stakes, high-profile pilot. The Directors of the Boards in turn had the authority to hire the Executive Directors and the senior management teams of the Enterprise Funds. These were typically professionals with backgrounds in investments, banking, and financial management.

The general idea built in the Grant Agreements was that the senior management teams of the Enterprise Funds and the Boards would develop a detailed investment strategy for the Fund, which would be presented to USAID within the first year of operations. The private character of the Enterprise Funds, as defined by the SEED Act, also meant that, although USAID had an oversight role of the performance of the Funds, the Agency could not dictate to the Funds how their structure, strategy, or operations should be managed.[9] Such interference would have constituted a violation of the Government Corporation Control Act.[10]

A third part of the explanation for the broadly defined Enterprise Fund objectives was the fact that USAID and DOS policy makers did not know what to expect from this experimental approach and, according to several interviewed decision makers at the time, did not expect the Enterprise Funds to make money. Neither the SEED Act nor the Grant Agreements of any of the Enterprise Funds provide for an exit strategy or mechanisms to manage the return on the Funds' investments.

The novelty of the Enterprise Fund concept to USAID and DOS, the urgent need to define it, craft the legal foundation for its implementation, and obligate funding for the wide range of programs envisioned in the SEED Act, left USG government policy makers with little time and few resources to conduct proper sectoral and market assessment in the recipient countries. They appear to have made decisions on the assumption that there would be demand for private equity and venture capital investment, and understanding of these financial instruments, in the former Soviet bloc. This assumption was mostly proven wrong, especially in the second and third waves of countries covered by the amended SEED Act and the FREEDOM Support Act.

The lack of prior experience with this mechanism or with the private equity industry is also reflected in the language of the first Grant Agreements signed with PAEF and HAEF, in which the durations of these Enterprise Funds were defined as three years, unless USAID and the grantee agreed otherwise. Later, amendments to all relevant Grant Agreements changed their duration to no less than ten years and no longer than fifteen years. This amendment still reflected some level of uncertainty but set the duration of the projects more in line with the investment horizons of private equity funds.

[9] The exceptions to this rule included a few types of investments more closely scrutinized by USAID such as provision of technical assistance to activities or entities in which the Funds did not invest directly, support to defense enterprises and military production, investments in state-owned enterprises whose privatization would not result in more than 50 percent ownership by private sector parties, support for U.S. business relocation, investment in export processing zones that may cause loss of jobs within the United States, or support to communist party activities. USAID also prioritized the formation of Joint Ventures between the Funds and U.S. investors.

[10] https://www.gpo.gov/fdsys/pkg/USCODE-2009-title31/html/USCODE-2009-title31-subtitleVI.htm

Finally, the idea of private equity and venture capital investing in the severely under-developed financial markets of the transition economies in the early 1990s implied bold optimism that financial sector deepening, capital markets development, and private sector growth could take shape relatively quickly, or it was another sign of the relative lack of experience with private equity among the USG decision-makers and the need to act quickly with limited information. Possible exit options from the Enterprise Funds' portfolio companies were to sell to the existing owners, private placement to other investors, or sale to the public through a stock exchange, although most of the portfolio investments would require years of growth to reach a point where any of these exit options would be real. Either way, this was an audacious move that demonstrated the willingness of U.S. policy makers to invest risk capital and bet on the ingenuity of the private sector to help address the unprecedented transformation challenge in the former Soviet bloc from totalitarian states and planned economies to democratic societies and market-based economies. With a couple of exceptions, the investment brought significant and unexpected returns. In Poland, the Fund was even able to start exiting investments just a few years after its inception, something that proved more difficult in other countries.

Definition of Economic Development and Financial Objectives in the Grant Agreements
USG policy makers used the same broad-brush-strokes approach of the SEED Act to define the objectives of the Enterprise Funds in the Grant Agreements. It was clear that the focus of the investment should be on private sector development, and specifically on stimulating small and medium enterprise (SME) growth.[11] SMEs were less likely to be able to secure financing from local or foreign banks, while at the same time, they were the expected drivers of employment creation. For USG policy makers, this was a critical consideration, as the privatization of state-owned enterprises was expected to result in significant workforce reductions and further exacerbate the unfolding economic dislocation.

Beyond the specific focus on SMEs and the interest in joint ventures with U.S. investors, the Grant Agreements make explicit one other, somewhat contradictory, expectation. Enterprise Funds were expected to pursue the dual objectives of achieving development impact and financial returns to sustain their activities. Unlike financial returns, which could be measured in a straightforward manner, development impact was not well-defined. Grant Agreements refer to some indicators such as successful establishment and strengthening of SMEs, employment creation, "completion of a wide array of transactions that develop and strengthen financial markets in the country," or "conduct of activities intended to further investment." Thus, the Grant Agreements do not define properly development impact or how it would be measured.

Various USAID documents refer to the dual objectives and their definitions and review results in an inconsistent manner. For example, the scope of work of this evaluation project included the following presentation of development and financial goals of the Enterprise Funds:

Fund Development Goals	Fund Financial Goals
• Create and expand SMEs • Generate employment opportunities • Disseminate free market business practices • Demonstrate that private sector works • Stimulate economic growth • Strengthen host country financial sectors • Reform legal and regulatory environment	• Demonstrate profitable, efficient, and transparent investment practices • Leverage private sector investment • Engage in broad scope of investment activities • Create new financial institutions • Attract outside investment

[11] The Russian Fund had the flexibility to invest in larger enterprises and did so on occasion. The Fund had been formed from a merger of several investment mechanisms, including a USG-funded Fund for Large Enterprises in Russia.

In addition to being rather broad and arguably overly ambitious for relatively small Funds in proportion to the size of the economies in which they operated, and the amount of other financial and technical assistance available and FDI inflows, some of the development and financial goals are overlapping. In other documents, such as a 2007 USAID summary sheet titled *The Enterprise Funds in Europe and Eurasia: A USAID/USG Success Story*, the development impact from investing includes the following statistics:

- Invested $1.2 billion of USAID/USG funding into over 500 enterprises in 19 countries (Note: this in itself is not impact, rather investment statistics);
- Leveraged an additional $5 billion in private investment capital from outside of the USG (Note: based on the table above, this is part of the financial goals);
- Reinvested $1.2 billion of net proceed realized from successful investments (Note: the return on investment is arguably a financial result; the reinvestment could be part of the development goals, depending on what the Funds reinvested the returns in – not clear as stated);
- Expected to recoup 137 percent of the original USAID funding (Note: 1) this is an older document, so the numbers are outdated, and 2) this is arguably part of the financial results);
- Provided substantial development capital where supply was limited (Note: this unfortunately is neither clear nor measurable as an impact statement);
- Created or sustained over 260,000 jobs through investment and development activities (Note: this is part of the development impact, as defined by USAID. There are some other considerations and limitations regarding this indicator, discussed further in this section.);
- Funded $74 million in technical assistance to strengthen the private sector (Note: this is part of the development impact as defined by USAID.);
- Other development highlights listed in this document include the creation of new financial institutions and introduction of new financial products (Note: this seems to be part of the financial goals although the strengthening of the financial sectors listed under development goals arguably includes creation of financial institutions and introduction of new financial products and services.)

The point in this example is not to criticize USAID's reporting but to highlight the fact that the dual mandate set by USAID for the Enterprise Funds was not clearly articulated in terms of specific and measurable objectives, which later caused confusion both within USAID and at the Funds in terms of performance and reporting expectations.

The issue of vaguely defined objectives in the grant agreements, lack of performance measurements and targets against which to measure performance was raised occasionally by external evaluators as well. For example, in May 1995, a draft Audit of the Status, Economy and Efficiency of Four Enterprise Funds prepared by the Regional Inspector General (RIG) for Audit/Bonn summarized the findings of the review of the Bulgarian, Czech-Slovak, Hungarian, and Polish Enterprise Funds conducted between October 1994 and April 1995. The audit examined two questions:

1) How Funds' performance was measured and what the program status was, and
2) How USAID grant funds were used and whether these uses were economical and efficient.

The audit found that:

> *"Although broad goals have been established for the Enterprise Funds, there are no agreed-upon specific objectives and measures by which the performance of the Funds can be judged. Enterprise Funds were established without performance indicators; there was no prior assumption or expectation of success since they would be operating within environments of extreme uncertainty. This lack of specific objectives has impaired USAID's ability to monitor the program and meaningfully report on the Funds' performance.*

A USAID-funded independent external evaluation of four CEE Funds also found that there were no performance indicators and reported on the confused monitoring role that USAID has had from the program outset…"

The draft RIG audit report noted that despite the identified deficiencies, the external evaluation had concluded that the impact of the Funds' investments on the 3,305 companies receiving them as of that date had been highly favorable, although Funds had not been able to invest as quickly as expected.

The Funds' Interpretation of the Objectives and View on Development Impact Mandates
Different Enterprise Funds interpreted and addressed development impact mandates very differently. The following continuum represents the relative focus on impact development of the ten Funds, based on the documents and reports reviewed by the evaluation team.

Strong development impact focus

TUSRIF and PAEF:
The two largest Technical Assistance (TA) programs of all Funds. TUSRIF reported in detail the financial disbursements of its TA but not its impact. PAEF provided just lists of the TA beneficiaries but no budget or impact details. The Funds engaged proactively in policy reform (TUSRIF outlined its rationale and expected results); financed large small business programs, and established new financial institutions and products.

RAEF: Two stages: first couple of years development focus; afterwards commercial focus.
BAEF: Although the Fund established a very successful bank, a leader in SME lending, overall the Fund focused heavily on real estate –related investments and lending, REITS, and property management companies. The risky but very profitable strategy did not balance well profit maximization and development impact goals (see Note 3).

Weak development impact focus

WNISEF:
Capital and TA used to improve companies' commercial viability and identify portfolio investments; the third largest TA program for portfolio companies that was documented in detail in SARs; focus on investments with potential demonstration effect; creation / strengthening of financial institutions and introduction of financial products. Two commissioned economic impact studies.

AAEF and BalAEF: Both adapted strategies to local environments and generated significant development impact.
AAEF: Successful and impactful airport and identity document concessions; establishment of a leading national bank that set banking standards and introduced new products.
BalAEF: Until 1997, focus on building staff, TA, successful residential mortgage program; after 1997, focus on residential mortgage lending and commercial finance, established AmCredit (sold in 2008), created and sold internationally investment grade structured mortgage products, established a mezzanine investment company with IFC investment, and a Baltic Small Equity Fund.

HAEF:
Focused on maximizing financial returns; viewed loans as unacceptably high-risk; no interest in policy work or demonstration effect; considered development activities incompatible with investment objectives.

CAAEF: (See Note 1)
CSAEF: (See Note 2)

Notes:
1. CAAEF – the Central Asian-American Fund drew down $106 million of the $150 million authorized for appropriation by the Fund. In addition to a Direct Investment Program, the Fund managed loans to micro-, small- and medium-sized (MSME) businesses. Initially, the Asian Crossroads Loan Company (ACLC), a wholly owned subsidiary of the Fund, administered the loans to MSMEs through participating banks in the region that shared the income with ACLC by sharing the credit

risk. In 1999, the Fund took over the loans administered by ACLC. Mercy Corps International (MCI) administered the micro-loan programs under management agreements with the Fund.

The January 2000 SAR provides a quick summary of the Fund Board's interpretation of USAID's guidelines for TA use. The interpretation is defined as "conservative," and states: "The Board has directed the President to disburse Technical Assistance only in those cases where a direct and meaningful impact to a specific Fund investment or potential investment occurs. The Fund does not engage in demonstration projects, impact projects or any other assistance which does not directly and immediately benefit the Fund." As a result, CAAEF reportedly spent the least of all EFs on TA, according to one USAID presentation ($.2 million). According to the January 2000 SAR, the total amount for TA from 1998-2000 was $646,246, although this amount appears to include other expenses not related to direct assistance to portfolio companies. Further, the Fund appears to have had limited engagement at the policy level through participation in fora and seminars related to enabling business environment and regulation, providing advice to local governments on laws and regulations to improve the development of a market-based economy, and information dissemination to encourage foreign investor interest in the region. The Fund did not report results in the Strategic Framework Matrix under the policy reform rubric in the documents the evaluation team saw.

Overall, the Fund was not successful and lost most of its invested funds, returning $5 million to the Treasury and endowing a Legacy Foundation with a total of about $17 million. Therefore, it is hard to argue that CAAEF had a meaningful and sustained financial or development impact. One interviewed USG policy maker expressed the opinion that part of the development impact of CAAEF was that it allowed USG to be present in the region and engage in discussions with the five governments of the Central Asian Republics about the importance of the transition efforts and reforms. This is probably a stretch, and there are certainly cheaper ways to engage governments in policy discussions. Based on its stated policy of no interest in demonstration and impact projects, negligible investment in TA, which arguably could have been a wise de-risking investment in portfolio companies, and actual lack of impact, CAAEF is at the weak-focus-on-development-impact end of the continuum.

2. CSAEF, a holding company that also made investments, the Czech-American Enterprise Fund (CAEF) and the Slovak-American Enterprise Fund (SAEF) – invested in 51 small business loans (totaling $4.5 million between 1996-2008), TA, and training programs. However, the funds invested in high-risk small start-ups and high-risk sectors and experienced substantial losses. This, coupled with governance issues, led to the termination of CAEF and the re-focus on investments only in Slovakia. The focus on riskier bets, relatively small focus on development impact, and the losses incurred did not allow CSAEF, CAEF, and SAEF to produce a sustained development impact. Further, it could be argued that institutions tainted by reputational damage, as in the Czech Republic case, are at a serious disadvantage in efforts to position themselves as agents of change and advocates for best practices in corporate governance, business and financial management.

3. BAEF was one of the most financially successful Funds. Although BAEF's portfolio was focused on real estate and construction investments, as demonstrated by its SARs,[12] BAEF was one of the Funds

[12] BAEF's September 2008 SAR Book showed that as of June 30, 2008, BAEF's portfolio was distributed as follows: Construction/housing/real estate 22 percent, Agriculture/agribusiness ~1 percent, Distribution/transportation ~1 percent, and Financial services 77 percent. Further analysis of the investments breakdowns provided in the SAR showed that the total cost of the financial services investments of BAEF amounted to $31,793,139. This included the bank, whose portfolio consisted of SME loans (including mortgage loans), hotel loans, traditional home mortgages and mortgage lending. Other investments in the financial services portfolios included investments in Kapital Direct EAD and Kapital Direct – 1 ADSIP, which invested in real estate. The real estate portfolio of BAEF had a total cost of $63,570,202 as of June 30, 2008 and included over $44 million in the wholly owned Bulgarian American Property Management company, which invested solely in real estate, land,

the evaluation team refers to as Enterprise Funds that built successful financial institutions, lent profitably to SMEs, introduced new services and products, set standards for prudent managements and quality of service, and eventually exited these investments profitably, without having an explicit focus on development impact, as defined by USAID. Lack of development focus in this case does not mean that there were no positive spill-over and demonstration effects from the Fund's investments. Further, BAEF provided the largest endowment to a Legacy Foundation.

Some Enterprise Funds attempted to clarify with USAID the expectations regarding development impact and the relative weight the Agency placed on development results. One USAID decision maker at the time shared as an anecdote that some Enterprise Fund management teams asked USAID for guidance on whether their focus should be on financial performance or development impact, and the answer they received was "Yes." The evaluation team received and reviewed documents that showed written exchanges between USAID Washington, USAID staff in the field, and Enterprise Fund management teams on the topic of investment objectives, their alignment with USAID priorities, and appropriate performance measurements. Only in 1997 – after an Assistant Inspector General (AIG) report from 1995, a GAO report from 1994, an external evaluation from 1994-1995, and some Congressional interest – did USAID develop and mandate a more detailed and structures reporting format, referred to as the Strategic Framework Matrix. This template included some key performance metrics covering financial and development results.

As part of their mandate to develop an investment strategy, Fund management teams also grappled with the concept of the dual objectives and had articulated their views on the matter. One example is the WNISEF Investment Policy & Performance Measures document dated January 1997 and signed by the first President and CEO of WNISEF, Scott A. Carlson. In this document, Mr. Carlson distinguished between performance measures that aligned the operations of the Fund with its goals and mission, and performance measures that were informative and served more to respond to USAID reporting requests rather than to measure the performance of WNISEF, as the Fund's Board and management saw it. Among the former metrics, Mr. Carlson and the WNISEF Board identified:

a) Overall return of the Fund;
b) Staffing and management: number of host country personnel hired and trained by the Fund; number of portfolio companies per investment officer;
c) Overhead costs: ratio of annual operating costs to authorized capital;
d) Use of TA to portfolio companies to achieve Fund objectives;
e) Leveraging capital: value of additional capital raised and managed by the Fund;
f) Return on capital; and
g) Portfolio company performance indicators: sales growth, profitability, cash flow, and cost of capital.

Among the latter, development impact measures, WNISEF management listed:

h) Employment (both total employment supported and new employment created) with some of the above-mentioned caveats;
i) Introduction of new financial instruments and products, with the caveat that this would depend on banking regulations in the country – for example, WNISEF was not able to lend for about a year and a half after it was set up; and
j) Small and medium business development (with a focus on its portfolio companies and not on the sectors at large).

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and parking lots. The rest of the investments were apartments, land, an office building, retail properties, a supermarket chain, a warehouse facility as well as three real estate investment trusts (ERG I, II, and III), whose shares were traded on the stock exchange. Further, in addition to the Managing Director of BAEF, the Fund had a second Managing Director – for Real Estate.

Overall, the WNISEF initial investment policy took the position that "Fund management would not know how to take credit for the policy reforms in Ukraine and avoid the blame for the collapse of the private sector in Belarus," and, "As stated in the Grant Agreement and the Fund's mission, the Fund can demonstrate its impact solely through the performance of the portfolio companies. Fund management would know how to presume to point to developments in the private sector unrelated to the portfolio companies." It should be noted that WNISEF's position changed somewhat later on under different management, and the Fund did include in its SARs information on policy and legal environment reforms, impact on financial institutions and lending adopted by them, and economic impact measured by employment creation, tax contributions and other proxy indicators. In fact, WNISEF went beyond any of the development impact measurement efforts committed by the other Enterprise Funds and commissioned two economic impact studies to measure its performance – one in 2002-2005 and a follow-on study in 2015.

Unlike WNISEF, HAEF did not consider TA and public policy work aligned with its for-profit strategy. Although HAEF had a $10 million grant for a Technical Cooperation Program, launched in 1992, in its Strategic Management Plan dated December 1993, which replaced the Fund's existing plan developed in the Fall of 1990, management described the evolving role of the Fund and restated its views on the Fund's objectives and major programs. The guiding philosophy of HAEF, per the Grant Agreement, was that while the Fund operated in a for-profit manner, it also had 'not-for-profit" or "public policy" roles. Management and the Board thought that "*the dual mandates of for-profit and not-for-profit public policy missions present the Enterprise Funds with the greatest challenges in posting an overall investment track record capable of attracting private equity funds to its management.*" The Fund's management recognized the need for and importance of TA and of small- and micro-loans to entrepreneurs in the Hungarian context at the time. The Fund also considered the different priorities and incentives of purely profit-seeking investors. The conclusion that the management and the Board of HAEF reached was as follows:

> *"In making equity investments, loans, and grants, the Board and management are constantly aware of the dual mandates of its for-profit and not for-profit missions. At the same time, the Board believes that having a public policy or non-profit purpose is not the same as being "soft" or "fuzzy" in making investment decisions. In making loans and investments, the for-profit vs. public policy roles of the Fund are clearly separated. Those who invest with the Fund, or for whom the Fund manages money, will not be burdened with the cost of the Fund fulfilling its public policy purposes."*

And further on page 31:

> *"…Neither those who invest with the Fund, nor those for whom the Fund manages money, will ever be asked to underwrite or contribute in any way to the Fund's fulfillment of its public policy purposes."*

Based on the documents reviewed by the evaluation team, it is not evident that HAEF sought to balance development and financial return objectives. The appearance is that the HAEF management and Board considered the Fund a profit-oriented venture capital fund focused on investing in commercially viable and profitable small and medium-sized businesses in Hungary. In the same HAEF Strategic Management Plan of 1993, the Fund defines its Objectives as follows:

> *"Private enterprise orientation to focus on private enterprise investments and development and not to participate in the internal political and governmental working of our host country. As a matter of policy, the Fund will not lobby foreign governments or organizations, nor will it normally actively participate in reform movements, "demonstration projects", and the like. The Board is committed to the concept that the best way to help Hungarians in the*

conversion to a pluralistic market economy is through a successful investment program, where political and legal reforms follow as a natural result of an increasingly expanding and robust private economy.

The most basic objectives of the Fund are to invest in profitable businesses and generate income. Without a profitable investment program, the Fund would eventually consume all original capital in operational and administrative expenses, fail in one of its key missions of attracting additional capital, and set a bad example of capitalism for Hungarians…"

HAEF's determination that equity investing would be the focus of its strategy in the Hungarian context was based on the conclusion that this approach "has the best chance of fostering small and medium-sized businesses, while at the same time earning the Fund the highest return on its invested capital." Loans were generally viewed as offering "an unacceptable risk-related rate of return."

CAAEF's management also determined that projects for demonstration effect and development impact were not of primary concern, while other Funds attempted to find some balance as their strategies evolved over time.

Another inherent ambiguity in this context was the fact that the Enterprise Funds were created as private entities largely independent of USG. In fact, for several years in the beginning of this experiment, Congress's message to USAID could be summarized as "write the check and get out of the way." The Boards and management teams of the Enterprise Funds knew that and protected their independence from government interference and micromanagement. Only after some missteps provoked Congressional inquiries and high-level interventions from USAID and DOS was USAID able to institute more rigorous reporting requirements. Even then, however, it was up to the Funds to determine the balance between financial and development objectives in their strategies. The evaluation team did not see any evidence of investment strategies being questioned by USAID or revised by the Funds as a result of a challenge related to lack of development focus.

5.1.2 Consequences of Broadly Defined Enterprise Funds' Objectives

Documentation of Performance Measurement

As the AIG report from 1995 pointed out, the lack of clearly defined objectives made it impossible to define success and measure results. Even the introduction of the Strategic Results Matrix did not fully resolve this issue, as the template incorporated some of the ambiguous results of the objectives and definitions of success in the Grant Agreements.

Job creation illustrates the above point very well. This concept appears to have been of particular interest to USG policy makers. Despite that, the concept was never defined in the context of the Enterprise Fund investments, by neither USAID nor the Enterprise Funds.

- Were Funds to count only new jobs created as a result of their investments?
- Or, as some did, were they to count jobs that were arguably sustained because a Fund provided a critical credit line to a business or strengthened its management and operations? However, should the Fund define for what period the jobs were sustained? Many Funds wrote off investments.
- Did it matter if the Fund only provided a loan to lease or purchase a piece of equipment or invested for a year and then exited the company?
- Did it matter if the Fund was a minority investor with little direct involvement in the day-to-day management of the firm?
- What if some of the created jobs were temporary?

- What if the investment created jobs initially, but later the company went under? Were these jobs to be subtracted from the previous reports?
- What if, as part of a needed restructuring of an investee, the Fund's investment actually contributed to employment reduction? Some Funds may have eliminated less productive jobs and later created new jobs, but on balance, the total employment creation may still be negative or zero. The impact of the Funds in this case may be identifiable in the difference in the remuneration for the positions, not in their number.

These and similar points were made by the Enterprise Funds in their correspondence with USAID. For example, HAEF cautioned in its reports and analysis that sometimes restructuring and business optimization initially led to layoffs. In its reports, HAEF provided examples of two companies in which, as part of the privatization process, employment was initially reduced but the salaries of the remaining employees reportedly increased significantly. In one of the companies, employment eventually went up to the previous level.

Despite this ambiguity, an indicator titled "Number of jobs" was included in the Strategic Framework Matrix under the goal of establishing and strengthening SMEs across different sectors. Other development impact-related indicators, such as "institutions created" and "institutions strengthened," required a list of names and the total amount of other capital mobilized as of that date for that institution. The policy reform objective provided some guidance on the type and structure of the information to be included. Some Funds elaborated on their policy-related efforts and the expected impact, others did not include information, and the majority provided brief lists of activities.

The Strategic Framework Matrix is probably best seen as a pragmatic compromise between the minimum information required for the purpose of USAID reporting and the type of data required by the management teams of the Funds to manage the investment portfolios. The financial data reported by the Enterprise Funds and validated by external auditors was detailed and reliable.[13] The development impact-related data are harder to validate, especially years after most Funds have been liquidated, and harder to interpret. For example, what is the utility of the jobs indicator, if it is not clear what types of jobs are counted, what the baseline was, for how long the jobs existed, and — if jobs were cut — why that happened and what the impact on the profitability of the enterprise was? Moreover, if there was any ambiguity, how was this information used? The evaluation team did not see any evidence of inquiries regarding the jobs numbers and clarifications between USAID and the Funds. USAID interviewees indicated that the jobs data were not validated due to resource constraints.

Similar lines of questioning could be applied to the other development indicators. What, for example, is the meaning of numbers of institutions strengthened — strengthened in what ways, by how much, and from what baseline? The proxy used, lump amount of other capital mobilized, seems to refer only to capitalization. How were institutions in need of strengthening identified and short-listed? What specific technical assistance was provided, by whom, and how much did it cost to achieve the planned results (and what were they)?

Why would policy makers want to know the answers to these questions? One obvious reason is that presumably the data were being collected to address specific decision-making needs. Another reason may be that the ability to assess the efficiency and effectiveness of the delivery of institutional strengthening or other development impact outcomes through the Enterprise Funds could be compared with other delivery mechanisms such as typical development projects managed through contracts and cooperative agreement. At the time of the existence of the Enterprise Funds, USAID was implementing

[13] There have been occasional questions regarding fees, transparency and method of calculation of fees, particularly when parallel equity funds and management advisory firms have been involved; however, data were generally obtainable and verifiable.

various related development projects in the same countries that possibly had institutional capacity building components with a specified budget and expected results. Overseas Private Investment Corporation (OPIC) was authorized by the SEED Act to provide TA as well. A comparison between different modes of delivery could inform decision makers regarding the optimal choice of mechanism for specific types of interventions, thus freeing resources and avoiding duplication.

Several additional points should be added to this analysis to ensure a fair representation of the dynamics between USAID and the Enterprise Funds and within the parties in the context of monitoring and reporting.

It is unsurprising that Enterprise Funds needed greater clarity on the dual objectives and the reporting expectations. The Boards, management teams, and the staff of the Funds were people with business and financial backgrounds and not development professionals. Their concept of development impact, as explained by a number of interviewed Directors of the Boards and senior managers, was straightforward: The investments made by the Funds provided access to capital for entrepreneurs, allowed people to borrow to improve their living standards, lease equipment, grow their businesses and expand in new markets, deal with and learn from western management expertise, get access to new financial and non-financial services and products, explore better career opportunities and benefit from training, and a lot more. Albanians got new passports that allowed them to travel visa-free to the Schengen zone countries, in a number of countries micro and small businesses were able to borrow for the first time, and citizens were able to obtain mortgages. All of these results exemplified the development impact of the Funds' investments.

For many of the Fund's investment managers, the success of the Funds was measured by their financial success, as the performance of private equity funds is normally measured. Engagement in policy and advocacy work was necessary only to the extent it protected portfolio investments. Job creation, or destruction, was a secondary consideration. In fact, private equity focuses on business process optimization, efficiency gains, and improved financial performance of portfolio companies, which is often associated with 'workforce optimization," also known as job cuts. This view may be different from the perspective of a development professional. The vocabulary and job description of an investment professional will also be quite different from that of a development professional. Specifically, private equity funds do not employ USAID-type Monitoring and Evaluation (M&E) personnel, and this was the case with the Enterprise Funds. There was no requirement to employ M&E personnel. Monitoring of portfolio investments was the responsibility of investment associates and officers, who focused on financial performance, as evidenced by the information included in the narratives of most SARs and annual reports. This appears to have been acceptable to USAID.

Inability to Measure Rigorously and Attribute Development Impact, as Defined in the Grant Agreements and Based on SARs and Annual Reports, to Enterprise Funds' Investment and Technical Assistance

There are at least several factors that complicate a rigorous assessment of the development impact of the Enterprise Funds and the attribution of such impact exclusively to the activities of the Funds:

1. Development impact and financial performance objectives were defined too broadly in the Grant Agreements.
2. Expected results, or at least acceptable ranges of performance, given the level of uncertainty, were not articulated. Success could not be defined.
3. The SARs provided routine progress reporting data but did not include higher level outcome and impact indicators. In the absence of indicators agreed at the outset of a program, it is not possible to establish a baseline and later quantify results and attribute the change to a specific actor or intervention.

4. Neither the reporting requirements listed in the Grant Agreements nor the type of indicators required in the Strategic Results Matrix imply in any way that Funds had to measure and report on development impact.
5. Other development impact-type metrics, such as policy development work, technical assistance and capacity building, organizational development of financial institutions or regulators was included by most Funds in reports in the form of lists of activities with little to no impact analysis.
   It should be noted that USAID's initial plan, as described in the Grant Agreements, was that all Funds would participate in mid-term and end of project evaluations that would assess such impact. There was no expectation that the Funds would be producing impact analyses. Since independent end-of-project evaluations were not conducted, the development impact of the Enterprise Funds is anecdotal and self-reported.
6. The self-reported development impact also tended to discuss the Enterprise Funds in isolation from the influx of USAID and other funding, TA, development banks' lending and FDI inflows, especially in Central and Eastern Europe, during the transition as well as European Union accession funding. According to the European Bank for Reconstruction and Development (EBRD)[14], net[15] FDI in the more advanced Central European countries reached $16.1 billion in Hungary between 1991-1998; $15 billion in Poland in the same period; and $10 billion in the Czech Republic between 1992-1998. Although a lot of this capital targeted larger privatization opportunities, some of it arguably competed for deals of interest to the Enterprise Funds. Hungary, for example, attracted the largest amounts of FDI in Central and Eastern Europe, until it was overtaken by Poland in the second half of the 1990s, enacted a Venture Capital law in 1998, was enjoying considerable attention from investors who considered the country the "Switzerland of middle Europe," and saw a rapid rate of small business creation in the 1990s.

Financial Performance Underpinned by Commitment to Sustainability: WNISEF

WNISEF was formally established with the execution of a Grant Agreement dated September 21, 1994 by the United States Government through USAID. The total planned grant funding from USAID to the grantee was $150 million. Similar to the Baltic and Central Asian Enterprise Funds, WNISEF was established as a regional Fund. WNISEF's original mandate was to operate in Ukraine, Moldova, and Belarus; however, due to the political environment in Belarus, the focus shifted after a few years to investments only in Ukraine and Moldova.

WNISEF is unique among the Enterprise Funds created pursuant to the SEED Act and the FREEDOM Support Act in its current operation as a Fund that also manages Legacy Programs. The Fund's liquidation plan envisioned the establishment of a Legacy Foundation, following the pattern established by the other Enterprise Funds. The proposal to establish a WNISEF Legacy Foundation did not receive Congressional approval; instead, the Fund extended several times its liquidation date, currently to 2023, and began implementing four legacy programs in 2015. These are reviewed under the evaluation questions focusing on foundation activities (see Section 6).

In terms of investment activities, other than the reduction in geographic scope, WNISEF has not deviated from the objectives in its Grant Agreement and has sought to balance financial returns and development impact objectives. The Fund has been able to achieve most of the objectives set out in its original grant agreement, while navigating a difficult and prolonged transition period, two revolutions, a military conflict, and unstable economic conditions in the country, which have affected the performance of some of its investments and its ability to optimize its liquidation strategy.

[14] *Transition Report 1999. Ten years of transition*. European Bank for Reconstruction and Development, 1999
[15] Balance of payment data based on banking statistics and presented on a settlement basis.

The investment strategy outlined by the WNISEF's first President was to use capital and technical assistance to make portfolio companies commercially viable. The Fund articulated the five services it would provide to portfolio companies: capital, advisory services (knowhow and training), information systems, corporate governance, and recruiting. In the first years of the implementation of the technical assistance program, the Fund provided trainings, consulting and other services to portfolio companies at no cost. These services are described in detail in the SARs provided by the Fund to USAID. According to WNISEF reports, the Fund developed and provided business training programs for more than 1,000 representatives of portfolio companies and their distributors, and introduced U.S. and international best practices in corporate governance, quality control, financial management, utilization of management information systems, general management, business development, and sales and marketing within portfolio companies. Previously aggregated USAID statistics show that WNISEF had the third largest technical assistance grant program, after the Russian and Polish Funds.

The Fund sought opportunities to make investments and provide assistance that could have demonstration or other systemic effects in support of economic reform. Despite the numerous challenges, one notable success in this context is the fact that the Fund has reportedly "unlocked $1.4 billion of total capital for Ukrainian and Moldovan companies over 20 years." A breakdown of the major contributions to this leverage is summarized below.

The contributions of WNISEF to financial sector deepening include the establishment of new financial institutions and development of new financial products. Examples include:

- WNISEF's Small Business Loan Fund — the first small loan facility in Ukraine with an investment of $4 million, of which $3.8 million was committed. The facility created the demonstration effect needed by the Ukrainian banking sector to enter this market segment.
- WNISEF established the first specialized residential mortgage bank in Ukraine, International Mortgage Bank (IMB). IMB implemented international standards of underwriting, lending, and transparency and became the first bank to securitize mortgages in Ukraine.
- The Fund initiated the registration of the first non-bank financial institution and paved the way for non-bank financial institutions in terms of licensing, regulatory, and monitoring processes.
- Other financial institutions created or strengthened by the Fund as well as other capital mobilized for them included as of March 2013: Platinum Bank ($361.3 million), ProCredit Bank Ukraine ($140.5 million), ProCredit Bank Moldova ($33.6 million), Agroindbank (MAIB) ($35 Million), and Fincombank ($5 million).
- WNISEF portfolio companies were early leaders in the issuance of corporate bonds, outside of the energy sector in Ukraine.
- WNISEF supported the development of an energy efficiency lending program.

In 2006, three senior WNISEF executives and a Director of the Board became Founding Partners of Horizon Capital, a private equity fund manager that began managing WNISEF's direct investments as well as two funds:

- Emerging Europe Growth Fund I, LP (EEGF I), a $132 million mid-cap fund raised for investments in Ukraine and the region, in which WNISEF is an anchor investor with $25 million and a Limited Partner; and
- Emerging Europe Growth Fund II, LP (EEGF II), a follow-on, $370 million fund with the same investment philosophy as EEGF I. WNISEF was not an investor in EEGF II.

Further, according to WNISEF, a new, third fund, Emerging Europe Growth Fund III (EEGF III) had just had its first closing on June 21, 2017. WNISEF is an anchor Limited Partner in EEGF III.

Through Horizon Capital, WNISEF has attracted over $500 million in additional capital, including from over 40 blue-chip institutional investors from the U.S. and Europe. According to the CEO of Horizon Capital, Ms. Lenna Koszarny, the fund was raising capital for EEGF III at a time when no other funds had been able to raise capital for Ukraine. Over the years, Horizon Capital has attracted commitments from the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the Black Sea Trade and development Bank (BSTDB), the Dutch Entrepreneurial Development Bank (FMO), and others.

Through Horizon Capital, WNISEF has had a demonstration effect, not only based on its track record of attracting additional capital and de-risking investments as an anchor in EEGF I. The corporate governance premium is another value added of the technical assistance interventions and hands-on management of portfolio companies, which makes these firms more attractive to potential investors. WNISEF's investments in the Moldovan financial services sector, FinCom Bank and ProCredit Bank Moldova, withstood the recent $1 billion-dollar banking scandal in the country.

In the area of regulatory reform and business enabling environment, WNISEF's contributions span a broad range of legislative and institution building activities:

- WNISEF co-funded the Ukrainian Mortgage Finance Association in 2004 and facilitated new legislation, regulations, and the creation of a mortgage-friendly legal environment.
- The Fund provided assistance for the development of the President's Foreign Investment Advisory Council, Ukraine's Foreign Investment Promotion Agency, and the Competitiveness Council of Ukraine.
- With the Ukrainian American Chamber of Commerce's Finance and Investment committee, WNISEF developed a position paper on the draft Joint Stock Company Law, which was adopted into the Law on Joint Stock Companies.

Although the Fund's management did not believe initially that they could measure development impact and argued to that effect in 1997, WNISEF's management later on did consider development impact a priority and to the Fund's credit, it went beyond what other Enterprise Funds did and commissioned a baseline economic impact study conducted by the International Centre for Policy Studies (ICPS) and Gesellschaft für Konsumforschung-Ukrainian Surveys and Market Research (GfK-USM) between 2002-2005. The study concluded that the total impact of direct investment in 12 companies in Ukraine and Moldova was $229,484,000. It also calculated that the impact of small business lending to 28 companies included 71 percent increased employment, 68 percent increased revenues and increased tax contributions, and 57.1 percent additional capital attracted. In 2015, WNISEF commissioned GfK to replicate the study using the same methodology. The report was issued in March 2017. As it only estimated the economic impact of the remaining three WNISEF direct investments, $41 million in 2015, the findings provide a helpful but limited perspective on the economic impact of the Fund.

Focus on Financial Returns: RAEF

RAEF achieved its commercial objectives but did not balance well the pursuit of financial returns with the development objectives. Similar to BAEF, RAEF did strengthen and build financial institutions and contributed to the development of enabling legislation. An analysis of its investment strategy, however, points to the conclusion that the primary concern of the Fund was arguably profit maximization and the key performance indicator was financial success.

The Fund leveraged its $58 million investment portfolio[16] to reportedly $872 million earned through the provision of bank loans, micro and small loans, mortgage loans, consumer finance loans, leasing, and the operations of investment funds. According to a report provided by Axxess Capital Partners to the evaluation team in February 2017 in Bucharest, the Romanian Fund went through two different stages in its evolution. The first stage was defined by RAEF as primarily developmental in focus – from 1995 to mid-1998. After mid-1998, the strategy of the Fund became purely commercial. The strategy, as summarized in the September 1999 SAR, focused on a) raising a new regional or Romanian-focused fund of at least $40 million; b) securing control of a Romanian bank through which RAEF would execute the Small Loan Program (SLP) and would provide mortgages and insurance products; c) using the bank as a conduit for donor funding for investments in Romania; d) raising additional funds for the Small Business Investment Fund (SBIF) program; and e) reaching sustainability by 2002.

This second stage strategy placed a much greater emphasis on financial services. The Fund invested in the development of specialized skills in this sector among its staff and made some very profitable investments. Financial services deals had the greatest weight in RAEF's portfolio (45 percent) and constituted the most successful sector for RAEF's investments. Some examples of RAEF's successes in the sector include:

- In 2001, RAEF led the privatization of the whole stake owned by the Government of Romania (GOR) in the insolvent Banca Agricola. RAEF (10 percent) partnered with the Austrian Raiffeisen Bank (90 percent), and arranged its sale to Raiffeisen upon which RAEF exited the investment in 2002;
- Stabilized Banca Romaneasca, channeled some of the small and micro lending programs through the bank (with additional lines of credit provided by IFC ($6 million), EBRD (EUR 5 million), and KfW (DM 5 million), and exited the investment in 2003;
- Launched Domenia Credit, Romania's first non-bank mortgage company;
- Contributed to the significant expansion of Motoractive, a leasing company in Romania;
- Founded Estima Finance, a consumer finance firm;
- Helped strengthen a number of financial institutions — Patria Credit, formerly CAPA (in 2010, attracted loans from OPIC, $25 million, and EFSE, EUR 7 million), Opportunity Microcredit Romania, and Cooperative Housing Finance's (CHF's) Case de Ajutor Reciproc a Asociatiilor;
- Created an investment banking group that served as a Romania representative for investment banks including Credit Suisse First Boston, JP Morgan, and Rothschild Conseil in several privatization deals;
- RAEF helped make $467 million available to private enterprises through bank loans. Another $372 million was made available through RAEF's small loan program;
- RAEF's micro loans multiplied the original $1 million allocation through reinvestment of loans and investment of new capital and provided more than $38 million in lending. In 1996, when this program was launched, it was the only source of funding for small entrepreneurs in Romania.

In pursuit of its second stage strategy, RAEF focused on setting up several investment funds and attracting outside investors as well as raising additional funding for its programs:

- Major Transactions Program (MTP), which comprised the direct investments and co-investments of the Fund in portfolio investments. MPT attracted investments from enterprise investors through a New Investment Fund as well as from USAID, Romanian Capital Advisors (RCA), and Raiffeisen Zentralbank (RZB).

[16] RAEF received initially $50 million from USAID, which was supplemented by another $11 million from USAID. In calculating the value of its investment portfolio, RAEF subtracted from the total drawdown amount of $61 million the reported $3 million it spent on the provision of technical assistance to portfolio companies or potential investments.

- SBIF, which invested in small businesses through a combination of equity, convertible debt, and leasing instruments. It elicited interest among small businesses and the GOR, as well as EBRD and IFC.
- SLP, which disbursed loans through Banca Romaneasca and Banca Transylvania (for a year) and received a $5 million IFC loan commitment. This $13.2 million program provided 236 loans to SMEs in Romania that were negatively affected by the war in Kosovo. Some funding was provided by USAID.
- Micro Loan Program (MLP), which made over 7500 term loans and received $62.8 million from RAEF and a total of $7.3 million from IFC, Soros Foundations, Romanian Capital Management (RCM), and SARONA.

The following investment Funds were set up by RAEF to attract outside investors and raise additional capital for programs:

- The Balkan Accession Fund (BAF) was a follow-on fund of RAEF, in which RAEF was the largest investor.
- Romanian Industrial Energy Efficiency Company (RIEEC) was a private debt/equity fund dedicated to the energy efficiency sector.
- Balkan Mezzanine Fund attracted capital commitments from FMO, DEG, the Bulgarian-American Enterprise Fund, RAEF, and from management (RCM/RCA); and
- Romanian Investment Fund (RIF) was a private equity only fund supported by RAEF during its fund-raising stage. RAEF also acted as Investment Advisor for the private equity arm of RIF for a period of time (RIF also had a public arm). RIF closed in 1997. RAEF's investment cost was $30 million out of a total committed capital of $65 million. RIF invested in RAEF's Major Transactions Program.

The creation of a private fund management company was an integral part of RAEF's strategy. RAEF created three fund management companies, according to available documents.[17]

- RCM, a Delaware LLC;
- Due to concerns that RCM may have engaged in transactions prior to becoming fully approved by USAID, RAEF formed a new management company in FY 2002, RCA, also a Delaware LLC. It managed assets for RAEF, RCM, and BAF. It also managed the LTEI Plan for RAEF. RCA had the same membership as RCM – the four managers of RAEF's MTP. In 2008, RCA requested Weils Gotschal to change its name to Axxess Capital, LLC, a Delaware company.
- Enterprise Capital, S.A. was a Romanian company.

RAEF also attempted to develop an investment banking business based on a successful transaction involving Banca Agricola and RZB. RAEF's investment banking group served as a Romania representative for investment banks, including Credit Suisse First Boston, JP Morgan, and Rothschild Conseil in several privatization deals, and more.

Based on a review of available reports and data, the evaluation team could not establish RAEF's contributions to employment creation. Jobs created were reported occasionally in the loan programs of the Fund, but without detail.

RAEF's record in providing TA to investees and potential investees is mixed. RAEF reported that it provided a total of $3 million in technical assistance to direct investments or potential investments throughout its existence. This was one of the smallest such technical assistance budgets among all

[17] Sources include e-mail from Stephen Eastham (E&E/EG/MT) to Maureen Dugan (E&E/EG) with copies to Michael Kaiser (E&E/EG) and Richard Johnson (E&E/EG/MT) dated October 31, 2008, and Investment Management Companies – Arrangements & Structure Summary document dated May 3, 2001.

Enterprise Funds. RAEF did adhere to its policy to assist portfolio companies with staffing top managerial positions with experienced business people with the right qualifications, especially in finance and marketing. RAEF paid special attention to the privatized companies in its portfolio and engaged international recruiting firms to identify high-caliber candidates. RAEF charged the portfolio companies a fee for these TA services.

RAEF worked to get approved an ordinance to establish non-banking mortgage institutions, on the basis of which RAEF established Domenia Credit. Domenia successfully attracted investments and lines of credit from EBRD, IFC, and DEG. The Fund also worked with the National Bank of Romania to promote legislation to enable the establishment of non-banking institutions such as CAPA/Patria Credit, which used to be the micro-lending operator of the Fund. This effort failed.

On the basis of these facts, it is hard to argue that RAEF pursued a strategy that balanced financial profit maximization and economic development objectives. It is evident that RAEF pursued a commercial strategy focused on financial returns. As with BAEF and several other Funds, the focus on profitability does not negate the contributions of the Fund to the development of the financial sector in the country, the introduction of new products and services, and the sustained contribution to private sector development through the endowment of a Legacy Foundation.

Resilience and Adaptation: Albanian-American Enterprise Fund

The Albanian-American Enterprise Fund (AAEF) was established on April 12, 1995. The planned grant funding was $30 million. AAEF's Board considered the original grant objectives, assessed the situation on the ground, and determined that some of the initial USAID expectations were not feasible in the Albanian context. For example, there were no opportunities to build U.S.-Albanian Joint Ventures, as there was no U.S. investment in Albania at the time. To date, most major foreign investments in the country have come from EU countries and Turkey. One of AAEF's early investments was partly owned by U.S. nationals (NVP Korca), and in that case, the U.S. investors were individuals whose family originally came from Korca and who had approached the Fund with a proposal. AAEF did not pursue another original Grant agreement objective to develop small and micro-enterprise lending, because there were other organizations on the ground already providing these services. The Board did not consider prudent investments in building a stock market or developing marketable debt instruments in Albania, which at the time lacked a robust institutional framework, strong financial regulations, and a normal banking sector.

Thus, from the outset, the Board focused on strategic priorities firmly aligned with the overall objective of the Fund – support for private sector development – and started by building a solid foundation for a well-functioning financial services sector. The shift in the strategy did create occasional debates with USAID, however, once the Board articulated the strategy and its rationale and proceeded with its implementation, USAID respected the independence of the Fund and its Board.

AAEF made significant contributions to strengthening financial regulations in Albania, a country plagued by corruption, money laundering, fraudulent investments such as pyramid schemes, and counterfeits at the time. AAEF worked closely with the Government of Albania to develop new banking legislation and regulations, notably on anti-money-laundering (AML) where the standards of AAEF's American Bank of Albania were adopted by the Albanian authorities as their new AML regulations.

AAEF also made a major contribution to the development of a normal banking sector in Albania through the establishment of the American Bank of Albania (ABA) in 1998, a wholly-owned subsidiary of AAEF. ABA began operations in a cash-based economy, before any of the major bank privatizations. It quickly gained the confidence of the local community as an American-owned institution. By 2002, ABA had become a leader in the banking sector through its example of Western-style management, customer

service, active lending to SMEs, and hiring and training of local staff. The bank became AAEF's main vehicle for reaching Albania's private sector and SMEs, and was its most successful early investment. The bank leveraged the AAEF investment of $4.8 million in equity plus a $5 million loan into a total loan portfolio of over $350 million by 2007, based on a capital base of over $80 million, and customer deposits of about $880 million. ABA's sale to Intesa San Paolo bank in 2007 generated a significant profit for AAEF.

Aside from financial achievements, ABA's accomplishments included pioneering modern banking in an undeveloped post-communist banking system; introducing cash-flow-based SME lending to the Albanian market; introducing other products such as card products and mortgage lending; developing a cadre of skilled local bank staff; and in general, supporting the positive development of Albania's banking sector, largely by example as other banks sought to emulate and compete with ABA. ABA was the first to develop proper retail banking and established an electronic customs payment system that significantly improved the efficiency of customs procedures for Albanian enterprises. ABA set the standard for the quality of its staff and its customer service, later imitated when internationally-owned banks entered the market. Many ABA-trained local staff members went on to occupy positions throughout the financial sector.

Some of AAEF's early investments ran into problems. AAEF succeeded in exiting these early SME investments profitably in some cases, but took losses on others. The key lesson learned from the early experience was that the Fund needed to have more control of its portfolio investments. The Board and AAEF adapted the investment strategy accordingly, and later investments in which AAEF held greater control, were more successful.

Other accomplishments of AAEF come from the Fund's more recent investments:

- Support for the privatization of the Tirana International Airport through AAEF's participation in the German-led consortium that was awarded the concession. The airport subsequently developed rapidly, providing jobs and permitting a significant expansion of international flights to and from Albania. The consortium exited the concession in 2016.
- Support for the critical issuance of Albania's new identity cards documents, through AAEF's participation in the French-led consortium that was awarded the concession. This endeavor permitted satisfactory voter rolls for elections in Albania, a major concern for the country's international partners, and Albanians' ability to travel visa-free to Europe, a top priority for the Albanian government.

AAEF distinguished itself by being one of the only international institutions to continue to operate in Albania through the 1997 Pyramid crisis and subsequent civil unrest, when expats had to be evacuated from Albania. This was made possible by the staff development approach adopted by AAEF from the beginning. The AAEF local team kept the office operating, remained in contact with the Board and the foreign managers, and, in particular, remained in contact with its investees, many of whom were severely affected by the crisis. Many key local staff members stayed with the Fund for many years, developing a high level of project management expertise.

The long-term investment in staff, the systematic approach to developing a functioning financial sector and a strong institutional framework for it demonstrated, in the AAEF Board's view, their commitment to the mandates of the grant agreement. The Board never considered the financial and development impact objectives separate and believed that the development mandate was built into the investment program. AAEF's Board viewed the Fund as an attempt to contribute to private sector development using a different approach. The Board did not consider AAEF a development program and judged its success based on its ability to make meaningful and measurable contributions to private sector

development in Albania, support profitable companies, invest profitably and honestly and teach Albanians how to do so, and leave behind an endowment for the Legacy Foundation that will ensure the sustainability of the private sector development efforts.

A Balanced Approach to Economic Development: TUSRIF

TUSRIF was established in August 1995. The planned life-of-project grant funding was up to $440 million from USAID to TUSRIF, which was inclusive of amounts previously obligated to the Russian-American Enterprise Fund and the Fund for Large Enterprises in Russia (FLER) under separate grant agreements. The Fund was supposed to provide equity, other types of financing and related technical assistance to medium-to-large enterprises which emerged from the privatization efforts underway in Russia. The funds provided under the grant were part of USG's contribution to the multilateral Special Privatization and restructuring Program agreed upon by the G-7 countries at the Tokyo Summit. By the time of the liquidation of the Fund, USAID had transferred to TURSIF $328.87 million.

The only part of the implementation plan that TUSRIF did not pursue was the mandate to set up Joint Ventures with U.S. firms. TUSRIF did not form any Joint Ventures.

TUSRIF invested through its small business program $55.3 million until 2002 when the program ended. The small business program included four components:

1. Small business lending, administered by DeltaBank, which disbursed $44.28 million to 622 companies, of which 209 were women-owned companies;
2. Microenterprise loans, administered by DeltaBank, which disbursed about $1million to 390 borrowers, of which 115 were women-owned companies;
3. Auto lending, also administered by DeltaBank, which disbursed $9.83 million to 1,371 borrowers, of which 411 were women-owned companies; and
4. Mortgage lending, which disbursed $185,236 to 16 borrowers, of which 8 were women. This program was transferred to DC Mortgage effective January 1, 2001 at a transfer price of slightly over $5 million.

TUSRIF invested successfully in a portfolio of loans and investments and established a number of programs and companies designed to assist the development of a market economy in Russia. The initial USG investment of $328.87 million generated $614.8 million in total investment reflows as of September 30, 2011.

The Fund also invested resources in the establishment and strengthening of a number of financial services institutions through its Bank Partner Program, including in remote regions of Russia such as the Far East. Over $55.3 million in debt financing to small businesses was provided through the program. Further, the Fund instituted rigorous and comprehensive lending policies, financial models for credit analysis, and best practices for marketing and monitoring loans. As a result, several banking partners began lending to this sector using their own capital, promoting further private sector development. The Bank Partner Program strengthened credit policies and analytical techniques within Russian banks, according to the Fund's reports. As part of this program, TUSRIF created the following institutions:

- Delta Bank was founded by the Fund in 2001 and adopted a consumer finance strategy focusing on consumer loans and credit cards. The bank launched the first revolving credit card in Russia. The bank attracted $40.51 million in other capital and was sold to GE Consumer Finance in 2004 at 4.3 times the book value.
- DeltaCredit Bank pioneered mortgage lending in Russia and was actively involved with the State Duma in enacting legislation to develop the framework for mortgage lending in Russia and foster market growth. The bank also provided assistance in the development of legislation on the securitization of mortgage assets. DeltaCredit Bank attracted $238.02 million in other capital.

- DeltaLeasing, formerly Delta Lease Far East, was a regional version of the original DeltaLeasing. Its customers were primarily in the wood processing, fisheries, and manufacturing sectors. The company mobilized $19 million in other capital.
- Europlan, formerly DeltaLeasing, was a leader in providing long-term equipment leases to small and medium-sized enterprises in Russia. The company supported the development of legislation for small businesses in the leasing sector. Europlan was founded by TUSRIF in 1999 and sold in 2003. The company mobilized $21.21 million in external capital.
- The U.S. Russia Center for Entrepreneurship (CFE) set up in 2002 to train entrepreneurial managers and to promote a culture of entrepreneurship where none existed. CFE's focus was on training and networking. CFE partnered with Entrepreneur of the Year (EY) to launch the EY competition in 2003 and collaborated with the Young Entrepreneurs' Organization to sponsor conferences, panel discussions and networking events that promote the establishment of an entrepreneurial culture in Russia.

In 2004, the Fund established a private management company, Delta Private Equity Partners, LLC (DPEP), to manage the Fund's remaining investments and to raise and manage the private successor fund, Delta Russia Fund, L.P. (DRF). This entity became UFG Investors Limited – Delta Private Equity Partners, LLC (UFG-DPEP). TUSRIF raised DRF, "a semi-private successor fund" with first closing in June 2004 and final closing in May 2005, and a total of $119 million raised.

Some Enterprise Funds were much better in balancing their dual mandates as measured by the amount of resources and efforts spent in building the capacity of potential investees and portfolio companies. Funds like the ones in Russia, Poland, and WNISEF were deliberate and consistent in their approaches and documented in detail the resources invested in capacity building. Other funds spent less on capacity building and technical assistance but were successful in their support for the development and enactment of legislative reforms that enabled their own strategies and protected their investments, but at the same time had broader positive systemic impact and a multiplication effect as they helped improve the enabling environment, encouraged additional capital flows or the uptake of new financial products and services introduced by the Funds, created business associations, and more. Examples include the facilitation of residential mortgages and leasing in Russia, the development of legal structures in the Baltics and Bulgaria to support the development of consumer and residential mortgage industry as well as mortgage backed securities and real estate investment trusts in Bulgaria, the development of an anti-money laundering strategy in Albania, and more.

There were Funds that adopted a different view, and any investment in the local economy was simply considered development impact. Some of these funds did contribute to the development of enabling legislations and the introduction of new products and services; however, arguably, their focus veered off in the direction of profit maximization and their key performance indicator was financial success. Such funds invested very little in technical assistance and capacity building, considered such costs detrimental to the performance of their portfolios and deducted these costs, and did not report against development impact objectives.

5.2 Evaluation Question 2

Is there evidence that Enterprise Funds' investments contributed to improved management, business growth, employment generation, and/or additional investment inflows among recipient companies?

All Grant Agreements between USAID and the Enterprise Funds included a clause on provision of technical assistance only to portfolio companies or potential investees. This technical assistance was meant to improve general management, operations, financial and risk management in portfolio

companies, strengthen the commercial viability of the investees, and increase their attractiveness to potential external investors. Thus, there is an overlap in the intent, definition, and measurement of technical assistance to investees and the development impact referenced under Evaluation Question 1.

In principle, the language in the Program Description of the Grant Agreements allowed but did not mandate provision of technical assistance. The Enterprise Funds had to manage technical assistance costs from a separate account or identifiable sources of funds other than the Funds' investment capital. Recipients of technical assistance had to maintain a separate account for any technical assistance funding and proper documentation, which was subject to audit.

5.2.1 Funds' Approach to and Use of Technical Assistance

Technical assistance to portfolio companies or potential investments appears to have been given special attention in specific countries, as reflected in their Grant Agreements. The first two Enterprise Funds in Poland and Hungary had dedicated technical assistance programs. The Grant Agreement of the Russian Enterprise Fund also incorporated language encouraging the Fund to:

> *"…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 targeted at the development of sound commercial practices and standards in the emerging private sector. It is anticipated that the Fund will attempt to work with these programs to identify appropriate investments and source of capital, and to coordinate the provision of post-privatization assistance."*

The Russian Fund was also expected to prioritize efforts to strengthen corporate governance in its portfolio investments. In the Russian Enterprise Fund case, OPIC had also reserved a significant portion of its FY 1994 budget for loan guarantees for Fund investments compliant with OPIC criteria, and Eximbank and other United States institutions were available to assist with raising private capital for investment by the Fund, according to the Grant Agreement. The mandate in the Russian Grant Agreement highlights the uniqueness of the Fund's mandate — it could work with medium-to-large enterprises emerging from the privatization process in Russia — and the enormity of the challenge.

Some of the factors that determined the approach to and utilization of the technical assistance option by the Enterprise Funds included:

- The existence of a technical assistance recommendation in the Grant Agreement or a separate grant as in the Polish and Hungarian cases;
- The view of the Fund's management team on the utility of technical assistance in the context of their investment strategy;
- The Fund management's perception of the relative importance of technical assistance (an expense) vis-à-vis their chosen principal performance metrics (generally financial performance metrics);
- The assessed need for technical assistance and types of assistance provided; and
- The perceived or assessed results of the technical assistance on the performance of the portfolio companies.

Generally, the Funds were successful in attracting addition capital to their portfolio companies; the exceptions were the Hungarian Fund, which did not report any such debt or co-investments, and the Central Asia Fund, which attracted a very small amount in proportion to its size.

Technical Assistance and Leveraged Additional Resources for Fund Portfolio Companies as of March 2011

Enterprise Fund	Technical Assistance provided to portfolio companies or potential investees ($ in millions)	Debt and co-investments by third parties in Enterprise Fund companies ($ in millions)
PAEF	17.3	100
HAEF	7.6 (10 million grant)	0
CSAEF	4.2	23
BAEF	3	242
BalAEF	2.6	300
RAEF	3.9	862
CAAEF	0.2	8
WNISEF	13.4	680
TUSRIF	25.2*	1,212
AAEF	0.3	162

Source: Internal USAID presentation
* $34.3 million, according to TUSRIF reports

The existence of an explicit technical assistance recommendation in the Grant Agreement appears to have been a necessary but not a sufficient condition for the effective implementation of capacity building interventions. On the one hand, the Russian and Polish Funds followed through on their commitments to capacity building and developed strategic approaches to delivering targeted technical assistance. Both Funds provided detailed reports on their technical assistance interventions, although TUSRIF's reports were more detailed and included the actual cost of each activity as well as more detailed narratives.

Summary of TUSRIF's Capacity Building Program (1995-2008)

- Investment: over $34.3 million in technical assistance;
- U.S. Russia Center for Entrepreneurship was established in 2002 as a continuation of TUSRIF's technical assistance program ($10.62 million invested as of 2008);
- Technical assistance grants to Partner Banks' staff training in credit analysis in support of the Small Business Program;
- More than $4 million for technical assistance to portfolio companies to enhance their commercial viability (management information and financial reporting systems, engagement of MBA Enterprise Corps executives for trainings; marketing, sales and production trainings, intensive business skills training, logistics, entrepreneurship, etc.)
- Over $7.58 million to strengthen financial services entities, some of which were created by the Fund, such as DeltaBank (attracted $40.51 million in other capital and was sold to GE Consumer Finance in 2004 at 4.3 times the book value), DeltaCredit (attracted $238.02 million in other capital), DeltaLeasing (mobilized $19 million in other capital), and Europlan, a leader in long-term equipment leasing to SMEs (mobilized $21.21 million in external capital);
- $769,000 invested in small businesses, including businesses based in the Far East, a priority area for TUSRIF;
- $62,000 invested in corporate governance-related assistance;
- Direct technical assistance to six portfolio companies through the payment for consulting services worth $188,916; and
- TUSRIF counted as part of its technical assistance support for the raising of a private fund and for the establishment of the U.S. Russia Investment Fund.

Source: TUSRIF SAR March 2009

On the other hand, the Hungarian Fund had a Technical Cooperation Program, a $10 million grant, which HAEF management did not consider aligned with what it saw as the Fund's for-profit investment strategy. Despite its apparent reservations, HAEF committed over $7 million to technical assistance over the years (but deducted this amount from the calculation of the value of its portfolio). Reported activities included:

- Blue Ribbon Commission studies on national policy relevant to the transition process, such as privatization and currency convertibility;
- Telecommunications legislation;
- Establishment of a Stock Exchange Visitors Center;
- Feasibility studies and project due diligence; and
- Conferences, training, database development, and others.

The HAEF SARs do not provide details on what types of requests were eligible for technical assistance; what the application, review and selection process entailed; how the budget was developed and negotiated; and who actually provided the technical assistance. There is no narrative on the impact of these projects, and it is unclear whether sustainability was a consideration (e.g., who was to fund the maintenance and operations of the visitors' center of the Stock exchange, what the result was of the work on telecommunications legislation, how feasibility and industry studies were used, and so on).

Given its investment strategy, one of the more venture capital-oriented ones among the Enterprise Funds, HAEF needed technical assistance to build up the commercial viability of portfolio companies. Investments made through a Small Equity Fund set up in 1998, also known as the Hungarian High Technology Venture Capital Fund (HHTVCF), were "near businesses" and early stage ventures. HHTVCF was expected to emulate the Israeli incubator approach. Another HAEF subsidiary, the Hungarian Innovative Technologies Fund (HITF), was set in 2000. The fund was supposed to raise $25-30 million for technology-related investments. Due to limited capacity, in 2001, PwC was also providing assistance with portfolio investments. HITF failed to raise funds and was closed in December 2003.

The much-needed technical assistance in this set-up was provided through MAVA Consulting, and arm of MAVA Investment Management Kft., the Hungarian-based fund manager of all HAEF direct investments. MAVA had its own team of investment managers based in Budapest, who advised HAEF on its investments. The Hungarian Fund's view on technical assistance evolved as advisory and capacity building services became profit-making opportunities for associates in a rather complicated structure set up around the Hungarian Fund. Technical assistance in this scenario is not necessarily an investment made by the Fund. The documents reviewed by the evaluation team do not allow for detailed analysis of what fees were charged by MAVA Consulting to the Fund for technical assistance versus the portfolio companies for such services. In fact, in this and in other cases, the transparency of the fees charged by management advisors, including to portfolio companies, is a serious issue. In addition to the need for a better understanding of what fees were charged for capacity building services and to whom, the documentation lacks detail on what the scope of such consulting services was, how its quality and results were measured, and by whom. In the absence of such documentation, it is impossible to quantify investments or payments for technical assistance and to determine what the return on this investment was.

Overall, the Hungarian Fund did not leverage outside funding for its portfolio companies. There could be a number of reasons for this, including the venture capital strategy and focus on very early stage businesses. The amount of time the evaluation team had for reviewing the Hungarian Fund did not allow us to investigate this question further.

Capacity Building as a Risk Mitigation Strategy

Some Enterprise Funds emphasized the improvement of the capacity of their portfolio companies in the belief that such investments would reduce the investment risk in investees and would make these investees more attractive down the road for other investors. One notable example is the Business optimization program started by WNISEF, which sought to build the capacity of potential portfolio companies up to western standards and ensure in the process that these companies also had 'skin in the game.'

WNISEF Management Development Program

The investment strategy outlined by the WNISEF's first President was to use capital and technical assistance to make companies commercially viable. The investment strategy was growth-oriented, focusing on high-growth sectors and on management's attitude and aptitude and commitment to expand their company from the local market to the nationwide market. The Fund defined its strategy as "Buy and Build," using its initial investment in the portfolio company as a platform for expansion throughout the region. WNISEF also articulated the five services it would provide to portfolio companies: capital, advisory services (knowhow and training), information systems, corporate governance, and recruiting.

WNISEF's leadership adopted a deliberate and strategic approach to investing in small and medium-sized firms, while utilizing effectively the flexibility built into the Grant Agreement to design economic development interventions best suited to mitigate investment risk. This approach that balanced the dual mandate of the Fund is best illustrated by the Management Development Program described in an Interoffice Memorandum by then Chief Investment Officer (CIO) Harold J. Schroeder to the President and CEO of WNISEF, Scott A. Carlson, dated March 9, 1995. The CIO proposed a six-phased approach that would address the general finding that the management of Ukrainian companies in 1994 did not have the competencies to rationalize and optimize the businesses they were in charge of and did not have adequate information and financial management systems that would enable them to do so.

Using a phased approach, WNIESF investment officers would:

- Phase 1: Identify potential investees with perceived advantage in product and management.
- Phase 2: This initial assessment would be validated through a so-called flash audit of the operations performed by IESC experts, while a western accounting firm would examine the financial management and accounting system in place.
- Phase 3: On the basis of this expert assessment, paid for by the Fund, a determination would be made whether the company would be able to handle radical change and investment.
- Phase 4: The Fund would approach the company with a proposal to provide a market-rate interest loan in the range of $200,000-500,000 with a tenor of 36 months (inclusive of one year grace period during the business optimization) to be used to bring back the auditors or Fund staff to install a financial accounting and control system to western standards, use IESC experts for 3-6 months to address identified gaps, advise and train management, and finance small pre-approved capital expenditures to fine tune the business. During this phase, a timeline and benchmarks for capacity building would be developed, and the Fund would continually test the effectiveness of the training.
- Phase 5: This phase would take place after the conclusion of the business optimizations (6-12 months) and would mark the decision agreed between the company management and the Fund whether to proceed with additional investments. The decision would be based on a set of management, operations, and strategic questions used consistently to assess all potential investees.
- Phase 6: This phase would involve the development of the investment agenda for each investee, now optimized and infused with managerial and financial capacity, properly assessed and well-

understood, the conversion of the loans made in Phase Four into equity to inject cash into the expansion.

This approach outlined an inexpensive and prudent way to conduct due diligence while leveraging IESC technical expertise and building up managerial, financial and operational capacities in potential investees who had "skin in the game" and incentives to bring their operations to western standards since they had taken out a loan from the Fund. In the optimization process the Fund investment officers and the company managers also got to know one another and determined whether they would be able to work as partners. The optimization of the business and the adoption of western business practices theoretically improved the likelihood of attracting additional external investment in the company.

The systematic process adopted by the Fund to improve the flow of information and implement a computerized accounting and information system that was compliant with the statutory requirements and Western-standard financial and management reporting included Universal Business Systems (UBS), the Fund's Management Information System (MIS) company. UBS was an integral part of the technical assistance provided by the Fund. It carried out the consulting and information systems improvement process in portfolio companies. UBS itself was a start-up WNISEF portfolio company with a $1.75 million commitment. The expectation at its set-up was that all portfolio companies of the Fund would use UBS to install the MIS system and train their people on the system's use. Unfortunately, USB could not become self-sustaining and in 2002, the Fund decided to write off completely its 100 percent preferred and 90 percent common stock worth $1.3 million.

One question worth examining when setting up endeavors such as USB is whether there is a perceived or real conflict of interest for a Fund to require all portfolio companies to pay for the services of a Fund-owned company that did not provide the only solution available on the market. If such a concern is legitimate, what would be some appropriate measure to mitigate the conflict of interest?

In the first years of the implementation of the TA program, the Fund provided trainings, consulting and other services to portfolio companies at no cost. These services are described in detail in the SARs provided by the Fund to USAID. According to WNISEF, it developed and provided business training programs for more than 1,000 representatives of portfolio companies and their distributors in the areas of finance, accounting, marketing, HR management, sales management, public relations, and corporate governance. As the portfolio matured, the responsibility for continued development of capabilities in these areas shifted to the portfolio companies themselves. WNISEF introduced U.S. and international best practices in corporate governance, quality control, fiscal management utilization of management information systems, general management and business development within portfolio companies. It designed a set of comprehensive corporate documents, policies and procedures that utilize a representative Board of Directors.

The technical assistance provided by the Fund to its portfolio companies is arguably one of its most significant value-added activities that improved the competitiveness of its investees and at the same time differentiated the Fund from competing investors. WNISEF has invested more than $13 million in technical assistance, the third largest such technical assistance grant program supported by an Enterprise Fund, after the Russian and Polish Funds.

Some Enterprise Funds created their own banking and non-banking institutions or invested in existing institutions and strengthened them operationally. The considerable investments of time and resources in building up the staff as well as the operations, the quality and the range of services provided, expanding the network of branches, or creating new financial products are typically not reflected in the Funds'

SARs as technical assistance. Thus, such investments are likely under-reported by Funds whose strategy involved the development of own financial institutions.

The Bulgarian, Albanian, Baltics, Polish, Russian, WNISEF, and Romanian Funds created their own banks or non-banking institutions before successful exits. In the Bulgarian and Albanian examples, the establishment of a bank, which became a leader in the banking sector of a country, leveraged large amounts of capital, managed a rapidly growing and well performing loan portfolio and was successfully sold to a foreign investor, proved a winning strategy that delivered impressive financial results for the Funds. The two banks were the primary reasons for the outsize endowments transferred from the Bulgarian and Albanian Enterprise Funds to the Legacy Foundations. The Polish, Russian, Baltics, WNISEF, and Romanian Funds also demonstrated success with external capitalization strategies and attracted additional capital to investment vehicles and portfolio companies.

RAEF

Leveraging additional capital for investment vehicles was a key element of the Romanian Fund's strategy. According to the March 2013 SAR, for example, RAEF had mobilized capital for direct investment in banks and companies as follows: debt $304,139,696, capital $141,944,145 for a total of $446,083,841. Some of the largest examples of additionally mobilized debt and capital from external investors included: Motoractive ($110 million), Patria Credit (formerly Capa Finance IFN S.A.) ($61.37 million), Banca Agricola ($52 million), Banca Romaneasca ($44.2 million), Domo Retail SA ($40 million), and Domenia Credit ($27.25million). RAEF also attracted additional debt and capital to its Small Business Investment Program (SBIP). According to the March 2013 SAR, RAEF had attracted $16,068,648 in debt and $6,014,646 in capital or a total of $22,083,294 for 13 investees in the SBIP. Some of the largest recipients of the capital from external sources were RALFI S.A. (16.13 million), Eco Kapa ($1.84 million), Sidetrans ($1.03 million), and A&M International ($990,778).

RAEF attracted additional lending to its funds and loan programs:

IFC Small Loan program	$11 million
IFC Micro Loan program	$3 million
Banca Romaneasca	$5.94 million
Soros Economic Development	$1 million
RCM	$2.71 million
RCA	$1.86 million
SARONA	$1 million
EBRD-RIEEC	$13.75 million
RZB for Domenia	$7 million

- RAEF established Domenia Credit, which successfully attracted investments and lines of credit from EBRD, IFC, and DEG. In the Domenia case, RAEF provided assistance in strengthening the operations of the company and in recruiting for key senior positions.
- The Fund also worked with the National Bank of Romania to promote legislation to enable the establishment of non-banking institutions such as Patria Credit (formerly CAPA Finance IFN S.A.), which used to be the micro-lending operator of the Fund. Patria Credit is an example of RAEF's contribution to improving the monitoring and control of risk embedded in the loan portfolio. Following a decision to focus on improving controls and the quality of the portfolio in 2009, more rigorous loan origination, disbursement, monitoring, collection and recovery processes were introduced. As a result, improved performance was reported in 2011 and 2012 and new restructuring of loans decreased significantly. Patria Credit secured loan agreements with EBRD, OPIC, and IFC.

- RAEF also invested in Banca Agricola and Banca Romaneasca, strengthened their operations, and built up their portfolios prior to successful exits.

WNISEF

WNISEF created or strengthened a number of financial institutions and mobilized other capital for them. As of March 2013, the list includes: Platinum Bank ($361.3 million), ProCredit Bank Ukraine ($140.5 million), ProCredit Bank Moldova ($33.6 million), Agroindbank (MAIB) ($35 Million), and Fincombank in Moldova ($5 million).

CAAEF

The Central Asian-American Fund had the smallest technical assistance budget. Compared to the size of the grant, $150 million, the Fund invested minimal amounts in technical assistance, $200,000, according to a USAID presentation. There is no evidence that the Fund developed a rigorous approach to assessing capacity needs in portfolio companies and addressing those needs in a consistent and deliberate manner. The evaluation team was only able to review three years' worth of reports, which indicated that CAAEF established a special Technical Assistance budget for 2000 to allow it to underwrite the costs of recruiting and hiring expat professionals for its portfolio companies. CAAEF expected to recover these costs from the portfolio companies. It is not clear if CAAEF was able to implement this plan. Since the Technical Assistance budget for 2000 was listed as $192,000, it is also not clear where the expense for recruiting and hiring expats was accounted for later. The evaluation team did not see SARs for the subsequent years.

The Fund did not report on any specific efforts to bring additional investment inflows to portfolio companies. In the last three years for which the evaluation team saw reports, 1998-2000, the Fund spent a total of $646,246 on technical assistance, which contradicts the $200,000 reported by USAID, and seems to include expenses for engagement at the policy level as well.

One question that came up in several interviews focused on the investment managers and the importance of their knowledge of the local context and dynamics and presence in the country in which they invest. Most Funds had investment management teams based in the U.S. for at least part of their existence. This structure had various implications, however; for the purposes of this discussion, an argument can be made that investment managers based in the field will be better positioned to identify technical assistance needs in their portfolio companies, address these with the management of the investee, agree on a solution faster, and oversee the implementation directly. Several interviewees mentioned examples of failed investments due to lack of local knowledge and understanding of supply chain and distribution networks, overhead costs, knowledge of the market and risks (political, currency exchange, corruption, and more) and limited information to conduct proper due diligence.

BAEF Provides Executive Director to a Portfolio Company

Mr. Lyubo Lozanov, Executive Director of AMETA, a BAEF portfolio company, had left his financial services career in the UK to join BAEF as an Investment Officer in 1999. One of the portfolio companies he was responsible for, AMETA, a poultry producer in Razgrad, ran into severe difficulties and needed dedicated support. Mr. Lozanov volunteered to move to the small town in northeast Bulgaria to serve as Executive Director in 2001, and has been in this position since then. With BAEF's support, which included the recruitment of seasoned expat poultry expert as an advisor and later partner in the business, Mr. Lozanov successfully resolved AMETA's difficulties and expanded operations, bringing the company to a leading position in the local market for poultry and a lead in the poultry export to the European Union. This success permitted BAEF to exit its investment via a management buyout, in which Mr. Lozanov and his partner acquired 100 percent of the company. In March 2015, Mr. Lozanov joined the Board of Directors of the America for Bulgaria Foundation.

Quality and Conclusiveness of Capacity Building Reporting

A final general observation regarding the reported technical assistance costs of Enterprise Funds should highlight the fact that few and, at best, careful conclusions can be drawn from reported technical assistance costs. These numbers likely underestimate the cost of internal capacity building associated with a strategy focused on setting up and building financial institutions such as the banks in Albania and Bulgaria and the necessary cost of building the capacity of many of the bank customers afterwards as a risk mitigation strategy. Interviews with former Bulgarian loan officers of the Bulgarian-American Credit Bank and with clients indicated that the loan officers spent significant amounts of time with the clients providing guidance and even business advice. Such technical assistance costs to the bank do not appear in the Strategic Framework Matrix (they could appear as additional salary and benefits expenses, if the bank had to hire additional staff). Technical assistance costs will probably be more accurately accounted for by Enterprise Funds taking equity stakes in portfolio companies, which have required a systematic capacity building approach. Of course, not all Funds took a proactive approach to building the capacity of their investees, and not all investees required the same approach. Some Funds also benefitted from access to MBA Executive Corp and International Executive Services Corp volunteers. This appears to have been a cost-effective way to address critical gaps on a short-term basis.

The templates used to report on technical assistance, financial reports and Strategic Framework Matrix, do not provide sufficient detail regarding the types of technical assistance, the cost of providing this support, the contributions from portfolio companies or others for this technical assistance, the cost of leveraging external funding to Funds' investment vehicles, internal capacity building costs, consulting contracts for such activities, and other relevant costs. Further, capacity building activities are generally listed in reports in a sentence or two with little information on objectives and results of the assistance and how those results were measured. Based on the available reported information, in most cases, it is not possible to attribute improved performance of an investee or additional funding raised to some specific capacity building or technical assistance activity. There is certainly evidence that Funds provided technical assistance to investees in different forms, but a rigorous analysis of the impact of this assistance, its cost effectiveness or other similar measurements is not possible on the basis of the existing reports.

5.3 Evaluation Question 3

How effective were the Enterprise Funds' pro bono Boards of Director in providing guidance, direction, and oversight in the operations of the Funds and in the operations of the SMEs in which the Funds invested? Did the Boards' composition or decision-making processes conflict with international best standards for investment fund governance and/or work to the detriment of the Funds' abilities to achieve their stated objectives?

Title Two of the SEED Act of 1989, Private Sector Development, defines the purpose and designation of the Enterprise Funds for Poland and Hungary and highlights their private character:

> "*Sec. 201. Enterprise Funds for Poland and Hungary.*
>
> *…(d) Designation of Enterprise Funds.*
>
> *(3) Board of Directors. –*
>
> *(a) Each Enterprise Fund shall 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.*
>
> *(b) A majority of the members of the Board of Directors of each Enterprise Fund shall be United States citizens.*
>
> *(c) A host country citizen who is not committed to respect for democracy and a free market economy may not serve as a member of the Board of Directors of an Enterprise Fund.*

The First Line of Defense

The Enterprise Funds were private entities whose Boards and management had maximum flexibility in making decisions regarding Fund structure, strategy, and operation. In this set up, the Directors of the Board, who were appointed by the President or his designee, were the stewards of the Enterprise Funds and USAID's first line of defense. Although the Funds were independent of USG, the Board had a responsibility to USG in overseeing the accountable management of the $1.2 billion invested by the U.S. taxpayers.

Current and former USG decision-makers, interviewed by the evaluation team, indicate that USAID had a limited role in the identification of potential Board members. Nominees were typically experienced business persons or political experts, some of whom had experience or connection to the countries in which they were asked to serve on the Board of the Funds. Many of them had experience serving on other Boards. Board members served on a pro bono basis.

The Albanian-American Enterprise Fund Board: Dedicated Stewardship, Successful Strategy, and Competently Executed Approach

AAEF and AADF had a strong and engaged U.S.-based Board of Directors. The Board consistently applied robust corporate governance policies that precluded even the perception of conflict of interest among Directors. In this respect, The AAEF and AADF Board steered clear of the governance pitfalls some other Boards had to navigate.

Despite the initial lack of knowledge about the country among some Board members, all embraced the challenge and demonstrated leadership and commitment when they led AAEF through the very difficult 1997 crisis period in Albania when all foreigners had to be evacuated, with difficulties in the country continuing for several years thereafter. During that time, the strategy of the Fund to invest in its local staff paid off in a major way. Some staff have remained with AAEF over the years, including the two local managers who are currently the Co-CEOs of the Fund and the Foundation.

The Board also established a commercial bank, the American Bank of Albania, and served as the Board of the Bank. ABA led the introduction of new banking services and products in Albania and set the standards in customer service. It was eventually sold very profitably. When the Board was establishing ABA, the Directors had a choice whether to invest in the bank, which needed capital, or not. The Board deliberated and decided, against their own financial interest, not to invest in order to avoid any perception of conflict. This sets the Albanian Board apart from other Boards whose members decided differently, even when the possibility or actuality of conflict existed.

The Board built a solid reputation for the Fund and the Legacy Foundation in Albania and enjoys very high visibility with top Albanian Government officials. The Fund was considered a valuable partner to German- and French-led consortia for two large concessions. In the highly political environment of Albania, AAEF and AADF have never been accused of political bias or interference and are highly respected as professional, transparent, and trusted business partners. The Albanian Fund leveraged the initial USAID investment of $30 million into $977 million of financing provided to Albanian companies, which according to the Fund's reports, contributed $2.2 billion to the national GDP. AAEF has endowed the Albanian Legacy Foundation with over $200 million to-date.

All interviewed Board and executive leaders of Enterprise Funds and former and current USG staff indicated that one of the most critical success factors for the Funds and Legacy Foundations was a strong Board. It is therefore logical to assume that the vetting of the nominees was done carefully and that the performance of the Boards would be assessed and monitored closely, given their role as first line of defense. Some of the interviewees were of the opinion that the attention paid to nominations to the Funds' Boards might have fluctuated and depended on different administration priorities. A few interviewees pointed out that there were people nominated to Boards who were not qualified for their

positions. Examples included someone in their 20s with no obvious relevant experience, political appointees (technically all Board members were political appointees, so this was a reference to lack of relevant experience), a person who was not engaged and appeared in a Board meeting only once, or others who resigned relatively quickly. Presented with such situations, a couple of Board Chairmen reportedly refused to accept the nomination (we cannot exclude a personality factor at play as well), while another Board accepted the nominees with the mindset that they would not be there long, which indeed happened. All interviewed Board members stated that political appointees with no relevant experience should not serve on the Boards.

Strong Fund Boards typically included a combination of strong business and finance expertise. This experience served the Boards well, as they were responsible for the recruitment of the CEO and the development and execution of the investment strategy, among other things. The Boards were effective in their strategic and operational planning, policy development, oversight, and stakeholder relationship management roles. Boards met 3-4 times per year and held multiple telephonic meetings. The majority of the members appeared to be very engaged, based on interviews and reviews of Board meeting minutes from some Funds. This is not to say, however, that all Boards were cohesive. The Board of the Czech-Slovak Fund was probably the most cited example of how poor governance can affect the performance of a Fund. According to interviewees, tensions existed on other Boards as well. There were different underlying causes — perceived or real conflicts of interest, transparency issues, power dynamics, and tensions between the U.S. and some local Board members. Typically, these were matters that did not require USG intervention.

Engaged Boards vs. Effective Boards

HAEF

Based on reviews of correspondences between USAID, DOS, the counsel of HAEF, and HAEF's Chairman of the Board, it is evident that there were missteps in corporate governance. At the time of the creation of EurAmerica Capital Corporation in 1992, the President and CEO of HAEF made undisclosed decisions that 1) created a conflict of interests for him, and 2) involved a separate payment to a senior employee of the Hungarian government. These matters were discussed at the highest levels of USAID and DOS, provoked a Congressional inquiry, and were covered in the media. Both USAID and DOS engaged proactively to resolve the matter. HAEF's President and CEO resigned, and disbursements to HAEF were suspended temporarily. Unfortunately, USAID and DOS found themselves engaged in a similar, albeit lower profile case in 1997-1998, related to a potential conflict of interest for one of the Board Directors associated with the First Hungary Fund raised by HAEF in 1997. That Board Director resigned in 1998. That instance was another example of the lack of proactive enforcement of conflict of interest rules and best practices in corporate governance by the HAEF Board.

RAEF

Around 2010, USAID launched an inquiry into financial reporting issues and perceived undisclosed conflicts of interest. The written exchanges between USAID and RAEF's President and Board went on for about two years and involved the highest levels of USAID. Ultimately, it was established that a management fee had been inappropriately set and fixed in a negotiation between the fund management company and the Board of the Fund. It was also established that Board Directors did have undisclosed conflicts of interest. During the transition from the Fund to the Foundation, in a Board meeting in June 2013, three members of the Board disclosed financial interests in assets that would be transferred to the Foundation. Two Board members left the Board. Based on the provided documents, it is clear that the Board should have asked questions about the President of the Fund and the MTP managers' conflicts of interest as partners in Axxess Capital, a fact known to the Board.

CAAEF
Given the large losses incurred by the Fund, it was important to see in the limited documentation available to the evaluation team that the Board made attempts to strengthen the Fund's internal operations and investment procedures. It is not clear, however, if enough was done. For example, CAAEF had very high operational costs, which the Board tried to control. Although gross expenses as a percentage of total investments fell from 24.4 percent in FY1998 to 19.9 percent in FY1999, total expenses in 1999 were still over $6.8 million, of which 49.5 percent (or $3.38 million) were personnel expenses, and 27.9 percent (or $1.9 million) were General & Administrative expenses. At the same time, total income as a percentage of total expense in 1999 was only 46.2 percent. Further, in the January 2000 SAR, the Fund reports program development and administration support costs (separate from G&A expenses) of over $9.21 million in 1998, and over $7.66 million in 1999. The SAR does not include an explanation of what these expenses included. These are red flags; however, it is not possible to assess properly the Board's response based on the three SARs that the team has seen.

In theory, the Funds' Boards had the option of inviting a USG representative to their meetings in an ex-officio role, however that rarely happened. One exception is WNISEF, which included an ex-officio USAID representative to Board meetings after it initiated its legacy programs. The Romanian Fund included Board meeting minutes with some of its SARs; the majority of the Funds did not do so.

USG's assumption was that the Boards, as the first line of defense, would proactively identify and address governance matters as they arose and would keep USG appraised. Over time, it became clear that governance structures on some Boards were not as robust as originally thought.

The Compensation Question

Shortly after the establishment of each Enterprise Fund, discussions regarding the compensation of the expat investment managers were prompted by the fact that compensation from USG funds was capped at $150,000 per annum. The Fund managers compared this remuneration with that in the private equity industry and considered it inadequate. Compensation became a recurring theme in the discussions between the Funds and USAID, as indicated in a USAID Issues Memorandum titled "Executive Compensation — Enterprise Funds," dated September 1996, that also mentions that USAID had engaged in 1992 The Hay Group, Personnel Consultants to survey compensation in the private equity industry in response to a PAEF proposal to establish a private equity fund using a portion of its grant to capitalize the entity. The purpose of the survey was to determine the reasonableness of allowing PAEF employees to participate in the profits of the Fund through carried interest. The recommendation in that Memorandum was to consider amendments to Grant Agreements on a case-by-case basis.

In the Polish case, in 1992, PAEF's Board approved an investment strategy based on a structure of investment funds, managed by an investment management company. In 1992, PAEF established the investment management company Enterprise Investors LP (EI), which was owned 60 percent by PAEF and 40 percent by EBRD and staffed by PAEF investment officers transferred to the new company. PAEF also established the Polish Private Equity Funds (PPEF), capitalizing it with $150 million ($50 million each from PAEF, from EBRD, and from other investors). In 1996, PAEF and EBRD sold EI to its staff, and established a second investment fund, PPEF II, and capitalized it with $150 million as with PPEF I. These two investment funds were the primary vehicles through which PAEF made its investments in Polish SMEs. Through the two investment funds PPEF I and II, PAEF leveraged $650 million through 1998.

Other Funds, such as the Hungarian, Bulgarian, Romanian, Baltics, and WNISEF followed the Polish example and set up parallel private equity funds and investment management companies, banks, and real

estate funds. They also followed the Polish example of compensation negotiations and got the same and better concessions;[18] in fact, some, such as the Bulgarian, Romanian, and WNISEF Funds, negotiated LTEI Plans structured in the same ways as carried interest, although the plans did not include hurdle rates and claw back clauses.

USAID did review and deliberate contracts and LTEI Plans and followed up with the Funds and their counsel as well as with USAID counsel; however, in general, few changes were made as a result of such reviews. USAID had the authority to approve or disapprove proposed changes in structure and compensation. It seems that USAID chose not to question too much arrangements and fee structures. Despite the recognition that the Agency had few knowledgeable staff in the realm of private equity, with the exception of the Polish Fund, USAID did not secure the services of counsel with experience in private equity to review the terms of contracts and compensation plans and ensure that they were indeed in line with best industry practices. This would have been a good return on investment for USG and the portfolios. Once the first precedent with the Polish Fund was set, the reviewed documents and correspondence seem to indicate that other Funds copied the same approach and claimed the Polish precedent to secure concessions, although ironically, the Polish compensation plan had much more modest compensation terms for its managers compared to what other Funds proposed. USG issued a report from a qualified counsel on this matter. It is not clear why USG did not use this analysis to attempt to negotiate a better deal for its investment, in line with best practice in the private sector. Again, interviews with USG staff involved at the time indicated that USG relied on its extensive internal reviews as well as on the opinion of the Boards.

The evaluation team's discussions with former and current USG staff indicated that in hindsight USAID recognizes that in some cases the compensation plans turned out to be far more generous than understood at the time. Another conclusion derived from the analysis and discussions with USAID is that it is probably not best practice to approve LTEI Plans and other compensation packages based on precedent. Each Fund had a unique model and structures that created very different incentives and compensation opportunities.

A 1999 GAO report looked into the question of whether the PAEF private equity fund and compensation structure was consistent with the SEED Act and determined that it was. Given that the SEED Act only defined the parameters within which the Enterprise Funds operated and left all decisions regarding strategy, structure, and operations to the Boards and management of the Funds, arguably the question whether a structure is consistent with the SEED Act is the minimum required in terms of analysis. Some additional questions that could have been asked include:

- Is this structure in the best interest of the portfolio (the U.S. taxpayer funds) or in the best interest of the Fund managers involved? Where is the right balance between these divergent interests?
- Is the proposal consistent with best practice in the private equity industry? To push this a bit further, since, as mentioned above, the Enterprise Funds were not entirely equivalent to typical private equity funds in terms of risk-reward structure, how should that be reflected in the compensation of the General Partners (GPs) of an Enterprise Fund or its subsidiaries?

The argument offered by our analysis is that additional consideration should have been given to the structure of the compensation incentives agreed to by USAID. The compensation terms of some of the Funds were overly generous and created complex incentives that should have been better analyzed,

[18] See Memorandum by Charles Frank to the Board of RAEF dated August 20, 2005, comparing RAEF's proposed transition agreement to those of other Funds, such as the Polish and Russian Funds. The document argues that proposed terms are excessively generous to RAEF management, divergent from the Polish and Russian plans, and not in line with private sector practice. The evaluation team agrees with this assessment. Although often cited as the template for other Funds' management compensation plans, the Polish plan is actually a lot more modest compared to the incentive plans proposed by other Funds and approved by USG.

understood, and addressed. Further, reviews of LTEI Plan contracts, compensation contracts, and contracts between Enterprise Funds and investment management and advisory firms, show that key details were missing or covered in broad terms, and fee structures were not always sufficiently detailed in contracts. Some contracts between management firms and investment advisors did not have to be shared with or approved by USAID, and USAID did not always know about or understand their financial implications for the Enterprise Fund.

The relevance of this section under the evaluation question on the Boards' performance is two-fold:

- The Boards had a fiduciary responsibility to ensure that the Funds' compensation plans were in the best interest of the stakeholders, which are not identical with the interests of the managers (the agency problem).[19] Boards should have ensured that adequate protections for the interests of the LPs were included in contracts, including detailed fee structures, hurdle rates, claw back clauses, appropriate vesting periods, no use of fixed management fees, reduced management fees towards the end of a private equity fund, and others.
- Boards' adherence to best practices in corporate governance was complicated by the fact that some Board Directors became partners or executives in the investment management companies investing on behalf of the Enterprise Funds.

In each case, the Enterprise Funds' Boards used their counsel, considered potential conflicts of interest and took measures to address issues adequately, in their view, and negotiated the contracts with USG, often over extended periods of time. The evaluation team also reviewed documents indicating extensive USG review and deliberation. According to a numbers of USG staff interviewed for this evaluation, in addition to the review of its counsel, USG relied on the recommendations of the Boards of the Funds and on their assurance that the proposed compensation plan was in the best interest of the Funds and complicated structures did not necessarily create a problem, as conflicts of interest could be dealt with.

Discussions about compensation quickly became increasingly complicated as Funds also proceeded to negotiate privatization plans with USG – initial discussions regarding LTEI Plans, option and bonus plans evolved into reviews and negotiations of financial terms between the Enterprise Funds and parallel private equity funds, investment management companies, investment advisors, wholly owned banks, and other affiliates.

From the documents reviewed by the evaluation team, it is not clear to what extent USG understood the complexity of the business and financial relationships created by the management of the Funds a layer below the contracts that required USG approval. Among the Funds the evaluation team reviewed in greater detail, WNISEF, RAEF, and HAEF created parallel funds as well as management firms and investment advisory firms, and in each country, some of the contracts, which involved the payments of fees, did not require USG approval as there was no direct relationship between USG and the firm in question. In all cases, senior executives of the Fund, and in some cases Board members, also had financial interests in these management and advisory firms.

USG did not understand the full amount of the compensation of the Enterprise Funds' investment managers. There were several ways in which investment managers could increase significantly their compensation:

[19] The agency problem refers to an inherent conflict of interest in a situation in which one party is expected to act in the best interest of another party. In this context, the agency problem refers to a conflict of interest between the Fund's managers in the role of General Partners of parallel private equity funds and partners in investment management companies charging the Fund fees for services and the Fund's Limited Partners.

- Establishing a parallel private equity fund or investment management company that takes over the employment contracts of the Fund's employees, thereby rendering the USG cap on compensation of Enterprise Fund employees of $150,000 irrelevant.
- Charging management fees and carried interest on portfolios. Using a deal-by-deal carried interest structure rather than a whole-of-fund carried interest structure. When USG and the Enterprise Funds negotiated performance compensation for the private equity funds, a deal-by-deal carried interest structure (American waterfall)[20] was selected rather than a whole-of-fund carry (European waterfall).[21] A deal-by-deal structure benefits financially the GPs, which in the case of the Enterprise Funds were some of the senior managers of the Fund and occasionally some of the Directors of the Board. It is easy to show mathematically how LPs, in the Enterprise Funds case the portfolio funded by U.S. taxpayers, and other external investors, end up with a lower amount in terms of returns compared to a Whole-of-Fund carry. The reason is that bad deals do not affect the carry for profitable deals in the future. In fact, it is easy to show mathematically how the use of a deal-by-deal structure may results in significant overall portfolio losses for LPs and profit for the GPs.
  Further, the two carry structures create very different incentives. The deal-by-deal carry structure creates an incentive among investment managers to focus on the expected winners in a portfolio rather than on the whole portfolio, since bad deals do not affect the carry of profitable investments. Enterprise Fund managers and their lawyers argued in the correspondence with USAID that the deal-by-deal structure would not impact their focus on the whole portfolio, however, it is not clear why managers would choose a time and resource allocation strategy that is not most beneficial to their interests, given the carry structure.
- Fund managers who successfully leveraged additional capital, using USG capital as anchor investment, were able to charge management fees and carry on all leveraged capital, which is standard practice.
- Some funds, such as the PAEF, HAEF, and WNISEF, had more than one parallel private equity fund and one or more investment management and advisory firms.
  Advisory firms charged additional fees to provide investment advisory services to the management firms. These layers of firms were controlled by Fund managers and sometimes included Board Directors as founding partners.
- Funds could charge various fees to portfolio companies. Most contracts did not detail fees charged to portfolio companies and what percentage of these fees were passed through to LPs. One positive example is the WNISEF contract with Horizon Capital, which follows the standard template of a private equity contract, including a hurdle rate and an extensive list of fees not included in the management fee.

  In general, the private equity industry has been criticized over the years that an extensive list of fees in contracts is not sufficiently clear to sophisticated LPs, who according to research even nowadays do not understand what fees and how much they are paying.[22] The debate regarding

[20] This structure is preferred by most fund managers, because carry payments are made on each deal that meets or exceeds its performance levels, after investors are paid back their capital and returns (hurdle) for that deal. This structure rewards individual investment performance and shortens pay periods for the General Partner.

[21] With the whole-of-Fund carries interest structure, Limited Partners have a preferred right to returns. The General Partner can withdraw carry only after the hurdle rate on the entire invested capital has been achieved and after the Limited Partners have received their capital and returns. This structure protects investors against early payments of the carry on funds that may not perform to the agreed hurdle rates in the long run.

[22] See the following publications: Only Robots Can Tally What the Largest U.S. Pension Fund Pays in Fees" Heather Gillers and Dawn Lim, The Wall Street Journal, The Quants. May 22, 2017. https://www.wsj.com/articles/only-robots-can-tally-what-the-largest-u-s-pension-fund-pays-in-fees-1495463370; CalPERS Is Sick of Paying Too Much for Private Equity. The Wall Street Journal, April 16, 2017. https://www.wsj.com/articles/calpers-is-sick-of-paying-too-much-for-private-equity-1492254008; Private Equity Clings to "2 and 20" Fee Model. Financial Times, August 11, 2016 https://www.ft.com/content/f7dc242c-58a9-11e6-9f70-badea1b336d4?mhq5j=e1; "Fees, Fees, and More Fees: How Private Equity Abuses Its Limited Partners and U.S. Taxpayers," Eileen Appelbaum and Rosemary Batt, Center for Economic Policy and

private equity fees is probably not going to be resolved any time soon, although it should be noted that some leading private equity funds have reduced their fees. When considering the deployment of Enterprise Funds and during the review of contracts with private equity funds, USG should take into consideration these facts and should consider the use of services of counsel and professionals with private equity expertise.

- Funds could benefit from other contract terms, depending on how these were negotiated with USG. LTEI Plans, for example, did not include hurdle rates and claw back clauses.
- Shared services contracts — in the WNISEF case developed on a set of staffing assumptions that are no longer relevant, yet the fee was never reduced.
- Bonus and option plans typically available to all staff.

The above sources of income for Fund managers demonstrate that some individuals leading well-performing funds were in fact very well compensated. Among the best performing Funds, senior investment managers, executives, and some Board Directors, who were the principals of the investment management companies for the Enterprise Funds or managed successful banks wholly owned by the Enterprise Funds, made significant amounts of money.

Such very large individual pay-offs on USAID grants have raised questions among some of the former and current USG staff the evaluation team interviewed. A legitimate question raised in some of these conversations is whether a mistake was made when compensation was not capped in a way to account for the additional potential compensation generated through parallel investment vehicles. Early on, USAID and the Enterprise Funds reached a compromise that the permission to set up parallel investment vehicles and investment management companies would generate additional income and would incentivize fund managers to stay for the long term. Arguably, what also happened with some Funds was that this compromise incentivized fund managers to explore investment strategies and complicated structures that ended up creating conflicts of interest.

The Privatization Effect: complex structures and complicated financial interests

Enterprise Funds adopted different investment approaches. Some created financial institutions — both banks and non-banking institutions — others strengthened existing financial institutions, or managed directly or outsourced the management of micro- and small-loan programs. Other funds combined lending programs with a private equity operation, typically through the establishment of at least one parallel private equity fund and the establishment of a management advisory company usually controlled by the Fund's management and occasionally some Directors of the Board. Some funds, such as the Bulgarian Fund and the Polish Fund, also developed real estate companies, REITs (BAEF), sold mortgage backed securities (BalAEF), provided investment banking services (RAEF), or became partners in concessions (AAEF). Others bet on private equity investments by creating several private equity funds (WNISEF) or focused more on early stage venture capital deals (HAEF).

The investment strategies were influenced by the experience the Fund's management teams brought; the local context and opportunities; early examples of successful strategies such as those implemented by the Polish Fund; the size of the Fund; and arguably the incentives built into the Grant Agreements and subsequent approvals of changes in structure, incentives plans, investment management contracts, and fee structures for private equity funds.

The SEED Act defined the private character of the Enterprise Funds and thereby left to the Boards and management to determine the Funds' strategy, structure, and operations. The Funds and USAID operated on the principle that whatever was not prohibited by the SEED Act was allowed, which

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Research, May 2016; and Private Equity's Gravity-Defying Fee Bonanza, Lisa Abramowicz, BloombergGadfly, April 13, 2017 https://www.bloomberg.com/gadfly/articles/2017-04-13/private-equity-revels-in-a-gravity-defying-fee-bonanza.

provided the intended maximum flexibility as well as some unintended consequences in terms of poorly managed incentives.

A fundamental issue that was not well addressed in the design of the Enterprise Funds was the fact that, although the Boards, management, and lawyers of the Funds argued that they were the same as the typical private equity funds and therefore should have the same compensation structure (a management fee and a carried interest of 20 percent), the Enterprise Funds were not the same. These were some of the key differences:

- The managers of the Enterprise Funds did not raise the initial funds – they were given to them by USG; and
- Initially USG had no expectations that the Funds would be successful and did not establish specific and measurable objectives and targets.

The Fund managers did not have to raise funds in the beginning and put their own capital at risk, as they would have had to do, had they been engaged as GPs in a typical private equity fund. Further, the lack of expectations regarding returns and lack of consequences for poor performance meant that there was no downside for the Fund managers; only upside. This meant that the Fund managers had no 'skin in the game.'

This lack of 'skin in the game' for the investment managers of the Enterprise Funds combined with the opportunity to charge private equity-level fees on projects that have a development component in their objectives, raises some policy questions:

- What is the appropriate management fee and carry when USG investment is used as the LP anchor? In the private equity industry, LP anchors receive better terms than other LPs.
- Should the management fee stay constant as a percentage of a defined type of capital (committed, invested) during the existence of the fund or should it decrease in the last year(s) of the fund's existence, which is generally the practice in the private equity industry? In the WNISEF contract with Horizon Capital, the management fee is set at 2.5 percent per annum of the aggregate commitments of the LPs during the commitment period, and 2.5 percent per annum of the funded commitments of the LPs as of the relevant payment date in the latter years of the Funds' existence. In the PAEF's case, the management fee was a fixed amount, $2 million, which decreased to $1.5 million towards the end of the fund. The Romanian Fund's Board had also negotiated at one point a fixed fee with the management advisor, which was not based on the funded commitment of the LP. This was eventually discovered and addressed by USAID.
- What is the appropriate hurdle rate for an Enterprise Fund in a transition or frontier market? Although lawyers for the Funds argued that the LTEI Plans were essentially structured like carried interest, hurdle rates were not considered.
- What are the appropriate claw back terms in the Enterprise Fund contracts — both for carried interest and LTEI Plans as relevant?
- What are appropriate fees and their ranges that a Fund can charge portfolio companies? This fee structure and revenue is not detailed in the Funds' programmatic and financial reports with a few exceptions such as the contract between WNISEF and the Investment Manager, where Fee set-offs are defined. The best practice is that the GP passes through a percentage of the fees the GP charges the portfolio companies to the LPs.
- What is an appropriate dividend policy for an Enterprise Fund?
    a. In a portfolio including primarily companies that are being restructured or relatively new and growing companies, is it better to reinvest the cash in the business or take it out as dividend (or use it for other purposes such as to pay down debt, acquire another company, or repurchase shares)?
    b. What if the company also has other debt obligations (at a relatively high interest rate)?

c. How does the answer to the above question differ from the point of view of the Enterprise Fund and the portfolio company? Whose interest should be prevalent in a USG-seeded Enterprise Fund?
d. Does it matter that in the context of these USAID-seeded endeavors, the Enterprise Funds had dual objectives (financial returns and development impact)?

   It can be argued that a focus on dividend payments for the types of companies in the Enterprise Funds' portfolios in Central and Eastern Europe, the Baltics and Central Asia will, in most cases, divert capital available for reinvestment in the business and can make firms more vulnerable to the economic shocks and crises, which all of the countries experienced. An overleveraged company or a company that has not invested enough in improving the quality of its products, new product development, market development, strengthening of its sales channels, supply chain and other operational systems, or accumulating sufficient cash reserves may end up in bankruptcy. It is beyond the scope of this report to examine whether the Enterprise Funds had dividend-paying portfolio companies among the ones that were eventually written off.

The Role of the Board

USG relied on the Boards of the Enterprise Funds as the first line of defense and had limited visibility in the deliberations and inner working of the Boards. During the review of documentation, the evaluation team found many examples of effective Board interventions and oversight practices. In addition to already mentioned examples, the WNISEF Board developed and adapted a Joint Venture Model and Ownership structure that better protected the interests of WNISEF in the case of a joint venture in the Ukrainian context. The Board acted very prudently and in the interest of the Fund and USG.

In the cases of Bulgaria, Albania, Romania (where fund managers and some Board members could invest in portfolio companies in parallel with Fund investments), and some other funds that invested in wholly owned companies, Boards were involved closely in the oversight of the performance of investees. In other cases, Boards were regularly informed about the portfolio's performance, received and reviewed detailed proposals for potential new investments and discussed those, and visited portfolio companies but were not necessarily directly involved in the oversight of the operations of the portfolio companies SMEs. This is in line with the duties of the Directors of the Boards, who are responsible for the provision of direction and oversight at the portfolio level, among other duties, but do not typically engage in the operations of portfolio companies.

Although some Boards were able to navigate well any potential problems, other Boards struggled in this respect. On several occasions, the consequences included high profile USG inquiries and interventions, Congressional authorization of additional oversight from USG, a Fund that was closed down, negative media coverage, and tensions on the Boards.

Arguably the most difficult issue, from a governance perspective, faced by the Boards during the life of the Enterprise Funds, was conflict of interest. Given the limited visibility USG had in Board decision-making and the operations of structures, such as parallel funds and investment advisors, Boards had provided assurances to USG that complex structures would not create conflict of interests, or when such conflicts arose, the Boards would deal with them adequately.
The Grant Agreements included Conflict of Interest language, and the Funds adopted Conflict of Interest policies over time; however, as the strategies of the Funds evolved and some became increasingly complex, new situations had to be addressed. For that reason, in the mid-1990s, USAID issued a blanket Grant Agreement modification clarifying the conflict of interest rules, which stated:

"The purpose of this modification is to modify grant to include a ban on compensating any Board member or any firm or other entity for which a Board member is a partner, director or employee. *Accordingly, specific changes are as follows:*

1. Attachment 2, General Provisions, 13. Conflict of interest, add the following:

C. The Grantee agrees that, without prior written approval of USAID, it will not pay compensation for services to:

1. any member of the Board of Directors of the Grantee, except for services as a Board member; or

2. any firm, association, or entity in which a Board member of the Grantee serves as a partner, director, officer or employee."

Although Conflict of Interest policies typically serve well as a deterrence mechanism, they are not always entirely effective. In the early 1990s, questions about the performance of the Funds and their governance prompted Congressional inquiries. One of the high-profile incidents involved the Hungarian Fund and required a senior level USG intervention that resulted in the resignation of the first HAEF CEO. The HAEF Board had to deal with another incident around the same time, and another one in 1998. It is also not clear from the documents reviewed by the evaluation team, which did not include Board Meeting minutes, how the Board handled any real or perceived conflicts of the President and CEO of HAEF, also a Board Director, who had the same position at HAEF and a subsidiary investment fund (HITF) and was the Managing Director of Danubius Managers Ltd., the owner of the investment manager of HAEF, MAVA Investment Advisors. The Executive Vice President (EVP) of HAEF was also the Managing Director of MAVA, and the Chief Financial Officer (CFO) of HAEF was also employed by MAVA Investment Advisors. Although the EVP and CFO's compensations were built into the MAVA fees, one cannot ignore considerations regarding incentives, since MAVA advised HAEF on all investments.

Based on the review of available documentation, including SARs, interviews, Board meeting minutes provided by WNISEF, and written communication, the evaluation team has concerns about structural weaknesses that make it difficult for the WNISEF's Board to demonstrate impartial decision-making. The concerns are based on the following facts:

- The WNISEF Board has shrunk in size over the years, by over 50 percent, as confirmed by WNISEF documents. Given that quorum is defined in the bylaws of the Fund as 1/3 of the Directors, in effect, two Directors present for a vote would fulfil the requirement for a quorum.
- The majority of Board Directors stated interest in becoming LPs in EEGF, the first parallel fund of Horizon Capital, as documented in Board Meeting minutes. The Board meeting minutes documenting the analysis on potential conflict of interests presented by the counsel in a Board meeting in 2006 do not indicate that the counsel considered that there was no conflict of interest for all Board members who declared intent to become LPs in EEGF. The counsel stated that it was not clear if there was going to be a conflict of interest. Thus, although the Board deliberated, the result was inconclusive and it was assumed that Directors would recuse themselves later on if there was a conflict. The problem with this decision was that all but one Director stated that they intended to become LPs in the EEGF.
- USAID does not know if and which Board Directors are also LPs in EEGF II and/or plan to become LPs in EEGF III.
- As demonstrated by WNISEF, Horizon Capital, Horizon Capital Associates, LLC, and Horizon Capital Advisors, LLC documents, Board meeting minutes, and public documents:

- One Board Director has documented financial interests in all of the above entities;
- The same eight people, including the then President of WNISEF, a Board member and executives of WNISEF and Horizon Capital, have been disclosed in the Board Meeting Minutes provided by WNISEF to the evaluation team and in public documents as sharing the carry charged by Horizon Capital as well as being associated with a separate entity, Horizon Capital Advisors, LLC, that charged additional fees to Horizon Capital. The signatory on behalf of Horizon Capital Advisors, LLC for its contract with Horizon Capital is also a senior executive of Horizon Capital. Documentation for all of these instances is part of the USAID files and was also provided to the evaluation team by WNISEF.

- Despite the existence of a conflict of interest policy, Board meeting minutes from 2005 and February 2006 provided by WNISEF to the evaluation team show that a Board Director with stated and documented conflict of interest did not recuse himself from Board deliberations regarding the privatization plan, in which he had a financial interest. This fact is confirmed by WNISEF in writing. This violation of the conflict of interest policy happened in the presence of the WNISEF's legal counsel, who presented an analysis of potential conflicts of interest Board members faced in the privatization process, but never addressed the conflict of the Board Director who did not recuse himself from voting.

The RAEF Board also grappled with some undisclosed conflicts of interest and financial interests that could have resulted in conflicts of interest during the transition from the Fund to the Legacy Foundation. During a Board meeting in June 2013, three members of the Board disclosed various conflicts of interest and financial interest in assets that would be transferred to the Foundation. The issues were twofold:

1. Some of the conflicts were previously not disclosed in writing as required;
2. Change in control to RAF of the assets currently managed by RAEF would trigger a prohibition outlined in RAF's certificate of Incorporation that stated:

> *"Tenth: No part of the funds of the Corporation shall inure to the benefit of, or be distributable to, any member of the Board of Trustees, officer, employee or other private person, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered as Board members and to make payments and distributions in furtherance of the purposes set forth in Article Third hereof. Should the Foundation invest any portion of its endowment in a way that will directly benefit financially a Trustee, such Trustee shall cease to be a trustee of the Corporation at the time of such investment. …"*

In the Romanian case, USAID had also been in a protracted discussion with the Romanian Board that lasted about two years regarding a fee calculation. The Board had not advised USAID that there had been Board disagreements on the way the fee should be calculated and that a fixed fee (higher than what would have been the otherwise correctly calculated fee) had been agreed as compromise. Eventually, the Board disclosed this and advised USAID that they had deliberated and decided that the fee was appropriate. With USG feedback, the fee was changed to a more appropriate amount.

Why did some Funds end up with situations in which Funds' executives became directors or founding partners of management advisory companies that provided investment services to the Funds, charged management fees and carried interest, and negotiated the terms of these contracts on behalf of the Funds and on behalf of the management advisory firm? Some of the same executives were also Directors of the Boards that approved the deals. Some Directors of the Boards were also directors of the management advisors. The same senior executives developed the LTEI Plans for the Funds that adopted such Plans, and they were the biggest beneficiaries. The list of complicated structures that afforded very

limited transparency, complex financial interests that were not always fully disclosed or understood by USG, and the perceived or real conflict of interest is long.

These complicated structures and financial interests should have been recognized and addressed by the Boards and USAID. Boards have argued that USG approved the potential conflicts of interest of the investment managers of the Funds who also set up the management firms and parallel funds through the approval of privatization plans and LTEI Plans, for example. USAID reviewed and discussed at length these contracts and plans and approved them. It is also evident from limited available Board meeting minutes that Boards did use counsel to negotiate contracts and compensation plans on behalf of the Funds, did consider conflict of interest and took precautions to address conflict of interest, however, it is not always evident that such measures addressed adequately all conflicts of interest. In some cases, Boards did in effect secure good terms for the Fund managers and some Board Directors and not necessarily for the stakeholders and the portfolios. A cap on compensation structured differently, hurdle rates in all plans that included carry or LTEI plans that were proposed as equivalent to carry, claw back clauses, ideally whole-of-fund rather than deal-by-deal structure or a hybrid, and longer vesting periods would have been better for the portfolios. The argument that worse terms would have caused some managers to leave is plausible but not really tested. Some of the terms negotiated by the managers did not incentivize long-term commitment; rather, they guaranteed faster payments — a deal-by-deal structure is a prime example of that.

Limited Effectiveness of Some Boards as a Function of Composition, Structure, and Governance Policies in Place

Based on the reviews of available documentations and interviews with stakeholders, the evaluation team has concluded that the limited effectiveness of some Boards as stewards of the Funds and their portfolios was a function of Board composition, structure, and weaknesses in governance policies in place.

Given the private and therefore independent character of the Funds, USG was not in a position to require specific changes in the corporate governance or other processes of the Funds and their Boards. However, some recommendations based on best practices in corporate governance could have been considered and should be considered in the case of any future replication:

- Although Board positions had term limits, most Boards did not **limit the number of terms an individual could serve**. WNISEF and most Legacy Foundations still have many members of the original Fund Boards. Some interviewees offered the argument that having Directors serve long-term ensures continuity, which is a fair argument and probably an important one for Funds that operated in turbulent economic conditions. However, it is generally not considered best practice in corporate governance to have the same core group of Directors for over 25 years. The flipside of continuity is that people become overly comfortable with each other and fail to control for side effects, such as groupthink, or develop common business and personal interests that make it more difficult to control for perceived and actual conflicts of interest.

  The evaluation team recognizes that there may be specific contexts in which it is very difficult to find committed individuals with the right technical expertise willing to serve as pro bono Directors and that it may be counterproductive for the Board to impose strict term limits on Board membership. In such exceptional cases, one best practice will be to ensure that all financial interests of Board members relevant to the Fund, its affiliates, parallel funds, management advisory firms, and other related structures are fully disclosed to USAID. USAID should make a determination whether such interests are acceptable and how conflicts will be properly mitigated. Alternatively, Board Directors should not be allowed to have any such financial interests. In that case, USAID may revisit the concept of pro bono Boards and consider some appropriate level of compensation.

Finally, there is one legitimate exception to the term limit proposal — the liquidation phase of a Fund or a Foundation. At that stage, there is no compelling reason to impose strict term limits, as the institution is in the process of closing down its operations, and the knowledge and experience of the current Directors will be beneficial to a smooth exit.

- One way to ensure continuity on the Board is to **use staggered boards**. The Polish Fund, for example had a staggered Board on which Directors were elected for three years. A staggered Board whose bylaws also provide the option to dismantle the Board or add more members could provide a good balance between ensuring a long-term approach and having enough flexibility to address rapidly evolving situations. The Russian Board chose a different approach, whereby members were re-elected annually every January. Although one view of this approach may be that it encourages greater accountability, it also may end up promoting a focus on short-term planning and performance. An early internal USG Enterprise Funds Issues paper had also recommended a two-term limit for Board members and staggered Boards. It is not clear why this recommendation was not formally adopted and incorporated in grant agreements and Fund bylaws.

  Some interviewees mentioned that, over the years, it seemed that some members had become "beaten down" and tired after long stretches of service, and a few more engaged individuals end up dominating the agenda and the decision-making. If that is the case, it seems that a limit on the number of terms served will be a good solution. Our observations and the interviews indicated that there are other perspectives too — many Board members consider it a privilege to serve on these Boards and are very motivated; others believe that this is a matter of prestige and distinction, and for that reason they will not consider giving up the position.

- One additional consideration related to limits is the question of an **age limit** for Board Directors. There are different opinions on this subject. Nowadays, about 50 percent of U.S. companies have age limits for their Boards, according to National Association of Corporate Directors (NACD) Public Company Governance Surveys[23] and Harvard Business Review analysis.[24] A causal relationship between a Director's performance and age or length of tenure, however, has not been proven conclusively.

- The **need for "fresh blood" and new skill sets as the mission and strategy of the Funds changed during their transition to Legacy Foundations** should have occupied a more prominent position on the Boards' meetings agendas. Several Boards did change members gradually — examples include Romania, Hungary, Central Asia, and the Baltics — but other did not consider making changes, unless necessitated by a Director's resignation. Interviews indicated that the Romanian and the Baltics Funds, for example, did consider the types of additional skill sets that might be required during the transition from the Fund to the Legacy Foundation. Romania also considered matters such as gender representation.

- One way to address the lack of age limit or a limit on the number of terms a Director can serve on a Board is to institutionalize **Board performance appraisals**. This is also a best practice in corporate governance. Enterprise Funds did not conduct board self-evaluations or external appraisals. The fact that the Funds were private organizations does not mean that a requirement for periodic Board appraisals could not have been instituted, similar to the requirements for annual reports and annual external audits. Since corporate governance emerged as a field in the 1970s, a large body of knowledge, best practices in corporate governance, regulations, and reputable bodies

[23] https://www.nacdonline.org/Public?navItemNumber=37898
[24] "Corporate Governance 2.0", Subramanian, Guhan. Harvard Business Review, March 2015.

capable of performing Board appraisals have been established. Given the fiduciary duty of loyalty to act in the best interest of the corporation and its stakeholders,[25] it does not seem unreasonable to expect that appraisals of the Board be conducted periodically.

One exception was the self-evaluation conducted by the Directors of the Romanian Fund Board in 2010 in preparation for the liquidation process.

RAEF Board's Self-Evaluation 2010

Similar to other Funds, the RAEF Board struggled in the area of corporate governance early on. Conflict of interest issues and lack of transparency in this area were recognized by some members of the Board as a concern. Some of the concerns expressed in the report by the members of the Board included:

- Lack of a clear and transparent plan for handling the RAF endowment, especially the liquidation of RAEF assets and the hiring of a U.S. firm to manage the portfolio;
- The need for the Board to devote sufficient attention to long term planning;
- The provision by the Board for a clear and well-understood policy direction;
- Trustees not disclosing personal interests in matters under review, and not abstaining from voting where appropriate;
- The need for the Board to provide appropriate oversight related to internal controls and compliance with applicable laws and regulations;
- The Board's understanding and assessment of major risk factors related to performance and reviews measures to address and mitigate such risks; and
- The fact that a handful of Board members did the heavy lifting. This critical gap in ownership could be addressed by ensuring that new members of the Board were willing to lead and contribute actively.

Board members also acknowledged that the RAF Board had been in operation for less than a year, so it was premature to expect immediate results. The self-evaluation noted improvements in Board and committee structure and preparations for meetings, among other things.

The RAEF Board had also agreed on and instituted term limits and adhered to this policy when it considered Board memberships during the transition from RAEF to RAF. At that stage, the Board also considered existing and needed skill sets on the Board, performance of members on the Board and in committees, and gender representation. This emphasis on adherence to best practices in corporate governance is beyond what a number of other Funds and Foundations implemented. To get to this stage, however, the RAEF and RAF Boards had to work through some rough periods.

This was a dramatic period for the Romanian Board; it was grappling with conflict of interest queries, changes on the Board, and a large-scale programmatic and financial reorganization in preparation for the transition to the Legacy Foundation. RAEF used the crisis to regroup and address decisively identified weaknesses, as the Fund prepared for the next phase of its evolution. Because of the steps taken at the time, RAF emerged as a much stronger organization and started with a clean slate. The transition from RAEF to RAF and the approach to addressing the issues head-on was exemplary and should be used as a case study in crisis management in similar contexts.

[25] Although USAID cannot hold an equity stake in an enterprise, the Boards had a fiduciary responsibility for the funds granted to the Enterprise Funds by USG on behalf of the U.S. tax payers and for the accountable investment of these funds to maximize the returns to the portfolios. This is different from maximizing the profit to the management team of the Funds and to Board Directors who had equity stakes in management advisory firms that were paid by the Funds.

- Term limits and changes in Board composition are also related to **succession planning**. At the Board level, this is relevant both to the succession planning of the executive leadership of the Fund as well as to the Directors of the Board. Although succession planning might have involved a few additional steps in the context of the Enterprise Funds, including a White House nomination, the Boards were not precluded from developing a succession plan, identifying needs and timelines, as well as potential candidates for vetting. The evaluation team reviewed limited sets of minutes from Board meetings, mostly because Boards did not routinely include these in the reports to USAID, and did not see evidence of Enterprise Boards' proactive engagement in succession planning.

WNISEF's Succession Planning Challenge

A core group of the WNISEF Directors of the Board has been very engaged in the provision of direction of and oversight over Fund activities. WNISEF started out with a larger Board; the earliest list of Board Directors the evaluation team had available was from 1998 when the Board consisted of 12 Directors and the Board Counsel. Over time, the Board decreased in size, and in 2017, the Board expects that Board membership will shrink to five Directors. All but one of the individuals currently on the Board has been involved as Directors of the Board since its inception.

The composition of the Board of Directors raises two best practice questions, relevant to this and other Enterprise Funds: 1) The lack of term limits for Board members, and 2) The importance of developing a succession plan. Given the fact that the Fund is no longer in liquidation mode, the fact that the Fund has just invested $30 million in EEGF III and is managing an additional $5 million investment program as well as four Legacy Programs, it seems appropriate and necessary for the Fund's Board to revisit the development of a succession and expansion strategy that considers the types of skill sets needed on the Board and adds members with the required experience. This expectation has been communicated to WNISEF by USAID Washington as part of the modification to the Grant Agreement when the legacy programs were approved, and is considered by USAID a critical priority the WNISEF Board needs to address.

- The **on-boarding** of new, and especially local Board members, was another matter that came up in interviews. As the Funds matured and transitioned into the Legacy Foundations, it appears that more Boards gave thought to the on-boarding process and developed materials and a more structured approach. In the earlier days, however, it seems that some Boards relied on the professional background of their members and experience they had with other Boards. Although this approach may not have been problematic for experienced expat Directors, it seems that some local Directors struggled.

Very few Central and Eastern Europeans would have had any experience as Board members of a western enterprise in the 1990s. Thus, although their participation was valued and encouraged in the language of the Grant Agreements, some local Directors had difficulties ensuring that their voices were equally heard. The evaluation team heard about one such situation, in which local and other members of the Board reportedly had difficulties counterbalancing the strong opinions of the President of the Board and CEO of the Fund. Semi-annual reports do not indicate in any way tensions on the Board. It is not clear whether USG was aware of this situation and what, if anything, was done to address it. On several Boards, tensions developed between local members of the Boards and expat Directors. The evaluation team identified at least two instances where allegations regarding improper decisions or practices, from the point of view of local Directors, were brought to the attention of USG. Both cases were investigated and closed without evidence to substantiate the claims. The local Directors resigned.

Some Fund Boards successfully integrated local Directors in their midst and benefitted from their insight, contacts, and reputations. For example, HAEF's Strategic Management Plan of 1993 discussed the role of the Board in overseeing the management of the Fund and paid specific attention to the special role of Hungarian Directors, who were considered uniquely qualified to provide country-specific insight as well as guidance on investment decisions. For this reason, all Hungarian Directors participated in the Investment Committee of the Board. The evaluation team met Bulgarian Directors of the Board of the Fund, and now the Legacy Foundation, who were clearly very engaged, articulate, and highly regarded as professionals. In the Bulgarian case, a former Enterprise Fund investment officer, who had become the CEO of a very successful Fund portfolio company, AMETA, had joined the Board of the Legacy foundation two years ago. This approach to cultivating a long-term relationship and vetting of a potential Director seems to provide a good solution to the anxiety some Funds expressed early on about including locals on the Boards.

The argument made by Funds, such as the Albanian, Central Asian, and WNIS, was that it was too difficult or impossible to find a local Director who was not politically or economically affiliated with interests that the Fund would rather not bring into the Board. USG accepted this argument and probably it was a valid one. However, Boards should continue to try to identify, engage and vet potential local Directors, per their commitment in the Grant Agreements. Many of the other countries have had to grapple with similar constraints and despite that were able to identify local Directors who have made solid contributions to the performance of the Funds and Foundations.

5.4 Evaluation Question 4

Did USAID have adequate access to information, staff expertise, and management arrangements in place in Washington, D.C. and/or countries of operation in Europe to effectively exercise its oversight role throughout the duration of each Enterprise Fund's operation, as established in the original Grant Agreements? If yes, what proved most critical? If no, what was missing?

Title X of the SEED Act, Program Management, describes the policy coordination of the SEED Program:

> *"SEC. 1001. POLICY COORDINATION OF SEED PROGRAM.*
> *The President shall designate, within the Department of State, a SEED Program coordinator who shall be directly responsible for overseeing and coordinating all programs described in this act and for all other activities that the United States Government conducts in furtherance of the purposes of this Act."*[26]

The SEED Program Coordinator was expected to work closely with USAID, the Agency responsible for the oversight of the implementation of the Enterprise Funds projects in the field. Although, according to some former and current USG staff, there were inevitable turf wars in the beginning between USAID and DOS and between USAID Washington, USAID Offices in the field and U.S. Embassies; however, coordination eventually became a lot smoother. The initial frictions were mostly caused by the need for better understanding of the roles and responsibilities of each party, what type of mechanisms the Enterprise Funds were and how they fit with USG Missions' country strategies for foreign assistance, if at all, who was responsible for the monitoring and reporting on the Enterprise Funds and what this would entail, among other things.

[26] "S. 2944 – 101st Congress: International Affairs Authorization Act of 1990." https://www.congress.gov/bill/101st-congress/senate-bill/2944/text

Enterprise Funds' Reporting

The SEED Act outlined the record keeping and reporting obligations of Enterprise Funds, and the language was incorporated in the Grant Agreements. The Funds were required to submit the following to USAID:

1. Annual independent private audit reports – annual external audits in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountant certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The report of each independent audit was to be included in the annual report required from each Enterprise Fund.
2. Comprehensive and detailed annual reports published by the Enterprise Funds no later than January 31 each year.
3. Semi-annual reviews were to be conducted and updates share with USAID.
4. Field visits, approximately three times per year, would also take place and would require some preparation on behalf of the Funds.

In addition, the Enterprise Funds were subject to the following oversight and recordkeeping requirements:

5. General Accounting Office (GAO) audits — the financial transactions undertaken by Enterprise Funds were subject to GAO audits in accordance with principles and procedures, rules and regulations prescribed by the Comptroller General of the United States, as long as the Enterprise Funds were in receipt of USG grants.
6. The Enterprise Funds had to ensure that each recipient of assistance through the Funds maintained separate accounts with respect to such assistance and records that may be reasonably necessary to disclose fully the amount and disposition of the proceeds of the assistance, the total cost of the activities undertaken in connection with the assistance, the amount and nature of portions of the cost of activities supplied by other sources, and other records that would facilitate an effective audit.
7. Enterprise Funds and their duly authorized representatives also had to ensure that they had access for the purpose of audit and examination to any records of the recipients pertinent to the activities supported by the Enterprise Funds.

In the first years of the work of the Enterprise Funds, USAID's oversight was very light-touch. The instructions from Congress were that in effect USAID should provide the check and step out of the way of the Funds. This position shifted after several high-profile missteps by the Funds and their Boards, a couple of USG audits — a GAO and a RIG audit — and an early external evaluation of several of the Funds. Among the findings was the conclusion that the objectives of the funds were too broadly defined and therefore difficult to measure. Performance measurements were also not used, especially as far as development impact was considered.

These findings prompted a change in USAID's level of engagement with the Enterprise Funds. Although the Grant Agreements included language that required the Funds to submit in the first year of operations a set of policies, an investment strategy, and a set of performance monitoring indicators to capture progress towards the Grant Agreements objectives, Funds had generally focused on financial performance metrics and reporting. Until 1997, USAID had generally not demanded robust development impact reporting.

The reality within USAID in the early 1990s was that the Agency's own M&E expertise had been considerably diminished compared to the in-house technical capabilities available in the 1970s, for example. USAID personnel knowledgeable about the oversight provided by USAID to Enterprise Funds over the years, interviewed for this evaluation, acknowledged that USAID did not hold itself to very high

M&E standards in the 1990s. This — coupled with the initial instructions to USAID to sign the checks but give the Funds' maximum flexibility, as well as the limited and overstretched technical expertise in private equity in the Agency — explains why USAID had not implemented a more robust M&E system for the Enterprise Funds previously.

USAID Washington engaged in discussions with the Funds regarding an appropriate set of performance metrics that would measure adequately the dual objectives of the Funds. The correspondence reviewed by the evaluation team indicates that these discussions were not always very productive and the points of view of the Fund and USAID were not completely aligned. Many Funds and their Boards pushed back on reporting requirements. The WNISEF distinguished between indicators that reflected the financial performance of the Fund and informational indicators that were more in tune with USAID's needs. The Bulgarian Fund also had concerns about the types of indicators required by USAID. These were a few of the pieces of correspondence the team had access to. In discussions with Directors of the Boards of other Funds, they all shared the same sentiment: they did not want to submit to what they were concerned would turn into USAID micromanagement. Eventually a compromise was reached in the form of the so-called Strategic Framework Matrix, which the Funds began to incorporate in their SARs in 1997-1998.

The Strategic Framework Matrix includes performance metrics under the Goals of the Grant Agreements, including development impact proxy measures such as number of jobs created in supported SMEs, SMEs created or strengthened that are owned by women, SME sales numbers, lending activities to SMEs, institutional strengthening and policy development work, as well as financial performance metrics. Overall, this template was a major step forward in terms of ensuring a structured approach to data collection and reporting. A few critical weaknesses still remained, however:

- Indicators such as jobs created were not well defined and as a result various types of job categories were likely lumped together — new jobs created, jobs maintained, permanent and temporary jobs, and so on.
- Analysis of many of the development indicators was not conducted by the Funds — this is to be expected given the Funds' view that these indicators were more for informational purposes and of value to USAID. Thus, some Funds would furnish lists of institutions they had provided assistance to without an analysis of the expected or actual development impact (as it was not measured), others would list collaboration with institutions regarding particular regulatory challenges. In the absence of baseline data for institutional capacity building activities or more detailed information on the types of interventions regarding regulatory reform, context, other involved, and outcomes, it would have been difficult for USAID to produce any type of a robust analysis of the impact of the development work of the Funds or attribute specific results to this work. This is evident in the types of anecdotes and highlights included in briefs and summaries on the Enterprise Funds' successes developed by USAID over the years. Most of the measurable, remarkable successes had to do with the financial performance of the Funds. In fairness to the Funds, the professionals employed by them had financial and business backgrounds and were not development and M&E experts. The Enterprise Funds viewed themselves as private equity and venture capital funds. In these settings, investment officers are responsible for the monitoring of their assigned portfolio companies and they provide regular reports that focus on financial and business performance. The same model was adopted by the Enterprise Funds. As far as the evaluation team has been able to determine, the Funds did not hire monitoring officers responsible solely for reporting to USAID. This would have been considered an extraordinary overhead cost. The matrix included some basic guidance in terms of reporting; however, there was no formal expectation and requirement that the Funds would produce any additional analysis with the collected development data. The plan, according to the Grant Agreements, was that two external evaluations would be conducted for each Fund.

- It is unclear how USAID and the Funds used the data in the Strategic Framework Matrix, beyond routine and ad hoc internal USG reporting requests or the development of briefs generally for USG use.

USAID's Ability to Exercise Effective Oversight

The USAID Washington Office responsible for the oversight of the Enterprise Funds was constrained in its ability to exercise effective oversight due to a number of factors:

- Overstretched human resources and limited availability within USAID of staff with relevant technical experience and skill sets. A few members of the team with private equity and commercial banking experience made invaluable contributions; succession planning within the USAID Washington team, however, is still a major concern.
- Limited time to devote to each Fund due to staff shortages and the fact that at one point the cognizant USAID/E&E technical office responsible for the Funds had to take on the contracting responsibilities for all Funds, which is anticipated to continue until all Funds are liquidated. Having Agreement Officers outside USAID's Office for Awards and Acquisition is a unique situation within USAID, as far as the evaluation team is aware, that has added to the burden of the already overstretched staff.
- Limited resources to perform the field monitoring duties incorporated in the Grant Agreement. The USAID Washington team had been chronically short on travel funds, made worse when PSC staff eligible to use program funding to travel were reduced dramatically over time. This inability to travel and engage in face to face discussions with the Funds and USAID counterparts in the field probably exacerbated some of the early tensions among the parties caused by limited understanding of each other's points of view.
- Limited visibility in the working and decision-making of the Boards. USAID could participate, ex-officio, in Board meetings, if invited, which rarely happened. This explains how corporate governance missteps at the Board and Fund CEO levels would occasionally only come to the attention of USAID after they had become public knowledge and subject to high level inquiry. There had been one instance when a local USAID employee had also alerted USAID Washington regarding a potential conflict of interest on a Board. To their credit, members of the Washington-based USAID team managing the Enterprise Funds involved USAID and DOS senior management in resolving sensitive corporate governance and conflict of interest matters and ensured that this was done diplomatically but resolutely. Under these challenging circumstances, the limited visibility and access to real time information about potential issues in the field in the context of a high-stakes and high-priority pilot, it seems that more thought could have been given to the development of a robust risk management framework.
- During a USAID regional restructuring some years ago, the Central Asian-American Enterprise Fund and Legacy Foundation were transitioned to the Asia Bureau. The files had been moved to the Asia Bureau, but for some reason responsibilities for the management of CAAEF or points of contacts for any queries during the transition and for continuity purposes had not been clarified or had moved on since then. As a result, the E&E Bureau struggled to get in touch with a counterpart in the Asia Bureau responsible for central Asia and knowledgeable about the Enterprise Fund and the Legacy Foundation, and the evaluation team was never able to interview this counterpart. USAID E&E Bureau staff kindly managed to locate some of the old documents and shared the information and local contacts they had with the team. It is not clear to what extent the USAID Asia Bureau is engaged with the Legacy Foundation in Central Asia.

Otherwise, USAID has been very engaged in the reviews and approvals of changes in Funds' structure, compensation packages, sale of wholly-owned subsidiaries such as the Bulgarian American Credit Bank, participation in concessions, reviews of contracts with investment management companies, a review and approval of special requests from RAEF to go beyond the instituted upper limit of exposure in portfolio

companies, set at $5 million, and others. Based on the reviewed correspondence, decisions appear to have involved careful deliberations, engaging both sides and counsel.

SECTION 6: EVALUATION QUESTIONS FOR LEGACY FOUNDATIONS

6.1 Evaluation Question 1

To what extent do Legacy Foundations' strategic priorities, grant-making practices, and other activities adhere to their mandate to "promote private sector development and policies and practices conducive thereto" in host countries, as specified in their original Enterprise Fund Grant Agreements and Legacy Foundation proposals as approved by USAID? If and when Foundations have pivoted strategic direction and shifted programmatic focus, what linkages (if any) did those deviations have on evolving private sector development needs in the country of operation? For those foundations focused primarily/exclusively on education activities, how closely have foundation-supported scholarships, internships, fellowships, and exchanges been aligned to private sector workforce needs in their home countries?

The legacy of the ten Enterprise Funds comprises nine Legacy Foundations and an Enterprise Fund, WNISEF, which implements four legacy programs concurrent with investment activities with a target liquidation date in 2023. One of the nine Legacy Foundations, the U.S. Russia Foundation for Economic Advancement and the Rule of Law (USRF), is inactive in Russia due to a hostile environment towards foreign non-governmental organizations in the country, and the designation of the foundation as "undesirable" by the Russian Government in 2015.

The concepts of the Legacy Foundations and their proposed objectives were formulated by the Enterprise Funds' Boards in consultation with USAID, DOS, and Congress, and presented for USAID review and approval in the form of a Liquidation Plan and a Legacy Foundation proposal. Enterprise Funds had the discretion to propose specific priorities they considered most relevant to local needs. The only condition imposed by USG was that these priorities further the work of the Enterprise Funds in promoting private sector development and policies and practices conductive thereto. The objectives of a Legacy Foundation are incorporated in a Grant Agreement between the foundation and the Enterprise Fund that endowed it.

USAID is a third-party beneficiary to the Grant Agreements between the Enterprise Funds and the Legacy Foundations and is not in privity with the Legacy Foundations. Nevertheless, USAID has a continuing right to claw back a Legacy Foundation's endowment corpus in the event that a Legacy Foundation deviates from the mandate established in the Grant Agreement.

In accordance with the Office of Management and Budget (OMB) Uniform Guidance (2 CFR 200) §200.307 Program Income, paragraph (e)(2) Addition,[27] "the program income must be used for the purposes and under the conditions of the federal award." This requirement survives the Enterprise Fund and mandates that Legacy Foundation programs must promote private sector development and policies and practices conducive thereto. When USAID approves the proposal for a Legacy Foundation, the Agency notifies Congress and incorporates the foundation's proposal into a Grant Agreement modification that releases the program income (the Enterprise Fund's endowment) for private sector development. The Legacy Foundation and its Board do not have the authority to deviate from the

[27] https://fawiki.fws.gov/pages/viewpage.action?pageId=24707494

private sector development objectives because of the mechanism through which the endowment was released to the foundation. Deviation in the use of funds from the approved purpose of the federal award constitutes non-compliance with the U.S. Code of Federal Regulations and creates a huge vulnerability for USAID and the respective foundation.

The Legacy Foundations operate in two spending modes: spend down and in perpetuity. The spending mode is a function of the size of the endowment received by the Legacy Foundation from the respective Enterprise Fund.

The Legacy Foundations have adopted three types of modes of operations:

1. Direct implementers, such as the Albanian Foundation;
2. Grant-makers — this is the approach chosen by the majority of the foundations; and
3. Outsourced scholarship fund management — characteristic of foundations that only implement scholarship programs such as the Hungarian American Education Scholarship Fund, the Central Asia Foundation, the Baltics American Freedom Foundation, and previously the Slovak American Foundation.

Overall, Foundations have remained faithful to the objectives set in the Grant Agreements. Where strategies have evolved, as in the Romanian case, the objectives still supported private sector development and the adaptations were substantiated by an analysis and underpinned by an updated strategy coupled with statements of expected results and performance metrics to monitor progress. For example, the Romanian Foundation developed a well-articulated eco-tourism strategy based on market assessment, a product development plan, linkages with experts on EU eco-tourism product standards, local partners able to assist in the development of such local products, and engagement with rural communities interested in participating in the program as well as definition of objectives and performance metrics. The Slovak Foundation shifted its focus from scholarships to entrepreneurship support activities, which were firmly planted in the private sector development realm.

ABF has pursued a set of priorities that shifted in 2010 from the approved objectives of the Grant Agreement to reflect a wider interpretation of private sector development, including areas such as arts and culture. According to ABF, its revised six priority areas contribute to private sector development. This position is not shared by USAID, which views some of these areas as lying outside the originally mandated objectives of the foundations. This has been a serious point of contention between the foundation and USAID and remains unresolved. According to ABF, the Foundation held at least twelve meetings with USAID between 2015 and 2016 and participated in numerous phone calls, in which differences were resolved, as indicated in a Memorandum of Understanding dated July 12, 2016. According to USAID, the 2016 Memorandum did not represent an acceptance and approval of ABF's strategy and only communicated agreement regarding semi-annual reporting from ABF and its contents. The evaluation team reviewed additional information to present accurately an account of the communications between ABF and USAID. USAID informed the evaluation team that they had not been able to communicate their concerns to ABF in writing afterwards (but have communicated them verbally) due to the inability to reach agreement and formulate one USG position on the situation with ABF. This is a critical finding in this evaluation. The events and communication are outlined further below.

The Russian Foundation faced another unique challenge. As relations between the U.S. and Russia deteriorated, USRF found itself operating in an increasingly difficult environment. USRF (designated an "undesirable organization" by the Russian Government in December 2015) has restructured its organization and programming to continue advancing the core dimensions of its mission under new realities. Implementation of existing grants continued and new grants were awarded, with overall grants

in place remaining close to pre-2016 levels. In response to the new legal situation, the USRF moved its headquarters and grants management operations to the United States, closed down its office in Russia, and adjusted its grants administration to comply with the new Russian legal requirements. Concurrently, in discussions with USAID, partners, other foundations, and experts knowledgeable about private sector development, USRF developed a new strategy to promote USRF's core mission by working with organizations in the U.S., Europe, and elsewhere that continue to conduct effective programming with Russian partners. In making these adjustments and revisions, USRF has also undertaken a full review of its management structure and operating procedures with a view to maximizing efficiencies that can reduce overhead costs and institute practices appropriate for the new realities within which USRF now operates.

Legacy Foundation	Spending Mode	Operations Mode	Program Objectives as defined in the Grant Agreement	Changes in Program Focus?
Polish American Freedom Foundation (PAFF)	Perpetuity	Grant making Scholarships Partnerships	**1. Economic Reform:** To support or create economic reform institutes to facilitate, among others, completion of enterprise privatization, banking and financial market and-regulatory reform, agricultural and labor relations reform, development of private insurance and pension systems, and redesign of health care. **2. Leadership Development:** To foster development of the next generation of leaders in Poland through mentoring programs focused on business and modern management practices for companies and non-governmental organizations, and public Administration and development of Polish leaders. **3. Civil Society:** To support, among others, health care reform, environmental protection, and inter-ethnic cooperation in Poland. **4. Local Government and Business Climate:** To promote administrative and governmental practices conducive to the development of the private sector at the local levels. **5. Legal Reform:** To consolidate an independent judiciary and rule of law as it affects the private sector through fellowships, seminars, and exchanges among Polish bar associations and local, regional and/or other authorities, and to provide legal assistance for private citizens, and other efforts to provide access to the legal system.	Current priorities have been renamed: 1. Initiatives in education 2. Development of local communities 3. Sharing the Polish experience in transformation Private sector development focus is maintained
Hungarian-American Enterprise Scholarship	Spend down	Long-term contract with CIEE to manage the	Among the activities contemplated to be undertaken by HAESF were scholarships, fellowships, awards, student loans, and exchange programs throughout Hungary.	Scholarships, fellowships, and internships. Slight course correction mid-

Fund (HAESF)		scholarship funds		way: greater focus on business and private sector-related courses, and less on research and social science
Slovak American Foundation (SAF)	Spend down	Initially contracted administrator CIEE to manage scholarship funds; later shifted focus to direct support for start-up companies targeting the U.S. market	Scholarship programs: 1. professional Intern Program; and 2. Senior Scholar Program. Monitor and assess other opportunities to "promote the growth of a vibrant open-market private business sector in Slovakia."	2014 shift in focus to entrepreneurship — Start-up Development Program
America for Bulgaria Foundation (ABF)	Perpetuity	Grant-making Some public tenders Many grantees received multiple grants (long-term relationships) Grantees are expected to contribute resources	**1. Private Sector Development, Entrepreneurship, and Education:** To complement what BAEF had achieved with regard to private sector development, envisioning programs and training initiatives for present and future SME executives, entrepreneurs, journalists and other specialists active in the public and private spheres. **2. Leadership Development:** To encourage Bulgarian youth to remain in Bulgaria and encourage the return of Bulgarian expatriates from abroad by facilitating opportunities to develop the private sector, including pairing of young entrepreneurs with business leaders, training and educating financial sector administrators in relevant public-sector agencies. **3. Support for NGOs:** To support continuation of Bulgaria's transition to market economy, including creation of an enabling environment to support the transition. This could involve development of private sector philanthropy and private voluntary organizations, and Chambers of Commerce in Bulgaria, as well as support for research to progress economic reforms. **4. Support for Key Competitive Business Sectors:** a. U.S. support and sponsorship of programs to protect and develop the country's important tourist sites could strengthen political and cultural ties with American and other potential	Some priorities have changed. ABF and USAID have not reached an agreement on whether all revised priority areas support the mandated private sector development objective. 1. Civil Society and Democratic Institutions 2. Education 3. Arts and Culture 4. Cultural Heritage and Tourism 5. Private sector development 6. Economically Disadvantaged (see analysis below)

			tourists coming to the Southeast Europe region. b. Technology. This program could identify, create, and fund programs to promote and revive Bulgaria's underdeveloped technology sector.	
Baltic American Freedom Foundation (BAFF) Latvia, Estonia, Lithuania	Spend down	Contracted administrator (CIEE) to manage the scholarship funds	**1. Professional Internship Program:** To target recent college and graduate school graduates in business and economics, as well as engineers (especially in Estonia where this is a strength), and operate with placements, stipends, and support similar to the programs implemented in Hungary by the Hungarian-American Enterprise Scholarship Fund ("HAESF"). **2. Senior Scholars Program:** To be modeled after HAESF's similar program, bringing mid-career Baltic professionals of outstanding promise to the U.S. for further "on-the-job" training. **3. Graduate Scholarship Program:** To provide scholarship funds for graduate school programs as an adjunct to the overall program. **4. Other activities in support of private sector development**	There is no deviation from the objectives in the Grant Agreement. The original scope also included making of grants and loans to eligible Baltic State or U.S. NGOs, community organizations, public and governmental institutions, and individuals in furtherance of goals.

Romanian American Foundation (RAF)	Perpetuity	Grant-making with active partnerships, technical support and guidance, similar to an investment fund approach Programs funded by invitation only Grantees are expected to contribute resources In the beginning, also emergency student scholarships Some soft loans to NGOs as bridge funding	1. **Student Loan Guarantee Program**: As a first priority during the initial years, the Foundation planned to partner with banks and educational institutions to determine the most effective and efficient approach to provide student loans for education and training in business, economics and entrepreneurship, and related areas. **2. Preparation for Study in the United States:** Partner with organization like the Fulbright Commission to develop preparation and counselling programs for higher education and career opportunities. **3. Youth and Entrepreneurship:** Expose young Romanians in rural areas to enterprise development as well as explore ways to motivate students to stay in school. **4. Entrepreneurship and Job Creation in the nonprofit sector**: A strong democracy and a flourishing private sector must include sustainable non-profit organizations. The financial and management expertise of the RAF staff uniquely qualify them to apply best business practices to select non-profit organizations working with underserved populations. 5. **Other Support for Private Sector Development**: Over time, RAF will consider support for other areas that would further private sector development, including internships, exchanges and cooperation between Romanian and U.S. institutions and organizations.	The strategy evolved and was refined with the addition of performance metrics but it remained faithful to the vision and objectives in the Grant Agreement: 1. Rural development with focus on local food production 2. Ecotourism 3. Education 4. Technology and innovation 5. Civil society and philanthropy
U.S. Central Asia Education Foundation (CAEF)	Spend down	Contract with American Councils for International Education to administer the funds	Sponsor education programs in Central Asia in the form of scholarships, fellowships, internships, awards, exchange programs, and faculty and curriculum development at selected universities in the region. **1. Business Scholarship Program:** Support academically qualified students from the five Central Asian nations in attending universities meeting the Foundation's criteria. **2. Business Faculty and Curriculum Program:** Work directly with these universities in developing faculty and curricula to strengthen business education programs with emphasis on the role of open markets, financial transparency and the rule of law. **3. U.S. and Western Business Internship Program:** Provide internships for students demonstrating academic	There has been no deviation from the objectives in the Grant Agreement

			excellence to further their understanding of Western business and economic practices.	
Western New Independent States Enterprise Fund (WNISEF) — Ukraine, Moldova	WNISEF manages four legacy programs and still operates as an Enterprise Fund. Current planned liquidation date: 2023.	Three grants programs and an impact investing program	WNISEF's initial interest in legacy programming was in the area of Economic Leadership; to provide international scholarships for Ukrainian and Moldovan students. Discussions with USAID led to the Fund's current legacy operations, and in 2015, WNISEF signed a modified Grant Agreement to include three other priority areas: Local Economic Development, Export Promotion, and Impact Investment.	No deviations from the Grant Agreement. Some program areas include other unrelated activities (e.g. Ministry of Health activity) as WNISEF has been asked on occasion to assist with urgent and critical needs. Some of these requests have come from USAID and currently all such unrelated activities have concurrence from USAID Washington.
U.S. Russia Foundation for Economic Advancement and the Rule of Law (USRF)	Not operational in Russia, long-term status TBD	Grant making	1. Law-Based Governance 2. Business and Civil Society 3. Transparency and Access to Information 4. Entrepreneurship and Business Education 5. Economic Reform 6. Commercializing Innovation and Technology Development	With USAID, partners, other foundations and experts knowledgeable about private sector development, USRF developed a new strategy to promote USRF's core mission by working with organizations in the U.S., Europe, and elsewhere that continue to conduct effective programming with Russian partners.
Albanian American Development Foundation (AADF)	Perpetuity	Direct implementation –engaged in the design and implementation of activities; maintains significant control over activities; very	1. **Education for Sustainable Development:** With education identified as the leading impediment to economic development in Albania, the Foundation intended to focus on improving vocational and IT education and to develop a program for visiting scholars and lecturers with a focus on improving programs specifically dedicated to development of the private sector.	The initial four objectives were consolidated into three current objectives: Education for Sustainable Development and Leadership were consolidated into

		engaged with partners. Utilizes regularly public tenders (concept, feasibility study, and full proposal stages); assessment by an evaluation committee that does not include the co-CEOs. All proposals presented to the Board. Grantees are expected to contribute resources	2. **Entrepreneurship:** Support for business and economic education for entrepreneurs, including assistance to those employed in entrepreneurial activities as well as those who endeavor to become involved in entrepreneurship by sponsoring, for example, a speaking series geared toward entrepreneurs and short-term management education programs outside the country. 3. **Leadership Development:** Support for current and prospective leaders in the public and private sectors, through a program for policymakers and government employees as an Albanian version of the White House Fellows Program, identification of developmental needs in the Albanian economy and experts to address these needs, and establishment of programs to assist Albanian company leaders to bring operations and governance to Western standards. 4**. Support for Cultural Tourism and Eco-Tourism:** Development of cultural and eco-tourism, contributing to private sector development while promoting the country's cultural history.	one objective; Entrepreneurship and Eco-Tourism remained the same. Activities support the private sector development objective.

6.1.1 Albanian – American Development Foundation

AADF's strategy for achieving its stated mission and objectives focuses on identifying areas of need within the Foundation's priority areas of education and leadership, entrepreneurship and cultural and eco-tourism. The team then seeks to develop solutions to create sustainable impact in these areas. These solutions, embedded in project design, are intended to be both innovative and measurable, both for purposes of assessing project impact and for application as lessons learned to inform future work.

Education and Leadership

Junior Achievement

Junior Achievement's (JA) three pillars, worldwide, are entrepreneurial education, financial literacy, and work readiness. The program in Albania, an NGO established by AADF five years ago, began with fifty high schools offering the program as an elective. The Minister of Education saw JA as a good fit in the context of curriculum reform, linked to economic education and development and adapted to the Albanian context. Albanian companies and banks, senior professionals from the Albanian private sector, including banks, participate by supporting both teachers' and students' education on entrepreneurship. JA's High School programs include:

- JA labs are places where students and teachers can Skype with mentors;
- Innovation camps provide problem-solving activities based on given challenges;
- Leader events facilitate shadowing of CEOs at banks or large companies; and
- Two-week summer internship is provided by sponsoring companies.

There are 15,000 JA alumni, with coordinators as part of the alumni network focusing on impact and demonstration. One program alumnus has registered a company providing online tourism information. Participating schools have grown from 50 to 170 across the country. As the professional level of business mentorship varies, there is an online platform for students in remote areas to ensure access to mentoring. The plan is that by end-2021, all Albanian students will have completed the JA program, a worldwide first.

AADF supports the expansion of the program, fundraising efforts, and the improvement of the quality of translation and adaption of textbooks into the Albanian context. AADF strengthened JA's Board with external directors, e.g. the Ministry of Education's Chief of Staff; enhanced lobbying with the Ministry and kept JA abreast of Ministry plans including legislation; brought directors from businesses, including an American University of Bulgaria (AUBG) alumnus of Albanian origin, a strong supporter of JA; and the new JA CEO, and built linkages with JA worldwide. JA Albania raised $45,000 in 2016 from businesses, with a $385,000 annual operating budget. AADF is providing funds management expertise as part of capacity development, in addition to development, monitoring, and reporting on metrics.

Entrepreneurship

Korca Business Improvement District (BID)

The Korca BID Business Association comprises 78 members, all businesses located in the BID. It conducts 20-30 events per year. The December 3, 2016 tree-lighting ceremony attracted 7,000 people. AADF has provided consultation to participating businesses, whose performance has been improving. The project has resulted in infrastructure improvements, a greater variety of businesses, more efficient use of space (currently 1 percent of space is unused), and growth in public and private investment. AADF and the Association estimate that every $1 invested in the project leverages $4 in additional investment. Property values and rents have risen due to demand for space, working hours have increased by 45 percent, and there is enhanced competition compared to the neighboring Boulevard Republica — all providing a demonstration effect.

In the interest of sustainability, a portion of taxes collected by the municipality are channeled back to the Business Association to cover basic administration and related costs (a BID law that would allocate a greater share of tax revenues back to the Business Association is anticipated). This is supplemented by Business Association membership fees, which are voluntary. Thanks to the BID, Korca has become known across the country as a weekend destination, attracting tourists, donors, and investors. Tourist buses stop at the BID, which (uniquely) has an Information Center. Plans call for development of the Old Bazaar area which, although to be managed by a separate association, will cooperate with the BID with complementary attractions and services. The BID is seen as a fast track to development.

Crimson Finance Fund (CFF)

Crimson Finance Fund was founded in 2015 by AADF together with Norfund, the Municipality of Tirana and Crimson U.S. The four donors' objectives and priorities are aligned; each holds a 25 percent share with EUR 400,000 in initial capital and three subordinated loan agreements with Tirana municipality (EUR 600,000), Norfund (EUR 500,000), and AADF (EUR 800,000). AADF supports CFF in providing clients with technical assistance alongside financing, serving as a non-bank financial institution (NBFI) for micro, small and medium-sized enterprises. The Fund received its license from the Bank of Albania in October 2015 and completed its first financing in March 2016. CFF has disbursed $442,000 to-date, created 35 new jobs, of which 18 are for women, and financed five startups.

Cultural and Eco-Tourism

Electronic Ticketing Systems in Cultural Heritage Sites

AADF is working to promote transparency and ensure direct financial support for Albanian cultural heritage sites through the development of electronic ticketing systems. AADF chose six sites in Albania as project beneficiaries, determined by their popularity as measured in terms of numbers of visitors: Skanderbeg Museum and Kruja Castle, National History Museum, Berat Castle, Apollonian Archeological Park, Castle of Shkoder, and the Castle of Gjirokastra. The project is based on the assertion that formalizing ticket collection processes will enhance efficiencies and accuracy of reporting of sales and revenue, simplify planning, and improve resource allocation.

Empowering Museums through Technology

AADF is conducting a pilot project to digitize art collections in two national museums, one containing a medieval art collection, the other a collection of iconography, both collections preserving significant artifacts of the Byzantine era. The project applies in-site digitization technology to preserve and enable access to invaluable collections of art, merges cultural heritage with modern techniques and technologies, and contributes to the business validity and sustainable development of the museums as key components of the country's cultural heritage and the development of Albania's tourism industry.

6.1.2 America for Bulgaria Foundation (ABF)

The section below is longer in length because it incorporates follow-up clarifications from ABF and USAID.

ABF has committed $180 million for projects since inception, typically deploying $20 million annually, given a target of a 5.5 percent return on their endowment to cover the annual outlay and maintain existence in perpetuity. ABF currently invests in six priority areas (descriptions are included in the Annex on Bulgaria):

1. Civil Society and Democratic Institutions
2. Education
3. Arts and Culture
4. Cultural Heritage and Tourism
5. Private Sector Development
6. Economically Disadvantaged

In January 2010, shortly after it became operational, ABF began to deviate from its approved private sector development objectives, as defined in the Grant Agreement. This change in ABF's focus is documented in a letter from the two Co-Chairmen of ABF's Board at the time, Gary E. MacDougal and Carl H. Pforzheimer, to the then DOS Coordinator of U.S. Assistance to Europe and Eurasia, Mr. Daniel Rosenblum. In this letter, the Board redefined some of the priority areas and included new areas, such as Arts and Culture, without consultation with USAID. ABF did not explain the significant shift in priorities. The letter by the two Co-Chairmen cited statements from a document from the National Governor's Association in the United States from 2009 that promoted the economic benefits of creative industries and claimed that such creative industries present a major economic growth opportunity for Bulgaria. The letter, however, did not provide an analysis of the Bulgarian market to explain the proposed changes and shift in focus, identify gaps and related demand for particular interventions, or elaborate a proposed strategy that linked investments in new priority areas to private sector development, and did not articulate expected private sector development-related results, tactics to get to these results, and metrics to measure progress.

The evaluation team notes that in the approved legacy proposal for ABF, BAEF articulated a strategy well-aligned with USAID's private sector development objectives in Bulgaria, and both sides agreed on

the priority areas proposed by BAEF. The original four areas approved by USAID were included in the congressional notification, and on that basis the Grant Agreement was executed.

ABF's position is that questions related to program design and strategy have been resolved with USAID in the course of various communications with USAID, including the signed Memorandum of July 12, 2016; however, USAID does not share this view. The evaluation team conducted a follow-up interview with USAID Washington and reviewed additional documents provided by USAID, including the referenced July 12, 2016 Memorandum and its attachments, as well as a letter of concern sent by USAID to ABF a year earlier. The evaluation team's review of the letter of concern from USAID to ABF dated June 15, 2015, which seems to have prompted the discussions, indicates that USAID believed that the Foundation needed a "much stronger strategic framework to guide ABF's grant-making so that the outcomes are sustainable and contribute to broader private sector development in Bulgaria." USAID advised ABF that some areas needed a stronger focus and others detracted resources from private sector development. The Agency requested that ABF kept to a minimum grant-making in the areas of Arts and Culture, Education and Libraries, and Cultural Heritage pending further review of ABF's strategy. USAID also offered to assist in the development of a new strategy and provided guidance on what should be included in the strategy and well as a brief relevant example. The letter was signed by the Acting Assistant Administrator, Bureau for Europe and Eurasia.

The evaluation team has reviewed the referenced Memorandum, which had one objective — to document an agreement between USAID and ABF to share semi-annual updates — and included the agreed contents of a report ABF was to provide to USAID semi-annually. In this description, USAID referenced that ABF had provided its "existing strategy – including its mission statement, guiding principles and core values, areas of interest and goals, and illustrative indicators and data sources," which was attached to the Memo. The evaluation team has reviewed this five-page attachment titled "Mission Statement" and confirms that the documents is precisely that, a mission statement but not a strategy. ABF's 2016 Mission Statement does not reflect USAID's recommendations regarding the contents of the strategy. The evaluation team followed up with USAID to inquire about the discussions with ABF between 2015-2016 and learned that, in USAID's opinion, the 2016 Memo documented agreement only on the frequency of communication, but the issues documented in the 2015 letter of concern remained. USAID Washington believes that ABF's continued deviation from the Grant Agreement is a compliance violation. USG interviewees emphasized that the Grant Agreement objectives are non-negotiable per OMB regulations, and that the Grant Agreement between the Fund and the Foundation preserved the revisionary right of USAID to seek the return of the funding, if USAID finds that the foundation is operating outside the boundaries of the Grant Agreement. USAID also confirmed that the Agency had made this determination years ago and had documented the ABF's file accordingly. USAID has communicated this verbally to ABF, as reportedly USAID is unable to send a letter of non-compliance to ABF. USAID stated that they had not been able to communicate their concerns to ABF in writing after 2016 due to an inability to reach agreement and formulate one USG position on the situation with ABF.

Thus, the evaluation team's findings in this context are three-fold:
1. The evaluation team has not seen a coherent strategy from ABF that explains how priority areas contribute to private sector development, the approach to assessing alternative funding opportunities and selecting the most impactful ones, and the performance metrics used to measure progress towards the strategic objectives and private sector development impact. Documents provided by USAID included matrices and tables developed by ABF in December 2014 and March 2015 listing each grant and describing briefly the grant's objective and activities. These lists discuss grants as standalone activities and there is no narrative that shows how individual projects contribute to higher level outcomes in the

priority areas and build on one another. The 2016 memorandum referenced by ABF presents the Foundation's Mission statement and brief statements for the six priority areas.

2. From the presented documents, it is not clear what communication and discussions took place after the 2015 letter of concern was sent by USAID Washington to ABF, in which USAID provided guidance and an example of a strategy outline and offered to assist ABF in the development of a strategy for the Foundation. We did not see documentation on how ABF responded to the offer and what, if any steps, USAID took afterwards. The latest formal correspondence the evaluation team saw on the topic of coordination was the 2016 Memorandum. It appears that since then, formal written communication between USAID Washington and ABF has been very limited.

3. According to USAID Washington, the Agency has been unable to formulate and communicate to ABF a joint USG position on the Foundation's funding activities. This is a critical finding in this evaluation. USG's inability to formulate a common position clearly affects its ability to ensure that the Foundation adheres to its Grant Agreement and to engage with the Foundation in an effective manner. This puts ABF in a difficult position as well, since the leadership of the Foundation has not had a chance to receive, consider, and respond to formal communication regarding USAID's concerns about continuing problems with some of its funding priorities. According to USAID Washington, verbal concerns have been shared. According to ABF, the 2016 Memorandum resolved any outstanding concerns. Arguably, nobody benefits from this impasse. Given the size of the Foundation's endowment and the fact that ABF was set up to exist in perpetuity, ABF receives more attention than smaller and spend-down Foundations. The perception of lack of clarity and unresolved questions around funding priorities elevates the perception of risk and the level of scrutiny, which has frustrated both sides.

Since 2010, ABF has continued to award grants in the redefined six areas of interest. Grant status inventories and breakdowns by sector prepared by ABF for USAID indicated that as of March 2015, ABF spent 59 percent of its portfolio on education and libraries (the value or relevance to private sector development of a public library digitalization project is questioned by USAID), 8 percent on arts and culture projects, 9 percent on cultural heritage and tourism projects, 9 percent on projects targeting disadvantaged populations, 11 percent on civil society grants, and 4 percent on agriculture projects. As mentioned above, ABF had also prepared documents in 2014 and 2015 providing rationale for its various grants. However, these documents fail to link these projects to a coherent strategy and does not propose any specific measurements to evaluate the contributions of these grants to the private sector development objective of the Foundation.

Although some of ABF's grants are clearly aligned with the objectives of the Grant Agreement, there are two groups of problematic grant types in ABF's current portfolio:

- Some grants could arguably support a private sector development approach, if they were built into a strategy that demonstrates how they contribute to the Grant Agreement's objectives. For example, ABF is not the only foundation that implements activities related to cultural and eco-tourism. The difference between ABF's cultural, heritage, and tourism activities and those of other Legacy Foundations lies in the fact that the other Foundations use as a starting point articulation of a strategy and expected results and impact from investment in private sector-related tourism activities and identified assessed investment opportunities on the basis of their strategies. For example, they are working to identify and develop tourism products, have established supportive, working relationships with local communities and are helping these communities to invest in the development of infrastructure and tourism offerings, collaborate with tourism operators and local municipalities, and monitor routinely the progress of their activities and the results of the investments. This ensures that all supported activities are

aligned with the long-term strategy and a set of higher level results related directly to the objectives as set out in the Grant Agreements.

ABF, on the other hand, has a structured approach to individual grants management and monitoring but no overall strategy to guide investment and grant-making choices and ensure that they are all aligned with the strategic objectives in the Grant Agreement. ABF believes that its strategic objectives are aligned with the Grant Agreement, and these objectives have been communicated to and accepted by USAID and are reflected in the grant funding program.

- The evaluation team has noted that some of ABF's grants were not clearly related to private sector development. In addition to arts and culture-related grants and digitalization of libraries, USAID was concerned about large ticket items, such as the children's museum, and the lack of a financial sustainability strategy for it or link to private sector development. The concern was that ABF would be on the hook for long-term support to the museum, thereby rendering this a non-compliant, white-elephant[28] type investment in its portfolio.

ABF considers the children's museum "Muzeiko" a STEM (Science, Technology, Engineering, and Math) museum, focused on educating children, parents, and teachers, and believes that an educated workforce is critical to the economic development of a country. According to ABF, the museum promotes and encourages education and engagement in the pursuit of life-long learning for all ages and is an award-winning institution recognized as a cornerstone for educating young minds. The Foundation advised the evaluation team that it was implementing a sustainability strategy, which included the development of a board of advisors to promote fundraising activities for the museum. ABF's plan is to replicate the well-developed U.S. model, which has little exposure in Bulgaria. The Foundation considers this a demonstration project in terms of philanthropic fund raising that will provide a model for other non-profit organizations in Bulgaria. It is too early to judge the success of this strategy. ABF does recognize that financial viability is an issue for all museums throughout the world.

Muzeiko provides a clear illustration of the divergence of opinion between ABF and USAID with regard to programming that complies with the Grant Agreement. Education is in fact an agreed priority area for ABF and most other foundations. ABF is not the only Foundation that has identified STEM education as a key priority investment. The evaluation team visited several Foundations focusing on STEM education during the field assessments. The Foundations funding scholarship programs had an explicit focus on business-related majors — MBAs, law, finance and accounting, marketing, and STEM-related research — and tracked the career trajectories of their graduates. The Foundations supporting other types of educational programs also attempted to link the grants with private sector development. For example, they supported entrepreneurship programs and successfully advocated for the inclusion of such programs in the national educational curriculum. Foundations' entrepreneurship-related educational activities have secured sponsorship from private companies, and managers in these companies act as mentors to students. Educational programs link with companies to secure internships for students, including in rural areas; sponsorship of innovation and research awards for students. Foundations such as RAF and AADF are working to strengthen the focus on STEM in national curricula in coordination with Ministries of Education and education experts.

Muzeiko's STEM focus is aligned with some of the other investments of the Foundation to rehabilitate or build labs in schools, invest in management and leadership education, and train teachers and directors. The remaining question is: How can these investments be aligned and coordinated to result in something

[28] An investment whose upkeep is too expensive and is not in line with the usefulness and the value of the investment in the portfolio; an unprofitable investment, property or business that is too expensive to maintain and to make a profit.

bigger than the outcomes of the individual grants that can bring about systemic change and be sustainable?

On the question of financial sustainability, the evaluation team agrees that financial viability is a challenge faced by museums around the world. Given the situation in Bulgaria, arguably much more challenging from the perspective of the lack of recent history of charitable giving to cultural, educational and social causes, the question of Muzeiko's sustainability is even more important. Decisions to invest in very large ticket items should be based on an extensive assessment of risks, potential for sustainability, identification and assessment of viable sources of financial support, securing of funding commitments from these sources prior to funding approval, projections of financial outlays from the Foundation and contributions from other sources over time, and an exit strategy. In the absence of such due diligence and planning, it is less convincing to state that a Board of advisors will promote fundraising activities and that the project will encourage philanthropic giving and implement a sustainability strategy, after the investment has been made. It is not inconceivable that Muzeiko will require substantial financial support for years to come, which means reallocation of resources that could be deployed to support projects more closely related to the mandated Foundation priorities and with clearer definitions of contribution to Bulgaria's private sector. The development of a sustainability strategy for Muzeiko should be a high priority. It may also be noted that "big ticket" projects are an area of concern raised by the U.S. Embassy during the evaluation team's visit to Sofia.

In discussions with ABF staff, the evaluation team heard two different explanations for some of the questionable grant-making choices. In interviews with ABF staff, interviewees discussed at length and provided specific examples of the openly hostile local environment in which the Foundation operates. Staff, Board members, and grantees emphasized that the Foundation is under attack because of its support for judicial reform and its media work. According to ABF staff, the Foundation, by way of response, seeks to walk a fine line between, on the one hand, avoiding public engagement or confrontation with "the opposition" and, on the other hand, supporting projects that are highly visible, clearly contributing to Bulgaria's economic development and, in some cases, emphasizing unassailable ethical priorities, such as preservation of Bulgarian culture, support for children's education through museums, and support for children's health, through a hospital renovation. One interpretation of this explanation is that it is an acknowledgement that ABF recognizes that not all of its grants support private sector development, and that ABF's Board does not feel bound to support private sector development objectives, believing that the Foundation is free to pursue activities that are, in its view, "unassailable ethical priorities."

At the same time, however, ABF staff, Board, and some grantees assert that all ABF projects have an economic impact that is linked to private sector development, for example through incentivizing private sector investment or co-investment, or creation of employment opportunities for artists or owners of galleries, dancers, and so on. USAID does not concur with ABF's broader interpretation of private sector development activities and considers the term well-established and defined in the development community. This interpretation of private sector development also risks contradicting the contention that some ABF grants support "unassailable ethical priorities," and not necessarily private sector development objectives.

ABF's position with regard to projects like renovation of the Children's Wing of a hospital is that these are demonstration projects meeting the philanthropy objectives of the Foundation: They are designed, according to ABF, "to engage corporate, individual and texting / SMS donations for an institution of national importance. As Bulgaria is yet to reconnect with its history of philanthropy, ABF selected this project to reach a national audience to spur donations to a meaningful institution in a transparent, accountable manner." ABF further notes that "the development of philanthropy is a clear objective."

Once again, there is divergence in understanding of mandated objectives: ABF considers fostering of philanthropic practices to be within the scope of the Foundation's mandate, while USAID views such projects as outside the realm of private sector development, and therefore noncompliant. These differences in opinion between ABF and USAID regarding the Foundation's compliance with the Grant Agreement remain unresolved, according to USAID. One approach that may resolve the differences would be to develop programs that bridge both priorities. An example could be a program to address youth unemployment, which would demonstrate the same ethical values while being clearly and directly aligned with the private sector development objectives, as stated in the Grant Agreement. Another example could be a private capital mobilization initiative, which links together all current grants with a philanthropic component and leverages the investments made in web-based platforms, networks, and successful examples to-date.

It should be noted that under the leadership of the new President, ABF is working to reinforce its focus on addressing specific private sector needs. The team is scoping the Bulgarian private sector ecosystem with a focus on entrepreneurship. Given an abundance of venture capital present in the environment, including accelerators and incubators, ABF is trying not to duplicate or disrupt ongoing initiatives taken by the private sector or EU-funded programs. The planned focus is on increased efficiency and international competitiveness of Bulgarian businesses (high quality and impact marketing, digitization and sales trainings; how to effectively reach foreign markets) and support to export-oriented industries with the potential to innovate as well as those that create more jobs and value. ABF plans to expand its support to professional organizations and is increasing its engagement with Chambers of Commerce. The foundation sees a potential role in coordinating and consolidating Chambers' various voices.

6.1.3 Romanian-American Foundation (RAF)

Programs and priorities

Rural Development Priority

RAF's Rural Development Priority has two main strategies built around market-based solutions for local economic development that will contribute to local jobs, unleash economic opportunities and empower the communities: Small Farmers program and Ecotourism program. To secure the long-term sustainability of the interventions, RAF deploys a cluster of educational programs, mainly in secondary education (e.g., Agricultural Schools — Hubs for Community; English for Community in Ecotourism Destinations; etc.).

Small Farmers

The Small Farmers Program focuses on local food from clean sources and production. There are 1.1 million farms in Romania, of which 93 percent are subsistence / semi-subsistence farms, ranging in size from medium to small. RAF sees good potential to move small farms from subsistence to more advanced production models, which require cooperation among farms for better routes to market. Cooperatives, however, have a bad name in Romania, given the legacy of collectivism in the previous regime. RAF has deployed partner CEED's work in communities, providing basic business skills to complement existing agri-tech knowhow. In five communities, other Program partners[29] assisted with group facilitation, corporate governance, reporting, management, hiring, and establishing contacts with retail chains. Two of the five initially supported cooperatives continue to be successful, one in Cluj and the other in southern Romania, with high production and sales (e.g. to a German and a Belgian supermarket chain). Success with the cooperatives has led to policy advocacy: RAF grantee Civitas has trained half a dozen additional organizations and 12 Local Action Groups. A new model, Food Hub, will be tested in the next years; RAF is currently expecting 10 proposals as a result of a Request for Proposals process. Following selection by a committee involving independent members besides RAF

[29] Civitas (Cluj), Fundatia pentru Dezvoltarea Societatii Civile, Centrul de Mediere si Securitate Comunitara (Iasi), Fundatia PACT.

staff, a maximum number of five proposals will be funded based on the economic and social (e.g. number of farmers involved) merits of the business plans.

To strengthen the professionalization of the future young farmers, RAF started a program for agricultural high schools. Eight schools (all over Romania) are improving the entrepreneurial education classes and their connection with the local farmers and businesses for practicum.

Ecotourism

This program speaks to a worldwide trend and a place where Romania counts itself in a premier position, given its abundance of forests, woods, lakes, and a large number of natural parks with biodiversity that requires protection. Development of ecotourism destinations in Romania is being implemented in collaboration with the Romanian Environmental Partnership Foundation, as coordinator and strategic partner, the Association for Ecotourism in Romania, focusing on technical assistance, and Expert Forum, focusing on research and policy analysis. The program aims to support local organizations in developing micro-destinations with ecotourism potential by creating sustainable plans together with the local stakeholders and supporting local institutions and small businesses. Activities include contributing to public discussion on ecotourism, sharing program best practices and lessons learned, communicating, and promoting Romania as a local and national destination for ecotourism. Program reporting focuses on metrics tracked from project inception, including numbers of tourists visiting, nights spent, jobs created, new businesses established, new eco-tourist products, development and contribution of local craftsmen, local events held, and multiplier effects, such as local investment in roads and parking facilities. Data indicate, among others, that tourists are staying more nights, while more broadly program coordination and integration are improving. RAF has suggested the following as a long-term measurement of success: If ten years from now, RAF will no longer need to be involved in this area and tourism is booming, with communities self-organizing, it is a success.

Technology and innovation Priority

RAF's Rural Development programs address the needs of 50 percent of Romania's population, while the Technology and Innovation Program covers only a small share; however, the sector has become more and more important for Romania's economic development of late. Both on the domestic and international market, there are increasing opportunities for Romanian entrepreneurs to develop and sell products and services in various economic fields. Concurrently, the more companies advance in sectors with higher added value, the more skilled and knowledgeable their employees must be. At present, however, graduates of technical universities are little or not at all familiarized with product development or market mechanisms.
Moreover, while the need for the skills is there and growing, the number of university students pursuing science and technology has decreased continuously as a result of decreasing quality in secondary education, from 68 percent of the total number of students in 1990, to 25 percent in 2011. As far as secondary education is concerned, lack of performance in STEM has long-lasting negative effects; results from international tests are below average and place Romania very far from advanced countries in the field.

Given the context, the program is, however, seen by RAF as successful, among others, in terms of interest evinced and support provided by multinational corporations (MNCs). A thorough consultative process identified areas for contribution which are currently two: 1) Contributing to an increased performance in STEM secondary education, so that more and more young people are prepared for a career in technology and innovation; and 2) Supporting a market-oriented university education system, whose graduates can become entrepreneurs and employees creating added value.

Three interventions are currently deployed in higher education: First, a pre-accelerator program at the Technical University where successes include extension and adoption of the program from one university to 9 universities in seven cities (the participating universities are training 90 percent of the students in IT in Romania). Regarding successes at the level of the students, there is an award of a first prize from Microsoft in their international Imagine Cup competition and one program participant that has already attracted investors in his business. However exceptional, this is not the program focus, which is to offer a quality entrepreneurial educational experience. A key question here is the creation of local ownership at the level of participant universities and the continuation at the same quality level, after the support from TechLounge is phased out. Second, in partnership with CIEE and the Fulbright Commission, the program seeks to raise human capital at universities by supporting professors to develop quality courses in entrepreneurship. CIEE connected RAF with the University of Rochester, with whom the first cohort was completed; the second will be done with the Fulbright Commission. A cross-campus entrepreneurship center has already opened at one participant university, Ovidius University in Constanta.

In secondary education, RAF has intervened to promote teaching methods meant to stimulate both the students' interest in science as well as their critical thinking and creativity. The long-term stake for the foundation is to contribute to the formation of a new generation of graduates who are able to take on development opportunities in technology and innovation and match the requirements of an increasingly competitive market. RAF has two types of programs in STEM pre-university education: 1) Programs that aim to improve teaching in STEM disciplines in public education (curriculum reform, modern teaching methods, etc.), and 2) Programs that support local communities to develop attractive opportunities for children to learn science (such as coding clubs, robotics clubs, science fairs, etc.).

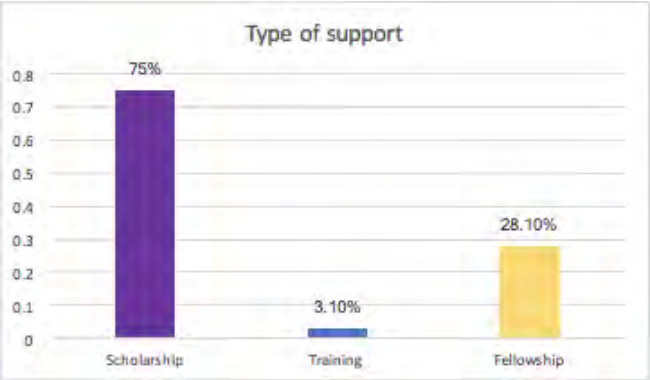
Civil Society and Philanthropy Priority

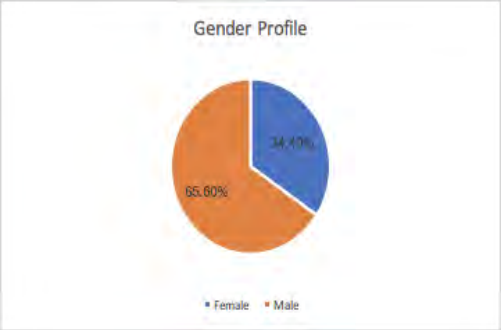
The primary goal of this program is to establish an infrastructure for Romania to help itself. The flagship project is Community Foundations, which started in 2010 in collaboration with the Mott Foundation and the Trust for Civil Society in Central and Eastern Europe. Today, there are sixteen Community Foundations facilitating individual donations and supporting clusters of education programs with a long-term view, reinforcing philanthropy and citizenship, for example, as values that are not always taught at home. Other similar initiatives include support for a local fund setup by the Civil Society Development Foundation (est. 1994) which, in its second year of operation, provides small grants to civic NGOs. Local companies support this fund, and self-sustainability is planned to be achieved in five years' time. Another initiative is the introduction of the "Ashoka Innovators for the Public" model in Romania, a program that identifies and supports entrepreneurial individuals with innovative solutions for society's systemic problems.

A long-term solution is sought through a cluster of educational programs deployed mainly in secondary education. RAF envisions a society where more young people get involved in civic initiatives, contribute actively to the resolution of various issues in their communities, donate, and volunteer. To this end, RAF supports non-formal civic education programs and explore methods to be used by schools in order to build better civic competences for youth.[30]

In Romania, the Evaluation Team conducted two e-surveys among individuals and organizations who benefited from RAF support. Overall, 63 respondents took part in the survey, of whom 31 organizations and 32 individuals.

[30] The educational initiatives include debate (ARDOR), youth clubs involved in service learning (Fundatia Noi Orizonturi), civic education through human rights documentaries (One World Romania), civic education classes (Institutul Intercultural din Timisoara), or extracurricular programs (Funky Citizens), and media literacy (Centrul pentru Jurnalism Independent).

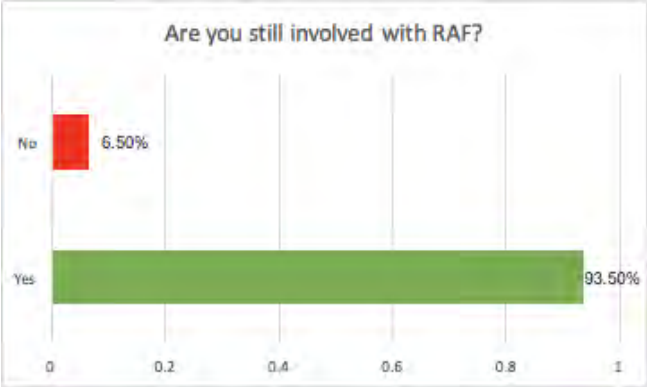




Organizations

All respondents were unanimous in ranking the impact of RAF support on the performance and growth of their organizations as "good" (22.6 percent) and "excellent" (77.4 percent). Among the main reasons cited by respondents were "receiving financial support at the right moment," "capacity building," and "supporting innovative ideas that were unavailable in the country."

The quality of RAF support was considered "good" (9.7 percent) and "excellent" (90.3 percent). Respondents quoted, among other reasons, "Timely communication, they did their best to simplify procedures and minimize overhead costs for us, allowing the organization to focus on core activities," and "Excellent team, very professional, prompt in providing replies." This overwhelmingly positive feedback may explain why most of the organizations still keep in touch with RAF.



Individuals

The gender profile of the 32 individuals who took part in the e-survey is presented below.

78 percent of respondents estimate that the impact of RAF support on their growth and performance was "great," 19 percent rank it "good," and 3 percent as "average." Most participants mentioned that RAF financial support came at a very good time, and helped them finish their studies or complete research that otherwise would have not been possible. As one respondent put it: "I believe it would have been a lot harder, if not impossible, to graduate without the scholarship I've been granted by RAF." RAF appears to have stepped in and provided support to many of those who had already embarked on an academic or research program, but whose financial support by third parties ended, thus putting the fulfilment of the program at risk.

Respondents were unanimous in grading the quality of RAF support as "excellent" (75 percent) or "good" (25 percent). 78 percent of alumni are still involved with RAF.

Finally, when asked whether RAF activity had an impact on the development of the private sector and economy in Romania, 94 percent of respondents said "yes." Some of the testimony:

> *"I returned to Romania after graduating. I am now a satellite data software engineer, pretty decent salary, proportional taxes. I am also a teaching assistant at the UT Cluj-Napoca, sharing what I know. I think I give back and the feedback is that I am doing a good job. And some part of all the above is because of the help from RAF. Many thanks for that."*

"It had a tremendous impact on economic development. You don't have to look only at projects, but at people who took part in them. For example, our project PollutionTrack was a failure in terms of business but it is thanks to this project that we met Mr. Andrei Pitis and hired him as an adviser. We went on to found VectorWatch. This was the biggest exit in Romania in the area of wearables. (VectorWatch was bought at Fitbit in 2017). RAF played a major role in making it possible to access know-how and financially supporting people who want to create something. I hope such grants and funds exist in the future. In Romania, there is a growing IT community and with RAF support it could evolve faster. Thank you again very much RAF!"

6.1.4 WNISEF

WNISEF supports three grants programs focused on local economic development, export promotion, and economic leadership, and an impact investing program. Since all programs began operations in 2015 and disbursements were lower than projected in the first year, it is too early to comment on the impact of the legacy programs. A WNISEF Case Study included in the Annex section provides greater detail on the export promotion activities of WNISEF. Additional information is also included in the Annex on WNISEF. One of the very successful anti-corruption and government procurement reform activities is highlighted below.

ProZorro

ProZorro is a "flagship" program within WNISEF's Economic Development Program. ProZorro, an e-procurement system tackling corruption in public procurement, was developed by activists in the Revolution of Dignity. The system is anonymous to avoid collusion or deal-making and is hosted on Amazon. The system was developed with business contributions and much larger WNISEF assistance ($50,000) as well as donor support, ultimately leveraging $400,000. A new law was passed with support from the IMF requiring the system to be used for all public procurements. There is already evidence, as reported by ProZorro staff, that the system has reduced the hurdles for smaller firms to access public procurement opportunities. and has begun to reduce economic loss to corruption.

The project, hosted by Transparency International, has a dedicated Steering Committee including the Ministry of Economy, GiZ and other donors, with funding allocated to capacity building for users and administrators. The platform has been adapted and replicated in Moldova as well in 2017. The project has received two major awards, one of which is the International Public Procurement Award (London, 2016). The ProZorro team indicated that the project has resulted in $17 billion saved by the Government of Ukraine through reduction of corruption practices. The ProZorro team expects that the system will be sustainable from mid-2017 on the basis of modest fees charged to users.

Scholarship Funds and Foundations

While the Hungarian, Baltics, Central Asia, and Slovak Foundations (until 2014) adopted a model that contracted out the administration of the scholarship fund to a professional third-party institution specialized in this field, others, such as WNISEF, are administering their own scholarship programs, albeit smaller in size and scope at this stage.

Some Foundations, such as RAF, did not plan to provide scholarships and did so only once on an emergency basis, while others such as ABF implement targeted scholarship programs that also benefit a former USAID and current ABF grantee, the American University in Bulgaria.

Most foundations have chosen to sponsor international education opportunities, while the Central Asia Foundation has partnered with regional universities; one of them also supported by USAID. In

the Central Asia case, both cost and to some extent concern about the ability of the program to ensure the return of scholarship recipients, if they were to leave the region, seem to have influenced this decision. Residence requirements seem to affect interest in MBA scholarships provided by WNISEF, especially in Moldova, so far. The Hungarian foundation also mentioned that residency requirements make scholarship programs a bit less competitive nowadays, as the educational market in Europe has changed dramatically, and students have multiple options including European Union university exchange programs without residence requirements.

The Polish Foundation has also implemented a unique scholarship that allows others to travel to Poland and learn from the Polish experience with economic and democratic transformation and European integration. The PAFF Lane Kirkland Scholarship program has been implemented since 2000. It is targeted to representatives from Eastern Europe, the Caucasus, and Central Asia and offers two-semester complementary studies at Polish universities. The program is currently addressed to candidates from Ukraine, Russia, and Belarus, as well as Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, and Kirgizstan. Under individual study programs, the scholarship holders study select aspects of economics and management, public administration and business, law, social and political sciences, journalism, NGO management, and culture management.

Foundations supporting scholarship programs did take into consideration local market demand and employment opportunities in the private sector when choosing the types of scholarships to offer. In the Hungarian case, the scholarship fund actually shifted the focus slightly to reduce the number of research-based educational opportunities and increased the emphasis on private sector-related programs. This decision was based on the evidence that only about 25 percent of scholarship recipients were going into private sector careers.

6.2 Evaluation Question 2

To what degree do the Legacy Foundations' governing and staffing structures, grant-making practices, and day-to-day management align with international standards of practice and accountability for the stewardship of foundations? Have any particular governing or operating models proven more of less effective in terms of the foundations fulfilling their mandate?

Governing and Staffing Structures

All Foundations have engaged and committed Boards, who champion the causes of their organizations. Board Directors have strong and relevant backgrounds as well as deep understanding of the local contexts. Overall, all Foundations have comprehensive bylaws and fine-tuned governance processes in place. Boards consist of mostly independent directors (except for Foundation Presidents and on occasion, legal counsel) who adhere to conflict of interest disclosure policies. The RAF and AADF Boards review strategies regularly and update them as needed in conjunction with staffing structures. The HAESF Board modified slightly the scholarship strategy some years ago to improve alignment with private sector development focus. The ABF and WNISEF Boards need, as a matter of priority, to lead the development of comprehensive and coherent grant-making strategies. These are key priorities for the ABF and WNISEF. The WNISEF Board has decreased by 50 percent over time and has been trying, unsuccessfully so far, to replace a couple of Directors. This is another priority for the WNISEF Board, especially as WNISEF also continues to operate as an Enterprise Fund. Some common weaknesses and deviations from best governance practices relevant to all Boards include the lack of limits on the terms Board members can serve, and the lack of a proper succession planning strategy.

Strategic Planning and Management

AADF and RAF conduct periodic strategy reviews and develop annual workplans in accordance with their strategy. ABF and WNISEF need to develop comprehensive long-term strategies in support of private sector development as a matter of first priority. These strategies will guide the identification and selection of most impactful grant-making opportunities aligned with their strategies. ABF is currently scoping for additional private sector engagement opportunities, in recognition of the need to focus additional effort and investment in this area. AADF, RAF, and ABF have developed longer-term relationships with vetted grantees, which improve risk management and create opportunities for longer-term and more impactful co-funding partnerships, while building the capabilities and the equity of local partners in the projects. With the exception of ABF, the other Foundations have had little turn over in their management ranks.

Grant-Making Practices

AADF, RAF, ABF, WNISEF have well developed grant-making processes. While RAF uses an invitation-only approach to grantee identification, an approach approved by its Board, AADF uses public tenders, and ABF and WNISEF use a combination of approaches. While cost effective, RAF's approach may be perceived as less transparent; however, at the program level, some of the processes are based on competitive Requests for Proposals (e.g. Ecotourism, Food Hubs, community foundations). All Foundations have implemented a proactive approach in implementation and oversight of grants and have instituted regular grantee meetings and progress reports, which include hands on monitoring of cost sharing requirements, instituted by all Foundations except HAESF.

Monitoring, evaluation and accountability

All Foundations undergo annual external audits, which have found no issues. RAF and AADF have more advanced monitoring processes in place that include specific objectives and performance metrics for priority areas as well as key performance metrics for individual proposals and grants that are scrutinized to ensure that they contribute to the overall Foundation objectives. Both RAF and AADF state that performance is linked to private sector development and Foundation objectives by definition. AADF has recently hired a monitoring specialist, and is pursuing some ambitious and innovative monitoring and evaluation objectives, including introduction of corporate governance KPIs in grants, monetizing project impact (the first step is the development of a manual planned for 2017), and strengthening quality assurance as part of grant monitoring. Further, AADF already subjects some of its grants to external evaluation on an ad hoc basis, as does ABF. HAESF has also commissioned an external impact assessment of its scholarship program relatively recently, and has been able to quantify the results of its work in preparation for gradual close down of operations. ABF has two experienced M&E persons on staff, who have developed a well-structured grant-based monitoring process. ABF lacks a comprehensive M&E strategy at the Foundation level, which should be a priority. ABF asserts, however, that its Board created a standing Evaluation Committee in 2015 which meets quarterly, and more often telephonically as needed, and that the Foundation has an evaluation plan which projects a three-year horizon for review of specific grants based on internal and external resources. WNISEF started managing four legacy programs in 2015 and activities are now beginning to ramp up. WNISEF does not have a monitoring and evaluation strategy for its legacy programs. This should be a priority for WNISEF so that baseline can be collected before it is too late.

Communications

All Foundations have developed communications strategies tailored to their portfolios and target audiences, that are used to promote their programs and successes. Communications strategies include online and other media strategies as well as public relations outreach, pro-active engagement via professional networks, participation in events, and promotion of the work of grantees. All Foundations use their websites to publish reports, impact studies (HAESF, RAF), positive coverage of their work, and various informational materials for grantees and stakeholders. RAF has a more sophisticated strategy that also involves the utilization of the technical capabilities of a grantee, Friends for Friends Foundation, that provides strategic branding, training and mentorship in the areas of positioning and communication for RAF grantees. These services, as well as a "survival kit' for civil society, has brought about significant transformation among RAF grantees, according to the Foundation. ABF has recently hired a Communications officer, has developed a comprehensive communications strategy and has revamped its website and outreach approach. Before these changes, the Foundation had taken a more passive approach, counting primarily on its programs to speak for themselves, similar to the Albanian Foundation. ABF has reconsidered this approach, especially given some of the media attacks the Foundations has experienced in the last two years, according the staff.

All Foundations have structured internal communications mechanisms that ensure adequate input in decision making by staff and timely feedback. Foundations maintain open communications channels with grantees and engage with them proactively.

Legacy Foundation	Albanian American Development Foundation (AADF)
Governing and Staffing Structures	Board members share common understandings of mission that has been stress-tested through discussion; most have been members for 21 years. Board members are drawn from a range of backgrounds with relevant experience, skills and contacts, exhibit energy and enthusiasm in their support for and guidance of AADF's mission, and maintain independence from Management. Procedures for Board member election / appointment are open and transparent. Board committees include ethics, audit, and nomination, comprised exclusively of independent directors.
	AADF's organizational structure is evolving, documented and adequate, may require some updating, usually followed, based on reasonably clear roles and responsibilities of departments or functions and lines of authority. The revised organization chart was to be presented at the March Board meeting (AADF's staff size is 20).
	The Board meets four times yearly (March, June, October and December, with October in Tirana and the other three meetings in New York City). Meetings for the year are scheduled each October. Meetings are attended by all or nearly all members, meetings include regular review of AADF strategic planning, risk mitigation strategies, financial information and administrative issues, and works with staff in developing multi-year schedules on which business planning is based. Lessons learned form an integral part of Board discussion, informing strategy reviews and planning, and provide occasion for Program Managers to present and defend their work. Board meetings are also supplemented with separate meetings for the Board members with AADF staff.
	Engagement by the Board in AADF activities is illustrated by all Board members' participation at the Stuttgart Fair, where one Director "performed" by preparing wool / leather textile for a traditional cap.
	The Board conducts regular reviews of AADF strategy and participates in its formulation and related debate. Board members abide by a written conflict of interest policy, are not compensated, and support management in identifying candidates for Board membership as needed. Annual self-assessments are done in Executive session without the presence of management, and the Committee of Friends of the Foundation serves as an advisory board, providing advice and local input on strategic and programmatic matters.
Strategic Planning and Management	Strategic and business planning are based on the foundation's identification of needs in each sector of operation, and the required response. The Board has a dedicated discussion on strategy once annually, at the Tirana meeting, where there is opportunity to engage with staff and review and plan strategy with reference to foundation vision and mission. Annual work plan and underlying activities and budgets are discussed and revised to establish the pipeline for the coming year.
	The foundation has overall experienced internal stability in terms of staffing and leadership, with staff turnover in 2016 of two or three staff members out of a total of 20 staff. Political stability over the past 12 years has overall facilitated delivery of programs (this was less the case up until 2005). Changes in government have not had an impact on programs; for example, the Tirana Market project began under the administration of the previous Mayor of Tirana, and has been enhanced under the current Mayor's administration.

Grant Making Practices	Staff holds meetings on a weekly basis with grantee CEOs, and the two Co-CEOs sit on the boards of several grantees, including Protic and Junior Achievement. Grantees are required to submit financial and progress reports on a monthly basis, and foundation management is vigilant to upholding ethical standards for awardee behavior. Employees sign agreements on ethics and good behavior and conflict of interest forms annually, as well as declarations of time spent on other projects. The Co-CEOs seek "full-time attention of their staff."
	AADF sets out cost-sharing in project documents as agreed, for example, with municipalities and for certain projects, like the Tirana Market; AADF does fundraising for the project overall. Project design does, however, provide for delineation of funding sources.
Monitoring, Evaluation and Accountability	AADF's financial statements are audited annually, currently by Deloitte, with reporting directly to the Board Audit Committee. The full Board reviews and approves audits based on the recommendation of the Audit Committee. Audits have always been unqualified and have not, within the last three years, raised deficiencies or generated issues. AADF seeks to introduce regular audits at the individual project level as well as enhanced internal control mechanisms.
	Policies and procedures for monitoring and quality assurance are evolving; a work in progress. While existing policies are consistently applied through key performance indicators for each project proposal, the standards and metrics are being strengthened in the course of the foundation's ongoing work. Increasingly, AADF seeks to separate monitoring and evaluation from the programmatic side, reflected in the recent hiring of a dedicated M&E Officer, whose specific responsibility will be to assess programs and provide input into KPIs. That said, foundation staff set realistic targets and goals based on indicators, such as jobs and business creation, and collect, analyze, and monitor relevant data for reporting and evaluation purposes. Project management experience and lessons learned inform reporting as well as future project design.
	AADF management indicate that project and program evaluation needs to be strengthened and better structured: Their ambition is to monetize project impact, an area on which they are currently working with the input of Deloitte. The intention is to develop a manual to this end in 2017.
	Projects undergo external evaluation on an ad hoc basis, for longer-term projects like AUBG. This in turn determines the periodicity of collection and monitoring of data.
	Project performance is linked to private sector development "by definition," and is at the center of AADF's mission and vision, applied at the individual project level as in the case of Business Improvement Districts. Staff is in the process of introducing KPIs for projects and for individual sectors, and are introducing measurements of corporate governance, for example, with reference to transparency and board performance.
Communication	AADF engages in occasional public fora, however prefers "deeds over words," and takes the approach of letting project successes speak for themselves. The website provides relevant information on mission, vision, programs and policies, including procurement and tender information, and related news and announcements.

	AADF provides for continuous and robust staff input into planning and decision-making, encouraging shared ownership, responsibility, and accountability. Staff meetings are held every Tuesday morning, and in addition, meetings dedicated to sectoral projects are held on a weekly basis. Discussion with all levels of staff and external stakeholders are held on a daily basis.

	America for Bulgaria Foundation (ABF)
Governing and Staffing Structures	Regarding the origin of BAEF's Board, Gary MacDougal was invited by then Vice President Dan Quayle to Chair BAEF. Other nominees, including Frank Bauer, were then selected after a thorough presidential search process conducted by BAEF's Board of Directors. Several original Board members, including Mr. MacDougal, Marshall Miller and Steve Fillo, as well as Nancy Schiller (ABF's President and Chief Executive Officer), continue to serve on the Board, which currently comprises ten Americans and three Bulgarians. (Ms. Schiller describes the Board as "amazing" in its long-term commitment to Bulgaria and its deep knowledge of the environment in which it operates.)
	The majority of Board members are independent; the exceptions being Ms. Schiller and one other member who serves as legal advisor to ABF. The Board comprises individuals with evidently appropriate range of background; mandatory retirement age is 80. Two new Board members have been brought in recently and two additional members (Messrs. Daft and Fillo) are expected to be retired and replaced in the coming year. On-boarding of new directors is a comprehensive six-month process, involving preparation and review of extensive materials related to ABF's work, including bylaws, vision and mission statements, and the range of ABF policies.
	The ABF Board has audit, investment, governance and nomination, and evaluation committees, all of which comprise independent directors and meet quarterly, and as needed by phone. Each committee has a dedicated staff contact person. Board members receive training and are evaluated once annually by a Big 4 firm; topics include non-profit management and cyber-security. There are also detailed self-evaluations on governance or various aspects thereof using survey monkeys.
	ABF's Board earlier played a larger role in setting management roles according to its fiduciary duties, this recently being handled more by management. The Board is involved in setting foundation strategy and all policies are shared with and vetted by the Board Audit Committee. The Board is further involved in leveraging resources, including identifying staff and partners with whom to work in certain areas, such as the economically disadvantaged: The current head of ABF's Trust for Social Achievement was identified by a Board member. Another Board member brought for consideration program models that have informed ABF's work in the area of land legalization, while other Board members bring experience in judiciary reform and the media, which inform ABF's work in the corresponding areas.
	Regarding risk management: Financial risk and accounting policies are reviewed by the Board quarterly and additional reviews and discussions are initiated by Board members telephonically on an occasional basis, as needed. Regarding political risk: The Board has advised management on, for example, security issues, which has led, among others, to introduction of a "locked entrance" policy as of September 2016. Also related to security, the last several Audit Committee meetings have generated measures relating to cyber-security with regard to reporting and fraud risks: ABF has held relevant training for staff and grantees, and all internal systems have been upgraded as a result.
	The Foundation's mission statement is reviewed annually by the Board and ABF staff and is included regularly in internal and external communications. ABF's Code of Ethics is likewise presented on the website, and is signed by all staff and Board members.

	The team meets weekly, using the Basecamp project management and team communication software for gathering information for different projects, lending to accountability. There are regular Management-Staff meetings at which all participants are encouraged to speak out. Retreats and other programs are held periodically targeting professional staff development, and the President holds one-on-one meetings with staff regularly to discuss annual professional and personal goals. The organizational structure is flat, with the Executive Director and team leaders meeting regularly with their respective teams.
Strategic Planning and Management	Strategy and resultant work planning are done every September, most recently with emphasis on reinforced communications (resulting in the recent hiring of a Communications Officer). Staff is now discussing strategy for 2018, including the proposed "hub" approach. Strategy review and planning based thereon includes analysis of tracked project data and SWOT analysis.
	ABF has seen no major internal changes other than the creation, in 2013, of an M&E department and the hiring of a Communications Officer. External changes have largely centered, over the past two years, on ABF being targeted by the local "oligarchist" media; attacks that the foundation seeks to counter with the new Communications Officer and related communications strategy. The strategy will seek to ensure that ABF "gets the word out" about projects before the opposition has a chance to criticize their work (or engage in ad hominem attacks, as has happened on several occasions).
	ABF has recently sent six staff members on one- to four-week training programs in Canada on development evaluation at the internationally recognized IPDET program (International Program for Development Evaluation Training). Their Chief Financial Officer regularly undergoes accounting training provided through a Grant Managers' Network and the Executive Director has participated in training programs conducted by the Council on Foundations. ABF encourages sharing of good practices among grantees through, for example, the networking event held in January 2017.
	As part of ABF's reinforced focus on addressing specific private sector needs, the team is scoping the Bulgarian private sector ecosystem with a focus on entrepreneurship. Given an abundance of venture capital present in the environment, including accelerators and incubators, ABF is taking care not to duplicate or disrupt ongoing initiatives by the private sector or EU-funded programs. The planned focus, in addition to their six existing priority areas, is on increased efficiency and international competitiveness of Bulgarian businesses (high quality and impact marketing; digitization and sales trainings; how to effectively reach foreign markets) and support to export-oriented industries with the potential to innovate as well as those that create more jobs and value. ABF plans to expand its support to professional organizations and is increasing its engagement with Chambers of Commerce. The foundation sees a potential role in coordinating and consolidating Chambers' various voices.
Grant-Making Practices	ABF's grant model is based on identification of appropriate partners to address targeted issues. ABF accepts unsolicited applications on an on-going basis throughout the year, but also proactively approaches organizations that are independently identified by staff; initiates projects internally; and creates new organizations. ABF applies a two-stage application process, starting with submission of a concept paper outlining the project activities and expected results. Foundation staff and management review on a weekly basis all incoming grant concepts, after which the most promising of those grant concepts

	are invited to develop a full proposal. If a full proposal is invited, the prospective partner completes a grant application form (downloadable from ABF's website). Staff review it and, depending on the level of requested funding, will make a recommendation to the Executive Director, President, or Board of Directors, who make all final funding decisions. As the process progresses, project design, activities and targets are developed cooperatively. In cases where no grantee can be identified for a specific purpose, ABF occasionally establishes one as needed, as in the cases of Teach for Bulgaria (a teacher training program) and Muzeiko (an interactive science museum for children).
	The proposal review process involves, first, submission by the prospective grantee of a one to two-page concept paper including an indicative project grant amount, goals, and expected impact. These introductory documents, accepted by ABF year-round, are reviewed each Monday morning by all foundation staff, and decisions are made as to which will be developed into proposals. Full project applications are then prepared, including related frameworks like ethical standards, for consideration by a Review Committee comprising the President, the Chairman of the Board, and two Board Directors; all proposals are then reviewed by the full Board. The Executive Director has approval authority for amounts up to BGN 15,000 (micro-grants); the President can approve amounts up to EUR 100,000 for annual grants and up to EUR 150,000 for multi-year programs; amounts up to EUR 300,000 per year or up to EUR 450,000 for multi-year grants require approval by the Review Committee (a committee consisting of the ABF Board of Directors); and annual amounts above EUR 300,000 are approved by the Board. Presidential approvals (including the micro-grants approved by the Executive Director) are held to a maximum of EUR 500,000 per quarter in the aggregate, and ABF's proposal rejection rate is 90 percent.
	ABF has introduced a new grants management system to ensure that grantees perform proper management of funds. Program Directors routinely visit grantees and project sites, with tranches being released only on acceptance of periodic reporting, with any questions addressed and cleared and invoices reviewed for accuracy (attention is paid, for example, to potential related party transactions). These aspects are confirmed either through personal visits or accepted documentation. There have been, according to ABF staff, instances of administrative error and two cases of deliberate malfeasance, one of which resulted in termination of the grant and the other in return of funding to ABF. Cash compensation above Leva 500 is by policy prohibited (the corresponding government-mandated maximum is Leva 1,500).
	ABF encourages co-funding for its partners and, as a matter of policy, provides funding on a basis of gradual, annual reduction with a view to grantee sustainability. ABF requires that all project proposals present information and disclosure regarding other project partners and all sources of financial and in-kind support. For example, in the education sphere, schools supported by ABF are required to raise thirty percent of project budget from external sources.
Monitoring, Evaluation and Accountability	ABF's financial audits are prepared by Deloitte and there have been neither negative findings nor qualifications. Audit proposals are solicited from a minimum of three companies. Internal audits have been done by EY since 2014. ABF requested that EY prepare a risk matrix covering areas including financial and cash management; there are, according to ABF staff, very few "red" (flagged) areas.

	This is done on an ongoing basis, with Area Directors and Assistants directly responsible and senior management and finance staff also involved. Monitoring results are documented in reports preceding subsequent period tranche disbursements, to ensure that grantees are performing and delivering according to project agreements. This involves, for staff, frequent travel around the country. Staff prepare three-year monitoring and evaluation (M&E) plans, do project site visits on a regular basis, and have developed a dedicated internal grant management system, as mentioned above. ABF grants are rigorously evaluated by either ABF's Evaluation Team or external evaluators.
	ABF assesses, on an ongoing basis, grantees' work, together with impact assessed at the portfolio or the individual project level, depending on the objective of the assessment.
Communication	ABF's organizational structure is documented and updated regularly. ABF hired a Communications Director in March 2017, added a M&E Department in 2013, and a formal Compliance Department in 2012. All communications materials reflect Foundation strategy.
	ABF's external communications strategy is being reinforced to be more proactive, most prominently reflected in the recent hiring of a new Communications officer and the development of a thorough communications strategy for the foundation (the Communications Officer previously worked for the Office of the President of Bulgaria and Bulgarian National Television, and currently runs her own media / communications company). External communications targets include the business community, embassies, and civil society. ABF has also recently introduced a bilingual monthly newsletter to which readers can subscribe through the ABF website, which also serves to inform grantees on communications strategies and modalities. ABF makes use of social media (e.g. Facebook and Instagram) and prepare periodic news releases.

Legacy Foundation	Romanian American Foundation (RAF)
Governing and Staffing Structures	RAF's Board of Directors comprises thirteen members, one of whom joined in 2016. The Board represents a broad spectrum of talent and qualifications, drawing on Romanian and U.S. nationals (the latter kept at majority per Foundation bylaws), and diversity is observed across gender and youth. Terms are also prescribed in the bylaws. RAF has developed a skills matrix to set a pipeline for succession planning purposes, and the Board is now discussing who will be the next Chair and Alternate Chair of the Board and of the Finance and Investment Committee to prepare for rotation in two years' time. The U.S. Ambassador is invited to all Board meetings, and a strong attendance rate among Directors is observed (at most two members miss meetings on average, and if a member misses two meetings, the Nomination Committee may vote him / her out). Two Board members are experts in the areas of philanthropy and development. Philip Henderson is Chairman of the Board, and Mihai Tudor, Deputy Chairman of the Board, sits with CIEE, Fulbright and other external stakeholders on the Board's Selection Committee.
	The on-boarding process involves training and interviews with staff and other Board members. Induction of new Board members involves three persons: Emily Grand, RAF's U.S. Administrator and Assistant Corporate Secretary, Roxana Vitan, RAF's President, and Philip Henderson as Chairman of the Board. Induction further involves the Chairman of a given committee where the new Board member will be on that committee, and, in addition, a relevant Board member participates as needed for a given topic, such as transparency. All Board committee members are independent.
	A conflict of interest policy for the Board is contained in the Foundation's Grant Agreement with USAID, is written in the bylaws, and is part of the standard audit procedure with forms signed and deposited with the U.S. Corporate Secretary. Board members are expected to raise potential conflict of interest regarding any points of Board discussion; usually there are no issues. Two Board members who also sit on the Board of Directors of Junior Achievement, for example, never vote on Junior Achievement issues at RAF.
	RAF has a formal organizational structure. The Foundation's President regularly discusses human resource issues with the Board; this is considered critical as this is a small foundation with what it sees as a great responsibility with regard to using funds wisely. RAF seeks gradual growth of its team, having started with two staff on programs, followed by two Directors with staff, growing steadily over time. Rules and responsibilities are clear, and talent is on occasion outsourced, for example in the cases of communications or grantee financial analysis. Segregation of duties works, according to staff, and there is ongoing consultation to address and issues.
	Board responsibilities include approval of grants (see below), the Foundation President's salary and the compensation for any position that exceeds $30,000/year, hiring of the auditor, building up the pipeline of future trustees and selection/election process, and election of officers. Overall financial oversight is handled by the Finance and Investment (F&I) Committee, and questions on any variances are posed regularly. The F&I Committee decides on the endowment investment policy and selects the investment manager, who must be licensed by the U.S. Securities and Exchange Commission and reports directly to the F&I Committee. Board meeting minutes are taken by the Corporate Secretary and circulated for review and record. Board Books are circulated ten days in advance of Board meetings, and other communications documents are circulated a minimum of ten days in advance.

	The Board meets four times yearly (February-March, June, October and December, with spring in U.S., June and October in Romania, and December via conference call for evaluation of the President and to discuss finances for the upcoming year). The meetings in Romania have special setup for meetings with RAF grantees and visiting projects.
	Until six months ago, all approvals were by the Board, whereby staff developed proposals together with partners and made recommendations for Board consideration. RAF seeks to strike an appropriate balance in terms of volume of proposal materials and is to this end introducing IT processes to include concise recommendations alongside access to all relevant project proposal documents. These materials are forwarded to a strategy and program committee, which until recently had a recommending role (to approve or veto, the latter never having been used). The committee now has the authority to approve grants of up to $75,000, and the Chairman of the Strategy & Program Committee and the Foundation President can approve grant amounts up to $15,000. Such approvals are included in the Board Book and are reported to the Board, which wields final authorization. A separate committee for Program-Related Investments (PRIs, repayable grants) also has delegated approval authority.
Strategic Planning and Management	The Romanian-American Foundation's mission is to promote and strengthen the conditions for a sustainable market economy and a democratic society, giving access to opportunities for all segments of the population in Romania."
	"Our vision is of a prosperous society involved with entrepreneurship, a society composed of citizens who behave responsibly. We believe that each country's citizens should have equal access to opportunities."
	RAF's vision and mission statements are presented on the RAF website, which also describes the foundation's strategies and provides, among others, links to an online database of grants with filters to accommodate users. The website and related communication and messaging have been developed through a two-year consultative processed with the engagement of external consultants. RAF staff participated in retreats dedicated to strategy development together with stakeholders, and a full day was set aside for the purpose during a meeting with the RAF Board of Directors. Staff convenes grantees for discussion around issue clusters and indicators, serving compliance requirements and soliciting feedback.
	The program strategy-setting process starts with a needs assessment to establish a long-term strategy, focusing on four areas: network extension, sustainability, capacity-building, and grant-making. The October Board meetings discuss program impact, progress, and areas that can be measured in terms of relevance for Romania, i.e. long-term issues. Selection of projects and partners is also discussed during Board meetings, with questions raised with grantees relating to strategy and vision. These are then factored into monitoring and evaluation frameworks. The process lends staff clarity, with strategy "front and center."
	In terms of portfolio management, RAF keeps rejected ideas for future use. For example, the Board approved, at its October 2016 meeting, a media literacy project which had been first discussed with the grantee four years ago. RAF had been raising questions regarding sustainability with the prospective grantee, was getting weak responses, and therefore agreed to stay in touch. They re-connected, the grantee having been motivated to change its funding strategy.

	RAF has similar experiences across its portfolio. The screening process takes time and involves many meetings, during which they seek to empower the leaders of partner institutions. This is discussed regularly as the Foundation's "DNA" at Board meetings, where the Board, challenging RAF staff to think forward, remains engaged in strategic development. Results of this engagement are communicated to grantees at meetings and other occasional gatherings.
	RAF's focus is private sector development, as distinct from social services, which is the largest charity area in Romania. Private sector development, according to RAF's President, is the basic test for any project.
	With regard to change management, RAF staff has largely been in place for over ten years with Roxana Vitan as the Foundation's first and current President; Romeo Vasilache, Program Director for Entrepreneurship and Community Development, has been with RAF since 2010; and Bogdan Giurginca, Chief Financial Officer, has been with the organization since the RAEF period.
	Regarding external changes, RAF is holding meetings with grantees to explore to improve programs and identify lessons learned from daily work to inform strategic planning. Such discussions are not only inward-looking, but serve as an opportunity to adjust approaches to the team's work and to review strategies on which that work is based.
	RAF maintains contacts and has shared experience with other Legacy Foundations and institutions working with foundations. Examples include meetings with the Polish-American Freedom Foundation and communication with AADF and WNISEF. A ten-year anniversary network meeting was hosted for the Legacy Foundations by PAFF in Warsaw. RAF staff has met with the USAID mission in Sofia in a meeting organized by the BAEF. RAF is also a member of the European Foundation Center.
	RAF is currently working under its approved strategy for the period 2014-19, with discussions ongoing with the Board regarding possible revisions. Work plans are set on a three-year rolling basis, including project budgets based on cash flow projections. RAF focuses strategically on private sector development needs, and sees its mission as being directed by strategic needs assessment performed on an ongoing basis, whereby needs are identified. RAF is multiplying efforts, leveraging resources, and adding new grantees on an ongoing basis. Capacities are therefore generated to nurture change with a wide reach, in different locales.
	Regarding changes in returns on the endowment, RAF uses modelling according to the U.S. "Hybrid Rule," focusing on minimum amounts to be spent over time. A strategic allocations matrix set by the Board Finance and Investment Committee governs management of the endowment. Thus, planning at RAF is based on strategic priorities, results, financial projections, and careful consideration and due diligence of potential new partners.

Grant Making Practices	RAF maintains contact with declined applicants who may later be successful (note point above regarding returning media project grantee). RAF normally identifies and works with grantees by invitation, preferring not to do open calls, as these, according to RAF staff, do not allow for adjustments to approach or project content and the available money is not enough for an open call in a country in chronic need of funding for civil society. This approach has been decided by the Board and has been discussed with USAID. Moreover, up to 500 applicants will respond to open calls, entailing a high cost of review whereby a very small percent (less than 10 percent) of applicants can be properly served, leaving 90+ percent disappointed. (RAF staff indicates that this point has been discussed with USAID. It is a Board decision: No open calls for this time.)
	NGOs are often puzzled that the grantor may be interested in the long term, which (in their view) is opposite to the open call approach. The absence of open calls does not, however, mean that there is no process: In the case of Community Foundations, for example, evaluation criteria and communications guidelines are prepared. Also, Request for Proposal processes are run as part of various programs (e.g. Food Hubs, Ecotourism, community foundations). Portfolio management in general calls for a formalized process with metrics. In case of unsuccessful applicants, mostly with unsolicited proposals, RAF communication usually amounts to an explanation that the project proposed is not within RAF's mandate.
	Following disbursement of the first tranche of a grant, subsequent tranche disbursement is pending acceptance of financial and narrative reports. RAF engages grantees in continuous conversation and arranges regular site visits for staff and the Board. In line with its strategy to maintain a low profile relative to its grantees, the Foundation President and three program directors are not "camera facing" when visiting project sites.
	RAF staff ensures consistency of grantee narrative and financial reports, which are due every six months. In cases where activities or line items need to be changed, amendments are signed and documented. RAF maintains the right to ask for funds to be returned. All relevant criteria and procedures are standardized and embedded in grant agreements To ensure correspondence between compliance and organizational development, RAF staff reviews proposals, agreements and all relevant project documentation together with grantees at the outset, so that all is understood by all parties.
	Regarding questions of absorptive capacity, such risks are mitigated via daily interaction between RAF staff and grantees, facilitating scrutiny and adjustments where red flags are raised. In case of financial questions, this can require examination of monthly bank statements, which may be brought to the attention of program officers, the CFO, and the Foundation President. Grantees' financial records are reviewed by the external auditor, often requiring cash flow forecasts from the grantee, which also serves as capacity-building.
	One notable granting situation emerged in the case of emergency scholarships. A businessman who gained significant wealth through privatization of an oil company decided to establish a foundation with a so-said endowment of $150 million. The foundation provided a scholarship program for high-performing Romanian students to study abroad, spending some $7 million annually. Governmental agencies then identified corruption issues, resulting in an abrupt halt to the foundation's operation. Some 70-75 students in schools worldwide were as a result left in limbo.

	RAF, seeking to address the students' plight, assembled an emergency team (using the existing foundation selection process), and allocated funds to cover the students' needs for the second semester of the academic year (student requests ranged from $300 to $15,000). The total disbursed amount was $340,000, and in return RAF asked the students to engage in pro bono services for an NGO of their choice. Some students asked for funding for a second year of study, which RAF could not provide (given its own funding priorities), however instead used PRIs (Program-Related Investments) as collateral for student loans negotiated with Raiffeisen Bank.
	Unethical behavior or contravention of conflict of interest rules as set out in project grant agreements are reason to suspend a project and require grant funds to be returned. Project forms declare no overlap of funding sources, and in the context of institution-building, as in the case of Community Foundations, RAF looks carefully at ethical standards of partner organizations as an integral component of due diligence.
	With regards to cost-sharing and co-investment, RAF does matching grants, for example where other donors are interested in community foundations, and the foundation does tracking and reporting where other donors are involved. RAF seeks grantee contributions, which are reported in financial reports. For example, RAF's partner The Civic Innovation Fund is supported by other donors, including a utility company. Proposals are shared with other donors, such as the Mott Foundation, or in the case of Teach for Romania, which has been co-funded by three banks, to ensure avoidance of duplication (donor coordination).
Monitoring, Evaluation and Accountability	RAF's audits are performed by Deloitte, with reporting directly to RAF's Board Audit Committee (which operates according to a written charter). A pre-audit for the fiscal year is done in October and the final audit is done in March, with reports delivered by the end of May. Audits have always been completed with unqualified opinions and accompanying letters presenting any recommendations or issues.
	Monitoring and quality assurance are covered in internal discussions at the departmental and inter-departmental levels, including lessons learned and approaches to implementing strategy, with summaries of these discussions included in program reports to the Board at the February and June meetings. Ongoing monitoring of grantees' performance reflects on program evolution, with Q&A focusing on progress and trajectory toward agreed project outcomes. Project teams record indicators, which are adjusted or supplemented as needed. Indicators are also set at program-level; for example in the case of Community Foundations, an external evaluation will be performed midterm, and at the end of RAF's seven-year strategy. Lessons learned are transferred across programs as appropriate. In some cases (this is less relevant), RAF is for example supporting sixteen Community Foundations whose diversity limits transferability of lessons learned. Approaches to fundraising can also vary widely across foundations and regions.
Communication	RAF's system for documenting program knowledge is based on yearly assessments and reports prepared for Board meetings that include staff reflections on, among others, strategy and communications strategies. RAF's approach is to "stay humble and shine the light on the grantees," which RAF views as an integral part of supporting grantee sustainability. Communication is seen as vital to grantee growth and empowerment, and this understanding has informed upgrade of RAF's website. Friends for Friends is cited in particular by RAF staff as providing, at favorable rates, a "survival kit" for civil society, motivating substantial transformation among several RAF grantees.

	Hungarian American Enterprise Scholarship Fund (HAESF)[31]
Governance and Staffing Structures	There was some continuity of HAEF Board members onto the HAESF Board. Board members were initially "inherited" from HAEF, with new members invited over time as needed. Eriberto Scocimara was HAESF's first Chair (having served as President and CEO of HAEF from 1994 through the Fund's liquidation in 2011), followed by Ryan Schwarz, the current Chairman, President and CEO. Other Board members are George Gould (Chairman Emeritus), Francis Bator, and Ambassador Andras Simonyi (Rob Odle has been mentioned as having been involved in all Enterprise Funds since inception.).
	HAESF, through CIEE, reports annually to the Board, the latter regularly providing feedback. The Board meets twice annually, typically in New York City or Washington, D.C., with Directors further spending time with HAESF on occasional visits to Budapest. It should be noted, however, that in Hungary we were informed that the Board has not traveled to Hungary in the last two to three years. The Board, which has no committees, is provided with statistics on program participation and placements, alumni anecdotes, selections, and financial reports. Changes to the program are subject to Board approval, as was the case when graduate and undergraduate scholarships and an entrepreneurial category were added to the professional internship program (PIP) and SL programs. (Currently only the PIP program remains in operation.)
	Changes in senior management of HAEF resulted, according to one Director interviewed, in the Board's having little influence over strategic and investment decisions and Board oversight of or involvement in ongoing HAESF programs. This role appears to have been largely supplanted by an Advisory Board or Committee comprising local individuals organized by the contractor, CIEE.
	In Budapest, members of the evaluation team met the Chair of the Advisory Board constituted by CIEE, which includes technical experts who advise CIEE on the merits of research proposals and general fellowship applications they receive. The shortlisted candidates are then submitted to the HAESF Board. According to CIEE, all proposed applicants have been approved by the HAESF Board. Evidence has not yet been seen regarding a formal selection process for this Advisory group.
Grant-Making Practices	The Hungarian-American Enterprise Scholarship Fund's stated objective is to promote free enterprise and development in Hungary and to continue to strengthen ties between the United States and Hungary by creating opportunities for accomplished Hungarians and those of great promise to gain professional experience in the United States, thereby enhancing their contribution to Hungarian society.
	Practical training was identified as a major gap in Hungary, as university education normally consisted of five years of study with no practical experience. A professional internship program was therefore deemed to be a useful programmatic approach. This was envisioned as a twelve-month program in the United States at a partnering academic institution with arrangements like visas to be taken care of by the program. The program has a residency requirement, such that participants must commit to return to Hungary for a minimum of three years. HAESF targeted practical, professional

[31] The presentation for HAESF is limited to Governance and Staffing Structures and Grant-Making Practices due to the fact that the program has been outsourced and there is, effectively, no foundation.

	experience as its value added, with focus on business management as well as selected softer areas in the social sciences field. Most applicants were business students at Corvinus University in Budapest, studying STEM subjects, human rights, international relations, and public service.
	Custom internships and visa sponsorship have comprised CIEE's particular approach. They deploy a thorough vetting process, which means that every PIP is individually placed and, therefore, must take ownership of his or her program. The program seeks good students who also demonstrate leadership qualities, engage in extracurricular activities and show a clear expectation of take-away from the program and what contribution this take-away would make to Hungarian development. For example, one PIP learned how to use a magnetic resonance imaging (MRI) machine, which at the time no one at the institution knew how to operate, for clinical and research purposes. The program also seeks a balance between confidence and humility (internships normally involve some form of support work).

Legacy Foundation	Western Newly Independent States Enterprise Fund (WNISEF)
Governing and Staffing Structures	Jaroslawa Johnson has been a member of WNISEF's Board of Directors for over twenty years, and was appointed to the position by President Clinton. While on the Board, she served as a member of the Investment Committee. In December 2014, the Chairman asked Ms. Johnson to replace Natalie Jaresko, who was appointed Minister of Finance, as President and CEO.
	WNISEF's Board still comprises U.S. nationals only, having over time varied in size from 6-12 members, with a core of 6-7 typically more engaged. This core comprises Dennis Johnson (background in agri-financing), Jeffrey Neil (CEO, Merrill Lynch International), Whitney McMillan (ex-Cargill), with other members including a former Chairman of the Chicago Board of Trade and a President of AT Kearney. These are high profile people representing a wide range of expertise. Scott Carlsson was WNISEF's first Managing Director, succeeded by his deputy, Ms. Jaresko.
	The Board has been cohesive, with political appointees usually leaving after a short while. With the Fund's first investment in 1995-96, the Board displayed a common perception that the agricultural sector would be a good target; however, the investment did not work out. Other investments like a brewery in Moldova worked well. The group learned over time and lobbied for legal and policy reforms to facilitate their investments. Initially, Belarus was a target country; however, WNISEF activities were not welcomed there.
	There is a documented organizational chart, reflecting current programs. It is based on well-defined roles and responsibilities of departments, functions, and lines of authority. The organizational structure is updated on a regular basis once any changes in staff occur. Functional responsibilities and lines of authority are clear and appropriate, and staff are consistently involved in decision-making on major issues. Staff feels free to raise challenging issues and initiate discussions with management.
	WNISEF has an external independent Board of Directors, comprised of leading representatives from the U.S. business community. The Board consists of 6 members. No new Board members have joined within the past year. Board members are drawn from a broad spectrum. Board appointments and terms are transparent and appropriate, and confirmed by USAID. A USG representative is invited to Board meetings ex officio.
	Board members are selected from well-known public figures and approved by the President of the United States. They are highly qualified candidates. To date, no Board member received training, but training could be made available if needed.
	Board committees are comprised of independent directors. While the Board has Investment and Audit Committees, the Board functions as a committee of the whole on all decisions. Out of the six Board members, five are members and receive no compensation. Board member Jaroslawa Johnson is also the President and CEO of WNISEF.
	The annual meeting is held during the Board's annual visit to Ukraine, generally occurring in the fall of each year. There is usually also a meeting held in the spring in the U.S., as well as several telephonic Board meetings throughout the year. Special meetings of the Members may be called by the Chairman at the request of directors constituting a majority of the entire Board or at the request of management.

Strategic Planning and Management	The Board executes its duty in setting management roles, namely: The Board elects officers; approves the list of granted authorities and directs actions to be undertaken; and executes oversight. The Board fully executes its duty in leveraging resources, namely the Board reviews proposed investments and legacy programs and approve those that it believes will deliver high level of return and value for money, and ensures that the Fund's resources are maintained in trustworthy banks. Also, the Board reviews the annual budget and three-years forecast, discusses each part of it with management, makes recommendations and approves. The Board regularly reviews budget versus actual reports that are included in quarterly reporting.
	Board members regularly review financial and non-financial reports on programs and approve significant new projects after discussion. All relevant information and decisions are recorded in Board minutes. The Board oversees risk management policy as well as the internal control system. Board members actively participate, attend board meetings, oversee management, and in general devote sufficient time to the Fund's operations and obtain all the necessary information to form an objective and independent judgement.
	Every investment is approved by the Board, with half of the profits going to legacy projects, half to investments. The Fund's focus now is IT in Ukraine and Moldova, with both countries handled out of Kiev. Risk issues have been handled, for example, by providing training to companies with experts provided by the International Executive Service Corps. WNISEF recognized early on that training was necessary for private sector development given the environment, not least because there was no business or entrepreneurship cultural heritage in Ukraine (or Russia) as there was in CEE.
	The organization's mission is to transform the lives of ordinary people in Ukraine and Moldova. The organization's vision is to enable citizens and communities to shape a new Ukraine and Moldova. Vision and mission are reviewed during staff orientation. The mission statement directly corresponds to the objective of private sector development and vision and mission statements are considered by staff to be fundamental for WNISEF's priorities and actions.
Grant Making Practices	WNISEF relies on multiple grant models in initiating funding. Each proposal that WNISEF receives is assessed on a case by case basis. Upon passing all basic requirements for support, WNISEF then reviews the proposal and characterizes which grant model is best suited for the project at hand according to needs, ranging from long-term hands on capacity building, to short-term project assistance and small grants.
	WNISEF indicates its preference is to implement a partnership-based grant, which leans more towards cooperative projects and includes other donors contributing financing to the project. This means the support brings forth cooperation between different states and organizations in the region, as well as reduces the funding sum for WNISEF. Each Program Manager uses their professional judgement to assess the needs of the project and considers the models implemented appropriate.
	WNISEF adheres to formal grant solicitation depending on the program and project. The process is made available publicly through multiple media, ranging from online resources to live events.

	WNISEF has Conflict of Interest policies implemented as part of its Employees Handbook. The policies require all officers and employees to take appropriate steps to avoid both actual and apparent conflicts of interest and impropriety, and devote full working time and effort to WNISEF's interests and, therefore, avoid any activity that may distract from or conflict with WNISEF's interests. The policies cover conflict of interest and insider trading.
	WNISEF has not experienced any issues in tracking and reporting on cost sharing projects. There is a clear understanding between grantees that a quality report provides them with a better chance for future cooperation and funding.
Monitoring, Evaluation and Accountability	The Fund's financial statements are audited annually by the external auditor. The External auditor additionally issues a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with government auditing standards.
	The Board invites the engagement partner of the external auditor to the Board meetings to review and discuss financial statements, discuss audit findings/recommendations, and make relevant enquiries. The Board approves the audited financial statements. The Chair of the Audit Committee follows up on recommendations and their implementation.
	WNISEF reviews the information obtained from monitoring to see if there are patterns or trends that emerge from the process. Project results are stored on the intranet system shared drive, which helps to design subsequent projects in a more efficient manner.
	Evaluations link program performance to private sector development. This is assessed by following the impact value chain. The factors that are considered are: input, activity, output, outcome, and impact. Defining the former, input: the investment into the program; activity: actions by WNISEF to solicit requests for proposals; output: the number of people served; outcome: the changes among the grantees/targeted demographic; and impact: the changes in the broader environment/ impact on society due to impact capital.
	WNISEF has submitted a proposal to USAID which outlines the Fund's three-year strategic plan. This proposal was approved by USAID in the grant modification as of January 2015, and April 2016.
	Annual work plans contain clear and specific goals, activities, timelines and responsibilities, as well as targeted key performance indicators. The work plans are linked to program budgets, and long-term ongoing projects are indicated in the program budget, as well as expected activities, and their timelines. Annual work plans are used to guide management decisions, operational planning, monitoring and evaluation. The work plans are monitored on a quarterly basis, and used as a reference point throughout the year.
Communication	WNISEF is an active member of the Ukrainian Venture and PE Association (UVCA), established to publicize Ukraine's achievements and opportunities and to support investors, and the U.S.-Ukraine Business Council, which advances U.S. companies' trade and investment interests in Ukraine. WNISEF participates in activities organized by the formal networks, including steering committees, working groups, and networking events.

	The key external audiences for WNISEF are government institutions, the business community, international organizations operating in Ukraine and Moldova, NGOs, and society. WNISEF communicates with the audience through communication campaigns, public events, conferences and forums, media and social media channels, as well as through one-on-one meetings, and business correspondence with stakeholders.
	External communications messages are shared through media (press releases, press conferences, and events), public conferences and forums, official WNISEF website, and social media (WNISEF Facebook Page, YouTube channel, Twitter). Each type of external communication has its own advantages as it helps to reach different target audiences and to promote the Fund among different groups of stakeholders.
	WNISEF has a communication strategy which is regularly revised, and was last updated in December 2016. Pre-testing of external communications and materials is done through strategic and public relations sessions.

6.3 Evaluation Question 3

To what extent are existing forms of USG engagement sufficient and relevant for providing the information necessary for the USG to exercise its responsibility to ensure Foundations' adherence to their grant agreements with their "parent" Enterprise Funds, in some cases into perpetuity?

Given the fact that USAID is a third party to the Grant Agreement between the Enterprise Funds and the Legacy Foundations, the Agency has even less visibility into the operations of the foundations and their Boards compared to the situation at the time of the operation of the Enterprise Funds. USAID has ex-officio seats on the Boards of WNISEF, which operates four legacy programs, and RAF, and is also invited to AADF Board meetings when the Ambassador is unavailable. USAID is invited to some of the other Board meetings as a courtesy but it is not required, and otherwise does not receive updates from Board meetings.

U.S. Embassies view Foundations as potential partners and policy instruments, especially in countries in which USAID no longer operates. In such countries, the endowments of the Foundations are perceived as potential assets to Embassies that have otherwise limited grant funds. Embassies keep abreast of Foundations' activities, although this is not a supervisory relationship, and Foundations generally maintain close relationships with Embassies. The evaluation team met with U.S. Ambassadors and their staff in Albania, Romania, and Bulgaria. In all three countries, Ambassadors had favorable opinions of the work of the Foundations and demonstrated knowledge of priorities and some key successes. Embassy staff also had some additional ideas about potential projects that Foundations could consider that were not always aligned with the Foundations' objectives. This difference in priorities and time horizons (one recommendation was to spend faster) may be indicative of incomplete understanding of the terms of the Foundations' Grant Agreements and their spending models. Based on interviews with Embassy staff, USAID Missions staff, and USAID Washington staff, it appears that there are gaps in the communication and coordination among the parties. These gaps may exacerbate the misunderstandings in the roles of Embassies and USAID staff in coordination with the Foundations and weaken the coordinated USG engagement with the Foundations to ensure compliance with Grant Agreements.

Foundations are required to publish annual reports, with the exception of the Hungarian and Polish Foundations. The Bulgarian Foundation has agreed to provide SARs to USAID Washington. USAID has made recommendations regarding the contents of the reports; however, there is no prescribed template for these reports. Foundations are not required to submit these reports to USAID. As long as annual reports are published on the foundations' websites, for example, they have fulfilled this requirement. Not all foundations publish regular annual reports, based on a review of the websites. It is not clear what authority USAID has to require an improvement in compliance in this area. Some Foundations mentioned that they file mandatory annual reports in the U.S. for tax purposes, which are publicly accessible.

In this context, it seems that USAID lacks adequate direct communication and information channels with the Foundations. In fact, USAID has been unable to investigate and address potential compliance failures with foundations properly. This creates obvious risks for the USG, among them compliance risks related to USG regulations as well as reputational risks, as these foundations are associated with USG, regardless of their legal status — a point made by interviewees in several foundations. It is not entirely clear under the circumstances and given the Grant Agreements, how this situation best can be remedied so that it preserves the independence of the Foundations but balances it with some mechanisms to ensure compliance with the Grant Agreements. USAID's only option at present seems to be the "nuclear option," which may be too blunt an instrument in some cases.

SECTION 7: CONCLUSIONS/RECOMMENDATIONS/LESSONS LEARNED

7.1 USG Recommendations

Enterprise Funds as a development mechanism	Despite the generally successful track record of the Enterprise Funds in the former planned economies of Central and Eastern Europe and Central Asia, some USAID interviewees expressed skepticism about the model as a development mechanism. Some of the skepticism derives from a lack of understanding of the concept, and part of it is a rejection of the idea that private equity and venture capital funds can solve development problems. Further, the Enterprise Funds model has now been used in several contexts, with some variations, including Southern Africa, Egypt, and Tunisia. The experience in these settings, from the manner in which the Funds were authorized, their structure, investment strategies, successes and failures, should be analyzed and studied objectively. As decision-makers deliberate potential replication of the model, the conditions in which these Funds were set up in Central and Eastern Europe should be taken into account. It is unlikely that the next Enterprise Funds would be established under the same circumstances: vacuum in the financial sector, a huge momentum for change and willingness on behalf of national governments not to meddle in the work of the Funds, availability of highly educated workforce — local investment officers may not have had private equity or western business style experience, but they had strong quantitative and accounting skills and overall good education. This will not be the case in many emerging markets. Further, the proximity of some of the Funds to Western Europe, the investment programs of EBRD, IFC, OPIC, FMO and others created greater opportunities for investments. **<u>Recommendations</u>: To break down the silos between groups espousing different opinions, the Office of Economic Growth should consider the creation or utilization of existing informal and formal channels to share knowledge and identify like-minded colleagues – people who probably work in private sector engagement, private capital mobilization, revenue mobilization, capital markets, banking, access to finance, economic growth, financial sector reform, DCA, and people interested in "innovative finance." Case studies and analyses of the experience of Enterprise Funds under different circumstances should be studied further. Mechanisms to collect and make available Funds' performance data should be considered. These could be dashboards or other databases adapted using IT solutions available to USAID.** **Even if at the end of the day there is no consensus on whether Enterprise Funds are development tools or private sector approaches to achieving development and other objectives (demonstration and multiplier effects, leveraging private capital, financial returns channeled into a legacy institution and more), there will be greater awareness and understanding of how they function and can be applied.**

Insufficient Resources	One benefit of the mapping of interested parties within USG is the simultaneous assessment of opportunities to combine efforts and resources to achieve common objectives. The Office managing the Enterprise Funds and Legacy Foundations has been chronically under-staffed and under-resourced. This is part of the reason why USAID Washington has not been able to engage more with the Funds and Foundations in the field. The lack of timely access to relevant technical expertise has been a serious impediment to the provision of expert opinion on complex subject matters such as management of grant agreements and fee structures between the Enterprise Funds, affiliated funds, and management companies; LTEI Plans and fees, shared services plans and fees, and more. **Recommendations: It is worth considering setting up a structure such as an Advisory Board of professionals with relevant private equity, venture capital, banking, investment banking, advisory and legal experience as well as retired USAID personnel with relevant experience. The exact structure and the incentives for participation can be determined based on USAID policies and procedures. The key will be to utilize the expertise effectively. USAID's global privatization initiatives provide an example of how an Advisory Board could provide technical expertise on as needed basis.** **Further, it is worth considering using counsel with experience in private equity and the financial industry when negotiating contracts and compensation plans with Enterprise Funds Boards. As part of these consultations, templates can be created for the different types of contractual needs that protect the interest of USG and the portfolios in the best possible manner. The Enterprise Funds used grant funds to secure such counsel and obtain often very beneficial terms. It will be a prudent investment for USG to invest upfront in the same manner.**
Consider and account for the role of incentives in contact matters as well as in the structures developed by the Enterprise Funds	The argument offered by our analysis is that additional consideration should have been given to the structure of the compensation incentives agreed to by USAID. The compensation terms of some of the Funds were overly generous and created perverse incentives that should have been better analyzed, understood, and addressed. **Recommendation: Consider carefully the incentives created by different Enterprise Fund models and especially matters such as compensation, carried interest and fee structures (including hurdle rates, claw back clauses), LTEI and option plans, the use of parallel private equity funds and investment management companies and the fee structures applied by them, dividend policies, and risk appetite framework in general. In addition, consideration should be given to the question whether external (non-grant funding) compensation should be capped and what the appropriate cap would be. That may also depend on the structure the Enterprise Fund decides to use.**

Appropriate level of control and its effective use	In the set-up of the Enterprise Funds and Legacy Foundations, Boards are the first line of defense for USG. Although, in general, Boards have fulfilled their responsibilities as stewards of the Funds and Foundations, there were some missteps during the early Fund years. Corporate governance and conflict of interest issues were at the core of these situations. Most of the time, those involved were senior executives, and occasionally Board members were involved as well. In general, these issues were addressed by USAID and the State Department; however, they were not always promptly identified. The root causes of this risk are lack of control in the appointment and re-appointment of Board Directors, insufficient emphasis on and enforcement of corporate governance procedures by some Boards, and limited visibility in the inner workings of the Funds, including the Boards. Several of these risks can be addressed without significant infringement on the independence of the Funds. **<u>Recommendation</u>: USAID should use effectively its ability not to propose for re-appointment Board members whose performance has proven subpar. If the possibility exists, USAID should provide opinion on newly identified potential Board members prior to their nomination. If possible, a more formal internal USG consultation process related to the development of a pipeline of potential Board members should be considered. This would also reduce the risk that the nomination process is given less attention by a different administration for whom Enterprise Funds may not be a development priority.** The issue of appropriate level of control comes into play among the relevant USG parties as well. By many accounts, turf wars between USAID and the Department of State and USAID Washington and USAID Missions occurred occasionally. **<u>Recommendation</u>: To minimize the likelihood of such tension affecting coordination, all parties should be informed and engaged as appropriate in the planning and design phase of an Enterprise Fund project. In this manner, informational needs, roles and responsibilities, coordination mechanisms, expectations, and alignment with strategies and on-going projects and initiatives can be taken into consideration.**

Balance between Financial Results and Development Impact	One of the areas of Fund performance with the most frequent challenges has been the balance between financial results and development impact. This is not surprising given the fact that the managers of the Funds were people from the financial services sector. It is not clear to what extent Fund managers were oriented on the concepts of development impact and the expectations of USAID in this respect. In fairness, the language in the Grant Agreements regarding development impact is rather vague and USAID never insisted (perhaps knowing that it would be unrealistic) on the development of M&E Frameworks for the Funds that actually measured impact. That is how the Funds ended up reporting occasionally on outcomes such as jobs created, without serious substantiation, and USAID never verified those numbers because there was no capacity to do so. **Recommendations: Some questions USG should define include what a reasonable expectation from the Funds in terms of effecting development impact would be, and what the appropriate and sufficient reporting metrics in this respect would be.** **When possible, external evaluations should be used to measure objectively outcomes and impact. This was the initial plan for the Enterprise Funds, as indicated in all Grant Agreements.** Outcomes measurement underline the importance of baseline data, which in turn underline the importance of setting specific and measurable objectives from the beginning and agreeing on a set of indicators to measure progress.

7.2 Enterprise Funds Recommendations

Strategy Development	The broadly defined objectives in the Grant Agreements provided much needed flexibility in setting investment strategies, determining appropriate structures for the Funds, and adapting the approach as circumstances necessitated. This was the right approach. The economies of the Soviet bloc underwent massive transformation and suffered various external and internal shocks — from actual shock therapies, to wars, revolutions, financial crises, and more. To mitigate some of the risks of this fluid approach, USAID properly instituted communication mechanisms and routine reporting processes that allowed sufficient visibility into the operations and decision making of the Funds. **Recommendations:** **Maintain maximum flexibility for the Funds' strategic and operational decision making to facilitate a rapid start-up of investment activities, an adaptable approach unobstructed by bureaucratic processes, and an effective use of private sector know-how and ingenuity to address the needs of local businesses and entrepreneurs.** **Both USG and the Funds should validate initial assumptions periodically to ensure that planning, obligation, disbursement and investment activities remain realistic and aligned. Shifts in priorities or investment strategies should be documented and communicated adequately, and performance measures should be adjusted, if needed.**
Governance	Generally, Boards performed their roles well and demonstrated business savvy in difficult and fluid environments as well as commitment to their roles, despite the fact that they worked in a pro bono capacity. However, there were some missteps and occasional weaknesses in corporate governance that resulted in poor performance and reputational damage. **Recommendations:** **1. Strengthen the vetting process for Board members, which could include broader reviews before nomination, including relevant experience and qualifications.** **2. New Board members should receive proper and sufficient on-boarding, including extensive briefing on corporate governance referencing case studies from previous Funds (names and countries masked).** **3. If needed, develop an expanded orientation package for local Board members who may lack prior Board experience.** **4. Existing Board members should undergo appraisals, ideally by an independent party at agreed frequencies.**

	5. Strong, clear and adequate COI policies for Boards and management teams should be developed as templates and provided up-front for incorporation in bylaws. Conflict of interest reviews should also be part of the nomination process for Board Directors and the hiring process for Fund management. **6. Boards should have limits on the number of terms served; a staggered board structure should be considered. USAID should review exceptional situations on a case by case basis. In such cases, financial disclosure and conflict of interest policies should be strengthened. Funds in liquidation mode can be exempt from the term limit requirements.** **7. USG should use its authority to review re-appointments and engage in the process to ensure that Board members' performance and appraisals are included in the decision making. Both Boards and USG should be proactive in addressing problems on the Board. USG should create a formal mechanism within USG to raise such concerns to the White House and minimize subjective decision making and political dynamics.** **8. Each Board should develop a succession planning strategy and be responsible for its execution. Progress should be included in annual reports. If Boards face difficulties in identifying the Board replacements they are looking for, they should report to USG and elaborate on proposed action plan. Updates on efforts to identify and recruit local Board members, as envisioned in Grant Agreements, should be included in the annual reports.**
Development Impact	Most Enterprise Funds struggled with the expectation to invest resources in effecting development impact and have a system to measure their contribution to such an impact. The reasons for the confusion and some frustration on all sides were multiple: development objectives and performance measurements were not well defined, eventually a reporting template was developed but that was years after the Funds started investing, so there was little in terms of baseline, the templates themselves did not collect the type of information that would enable a rigorous impact analysis, the Funds did not have the staff or resources to put in place the typical M&E systems required on USAID projects and that was probably not the best use of their resources, and external evaluations were not conducted by USAID, bar one DAI evaluation and several GAO and RIG audits. There was in fact ample development impact in terms of demonstration effect, financial institutions building, introduction of new products and services, contributions to public policies and laws and regulations related to business environment (e.g. corporate law, stock exchange, mortgage laws, securitization, non-banking financial institutions, etc.) and leverage of large amounts of additional resources, among other things, but the Enterprise Funds managers were not well versed in this terminology and manner of presentation. **<u>Recommendation:</u> It is probably not realistic to expect investment professionals to analyze development impact in the sense USAID uses the term. It might be worth considering the use of an external evaluation contract, as initially planned, to take on this role.**

7.3 Legacy Foundations Recommendations

Board Governance, Structure and Composition	**Vision and Mission** Legacy foundations overall adhere to good practice in terms of defining, stating and disseminating vision and mission statements, as well as periodically reviewing and updating these statements with guidance and input from their Boards and staff. While the vision and mission statements adhere to objectives as set out in the underlying grant agreements, interpretation of these statements differ across foundations, influenced by individual views, opinions and priorities on the part of Board members and by environmental or contextual situations in which the foundations are operating. For example, while legal documents may prioritize private sector development as the principal objective of foundations' work, varying interpretations of what private sector development involves results in some of foundations' work in areas that may go beyond a narrow or strict interpretation of private sector development. Moreover, some foundations place emphasis also on the fostering of good relations between the host country and the United States, which may involve work in the area of culture, for example. **Recommendation: Provision of clearer or more specific guidance regarding what constitutes private sector development should be considered, going forward, in the preparation of grant agreements and related documentation underlying the establishment of legacy foundations. This would serve to preempt interpretation of terminology and divergence of views on private sector development, and the role and mandate of foundations in the deployment of resources and program design.** **Organizational Structure** Legacy foundations overall deploy relatively flat organizational structures with indications that staff roles and responsibilities are clearly delineated and generally understood by staff. This is reinforced by frequent, if not continuous, communication across staff levels and organizational groupings. It should be noted that some foundations have well-established M&E departments or divisions, while others are currently introducing such dedicated teams. **Recommendation: The current organizational structure of legacy foundations appears to be appropriate, one recommendation being that teams dedicated to monitoring and evaluation form a part of any such structure to ensure full and appropriate observance of M&E activities corresponding to the fiduciary role of foundations.** **Board Composition and Policies** While most, if not all, legacy foundation successes can be, and are, attributed to the qualifications and commitment of the respective Boards and the guidance and direction provided by the members, it appears that overall foundations have not kept rigidly to generally accepted best practice of corporate governance in terms of enforcing either term limits or structured succession planning for their Board members. While the argument that Board members with

	twenty or more years of experience speaks to their commitment and depth of domain knowledge is a compelling one, this may be countered by the generally accepted and standard view that rotation of Board members over time is essential to introducing fresh perspectives and thinking while mitigating the risk of groupthink. Exceptional situations, where it may be difficult to recruit new Board members or senior executives, should be reviewed on a case by case basis. Foundations in close-down mode can be exempt from the term limit requirements. **<u>Recommendation:</u> Foundations should consider adhering to corporate governance best practice which suggests term limits for board members and appropriate succession planning, meaning identification of qualified directors to fill positions vacated by directors reaching their term limits. For future application, USAID may consider including language requiring such adherence in grant agreements and relevant legal documentation, alongside such language in Foundation bylaws.** **Board Actions and Responsibilities** Overall Board actions and responsibilities are in line with legacy foundations and mandates. One area meriting attention, however, is the fact that the observed lack of structured or enforced succession planning, noted above, with respect to Legacy Foundation Board members also applies to the senior levels of Legacy Foundation management. Preparation for transfer of Foundation leadership to a new "generation" of leadership is particularly relevant in the case of organizations in the CEE / WNIS regions where these organizations, in many cases, have their origination in the 1990s, the "launch" of the transition period, with individuals then taking on their leadership roles. Coming on three decades later, identification, grooming and preparation of new leadership for the foundations should be a well-established (if not completed) work-in-progress. **<u>Recommendation:</u> Foundations should consider adhering to best practice, which suggests term limits for senior management positions and appropriate succession planning, meaning identification of qualified individuals, from either within or outside the organization, to fill positions vacated by senior managers reaching their term limits. For future application, USAID may consider including language requiring such adherence in Foundation grant agreements and relevant legal documentation, alongside such language in Foundation bylaws.** **USAID / USG Oversight** One of the fundamental questions surrounding legacy foundation oversight is the role played by USAID (and the U.S. Government more generally) in such oversight. This can range from lines of communication without implication of influence or control to mechanisms whereby USG / USAID can directly influence legacy foundation decision making. It is the opinion of the evaluation team that the current approach whereby the foundations are essentially independent and free of USG / USAID direct influence or control is the appropriate one. Repeatedly, one of the key

	reasons given for foundation success — including views expressed by foundation grantees, partners and other stakeholders — is the ability of foundations to act in a quick, decisive manner without needing to engage in lengthy or complicated bureaucratic processes that would likely result from USG / USAID control. Moreover, the absence of such requirements seems to serve as a key motivator for individuals to join the Boards of the foundations. That said, there is an argument for some modality allowing for enhanced communication between the foundations and USG / USAID: It should be possible to strengthen USG / USAID visibility into foundations' operation without diminishing the latter's autonomy. For example, underlying grant agreements could account for communication between USG / USAID and foundations, for example, whereby USAID, the Foundation, and the U.S. Ambassador might engage in occasional or regular communication without necessarily requiring the foundation to act on USG / USAID's concerns. While this would serve to alleviate USAID's current sense of powerlessness in some cases, it would not, however, address the fact that foundations act according to, and only according to, their Boards' direction. In terms of access to information (documentation) emanating from foundation Board meetings, the U.S. Ambassador's presence (ex officio) on the foundation Board, as stipulated by grant agreements or related (informal) arrangements, should imply the Ambassador's having access to Board Books and related materials, including meeting minutes. This should in turn mean USAID having access to the same. The dynamic between USAID headquarters and the resident mission, where such exists, should be established with clarity and in particular should allow for some level of communication between the local mission and the foundation. Ambiguities in the relationships with respect to headquarters can have an impact on the foundation's work, for example, where synergies or alignment with national strategies being implemented by the local USAID mission may be overlooked by the foundation in the absence of regular communication. **Recommendation:** **If the Legacy Foundation model is considered for replication, USG should re-evaluate the current Legacy Foundation Grant Agreement template in light of legal, oversight, governance, and communication constraints it imposes on USG involvement. If possible, consider a privity of agreement/contract option to minimize compliance risks. This change does not have to affect significantly the level of independence of a Foundation — the Enterprise Funds offer a good example.** **Communications between the legacy foundation and USAID should be open without entailing any diminution of the foundation's independence, such independence being important to the flexibility and speed of foundations' decision-making, implementation and adjustments made to program or project design or implementation as needed. Such communication would also facilitate identification of synergies or complementarities between the foundation's work plan and that of USAID in-country,**

	resulting in efficiency gains through leveraging of resources and resultant heightened impact. In cases where there is a USAID mission in-country, respective roles of the resident mission and those of USAID headquarters should be clarified to account for maximizing synergies in strategy and work plans.
Grant-Making Models and Practices	Regarding grant models and proposal solicitation and review, legacy foundations should ensure that their outreach and engagement with potential partners and grantees is based on a comprehensive range of potential organization and individuals. In some cases, there is a perception that a given legacy foundation is working within a relatively tight circle of partners, opening the foundation to perceptions or allegations of "elitism." **Recommendation: Legacy foundations should ensure that their outreach, communications and grant solicitation strategies account for maximizing the range of partners, grantees, and stakeholders to ensure fair and transparent identification of project implementers.** Sustainability is one of the more common challenges in development in general and in terms of legacy foundations' work in particular. Legacy foundations can play an important role in providing guidance and support in the interest of grantee or partner organizations' sustainability, both in terms of assisting partners in their outreach efforts to identify and cultivate diversified funding sources, and in terms of institutionalizing good governance and management practices, in particular with respect to succession planning. **Recommendation: Legacy foundations should ensure that they have an appropriate and adequate strategy in place to support partner and grantee sustainability, including efforts to identify and realize new and long-term sources of support and implementation of appropriate succession planning policies to ensure that partner institution leadership does not depend on any single individual.**
Portfolio Performance Monitoring / Reporting	In terms of monitoring and quality assurance and project and program evaluation, legacy foundations should ensure that they have staff dedicated to these aspects of project management. Monitoring and evaluation of projects has, in some cases, been mandated to program staff, which may imply insufficient resources dedicated to M&E, while also creating the risk that performance assessment may not be impartial. Foundations should also note that evidence is critical to demonstrating program impact, and that impact differs from measuring outputs, which may include, for example, counting the number of people trained and/or the number reached with certain interventions. Impact also differs from outcomes, which are the short- to medium-term observable behavioral, institutional and/or societal effects of an intervention's outputs. Impact indicators refer to change observed over a longer period of time, measuring whether the project is having an effect, for example, on the quality of life of the project or program's beneficiaries. The sequencing can be viewed as project outcomes being the longer-term result of project outputs, and project impact being the longer-term result of project outcomes.

	<u>Recommendation:</u> Legacy foundations should ensure that monitoring and evaluation of projects are handled by dedicated staff, to ensure that sufficient resources, including time, are spent on assessment of project performance, and also to ensure impartiality of such assessment. Foundations should also ensure that all staff understand the distinction between project outputs, outcomes and impact, and the relationship that each of these measurements has on evaluation of project results overall and, hence, on the value obtained from the deployment of project resources.
Strategic Management / Priorities	**Strategic (Business) Planning** Legacy foundation strategies are intended to reflect USAID's emphasis on the foundations' support for private sector development. The definition or interpretation of private sector development, however, varies across the legacy foundations in terms of the Boards' (and, therefore, senior management's) views and opinions as to the range of activities and sectors that have an impact on, for example, jobs creation. **<u>Recommendation:</u> In order to pre-empt subsequent divergence of opinion regarding activities or areas that comprise or contribute to private sector development, definition of sector and types of intervention should be clarified with consistency in the underlying grant agreements and related documentation.** **Annual Work plans** Overall there were no issues identified with respect to preparation or implementation of work plans within established legacy foundation strategies. **<u>Recommendation:</u> For the benefit of future application, however, it is recommended that foundations take account of the benefits of using work plans as an implementation tool by assigning each section of the work plan to appropriate individuals or teams (e.g. the budget section may be assigned to finance staff and the section on targets to the monitoring and evaluation staff). Implementation can then be reviewed, and progress monitored, against the work plan to check that all steps in the work plan are being followed with any needed adjustments, including with respect to timetables, and related resource requirements accounted for. Allocating ownership of each section of the work plan to project team members tends to ensure that the entire team is engaged in keeping planning and making adjustments toward improving program implementation as needed.**

ANNEXES

Annex A: Evaluation Scope of Work

SECTION C – STATEMENTOF WORK

C.1 PURPOSE

The purpose of the Fund segment of this evaluation is threefold: 1) to examine how each Enterprise Fund balanced and pursued its development objectives and financial goals in its management, strategic direction, operation, and staffing arrangements over the course of its lifespan; 2) to assess the nature and reliability of existing evidence that Fund investments resulted in direct, positive gains in private sector development; and 3) to assess USAID's relationship to and oversight of the Enterprise Funds over the course of their operation and to identify any key lessons learned, barriers, or constraints that the agency should factor into planning and design if and when these or similar investment funds are supported in the future.

The purpose of the Foundation segment of this evaluation is threefold: 1) to take stock of the Foundations' strategic priorities and grant-making practices as they relate to their mandate to promote private sector development and policies and practices conducive thereto; 2) to compare the Foundations' governing and staffing structures, grant-making models and procedures, and day-to-day management against international standards of best practices and accountability for the stewardship of Foundations and, when applicable, to offer constructive and realistic recommendations for more closely adhering to those standards; and 3) to determine the extent to which existing forms of U.S. Government (USG) engagement—namely reviews of annual reports and participation of ex officio non-voting liaisons on Foundations' governing boards—constitute sufficient oversight for the USG to exercise its responsibility to ensure Foundations' adherence to their grant agreements with their "parent" Enterprise Funds.

C.2 BACKGROUND

Enterprise Funds

With the fall of the Berlin Wall in 1989 and the collapse of the Soviet Union on December 25, 1991, twenty-nine countries in the former Eastern Bloc began the transition from centrally planned to market-based economies. Realizing that these new states lacked the capacity necessary to successfully undertake this historic transition, the U.S. Congress authorized $1.177 billion to finance, through grants from USAID, ten (10) new investment funds, collectively known as "Enterprise Funds," to provide investment capital in 19 of those countries in Central and Eastern Europe and the Former Soviet Union (see Annex 1 for each Funds' area of operation and original grant amount).

The Enterprise Funds were a unique and complex vehicle for delivering U.S. assistance. The Funds were established by law, specifically the Support for Eastern European Democracy (SEED) Act of 1989 and Freedom Support Act (FSA) of 1992, which granted the Funds relative autonomy compared to traditional USAID grants. Each Fund was an independent, autonomous organization governed by a Board of Directors identified by USAID and with the advice of the White House. More than 90 board members from the U.S. and local private sectors served on a pro bono basis to guide the Fund's strategy and provide supervisory oversight. The Fund boards and the managers they hired set

Enterprise Funds Snapshot		
Countries/ Regions	Incorporation Year	USAID Obligated
Russia	1995	$329 m
Poland	1990	$255 m
Ukraine, Moldova & Belarus	1994	$150 m
Central Asia	1994	$106 m
Hungary	1990	$ 73 m
Czech & Slovak Rep.	1991	$ 65 m
Romania	1994	$ 61 m
Bulgaria	1992	$ 58 m
Baltics	1994	$ 50 m
Albania	1995	$ 30 m

investment policy and made investment decisions, while USAID, as the grantor, held primary responsibility for oversight of Fund activities carried out with USAID funds. The grant agreements between USAID and the Funds established procedures for monitoring, reporting, and evaluation.

The performance and objectives for the Enterprise Funds typically included pursuit of a "double bottom line" (sometimes referred to as a "dual mandate"): i) contributing broadly to market-oriented economic development in the countries where they operate, and ii) achieving financial profitability as a demonstration to others that it is possible to invest profitably and transparently in these transitional environments. In considering their achievements, it is important to remember that the Enterprise Funds were created primarily

as economic development tools to help "jump-start" these post-communist economies and to assist, more broadly, in private sector development within their host countries. It is also important to remember that each Enterprise Fund had its own unique written mandates, in that the various Grant Agreements between USAID and the Funds contained somewhat different language describing the expected accomplishments of the Funds in each case.

In addition to making direct equity investments and loans to a wide range of private enterprises, the Enterprise Funds played a key role in introducing new financial products into the region, such as home mortgage lending, mortgage securitization, credit cards, mezzanine financing, equipment leasing, and investment banking. In tandem with other USAID-funded development programs, the Enterprise Funds also aimed to remove institutional and regulatory roadblocks to market-driven private investment.

The Enterprise Funds were created before traditional venture capital funds were willing to invest in the E&E region. Thus, the Funds were pioneers in demonstrating that private sector investment in this region was feasible and could be profitable. Over time, this demonstration effect apparently, according to the Funds' managers, helped attract substantial foreign direct investment capital to further promote private sector development in the E&E region.

The effectiveness of the ten E&E Enterprise Funds ultimately depended on the economic and political conditions on the ground, as well as the overall investment strategy and specific investment decisions made by each Fund's Board and management team, and thus varied from country to country. In the early years of operations, the financial performance of certain Funds was less than anticipated; however, as the Funds gained experience in the region, the long-term financial results have been significant in many cases.

Enterprise Funds – Areas of Operation and Original USAID Grant Amounts

Legend

AAEF: Albanian-American Enterprise Fund
BAEF: Bulgarian-American Enterprise Fund
BalAEF: Baltic-American Enterprise Fund
CAAEF: Central Asian-American Enterprise Fund
HAEF: Hungarian-American Enterprise Fund
PAEF: Polish-American Enterprise Fund
RAEF: Romanian-American Enterprise Fund
SAEF: Slovak-American Enterprise Fund
TUSRIF: U.S.-Russia Investment Fund
WNISEF: Western NIS Enterprise Fund

Transition to Enterprise Legacy Foundations

Most E&E Enterprise Funds have now reached the point in their life cycle where they have ceased making new investments and have either completely exited their investment portfolio or are in the process of doing so. Five Funds have legally dissolved, while most other Enterprise Funds are in the process of winding up their affairs and liquidating their assets. The proceeds of their investments, which in some cases significantly exceeded the amount of the original USAID grant, were utilized to i) form Legacy Foundations in their host countries which continue to support private sector development objectives, in some cases with robust endowments that may continue to operate in perpetuity, and ii) return a portion of the original Grant amount to the U.S Treasury. To date, the Enterprise Funds have collectively returned $225.5 million to the U.S. Treasury and provided approximately $1.2 billion in program income to finance their Legacy Foundations to deliver assistance across Central and Eastern Europe.

The establishment of the Foundations was

Legacy Foundations Snapshot		
Countries of Operation	Launch Date	Approximate Endowment to Date
Bulgaria	2007	$ 422 m
Poland	2000	$ 263 m
Albania	2009	$ 200 m
Russia	2008	$ 150 m
Romania	2009	$ 125 m
Baltics	2010	$ 37.5 m
Ukraine & Moldova	2015	$ 30 m
Central Asia	2007	$ 17 m
Hungary	2003	$ 15 m
Slovak Rep.	2010	$ 4 m

preceded by a proposal prepared by the relevant Enterprise Fund, negotiated and approved by USAID, and implemented by a modification to the Grant Agreement between USAID and the Enterprise Fund, approving the Grant Agreement between the Fund and the new Foundation. All Foundations have as their overarching objective private sector development and policies and practices conducive thereto.

The Western NIS Enterprise Fund (WNISEF), however, is an exceptional case in this transition process. USAID and the WNISEF agreed in 2015 to extend the life of the Fund and to allow the WNISEF to use $30 million of reflows to implement a targeted program of assistance to address the critical needs to Ukraine and Moldova. The WNISEF submitted to USAID a proposal for a Legacy Program, to be carried out by the Fund, rather than by a Legacy Foundation, which was approved by USAID on January 28, 2015, listing the following four program areas: export promotion policies, impact investing, local economic development, and economic leadership. In early 2016, the grant agreement was further revised to permit WNISEF to recommence operations as an Enterprise Fund.

In most countries where Legacy Foundations work, the USG has transitioned from its role as a foreign assistance provider, and the Foundations represent our country's enduring assistance legacy. USAID/E&E recognizes that the Legacy Foundation model is unprecedented in the agency's history, and that the Agency has never embarked on a systematic evaluation of either the Funds or the Foundation model.

Legacy Foundations – Areas of Operation and Approximate Endowments To Date

Legend
AADF: Albanian-American Development Foundation
ABF: America for Bulgaria Foundation
BAFF: Baltic-American Freedom Foundation
CAEF: U.S.-Central Asian Education Foundation
HAESF: Hungarian-American Enterprise Scholarship Fund
PAFF: Polish-American Freedom Foundation
RAF: Romanian-American Foundation
SAF: Slovak-American Foundation
USRF: U.S.-Russia Foundation for Economic Advancement and the Rule of Law
WNISEF: Western NIS Enterprise Fund

C.4.9 EXPECTED TASK ORDER SERVICES

The methods described herein are only illustrative, and USAID expects the offeror to propose data collection and analysis methods that will "generate the highest quality and most credible evidence that corresponds to the evaluation questions being asked," as stipulated in USAID's Evaluation Policy.[1] The offeror is expected to identify feasible data collection methods, both quantitative and qualitative, and summarize the advantages and disadvantages of each. The methodology for any evaluation process that involves the selection of benefitting enterprises and/or individuals (e.g. surveys, focus groups, interviews) must be clearly explained and justified.

Case Study Design

The intention is for the evaluator to adopt a case study evaluation design that focuses primarily on five Funds (and their corresponding Legacy Foundations):

- Albanian-American Enterprise Fund & Albanian-American Development Foundation
- Bulgarian-American Enterprise Fund & America for Bulgaria Foundation
- Hungarian-American Enterprise Fund & Hungarian-American Enterprise Scholarship Fund
- Romanian-American Enterprise Fund & Romanian-American Foundation
- Western NIS Enterprise Fund

The evaluator should include all ten Funds (and nine Foundations) in the evaluation's desk review, U.S.-based data collection, and electronic data collection (if any is undertaken). Field work in Europe and Eurasia, however, will be dedicated exclusively to the five case studies. Particular attention should be paid to the Western NIS Enterprise Fund, the only instance in which the original Fund continues operations and is also now engaged in "Foundation-like" activities in Ukraine and Moldova. If circumstances deem any of the above case studies infeasible or imprudent, the offeror can propose alternative organizations/countries; however, any alteration to the case study list must be agreed upon in writing by USAID's COR.

Enterprise Fund Evaluation Questions

The Enterprise Fund segment of this evaluation will consist of four evaluation questions:

- *Fund Evaluation Question #1:* How successful were the Enterprise Funds in balancing their dual mandate of achieving specific economic development objectives and achieving financial returns, as laid out in each of their original Grant Agreements with USAID? To what extent and how reliably did Funds measure progress toward their respective development objectives?

- *Fund Evaluation Question #2:* Is there evidence that Enterprise Funds' investments contributed to improved management, business growth, employment generation, and/or additional investment inflows among recipient companies?

- *Fund Evaluation Question #3:* How effective were the Enterprise Funds' pro bono Boards of Directors in providing guidance, direction, and oversight in the operations of the Funds and in the operations of the SMEs in which the Funds invested? Did the Boards' composition or decision-making processes conflict with international best standards for investment fund governance and/or work to the detriment of the Funds' abilities to achieve their stated objectives?

- *Fund Evaluation Question #4:* Did USAID have adequate access to information, staff expertise, and management arrangements in place in Washington, D.C., and/or countries of operation in Europe to effectively exercise its oversight role throughout the duration of each Enterprise Fund's operation, as established in the original Grant Agreements? If yes, what proved most critical? If no, what was missing?

Legacy Foundation Evaluation Questions

The Legacy Foundation segment of this evaluation will consist of three evaluation questions:

- *Foundation Evaluation Question #1:* To what extent do Legacy Foundations' strategic priorities, grant-making practices, and other activities adhere to their mandate to "promote private sector development and policies and practices conducive thereto" in host countries, as specified in their original Enterprise Fund Grant Agreements and Legacy Foundation proposals as approved by USAID? If and when Foundations have pivoted strategic direction and shifted programmatic focus, what linkages (if any) did those deviations have on evolving private sector development needs in the country of operation? For those foundations focused primarily/exclusively on education activities, how closely have foundation supported scholarships, internships, fellowships, and exchanges been aligned to private sector workforce needs in their home countries?

- *Foundation Evaluation Question #2:* To what degree do the Legacy Foundations' governing and staffing structures, grant-making practices, and day-to-day management align with international standards of practice and accountability for the stewardship of foundations? Have any particular governing or operating models proven more or less effective in terms of the foundations fulfilling their mandate? The evaluator should give particular attention to the following:
    - Articulation, adherence to, and evolution of strategic mandates and priorities to account for evolving economic and political dynamics in host countries (or regions)
    - Board of Directors selection, retention, roles, and responsibilities
    - Appropriateness of grant-making model(s)
    - Institutional procedures, capacities, and resources to monitor, evaluate, and report on activities for internal management and external accountability

- *Foundation Evaluation Question #3:* To what extent are existing forms of USG engagement sufficient and relevant for providing the information necessary for the USG to exercise its responsibility to ensure Foundations' adherence to their grant agreements with their "parent" Enterprise Funds, in some case into perpetuity?

Offerors should feel free to suggest clarifications or edits to the above evaluation questions.

Suggested Methodology

The evaluation is intended to take stock of the nature and scope of Fund and Foundation activities within the private sector in each country of operation, as well as the extent to which those activities align to the various Grant Agreements between USAID, the Enterprise Funds, and by extension, their Legacy Foundations. Whenever possible, the evaluator should aim to capture the manner in which each Fund and Foundation's strategic direction, portfolio composition, and relationship with USG stakeholders based in Washington, D.C., and in Europe evolved over time. As a starting point, the evaluator should review grant agreement, modification, and liquidation documentation; Enterprise Fund monitoring reports submitted to USAID during their operation; recent Legacy Foundation annual reports submitted to USAID; and the USAID/E&E's September 2013 Enterprise Fund internal review final report titled *"The Enterprise Funds in*

Europe and Eurasia: Success and Lessons Learned" as a foundation upon which to explore Fund and Foundation operations and portfolios in greater depth.

This evaluation may also be conducted utilizing information from the following sources *inter alia*:

- Internal and external Fund and Foundation documentation and reporting on portfolios, governance, organizational structure, strategic direction, and outreach and fundraising. A review of secondary literature should include quarterly and annual reports, memoranda on relevant topics, and any internal assessment and/or evaluation reports prepared by the subject organizations or their beneficiaries.
- Interviews, questionnaires, and/or electronic surveying of Fund and Foundation staff and their partners and cooperators.
- Interviews with government authorities, U.S. Department of State and USAID staff, and other stakeholders engaged in private sector development in countries of operation.
- Interviews, focus groups, and/or electronic surveying of recipients of Fund investments and Foundation grants, loans, and scholarships.
- Site visits to recipient companies and organizations.

The team should aim to visit a sufficient number of Enterprise Fund and Foundation partners and grantees to provide a valid and representative sample in each country of operation. Sites selected should provide a cross section of each Fund and Foundation's activities. Given the unconventional nature of USAID's relationship with these entities and that some Enterprise Funds ceased their active investment phases 5 to 10 years ago, USAID anticipates that identification and participation of key informants will likely be challenging in some cases, particularly for the Enterprise Fund component of the evaluation. If and when this is the case, USAID expects the evaluation team to reallocate levels of effort and data collection plans accordingly.

This evaluation should draw on international best practices for the management and organization of investment funds and philanthropic foundations, with a careful consideration of the special circumstances under which each Enterprise Fund and Legacy Foundation operates. The evaluator should assess the conditions, structures, and procedures necessary, both within those organizations and within USAID, for the success of such USAID-supported, independently managed investment funds and foundations for the agency's future planning purposes. For the Foundation portion of the evaluation, the offeror may consider developing a custom framework, rubric, or scorecard of philanthropic standards and best practices against which to assess each case study Legacy Foundation.

This evaluation is not designed to holistically measure the developmental impacts of the Enterprise Funds or Legacy Foundations. However, data collected within the case studies may provide evaluation users with a richer understanding of the likely effects of investments and grants on private sector development in each country. These case studies should encompass key characteristics and perceptions of Fund and Foundation managers not already captured by monitoring systems, such as portfolio decision-making dynamics, organizational and staffing capacities, the economic and financial market context, and the relationships, experiences with, and perceptions of both USAID and with investment and grant recipient organizations. Whenever relevant and meaningful, findings should be interpreted against international/industry trends and good principles and practices of international development.

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT			1. CONTRACT ID CODE	PAGE OF PAGES 1 4
2. AMENDMENT/MODIFICATION NO. 01	3. EFFECTIVE DATE See Block 16C	4. REQUISITION/PURCHASE REQ. NO. REQM-EE-17-000032		5. PROJECT NO. (If applicable)

6. ISSUED BY CODE	7. ADMINISTERED BY (If OTHER THAN ITEM 6) CODE
USAID Office of Acquisition and Assistance 1300 Pennsylvania Ave, NW Federal Center, SA-44, Room 506-G Washington DC 20523-7900	Not Applicable

8. NAME AND ADDRESS OF CONTRACTOR (No., Street, County, State, and Zip Code)			
DEVTECH SYSTEMS, INC. 1700 N MOORE ST STE 1720 ARLINGTON VA 22209-1951		☐	9A. AMENDMENT OF SOLICITATION NO.
			9B. DATED (SEE ITEM 11)
		☒	10A. MODIFICATION OF CONTRACT/ORDER NO. AID-OAA-I-15-00018 AID-OAA-TO-16-00029
CODE	FACILITY CODE		10B. DATED (SEE ITEM 11)

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered, solicitation is amended as set forth in item 14. The hour and date specified for receipt of Offers ☐ is extended ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended by one of the following methods:

(a) By completing items 8 and 15, and returning copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If Required)
See Schedule Net Increase: $0

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO., AS DESCRIBED IN ITEM 14

☐	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify Authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
☐	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103 (b).
☐	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:
☒	D. OTHER (Specify type of modification and authority) The Foreign Assistance Act of 1961, as amended

E. IMPORTANT: Contractor ☐ is NOT ☒ is required to sign this document and return 0 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.

The purposes of this modification are to 1) provide a no cost extension to 5/15/2017, 2) update key personnel and 3) reduce case studies in sow to one (1).

--See Continuation Page--

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER		16A. NAME AND TITLE OF CONTRACTING OFFICER	
Reyhan Ilhan , Director of Contracts &Grants		Georgia Fuller	
15B. CONTRACTOR/OFFEROR (Signature of person authorized to sign)	15C. DATE SIGNED 2/6/2017	16B. UNITED STATES OF AMERICA (Signature of Contracting Officer)	16C. DATE SIGNED 2/06/2017

NSN 7540-01-152-8070
Previous Edition Unusable

STANDARD FORM 30 (REV. 10-83)
Prescribed by GSA FAR (48 CFR) 53.24

Contract No: AID-OAA-TO-16-00020
Modification No. 01
Requisition No. REQM-EE-17-000032
Contractor: DEVTECH SYSTEMS, INC.
Page 2 of 4

Due to this Modification the following changes are hereby made:

1. Period of performance extension to May 15, 2017.

   Section F.2 "Period of Performance"
   Remove the Article and **Replace it** with:
   "The period of performance for this work is September, 27 2016 to May 15, 2017"

2. Key personnel names were incorrect in contract. Revision provided via email to Mark Sleith on 10/17/2016 and acknowledged on 10/25/2016.

   Section F.8 "Key Personnel"
   Remove the article and **Replace** it with:
   - Albena Godlove, Team Leader/Senior Evaluation Specialist
   - Stephen Strauss/Financial Sector/Investment Fund Technical Expert
   - Eugene Spiro/Foundations/Grants Specialist
   - Cristina Mosneaga/Evaluation Specialist

3. As previously agreed upon, DevTech will only submit one case study, for the WNIS Enterprise Fund, as an annex to the Final Report

   Section C Page 9: **Remove** the paragraph of Case Study Design and **Replace** with the following:

   "WNIS Enterprise Fund Case Study (Annex to the Final Evaluation Report)

   The WNIS Enterprise Fund (WNISEF) is unique among the rest of the Enterprise Funds and Legacy Foundations covered by this evaluation in several ways:
   1. It is the only Enterprise Fund in Central and Eastern Europe that remains in its active investment phase;
   2. The Enterprise Fund operates a legacy foundation-type program in addition to managing its investment portfolio;
   3. It manages a portfolio of investments in two countries, Ukraine and Moldova; and
   4. It operates in a context that is more politically fluid than the rest of the funds and foundations.

   These characteristics set the WNISEF apart and provide an opportunity to explore in greater detail its structure, strategy, and performance. WNISEF is at a stage of its evolution when it is already possible to analyze its results and impact on the economy and sectors in which the fund has invested. Further, the hybrid approach adopted by WNISEF – to operate as an enterprise fund while managing a legacy grant program – has already been implemented and it will be possible to analyze its effectiveness and results to-date.

   The focus of the case study will be finalized in close coordination with WNISEF and USAID and will depend both on the priority of the evaluation questions as well as on the availability of data, including from investees and beneficiaries of the legacy grant program. It is expected that the case study will address in greater detail one or more of the evaluation questions for funds and foundations in scope of this project.

   The methodology used to develop the case study will comprise the data collection methods proposed for this project. The evaluation team will take advantage of the planned field work in Ukraine and

Moldova to conduct additional visits and interviews for the case study. Additional data collected for the in-depth analysis will be managed and transferred to USAID at the end of the project together with the rest of the collected qualitative and quantitative information. The case study will be developed as a stand- alone document that will also be included as an Annex to the Final Evaluation Report.

4. In accordance with the proposed Evaluation Methodology, DevTech will draft the Final Report in the following structure:

Section F.6 "Deliverables" I) Evaluation Data: **Remove** the paragraph starts with "Final Evaluation Report Guidelines" and **Replace** it with the following:

"Final Evaluation Report

The final evaluation report will follow the prescribed outline included in the contract for this Task Order, namely:

- *Executive Summary*. This section will be developed as a stand-alone product that states the purpose of the evaluation, provides concise background of the Enterprise Funds and Legacy Foundations, describes the evaluation methods explicitly answers each evaluation question, and summarizes findings, conclusions, and recommendations. (6-8 pp).
- *Introduction*. States the purpose and audience and outlines the evaluation methodology (1-2 pp)
- *Limitations*. Details the limitations in the availability, accessibility, adequacy and reliability of data and other information used by the team; any challenges in developing representative sampling methodologies; identifying and reaching investees, beneficiaries of programs, and other stakeholders; and other constraints that may have affected the design of the evaluation and its execution or the report findings and conclusions. The section will also describe the approaches used by the evaluation team to address these constraints, to the extent possible (1-2 pp)
- *Background*. Provides a brief overview of the project and the evaluation (2-4 pp)
- *Methodology*. This section will provide a detailed description of the methodology used by the evaluation team; including the Evaluation Matrix. It will reference the limitations to the methodologies and the mitigation measures adopted by the evaluation team to address them to the extent possible.
- *Findings/Conclusions/Recommendations/Lessons Learned*. While the reports will answer the evaluation questions explicitly upfront in the reports, it will present the detailed analysis in this section following several key themes. The themes listed below cover all evaluation questions and will allow the evaluators to compare the organization, operations, governance, and results of funds and foundations across the region and highlight success stories, best practices, and lessons learned. The proposed organizing themes of the analysis include:

    1. Objectives of the Enterprise Funds and Legacy Foundations;
    2. The strategies and models adopted by the Funds and Foundations to accomplish these objectives and the evolutions of the strategies over time, if relevant;
    3. Governance, including:
        a. Board composition, decision-making, and adherence to best practices in corporate governance;
        b. The role of the Fund and Foundation Boards in providing strategic direction, oversight of investment and grant-making decision-making processes, compensation setting, and compliance with policy and operations processes, and reporting
        c. Sufficiency and relevance of US Government engagement, USAID's access to information, clarity of management and reporting arrangements, and adequacy of oversight;
    4. The accomplishments of the Funds and Foundations - financial and development impacts, balancing financial versus development objectives and/or financial flows that pertain to development gains (e.g. amount of credit extended to entrepreneurs, financial success of investees, etc.); and

3. Lessons learned, best practices, risks and recommended risk mitigation strategies, and other considerations for policy makers and practitioners who may be contemplating using the Enterprise Fund and Foundation model elsewhere.

The report will distinguish between findings (the facts), conclusions (interpretation of the facts), and recommendations (judgments related to possible future programming). The report will also clearly delineate between findings, conclusions, and recommendations pertaining to Enterprise Funds, those pertaining to Legacy Foundations, those pertaining to USAID, and those pertaining to a combination therein. Conclusions and recommendations will be clearly linked to the evidence and findings on which they are based (20-35 pp).

The following information will be provided as annexes:

- Scope of Work and its modifications (if any);
- Evaluation plan;
- Case Study: WNISEF (see below section)
- Glossary of terms;
- Sources of information properly identified and listed, clear documentation of schedules, meetings, interviews and focus group discussions;
- Data collection instruments used in conducting the evaluation such as survey instruments, focus group scripts, questionnaires, checklists, and/or discussion guides used;
- Interview transcripts with signed consent forms;
- Data sets and other types of information collected;
- If relevant, any "statements of differences" regarding significant unresolved difference in opinion by funders, Enterprise Funds, Legacy Foundations, and/or evaluation team members; and
- Conflict of interest statements from the members of the evaluation team."

All other terms and conditions remain in full force and effect
[End of modification no. 01]

Annex B: Evaluation Matrix

No.	Evaluation Questions	Measure/Indicator	Main Sources of Information	Data Collection Methods	Data Analysis Methods
Q 1. How successful were the Enterprise Funds in balancing their dual mandate of achieving specific economic development objectives and achieving financial returns, as laid out in each of their original Grant Agreements with USAID? To what extent and how reliably did Funds measure progress toward their respective development objectives?					
Specific Questions:					
1	What criteria did the Fund use to make investment decisions? Did the Fund have a written investment strategy? Against what goals and benchmarks was the Fund portfolio's performance measured?	Number or percent of companies in which enterprise funds invested that are still operating	**Primary Sources:** **Key informant interviews:** all key stakeholders both in the U.S. and the target countries. **Focus group discussions** with the staff of Enterprise Funds, USG Mission staff, and representatives from business associations and other external stakeholders. **Secondary Sources:** **Documentation** including grant agreements, quarterly and annual reports, mission reports and related memoranda. Research may also cover materials to provide comparable performance of similar foundations, and media reporting. **Additional materials from stakeholders** –requested from the USAID Field Missions and designated points of contact for the funds in target countries.	**Semi-structured interview protocols** to gather qualitative information from respondents. **Desk Research:** review of Funds documentation and additional material provided by stakeholders A **corporate governance assessment framework** (based on IFC methodology) to assess performance against international best practice. **Field Visits** to selected target countries	**Gather and consolidate information**: findings from the desk review and U.S.-based data collection as well as the information from field visits. **Organize findings:** Data that meets the defined criteria will be analyzed and grouped per country, theme, question, type of deliverable (case study, final report). **Code data:** The evaluation team will develop a coding framework, which will consist of a list of codes that will be used to index and divide material into descriptive topics.
2.	How and how frequently did the Fund take stock of the changed economic and regulatory circumstances in its host country? How did the Fund adapt and evolve accordingly?	regulatory and business environment improvements when funds invested time and resources in drafting and promoting favorable regulations (bankruptcy, mortgage, banking regulations, protection of the right of shareholders), etc.			
3.	What were the Enterprise Fund's efforts to pioneer the development of new services or products?				
4.	What was the impact of the Enterprise Fund overall, and of its specific investments and other activities, on its host country's economic development, on the development of its private sector, and on the country's reforms?				
5.	What might the Fund have done differently to better support the country's economic and private sector development and reforms? What investments or initiatives failed to go as planned, and how were these negative outcomes explained and reported?				
Q2. Is there evidence that Enterprise Funds' investments contributed to improved management, business growth, employment generation, and/or additional investment flo among recipient companies?		Annual revenue of companies that benefitted from fund investment, growth (size, employees,			

		revenue), and other quantifiable metrics			
Q 3. How effective were the Enterprise Funds' pro bono Boards of Directors in providing guidance, direction, and oversight in the operations of the Funds and in the operations of the SMEs in which the Funds invested? Did the Boards' composition or decision-making processes align with international best standards for investment fund governance or work to the detriment of the Funds' abilities to achieve their stated objectives?					
Specific Questions:					
1.	How did the Boards of Directors of the Enterprise Funds articulate and ensure adherence to strategic mandates and priorities? How well did they manage the evolution of strategies and priorities to account for changing economic and political dynamics in the countries in which the Enterprise Fund operated?	Results of technical assistance and entrepreneurship programs and other similar activities — micro loans programs, etc.	**Primary Sources:** **Key informant interviews:** all key stakeholders both in the U.S. and the target countries. **Focus group discussions** with the staff of Enterprise Funds, USG Mission staff, and representatives from business associations and other external stakeholders. **Secondary Sources:** **Documentation** including grant agreements, quarterly and annual reports, mission reports and related memoranda. Research may also cover materials to provide comparable performance of similar foundations, and media reporting. **Additional materials from stakeholders** –requested from the USAID Field Missions and designated points of contact for the funds in target countries.	**Semi-structured interview protocols** to gather qualitative information from respondents. **Desk Research:** review of Funds documentation and additional material provided by stakeholders A **corporate governance assessment framework** (based on IFC methodology) to assess performance against international best practice. **Field Visits** to selected target countries	**Gather and consolidate information**: findings from the desk review and U.S.-based data collection as well as the information from field visits. **Organize findings:** Data that meets the defined criteria will be analyzed and grouped per country, theme, question, type of deliverable (case study, final report). **Code data:** The evaluation team will develop a coding framework, which will consist of a list of codes that will be used to index and divide material into descriptive topics
2.	How were Board Members selected and retained? Were there any issues related to Board appointments and departures that had an impact on the Enterprise Fund's governance and performance?				
3.	What were the roles and responsibilities of the Enterprise Funds' Board of Directors? a. Were there Committees of the Boards, and what were their roles, responsibilities and membership? b. How were decisions made about management and staff compensation? Were any incentive compensation plans approved and on what basis? c. Were there approved policies on conflict of interest, and how were such policies monitored and enforced?				
4.	What were the Boards' policies and criteria for evaluating and approving investments by the Enterprise Funds and				

	for approving the creation of new entities to be wholly owned by the Enterprise Funds?				
5.	What were the Institutional procedures, capacities, and resources to monitor, evaluate, and report on activities for internal management and external accountability?				
Q 4. Did USAID have adequate access to information, staff expertise, and management arrangements in place in Washington, D.C., and/or countries of operation in Europe to effectively exercise its oversight role throughout the duration of each Enterprise Fund's operation, as established in the original Grant Agreements? If yes, what proved most critical? If no, what was missing?					
Specific Questions:					
1.	How was oversight exercised by the granting authority USAID? What was the degree of responsiveness of the Enterprise Funds' Boards and management to such oversight?	number and frequency / regularity of reports as per Grant Agreement Contents / quality of information provided to USAID by Funds	**Primary Sources:** **Key informant interviews:** all key stakeholders both in the U.S. and the target countries. **Focus group discussions** with the staff of Enterprise Funds, USG Mission staff, and representatives from business associations and other external stakeholders. **Secondary Sources:** **Documentation** including grant agreements, quarterly and annual reports, mission reports and related memoranda. Research may also cover materials to provide comparable performance of similar foundations, and media reporting. **Additional materials from stakeholders** –requested from the USAID Field Missions and designated points of contact for the funds in target countries.	**Semi-structured interview protocols** to gather qualitative information from respondents. **Desk Research:** review of Funds documentation and additional material provided by stakeholders A **corporate governance assessment framework** (based on IFC methodology) to assess performance against international best practice. **Field Visits** to selected target countries	**Gather and consolidate information**: findings from the desk review and U.S.-based data collection as well as the information from field visits. **Organize findings:** Data that meets the defined criteria will be analyzed and grouped per country, theme, question, type of deliverable (case study, final report). **Code data:** The evaluation team will develop a coding framework, which will consist of a list of codes that will be used to index and divide material into descriptive topics

Annex C: Case Study: The Western NIS Enterprise Fund Expert Promotion Legacy

The Potential of Export Promotion as a Catalyst for Stakeholder Coordination in Ukraine

Background

The United States Agency for International Development (USAID) contracted DevTech Systems, Inc. (DevTech) to carry out an evaluation of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations set up in the host countries between 2000 – 2015 and funded with some of the proceeds from the investments of the Enterprise Funds. The project included field work in Albania, Bulgaria, Romania, Hungary, Ukraine, and Moldova. The evaluation team traveled to Ukraine and Moldova between March 12 – April 1, 2017 to assess the impact of the Western New Independent States Enterprise Fund (WNISEF) investments and legacy programs on private sector development in Ukraine and Moldova.

The evaluation team's scope of work related to WNISEF included the development of a case study. The topic was to be selected on the ground, based on input from WNISEF and USAID Ukraine, which had funded part of the evaluation. The evaluation team engaged WNISEF and USAID Ukraine in discussions regarding a suitable topic. USAID Ukraine's interest was in exploring opportunities for better coordination and collaboration with WNISEF. In a discussion with the evaluation team, the WNISEF leadership referred to this idea as a "dead end." In that discussion and in subsequent written comments, WNISEF interpreted the idea for increased coordination as a suggestion for an increased oversight from USAID Ukraine and stated repeatedly that oversight of WNISEF has always been provided by USAID Washington. While the intent in this proposed topic was never to argue for greater oversight by USAID Ukraine of the WNISEF legacy programs or investments, it was apparent that the topic, as proposed, was not of interest to WNISEF.

In an effort to identify a topic of mutual interest and potential benefit, the evaluation team considered the opportunity of a pending USAID Ukraine procurement focusing on export promotion, which also happens to be the focus of one of the legacy programs implemented by WNISEF. The objective was not to discuss the contents of the procurement or get engaged in procurement-related work in any way (a sensitive matter for USAID Ukraine at the time and clearly understood by the evaluation team); rather, to use export promotion as a lens and explore coordination opportunities in this space provided by an upcoming, already designed, export promotion project. The objective was to explore the interests of stakeholders in greater engagement and the agreeable parameters of such engagement.

This idea was acceptable to WNISEF and USAID/Ukraine. As part of the research and data collection for the case study, the evaluation team met twice with the WNISEF Program Manager in charge of the Export Promotion Policy Program. The evaluation team and the WNISEF Program Manager of the Export Promotion Policy Program discussed and reviewed on-going activities, collaboration with the Ministry of Economic Development and Trade (MEDT) of Ukraine, results to-date and various documents. The WNISEF Program Manager also offered to assist the evaluation team in securing an interview with the Deputy Minister and Trade Representative of Ukraine. As the Deputy Minister and Trade Representative of Ukraine was traveling while the evaluation team was in Kyiv, the WNISEF Program Manager helped facilitate a telephonic interview with the Deputy Minister and Trade Representative of Ukraine once she was available and the team was back in the United States. While in Kyiv, the evaluation team also met with the Head of the Export Promotion Office and held three meetings with USAID Ukraine. The evaluation team debriefed USAID Ukraine on its preliminary findings on the day of its departure from Kyiv. At that time, the evaluation team had not yet met with USAID Moldova, interviewed the Trade Representative of Ukraine or completed its analysis of the WNISEF programs.

The accession to the World Trade Organization (WTO), the implementation of the Deep and Comprehensive Free Trade Agreements (DCFTA) with the European Union, the Canada-Ukraine Free Trade Agreement (CUFTA), signed in July 2016, and the re-orientation of both countries away from traditional trading partners have heightened the importance of increased access to new markets, export promotion and trade, and investment. These opportunities have also highlighted the gaps in the knowledge, preparation, and financial ability of Ukrainian and Moldovan small and medium-sized enterprises (SMEs) to take advantage of the new opportunities and the need for technical and financial support. This challenge will require a coordinated response from all stakeholders.

Stakeholders

WNISEF is a $150 million regional fund created in 1994 by the U.S. Government (USG) via USAID. The fund has invested directly and through a private equity fund, Horizon Capital, that manages three private equity funds in two of which WNISEF is a Limited Partner.

In January 2015, USAID approved WNISEF's proposal to continue its mission through the existing WNISEF structure and apply $30 million of investment proceeds earned to fund philanthropic programs in Ukraine and Moldova. The philanthropic initiatives are referred to as Legacy Programs and include the following priority areas: export promotion, local economic development, impact investing, and economic leadership. Some of the projects the WNISEF Legacy Programs have supported to-date include targeted technical assistance activities. In April 2016, the Grant Agreement was further amended to enable the addition of another $5 million to the Legacy Programs' budget, reaching a total of $35 million, as well as a $30 million conditional commitment to Horizon Capital's third private equity fund, and a $5 million allocation for investments in early stage technology ventures, also managed by Horizon Capital.

The WNISEF Export Promotion Policy Program

WNISEF launched the Export Promotion Policy Program with the objective to improve the ability of Ukrainian and Moldovan exporters to access new markets. The program's approach is to work with Ukrainian and Moldovan governments to develop and implement rational, forward-looking, national export promotion policies, promote Ukraine and Moldova globally, support public and private sector initiatives in Ukraine and Moldova to address systemic issues, deliver far-reaching benefits, improve the export environment, and achieve export expansion and jobs creation. The Export Promotion program includes three broad types of interventions:

1. Improving policy and regulatory environment to facilitate exports
   Under this rubric, in Ukraine the Legacy Program has worked closely with the MEDT to develop a comprehensive National Export Strategy. The National Export Strategy will ultimately define the country's vision and goals in trade policy as well as government resources, regulations, and laws to be aligned to rapidly increase Ukraine's export capacity and business climate for business development and foreign investment. To this end, WNISEF has provided support for:
   - The establishment and strengthening of the Export Promotion Office (EPO), an advisory body to the MEDT, to which WNISEF and other donors channel support through the non-governmental union Foundation for Support of Reforms in Ukraine;
   - The establishment of the Export Promotion Council, whose activities are organized by the EPO;
   - The establishment of the Office of the Trade Representative at MEDT; and
   - Support for key stakeholder group meetings and consultations.

2. Strengthening and supporting public and private institutions involved in export and investment promotion

In cooperation with the Foundation for Support of Reforms in Ukraine and the Canadian-funded Expert Deployment for Governance and Economic Growth (EDGE) Project, WNISEF supports the activities of the EPO that aim to increase Ukrainian export capacity. Specifically, WNISEF supports stipends for staff at the EPO, the development of the Export Web Portal, education research and B2B and marketing-related export information, the development of Public Relations and promotional materials, as well as participation in trade missions, exhibitions and fairs. Among the promotional materials developed with support from WNISEF are the acclaimed videos: "Invest in Ukraine", "Experience Ukraine", "Grow Ukraine", "Ukraine is Changing" and "IT Future," which have been shown at domestic and international conferences, trade shows, in airports, on television and social media to highlight a positive image of a "New Ukraine" open to prospective business partners and visitors. WNISEF also produced accompanying multilingual brochures.

3 Increasing export awareness
WNISEF works to expand and diversify Ukrainian and Moldovan exports with increased participation of SMEs. Moving beyond a national strategy and a re-orientation towards Western markets has proven challenging to many Ukrainian SMEs. WNISEF has provided support to individual Ukrainian SMEs for participation in trade fairs and exhibitions. Small grants for the same purpose have also been provided to a Moldovan portfolio company of WNISEF and the Moldovan Office for Vine and Wine.

Ministry of Economic Development and Trade (MEDT) of Ukraine comprises 24 departments and oversees a broad portfolio of economic policy, strategic analysis, planning and restructuring of the Ukrainian economy, regional economic development, regulatory and financial policy development, trade and cooperation with international financial institutions, bilateral and multilateral partners, export promotion, investment and innovation policy, public-private partnerships, and other priority areas.

The Export Promotion Office (EPO) is housed within MEDT but is an independent, advisory and consultative body to MEDT founded as a one stop shop to help Ukrainian exporters in opening new markets. Currently the EPO works with and receives support from WNISEF, two Canadian programs, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, and USAID.

Donor-funded Export Promotion Work in Ukraine
The Government of Ukraine (GOU) receives technical assistance in the realm of trade policy development, facilitation, and export and import promotion from several development partners, including USAID, WNISEF, the Government of Canada through the Department of Global Affairs Canada, the Conference Board of Canada, and GIZ.

Government of Canada
The Canadian Government is the primary funder of the Expert Deployment for Governance and Economic Growth (EDGE) Project, which is helping Ukraine move towards a democratic and prosperous society by advancing citizen-centered democracy and promoting sustainable economic growth. One of the areas supported by EDGE is building a national economic strategy. The project has and continues to provide international technical assistance support in strategic planning and restructuring in MEDT. EDGE has worked with MEDT to identify and support technical and management needs and Human Resources gaps through technical assistance, facilitate the development of a national executive-level economic strategy, conduct a functional review of MEDT, develop plans for reform of the public procurement process and new legislation in support of the establishment of foreign representative offices. EDGE has also supported the EPO. EDGE has assisted the following EPO functions:

- the Export Service Team, including the export information sector lead, the development of country and industry export promotion profiles, and the provision of export consulting services;
- the Education and Government-to-Business Unit Lead in the field of export education; and
- the development of Brand Made in Ukraine.

The Conference Board of Canada has also supported MEDT in the areas of trade policy and administrative management and trade facilitation. The Board funds the Canada-Ukraine Trade and Investment Support Program (CUTIS), 2016-2020, which aims to increase trade and investment between Canada and Ukraine by helping Ukrainian companies, especially SMEs, to meet Canadian standards and by helping to increase their access to Canadian and global markets. It also seeks to help build the capacity of Ukrainian government partners to put new systems and processes in place to facilitate greater trade and investment flows between Canada and Ukraine, as well as between Ukraine and other countries. The program supports the implementation of the Canada Ukraine Free Trade Agreement (CUFTA). Through CUTIS, EPO receives support for the development of the "She Exporters Program," an export promotion program targeted at female owners of small and medium-sized businesses with export potential.

GIZ has supported the transition in Ukraine since 1993. Most recently GIZ has been working on behalf of several German ministries, the European Union (EU) and the UK Department for International Development (DFID) at around 20 locations in Ukraine, with approximately 90 local and international staff. Priority areas include support for the public administration, chambers of commerce, and SMEs. GIZ also supports the **Foundation for Support of Reforms in Ukraine, through which support is provided to the EPO.**

USAID/Ukraine

Between 2015-2017, USAID supported the Ukraine Trade Policy Program, which worked to expand the capacity for Ukraine's private sector to take advantage of export opportunities and promote the diversification of Ukraine's export markets, while also strengthening Ukraine's ability to prevent and address foreign trade pressures. The program aimed to achieve this goal by 1) expanding Ukraine's capacity to utilize tools available through the World Trade Organization (WTO) system, 2) improving communication and coordination on WTO issues both within the GOU and with external stakeholders, and 3) assessing and improving Ukraine's WTO compliance. Activities included short and long-term training for public and private stakeholders, direct expert support and consultation, and technical assistance to develop informational tools, training materials and procedures.

Currently, USAID/Ukraine is in the process of procuring a five-year, Competitive Economy Program (CEP), which will focus on improving the business environment to promote increased competition in domestic markets, providing assistance to new industries and SMEs to compete internationally, developing an export promotion capacity in GOU, enhancing GOU's participation in the WTO, assisting GOU to achieve compliance with WTO and the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA) requirements, and helping to lower the cost of trading across Ukraine's borders.

Some of the priority interventions and suggested activities in the solicitation build on work already being initiated with some support from WNISEF and the Canadian Government as well as from USAID. Examples include capacity building for the MEDT and EPO and identification of priority economic sectors for export promotion interventions. Such sectors have been identified by GOU in the Strategic Trade Development Roadmap (STDR) 2017-2021, developed with support from WNISEF.

Findings

Track record of productive collaboration among WNISEF, EDGE, CUTIS and GIZ coordinated by the EPO. The discussions with the Head of EPO and with WNISEF staff as well as the presentation and relevant documentation shared by EPO indicate a well-coordinated effort, in which partners have defined roles and technical and funding responsibilities for specific priority areas. An implementation plan with defined priorities, objectives, business opportunities, and support functions, such as business to government (B2G) communication platforms and analytics tools, are identified and responsibilities are assigned. The EPO tracks and uses data to manage implementation.

USAID Ukraine support for EPO, MEDT, and trade policy work in general is acknowledged and appreciated, however the documents, presentations and draft strategies and Road Map for Trade Promotion reviewed by the evaluation team in mid-March 2017 did not clearly delineate USAID's role in the coordinated effort at the national level. This may be the case given that USAID Ukraine was still in the process of procuring the new export-related project. Another explanation may be that some, but not all, of the support reflected in the reviewed documents may be viewed as direct budget support, and USAID does not provide such funding. USAID's recent trade-related policy program was implemented by an implementing partner, IDG. In the evaluation team's discussions with the stakeholders included in this case study there was no reference to specific coordination activities with IDG.

Communication and coordination between WNISEF and USAID Ukraine is limited. USAID Ukraine has a designated point of contact with WNISEF at the manager level. This Field/Mission Liaison Officer is very knowledgeable of the work of WNISEF and participates in quarterly updates together with the USAID Washington Senior Advisor and Liaison with WNISEF. The USAID Ukraine Field/Mission Liaison Officer also maintains contacts with the WNISEF managers of the Legacy Programs and documents and shares with colleagues and superiors the quarterly updates provided by WNISEF, provides inputs for all Mission submissions to Washington, including fact sheets, annual reports, daily and weekly highlights that pertain to WNISEF and addresses other inquiries. Despite that, in the meetings with USAID Ukraine staff, the evaluation team was advised and discovered that most USAID Ukraine staff had limited knowledge of the work of WNISEF, including in areas that are well-aligned with USAID Ukraine priorities.

It should be noted that in the past, just like all other Enterprise Funds, WNISEF protected its independence from USAID Mission oversight and interference. WNISEF considers its primary point of contact USAID Washington and maintains more regular communication with the USAID Washington Office. As a result, USAID Ukraine has maintained a more passive role. USAID Ukraine and USAID Moldova staff informed the evaluation team that the Missions had tried to engage WNISEF in USAID activities and had asked for direct support of USAID Mission initiatives. In such instances, according to the Missions, WNISEF had remained silent on the proposed activities and had suggested later that leadership or the Board were not supportive of such engagements, that the pipeline was full and WNISEF could not allocate funding to those proposals. USAID Ukraine and WNISEF exchange invitations for events, although attendance to-date has been sporadic on both sides.

This situation is not different from the situations in the other countries where Enterprise Funds and Missions co-existed early on. The fact that WNISEF and USAID have agreed to hold quarterly reviews of the Legacy Programs is a very positive step. To put this in context, only the America for Bulgaria Foundation provides agreed semi-annual reports to USAID. Some Legacy Foundations do not publish regularly annual reports, which are a requirement.

Lack of clarity on the vision of the Export Promotion Policy Program, its expected impact, and exit plan. The evaluation team's interviews with the Chairman of the WNISEF Board, leadership,

and staff indicated that this program was developed in coordination with USAID Washington. The individual narratives and interpretation of the level of USAID Washington in the identification of this program area differed. USAID Ukraine mentioned that the Mission had some initial questions about the program and concerns about potential overlap with Mission activities.

By design, the Legacy Programs were short-term; three years initially and extended to four years at present due to a slow burn rate in the first year. The fact that currently there is no clarity about the status of WNISEF after 2023 is problematic in terms of planning. Although both WNISEF and USAID Washington confirmed that the Legacy Programs were designed to be three years in duration, it is not clear whether there would be any continuation of these programs or any other type of legacy work two or three years from now. This lack of clarity makes planning very difficult.

WNISEF leadership argued that because the legacy programs were planned to be three years in duration they did not need to have a strategy. The evaluation team disagrees that three- or four-year programs with a total budget of $35 million do not need to have a strategy or a monitoring plan that would enable WNISEF to speak about the impact of these investments three years from now. The evaluation team agrees with WNISEF, however, that the current situation makes it very difficult to design and implement programs that would produce meaningful development impact in two or three years from now.

Duration of current WNISEF grants is very short – about 6 months. The evaluation team met with a number of partners/grantees of WNISEF Legacy Programs. One common finding was that the funding provided by WNISEF was for short periods of time, usually around six months. Although it is normal and prudent for a funder to test and vet grantees through an initial assessment phase with limited financial commitment, the evaluation team noted that often the review process of the existing grant and the decision regarding a potential new award was pushed to the very end of the current funding period. This creates a lot of uncertainty for a grantee, especially when the funding is short-term and the grantee is just launching a project and asking potential staff and partners for commitments that probably go beyond the six-month award.

Specifically related to MEDT, the EPO, and the Office of the Trade Representative, an examination of the assistance provided by WNISEF and interviews with the EPO Head as well as with the Deputy Minister and Trade Representative indicate that in addition to unblocking operational bottlenecks such as providing stipends for the advisors in the EPO, WNISEF is responding to capacity building and institutional support needs that require longer-term commitment. The Trade Representative specifically mentioned the short-term approach as an impediment to long-term planning, including recruitment of the most qualified available experts who expect employment security for at least a couple of years in order to commit, and ability to secure additional funding from other donors to enhance the technical capabilities of the team.

The up-coming very significant USG investment in support of the Ukrainian export promotion and trade facilitation strategy and the already developed partnerships between the stakeholders provide a solid foundation for an effective and well-coordinated approach that will be required to manage the resources made available in the most efficient manner and achieve the ambitious objectives set by MEDT and its partners.

Considerations and Recommendations

To achieve these objectives and explore the opportunities they provide, the evaluation team recommends that partners and stakeholders consider the following risks and expected additionality of coordinated planning.

Risk	Proposed Action	Value added	Implications
Limited (tactical) rather than strategic coordination	1. Identify all relevant partners and stakeholders and their interests. 2. Joint coordination platform – identify or develop a coordination mechanism that will provide timely, accurate and actionable data on resource allocation towards agreed objectives, responsible partners, timelines, benchmarks and KPIs used to measure results.	Improved and comprehensive understanding of the available technical (know-how and technology), human, and financial resources as well as access to relevant networks. Improved understanding of resource constraints, including project timelines and as a result, improved allocation of resources. Greater transparency and visibility among all stakeholders. Identification of new partnership opportunities. Engagement of additional potential partners through stakeholder networks. Aligned benchmarks and KPIs will improve monitoring, measuring of results and planning for and measuring of impact.	Stakeholders and partners are willing to coordinate. It is possible to adapt strategies and plans to ensure effective allocation of resources (may be difficult for some donor-funded projects). The use of coordinated monitoring and evaluation will make both successes and failures more visible. Partners coordinating on the same activities will have to be willing to recognize performance problems and agree on ways to address the issues.
Perceived loss of control in a more coordinated approach	Agree on mechanisms for decision-making, reviews and approvals in coordinated planning	Stronger buy-in and public commitment from all stakeholders Increased accountability	There may be political and other considerations at play that will vary across stakeholders.
Unclear expectations and constraints	Clear communication of procurement, policy, funding, programmatic and other constrains faced by different stakeholders Take stock of partners' expectations, resource needs	Map needs, constraints and resources to identify and address gaps. For example, one recurring concern is funding for staff, office equipment and other supplies. Identify upfront inability to make long-term funding commitments, engage in certain types of contracting	Ability to provide direct budget support as well as ability to create and fund mechanisms through which such support could be provided is a constraint. Lack of clarity on the longer-term status of

		arrangements, fund specific activities, etc.	WNISEF is a planning constraint.
Duplication of resources and efforts	Develop and update coordinated implementation plans Coordinate monitoring and evaluation efforts and impact assessments Coordinate retention of vetted, highly skilled staff who may be hired on short-term contracts by stakeholders with limited resources but could be retained through coordinated planning	Alignment of implementation stages of related projects may create additional synergies and boost the impact of the interventions Partners may be able to preserve resources by minimizing duplicated efforts or designating shared responsibility for specific tasks (evaluation, capacity building in targeted areas) to partners with strong technical expertise in that area. Such coordination will improve the ability to develop more coherent strategies, interventions, analyses and reports. Lower turnover and reduced loss of highly-skilled professionals will improve the likelihood of success of activities and will allow for longer periods for skill transfer, on-the-job training, and capacity building. Partners who may currently be unable to offer longer term commitments to highly- skilled professionals may be able to make more attractive offers if they provide access to a pool of potential funders and engagement opportunities.	Potential challenges include: Different life and funding cycles of existing and future projects Mandated very project- specific M&E targets and indicators Pre-negotiated contractually mandated allocations for staff, M&E in every project, budgets for events and materials – implementing partners and contractors do not necessarily have an incentive to optimize their budgets as a result of stronger coordination Need for coordination among HR departments that may operate based on very different policies

Annex D: Glossary of Terms

Board of directors	The governing body of a corporation, elected by the shareholders. In the context of the Enterprise Funds authorized by the SEED Act of 1989 and the FREEDOM Support Act of 1992, the Directors of the Boards were appointed by the President of the United States or his designee.
Book value	The original cost minus accumulated depreciation of an asset. The net asset value of a company, calculated as total assets minus intangible assets (patents, goodwill) and liabilities.
Business model	In classical usage, a model represents a structure: a model hose, a model plant, a mathematical model. Modern business terminology uses "business model" to mean the structure itself as well as the implementation of a business strategy.
Bylaws	The rules adopted by the shareholders of a corporation; specify the general methods of carrying out the functions of the corporation.
Debt financing	See *Leverage.* Raising funds by issuing bonds, mortgages or notes.
Discounted cash flow (DCF) methods	Capital budgeting methods that measure all expected future cash inflows and outflows of a project as if they occurred at the present point in time.
Dividend	A distribution of assets generated from earnings to owners of a corporation. The firm may distribute cash (cash dividends), stock (stock dividends), property, or other securities (dividend in kind). Dividends, except stock dividends, become legal liability of the corporation when the corporation's Board declares them.
Due diligence	An investigation of the financial and business affairs of a company for the purpose of disclosing matters that may influence the terms or conclusion of a potential acquisition.
Effectiveness	The degree to which a predetermined objective or target is met.
Efficiency	The relative amount of inputs used to achieve a given output level.
Enterprise	Any business organization, usually defining the accounting entity.
Enterprise fund	(Outside of the context of this USAID evaluation) A fund that a governmental unit establishes to account for acquisition, operation, and maintenance of governmental services that the government intends to be self-supporting from user charges, such as for water or airports and some toll roads. For definition in the context of this USAID evaluation see *Evaluation Question 1, SEED Act of 1989.*
Equity	A claim to assets; a source of assets. SFAC No. 3 defines equity as "the residual interest in the assets of an entity that remains after deducting its liabilities."
Equity financing	Raising funds by issuing capital stock.
Fair value, fair market price	Price (value) negotiated at an arm's length between a willing buyer and a willing seller, each acting rationally in his or her own self-interest in an unrestricted market, neither are compelled to transact and both have reasonable knowledge of

	the relevant facts. U.S. GAAP presents a hierarchy of methods to measure fair value, starting with observation of prices in market transactions. The FASB and SEC have clarified that accountants do not have to base fair value measurements on observed prices, if the transactions generating those prices were in inactive markets. Accountants sometimes measure fair value as the present value of expected cash flows. In some contexts, fair value differs from market value as the former takes into account the identity, tastes, and utility of the parties regarding the transaction, while market value assumes typical buyers and sellers.
Foreign exchange gain or loss	Gain or loss from holding net foreign monetary items during a period when the exchange rate changes.
General Partner	A partnership member who is personally liable for all debts of the partnership; contrast with *Limited Partner*. However, private equity investors who manage the fund (serve as General Partners) can protect themselves, at least partially, by not serving directly as the General Partners. Rather, they can create a corporation that serves as the General Partner, of which they are shareholders.
Inflation	The decline in the general purchasing power of a monetary unit.
Interest rate	A basis used for computing the cost of borrowing funds; usually expressed as a ratio between the number of currency units charged for a period of time and the number of currency units borrowed for that same period of time.
Hurdle rate	See *Required Rate of Return (RRR)*
Internal Rate of Return (IRR) method	Capital budgeting discounted cash flow (DCF) method that calculates the discount rate at which the present value of expected cash inflows from a project equals the present value of its expected cash outflows.
Investee	A company in which another entity, the "investor," owns stock.
Investment	An expenditure to acquire property or other assets in order to produce revenue; the asset so acquired; hence a current expenditure made in anticipation of future income; said of companies' securities held for the long term and appearing in a separate section of the balance sheet.
Investment company	A firm managing funds for investors. An investment company may manage several funds.
Investment portfolio	A set of securities chosen by an investor.
Job	A unit or multiple units of a distinct product or service.
Joint venture	Two or more firms invest in a project or company or division, sharing risks and rewards of ownership and management.
Learning curve	Function that measures how labor-hours per unit decline as units of production increase because workers are learning and becoming better at their jobs.

Lease	A contract calling for the lessee (user) to pay the lessor (owner) for the use of an asset.
Leverage	More than proportional result from extra effort or financing. "Financial leverage" or "capital leverage" refers to an increase in the rate of return larger than the increase in explicit financing costs – the increased rate of return on owners' equity when an investment earns a return larger than the after-tax interest rate paid for debt financing.
Limited Partner	A partnership member who is not personally liable for debts of the partnership. Every partnership must have at least one *general partner*, who is fully liable.
Line of credit	An agreement with a bank or a set of banks for short-term borrowing on demand.
Liquidation	Payment of a debt; sale of assets in closing down a business or a segment thereof.
Liquidation date of an Enterprise Fund	The date established by the Enterprise Fund by which its proposed winding-up and liquidation plan, as approved by USAID, has to be fully implemented. The period between the termination commencement and liquidation dates of Enterprise Funds was typically about two years.
Loan	An arrangement in which the owner of an asset, called the lender, allows someone else, called the borrower, the use of the asset for a period of time, which the agreement setting up the loan usually specifies. The borrower promises to return the asset to the lender and, often, to make payment for the use of the asset. The term is generally used when the asset is cash and the payment for its use is interest.
Majority investment	A firm owns more than 50 percent of another firm, giving it majority ownership, typically because it wishes to control some aspect of the other firm's operations, giving it an active, not passive, motive.
Management information system (MIS)	A system designed to provide all levels of management with timely and reliable information required for planning, control, and evaluation of performance.
Minority investment	A holding of less than 50 percent of the voting shares in another corporation; accounted for with the equity method when the investor owns sufficient shares that it can exercise "significant influence" and as marketable securities otherwise.
Minority passive investment	A holding of less than 50 percent of the voting shares of a corporation when the investor owns insufficient shares to enable it to exercise sufficient influence.
Mortgage	A claim given by the borrower (mortgagor) to the lender (mortgagee) against the borrower's property in return for a loan.
Mortgage-backed security	A type of asset-backed security that is secured by a mortgage or a collection of mortgages. The mortgages are sold to groups of individuals, government agencies, or investment banks that securitize (packages) the loans together into a security that investors can buy.
Organizational structure	Arrangement of lines of responsibilities within the organization.

Outcomes	Predicted economic results of the various possible combinations of actions and events in a decision model.
Planning	Selecting organizational goals, predicting results under various alternative ways of achieving those goals, deciding how to attain the desired goals, and communicating the goals and how to attain them to the whole organization.
Private Equity Funds	Private Equity Funds typically have Limited Partners (LPs) and General Partners (GPs). The LPs are institutional and individual investors who provide capital. Their liability only extends to the capital they contribute. The GPs may be directly liable, and many protect themselves by creating a corporation that serves as the GP, of which they are shareholders. A Private Equity Fund is typically raised in several stages. A series of contractual provisions govern the fundraising process to prevent opportunistic behavior from the GPs. These include explicit minimum and maximum size for the fund; contribution to the fund by the GPs, a "takedown schedule" that specifies when committed funds by LPs will be paid into the fund, the life of the partnership and the approval process for any potential extensions, conditions for the termination of the investments of LPs, dissolution of the partnership, or removal of the GP. Another important contract aspect focuses on the rights of the private equity investors (GPs). These include restrictions on the size of investment in any one portfolio company in order to ensure that GPs do not attempt to salvage a poorly performing investee by investing significant resources in follow-on funding. A second class of restrictions, especially with venture capital funds, limits the use of debt, committing it to a set percentage of committed capital or assets and in some instances also restricting the maturity of the debt to ensure that all borrowing is short-term. A third class of restrictions related to co-investments with the private equity organization's earlier or later funds. Many investment companies manage multiple funds, formed several years apart, which can lead to opportunistic behavior (e.g. salvaging failing investments in earlier funds). Another class of restrictions relates to reinvestment of profits. GPs face several other classes of restrictions: ability of GPs to invest personal capital in portfolio companies, which creates moral hazard; the ability of GPs to sell their partnership interest; prohibition for GPs to fundraise for other funds until a set percentage of the portfolio of the current fund has been invested or until a given date; restrictions on other outside activities of GPs and expectation that they spend "substantially all" of their time managing the partnership's investments; and restrictions on the addition of new GPs. A final set of restrictions defines the types of assets in which GPs can invest. Typically, GPs are allowed to invest not more than a set percentage of capital or asset value in a given investment class. A change requires a vote from a minimum number of LPs and/or the Board. There are two reasons for these restrictions: 1) GPs may be receiving compensation that is inappropriately large, or 2) GPs may

	invest in classes of investments in which they have limited experience in the hopes of getting such experience. One good example is when in the 1980s venture capital funds started investing in leveraged buy-outs in the United States. Some developed good expertise and proceeded to specialize in buyouts. Many more, however, lost large amounts of money and destroyed value in companies. During the Internet bubble, many buyout funds, hoping to replicate the returns enjoyed by the booming venture capital industry, invested in early-stage deals, without actually having the expertise, and lost a lot of money. [32]
Private Equity Fund Fees	**1. Carried interest[33]** Carried interest is a share of the profits of an investment paid to the GP in excess of the amount that the GP contributes to the partnership. Carried interest is usually set as a percentage of profits, typically 20 percent, but can be higher or lower. According to Metrick and Yasuda[34], 89 out of 94 Venture Capital firms and all of 144 Buyout firms covered in their study charged 20 percent carry. There are also difference between the carry charged by funds using a deal-by-deal (American waterfall) distribution and funds using a whole-of-fund (European waterfall) carry distribution. The amount of the carried interest and its distribution are stated in the distribution waterfall of the partnership or operating agreement. Carry structures come in many different varieties of different complexity. In addition to using an American or a European waterfall, some funds grant carry up-front for the life of the funds or grant it annually. Funds also use different formula on how carry might be forfeited by those who leave the investment company. **Several types of carried interest:** **Whole-of-fund carry (European waterfall):** the GP can only withdraw carry after LPs receive their cost basis and returns (hurdle). In this set-up LPs have a preferred right to returns. This structure protects investors against early payments of carry on funds that may not perform to the agreed hurdle rate (see *Required Rate of Return*). **Deal-by-deal carry (American waterfall):** Most GPs prefer a deal-by-deal carry structure where payments are made on each deal that meets or exceeds its performance levels, after investors are paid back their capital and returns for that specific deal. To protect investors, most funds structure deal-by-deal carry with escrow or "claw-back" arrangements. Deal-by-deal carry rewards individual investment performance and shortens pay periods for GPs. Deal-by-deal increases investor risk and potentially the overall return from the investment in the fund. As a result, investors demand additional rewards, and deal-by-deal arrangements typically have lower carried interest. For example, there are

[32] This section is based on Asset Alternatives, *Private Equity Partnership Terms and Conditions*, 2nd edition, Wellesley, MA: Asset Alternatives, 2001; Joseph W. Bartlett, *Equity Finance: Venture Capital, Buyouts, Restructurings, and Reorganization*, 3 volumes, New York: Aspen Publisher, 2010; Paul A. Gompers and Josh Lerner, "The Use of Covenants: An Empirical Analysis of Venture Partnership Agreements," *Journal of Law and Economics*, 39 (October 1996) 566-599; SCM Strategic Capital Management, *2008 Annual Review of Private Equity terms and Conditions*, (Zurich: SCM Strategic Capital Management AG, February 2009) and *2009 Annual Review of Private Equity Terms and Conditions*, (Zurich: SCM Strategic Capital Management AG, February 2010); Venture Economics, *Terms and Conditions of Venture Capital Partnerships -1992*, Needham: Venture Economics, 1992.

[33] This section is based on Paul A. Gompers and Josh Lerner, "An Analysis of Compensation in the U.S. Venture Capital Partnership," *Journal of Financial Economics*, 51 (January 1999), 3-44, and subsequent updates by the authors; ILPA, Private Equity Principles Version 2, January 2011, https://ilpa.org/wp-content/uploads/2015/07/ILPA-Private-Equity-Principles-version-2.pdf, pg.4, accessed June 30, 2017.

[34] Andrew Metrick and Ayako Yasuda, "The Economics of Private Equity Funds," *The Review of Financial Studies*, 23(6): June 2010, pp.2303-2341.

	European private equity funds that use a deal-by-deal carry structure and charge significantly less than 20 percent carry, all the way down to 10 percent. **Take-as-you-go carry:** A hybrid compromise where payments are made to carry from the returns of a particular investment, after investors have been paid their principal and hurdle on that specific deal and have been made whole on investments and preferred returns from past deals. **Phantom carry:** Also called synthetic carry, this is a bonus pool funded from carried interest dollars based on fund performance. The bonus pool is used to incentivize lower level team members by giving them an opportunity to share in the firm's upside. Phantom carry comes in many different varieties. **2. Management fee:** Management fees represent a significant fraction of the GPs' compensation. They are calculated in many different ways. Fixed fees may be calculated as a percent of the committed capital, the value of a fund's assets, or some combination or modification of these values. Both the base used to compute the fees and the percentage paid as fees may vary over the life of the fund. The size of the fund will determine the total fee income per partner. Thus, although a large fund may charge a management fee below 2 percent, the total management fee charged may actually be larger than that of a smaller fund charging a 2.5 percent management fee, for example. In their study, Metrick and Yasuda[35] found that 53 out of the 93 venture capital funds they studied charged a management fee of 2 percent or less, and 133 out of the 144 buyout funds they studied charged a management fee of 2 percent or less (buyout funds were larger than the venture capital funds in general). **3. Hurdle rate** (see *Required Rate of Return*): In Metrick and Yasuda's study.[36] 82.5 percent of the venture capital funds and 91.5 percent of the buyout funds had a hurdle rate of 8 percent or higher. **4. Claw-back clause:** a fee intended to ensure that GPs do not make more money than the carried interest agreement permits. Most often, this can occur when a few good investments are realized early, with profits shared according to the 80/20 carry agreement, only to have the rest of the portfolio suddenly lose significant value. In this situation, it is entirely possible for the GPs, to have "over distributed" profits to themselves. This happened *en masse* during the Internet bubble in the U.S. **5. Other transaction fees and management fee offsets:** These include fees for value added services, recruitment fees, break-up fees, directors' fees, advisory fees, acquisition and disposition fees, affiliate service fees and more. Fee offset provisions relate to reductions of management fees if the investment company or its affiliates receive transaction fees directly from the fund's portfolio companies.
Qualitative factors	Outcomes that are difficult to measure accurately in numerical terms.

[35] Ibid.
[36] ibid.

Quantitative factors	Outcomes that are measured in numerical terms.
Random sampling	For choosing a sample, a method in which all items in the population have an equal chance of being selected.
Real Estate Investment Trust (REIT)	A company that owns or finances income-producing real estate. REITs provide investors regular income streams, diversification, and long-term capital appreciation by allowing them to invest in portfolios of properties through the purchase of stock. There are two main types of REITs: equity and mortgage. Mortgage REITs invest in mortgages or mortgage securities tied to commercial and/or residential properties. Equity REITs generate income from rent payments and from the sale of properties owned over the long-term.
Required Rate of Return (RRR)	The minimum acceptable annual rate of return on an investment. Also called *the discount rate, hurdle rate, cost of capital, or opportunity cost of capital*.
Return on investment (ROI)	An accounting measure of income divided by an accounting measure of investment.
Revenues	Inflows of assets (usually cash or accounts receivable) received for products or services provided to customers.
Strategy	Specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.
Security	A document that indicates ownership, such as a share of stock, or indebtedness, such as a bond, or potential ownership, such as an option or warrant.
Share	A unit of stock representing ownership in a corporation.
Stewardship	Principle by which management is accountable for an entity's resources, for their efficient use, and for protecting them from adverse impact.
Stock option	The right to purchase or sell a specified number of shares of stock for a specified price at specified times. Employee stock options are purchase rights granted by a corporation to employees, a form of compensation.
Subsidiary	A company in which another company owns more than 50 percent of the voting shares.
Termination commencement date for Enterprise Funds	A date established by USAID, after which the Fund will not make any new commitments or investments and by which the Fund will commence the winding up of its affairs and sale of its assets on an orderly basis, in accordance with the Grant Agreement. Except in specified circumstances, the Termination commencement date will not occur earlier than ten years from the date of incorporation of the Fund, or later than fifteen years from the date of incorporation. USAID notifies the Fund about the termination commencement date at least one year prior to the occurrence of the termination commencement date. By this date, the Fund must propose to USAID for approval a winding-up and liquidation plan and a date by which this plan will be completed.

Write off	To charge an asset to expense or loss; that is, to debit expense (or loss) and credit the asset. To derecognize a specific account receivable that the holder has decided is uncollectible.

Annex E: List of Stakeholders Interviewed for This Evaluation

No	Country	First Name, Last Name	Position	Organization
United States Government (US Based) – former and current				
1.		Dan Rosenblum	former Assistance Coordinator Europe and Eurasia	U.S. Department of State
2.		Ambassador Daniel Fried	NSC, former Ambassador to Poland, retired	NSC, U.S. Department of State
3.		David Cowles	current Senior Advisor, Europe Eurasia Bureau	USAID
4.		Don Pressley	former Assistant Administrator Europe and Eurasia Bureau USAID and former acting USAID Administrator	USAID, now Booz Allen Hamilton
5.		Lubov Fajfer	Senior Education Gender and Vulnerable Groups Advisor	USAID
6.		Mark Fittipaldi	Deputy Assistant General Counsel	USAID
7.		Mark Karns	USAID, former Director of the EF Office	USAID
8.		Steve Eastham	former Division Chief, Economic Growth, Europe and Eurasia Bureau	USAID
9.		Tom Adams	former Assistance Coordinator Europe and Eurasia, State, and former board member for the Romanian American Foundation	U.S. Department of State
US-Based Fund and Foundation Board Members				
10.	Albania	Michael D. Granoff	Chairman of the Board of the Fund and Foundation	Albanian-American Enterprise Fund Albanian-American development Foundation
11.	Bulgaria	Dr. Lynn Daft	Chairman of the Board of the Foundation	America for Bulgaria Foundation
12.	Hungary	Ryan Schwarz	Chairman of the Board of the Foundation	Hungarian American Enterprise Scholarship Fund
13.	WNISEF	Dennis A. Johnson	Chairman of the Board	WNISEF
14.	Poland	Andrew Nagorski	Chairman of the Board of the Foundation	Polish American Foundation
15.	Baltics	Kim G. Davis	Chairman of the Board	Baltic-American Freedom Foundation
16.	Russia	Steven L. Pease	Director & Co-Chairman of the Foundation	U.S.-Russian Foundation
17.	Slovakia	Mary MacPherson	Director, President and CEO	Slovak-American Foundation

18.	Central Asia	Margaret Grieve	Director, President of the Board of the Foundation	Central Asian Enterprise Fund and Legacy Foundation
Other Stakeholders				
19.		Paul Sacks	Consultant	Interactions with several Funds
Albania				
20.		Adriana Berberi	Chief of Staff	Ministry of Education
21.		Aleksander Sarapuli	Co-CEO	Albanian-Bulgarian Development Foundation
22.		Alken Myftiu	Monitoring and Evaluation Specialist	USAID Albania
23.		Anuela Ristani	Chief of Staff	Tirana Municipality
24.		Prof. Dr. Arben Malaj	Member of the Supervisory Council	Bank of Albania
25.		Armand Frangu	Former staff of AAEF	Albanian-American Enterprise Fund
26.		Brunilda Paskali	Deputy Mayor	Tirana Municipality
27.		Catherine Johnson, PhD	Country Representative	USAID Albania
28.		Diana Sokoli	Former Senior Manager	American Bank of Albania
29.		Dionis Tegia	Chief Executive Officer	Tegia International
30.		Donald Lu	Ambassador	U.S Embassy in Albania
31.		Eglantina Gjermeni	Minister	Ministry of Urban Development
32.		Enio Jaco	Executive Director	Creative Business Solutions
33.		Erion Vellaj	Mayor of Tirana	Municipality of Tirana
34.		Eugen Lici	Executive Director	Crimson Finance Fund Albania
35.		Fadil Nasufi	Governor of Municipality Berat	Berat Municipality
36.		Irena Kreci	Finance Manager	Albanian-Bulgarian Development Foundation
37.		Jean-Alain Jouan	Chief Executive Officer	Safran Aleat
38.		Jonel Kristo	Entrepreneur	Former employee of Albanian-Bulgarian Development Foundation
39.		Jonida Baci	Head of Cabinet	Ministry of Urban Development and Tourism
40.		Mark Crawford	President	AmCham Albania
41.		Martin Mata	Co-CEO	Albanian-Bulgarian Development Foundation
42.		Mirela Kumbaro	Minister of Culture	Ministry of Culture
43.		Nertil Jole	Director of Territory Development	Ministry of Urban Development
44.		Niko Peleshi	Deputy Prime Minister	

45.		Dr. Rolf Castro-Vasquez	Chief Executive Officer	Tirana International Airport
46.		Sali Berisha	Former President, former Prime Minister	
47.		Sotiraq Filo	Mayor	Korca
48.		Suela Bala	Chief Executive Officer	JA Albania
49.		Teuta Malo	Chief of Cabinet	Ministry of Culture
50.		Vanjel Kosti	Chief Executive Officer	NPV International
51.		Zhaneta Zaimaj	Administrator	BID Korca
Baltics				
52.		Richard Sheridan	Former Chief Executive Officer	Baltics-American Enterprise Fund
Bulgaria				
53.		Alexander Alexandrov, CIA, CFA	Vice President Finance and Administration	American University in Bulgaria
54.		Alexander Kashumov	Attorney at Law, Head of Legal Team	Access to Information Programme
55.		Anelia Dimitrova	Alumni Coordinator, BAEF, BACB, ABF	America for Bulgaria Foundation
56.		Angela Rodel	Executive Director	Fulbright
57.		Asen V. Dimitrov	Executive Assistant to the President	American University in Bulgaria
58.		Belizar Marinov	Member	Eleven
59.		Bilyana Gyanarova-Wegensleder	Director	Bulgarian Institute for Legal Initiatives
60.		Bistra Kirova, CFA	Executive Director	Muzeiko
61.		Bojana I. Kurteva, CPA	Chief Financial Officer	America for Bulgaria Foundation
62.		Bozhidar Ivanov, PhD	Researcher	Institute of Agricultural Economics
63.		Brian Stimmler	Counselor for Public Affairs	U.S. Embassy in Bulgaria
64.		Danko Tonev	Economic Specialist	U.S. Embassy in Bulgaria
65.		Delyan Stamatov	Former Deputy Minister of Education	School Director
66.		Desislava Nikolova PhD	Chief Economist	Institute for Market Economics
67.		Dimiter Voutchev	Board Director	America for Bulgaria Foundation
68.		Dr. Dinko Mladenov	Gerenal Manager,	Medicus Alpha Clinic

69.		Doriana Basamakova	Program Officer	Trust for Social Achievement
70.		Professor Elena Kantareva - Decheva	Associate Professor, Artist Conservator	Academy of Music, Dance, and Fine Arts, Plovdiv
71.		Elvin Guri	Chief Executive Officer, Managing Partner	EmpowerCapital
72.		Emilia Karadocheva	Former Chief Financial Officer	Bulgarian-American Enterprise Fund
73.		Professor Emilia Zankina	Assistant Professor of Political Science	American University in Bulgaria
74.		Eric Rubin	Ambassador	U.S. Embassy in Bulgaria
75.		Evgenia Peeva	Chief Executive Officer	TeachforBulgaria
76.		Galina Sabeva	Political Analyst	U.S. Embassy in Bulgaria
77.		Galya Prokopieva	Managing Director	Economedia
78.		Georgi Georgiev	Member of the Board	"Land-Source of Income" Foundation
79.		Georgi Simeonov	Director, Department of Sustainable Development and European Integration	Municipality of Stara Zagora
80.		Gergana Jouleva	Executive Director	Access to Information Programme
81.		Iva Taralezhkova	Chair of the Board	Devetaki Plateau Association
82.		Ivanka Tzankova	Director, Impact Assessment and Evaluation	America for Bulgaria Foundation
83.		Ivanka Sotirova	Deputy Mayor	Municipality of Stara Zagora
84.		Kalina Konstantinova	Program Officer, Private Sector Development	America for Bulgaria Foundation
85.		Karina Baltova	Research Associate	Trust for Social Achievement
86.		Kiril Petkov	Chief Executive Officer	Proviotic
87.		Krassen Stanchev	Chief Executive Officer	Knowledge Management & Solutions
88.		Krassimira Velichkova	Director	Bulgarian Donors' Forum
89.		Krum Hristov	Current Model Manager	"Land-Source of Income" Foundation
90.		Lyubo Lozanov, CFA	Chief Executive Officer	AMETA
91.		Maria Metodieva	Program Officer, Family Economic Success	Trust for Social Achievement
92.		Maria Sheytanova	Executive Director	Tokuda Bank
93.		Mariyana Shishkova	Financial Manager	"Land-Source of Income" Foundation
94.		Maxim Eshkenazy	Musician, Founder	Triola Quintola Foundation
95.		Martina Strong	Deputy Chief of Mission	U.S. Embassy in Bulgaria

96.		Nadia Zaharieva	Program Director, Arts and Culture	America for Bulgaria Foundation
97.		Nancy L. Schiller	President and CEO	America for Bulgaria Foundation
98.		Professor Nasko Vassilev	Vice-Rector of Administrative, Economic and Informational Activities	Trakia University
99.		Natalia Miteva	Program Director, Education	America for Bulgaria Foundation
100.		Nikolay Valkanov	Founder and Director	InteliAgro
101.		Nino Parpulov	Founder, Director	Hemus
102.		Orlin Popov	General Manager	Happy Bar & Grill
103.		Peter Schwartz	Head of Sales and Marketing	Melon
104.		Sarah Perrine	Executive Director	Trust for Social Achievement
105.		Stefan Hristov	Sustainable Development Expert	"Land-Source of Income" Foundation
106.		Stefan Stoyanov	Deputy Mayor	Municipality of Plovdiv
107.		Stoil Stoilov	Member	ABLE Bulgaria
108.		Stoyan Mitov	Partner	Dreamix
109.		Stratsimir Kulinsky	President	American University in Bulgaria
110.		Svetla Kostadinova	Executive Director	Institute for Market Economics
111.		Thomas Higgins	Managing Partner Former Managing Director	EmpowerCapital Bulgarian-American Enterprise Fund
112.		Tsvetomir Todorov	Former Head of Bulgarian-American Property Management and Chair of the Board of one REIT	Bulgarian-American Enterprise Fund
113.		Valentin Braykov	Board Director	America for Bulgaria Foundation
114.		Vasil Dimitrov	Head	bTV Radio Group, Cantus Firmus
115.		Vasilena Pancharova	Project Coordinator	Open Arts Foundation
116.		Velichka Stoychkova	Principal	William Gladstone School
117.		Veneta Ilieva	Chief Financial Officer	Trust for Social Achievement
118.		Venetsiya Netsova	Member	ABLE Bulgaria
119.		Vesselina Sarieva	Director	Open Arts Foundation
120.		Violeta Nedeva	Program Director, Private Sector Development	America for Bulgaria Foundation
121.		Vladimir Zinoviev	Partner	Oskar-EL
122.		Yana Buher Tavanier	Co-Founder	Time Heroes
123.		Yuliana Decheva	Program Assistant, Arts and Culture	America for Bulgaria Foundation
Central Asia				
124.		Graham Hettlinger	Director	American Councils

Hungary				
125.		Dr. Akos Reszler	Senior Vice President & General Manager	Nuance-Recognita Corp.
126.		Andras Makler	Former scholarship recipient	Geotechnics civil engineering
127.		Anett Soti	Chief Caring Officer	Dream Jobs
128.		Elizabeth Simon	Country Manager	CIEE
129.		Kolos Molnar	Former scholarship recipient	Budapest Technical University
130.		Laura Lions	Director, Exchange Foundations	CIEE
131.		Laszlo R. Czirjak	Co-Founder, Managing Partner	iEurope Capital
132.		Dr. Lili Gallo	Attorney at Law	Nagy & Trocsanyi
133.		Professor Paul Marer	Professor of Business	CEU Business School
134.		Peter Szeremy	Scientist	MD Quest
135.		Rita Csernai	Assistant to HR Vice President	Molgroup
136.		Sander Adany	Former scholarship recipient	Civil engineering
137.		Tamas Haidegger PhD	Deputy Director Research Area Manager Founder, Chief Executive Officer	Obuda University Austrian center for Medical Innovation and Technology Hand-in-Scan
138.		Zoltan Bago	Business Development Manager	Insomnia
139.		Zoltan Szemerey	Former Managing Director	Hungarian-American Enterprise Fund
Romania				
140.		Anca Ana-Maria Gaidos	Operations Director	Noi Orizonturi
141.		Andrei Roth	General Manager	Recognos
142.				
143.		Adriana Constantin	Chief Operating Officer	Emerging Europe Leasing and Finance B.V.
144.		Alexandru-Stelian Gulei	Program Coordinator	Social Alternative Iasi
145.		Angela Popescu	Formerly manager micro-loans	Romanian-American Enterprise Fund
146.		Balogh Marton	Regional Director	CIVITAS Foundation
147.		Beatrice Weber	Executive President	Friends for Friends Foundation
148.		Bogdan Giurginca	Chief Financial Officer	Romanian-American Foundation
149.		Carmen Retegan	Chief Executive Officer	Verida Credit
150.		Cezara Grama	Project Assistant	Expert Forum
151.		Ciprian-Mihai Paius	Executive Director	Community Foundation Iasi

152.		Cristian Hatu	President	Center of Educational Evaluation and Analysis
153.		Cristina Manescu	Executive Director	CEED Romania
154.		Cristina Mogoroase	Partner	Axxess Capital
155.		Professor Daniel Rosner	Engineering Assistant Professor, Program manager	University of Polytechnics Innovation Labs
156.		Hans Klemm	Ambassador	U.S. Embassy in Romania
157.		Horia Manda	Managing Partner	Axxess Capital
158.		Ionut Simion PhD	Country Managing Partner	PwC Romania
159.		Laura Albu	Executive President	Community Safety and Mediation Center
160.		Michael P. Stewart	Economic Counselor	U.S. Embassy in Romania
161.		Mihai Tudor	Board Director	Romanian-American Foundation
162.		Professor Razvan Rughinis	Deputy Dean Tech Lounge Co-founder	University of Polytechnics Innovation Labs
163.		Romeo Vasilache	Senior Director Entrepreneurship and Investments	Romanian-American Foundation
164.		Roxana Vitan	President	Romanian-American Foundation
165.		Sorin Ionita	Policy Analyst	Expert Forum
166.		Stefania Eugenia Popp	Chief Executive Officer	JA Romania
167.		Stephanie Boscaino	Economic Officer	U.S. Embassy in Romania
168.		Thomas Stauffer	Former officer of the Swiss Agency for Development and Coordination	N/A
Moldova				
169.		Serghei Socolov	Director of Accounting Organization and Control Department	FinComBank
170.		Sergiu Botezatu	Senior Project Management Specialist	USAID Moldova
171.		Victor Khvorostovsky	President	FinComBank
172.		Viorel Garaz	Marketing Expert	Moldovan National Office of Vine and Wine
Ukraine				
173.		Andrey Raykevich	Chief Operating Officer	Kodisoft
174.		Beverly Hoover	Assistance Officer	U.S. Embassy in Ukraine
175.		Dmytro Kostyk	Chief Executive Officer	Kodisoft
176.		Glib Denysiuk	Head of unit for international funding for business support programs	Oschadbank

177.		Ivan Kompan	MBA Director, Professor	Kyiv School of Economics
178.		Dr.-Ing. Ivan Telyuschenko	General Director	Kerameya
179.		Ivanna Kurtyk	Vice President for Finance and Administration	Kyiv School of Economics
180.		Iryna Ozymok	Local Economic Development Program Manager	WNISEF
181.		Jaroslava Z. Johnson	President & CEO	WNISEF
182.		Joel Sandefur	Resident Legal Officer	USAID Regional Mission for Ukraine, Belarus, Moldova and Cyprus
183.		John A. Pennell	Deputy Mission Director	USAID Regional Mission for Ukraine, Belarus, Moldova and Cyprus
184.		Konstantin Anisimov	Sales Director	Kerameya
185.		Laura Gonzales	Regional Legal Advisor	USAID Regional Mission for Ukraine, Belarus, Moldova and Cyprus
186.		Lenna Koszarny	Founding Partner and Chief Executive Officer	Horizon Capital
187.		Liudmila Markitan	Communications Coordinator	WNISEF
188.		Maryana Kahanyak	Office Head, Adviser to the Minister of Economic Development and Trade of Ukraine	Export Promotion Office
189.		Max Nefyodov	First Deputy Minister	Ministry of Economic Development and Trade of Ukraine
190.		Mykola Rybchynskyi	MBA Program Manager	Kyiv School of Economics
191.		Nadiia Kaznacheyeva	Deputy Minister	Ministry of Infrastructure of Ukraine
192.		Natalia Berezhna	Program Manager – Financial Sector, Office of Economic Growth	USAID Ukraine
193.		Natalie Chaus	Chief Financial and Administrative Officer Treasurer and Ukraine Country Manager	WNISEF
194.		Nataliya Mykolska	Trade Representative of Ukraine	Ministry of Economic Development and Trade of Ukraine
195.		Olexandr Starodubtsev	Head of Department for Public Procurement Regulation	Ministry of Economic Development and Trade of Ukraine
196.		Olga Petrova	Executive Assistant	WNISEF
197.		Petro Luzik	Program Development Specialist, Office of Program Coordination and Strategy	USAID Ukraine
198.		Rimma El Joueidi	Chief Executive Officer	TeachforUkraine

199.		Roman Pudlyk	Bank Manager	Kredo Bank
200.		Roman Tychkivskyy	Economic Leadership Program Manager	WNISEF
201.		Stephen Gonyea	Director, Office of Economic Growth	USAID Ukraine
202.		Steven Rynecki	Deputy Director, Office of Economic Growth	USAID Ukraine
203.		Susan K. Fritz	Mission Director	USAID Regional Mission for Ukraine, Belarus, Moldova and Cyprus
204.		Tanya Abramova	Director	RITO
205.		Tatyana Furtseva	Senior Partner, Country Manager	WE Partners
206.		Valentina Zotova	Executive Director	CANactions
207.		Vasyl Nazaruk	Impact Investing Program Manager	WNISEF
208.		Vitaliy Bigdai	Export Promotion Policy Program Manager	WNISEF
209.		Dr. Ulana Suprun	Acting Minister of Health	Ministry of Health of Ukraine
210.		Yulia Makarova	Senior Consultant	WE Partners

Annex F: Data Collection Instruments

QUESTIONNAIRE FOR BOARD MEMBERS
Legacy Foundations

Please state the following information for the record:

Name	
Duration of your engagement as a Board member of the Foundation in Country X (during which years)	
Were you a member of any Board committees? Which ones?	
Did you have any other position with the Foundation concurrent with your Board membership (for example, an executive position)? Please clarify and specify the duration of this engagement.	
Did you have a financial or other interest in any companies, advisory funds, or investment management funds in which the Legacy Foundation had an equity stake or that provided services to the Legacy Foundation? Please elaborate.	
Description of key responsibilities	
Location at the time of engagement	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Legacy Foundations, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. How involved were the Board members in the development of the Foundation strategy in Country X?

2. Did the strategy coincide with the overarching private sector development objectives of the Foundation as stated in the grant agreement? If yes, in what ways? If no, why do you think that was the case?

3. Have the Foundation's operations reflected the established strategy and objectives as agreed in the relevant grant agreement? Please provide one or two examples and exceptions, as relevant.

4. To what extent is the Board involved in overseeing the strategy, management and performance of the Foundation on a regular basis and beyond formal endorsement? Has this level of engagement been sufficient to ensure adequate oversight?

5. In your opinion, has the Board demonstrated commitment to implementing corporate governance policies and practices according to accepted international standards? For example, what corporate policies has the Board adopted as part of its stewardship of the Foundation?

6. Are the Foundation's risk management and internal controls sufficient to ensure sound stewardship of the foundation's assets and compliance with relevant regulations? In what documents are internal control and risk management policies described?

7. Do the Foundation's financial and qualitative disclosures provide a relevant, accurate, and timely representation of its economic transactions and allocation of resources?

8. Have there been any external audit findings pointing to deficiencies in internal controls, financial and operations management functions of the Foundation? If yes, how did the Board address these findings?

9. So far, what has been the overall impact of the Foundation on country X's economic development, on the development of its private sector, and on country X's reforms?

10. Can you give examples of any impact of specific Foundation programs on the economic development of country X and on the sectors it supports?

11. So far, which of the Foundation's programs have not gone as planned, and why? (please give specific examples).

12. In your opinion, is there anything the Foundation might do better or differently to support the country X's economic and private sector development and reforms?

13. Does the Foundation practice meaningful and constructive stakeholder engagement with appropriate and timely follow-up to such engagement? What stakeholders does the Foundation engage with and on what matters?

QUESTIONNAIRE FOR BOARD MEMBERS
Enterprise Funds

Please state the following information for the record:

Name	
Duration of your engagement as a Board member of the Fund in Country X (during which years)	
Were you a member of any Board committees? Which ones?	
Did you have any other position with the Fund concurrent with your Board membership (for example, an executive position)? Please clarify and specify the duration of this engagement.	
Did you have a financial or other interest in any advisory funds, investment management funds, or companies in which the Enterprise Fund invested or that provided services to the Enterprise Fund? Please elaborate.	
Description of key responsibilities	
Location at the time of engagement	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Enterprise Funds, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key

informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. How involved were the Board members in the development of the Fund strategy in Country X?

2. Did the strategy coincide with the overarching private sector development objectives of the Fund as stated in the grant agreement? If yes, in what ways? If no, why do you think that was the case?

3. Did the Fund's investment priorities and operations reflect the established strategy and objectives as agreed in the relevant grant agreement? Please provide one or two examples and exceptions, as relevant.

4. To what extent was the Board involved in overseeing the strategy, management and performance of the Fund on a regular basis and beyond formal endorsement? Was this level of engagement sufficient to ensure adequate oversight?

5. In your opinion, did the Board demonstrate commitment to implementing corporate governance policies and practices according to accepted international standards? For example, what corporate policies did the Board adopt as part of its stewardship of the Fund?

6. Were the Fund's risk management and internal controls sufficient to ensure sound stewardship of the Fund's assets and compliance with relevant regulations? In what documents are internal control and risk management policies described?

7. Did the Fund's financial and qualitative disclosures provide a relevant, accurate, and timely representation of its economic transactions and allocation of resources?

8. Have there been any external audit findings pointing to deficiencies in internal controls, financial and operations management functions of the Fund? If yes, how did the Board address these findings?

9. What was the overall impact of the Enterprise Fund on country X's economic development, on the development of its private sector, and on country X's reforms?

10. What was the impact of specific Fund investments on the economic development of country X and of the sector in which the investments were made? (please give specific examples of Fund investments and their impact)

11. Which of the Fund's investments did not go as planned, and why? (please give specific examples).

12. With the benefit of hindsight, in your opinion is there anything the Enterprise Fund might have done better or differently to support the country X's economic and private sector development and reforms?

QUESTIONNAIRE FOR FOUNDATION CLIENTS
(companies, banks, any private / legal persons who benefited from the Foundation's investment and / or financial support)

Please state the following information for the record:

Name	
Your position	
Description of relationship with the Foundation	
Location (country) at the time of engagement with Foundation	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

1. What type of investment / support did the Foundation provide to you or your organization?

2. What was the impact of that investment / support on your organization? Could you give some examples of how the investment / support received contributed to your organization's performance and growth?

3. Why did you decide to go to the Foundation for support / services? Did you seek alternative offers or was the Foundation the only available option for you?

4. If you participated in a technical assistance program organized by the Foundation in Country X, what was your impression of the quality and effectiveness of the program? Were you able to use the training in your daily work? Please give some examples.

5. Are you still working in any way with the Legacy Foundation? Please elaborate.

6. If you were a grantee of the Foundation, please describe briefly the process of grant completion and closure.

7. In your opinion, did the kind of support / services / products offered by the Foundation in Country X have an impact on economic / private sector development?

8. In your opinion, in what other ways could the Foundation support and promote private sector development in Country X?

QUESTIONNAIRE FOR FUND CLIENTS
(companies, banks, any private / legal persons who benefited from Enterprise Fund's investment and / or financial support)

Please state the following information for the record:

Name	
Your position	
Description of relationship with Fund	
Location (country) at the time of engagement with Fund	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

1. What type of investment / support did the Fund provide to your company or institution?

2. What was the impact of that investment / support on your company / institution? Could you give some examples of how the investment/support received contributed to your organization's performance and growth?

3. Why did you decide to approach the Fund for investment / services? Did you seek competitive offers or was the Fund the only available option for you?

4. If you participated in a technical assistance program organized by the Enterprise Fund in Country X, what was your impression of the quality and effectiveness of the program? Were you able to use the training in your daily work? Please give some examples.

5. Are you still working in any way with the Enterprise Fund? Please elaborate.

a. If your collaboration has ended and if you were an investee of the Fund, how was the Fund's exit strategy developed and executed?

b. If you were a grantee of the Fund, please describe briefly the process of grant completion and closure.

6. In your opinion, did the kind of investments / services / products offered by the Fund in Country X have an impact on economic / private sector development?

7. In your opinion, in what other ways could the Fund have supported and promoted private sector development in Country X?

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QUESTIONNAIRE FOR SENIOR STAFF
Legacy Foundations

Please state the following information for the record:

Name	
Position with the Foundation and duration of this engagement	
Description of key responsibilities	
Location at the time of engagement	
Did you have any other role in the leadership of the Foundation (for example, Board membership)?	
If you were a Board member, were you a member of any of the Board committees? Please specify.	
Do you have a financial or other interest in any advisory funds, investment management funds, or companies in which the Legacy Foundation has invested or that provided services to the Legacy Foundation? Please elaborate.	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes

	☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Legacy Foundations, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. What has been the overall impact of the Legacy Foundation on country X's economic development, on the development of its private sector, and on country X's reforms?

2. What has been the impact of specific Foundation programs on the economic development of the country and of the sector supported by these programs (please give specific examples of Foundation programs and their impact)?

3. Which of the Foundation's investments so far have not gone as planned, and why? (please give specific examples). Alternatively, which of the Foundation's investments or initiatives do you consider to be its biggest success to date? Why?

4. If the Foundation has pioneered the development and delivery of new services or products, were these adopted by others in the sector? Are these services and products still being offered in the country? How successful are they (is there demand)?

5. How does the Foundation evolve and take stock of the changing economic and regulatory circumstances in Country X?

6. To what extent has the Board been involved in overseeing the strategy, management and performance of the Foundation on a regular basis and beyond formal endorsement? Is this level of engagement sufficient to ensure adequate oversight?

7. In your opinion, is there anything the Foundation could do better or differently to support the country X's economic and private sector development and reforms?

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QUESTIONNAIRE FOR SENIOR STAFF
Enterprise Funds

Please state the following information for the record:

Name	
Position with the Fund and duration of this engagement	

Description of key responsibilities	
Location at the time of engagement	
Did you have any other role in the leadership of the Fund (for example, Board membership)? What was the duration of that engagement?	
If you were a Board member, were you a member of any of the Board committees? Please specify.	
Did you have a financial or other interest in any advisory funds, investment management funds, or companies in which the Enterprise Fund invested or that provided services to the Enterprise Fund? Please elaborate.	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Enterprise Funds, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. What was the overall impact of the Enterprise Fund on country X's economic development, and, in particular, on the development of its private sector, and on the implementation of relevant reforms?

2. What was the impact of specific Fund investments on the economic development of the country and on the sector in which those investments were made? (please give specific examples of Fund investments and their impact)

3. Which of the Fund's investments did not go as planned, and why? (please give specific examples). Alternatively, which of the Fund's investments or initiatives do you consider to be its biggest success? Why?

4. If the Enterprise Fund pioneered the development and delivery of new services or products, were these adopted by others in the sector? Are these services and products still being offered in the country? If so, does there continue to be demand for such products and services?

5. How did you interpret and operationalize the mandate in the Grant Agreement as you developed the strategy and investment procedures of the Fund at the outset?

6. How did the Fund evolve to take stock of the changing economic and regulatory conditions in Country X?

7. What were the measures of success used by the Fund? How important did you judge financial returns?

8. To what extent has the Board been involved in overseeing the strategy, management and performance of the Fund on a regular basis and beyond formal endorsement? Has this level of engagement been sufficient to ensure adequate oversight?

9. With the benefit of hindsight, in your opinion is there anything the Enterprise Fund might have done better or differently to support country X's economic and private sector development and reforms?

QUESTIONNAIRE FOR THIRD PARTY STAKEHOLDERS – INTERNATIONAL ORGANISATIONS
(IMF, World Bank, European Union, EBRD, any other major donor in the country working on economic / private sector development)
Legacy Foundations

Please state the following information for the record:

Name	
Position within your organization	
Description of key responsibilities	
How have you worked with the Foundation in Country X?	
Location at the time of engagement	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

1. Does your organization work with the Foundation in Country X?

    a. If yes, in what way does your organization work with the Foundation in Country X?

    b. If no, how do you know of the Foundation in Country X?

2. In your opinion, does the Foundation play a role in responding to Country X priorities in terms of economic / private sector development? If yes, do you think that role is appropriate? Could you give some examples and evidence of the Foundations' contribution in that respect?

3. Are there any other initiatives or projects working to address the same priorities as the Foundation? If yes, is the Foundation able to coordinate with the sponsors and implementers of these initiatives of projects? Could you give some examples?

4. Are you familiar with some of the investments made by the Foundation in Country X or with some of the initiatives the Foundation has supported? If yes, how successful were they in your opinion? Could you give some examples?

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QUESTIONNAIRE FOR THIRD PARTY STAKEHOLDERS – INTERNATIONAL ORGANISATIONS
(IMF, World Bank, European Union, EBRD, any other major donor in the country working on economic / private sector development)
Enterprise Funds

Please state the following information for the record:

Name	
Position within your organization	
Description of key responsibilities	
How have you worked with the Fund in Country X?	
Location at the time of engagement	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

1. Did your organization work with the Enterprise Fund in Country X?

    a. If yes, in what way did your organization work with the Enterprise Fund in Country X?

    b. If no, how do you know of the Enterprise Fund in Country X?

2. In your opinion, did the Enterprise Fund play a role in responding to Country X priorities in terms of economic / private sector development? If yes, do you think that role was appropriate? Could you give some examples and evidence of the Fund contribution in that respect?

3. Were there any other initiatives or projects working to address the same priorities as the Enterprise Fund? If yes, was the Enterprise Fund able to coordinate with the sponsors and implementers of these initiatives of projects? Could you give some examples?

4. Are you familiar with some of the investments made by the Enterprise Fund in Country X? If yes, how successful were they in your opinion? Could you give some examples?

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QUESTIONNAIRE FOR THIRD PARTY STAKEHOLDERS – GOVERNMENT
(Ministry of Economy / Finance / Planning / Investment Promotion Agency / Private Sector Development or Privatization Agency, and any other relevant governmental institutions)
Legacy Foundations

Please state the following information for the record:

Name	
Current position with your government: department / ministry, level, and years at this position	
Description of key responsibilities	
How have you worked with the Foundation in Country X?	
Location and position at the time of engagement with the Foundation	
Current location	
Contact information E-mail: Telephone number:	

Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

1. Is there a coordination mechanism in place to facilitate governmental engagement with the Legacy Foundation? Please elaborate. If such a mechanism is in place, in what way does your Ministry / Department work with the Foundation in Country X?

2. Is there a national coordinating mechanism specifically targeting private sector development and involving government agencies, donors, and institutions such as and the Legacy Foundation? Do the Foundation representative(s) participate in the work of this mechanism?

3. In your opinion, are the Legacy Foundation's objectives aligned with national and sectoral priorities?

4. What has been the overall effect of the Foundation's operations / investments on economic development and / or private sector growth in Country X, in your opinion?

5. Are you familiar with some of the programs implemented by the Foundation in Country X or some of the initiatives it has supported? In your opinion, how successful are they? What could be done better in your opinion?

6. How successful are the services offered by the Foundations in Country X (i.e. is there demand)?

7. In your opinion, in what other ways could the Foundation support and promote private sector development in Country X?

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QUESTIONNAIRE FOR THIRD PARTY STAKEHOLDERS – GOVERNMENT
(Ministry of Economy / Finance / Planning / Investment Promotion Agency / Private Sector Development or Privatization Agency, and any other relevant governmental institutions)
Enterprise Funds

Please state the following information for the record:

Name	
Current position with your government: department / ministry, level, and years at this position	
Description of key responsibilities	
How have you worked with the Fund in Country X?	

Location and position at the time of engagement with the Fund	
Current location	
Contact information E-mail: Telephone number:	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

1. Was there a coordination mechanism in place to facilitate governmental engagement with the Enterprise Fund? Please elaborate. If such a mechanism was in place, in what way did your Ministry / Department work with the Enterprise Fund in Country X?

2. Was there a national coordinating mechanism specifically targeting private sector development and involving government agencies, donors, and institutions such as the Enterprise Fund? Did the Fund representative(s) participate in the work of this mechanism?

3. In your opinion, were the Enterprise Fund's objectives aligned with national and sectoral priorities at the time of the establishment of the Fund? Has the Fund's strategy evolved over time to take stock of the economic situation / policy / regulatory reforms in Country X?

4. If the Enterprise Fund contributed to the drafting or amendment of regulations enabling private sector development, were these proposals endorsed and enacted by the national government? What has been the overall effect of the Fund's operations / investments on economic development and / or private sector growth, in your opinion?

5. Are you familiar with some of the investments made by the Enterprise Fund in Country X or some of the initiatives it has supported? In your opinion, how successful were they? What could have been done better in your opinion?

6. If the Enterprise Fund pioneered the development and delivery of new services or products, were these adopted by others in the sector? Are these services and products still being offered in the country? How successful are they (is there demand)?

7. In your opinion, in what other ways could the Fund have supported and promoted private sector development in Country X?

QUESTIONNAIRE FOR U.S. GOVERNMENT STAFF MISSION IN COUNTRY X
Legacy Foundations

Please state the following information for the record:

Name	
Current position (Title, Agency, Bureau)	
Current location	
Description of current key responsibilities	
Position with Field Mission at the time of the engagement with the Legacy Foundation(s). Please specify Country.	
Please describe your role and the nature of your engagement with the Legacy Foundation(s).	
Period of engagement	
Contact information: E-mail Telephone number	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Legacy Foundations, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. In what capacity and how regularly have you followed the work of the Foundation in Country X?

2. What is the overall impact of the Legacy Foundation on country X's economic development, on the development of its private sector, and on the country X's reforms?

3. Could you give any specific examples of Foundation programs and/or operations and their impact?

4. Can you give examples of Foundation programs that did not go as planned? What is your understanding of the reasons for those unsuccessful grants?

5. Did the Foundation document and provide information on successful and unsuccessful programs in its reports?

6. In your opinion, is there anything the Foundation can do better or differently to support country X's economic and private sector development and reforms?

7. (For Ukraine, Moldova and Albania) In your opinion, to what extent does the Foundation's strategy in Country X complement USAID's overall development strategy in Country X?

8. What are other stakeholders' perception of the Foundation's activities in Country X? Do you engage with third party stakeholders, including Foundation's clients, to get their feedback?

QUESTIONNAIRE FOR U.S. GOVERNMENT STAFF MISSION IN COUNTRY X
Enterprise Funds

Please state the following information for the record:

Name	
Current position (Title, Agency, Bureau)	
Current location	
Description of current key responsibilities	
Position with Field Mission at the time of the engagement with the Enterprise Fund(s). Please specify Country.	
Please describe your role and the nature of your engagement with the Enterprise Fund(s).	
Period of engagement	
Contact information: E-mail Telephone number	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Enterprise Funds, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. In what capacity and how regularly have you followed the work of the Fund in Country X?

2. What was the overall impact of the Enterprise Fund on country X's economic development, on the development of its private sector, and on country X's reforms?

3. What was the impact of specific Fund investments on the economic development of country X and on the sector of that investment? Can you give any specific examples of Fund investments and their impact?

4. Can you give examples of the Fund's investments that did not go as planned? What is your understanding of the reasons for those unsuccessful investments? Did the Fund document and provide information on successful and unsuccessful investments in its reports?

5. With the benefit of hindsight, in your opinion is there anything the Enterprise Fund might have done better or differently to support country X's economic and private sector development and reforms?

6. In your opinion, to what extent did the Fund's strategy in Country X complement USAID's overall development strategy in Country X?

7. What are other stakeholders' perception of the Fund activities in Country X? Do you engage with third party stakeholders, including Fund's clients, to get their feedback?

USAID
FROM THE AMERICAN PEOPLE

QUESTIONNAIRE FOR U.S.-BASED U.S. GOVERNMENT STAFF
Legacy Foundations

Please state the following information for the record:

Name	
Current position (Title, Agency, Bureau)	
Current location	
Description of current key responsibilities	
Position with USAID at the time of the engagement with the Legacy Foundation(s)	
With which Legacy Foundation(s) have you worked? Please describe your role and the nature of your engagement with the Legacy Foundation(s).	

Period of engagement	
Contact information: E-mail Telephone number	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Legacy Foundations, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. In what capacity and how regularly have you followed the work of the Foundation(s) in Country X?

Design and setup of the Legacy Foundations

2. Were you involved in the negotiations with the Enterprise Fund on the setup of the Legacy Foundation and its objectives and model (structure, operations, governance, staffing, and general management)? If so, could you please describe briefly the discussions that informed the design of the Foundation?

3. In retrospect, were the objectives and model chosen by the Fund for the Legacy Foundation appropriate to the context and needs of the country? We use the term 'model' to include structure, operations, governance, staffing, and general management.

4. In your opinion, to what extent has the Foundation adhered to the original objectives and model? Has the Foundation's work evolved in terms of programming, procedures, staffing, general management? Please provide some examples.

Legacy Foundation strategy and performance

5. In your opinion, does the Foundation pursue development objectives in Country X? Are you aware of the criteria that are used to make grant-making decisions?

6. Against what goals and benchmarks is the Foundation portfolio's performance measured?

7. In your opinion, does the Foundation take stock of the changes in economic and regulatory circumstances in the country? Does the Foundation adapt and evolve accordingly? Please provide examples.

8. To what extent is the U.S. government consulted on the strategy of the Foundation in the country? For example, does the Foundation share its grant-making strategy with USAID? Please provide any other examples, if relevant.

9. To what extent is the U.S. government informed about the Foundation's operations and impact in the country? Do you think that the Foundation measures, documents, and reports on development impact in a systematic and rigorous way?

Legacy Foundation Governance

10. In your opinion, how effective is the current governance structure of the Foundation in Country X? For example, does the Board of Directors provide sufficient guidance, direction, and oversight of the operations of the Foundation in Country X?

11. Do you receive any feedback from third party stakeholders, including Foundation's clients? If yes, what are other stakeholders' perception of the Foundation's activities in Country X?

USAID
FROM THE AMERICAN PEOPLE

QUESTIONNAIRE FOR U.S.-BASED U.S. GOVERNMENT STAFF
Enterprise Funds

Please state the following information for the record:

Name	
Current position (Title, Agency, Bureau)	
Current location	
Description of current key responsibilities	
Position with USAID at the time of the engagement with the Enterprise Fund(s).	
With which Enterprise Fund(s) have you worked? Please describe your role and the nature of your engagement with the Enterprise Fund(s).	
Period of engagement	
Contact information: E-mail Telephone number	
Do you agree to have your name included as a key informant in the final evaluation report?	☐ Yes ☐ No

As key informants have been involved in different roles and during different stages of the evolution of the Enterprise Funds, not all questions in this form may be relevant to all respondents. The interviewer will mark as "Not Applicable" questions that key informants may not be in a position to answer. Further, key informants are not required to answer every question and may decline to answer questions for any reason and without an expectation to state that reason.

1. In what capacity and how regularly have you followed the work of the Enterprise Fund(s)?

Design and setup of the Enterprise Funds

2. Were you involved in the discussions that informed the design of the Enterprise Funds? If yes, please describe briefly these discussions. What was the rationale in support of the use of the Enterprise Fund concept instead of a typical project design? What research and assumptions were used to define the initial objectives of the Enterprise Funds as stated in their Grant Agreements?

3. In retrospect, was the model chosen by the Fund appropriate to the context and needs of the country? We use the term 'model' to include structure, operations, governance, staffing, and general management.

Enterprise Fund investment strategy and performance

4. Based on your experience and observations of the Fund, what criteria did the Fund use to make investment or grant-making decisions?

5. Did the Fund have a written investment strategy, and if so, was it shared with USAID?

6. Against what goals and benchmarks was the Fund portfolio's performance measured?

7. How did USAID measure, analyze, and report the performance of the Fund's grants and investments?

8. In your opinion, did the Enterprise Fund achieve the development objectives as stated in its original Grant Agreement? For example, did the Enterprise Fund executives, Board of Directors, and investment managers find the right balance between generating financial returns and ensuring development impact in the country?

9. How and how frequently did the Fund take stock of the changed economic and regulatory circumstances in the country in which it operated? How did the Fund adapt and evolve accordingly?

10. Were you aware of any Enterprise Fund efforts to pioneer the development and delivery of new services or products? Did the Fund document and report to USAID on the introduction and adoption of new services or products?

11. Have you been informed of any Fund investments that did not go as planned? Did the reporting include factors that may have explained the negative impact on the Fund's investment performance? Please give specific examples. In contrast, please describe some of the success stories reported by the Fund to USAID.

12. In your opinion, did the Fund in Country X measure, document, and report on its overall impact on the country's economic development, on the development of the private sector, and on the country's reforms? Please give some examples.

Enterprise Fund Governance

13. In your opinion, how effective was the Board of Directors in providing guidance, direction, and oversight to the operations of the Fund and the operations of the enterprises in which the Fund is invested?

14. Did USAID have adequate access to information, staff expertise, and management arrangements in place in Washington DC and in the field to effectively exercise its oversight role?

15. What are other stakeholders' perception of the Fund activities in the country? Does USAID engage with third party stakeholders, including Fund's clients, to get their feedback?

Annex G: Signed Consent Forms

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: Ryan M. Schwarz

Signature: _____

Date: 5/19/17

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

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I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: David Cowles

Signature: David L Cowles

Date: 12/14/16

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: Daniel Rosenblum

Signature: _____

Date: 12/16/2016

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: MARK H. KARNS

Signature: _____

Date: 5.19.17

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

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Name: ANDREW NAGORSKI

Signature: Andrew Nagorski

Date: 1/24/17

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: David FRIEP

Signature: [illegible]

Date: 24 I 2017

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: DENNIS A. JOHNSON

Signature: Dennis A Johnson

Date: May 5, 2017

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: Kim G Davis

Signature: _____

Date: 1/18/17

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

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I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: LUBOV FAJFER

Signature: Lubov Fajfer

Date: 05/19/17

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: LYNN M. DAFT

Signature: Lynn M. Daft

Date: 1/31/17

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: Mary MacPherson

Signature: Mary MacPherso

Date: January 24, 2017

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: Paul M. Sacks

Signature: Paul M Sacks

Date: Jan. 17, 2017

Consent Form

I understand that I am invited to participate in the evaluation carried out by DevTech Systems, Inc. on behalf of the United States Agency for International Development (USAID) of Enterprise Funds established by the Support for Eastern European Democracy (SEED) Act of 1989 and the Freedom Support Act (FSA) of 1992 and Legacy Foundations.

I understand that if I decide at any time that I am not longer interested in participating in this evaluation, I can withdraw from it immediately and do not need to provide a reason for my decision.

I understand that reports on the findings of this evaluation will be prepared only using information from all key informants and respondents in the aggregate. Confidentiality and anonymity will be strictly maintained, and it will not be possible to identify me from any publication, unless I give my explicit consent.

Name: STEVE PEABE

Signature: [illegible]

Date: 1/24/17

[redacted]

MG

Fri 5/5/2017 1:30 PM

Margaret Grieve [redacted]

Re: Enterprise Funds Evaluation - Follow Up Consent Form

To Lauren McCaw

Yes, I consent. Looking forward to the report.

On Fri, May 5, 2017 at 10:00 AM, Lauren McCaw [redacted] wrote:

> Dear Margaret,
>
> Our evaluation team recently spoke with you about your experience with the Enterprise Funds and Legacy Foundations for the USAID evaluation.
>
> We are pulling together various documents and realized that we have not followed up with you to get a signed written consent form.
>
> Would you mind confirming in writing your consent to have your name included in the list of interviewees? Please see the attached form for your signature or kindly respond to this email that you've read the attached consent form and indicate your approval.
>
> Thank you again for your time and contributions to this evaluation report.
>
> Lauren

Fri 5/5/2017 4:39 PM

DP

Don Pressley [redacted]

Re: Enterprise Funds Evaluation - Follow Up Consent Form

To Lauren McCaw

Dear Lauren,
I agree with and accept the terms of the consent form.
Best regards,
Donal L Pressley

Sent from my iPad

On May 5, 2017, at 11:02 AM, Lauren McCaw [redacted] wrote:

> Dear Don,
>
> Our evaluation team recently spoke with you about your experience with the Enterprise Funds and Legacy Foundations for the USAID evaluation.
>
> We are pulling together various documents and realized that we have not followed up with you to get a signed written consent form.
>
> Would you mind confirming in writing your consent to have your name included in the list of interviewees? Please see the attached form for your signature or kindly respond to this email that you've read the attached consent form and indicate your approval.
>
> Thank you again for your time and contributions to this evaluation report.
>
> Lauren

Annex H: Disclosure of Conflicts of Interest

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Albena Godlove
Title	Team Leader
Organization	DevTech Systems, Inc.
Evaluation Position?	■ Team Leader ☐ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated *(Include project name(s), implementer name(s) and award number(s), if applicable)*	Enterprise Funds and Legacy Foundations in Albania, Bulgaria, Romania, Hungary, Ukraine and Moldova
I have real or potential conflict of interest to disclose.	☐ Yes X No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* 1. *Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* 2. *Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* 3. *Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* 4. *Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* 5. *Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* 6. *Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	Not Applicable

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	Albena Godlove
Date	October 31,2016

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Brian Hannon
Title	Enterprise Fund and Private Sector Development Expert
Organization	Millennium Partners Consulting, Subcontractor to DevTech Systems
Evaluation Position?	☐ Team Leader ■ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated *(Include project name(s), implementer name(s) and award number(s), if applicable)*	
I have real or potential conflict of interest to disclose.	☐ Yes ☐ No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* *1. Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* *2. Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* *3. Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* *4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* *5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* *6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	
Date	October 20, 2016

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Cristina Mosneaga
Title	Evaluation Specialist
Organization	DevTech Systems, Inc.
Evaluation Position?	☐ Team Leader ■ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated *(Include project name(s), implementer name(s) and award number(s), if applicable)*	
I have real or potential conflict of interest to disclose.	☐ Yes ☐ No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* *1. Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* *2. Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* *3. Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* *4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* *5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* *6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	
Date	21/10/2016

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Eugene Spiro
Title	Grants/Foundation Specialist
Organization	Millennium Partners Consulting, LLC subcontractor to DevTech Systems, Inc.
Evaluation Position?	☐ Team Leader ■ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated *(Include project name(s), implementer name(s) and award number(s), if applicable)*	
I have real or potential conflict of interest to disclose.	☐ Yes ☑ No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* 1. *Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* 2. *Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* 3. *Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* 4. *Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* 5. *Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* 6. *Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	
Date	10/24/16

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Lauren McCaw
Title	Program Manager
Organization	DevTech Systems, Inc.
Evaluation Position?	☐ Team Leader ■ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated *(Include project name(s), implementer name(s) and award number(s), if applicable)*	
I have real or potential conflict of interest to disclose.	☐ Yes ☒ No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* 1. *Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* 2. *Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* 3. *Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* 4. *Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* 5. *Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* 6. *Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	Lauren McCaw
Date	11/1/2014

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Sandra Goshgarian
Title	Enterprise Funds Expert
Organization	DevTech Systems, Inc.
Evaluation Position?	☐ Team Leader ■ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated *(Include project name(s), implementer name(s) and award number(s), if applicable)*	
I have real or potential conflict of interest to disclose.	■ Yes ☐ No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* 1. *Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* 2. *Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* 3. *Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* 4. *Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* 5. *Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* 6. *Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	I have a *potential* conflict of interest *as defined in paragraph 4* given my previous work experience at USAID in the Office of Economic Growth in the Europe and Eurasia Bureau, which is the USAID operating unit that manages the Enterprise Funds and their respective Foundations. Employment Dates: May 2011 – December 2014

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	Sandra Goshgarian
Date	10/24/2016

Disclosure of Conflict of Interest for USAID Enterprise Funds and Legacy Foundation Evaluation

Name	Stephen Strauss
Title	Financial/Funds Expert
Organization	Millennium Partners Consulting, LLC Subcontractor to DevTech Systems, Inc.
Evaluation Position?	Team Leader ■ Team member
Evaluation Award Number	AID-OAA-I-15-00018
USAID Project(s) Evaluated*(Include project name(s), implementer name(s) and award number(s), if applicable)*	
I have real or potential conflict of interest to disclose.	Yes X No
If yes answered above, I disclose the following facts: *Real or potential conflicts of interest may include, but are not limited to:* *1. Close family member who is an employee of the USAID operating unit managing the project(s) being evaluated or the implementing organization(s) whose project(s) are being evaluated.* *2. Financial interest that is direct, or is significant though indirect, in the implementing organization(s) whose projects are being evaluated or in the outcome of the evaluation.* *3. Current or previous direct or significant though indirect experience with the project(s) being evaluated, including involvement in the project design or previous iterations of the project.* *4. Current or previous work experience or seeking employment with the USAID operating unit managing the evaluation or the implementing organization(s) whose project(s) are being evaluated.* *5. Current or previous work experience with an organization that may be seen as an industry competitor with the implementing organization(s) whose project(s) are being evaluated.* *6. Preconceived ideas toward individuals, groups, organizations, or objectives of the particular projects and organizations being evaluated that could bias the evaluation.*	

I certify (1) that I have completed this disclosure form fully and to the best of my ability and (2) that I will update this disclosure form promptly if relevant circumstances change. If I gain access to proprietary information of other companies, then I agree to protect their information from unauthorized use or disclosure for as long as it remains proprietary and refrain from using the information for any purpose other than that for which it was furnished.

Signature	
Date	OCTOBER 21, 2016

Annex I: Albania

Albanian-American Enterprise Fund (AAEF)

Fund Evaluation Question #1

The Albanian-American Enterprise Fund (AAEF) was established on April 12, 1995. The planned grant funding was $30 million. AAEF's Board considered the original grant objectives, assessed the situation on the ground, and determined that some of the initial USAID expectations were not feasible in the Albanian context. For example, there were no opportunities to build U.S.-Albanian Joint Ventures, as there was no U.S. investment in Albania at the time. To date, most major foreign investments in the country have come from EU countries and Turkey. One of AAEF's early investments was partly owned by U.S. nationals (NVP Korca), and in that case the U.S. investors were individuals whose family originally came from Korca and who had approached the Fund with a proposal. AAEF did not pursue another original Grant agreement objective to develop small and micro-enterprise lending, because there were other organizations on the ground already providing these services. The Board did not consider prudent investments in building a stock market or developing marketable debt instruments in Albania, which at the time lacked a robust institutional framework, strong financial regulations, and a normal banking sector.

Thus, from the outset, the Board focused on strategic priorities firmly aligned with the overall objective of the Fund — support for private sector development — and started by building a solid foundation for a well-functioning financial services sector. The shift in the strategy did create occasional debates with USAID, however, once the Board articulated the strategy and its rationale and proceeded with its implementation, USAID respected the independence of the Fund and its Board.

AAEF made significant contributions to strengthening financial regulations in Albania, a country plagued by corruption, money laundering, fraudulent investments such as pyramid schemes, and counterfeits at the time. AAEF worked closely with the Government of Albania to develop new banking legislation and regulations, notably on anti-money-laundering (AML) where the standards of AAEF's American Bank of Albania were adopted by the Albanian authorities as their new AML regulations.

AAEF also made a major contribution to the development of a normal banking sector in Albania through the establishment of the American Bank of Albania (ABA) in 1998, a wholly-owned subsidiary of AAEF. ABA began operations in a cash-based economy, before any of the major bank privatizations. It quickly gained the confidence of the local community as an American-owned institution. By 2002, ABA had become a leader in the banking sector through its example of Western-style management, customer service, active lending to SMEs, and hiring and training of local staff. The bank became AAEF's main vehicle for reaching Albania's private sector and SMEs. And was its most successful early investment. The bank leveraged the AAEF investment of $4.8 million in equity plus a $5 million loan into a total loan portfolio of over $350 million by 2007, based on a capital base of over $80 million, and customer deposits of about $880 million. ABA's sale to Intesa San Paolo bank in 2007 generated a significant profit for AAEF.

Aside from financial achievements, ABA's accomplishments included pioneering modern banking in an undeveloped post-communist banking system; introducing cash-flow-based SME lending to the Albanian market; introducing other products such as card products and mortgage lending; developing a cadre of skilled local bank staff; and in general, supporting the positive development of Albania's banking sector, largely by example as other banks sought to emulate and compete with ABA. ABA was the first to develop proper retail banking and established an electronic customs payment system that significantly improved the efficiency of customs procedures for Albanian enterprises. ABA set the standard for the

quality of its staff and its customer service, later imitated when internationally-owned banks entered the market. Many ABA-trained local staff went on to occupy positions throughout the financial sector.

Successful Early AAEF Investments in Manufacturing

Some of the early AAEF investments provided timely support to manufacturing companies, which have developed well and remain important in their sector. Two such investments were an apparel manufacturer in Korca, NVP, which remains one of the main private employers in the Korca region with about 200 staff in two production facilities, and a plastic pipe manufacturer in Rrogozine, which expanded significantly and provided the means for its main shareholder to invest other businesses that currently employ over 1,000 people.

Some of AAEF's early investments ran into problems. AAEF succeeded in exiting these early SME investments profitably in some cases, but took losses on others. The key lesson learned from the early experience was that the Fund needed to have more control of its portfolio investments. The Board and AAEF adapted the investment strategy accordingly, and later investments in which AAEF held greater control, were more successful.

Other accomplishments of AAEF come from the Fund's more recent investments:

- Support for the privatization of the Tirana International Airport through AAEF's participation in the German-led consortium that was awarded the concession. AAEF held 21.3 percent of the equity in the deal with additional major financing provided by EBRD and the German Government's development bank, DEG. The airport subsequently developed rapidly, providing jobs and permitting a significant expansion of international flights to and from Albania. The consortium exited the concession in 2016.
- Support for the critical issuance of Albania's new identity cards documents, through AAEF's participation in the French-led consortium that was awarded the concession. AAEF provided 25 percent of the equity alongside the majority owner, Sagem Securite of France. This endeavor permitted satisfactory voter rolls for elections in Albania, a major concern for the country's international partners, and Albanians' ability to travel visa-free to Europe, a top priority for the Albanian government. The concession agreement expires in 2023.

AAEF distinguished itself by being one of the only international institutions to continue to operate in Albania through the 1997 Pyramid crisis and subsequent civil unrest, when expats had to be evacuated from Albania. This was made possible by the staff development approach adopted by AAEF from the beginning. The AAEF local team kept the office operating, remained in contact with the Board and the foreign managers, and, in particular, remained in contact with its investees, many of whom were severely affected by the crisis. Many key local staff members stayed with the Fund for many years, developing a high level of project management expertise.

The long-term investment in staff, the systematic approach to developing a functioning financial sector and a strong institutional framework for it demonstrated, in the AAEF Board's view, their commitment to the mandates of the grant agreement. The Board never considered the financial and development impact objectives separate, and believed that the development mandate was built into the investment program. AAEF's Board viewed the Fund as an attempt to contribute to private sector development using a different approach. The Board did not consider AAEF a development program and judged its success based on its ability to make meaningful and measurable contributions to private sector development in Albania, support profitable companies, invest profitably and honestly and teach Albanians how to do so, and leave behind an endowment for the Legacy Foundation that will ensure the sustainability of the private sector development efforts.

Additional Information on AAEF's Portfolio

AAEF made a total of 77 investments. This number includes loans as well as equity investments; multiple investments to single investees; and a series of small, short-term import loans to fertilizer dealers under one USAID program. Adjusting for these factors, the number of investees in which AAEF invested was 41, of which 18 investees received equity investments and 23 investees received loans only. Of these 41 investees, two were wholly-owned subsidiaries (ABA and the property company AAIA); six were minority interests in large companies (investments made during 2003-2012), and ten investees were early-stage AAEF investments in smaller enterprises (made during the period 1996-2003) in which AAEF normally had a major financial interest through equity and loan financing. As of early 2017, all but two minority AAEF interests in larger enterprises have been exited.

AAEF also established a separate, locally registered and wholly-owned company, AAIA, through which it made its property investments, as AAIA was legally able to own property under local law. In later years, AAIA held the properties on which AAEF foreclosed pending their sale. AAIA was liquidated after the last such property was sold in 2016.

AAEF gave strong support to the American Chamber of Commerce (AmCham) in Albania, with the AAEF CEO serving as President of AmCham during the 2000s. During that period, AmCham became a leading dialogue partner with the Albanian Government on matters of economic policy and foreign investment. The AAEF CEO also served on the Investment Committee advising the Minister of Economy.

AAEF reported employment generated by investments as a total of 6,958 jobs created over time. Of this amount, a total of 777 reported jobs were with the wholly-owned subsidiaries (500 with ABA and 177 with real estate projects financed through AAIA). A total of 3,850 reported jobs were created by the companies in which AAEF was a minority investor after 2003. The remainder of jobs created, 2,331, were the result of AAEF's investment activity with smaller enterprises in the early stages of the Fund's operations (1996-2003). As explained in the report, the evaluation team was not in a position to validate reported job numbers. Overall, AAEF reported against the required USAID indicators but, like the rest of the Funds, did not go above and beyond to document and measure development impact. There is no indication that USAID considered AAEF's reporting inadequate.

Fund Evaluation Question #2

The Albanian Enterprise Fund created its own bank, ABA, which became a leader in the banking sector in Albania, leveraged a large amount of capital, and delivered impressive financial results for the Fund, once it was sold. The considerable investments of time and resources in building up the staff as well as the operations, the quality and the range of services provided, expanding the network of branches, or creating new financial products are typically not reflected in the SARs of Funds that made such investments — the Albanian, Bulgarian, Baltics, Polish and a few other Funds. Thus, such investments are likely under-reported by Funds whose strategy involved the development of own financial institutions.

AAEF demonstrated and promoted through its investments a professional, Western-style company management. Some of the companies in which AAEF invested in and institutionalized strong corporate governance, have become leaders in their sectors, including manufacturing and insurance. One example is AAEF's investment in Sigal, Albania's first private insurance company. AAEF invested $1.9 million for a 13.3 percent share of the equity. The Fund provided strong operational and corporate governance support, which led to Sigal's sale to an Austrian insurance group and AAEF's profitable exit.

One of AAEF's major accomplishments was the development of a skilled cadre of professional local staff. Many previous AAEF staff members are now in leading positions in Albania, making contributions to the country's economy and private sector. AAEF also had a positive impact on the development of the legal sector in the 1990s. AAEF's investment activity required proper legal documentation with investees. AAEF worked with local lawyers to develop such documentation, and thereby helped develop corporate legal skills that were unavailable in the country. Many qualified lawyers in Albania got their early experience working with AAEF on investment activities. AAEF played a similar role in the development of credit skills in Albania in the 1990s when these skills were still undeveloped.

Fund Evaluation Question #3

AAEF and AADF have had a strong and engaged U.S.-based Board of Directors. The Board has consistently applied robust corporate governance policies that have precluded even the perception of conflict of interest among Directors. In this respect, The AAEF and AADF Board has steered clear of the governance pitfalls some other Boards have had to navigate.

Despite the initial lack of knowledge about the country among some Board members, all embraced the challenge and demonstrated leadership and commitment when they led AAEF through the very difficult 1997 crisis period in Albania when all foreigners had to be evacuated, with difficulties in the country continuing for several years thereafter. During that time, the strategy of the Fund to invest in its local staff paid off in a major way. Some of the staff members have remained with AAEF over the years, including the two local managers who are currently the Co-CEOs of the Fund and the Foundation.

The Board also established a commercial bank, the American Bank of Albania (ABA), and served as the Board of the Bank. ABA led the introduction of new banking services and products in Albania and set the standards in customer service. It was eventually sold very profitably. When the Board was establishing ABA, the Directors had a choice whether to invest in the bank, which needed capital, or not. The Board deliberated and decided, against their own financial interest, not to invest in order to avoid any perception of conflict. This sets the Albanian Board apart from other Boards, whose members decided differently, even when the possibility or actuality of conflict existed.

The Board has built a solid reputation for the Fund and the Legacy Foundation in Albania and enjoys very high visibility with top Albanian Government officials. The Fund was considered a valuable partner to German- and French-led consortia for two large concessions. In the highly political environment of Albania, AAEF and AADF have never been accused of political bias or interference, and are highly respected as professional, transparent, and trusted business partners. The Albanian Fund leveraged the initial USAID investment of $30 million into $977 million of financing provided to Albanian companies, which according to the Fund's reports, contributed $2.2 billion to the national GDP. AAEF has endowed the Albanian Legacy Foundation with over $200 million to-date.

Fund Evaluation Question #4

The answer to this question is relevant to all Funds and is explained in detail in the report. Overall, USAID had limited visibility into the operations of the Fund. Some of USAID's constraints were internal to the Agency and were the result of resource and technical capability constraints. Other limitations were a function of the level of interaction between the Funds and USAID. AAEF provided SARs, annual reports, financial updates, and copies of external audit reports, as required. USAID was not invited to Board meetings and generally did not receive copied of the Board meeting minutes. However, the SARs provided by AAEF to USAID were very detailed and informative, including detailed descriptions of problems with troubled investments and with the Albanian business environment within which the Fund operated.

In AAEF's case, a strong and committed Board proved a key success factor and an effective risk mitigation factor. As with all Funds, one major weakness in USAID's oversight was the failure to conduct the mid-term and final evaluations of the Funds as planned.

AAEF's Grant Agreement was modified on September 8, 2009 to endow AADF. AAEF stopped making investments in 2009. The Fund returned $15 million to the U.S. Treasury and had contributed $190 million to the AAFD as of 2013. AAEF is still operating in 2017, with two company investments that have not been liquidated, and direct AAEF investments in commercial real estate in central Tirana. The termination of AAEF has been extended until 2023 to accommodate the duration of the ID documents concession with the French partner.

Albanian-American Development Foundation

Foundation Evaluation Question #1

The Albanian-American Development Foundation was set up to exist in perpetuity based on a direct implementation model of operations. AADF specified four objectives in its grant agreement:

1. **Education for Sustainable Development:** With education identified as the leading impediment to economic development in Albania, the Foundation intended to focus on improving vocational and IT education, and to develop a program for visiting scholars and lecturers with a focus on improving programs specifically dedicated to development of the private sector.

2. **Entrepreneurship:** Support for business and economic education for entrepreneurs, including assistance to those employed in entrepreneurial activities as well as those who endeavor to become involved in entrepreneurship by sponsoring, for example, a speaking series geared toward entrepreneurs, and short-term management education programs outside the country.

3. **Leadership Development:** Support for current and prospective leaders in the public and private sectors through a program for policymakers and government employees as an Albanian version of the White House Fellows Program, identification of developmental needs in the Albanian economy and experts to address these needs, and establishment of programs to assist Albanian company leaders to bring operations and governance to Western standards.

4**. Support for Cultural Tourism and Eco-Tourism:** Development of cultural and eco-tourism, contributing to private sector development while promoting the country's cultural history.

The initial four objectives were consolidated into three current objectives: Education for Sustainable Development and Leadership were consolidated into one objective; Entrepreneurship and Eco-Tourism remained the same.

AADF's priority areas are directly linked to the overall goal of private sector development. AADF's strategy for achieving its stated mission and objectives involves systematic identification of areas of need within the Foundation's priority areas, analysis of the problem, and development of solutions to create sustainable impact. To achieve this, AADF requires that all grantees contribute resources to the projects. These solutions, embedded in the project design, are intended to be both innovative and measurable in order to assess project impact and identify and apply lessons learned to future projects.

The Foundation is engaged in the design and implementation of activities; maintains significant control over activities; and remains very engaged with partners. It utilizes regularly public tenders (concept, feasibility study, and full proposal stages); assessments are made by an evaluation committee that does not include the co-CEOs; and all proposals are presented to the Board for final approval.

As part of the field work, the evaluation team visited a number of AADF grantees. Below are brief summaries of their work and accomplishments to-date.

Education and Leadership

Junior Achievement

Junior Achievement's (JA) three pillars, worldwide, are entrepreneurial education, financial literacy, and work readiness. The program in Albania, an NGO established by AADF five years ago, began with fifty high schools offering the program as an elective. The Minister of Education saw JA as a good fit in the context of curriculum reform, linked to economic education and development, and adapted to the Albanian context. Albanian companies and banks, senior professionals from the Albanian private sector, including banks, participate by supporting both teachers' and students' education on entrepreneurship. JA's High School programs include:

- JA labs are places where students and teachers can Skype with mentors;
- Innovation camps provide problem-solving activities based on given challenges;
- Leader events facilitate shadowing of CEOs at banks or large companies;
- Two-week summer internship is provided by sponsoring companies.

There are 15,000 JA alumni, with coordinators as part of the alumni network focusing on impact and demonstration. One program alumnus has registered a company providing online tourism information. Participating schools have grown from 50 to 170 across the country. As the professional level of business mentorship varies, there is an online platform for students in remote areas to ensure access to mentoring. The plan is that by the end of 2021, all Albanian students will have completed the JA program, a worldwide first.

AADF supports the expansion of the program, fundraising efforts, and the improvement of the quality of translation and adaption of textbooks into the Albanian context. AADF strengthened JA's Board with external directors, e.g. the Ministry of Education's Chief of Staff; enhanced lobbying with the Ministry, and kept JA abreast of Ministry plans, including legislation; brought directors from businesses, including an American University of Bulgaria (AUBG) alumnus of Albanian origin, a strong supporter of JA; and the new JA CEO, and built linkages with JA worldwide. JA Albania raised $45,000 in 2016 from businesses, with a $385,000 annual operating budget. AADF is providing funds management expertise as part of capacity development, in addition to development, monitoring, and reporting on metrics.

Entrepreneurship

Korca Business Improvement District (BID)

The Korca BID Business Association comprises 78 members, all businesses located in the BID. It conducts 20-30 events per year. The December 3, 2016 tree-lighting ceremony attracted 7,000 people. AADF has provided consultation to participating businesses, whose performance has been improving. The project has resulted in infrastructure improvements, a greater variety of businesses, more efficient use of space (currently 1 percent of space is unused), and growth in public and private investment. AADF and the Association estimate that every $1 invested in the project leverages $4 in additional investment. Property values and rents have risen due to demand for space, working hours have increased by 45 percent, and there is enhanced competition compared to the neighboring Boulevard Republica — all providing a demonstration effect.

In the interest of sustainability, a portion of taxes collected by the municipality are channeled back to the Business Association to cover basic administration and related costs (a BID law that would allocate a greater share of tax revenues back to the Business Association is anticipated). This is supplemented by Business Association membership fees, which are voluntary. Thanks to the BID, Korca has become known across the country as a weekend destination, attracting tourists, donors, and investors. Tourist buses stop at the BID, which (uniquely) has an Information Center. Plans call for development of the Old Bazaar area which, although it should be managed by a separate association, will cooperate with the BID with complementary attractions and services. The BID is seen as a fast track to development.

AADF's BID and TID projects around the country exhibit considerable progress with evident impact on private sector development; however, sustainability and longer-term results and impacts remain to be seen. Another project, Tirana Market (rehabilitation and revitalization of a central market in the capital) appears to hold strong potential for the city's renewal and economic development.

Crimson Finance Fund (CFF)
Crimson Finance Fund was founded in 2015 by AADF together with Norfund, the Municipality of Tirana and Crimson U.S. The four donors' objectives and priorities are aligned; each holds a 25 percent share with EUR 400,000 in initial capital and three subordinated loan agreements with Tirana municipality (EUR 600,000), Norfund (EUR 500,000), and AADF (EUR 800,000). AADF supports CFF in providing clients with technical assistance alongside financing, serving as a non-bank financial institution (NBFI) for micro, small and medium-sized enterprises. The Fund received its license from the Bank of Albania in October 2015, and completed its first financing in March 2016. CFF has disbursed $442,000 to-date, created 35 new jobs, of which 18 are for women, and financed five startups.

Cultural and Eco-Tourism
Electronic Ticketing Systems in Cultural Heritage Sites
AADF is working to promote transparency and ensure direct financial support for Albanian cultural heritage sites through the development of electronic ticketing systems. AADF chose six sites in Albania as project beneficiaries, determined by their popularity as measured in terms of numbers of visitors: Skanderbeg Museum and Kruja Castle, National History Museum, Berat Castle, Apollonian Archeological Park, Castle of Shkoder, and the Castle of Gjirokastra. The project is based on the assertion that formalizing ticket collection processes will enhance efficiencies and accuracy of reporting of sales and revenue, simplify planning, and improve resource allocation.

Empowering Museums through Technology
AADF is conducting a pilot project to digitize art collections in two national museums: one containing a medieval art collection, the other a collection of iconography. Both collections preserve significant artifacts of the Byzantine era. The project applies in-site digitization technology to preserve and enable access to invaluable collections of art, merges cultural heritage with modern techniques and technologies, and contributes to the business validity and sustainable development of the museums as key components of the country's cultural heritage and the development of Albania's tourism industry.

Foundation Evaluation Question #2
The information included below is based on the structure of an assessment tool developed for this evaluation in coordination with USAID.

Governing and Staffing Structures
Board members share common understandings of mission that has been stress-tested through discussion; most have been members for 21 years. Board members are drawn from range of backgrounds with relevant experience, skills and contacts, exhibit energy and enthusiasm in their support for and guidance of AADF's mission, and maintain independence from Management. Procedures for Board member election / appointment are open and transparent. Board committees include ethics, audit, and nomination, comprised exclusively of independent directors.

AADF's organizational structure is evolving, documented and adequate, may require some updating, usually followed, based on reasonably clear roles and responsibilities of departments or functions and lines of authority. The revised organization chart was to be presented at the March Board meeting (AADF's staff size is 20).

The Board meets four times yearly (March, June, October and December, with October in Tirana and the other three meetings in New York City). Meetings for the year are scheduled each October. Meetings are attended by all or nearly all members, meetings include regular review of AADF strategic planning, risk mitigation strategies, financial information and administrative issues, and works with staff in developing multi-year schedules on which business planning is based. Lessons learned form an integral part of Board discussion, informing strategy reviews and planning, and provide occasion for Program Managers to present and defend their work. Board meetings are also supplemented with separate meetings for the Board members with AADF staff.

The Board conducts regular reviews of AADF strategy and participates in its formulation and related debate. Board members abide by a written conflict of interest policy, are not compensated, and support management in identifying candidates for Board membership as needed. Annual self-assessments are done in Executive session without the presence of management, and the Committee of Friends of the Foundation serves as an advisory board, providing advice and local input on strategic and programmatic matters.

Strategic Planning and Management

Strategic and business planning are based on the foundation's identification of needs in each sector of operation, and the required response. The Board has a dedicated discussion on strategy once annually, at the Tirana meeting, where there is opportunity to engage with staff and review and plan strategy with reference to foundation vision and mission. Annual work plan and underlying activities and budgets are discussed and revised to establish the pipeline for the coming year.

The foundation has overall experienced internal stability in terms of staffing and leadership, with staff turnover in 2016 of two or three staff members out of a total of 20 staff. Political stability over the past 12 years has overall facilitated delivery of programs (this was less the case up until 2005). Changes in government have not had an impact on programs; for example, the Tirana Market project began under the administration of the previous Mayor of Tirana, and has been enhanced under the current Mayor's administration.

Grant-Making Practices

Staff hold meetings on a weekly basis with grantee CEOs, and the two Co-CEOs sit on the boards of several grantees, including Protic and Junior Achievement. Grantees are required to submit financial and progress reports on a monthly basis. Foundation management are vigilant in upholding ethical standards for awardee behavior. Employees sign agreements on ethics and good behavior and conflict of interest forms annually, as well as declarations of time spent on other projects. The Co-CEOs seek "full-time attention of their staff."

AADF sets out cost-sharing in project documents as agreed, for example, with municipalities and for certain projects, like the Tirana Market, AADF does fundraising for the project overall. Project design does, however, provide for delineation of funding sources.

Monitoring, Evaluation, and Accountability

AADF's financial statements are audited annually, currently by Deloitte, with reporting directly to the Board Audit Committee. The full Board reviews and approves audits based on the recommendation of the Audit Committee. Audits have always been unqualified and have not, within the last three years, raised deficiencies or generated issues. AADF seeks to introduce regular audits at the individual project level as well as enhanced internal control mechanisms.

Policies and procedures for monitoring and quality assurance are evolving; a work in progress. While existing policies are consistently applied through key performance indicators for each project proposal, the standards and metrics are being strengthened in the course of the foundation's ongoing work. Increasingly, AADF seeks to separate monitoring and evaluation from the programmatic side, reflected in the recent hiring of a dedicated M&E Officer, whose specific responsibility will be to assess programs and provide input into KPIs. That said, foundation staff set realistic targets and goals based on indicators, such as jobs and business creation, and collect, analyze, and monitor relevant data for reporting and evaluation purposes. Project management experience and lessons learned inform reporting as well as future project design.

AADF management indicate that project and program evaluation needs to be strengthened and better structured: Their ambition is to monetize project impact, an area on which they are currently working with the input of Deloitte. The intention is to develop a manual to this end in 2017. Projects undergo external evaluation on an ad hoc basis, for longer-term projects like AUBG. This in turn determines the periodicity of collection and monitoring of data.

Project performance is linked to private sector development "by definition," and is at the center of AADF's mission and vision, applied at the individual project level as in the case of Business Improvement Districts. Staff are in the process of introducing KPIs for projects and for individual sectors, and are introducing measurements of corporate governance, for example, with reference to transparency and board performance.

Communication

AADF engages in occasional public fora, however prefer "deeds over words" and takes the approach of letting project successes speak for themselves. The website provides relevant information on mission, vision, programs and policies, including procurement and tender information, and related news and announcements.

AADF provides for continuous and robust staff input into planning and decision-making, encouraging shared ownership, responsibility and accountability. Staff meetings are held every Tuesday morning, and in addition, meetings dedicated to sectoral projects are held on a weekly basis. Discussion with all levels of staff and external stakeholders are held on a daily basis.

Foundation Evaluation Question #3

AADF engagement with the U.S. Embassy and the USAID mission is evident and the relationship is cooperative. The AADF Board has been historically involved in high-level economic and strategic matters and events in Albania in collaboration with the U.S. Embassy. One example provided by AADF was the Board's involvement in Albania's accession talks with NATO. That said, the U.S. Ambassador in Albania expressed some concern regarding AADF's spend rate and expressed his opinion that needs are current and should be met on a current basis. It should be noted that the horizons and areas of priority (judicial reform is a priority for the U.S. Embassy) for AADF and the U.S. Embassy in this example were not perfectly aligned.

One concern for USAID is that AADF does not publish regular annual reports. The Foundation's website contains information about completed and current projects but this information is not organized in an annual report format. The Foundation has to publish an annual report, as stipulated in its Grant Agreement.

Annex J: Bulgaria

Bulgarian-American Enterprise Fund (BAEF)

Fund Evaluation Question #1

The Bulgarian-American Enterprise Fund (BAEF) was established on January 2, 1992 with an approved capital of $55 million. The original objective of the BAEF was the development of Bulgaria's private sector, emphasizing the agricultural/agribusiness sector (including farming and food production, agricultural inputs, food processing and packaging, distribution), including small businesses, and joint ventures with U.S. and Bulgarian participants. Another objective was to establish financial instruments to help individuals invest in Bulgaria's private sector, thereby multiplying the impact of the U.S. grant.

BAEF's original strategy statement aimed to invest in private businesses that have strong, capable management, the prospect for long-term growth and access to export markets. The Fund aimed to provide debt as well as equity to investee companies. BAEF started implementing its direct investment strategy in 1992, with early investments in agriculture and agribusiness (poultry, daily, winery), food processing (bakery products, soy, vegetables), distribution and transportation. BAEF also invested in other sectors, such as manufacturing (plastics, garments, appliances, coatings), software, new private hotels, and construction/housing.

The strategy for funding the private sector through equity investments in agriculture ran into difficulties due to the high risks at that time, and the strategy evolved significantly and turned to lending. Early lending initiatives included support for two microfinance programs, as well as loans to small enterprises. However, local regulations required each loan made by BAEF, as a foreign non-bank entity, to be specifically approved by the financial authorities, which encouraged BAEF to establish a licensed Bulgarian lending institution. As a result, BAEF's Board decided to incorporate the Bulgarian-American Credit Bank (BACB), which was established in 1995. BAEF provided 100 percent of its equity ($8.9 million) and significant debt financing ($25 million).

Initially BACB had a limited license, allowing it to lend only from funds provided by its shareholder BAEF. Later, in order to broaden its SME lending and attract outside funding, the BACB banking license was broadened to a full-service bank able to accept customer deposits. Subsequently, the external funds attracted from donors such as EBRD significantly leveraged BAEF's own capital, and supported a major expansion of BACB's SME lending activity. BACB became BAEF's major provider of financing to the private sector, leveraging the Fund's resources by securing various other sources of debt funding, and later from issuance of a series of mortgage-backed bonds.

BACB also pioneered mortgage lending in Bulgaria and provided support to the Government for the development of relevant home mortgage legislation and the development of the mortgage-backed bond law, followed by the REIT law. BACB made good use of the mortgage bond law by issuing mortgage-backed bonds, raising significant funding and also attracting foreign portfolio investors into the Bulgarian capital markets. BAEF established several property investment vehicles, initially investing its own capital into REITs (during the years 2004-2006), and later attracting external investors for the REITs.

The evaluation team's assessment of BAEF's investment strategy and its balance between financial returns and development impact concluded that although the Fund established a very successful bank, a leader in SME lending, overall the Fund focused heavily on real estate and construction-related investments and lending, REITS, and property management companies. This strategy did not balance well financial returns and development impact. The evaluation team based this conclusion on the SARs provided by BAEF. For example, the September 2008 SAR Book shows that as of June 30, 2008, BAEF's portfolio was distributed as follows:

Construction/housing/real estate	22 percent
Agriculture/agribusiness	~1 percent
Distribution/transportation	~1 percent
Financial services	77 percent

Further analysis of the investments breakdowns provided in the SAR shows that the total cost of the financial services investments of BAEF amounted to $31,793,139. This included the bank, whose portfolio consisted of SME loans (including mortgage loans), hotel loans, traditional home mortgages, and mortgage lending. Other investments in the financial services portfolios included investments in Kapital Direct EAD and Kapital Direct – 1 ADSIP, which invested in real estate.

The Real Estate portfolio of BAEF had a total cost of $63,570,202 as of June 30, 2008 and included over $44 million in the wholly owned Bulgarian American Property Management company, which invested solely in real estate, land, and parking lots. The rest of the investments were apartments, land, an office building, retail properties, a supermarket chain, a warehouse facility as well as three real estate investment trusts (ERG I, II, and III), whose shares were traded on the stock exchange. Further, in addition to the Managing Director of BAEF, the Fund had a second Managing Director of Real Estate.

BAEF's significant shift to real estate development, hotel, construction, and home mortgage lending as well as investments in REITs was an astute move that was driven by an opportunity in the local market. The strategy proved very profitable. It was arguably rather risky as well, as it concentrated the risk exposure of the Fund. Although the strategy was quite profitable, it is hard to argue that it truly balanced the profit maximization and development impact objectives of the Fund at the time. It appears that the focus was on profit maximization. As the evaluation team points out above and elsewhere in the report, this is not necessarily that different from the approach adopted by several other funds.

The above information does not negate the fact that BACB was a well-managed bank, which the Fund sold very profitably. As the report points out, there were a number of Enterprise Funds that successfully built or strengthened financial institutions, introduced new services and products, filled gaps in the market, and did so very profitably. BAEF was one of these Funds. BAEF's investments had positive spillover and demonstration effects, and did contribute to the economic development of the country. BAEF also made the largest endowment among the ten evaluated Enterprise Funds to its Legacy Foundation. However, this does not mean that the Fund implemented this strategy with a development impact focus in mind. The question the evaluation team had to answer was whether Funds balanced financial returns and development impact. Some Funds did so better than others. In fairness to BAEF and all Funds, the evaluation team has also noted that development objectives and measurements were not well defined in the Grant Agreements.

It should also be mentioned that BAEF pioneered microlending in Bulgaria in 1992 by encouraging the U.S.-based Opportunity International (OI) to come to Bulgaria and by providing financial support to OI's new Bulgarian microlender Nachala (OI later expanded elsewhere in South East Europe). BAEF also supported the Kompass program, which provided small loans to potential exporters. These lending programs later ran into trouble due to problem loans in the Nachala and Kompass programs, and BAEF's support gradually diminished.

BAEF also supported an early pension fund by investing 45 percent of the equity of Rodina Pension Fund. This pension fund was later acquired by a major local financial group.

Fund Evaluation Question #2

The Bulgarian Enterprise Funds created its own bank, BACB, which became a leader in the Bulgarian banking sector, made its own successful IPO, taking the bank public with a listing on the stock exchange,

and delivered impressive financial results for BAEF once it was sold. Although BAEF and BACB did not report relatively large technical assistance and capacity building expenditures, interviews with BACB and BAEF staff indicated that the numbers reported in the SARs likely underestimated considerably the cost of internal capacity building associated with a strategy focused on setting up and building a financial institution such as BACB, and the necessary cost of building the capacity of many of the bank customers afterwards as a risk mitigation strategy. Former BACB staff reported on the significant amount of time and technical support efforts they invested in building relationships with their clients, learning their business, and providing them with advice and assistance as needed.

BAEF made its most significant contribution to Bulgaria's private sector development by its strong support for the development of the banking and credit sectors, the financial sector, and new financial instruments. The actions of BAEF/BACB, directly and through their participation in the then-leading business group BIBA, directly supported the development of the laws on mortgage lending, mortgage-backed bonds, and real estate investment vehicles. BACB became a leader in mortgage lending, and its issues of mortgage-backed bonds to fund this lending attracted foreign institutional investors to Bulgaria for the first time. BACB also pioneered loans to SMEs, strongly supporting that sector and showing the way for other banks to offer similar products to SMEs.

On occasion, BAEF also provided hands-on and long-term support to portfolio investees. One notable example came from an interview with Mr. Lyubo Lozanov, Executive Director of AMETA, a BAEF portfolio company. Mr. Lozanov had left his financial services career in the UK to join BAEF as an Investment Officer in 1999. One of the portfolio companies he was responsible for, AMETA, a poultry producer in Razgrad, ran into severe difficulties and needed dedicated support. Mr. Lozanov volunteered to move to the small town in northeast Bulgaria to serve as Executive Director in 2001, and has been in this position since then. With BAEF's support, which included the recruitment of a seasoned expat poultry expert as an advisor and later partner in the business, Mr. Lozanov successfully resolved AMETA's difficulties and expanded operations, bringing the company to a leading position in the local market for poultry, and a lead in the poultry export to the European Union. This success permitted BAEF to exit its investment via a management buyout, in which Mr. Lozanov and his partner acquired 100 percent of the company. In March 2015, Mr. Lozanov joined the Board of Directors of the America for Bulgaria Foundation.

Fund Evaluation Question #3

Some Fund Boards successfully integrated local Directors in their midst and benefitted from their insight, contacts, and reputations. Among the countries designated for field visits, the evaluation team met Bulgarian Directors of the Board of the Fund, and now the Legacy Foundation, who were clearly very engaged, articulate, and highly regarded as professionals. In the Bulgarian case, a former Enterprise Fund investment officer, who had become the CEO of a very successful Fund portfolio company, AMETA, had joined the Board of the Legacy foundation two years ago. This approach to cultivating a long-term relationship and vetting of a potential Director seems to provide a good solution to the anxiety some Funds expressed early on about including local Directors on the Boards.

BAEF was governed by a Board of Directors which, at the outset, consisted of experienced business people. One of the U.S.-based Board members became the CEO of BAEF. The U.S.-based Board, and its most active members, were very involved in directing the activities of BAEF. Most of the Board members remained on the BAEF Board throughout its life, and some of the key BAEF Board members became Board members and top managers of the Legacy Foundation, ABF. BAEF's Board also used the counsel of an Advisory Board, two of whose representatives, Bulgarian businessmen, participated in BAEF's Board deliberations.

Fund Evaluation Question #4

As in all other countries, USAID was entitled to and received SARs, an annual report, and a copy of the external auditor's report. In 1997, USAID sent correspondence in an attempt to ensure that BAEF provided the expected information in the form of the agreed Strategic Framework Matrix. The correspondence does not give the impression that BAEF and USAID were in agreement regarding how the Fund's performance should be measured and whether benchmark or performance targets were appropriate. Discussions and interviews with stakeholders indicate that the Board, similar to other EF Boards, protected its independence from what the Board would have considered intrusive USG oversight.

Neither USAID Washington not USAID Bulgaria were invited to the meetings of the Board and they did not receive as a rule the minutes from Board meetings. Outstanding questions and requests for approvals of Fund documents, Stock Option and Bonus plans, LTEI Plan, and other such matters were documented, reviewed, and discussed with USAID Washington in writing. Based on the reviewed correspondence, decisions involved careful deliberations, engaging both sides and counsel, and were made relatively expeditiously. Another major decision in which USAID was involved and provided approval for was the sale of BACB. Overall, BAEF and USAID maintained a professional working relationship and there do not appear to have been major situations where high-level USG intervention was required.

America for Bulgaria Foundation

Foundation Evaluation Question #1

The section below is longer in length because it incorporates feedback provided by ABF to the draft report and the responses of the evaluation team.

ABF has committed $180 million for projects since inception, typically deploying $20 million annually, given a target of a 5.5 percent return on their endowment to cover the annual outlay and maintain existence in perpetuity. ABF currently invests in six priority areas (descriptions are included in the Annex on Bulgaria):

7. Civil Society and Democratic Institutions
8. Education
9. Arts and Culture
10. Cultural Heritage and Tourism
11. Private Sector Development
12. Economically Disadvantaged

In January 2010, shortly after it became operational, ABF began to deviate from its approved private sector development objectives, as defined in the Grant Agreement. This change in ABF's focus is documented in a letter from the two Co-Chairmen of ABF's Board at the time, Gary E. MacDougal and Carl H. Pforzheimer, to the then DOS Coordinator of U.S. Assistance to Europe and Eurasia, Mr. Daniel Rosenblum. In this letter, the Board redefined some of the priority areas and included new areas, such as Arts and Culture, without consultation with USAID. ABF did not explain the significant shift in priorities. The letter by the two Co-Chairmen cited statements from a document from the National Governor's Association in the United States from 2009 that promoted the economic benefits of creative industries and claimed that such creative industries present a major economic growth opportunity for Bulgaria. The letter, however, did not provide an analysis of the Bulgarian market to explain the proposed changes and shift in focus, identify gaps and related demand for particular interventions, or elaborate a proposed strategy that linked investments in new priority areas to private sector development and did not articulate expected private sector development-related results, tactics to get to these results, and metrics to measure progress.

The evaluation team notes that in the approved legacy proposal for ABF, BAEF articulated a strategy well-aligned with USAID's private sector development objectives in Bulgaria, and both sides agreed on the priority areas proposed by BAEF. The original four areas approved by USAID were included in the congressional notification, and on that basis the Grant Agreement was executed.

ABF's position is that questions related to program design and strategy have been resolved with USAID in the course of various communications with USAID, including the signed Memorandum of July 12, 2016; however, USAID does not share this view. The evaluation team conducted a follow-up interview and reviewed additional documents provided by USAID, including the referenced July 12, 2016 Memorandum and its attachments, as well as a Letter of concern sent by USAID to ABF a year earlier. The evaluation team's review of the letter of concern from USAID to ABF dated June 15, 2015, which seems to have prompted the discussions, indicates that USAID believed that Foundation needed a "much stronger strategic framework to guide ABF's grant-making so that the outcomes are sustainable and contribute to broader private sector development in Bulgaria." USAID advised ABF that some areas needed a stronger focus and others detracted resources from private sector development. The Agency requested that ABF kept to a minimum grant-making in the areas of Arts and Culture, Education and Libraries, and Cultural Heritage pending further review of ABF's strategy. USAID also offered to assist in the development of a new strategy and provided guidance on what should be included in the strategy

and well as a brief relevant example. The Letter was signed by the Acting Assistant Administrator, Bureau for Europe and Eurasia.

The evaluation team has reviewed the referenced Memorandum, which had one objective — to document an agreement between USAID and ABF to share semi-annual updates — and included the agreed contents of a report ABF was to provide to USAID semi-annually. In this description, USAID referenced that ABF had provided its "existing strategy – including its mission statement, guiding principles and core values, areas of interest and goals, and illustrative indicators and data sources," which was attached to the Memo. The evaluation team has reviewed this five-page attachment titled "Mission Statement" and confirms that the documents is precisely that, a mission statement but not a strategy. ABF's 2016 Mission Statement does not reflect USAID's recommendations regarding the contents of the strategy. The evaluation team followed up with USAID to inquire about the discussions with ABF between 2015-2016 and learned that, in USAID's opinion, the 2016 Memo documented agreement only on the frequency of communication, but the issues documented in the 2015 letter of concern remained. USAID Washington believes that ABF's continued deviation from the Grant Agreement is a compliance violation. USG interviewees emphasized that the Grant Agreement objectives are non-negotiable per OMB regulations, and that the Grant Agreement between the Fund and the Foundation preserved the revisionary right of USAID to seek the return of the funding, if USAID finds that the foundation is operating outside the boundaries of the Grant Agreement. USAID also confirmed that the Agency had made this determination years ago and had documented the ABF's file accordingly. USAID has communicated this verbally to ABF, as reportedly USAID is unable to send a letter of non-compliance to ABF. USAID stated that they had not been able to communicate their concerns to ABF in writing after 2016 due to the inability to reach agreement and formulate one USG position on the situation with ABF.

Thus, the evaluation team's findings in this context are three-fold:
1. The evaluation team has not seen a coherent strategy from ABF that explains how priority areas contribute to private sector development, the approach to assessing alternative funding opportunities and selecting the most impactful ones, and the performance metrics used to measure progress towards the strategic objectives and private sector development impact. Documents provided by USAID included matrices and tables developed by ABF in December 2014 and March 2015 listing each grant and describing briefly the grant's objective and activities. These lists discuss grants as standalone activities and there is no narrative that shows how individual projects contribute to higher level outcomes in the priority areas and build on one another. The 2016 memorandum referenced by ABF presents the Foundation's Mission statement and brief statements for the six priority areas.

2. From the presented documents, it is not clear what communication and discussions took place after the 2015 letter of concern was sent by USAID Washington to ABF, in which USAID provided guidance and an example of a strategy outline and offered to assist ABF in the development of a strategy for the Foundation. We did not see documentation on how ABF responded to the offer and what, if any steps, USAID took afterwards. The latest formal correspondence the evaluation team saw on the topic of coordination was the 2016 Memorandum. It appears that since then, formal written communication between USAID Washington and ABF has been very limited.

3. According to USAID Washington, the Agency has been unable to formulate and communicate to ABF a joint USG position on the Foundation's funding activities. This is a critical finding in this evaluation. USG's inability to formulate a common position clearly affects its ability to ensure that the Foundation adheres to its Grant Agreement and to engage with the Foundation in an effective manner. This puts ABF in a difficult position as well, since the leadership of the Foundation has not had a chance to receive, consider, and respond to formal communication regarding USAID's concerns about continuing problems

with some of its funding priorities. According to USAID Washington, verbal concerns have been shared. According to ABF, the 2016 Memorandum resolved any outstanding concerns. Arguably, nobody benefits from this impasse. Given the size of the Foundation's endowment and the fact that ABF was set up to exist in perpetuity, ABF receives more attention than smaller and spend-down Foundations. The perception of lack of clarity and unresolved questions around funding priorities elevates the perception of risk and the level of scrutiny, which has frustrated both sides.

Since 2010, ABF has continued to award grants in the redefined six areas of interest. Grant status inventories and breakdowns by sector prepared by ABF for USAID indicated that as of March 2015, ABF spent 59 percent of its portfolio on education and libraries (the value or relevance to private sector development of a public library digitalization project is questioned by USAID), 8 percent on arts and culture projects, 9 percent on cultural heritage and tourism projects, 9 percent on projects targeting disadvantaged populations, 11 percent on civil society grants, and 4 percent on agriculture projects. As mentioned above, ABF had also prepared documents in 2014 and 2015 providing rationale for its various grants. However, these documents fail to link these projects to a coherent strategy and does not propose any specific measurements to evaluate the contributions of these grants to the private sector development objective of the Foundation.

Although some of ABF's grants are clearly aligned with the objectives of the Grant Agreement, there are two groups of problematic grant types in ABF's current portfolio:

- Some grants could arguably support a private sector development approach, if they were built into a strategy that demonstrates how they contribute to the Grant Agreement's objectives. For example, ABF is not the only foundation that implements activities related to cultural and eco-tourism. The difference between ABF's cultural, heritage, and tourism activities and those of other Legacy Foundations lies in the fact that the other Foundations use as a starting point articulation of a strategy and expected results and impact from investment in private sector-related tourism activities and identified assessed investment opportunities on the basis of their strategies. For example, they are working to identify and develop tourism products, have established supportive, working relationships with local communities and are helping these communities to invest in the development of infrastructure and tourism offerings, collaborate with tourism operators and local municipalities, and monitor routinely the progress of their activities and the results of the investments. This ensures that all supported activities are aligned with the long-term strategy and a set of higher level results related directly to the objectives as set out in the Grant Agreements.

  ABF, on the other hand, has a structured approach to individual grants management and monitoring but no overall strategy to guide investment and grant-making choices and ensure that they are all aligned with the strategic objectives in the Grant Agreement. ABF believes that its strategic objectives are aligned with the Grant Agreement, and these objectives have been communicated to and accepted by USAID and are reflected in the grant funding program.

- The evaluation team has noted that some of ABF's grants were not clearly related to private sector development. In addition to arts and culture-related grants and digitalization of libraries, USAID was concerned about large ticket items, such as the children's museum, and the lack of a financial sustainability strategy for it or link to private sector development. The concern was that ABF would be on the hook for long-term support to the museum, thereby rendering this a non-compliant, white-elephant[37] type investment in its portfolio.

[37] An investment whose upkeep is too expensive and is not in line with the usefulness and the value of the investment in the portfolio; an unprofitable investment, property or business that is too expensive to maintain and to make a profit.

ABF considers the children's museum "Muzeiko" a STEM (Science, Technology, Engineering, and Math) museum focused on educating children, parents, and teachers, and believes that an educated workforce is critical to the economic development of a country. According to ABF, the museum promotes and encourages education and engagement in the pursuit of life-long learning for all ages and is an award-winning institution recognized as a cornerstone for educating young minds. The Foundation advised the evaluation team that it was implementing a sustainability strategy, which included the development of a board of advisors to promote fundraising activities for the museum. ABF's plan is to replicate the well-developed U.S. model, which has little exposure in Bulgaria. The Foundation considers this a demonstration project in terms of philanthropic fund raising that will provide a model for other non-profit organizations in Bulgaria. It is too early to judge the success of this strategy. ABF does recognize that financial viability is an issue for all museums throughout the world.

Muzeiko provides a clear illustration of the divergence of opinion between ABF and USAID with regard to programming that complies with the Grant Agreement. Education is in fact an agreed priority area for ABF and most other foundations. ABF is not the only Foundation that has identified STEM education as a key priority investment. The evaluation team visited several Foundations during the field assessments. The Foundations funding scholarship programs had an explicit focus on business-related majors — MBAs, law, finance and accounting, marketing, and STEM-related research — and tracked the career trajectories of their graduates. The Foundations supporting other types of educational programs also attempted to link the grants with private sector development. For example, they supported entrepreneurship programs and successfully advocated for the inclusion of such programs in the national educational curriculum. Foundations' entrepreneurship-related educational activities have secured sponsorship from private companies, and managers in these companies act as mentors to students. Educational programs link with companies to secure internships for students, including in rural areas; sponsorship of innovation and research awards for students. Foundations such as RAF and AADF are working to strengthen the focus on STEM in national curricula in coordination with Ministries of Education and education experts.

Muzeiko's STEM focus is aligned with some of the other investments of the Foundation to rehabilitate or build labs in schools, invest in management and leadership education, and train teachers and directors. The remaining question is: How can these investments be aligned and coordinated to result in something bigger than the outcomes of the individual grants that can bring about systemic change and be sustainable?

On the question of financial sustainability, the evaluation team agrees that financial viability is a challenge faced by museums around the world. Given the situation in Bulgaria, arguably much more challenging from the perspective of the lack of recent history of charitable giving to cultural, educational and social causes, the question of Muzeiko's sustainability is even more important. Decisions to invest in very large ticket items should be based on an extensive assessment of risks, potential for sustainability, identification and assessment of viable sources of financial support, securing of funding commitments from these sources prior to funding approval, projections of financial outlays from the Foundation and contributions from other sources over time, and an exit strategy. In the absence of such due diligence and planning, it is less convincing to state that a Board of advisors will promote fundraising activities and that the project will encourage philanthropic giving and implement a sustainability strategy, after the investment has been made. It is not inconceivable that Muzeiko will require substantial financial support for years to come, which means reallocation of resources that could be deployed to support projects more closely related to the mandated Foundation priorities and with clearer definitions of contribution to Bulgaria's private sector. The development of a sustainability strategy for Muzeiko should be a high priority. It may also be noted that "big ticket" projects are an area of concern raised by the U.S. Embassy during the evaluation team's visit to Sofia.

In discussions with ABF staff, the evaluation team heard two different explanations for some of the questionable grant-making choices. In interviews with ABF staff, interviewees discussed at length and provided specific examples of the openly hostile local environment in which the Foundation operates. Staff, Board members, and grantees emphasized that the Foundation is under attack because of its support for judicial reform and its media work. According to ABD staff, the Foundation, by way of response, seeks to walk a fine line between, on the one hand, avoiding public engagement or confrontation with "the opposition" and, on the other hand, supporting projects that are highly visible, clearly contributing to Bulgaria's economic development and, in some cases, emphasizing unassailable ethical priorities, such as preservation of Bulgarian culture, support for children's education through museums, and support for children's health, through a hospital renovation. One interpretation of this explanation is that it is an acknowledgement that ABF recognizes that not all of its grants support private sector development, and that ABF's Board does not feel bound to support private sector development objectives, believing that the Foundation is free to pursue activities that are, in its view, "unassailable ethical priorities."

At the same time, however, ABF staff, Board, and some grantees assert that all ABF projects have an economic impact that is linked to private sector development, for example through incentivizing private sector investment or co-investment, or creation of employment opportunities for artists or owners of galleries, dancers, and so on. USAID does not concur with ABF's broader interpretation of private sector development activities and considers the term well-established and defined in the development community. This interpretation of private sector development also risks contradicting the contention that some ABF grants support "unassailable ethical priorities," and not necessarily private sector development objectives.

ABF's position with regard to projects like renovation of the Children's Wing of a hospital is that these are demonstration projects meeting the philanthropy objectives of the Foundation: They are designed, according to ABF, "to engage corporate, individual and texting / SMS donations for an institution of national importance. As Bulgaria is yet to reconnect with its history of philanthropy, ABF selected this project to reach a national audience to spur donations to a meaningful institution in a transparent, accountable manner." ABF further notes that "the development of philanthropy is a clear objective."

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Once again, there is divergence in understanding of mandated objectives: ABF considers fostering of philanthropic practices to be within the scope of the Foundation's mandate, while USAID views such projects as outside the realm of private sector development, and therefore noncompliant. These differences in opinion between ABF and USAID regarding the Foundation's compliance with the Grant Agreement remain unresolved, according to USAID. One approach that may resolve the differences would be to develop programs that bridge both priorities. An example could be a program to address youth unemployment, which would demonstrate the same ethical values while being clearly and directly aligned with the private sector development objectives, as stated in the Grant Agreement. Another example could be a private capital mobilization initiative, which links together all current grants with a philanthropic component and leverages the investments made in web-based platforms, networks, and successful examples to-date.

It should be noted that under the leadership of the new President, ABF is working to reinforce its focus on addressing specific private sector needs. The team is scoping the Bulgarian private sector ecosystem with a focus on entrepreneurship. Given an abundance of venture capital present in the environment, including accelerators and incubators, ABF is trying not to duplicate or disrupt ongoing initiatives taken by the private sector or EU-funded programs. The planned focus is on increased efficiency and international competitiveness of Bulgarian businesses (high quality and impact marketing, digitization and sales trainings; how to effectively reach foreign markets) and support to export-oriented industries with the potential to innovate as well as those that create more jobs and value. ABF plans to expand its support to professional organizations and is increasing its engagement with Chambers of Commerce. The foundation sees a potential role in coordinating and consolidating Chambers' various voices.

Foundation Evaluation Question #2

Governing and Staffing Structures

Regarding the origin of BAEF's Board, Gary MacDougal was invited by then Vice President Dan Quayle to Chair BAEF. Other nominees, including Frank Bauer, were then selected after a thorough presidential search process conducted by BAEF's Board of Directors. Several original Board members, including Mr. MacDougal, Marshall Miller and Steve Fillo, as well as Nancy Schiller (ABF's President and Chief Executive Officer), continue to serve on the Board, which currently comprises ten Americans and three Bulgarians. (Ms. Schiller describes the Board as "amazing" in its long-term commitment to Bulgaria and its deep knowledge of the environment in which it operates.)

The majority of Board members are independent; the exceptions being Ms. Schiller and one other member who serves as legal advisor to ABF. The Board comprises individuals with evidently appropriate range of background; mandatory retirement age is 80. Two new Board members have been brought in recently and two additional members (Messrs. Daft and Fillo) are expected to be retired and replaced in the coming year. On-boarding of new directors is a comprehensive six-month process, involving preparation and review of extensive materials related to ABF's work including bylaws, vision and mission statements and the range of ABF policies.

The ABF Board has audit, investment, governance and nomination, and evaluation committees, all of which comprise independent directors and meet quarterly, and as needed by phone. Each committee has a dedicated staff contact person. Board members receive training and are evaluated once annually by a Big 4 firm; topics include non-profit management and cyber-security. There are also detailed self-evaluations on governance or various aspects thereof using survey monkeys.

ABF's Board earlier played a larger role in setting management roles according to its fiduciary duties, this recently being handled more by management. The Board is involved in setting foundation strategy and all policies are shared with and vetted by the Board Audit Committee. The Board is further involved in leveraging resources, including identifying staff and partners with whom to work in certain areas, such as the economically disadvantaged: The current head of ABF's Trust for Social Achievement was identified by a Board member. Another Board member brought for consideration program models that have informed ABF's work in the area of land legalization, while other Board members bring experience in judiciary reform and the media, which inform ABF's work in the corresponding areas.

Regarding risk management: financial risk and accounting policies are reviewed by the Board quarterly, and additional reviews and discussions are initiated by Board members telephonically on an occasional basis, as needed. Regarding political risk: the Board has advised management on, for example, security issues which has led, among others, to introduction of a "locked entrance" policy as of September 2016. Also related to security, the last several Audit Committee meetings have generated measures relating to

cyber-security with regard to reporting and fraud risks: ABF has held relevant training for staff and grantees, and all internal systems have been upgraded as a result.

The Foundation's mission statement is reviewed annually by the Board and ABF staff and is included regularly in internal and external communications. ABF's Code of Ethics is likewise presented on the website, and is signed by all staff and Board members.

The team meets weekly, using the Basecamp project management and team communication software for gathering information for different projects, lending to accountability. There are regular Management-Staff meetings at which all participants are encouraged to speak out. Retreats and other programs are held periodically targeting professional staff development, and the President holds one-on-one meetings with staff regularly to discuss annual professional and personal goals. The organizational structure is flat, with the Executive Director and team leaders meeting regularly with their respective teams.

Strategic Planning and Management

Strategy and resultant work planning are done every September, most recently with emphasis on reinforced communications (resulting in the recent hiring of a Communications Officer). Staff is now discussing strategy for 2018, including the proposed "hub" approach. Strategy review and planning based thereon includes analysis of tracked project data and SWOT analysis.

ABF has seen no major internal changes other than the creation, in 2013, of an M&E department and the hiring of a Communications Officer. External changes have largely centered, over the past two years, on ABF being targeted by the local "oligarchist" media; attacks that the foundation seeks to counter with the new Communications Officer and related communications strategy. The strategy will seek to ensure that ABF "gets the word out" about projects before the opposition has a chance to criticize their work (or engage in ad hominem attacks, as has happened on several occasions).

ABF has recently sent six staff members on one- to four-week training programs in Canada on development evaluation at the internationally recognized IPDET program (International Program for Development Evaluation Training). Their Chief Financial Officer regularly undergoes accounting training provided through a Grant Managers' Network and the Executive Director has participated in training programs conducted by the Council on Foundations. ABF encourages sharing of good practices among grantees through, for example, the networking event held in January 2017.

As part of ABF's reinforced focus on addressing specific private sector needs, the team is scoping the Bulgarian private sector ecosystem with a focus on entrepreneurship. Given an abundance of venture capital present in the environment, including accelerators and incubators, ABF is taking care not to duplicate or disrupt ongoing initiatives by the private sector or EU-funded programs. The planned focus, in addition to their six existing priority areas, is on increased efficiency and international competitiveness of Bulgarian businesses (high quality and impact marketing; digitization and sales trainings; how to effectively reach foreign markets) and support to export-oriented industries with the potential to innovate as well as those that create more jobs and value. ABF plans to expand its support to professional organizations and is increasing its engagement with Chambers of Commerce. The foundation sees a potential role in coordinating and consolidating Chambers' various voices.

Grant-Making Practices

ABF's grant model is based on identification of appropriate partners to address targeted issues. ABF accepts unsolicited applications on an on-going basis throughout the year, but also proactively approaches organizations that are independently identified by staff; initiates projects internally; and creates new organizations. ABF applies a two-stage application process, starting with submission of a

concept paper outlining the project activities and expected results. Foundation staff and management review on a weekly basis all incoming grant concepts, after which the most promising of those grant concepts are invited to develop a full proposal. If a full proposal is invited, the prospective partner completes a grant application form (downloadable from ABF's website). Staff review it and, depending on the level of requested funding, will make a recommendation to the Executive Director, President, or Board of Directors, who make all final funding decisions. As the process progresses, project design, activities and targets are developed cooperatively. In cases where no grantee can be identified for a specific purpose, ABF occasionally establishes one as needed, as in the cases of Teach for Bulgaria (a teacher training program) and Muzeiko (an interactive science museum for children).

The proposal review process involves, first, submission by the prospective grantee of a one to two-page concept paper including an indicative project grant amount, goals, and expected impact. These introductory documents, accepted by ABF year-round, are reviewed each Monday morning by all foundation staff, and decisions are made as to which will be developed into proposals. Full project applications are then prepared, including related frameworks like ethical standards, for consideration by a Review Committee comprising the President, the Chairman of the Board, and two Board Directors; all proposals are then reviewed by the full Board. The Executive Director has approval authority for amounts up to BGN 15,000 (micro-grants); the President can approve amounts up to EUR 100,000 for annual grants and up to EUR 150,000 for multi-year programs; amounts up to EUR 300,000 per year or up to EUR 450,000 for multi-year grants require approval by the Review Committee (a committee consisting of the ABF Board of Directors); and annual amounts above EUR 300,000 are approved by the Board. Presidential approvals (including the micro-grants approved by the Executive Director) are held to a maximum of EUR 500,000 per quarter in the aggregate, and ABF's proposal rejection rate is 90 percent.

ABF has introduced a new grants management system to ensure that grantees perform proper management of funds. Program Directors routinely visit grantees and project sites, with tranches being released only on acceptance of periodic reporting, with any questions addressed and cleared and invoices reviewed for accuracy (attention is paid, for example, to potential related party transactions). These aspects are confirmed either through personal visits or accepted documentation. There have been, according to ABF staff, instances of administrative error and two cases of deliberate malfeasance, one of which resulted in termination of the grant and the other in return of funding to ABF. Cash compensation above Leva 500 is by policy prohibited (the corresponding government-mandated maximum is Leva 1,500).

ABF encourages co-funding for its partners and, as a matter of policy, provides funding on a basis of gradual, annual reduction with a view to grantee sustainability. ABF requires that all project proposals present information and disclosure regarding other project partners and all sources of financial and in-kind support. For example, in the education sphere, schools supported by ABF are required to raise thirty percent of project budget from external sources.

Monitoring, Evaluation and Accountability

ABF's financial audits are prepared by Deloitte and there have been neither negative findings nor qualifications. Audit proposals are solicited from a minimum of three companies. Internal audits have been done by EY since 2014. ABF requested that EY prepare a risk matrix covering areas including financial and cash management; there are, according to ABF staff, very few "red" (flagged) areas.

This is done on an ongoing basis, with Area Directors and Assistants directly responsible and senior management and finance staff also involved. Monitoring results are documented in reports preceding subsequent period tranche disbursements, to ensure that grantees are performing and delivering

according to project agreements. This involves, for staff, frequent travel around the country. Staff prepare three-year monitoring and evaluation (M&E) plans, do project site visits on a regular basis, and have developed a dedicated internal grant management system, as mentioned above. ABF grants are rigorously evaluated by either ABF's Evaluation Team or external evaluators.

ABF assesses, on an ongoing basis, grantees' work, together with impact assessed at the portfolio or the individual project level, depending on the objective of the assessment.

Communication

ABF's organizational structure is documented and updated regularly. ABF hired a Communications Director in March 2017, added a M&E Department in 2013, and a formal Compliance Department in 2012. All communications materials reflect Foundation strategy.

ABF's external communications strategy is being reinforced to be more proactive, most prominently reflected in the recent hiring of a new Communications officer and the development of a thorough communications strategy for the foundation (the Communications Officer previously worked for the Office of the President of Bulgaria and Bulgarian National Television, and currently runs her own media / communications company). External communications targets include the business community, embassies, and civil society. ABF has also recently introduced a bilingual monthly newsletter to which readers can subscribe through the ABF website, which also serves to inform grantees on communications strategies and modalities. ABF makes use of social media (e.g. Facebook and Instagram) and prepare periodic news releases.

Foundation Evaluation Question #3

As noted above, USAID Washington and ABF are not in agreement on the current six priority areas of ABF and the alignment of some of them with private sector development objectives defined in the liquidation proposal and Grant Agreement between BAEF and ABF. USAID Washington has also expressed concern about the lack of a comprehensive strategy and a monitoring and evaluation plan at the portfolio level. ABF's position is that the lack of formal communication expressing such on-going concerns following a 2016 Memorandum indicates that the concerns have been resolved.

It appears that communication between ABF and USAID Washington has been negatively affected by a reported inability among the relevant USG stakeholders to reach consensus on the USG position regarding ABF's compliance or lack thereof. This is a risk for USG. It limits USG's ability to engage with ABF and attempt to resolve any outstanding concerns.

The current situation, which the evaluation team experienced to some extent prior to the trip to Bulgaria, is suboptimal, arguably for all sides. The inherent tension and frustration among the parties seems to distract USAID, the U.S. Embassy, and ABF from their common interests in this situation. Although the Foundation states very clearly that they are independent of any government, ABF seeks and probably needs the support of the U.S. Embassy in Bulgaria, given the hostile environment in which ABF finds itself. The U.S. Embassy is a supporter of the Foundations and lends this support publicly through its participation in ABF Public Relations events. ABF needs every ally it can find, so this support is very much a net positive. What seems to be somewhat overlooked is that USAID also has an interest and a stake. Nowadays, this stake is primarily focused on compliance and reputational risk management, since, regardless of ABF's insistence that it is not associated with any government, it is perceived in Bulgaria as associated with USG, and in this context damage to its reputation has reputational risk implications for USG.

The U.S. Embassy is highly complementary of ABF's work. In the interviews conducted with Embassy representatives, the evaluation team documented the following opinions:

- "Big-ticket" projects may be best left off the agenda going forward;
- ABF may seek to pursue a more robust response to adverse media coverage; and
- Review of and increased attention to explicit private sector development programming will be appropriate going forward.

Otherwise, the 2016 Memorandum has established an agreed frequency of reporting from ABF to USAID Washington. ABF provides SARs to USAID, reporting that is more frequent than that provided by other Foundations. The U.S. Ambassador is engaged in and knowledgeable of the work of ABF.

Annex K: Romania

The Romanian American Enterprise Fund

Fund Evaluation Question #1

RAEF achieved its commercial objectives but did not balance well the pursuit of financial returns with the development objectives. The Fund leveraged its $58 million investment portfolio[38] to reportedly $872 million earned through the provision of bank loans, micro and small loans, mortgage loans, consumer finance loans, leasing, and the operations of investment funds.

The Fund went through two different stages in its evolution. The first stage was defined by RAEF as primarily developmental in focus, from 1995 to mid-1998. After mid-1998, the strategy of the Fund became purely commercial. The strategy, as summarized in the September 1999 SAR, focused on a) raising a new regional or Romanian-focused fund of at least $40 million; b) securing control of a Romanian bank through which RAEF would execute the Small Loan Program (SLP) and would provide mortgages and insurance products; c) using the bank as a conduit for donor funding for investments in Romania; d) raising additional funds for the Small Business Investment Fund (SBIF) program; and e) reaching sustainability by 2002.

This second stage strategy placed a much greater emphasis on financial services. The Fund invested in the development of specialized skills in this sector among its staff and made some very profitable investments. Financial services deals had the greatest weight in RAEF's portfolio (45 percent) and constituted the most successful sector for RAEF's investments. Some examples of RAEF's successes in the sector include:

- In 2001, RAEF led the privatization of the whole stake owned by the Government of Romania (GOR) in the insolvent Banca Agricola. RAEF (10 percent) partnered with the Austrian Raiffeisen Bank (90 percent), and arranged its sale to Raiffeisen upon which RAEF exited the investment in 2002;
- Stabilized Banca Romaneasca, channeled some of the small and micro lending programs through the bank (with additional lines of credit provided by IFC ($6 million), EBRD (EUR 5 million), and KfW (DM 5 million), and exited the investment in 2003;
- Launched Domenia Credit, Romania's first non-bank mortgage company;
- Contributed to the significant expansion of Motoractive, a leasing company in Romania;
- Founded Estima Finance, a consumer finance firm;
- Helped strengthen a number of financial institutions — Patria Credit, formerly CAPA (in 2010, attracted loans from OPIC, $25 million, and EFSE, EUR 7 million), Opportunity Microcredit Romania, and Cooperative Housing Finance's (CHF's) Case de Ajutor Reciproc a Asociatiilor;
- Created an investment banking group that served as a Romania representative for investment banks including Credit Suisse First Boston, JP Morgan, and Rothschild Conseil in several privatization deals;
- RAEF helped make $467 million available to private enterprises through bank loans. Another $372 million was made available through RAEF's small loan program;
- RAEF's micro loans multiplied the original $1 million allocation through reinvestment of loans and investment of new capital and provided more than $38 million in lending. In 1996, when this program was launched, it was the only source of funding for small entrepreneurs in Romania.

[38] RAEF received initially $50 million from USAID, which was supplemented by another $11 million from USAID. In calculating the value of its investment portfolio, RAEF subtracted from the total drawdown amount of $61 million the reported $3 million it spent on the provision of technical assistance to portfolio companies or potential investments.

In pursuit of its second stage strategy, RAEF focused on setting up several investment funds and attracting outside investors as well as raising additional funding for its programs:

- **Major Transactions Program (MTP)**, which comprises the direct investments and co-investments of the Fund in portfolio investments. MPT led and was part of equity and quasi-equity transactions, some of which were syndicated with the Romanian Investment Fund (RIF) Cyprus Ltd. or were done though RAEF investees. MPT also attracted investments from enterprise investors through a New Investment Fund as well as through USAID ($5 million), a $1.8 million investment from Romanian Capital Advisors (RCA),[39] and a EUR 4 million loan from RZB. Through MTP, RAEF tried to seek co-investments or raise capital for new funds. One example included the negotiations with BNP to cooperate on an anticipated Central European Partnership Fund. In the beginning of 1999, BNP withdrew its support for the fund. RAEF pursued alternative strategies, including supplemental funding from USAID, collaboration with other fund managers such as Pioneer Investment Poland, a U.S. fund manager, or a development of a private equity fund with co-sponsorship from EBRD and RAEF.
- **Small Business Investment Fund (SBIF),** which began operations in 1998 and invested in small business through a combination of equity, convertible debt, and leasing instruments in amounts between $50,000 and $250,000. SBIF elicited great interest among small business owners and attracted the interest of the GOR, which signed an agreement to participate in SBIF in June 1999. SBIF was integrated into MPT in 2002 and stopped taking applications for small equity investments. According to RAEF reports, the Fund invested in SBIF a total of $32,410,591 and co-investments in the program from EBRD and IFC amounted to $16.7 million.
- **Small Loan Program (SLP),** which launched operations in 1997. For about a year, SLP disbursed loans through Banca Romaneasca and Banca Transylvania. In October 1998, Banca Transylvania withdrew from the program and bought its SLP portfolio. SLP used the community lending approach developed by Shorebank of Chicago and used Shorebank Advisory Services for training of Romanian lending officers. In 1999, RAEF closed negotiations with IFC regarding a $5 million small loan commitment. The agreement entailed the establishment of an off-shore company in Cyprus, RO-AM Small Business Lenders, Ltd., with co-investors RAEF, IFC, Shorebank Corporation, Banca Romaneasca, and East Fund Management. Another Small Loan Program provided loans to SMEs in Romania, affected negatively by the war in Kosovo. Funding was provided by USAID, and it was integrated into Banca Romaneasca in 2001. As of March 2013, 236 term loans had been made and there were no loans outstanding. The total investment in this program by RAEF was $13.2 million.
- **Micro Loan Program (MLP)**, which made over 7500 term loans and received $62.8 million from RAEF and a total of $7.3 million from IFC ($3 million), Soros Foundations ($1 million), RCM (2.3 million), and SARONA ($1 million). MLP expanded operations with CAPA, a World Vision Romania program, through which it also provided microloans ($2,500-$15,000 repaid in 12-36 months at an average interest of 20.58 percent annually). RAEF also financed micro-credit lending through the provision of $250,000 to CHF. Another contract executed in 1999 with Cooperative de Credit–Banca Populara IZVOR, a private organization associated with Opportunity International, provided additional $100,000 for loans in the range of $300-$5000 in Northern Romania.

To attract outside investors and raise additional capital for programs, RAEF created investment funds. RAEF successfully set up or invested in several investment funds and created investment manager companies. The set-up of these structures was complicated, with funds investing in one another and

[39] Romanian Capital Advisors (RCA)[4], later Axxess Capital, was the management advisor of RAEF and of the Balkan Accession Fund.

attracting external capital from parties that were treated as private "clients" for whom the fund performed services. This model was referenced by USAID and its legal counsel, Weil, Gotshal & Manges LLP, as the "Romanian model."[40] In a nutshell, the Romanian model was developed for a situation in which the management of a fund could not find private pools of money and raise a private fund, but could find single private clients for whom to perform services and receive fees. To do so, the management of the fund established a management company and then found new clients. Private clients could include private funds. The counsel considered the Romanian model similar to an investment banking model and thought that it would be acceptable for the Romanian fund managers to be paid as investment bankers on a deal by deal basis.

The matter of compensation to the RAEF managers was raised and reviewed by RAEF, its counsel and Board, and USAID during the time additional compensation was being negotiated. In a Memorandum to the Board of RAEF dated August 20, 2005, Dr. Charles Frank compared RAEF's proposed transition agreement to those of other Funds such as the Polish and Russian Funds. The document argued that proposed compensation terms are excessively generous to RAEF management, divergent from the Polish and Russian plans, and not in line with private sector practice. The evaluation team agrees with this assessment. Although often cited as the template for other Funds' management compensation plans, the Polish plan is actually a lot more modest compared to the incentive plans proposed by other Funds, including RAEF, and approved by USG.

The list of the Funds set up and advised by RAEF includes:

- **The Balkan Accession Fund (BAF)** was a follow-on fund of RAEF, established in January 2005, with a first closing in February 2005 and a second closing in October 2006. Its investment period ended in June 2010, after which only follow-on investments could be made. After the second closing, BAF's total committed capital was EUR 110 million. With 36.36 percent interest for a capital commitment of EUR 40 million, Romanian American Investment Fund (RAIF) was the largest investor of BAF. RAIF's total contribution through capital calls was EUR 35.7 million or $38,993,209. It should be noted that RAEF's April 2010 SAR provides slightly different numbers — BAF's total fund commitments were reported as $152 million and RAEF's investments was $55.25 million. BAF was a limited partnership with one General Partner (GP) and 15 Limited Partners (LPs) after the second closing. BAF's investment portfolio included companies operating in South East Europe. A two-year extension of the life of the fund until September 30, 2015 was granted from BAF's LPs, given the difficult economic environment and to allow additional time to attempt to secure higher exit receipts. Later, the GP proposed and received approval for another extension until March 31, 2017.
- **Romanian Industrial Energy Efficiency Company (RIEEC)** was a private debt/equity fund dedicated to the energy efficiency sector. The creation of this Fund was an idea actively pursued since 2002 and involved Energy Serv, a local Energy Services Company with domestic and regional presence, as well as RAEF and EBRD (13.75 million investment – unclear in what denomination, probably EUR).
- **Balkan Mezzanine Fund** — by October 2004, the fund had received capital commitments of EUR 10 million from FMO, EUR 7.5 million from DEG, EUR 1 million from the Bulgarian-American Enterprise Fund, up to EUR 5 million from RAEF, and EUR 1 million from management (RCM/RCA).
- **Romanian Investment Fund (RIF)** was a private equity only fund supported by RAEF during its fund-raising stage. RAEF also acted as Investment Advisor for the private equity arm of RIF for a period of time (RIF also had a public arm). RIF closed in 1997. RAEF's investment cost was

[40] Weils, Gotshal & Manges LLP Memorandum regarding "Model Two" addressed to Richard Johnson from Robert C. Odle, Jr. and Todd W.Betke, dated June 8, 2001.

$30 million out of a total committed capital of $65 million. RIF invested in RAEF's Major Transactions Program.

As part of this strategy, RAEF engaged actively with various co-investors. Some examples include:

- EBRD regarding a Direct Investment Facility through which EBRD could take significant minority positions in RAEF portfolio companies;
- GIMV — the investment company of Flanders regarding co-investments through their Fund New Europe (FNE) fund;
- Argus Capital/Prudential — a framework agreement under which RAEF could provide co-investment opportunities in larger deals; and
- New Century Holdings/Active International, a U.S.-based investment fund for Central and Eastern Europe and Russia, regarding co-investments in portfolio companies and new investments led by RAEF; and others.

The creation of a private fund management company was an integral part of RAEF's strategy. RAEF created three fund management companies, according to available documents.[41]

- Romanian Capital Management (RCM), a Delaware LLC was formed by RAEF's Management team as a "shell" company in August 2000 to serve as the private management company of RAEF and to attract outside investors. The Polish model was referenced as a precedent. RAEF did not seek approval for the creation of RCM, because they determined that they did not need such approval since "no RAEF money, functions, or employees were being transferred to RCM." RCM's members and initial investors included the MTP management staff of RAEF as well as RCM Investors, Inc. (referred to as RAEF Sub), a newly formed and wholly-owned subsidiary of RAEF, which took on the role of the managing member of RCM and controlled the business and affairs of RCM. It was envisioned that in the future, all members of RAEF would be eligible to benefit from the fees earned by RCM, regardless of their membership in RCM, through a bonus pool set up and administered by RCM Investors, Inc. Fees earned by RCM were to be retained by RCM for incentive compensation of its members, subject to vesting rules. Additional fees could also be invested in portfolio companies in Romania, either alongside RAEF or through RCM as the general partner of a future private fund.
- Due to concerns that RCM may have engaged in transactions prior to becoming fully approved by USAID, RAEF formed a new management company in FY 2002 called Romanian Capital Advisors (RCA), also a Delaware LLC. It managed assets for RAEF, RCM, and BAF. It also managed the Long Term Equity Incentive (LTEI) Plan for RAEF. RCA had the same membership as RCM — the four managers of RAEF's MTP. In 2008, RCA requested Weils Gotschal to change its name to Axxess Capital, LLC, a Delaware company.
- Enterprise Capital, S.A. was a Romanian company. According to RAEF and RCA, it was set up to satisfy the need for a local rather than a "foreign" company such as RCA. It managed RCA's interests in Romania.

RAEF also attempted to develop an investment banking business based on a successful transaction involving Banca Agricola and RZB. RAEF's investment banking group served as a Romania representative for investment banks, including Credit Suisse First Boston, JP Morgan, and Rothschild Conseil in several privatization deals, and more.

[41] Sources include e-mail from Stephen Eastham (E&E/EG/MT) to Maureen Dugan (E&E/EG) with copies to Michael Kaiser (E&E/EG) and Richard Johnson (E&E/EG/MT) dated October 31, 2008, and Investment Management Companies – Arrangements & Structure Summary document dated May 3, 2001.

Based on a review of available reports and data, the evaluation team could not establish RAEF's contributions to employment creation. Jobs created were reported occasionally in the loan programs of the Fund, but without detail.

Another area where it was not clear if the Fund accomplished its objectives was the establishment of Joint Ventures (JVs). In the Strategic Framework Matrix submitted with the SARs, RAEF reported as JVs a number of deals with IFC, EBRD, and others in which the Fund received loans for its loan programs. As the SARs and the documents reviewed by the evaluation team did not include copies of JV legal agreements, it was not possible to confirm tactual JV numbers.

RAEF's record in providing TA to investees and potential investees is mixed. RAEF reported that it provided a total of $3 million in technical assistance to direct investments or potential investments throughout its existence.[42] This was one of the smallest such technical assistance budgets among all Enterprise Funds. RAEF did adhere to its policy to assist portfolio companies with staffing top managerial positions with experienced business people with the right qualifications, especially in finance and marketing. RAEF paid special attention to the privatized companies in its portfolio and engaged international recruiting firms to identify high-caliber candidates. Examples include recruitment of the Vice President of Marketing and Sales and Vice President of Finance of Policolor, Vice Presidents for Marketing and Sales and Finance for Rolast, Chief Operating Officer and a Special Advisor to the COO as well as for more than 15 positions for Banca Romaneasca, and various searches for CFOs for portfolio companies. RAEF charged the portfolio companies a fee for these TA services.

RAEF worked to get approved an ordinance to establish non-banking mortgage institutions, on the basis of which RAEF established Domenia Credit. Domenia successfully attracted investments and lines of credit from EBRD, IFC, and DEG. The Fund also worked with the National Bank of Romania to promote legislation to enable the establishment of non-banking institutions such as CAPA/Patria Credit, which used to be the micro-lending operator of the Fund. This effort failed.

On the basis of these facts, it is hard to argue that RAEF pursued a strategy that balanced financial profit maximization and economic development objectives. It is evident that RAEF pursued a commercial strategy heavily focused on financial returns.

Fund Evaluation Question #2

Leveraging additional capital for investment vehicles was a key element of the Romanian Fund's strategy. According to the March 2013 SAR, for example, RAEF had mobilized capital for direct investment in banks and companies as follows: debt $304,139,696, capital $141,944,145 for a total of $446,083,841. Some of the largest examples of additionally mobilized debt and capital from external investors included: Motoractive ($110 million), Patria Credit (formerly Capa Finance IFN S.A.) ($61.37 million), Banca Agricola ($52 million), Banca Romaneasca ($44.2 million), Domo Retail SA ($40 million), Domenia Credit ($27.25million), and others. RAEF also attracted additional debt and capital to its Small Business Investment Program (SBIP). According to the March 2013 SAR, RAEF had attracted $16,068,648 in debt and $6,014,646 in capital or a total of $22,083,294 for 13 investees in the SBIP. Some of the largest recipients of the capital from external sources were RALFI S.A. (16.13 million), Eco Kapa ($1.84 million), Sidetrans ($1.03 million), and A&M International ($990,778).

RAEF attracted additional lending to its funds and loan programs:

[42] RAEF's Grant Agreement stated explicitly that technical assistance costs would be accounted for separately from other Fund expenditures. Thus, while the Fund received the original grant amount of $50 million, a supplemental U.S. Government funding of $11 million, and spent $3 million on technical assistance, RAEF counted as its investment portfolio $58 million. This is the amount on the basis of which RAEF also estimates the impact of its financial intermediation and the leverage of additional money.

IFC Small Loan program	$11 million
IFC Micro Loan program	$3 million
Banca Romaneasca	$5.94 million
Soros Economic Development	$1 million
RCM	$2.71 million
RCA	$1.86 million
SARONA	$1 million
EBRD-RIEEC	$13.75 million
RZB for Domenia	$7 million

- RAEF established Domenia Credit, which successfully attracted investments and lines of credit from EBRD, IFC, and DEG. In the Domenia case, RAEF provided assistance in strengthening the operations of the company and in recruiting for key senior positions.
- The Fund also worked with the National Bank of Romania to promote legislation to enable the establishment of non-banking institutions such as Patria Credit (formerly CAPA Finance IFN S.A.), which used to be the micro-lending operator of the Fund. Patria Credit is an example of RAEF's contribution to improving the monitoring and control of risk embedded in the loan portfolio. Following a decision to focus on improving controls and the quality of the portfolio in 2009, more rigorous loan origination, disbursement, monitoring, collection and recovery processes were introduced. As a result, improved performance was reported in 2011 and 2012 and new restructuring of loans decreased significantly. Patria Credit secured loan agreements with EBRD, OPIC, and IFC.
- RAEF also invested in Banca Agricola and Banca Romaneasca, strengthened their operations, and built up their portfolios prior to successful exits.

Compared to some of the other Funds, however, RAEF's record in providing technical assistance to investees and potential investees is mixed. RAEF reported that it provided a total of $3 million in technical assistance to direct investments or potential investments throughout its existence. This was one of the smallest such technical assistance budgets among all Enterprise Funds. In its early years of operation, RAEF completed a two-year program, "ACCESS for Business," developed with the International Executive Service Corps (IESC). RAEF provided $209,700 to the program, and IESC provided $421,600. This program provided volunteer experts for MTP and SLP projects, managed outreach to companies and prepared 100 evaluations and information reports for businesses interested in the program.

In 2004, RAEF reported a technical assistance expense of about $2,500 and no projected expenses in 2005 and 2006. RAEF ceased to invest in technical assistance many years before its liquidation.[43] In the second Phase of its investment strategy, RAEF's analysis of potential investments was already explicitly focused on commercial viability. The analysis does not include capacity needs and potential investment in these areas, employment statistics, or analysis of the impact of investment on economic development indicators of potential interest to USAID. To be fair, it does not appear that these indicators were explicitly agreed.

Fund Evaluation Question #3

The RAEF Grant Agreement stated that the majority of the Board of Directors (the "Board") would be United States business persons and experts on Romania. The Board would also include Romanian citizens of recognized stature and experience. Romanian citizens were included in the Board later, and their number increased after the RAF takeover. The Board developed and approved the requisite Board governance policies and procedures and met regularly, in addition to conducting telephonic meetings.

[43] SARs, including reference in March 2013 SAR.

The RAEF Board eventually agreed and instituted term limits and adhered to this policy when it considered Board memberships during the transition from RAEF to RAF. At that stage, the Board also considered existing and needed skill sets on the Board, performance of members on the Board and in committees, and gender representation. This emphasis on adherence to best practices in corporate governance is beyond what a number of other EFs and Foundations implemented. To get to this stage, however, the RAEF and RAF Boards had to work through some rough periods.

Similar to some other EFs, the Board struggled in the area of corporate governance early on. Conflict of interest issues and lack of transparency in this area were recognized by some members of the Board as a concern and were in fact documented in a Board self-evaluation conducted in September 2010 in preparation for the takeover of RAF from RAEF initially slated for September 30, 2013. Three members of the Board did not participate in the self-evaluation, although it is not clear from the report who they were and why they did not participate.

Some of the concerns expressed in the report by the members of the Board included:

- Lack of a clear and transparent plan for handling the RAF endowment, especially the liquidation of RAEF assets and the hiring of a U.S. firm to manage the portfolio;
- The need for the Board to devote sufficient attention to long term planning;
- The provision by the Board for a clear and well-understood policy direction;
- Trustees not disclosing personal interests in matters under review, and not abstaining from voting where appropriate;
- The need for the Board to provide appropriate oversight related to internal controls and compliance with applicable laws and regulations;
- The Board's understanding and assessment of major risk factors related to performance and reviews measures to address and mitigate such risks; and
- The fact that a handful of Board members did the heavy lifting. This critical gap in ownership could be addressed by ensuring that new members of the Board were willing to lead and contribute actively.

Board members also acknowledged that the RAF Board had been in operation for less than a year, so it was premature to expect immediate results. The self-evaluation noted improvements in Board and committee structure and preparations for meetings, among other things.

Several USG interviewees involved with the Funds in the 1990s and 2000s also mentioned RAEF as an example of a Fund whose Board had to deal with issues such as conflict of interest and tensions among members.

At this same time, as part of USAID reviews of financial and performance reporting, USAID had initiated an inquiry into a number of financial reporting issues and perceived conflict of interest, which appeared undisclosed. The written exchanges between USAID — where the discussion about the identified issues reached the senior levels of the Agency — and RAEF's President and Board went on for about two years. USAID sought access to information missing from the reports and clarification on how fund management fees had been calculated. Ultimately, it was established that a management fee had been inappropriately established and fixed in a negotiation between the fund management company and the Board of the Fund. It was also established that Board Directors who were also partners in the fund management company, Axxess Capital, as well as individual investors in some of the same companies Axxess Capital managed for the Fund, and managers of the LTEI plan of RAEF, for which they charged a fee, while they were also the LTEI beneficiaries with the highest percentage of distributions, did have undisclosed conflicts of interest.

These arrangements appear to violate the modification to the General Provisions, 13. Conflict of Interest clause in all EFs' Grant Agreements USAID executed around 1998 that included "a ban on compensating any Board member or any firm or other entity for which a Board member is a partner, director, or employee."

During a Board meeting in June 2013, three members of the Board disclosed various conflicts of interest and financial interest in assets that would be transferred to the Foundation. The issues were twofold:
1) Some of the conflicts were previously not disclosed in writing as required
2) Change in control to RAF of the assets currently managed by RAEF would trigger a prohibition outlined in RAF's certificate of Incorporation that stated:

> *"Tenth: No part of the funds of the Corporation shall inure to the benefit of, or be distributable to, any member of the Board of Trustees, officer, employee or other private person, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered as Board members and to make payments and distributions in furtherance of the purposes set forth in Article Third hereof. Should the Foundation invest any portion of its endowment in a way that will directly benefit financially a Trustee, such Trustee shall cease to be a trustee of the Corporation at the time of such investment. …"*

The two members of the Board, who were also Axxess Capital partners, were not re-elected to the Board. In a written statement on this matter, Axxess Capital wrote that the two members referenced in the report had in fact reached the end of their terms in September 2013. The impetus for the review of potential conflicts on the Board during the liquidation period was the fact that, according the Romanian law, no Board members could own shares in assets that were going to be transferred to the Foundations, and these Board members were going to be in violation of the law, if re-elected, as described in the Fund's reports at the time. Reaching the end of a term on the Board (Directors were re-elected for two-year terms at the time) in itself did not preclude re-election. In fact, one of the Directors in question had been on the Board since 1994. The end of a term, therefore, was not the only and most important reason for the termination of the directorships of the two individuals.

In fairness to the Board and USAID, it is quite possible that the complicated structures of funds and fund management companies set up by these individuals and two other managers with layers of fees, not all of which were clearly defined and explained in the documents provided to the evaluation team by USAID and available at the time to the Board, would have made the scrutiny of these arrangements very hard to anyone but lawyers with extensive private equity and investment banking experience. The SARs put together by the Fund management did not provide enough clarity on the fee structure and calculation, and this went on for years, as discovered by USAID eventually. The evaluation team did not have anything else to go on but SARs and correspondence, so it is not possible to determine now to what extent the Board appreciated the conflicts and attempted to resolve them and to what extent they were unaware. It is clear, however, that questions should have been asked about the President of the Fund and the MTP managers' conflicts of interest as partners in Axxess Capital, which was known to the Board.

In a written response, Axxess Capital wrote that they "strongly rejected any allegation that there ever existed undisclosed conflicts of interest or financial interests of the Fund's management," and that "any and all potential conflicts of interest mentioned in the report were duly disclosed to the Board of Directors of RAEF and submitted for the Board's and USAID's approval. Furthermore, no transaction entailing a potential conflict of interest was carried out without RAEF Board's approval or USAID's consent…"

Two years of correspondence between the Board and USAID on the topic of missing key information (one page that explained how the fee was calculated) in financial reports that was finally provided by the Board and revealed a fee structure that was not known to USAID and definitely not approved; documented evidence of undisclosed conflicts on the Board, again obtained after about two years of persistent inquiries on behalf of USAID — available in the USAID archive — contradict Axxess Capital's claims. Further, in its self-evaluation from 2010, RAEF's Board itself listed among its biggest concerns the following:

- Trustees not disclosing personal interests in matters under review, and not abstaining from voting where appropriate, and
- The need for the Board to provide appropriate oversight related to internal controls and compliance with applicable laws and regulations, among other concerns.

The evaluation team has reviewed this correspondence and documentation, has discussed with several USG officials involved at the time, and does not accept the claims made by Axxess Capital in its written response.

The RAEF liquidation period was a dramatic time for the Romanian Board; it was grappling with conflict of interest queries, changes on the Board, and a large-scale programmatic and financial reorganization in preparation for the transition to the Legacy Foundation. RAEF used the crisis to regroup and address decisively identified weaknesses, as the Fund prepared for the next phase of its evolution. Because of the steps taken at the time, the Romanian-American Foundation (RAF) emerged as a much stronger organization and started with a clean slate. The transition from RAEF to RAF and the approach to addressing the issues head-on was exemplary, and should be used as a case study in crisis management in similar contexts.

In interviews with individuals knowledgeable about the working of the Board, the evaluation team learned that in the later years when new members were added, some of these new members were a lot more vocal about adherence to best practices in corporate governance. The SARs covering the RAF takeover provide evidence that Board governance improved.

Fund Evaluation Question #4

USAID received SARs, annual reports and copies of the annual reports from the external auditor. Some of the SARs included Board meeting minutes that provided some more visibility into the deliberations of the Board. As RAEF sought approval for what was referred to by USAID and its counsel as "the Romanian Model," providing investment management and investment banking-type services for individual clients on a deal by deal basis, USAID was involved in the deliberations regarding the model and understood it, as explained by its counsel. USAID also approved the LTEI Plan set up by RAEF and managed by the fund management company.

In the RAEF case, USAID was involved in the review and approval of special requests from RAEF to go beyond the instituted upper limit of exposure in portfolio companies, which was set at $5 million. These approvals were reviewed and granted on a case by case basis by USAID. Examples include the approval to make additional investments in Policolor and Banca Romaneasca.

Although USAID reviewed and approved the agreements with the fund management companies created by RAEF, internal correspondence made available by USAID indicates that there had been questions, discussions, and scrutiny of the fund and fund management structures. USAID staff in charge of the Enterprise Funds examined closely the SARs submitted by RAEF and analyzed the results in the reports — the margins of many PDF-documents from that time are full of hand-written notes, calculations, and questions. USAID staff were proactive and persistent in their requests for clarification from RAEF and

when they did not get satisfactory answers, they did not hesitate to escalate the matter to the attention of their superiors. Despite this, it took USAID years to ascertain the inappropriate fee charges by Axxess Capital and address the matter conclusively.

In fairness to USAID, the documents reviewed by the team revealed fee structures, both for fund management services and for the LTEI, lacking in detail or arguably rather generous to the management of the Fund, who also benefitted as management advisors to RAEF and parallel funds, and sometimes as individual investors in the same companies in which RAEF was investing. It is not clear to what extent the Board and USAID understood the types and amounts of fees charged by the fund manager to portfolio companies, other funds and clients, and how this influenced the priorities and behavior of the fund manager vis-à-vis its role with the Fund. USAID is not an agency with expertise in private equity and investment banking, and it relied on counsel to develop proper contracts; therefore, this finding refers to the role of the counsel in enabling USAID to exercise its oversight responsibility in a well-informed manner.

Romanian American Foundation (RAF)

Foundation Evaluation Question #1

The Romanian-American Foundation's strategy has evolved from the initial vision detailed in the Grant Agreement; the overall objectives, however, have remained unchanged. Moreover, the adaptations in the strategy were substantiated by an analysis and underpinned by statements of expected results and performance metrics to monitor progress.

Programs and priorities

Rural Development Priority

RAF's Rural Development Priority has two main strategies built around market-based solutions for local economic development that will contribute to local jobs, unleash economic opportunities, and empower the communities: Small Farmers program and Ecotourism program. To secure the long-term sustainability of the interventions, RAF deploys a cluster of educational programs, mainly in secondary education (e.g. Agricultural Schools – Hubs for Community; English for Community in Ecotourism Destinations; etc.)

Small Farmers

The Small Farmers Program focuses on local food from clean sources and production. There are 1.1 million farms in Romania, of which 93 percent are subsistence / semi-subsistence farms, ranging in size from medium to small. RAF sees good potential to move small farms from subsistence to more advanced production models, which require cooperation among farms for better routes to market. Cooperatives, however, have a bad name in Romania, given the legacy of collectivism in the previous regime. RAF has deployed partner CEED's work in communities, providing basic business skills to complement existing agri-tech knowhow. In five communities, other Program partners[44] assisted with group facilitation, corporate governance, reporting, management, hiring, and establishing contacts with retail chains. Two of the five initially supported cooperatives continue to be successful, one in Cluj and the other in southern Romania, with high production and sales (e.g. to a German and a Belgian supermarket chain). Success with the cooperatives has led to policy advocacy: RAF grantee Civitas has trained half a dozen additional organizations and 12 Local Action Groups.[45]

[44] Civitas (Cluj), Fundatia pentru Dezvoltarea Societatii Civile, Centrul de Mediere si Securitate Comunitara (Iasi), Fundatia PACT

[45] A new model, Food Hub, will be tested in the next years. RAF is currently expecting 10 proposals as a result of a Request for Proposals process. Following selection by a committee involving independent members besides RAF staff, a maximum number of five proposals will be funded based on the economic and social (e.g. number of farmers involved) merits of the business plans.

To strengthen the professionalization of the future young farmers, RAF started a program for agricultural high schools. Eight schools (all over Romania) are improving the entrepreneurial education classes and their connection with the local farmers and businesses for practicum.

Ecotourism

This program speaks to a worldwide trend and a place where Romania counts itself in a premier position, given its abundance of forests, woods, lakes, and a large number of natural parks with biodiversity that requires protection. Development of ecotourism destinations in Romania is implemented in collaboration with the Romanian Environmental Partnership Foundation, as coordinator and strategic partner, the Association for Ecotourism in Romania, focusing on technical assistance, and Expert Forum, focusing on research and policy analysis. The program aims to support local organizations in developing micro-destinations with ecotourism potential by creating sustainable plans together with the local stakeholders and supporting local institutions and small businesses. The theory of change is that while the destination becomes stronger, attracting more tourists that spend money locally, a cluster of local small businesses and service providers will find a fertile seedbed for startup, business growth and local commerce.

Activities include contributing to public discussion on ecotourism, sharing program best practices and lessons learned, communicating and promoting Romania as a local and national destination for ecotourism. Program reporting focuses on metrics tracked from project inception, including numbers of tourists visiting, nights spent, jobs created, new businesses established, new eco-tourist products, development and contribution of local craftsmen, local events held, and multiplier effects, such as local investment in roads and parking facilities. Data indicate, among others, that tourists are staying more nights, while more broadly program coordination and integration are improving. RAF has suggested as a long-term measurement of success: If ten years from now, RAF will no longer need to be involved in this area and tourism is booming, with communities self-organizing, it is a success.

Technology and Innovation Priority

RAF's Rural Development programs address the needs of 50 percent of Romania's population, while the Technology and Innovation Program covers only a small share; however of late, the sectors have become more and more important for Romania's economic development. Both on the domestic and international market, there are increasing opportunities for Romanian entrepreneurs to develop and sell products and services in various economic fields. Concurrently, the more companies advance in sectors with higher added value, the more skilled and knowledgeable their employees must be. At present, however, graduates of technical universities are little or not at all familiarized with product development or market mechanisms.

Moreover, while the need for the skills is there and growing, the number of university students pursuing science and technology has decreased continuously as a result of decreasing quality in secondary education, from 68 percent of the total number of students in 1990, to 25 percent in 2011. As far as secondary education is concerned, lack of performance in STEM has long-lasting negative effects; results from international tests are below average and place Romania very far from advanced countries in the field.

Given the context, the program is, however, seen by RAF as successful, among others, in terms of interest evinced and support provided by multinational corporations (MNCs). A thorough consultative process identified areas for contribution which are currently two: 1) Contributing to an increased performance in STEM secondary education, so that more and more young people are prepared for a career in technology and innovation; and 2) Supporting a market-oriented university education system, whose graduates can become entrepreneurs and employees creating added value.

Three interventions are currently deployed in higher education: First, a pre-accelerator program at the Technical University where successes include extension and adoption of the program from one university to 9 universities in seven cities (the participating universities are training 90 percent of the students in IT in Romania). Regarding successes at the level of the students, there is an award of a first prize from Microsoft in their international Imagine Cup competition and one program participant that has already attracted investors in his business. However exceptional, this is not the program focus, which is to offer a quality entrepreneurial educational experience. A key question here is the creation of local ownership at the level of participant universities and the continuation at the same quality level, after the support from TechLounge is phased out.

Second, in partnership with CIEE and the Fulbright Commission, the program seeks to raise human capital at universities by supporting professors to develop quality courses in entrepreneurship. CIEE connected RAF with the University of Rochester, with whom the first cohort was completed; the second will be done with the Fulbright Commission. A cross-campus entrepreneurship center has already opened at one participant university, Ovidius University in Constanta.

In secondary education, RAF has intervened to promote teaching methods meant to stimulate both the students' interest in science as well as their critical thinking and creativity. The long-term stake for the foundation is to contribute to the formation of a new generation of graduates who are able to take on development opportunities in technology and innovation and match the requirements of an increasingly competitive market. RAF has two types of programs in STEM pre-university education: 1) Programs that aim to improve teaching in STEM disciplines in public education (curriculum reform, modern teaching methods, etc.), and 2) Programs that support local communities to develop attractive opportunities for children to learn science (such as coding clubs, robotics clubs, science fairs, etc.).

Civil Society and Philanthropy Priority

The primary goal of this program is to establish an infrastructure for Romania to help itself. The flagship project is Community Foundations, which started in 2010 in collaboration with the Mott Foundation and the Trust for Civil Society in Central and Eastern Europe. Today, there are sixteen Community Foundations facilitating individual donations and supporting clusters of education programs with a long-term view, reinforcing philanthropy and citizenship, for example, as values that are not always taught at home. Other similar initiatives include support for a local fund setup by the Civil Society Development Foundation (est. 1994) which, in its second year of operation, provides small grants to civic NGOs. Local companies support this fund, and self-sustainability is planned to be achieved in five years' time. Another initiative is the introduction of the "Ashoka Innovators for the Public" model in Romania, a program that identifies and supports entrepreneurial individuals with innovative solutions for society's systemic problems.

RAF seeks long term solutions through a cluster of educational programs deployed mainly in secondary education. The Foundation envisions a society where more young people get involved in civic initiatives, contribute actively to the resolution of various issues in their communities, donate, and volunteer. To this end, RAF supports non-formal civic education programs, and explore methods to be used by schools in order to build better civic competences for youth.[46]

[46] The educational initiatives include debate (ARDOR), youth clubs involved in service learning (Fundatia Noi Orizonturi), civic education through human rights documentaries (One World Romania), civic education classes (Institutul Intercultural din Timisoara) or extracurricular programs (Funky Citizens), and media literacy (Centrul pentru Jurnalism Independent).

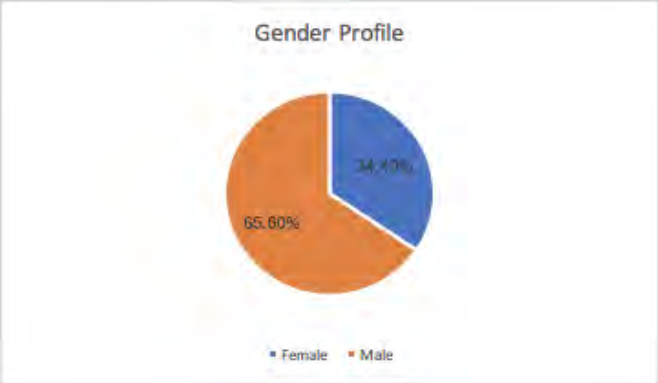
In Romania, the Evaluation Team conducted two e-surveys among individuals and organizations who benefited from RAF support. Overall 63 respondents took part in the survey; 31 organizations and 32 individuals.

Organizations

All respondents were unanimous in ranking the impact of RAF support on the performance and growth of their organizations as "good" (22.6 percent) and "excellent" (77.4 percent). Among the main reasons cited by respondents were "receiving financial support at the right moment," "capacity building," and "supporting innovative ideas that were unavailable in the country."

The quality of RAF support was estimated as "good" (9.7 percent) and "excellent" (90.3 percent). Respondents quote among the reasons: "Timely communication, they did their best to simplify procedures and minimize overhead costs for us, allowing the organization to focus on core activities," and "Excellent team, very professional, prompt in providing replies."

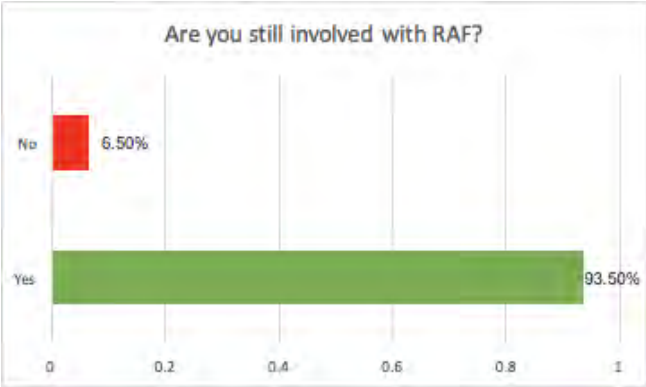
This overwhelmingly positive feedback may explain why the absolute majority of organizations still keep in touch with RAF.



Individuals

The profile of the 32 individuals who took part in the e-survey is presented to the left.

78 percent of respondents estimate that the impact of RAF support on their growth and performance was "great." 19 percent rank it "good." and 3 percent as "average." The majority of participants mentioned that RAF financial support came at a very good time, and helped them finish their studies or complete research that otherwise would have not been possible. As one respondent put it: "I believe it would have been a lot harder, if not impossible, to graduate without the scholarship I've been granted by RAF." RAF appears to have stepped in and provided support to many of those who had already embarked on an academic or research program, but whose financial support by third parties ended, thus putting the fulfilment of the program at risk.



Respondents were unanimous in grading the quality of RAF support as "excellent" (75 percent) or "good" (25 percent). 78 percent of alumni are still involved with RAF.

Finally, when asked whether RAF activity had an impact on the development of the private sector and economy in Romania, 94 percent of respondents said "yes." Some of the testimony:

> *"I returned to Romania after graduating. I am now a satellite data software engineer, pretty decent salary, proportional taxes. I am also a teaching assistant at the UT Cluj-Napoca, sharing what I know. I think I give back and the feedback is that I am doing a good job. And some part of all the above is because of the help from RAF. Many thanks for that."*

> "It had a tremendous impact on economic development. You don't have to look only at projects, but at people who took part in them. For example, our project PollutionTrack was a failure in terms of business but it is thanks to this project that we met Mr. Andrei Pitis and hired him as an adviser. We went on to found VectorWatch. This was the biggest exit in Romania in the area of wearables. (VectorWatch was bought at Fitbit in 2017). RAF played a major role in making it possible to access know-how and financially supporting people who want to create something. I hope such grants and funds exist in the future. In Romania, there is a growing IT community and with RAF support it could evolve faster. Thank you again very much RAF!"

Foundation Evaluation Question #2

The information included below is based on the structure of an assessment tool developed for this evaluation in coordination with USAID.

Governing and Staffing Structures

RAF's Board of Directors comprises thirteen members, one of whom joined in 2016. The Board represents a broad spectrum of talent and qualifications, drawing on Romanian and U.S. nationals (the latter kept at majority per Foundation bylaws), and diversity is observed across gender and youth. Terms are also prescribed in the bylaws. RAF has developed a skills matrix to set a pipeline for succession planning purposes, and the Board is now discussing who will be the next Chair and Alternate Chair of the Board and of the Finance and Investment Committee to prepare for rotation in two years' time. The U.S. Ambassador is invited to all Board meetings, and a strong attendance rate among Directors is observed (at most two members miss meetings on average, and if a member misses two meetings, the Nomination Committee may vote him / her out). Two Board members are experts in the areas of philanthropy and development. Philip Henderson is Chairman of the Board, and Mihai Tudor, Deputy Chairman of the Board, sits with CIEE, Fulbright and other external stakeholders on the Board's Selection Committee.

The on-boarding process involves training and interviews with staff and other Board members. Induction of new Board members involves three persons: Emily Grand, RAF's U.S. Administrator and Assistant Corporate Secretary, Roxana Vitan, RAF's President, and Philip Henderson as Chairman of the Board. Induction further involves the Chairman of a given committee where the new Board member will be on that committee, and, in addition, a relevant Board member participates as needed for a given topic, such as transparency. All Board committee members are independent.

A conflict of interest policy for the Board is contained in the Foundation's Grant Agreement with USAID, is written in the bylaws, and is part of the standard audit procedure with forms signed and deposited with the U.S. Corporate Secretary. Board members are expected to raise potential conflict of interest regarding any points of Board discussion; usually there are no issues. Two Board members who also sit on the Board of Directors of Junior Achievement, for example, never vote on Junior Achievement issues at RAF.

RAF has a formal organizational structure. The Foundation's President regularly discusses human resource issues with the Board, this is considered critical as this is a small foundation with what it sees as a great responsibility with regard to using funds wisely. RAF seeks gradual growth of its team, having started with two staff on programs, followed by two Directors with staff, growing steadily over time. Rules and responsibilities are clear, and talent is on occasion outsourced, for example in the cases of communications or grantee financial analysis. Segregation of duties works, according to staff, and there is ongoing consultation to address and issues.

Board responsibilities include approval of grants (see below), the Foundation President's salary and the compensation for any position that exceeds $30,000/year, hiring of the auditor, building up the pipeline of future trustees and selection/election process, and election of officers. Overall financial oversight is handled by the Finance and Investment (F&I) Committee and questions on any variances are posed regularly. The F&I Committee decides on the endowment investment policy and selects the investment manager, who must be licensed by the U.S. Securities and Exchange Commission, and reports directly to the F&I Committee. Board meeting minutes are taken by the Corporate Secretary, and circulated for review and record. Board Books are circulated ten days in advance of Board meetings, and other communications documents are circulated a minimum of ten days in advance.

The Board meets four times yearly (February-March, June, October, and December, with spring in the U.S., June and October in Romania, and December via conference call for evaluation of the President and to discuss finances for the upcoming year). The meetings in Romania have special setup for meetings with RAF grantees and visiting projects.

Until six months ago, all approvals were by the Board, whereby staff developed proposals together with partners and made recommendations for Board consideration. RAF seeks to strike an appropriate balance in terms of volume of proposal materials and is to this end introducing IT processes to include concise recommendations alongside access to all relevant project proposal documents. These materials are forwarded to a strategy and program committee, which until recently had a recommending role (to approve or veto, the latter never having been used). The committee now has the authority to approve grants of up to $75,000, and the Chairman of the Strategy & Program Committee and the Foundation President can approve grant amounts up to $15,000. Such approvals are included in the Board Book and are reported to the Board, which wields final authorization. A separate committee for Program-Related Investments (PRIs, repayable grants) also has delegated approval authority.

Strategic Planning and Management

The Romanian-American Foundation's mission is to promote and strengthen the conditions for a sustainable market economy and a democratic society, giving access to opportunities for all segments of the population in Romania."

"Our vision is of a prosperous society involved with entrepreneurship, a society composed of citizens who behave responsibly. We believe that each country's citizens should have equal access to opportunities."

RAF's vision and mission statements are presented on the RAF website, which also describes the foundation's strategies and provides, among others, links to an online database of grants with filters to accommodate users. The website and related communication and messaging have been developed through a two-year consultative processed with the engagement of external consultants. RAF staff participated in retreats dedicated to strategy development together with stakeholders, and a full day was set aside for the purpose during a meeting with the RAF Board of Directors (there are three main

Board meetings per year, with additional calls as needed; the December Board meeting includes evaluation of the President and finances for the upcoming year). Staff convene grantees for discussion around issue clusters and indicators, serving compliance requirements and soliciting feedback.

The program strategy-setting process starts with a needs assessment to establish a long-term strategy, focusing on four areas: network extension, sustainability, capacity-building, and grant-making. The October Board meetings discuss program impact, progress, and areas that can be measured in terms of relevance for Romania, i.e. long-term issues. Selection of projects and partners is also discussed during Board meetings, with questions raised with grantees relating to strategy and vision. These are then factored into monitoring and evaluation frameworks. The process lends staff clarity, with strategy "front and center."

In terms of portfolio management, RAF keeps rejected ideas for future use. For example, the Board approved, at its October 2016 meeting, a media literacy project which had been first discussed with the grantee four years ago. RAF had been raising questions regarding sustainability with the prospective grantee, was getting weak responses, and therefore agreed to stay in touch. They re-connected, the grantee having been motivated to change its funding strategy.

RAF has similar experiences across its portfolio. The screening process takes time, and involves many meetings, during which they seek to empower the leaders of partner institutions. This is discussed regularly as the Foundation's "DNA" at Board meetings, where the Board, challenging RAF staff to think forward, remains engaged in strategic development. Results of this engagement are communicated to grantees at meetings and other occasional gatherings.

RAF's focus is private sector development, as distinct from social services, which is the largest charity area in Romania. Private sector development, according to RAF's President, is the basic test for any project.

With regard to change management, RAF staff have largely been in place for over ten years with Roxana Vitan as the Foundation's first and current President; Romeo Vasilache, Program Director for Entrepreneurship and Community Development, has been with RAF since 2010; and Bogdan Giurginca, Chief Financial Officer, has been with the organization since the RAEF period.

Regarding external changes, RAF is holding meetings with grantees to explore improvements in programs, and identify lessons learned from daily work to inform strategic planning. Such discussions are not only inward-looking and serve as an opportunity to adjust approaches to the team's work and to review strategies on which that work is based. One such meeting was called "Learning from Failures" and involved four of RAF's grantees as speakers in front of all RAF's grantees. There is learning from other legacy foundations, based more on one-on-one collaboration, including meetings with the Polish-American Freedom Foundation and communication with AADF and WNISEF. A ten-year anniversary network meeting was hosted for the foundations by PAFF in Warsaw, and RAF staff met with the USAID mission in Sofia in a meeting organized by the BAEF (it is noted that close linkages with the U.S. Embassy in Bucharest are challenged by frequent Embassy staff turnover). RAF is now a member of the European Foundation Center.

RAF is currently working under its approved strategy for the period 2014-19, with discussions ongoing with the Board regarding possible revisions. Work plans are set on a three-year rolling basis, including project budgets based on cash flow projections. RAF focuses strategically on private sector development needs, and sees its mission as being directed by strategic needs assessment performed on an ongoing basis, whereby needs are identified. RAF is multiplying efforts, leveraging resources, and adding new

grantees on an ongoing basis. Capacities are therefore generated to nurture change with a wide reach, in different locales.

Regarding changes in returns on the endowment, RAF uses modelling according to the U.S. "Hybrid Rule," focusing on minimum amounts to be spent over time. A strategic allocations matrix set by the Board Finance and Investment Committee governs management of the endowment. Thus, planning at RAF is based on strategic priorities, results, financial projections, and careful consideration and due diligence of potential new partners.

Grant-Making Practices

RAF maintains contact with declined applicants who may later be successful (note point above regarding returning media project grantee). RAF normally identifies and works with grantees by invitation, preferring not to do open calls, as these, according to RAF staff, do not allow for adjustments to approach or project content and the available money is not enough for an open call in a country in chronic need of funding for civil society. This approach has been decided by the Board and has been discussed with USAID. Moreover, up to 500 applicants will respond to open calls, entailing a high cost of review whereby a very small percent (less than 10 percent) of applicants can be properly served, leaving 90+ percent disappointed. (RAF staff indicates that this point has been discussed with USAID. It is a Board decision: No open calls for this time.)

NGOs are often puzzled that the grantor may be interested in the long term, which (in their view) is opposite to the open call approach. The absence of open calls does not, however, mean that there is no process: In the case of Community Foundations, for example, evaluation criteria and communications guidelines are prepared. Also, Request for Proposal processes are run as part of various programs (e.g. Food Hubs, Ecotourism, community foundations). Portfolio management in general calls for a formalized process with metrics. In case of unsuccessful applicants, mostly with unsolicited proposals, RAF communication usually amounts to an explanation that the project proposed is not within RAF's mandate.

Following disbursement of the first tranche of a grant, subsequent tranche disbursement is pending acceptance of financial and narrative reports. RAF engages grantees in continuous conversation and arranges regular site visits for staff and the Board. In line with its strategy to maintain a low profile relative to its grantees, the Foundation President and three program directors are not "camera facing" when visiting project sites.

RAF staff ensure consistency of grantee narrative and financial reports, which are due every six months. In cases where activities or line items need to be changed, amendments are signed and documented. RAF maintains the right to ask for funds to be returned. All relevant criteria and procedures are standardized, and embedded in grant agreements: To ensure correspondence between compliance and organizational development, RAF staff reviews proposals, agreements and all relevant project documentation together with grantees at the outset so that all is understood by all parties.

Regarding questions of absorptive capacity, such risks are mitigated via daily interaction between RAF staff and grantees, facilitating scrutiny and adjustments where red flags are noticed. In case of financial questions, this can require examination of monthly bank statements, which may be brought to the attention of program officers, the CFO, and the Foundation President. Grantees' financial records are reviewed by the external auditor, often requiring cash flow forecasts from the grantee, which also serves as capacity-building.

One notable granting situation emerged in the case of emergency scholarships. A businessman who gained significant wealth through privatization of an oil company decided to establish a foundation with a so-said endowment of $150 million. The foundation provided a scholarship program for high-performing Romanian students to study abroad, spending some $7 million annually. Governmental agencies then identified corruption issues, resulting in an abrupt halt to the foundation's operation. Some 70-75 students in schools worldwide were as a result left in limbo.

RAF, seeking to address the students' plight, assembled an emergency team (using the existing foundation selection process), and allocated funds to cover the students' needs for the second semester of the academic year (student requests ranged from $300 to $15,000). The total disbursed amount was $340,000, and in return RAF asked the students to engage in pro bono services for an NGO of their choice. Some students asked for funding for a second year of study, which RAF could not provide (given its own funding priorities), however instead used PRIs (Program-Related Investments) as collateral for student loans negotiated with Raiffeisen Bank.

Unethical behavior or contravention of conflict of interest rules as set out in project grant agreements are reason to suspend a project and require grant funds to be returned. Project forms declare no overlap of funding sources, and in the context of institution-building, as in the case of Community Foundations, RAF looks carefully at ethical standards of partner organizations as an integral component of due diligence.

With regards to cost-sharing and co-investment, RAF does matching grants, for example where other donors are interested in community foundations, and the foundation does tracking and reporting where other donors are involved. RAF seeks grantee contributions, which are reported in financial reports. For example, RAF's partner The Civic Innovation Fund is supported by other donors, including a utility company. Proposals are shared with other donors, such as the Mott Foundation, or in the case of Teach for Romania, which has been co-funded by three banks, to ensure avoidance of duplication (donor coordination).

Monitoring, Evaluation, and Accountability

RAF's audits are performed by Deloitte, with reporting directly to RAF's Board Audit Committee (which operates according to a written charter). A pre-audit for the fiscal year is done in October and the final audit is done in March, with reports delivered by the end of May. Audits have always been completed with unqualified opinions and accompanying letters presenting any recommendations or issues.

Monitoring and quality assurance are covered in internal discussions at the departmental and inter-departmental levels, including lessons learned and approaches to implementing strategy, with summaries of these discussions included in program reports to the Board at the February and June meetings. Ongoing monitoring of grantees' performance reflects on program evolution, with Q&A focusing on progress and trajectory toward agreed project outcomes. Project teams record indicators, which are adjusted or supplemented as needed. Indicators are also set at program-level; for example, in the case of Community Foundations, an external evaluation will be performed midterm, and at the end of RAF's seven-year strategy. Lessons learned are transferred across programs as appropriate. In some cases (this is less relevant), RAF is for example supporting sixteen Community Foundations whose diversity limits transferability of lessons learned. Approaches to fundraising can also vary widely across foundations and regions.

Communications
RAF's system for documenting program knowledge is based on yearly assessments and reports prepared for Board meetings that include staff reflections on, among others, strategy and communications strategies. RAF's approach is to "stay humble and shine the light on the grantees," which RAF views as an integral part of supporting grantee sustainability. Communication is seen as vital to grantee growth and empowerment, and this understanding has informed an upgrade of RAF's website, for which grantee Friends for Friends provided support in terms of strategic branding, training and mentorship for grantees. Friends for Friends is cited in particular by RAF staff as providing, at favorable rates, a "survival kit" for civil society, motivating substantial transformation among several RAF grantees.

Foundation Evaluation Question #3
RAF publishes annual reports, as well as various briefs, news, and success stories, and provides USAID with the requisite annual report from the external auditor. RAF's reports are detailed and clear, and its website is very informative. USAID is well informed of RAF's work and appears to have good access to the Board's Chair — a reference was made to a discussion with the Chairman of RAF's Board comparing favorably RAF's strategy and disciplined approach to assessing and choosing potential partners with the less rigorous methods used by another foundation. In this case, despite the fact that, in accordance with the Grant Agreement, the modes of and opportunities for engagement between USAID and RAF are limited, the parties have developed a good relationship and have found a workable solution. In fact, two USG representatives — one from USAID and one from the U.S. Embassy — can participate ex-officio in RAF Board meetings.

The evaluation team met with the U.S. Ambassador, who complimented RAF's work highly. He suggested that RAF may be operating too far below the radar and could be better served by improving its visibility. The evaluation team discussed this question with the President of the Foundation. The matter has been deliberated within the Foundation as well, and the Board has made its decision for the current mode of operation. The current thinking is that, given the relatively small size of RAF's budget, about $5 million per year, it does not make sense to raise RAF's profile or announce open tenders, which entail significant costs to manage. The foundation does spend significant effort to identify new partners, validate them, and cultivate relationships with them prior to making decisions regarding joint investments.

Annex L: Hungary

Hungarian-American Enterprise Fund

Fund Evaluation Question #1

The Hungarian-American Enterprise Fund (HAEF) was established on May 17, 1990. The total disbursements made by USAID to the Fund amounted to $72.5 million, of which $70 million was part of the initially approved commitment and an additional $2.5 million was provided by USAID through a modification as 50 percent of the initial capital contribution to the Hungarian High Technology Venture Capital Fund (HHTVCF) set up by HAEF.

HAEF's investment strategy included direct equity investments and loans, with emphasis on equity investments. In its first two years of operations, the Fund invested in eight Joint Ventures, four of which were with U.S. companies. This accomplishment reflected the fact that Hungary was enjoying considerable attention from investors who considered the country the "Switzerland of middle Europe," Foreign Direct Investment (FDI) flows were growing unabated, there was a rapid rate of small business creation, and the privatization process was on-going. The fund initially invested in the manufacturing, services, chemicals and petrol, retail trade, financial services, agriculture, and entertainment sectors. Later, HAEF began investing in high technology and early stage companies, and generally considered its strategy to be consistent with that of a venture capital fund.

The Fund created and operated through a relatively complicated structure that included the following elements:

- A Small Loan Program run through two banks, Szechenyi Bank and Mezobank, with a 50/50 risk share agreement between the Fund and the banks. HAEF approved a total of $5 million for lending to small entrepreneurs in all sectors. The program was terminated in December 1996, with an overall reported loan loss on this program of 2 percent.
- Micro Loan Programs I, II, III and IV — these programs provided loans between $1,000 - $10,000 to small businesses and were administered by three banks:
    1. Micro Loan Program I — Szigetvari Takavekszovetkezet — approved HUF4,412,000
    2. Micro Loan Program II — Zempleni Regionalis Vallalkozasfejlesztesi Alapitvany — approved HUF 4,745,000
    3. Micro Loan Program III — Investbank
    4. Micro Loan Program IV — Szigetvari Takavekszovetkezet

    Micro Loan Programs I and II were repaid in full as of March 31, 1998. At that time, the valuation of the remaining two programs was $245,244. By June 1999, HAEF was no longer reporting on any micro and small loans, and had no plans to extend such loans in 2000, based on the June 1999 SAR.
- A Technical Cooperation Program launched on May 31, 1992. This was a $10 million grant, which HAEF management did not consider aligned with what it saw as the Fund's for-profit investment strategy. In the HAEF Strategic Management Plan dated December 1993, which replaced the Fund's existing plan developed in the Fall of 1990, management described the evolving role of the Fund and restated its views on the Fund's objectives and major programs. The guiding philosophy of HAEF, per the Grant Agreement, was that while the Fund operated in a for-profit manner, it also had 'not-for-profit" or "public policy" roles. Management and the Board thought that "the dual mandates of for-profit and not-for-profit public policy missions present the Enterprise Funds with the greatest challenges in posting an overall investment track record capable of attracting private equity funds to its management." The Fund's management recognized the need for and importance of technical assistance and of small and micro loans to

entrepreneurs in the Hungarian context at the time. The Fund also considered the different priorities and incentives of purely profit-seeking investors. The conclusion the management and the Board of HAEF reached was as follows:

> *"In making equity investments, loans, and grants, the Board and management are constantly aware of the dual mandates of its for-profit and not for-profit missions. At the same time, the Board believes that having a public policy or non-profit purpose is not the same as being "soft" or "fuzzy" in making investment decisions. In making loans and investments, the for-profit vs. public policy roles of the Fund are clearly separated. Those who invest with the Fund, or for whom the Fund manages money, will not be burdened with the cost of the Fund fulfilling its public policy purposes."*

And further on page 31:

> *"…Neither those who invest with the Fund, nor those for whom the Fund manages money, will ever be asked to underwrite or contribute in any way to the Fund's fulfillment of its public policy purposes."*

In its SARs, HAEF did not elaborate on development results or impacts. When the Fund started using the Strategic Framework Matrix around 2000, the answer to the question on policy work referenced the executive summary, which did not include such information. Information on technical assistance interventions was minimal, and did not include analysis of results and broader impact, or how these might be aligned with the Fund's objectives. The information on the Loan programs was a list of the loans and their financial performance. The information provided in the SARs on the portfolio companies was the type of financial and investment analysis data that would be useful to an investment manager but less useful to USAID. The evaluation team did not see evidence that USAID provided feedback or requested additional information on the reported information.

Based on the documents reviewed by the evaluation team, it is not evident that HAEF sought to balance development and financial return objectives. The appearance is that the HAEF management and Board considered the Fund a profit-oriented venture capital fund focused on investing in commercially viable and profitable small and medium-sized businesses in Hungary. In the same HAEF Strategic Management Plan of 1993, the Fund defines its Objectives as follows:

> *"Private enterprise orientation*
>
> *To focus on private enterprise investments and development and not to participate in the internal political and governmental working of our host country. As a matter of policy, the Fund will not lobby foreign governments or organizations, nor will it normally actively participate in reform movements, "demonstration projects", and the like. The Board is committed to the concept that the best way to help Hungarians in the conversion to a pluralistic market economy is through a successful investment program, where political and legal reforms follow as a natural result of an increasingly expanding and robust private economy.*
>
> *The most basic objectives of the Fund are to invest in profitable businesses and generate income. Without a profitable investment program, the Fund would eventually consume all original capital in operational and administrative expenses, fail in one of its key missions of attracting additional capital, and set a bad example of capitalism for Hungarians…"*

HAEF's determination that equity investing would be the focus of its strategy in the Hungarian context was based on the conclusion that this approach "has the best chance of fostering small and medium-sized businesses, while at the same time earning the Fund the highest return on its invested capital." Loans were generally viewed as offering "an unacceptable risk-related rate of return."

Despite its apparent reservations, HAEF committed about $10 million to technical assistance over the years (but deducted this amount from the calculation of the value of its portfolio). Activities included:

- Blue Ribbon Commission studies on national policy relevant to the transition process, such as privatization and currency convertibility;
- Telecommunication legislation;
- Establishment of a Stock Exchange Visitors Center;
- Feasibility studies, project due diligence; and
- Conferences, training, database development, and others.

The SARs do not provide detail on what types of requests were eligible for technical assistance, what the application, review and selection process entailed, how the budget was developed and negotiated, and who actually provided the technical assistance. There is no narrative on the impact of these projects and it is not clear whether sustainability was a consideration (for example, who was to fund the maintenance and operations of the visitors' center of the Stock exchange, what the result was of the work on telecommunications legislation, how feasibility and industry studies were used, and so on).

Additional Information on Parallel Funds and Affiliates created by HAEF

HAEF set up a number of parallel funds and affiliates providing investment advisory services to the Fund. The number of entities is in fact larger than what some of the other Enterprise Funds considered or attempted. More importantly, this approach was also in contradiction with the HAEF Strategic Management plan of 1993 that discusses Subsidiaries and Affiliates (p.22):

> *"As a matter of policy, the Fund will attempt to avoid creating subsidiaries and affiliates, particularly when such a subsidiary or affiliate would require the Fund to assume a line management role in that organization. The Board is particularly concerned over the possibility of Fund management being stretched too thin or being required to exercise line management responsibilities in areas in which it is not experienced.*
>
> *The exception to this general guideline is the possibility of creating a management company to contain personnel and other expenses which are to be allocated to multiple fund activities. For example, should the Fund be awarded fund management contracts from private sources, it would be proper and appropriate for the Fund to establish a management services company for the purpose of expense allocation and payment of incentive compensation from revenue generated by private funds."*

It is not clear why the policy shifted. The entities HAEF set up included:

- EurAmerica Capital Corporation was a financial advisory and investment services affiliate of the Fund established in 1992 through a $4 million equity investment by the Fund. This entity was wholly owned by the Fund. It provided on referral by the Fund or directly to portfolio companies services related to capital structure and funding, attraction of capital, organizational changes, privatization, mergers and acquisitions, and more. The entity was managed by three principals. The President and CEO of HAEF, Alexander C. Tomlinson served as the EurAmericaCapital Corporation's Chairman. This as well as another undisclosed conflict of interest situation involving payments to a senior Government of Hungary (GOH) employee as

well as other missteps, resulted in high profile Congressional inquiries, and the resignation of Mr. Tomlinson.

- MAVA Investment Management Kft. was the Hungarian-based fund manager of all HAEF direct investments. MAVA had its own team of investment managers based in Budapest, who advised HAEF on its investments. HAEF appears to have had three employees, all based in the United States: the President and CEO, later the managing Director of the Hungarian Innovation Technologies Fund, and an Executive Secretary. MAVA's Managing Director was also Executive Vice President (EVP) of HAEF. HAEF's CFO, was also a MAVA employee. The EVP and the CFO did not receive separate compensation from HAEF, as their salaries were included in the MAVA fee; however, it is worth noting that salary payments are not the only potential source of conflict of interest for staff of an investment advisor who also make decisions for the client of the investment advisor. Further, MAVA was owned by another entity, Danubius Managers Ltd., that held an investment advisory agreement with HAEF.
- Danubius Managers Ltd., a Cayman Islands company, was the investment advisor of HAEF. The Managing Director of this company was also the President and CEO of HAEF, Eriberto R. Scocimara. In 1998, Mr. Scocimara was already a Director of the Board of HAEF. The evaluation team did not have copies of the 1997 SARs and does not know whether Mr. Scocimara was on the HAEF Board in 1997 at the time of the signing of the agreement with Danubius Managers Ltd.; whether that was considered a conflict of interest, given his position with Danubius Managers Ltd.; and whether he disclosed this conflict in writing.
- A private Equity Fund, Hungarian Equity Partners, L.P. (HEP) was launched by HAEF on September 10, 1997 with an initial closing of $28 million and an objective to attract $60 million. Eventually, HEP attracted $50 million, according to the SARs. HAEF committed to make future investments only in parallel to HEP. HAEF was both the General Partner and a Limited Partner in HEP, which should have raised questions. The evaluation team did not see documents addressing the situation. MAVA tried and failed to raise a second private equity fund similar to HEP.
- A Small Equity Fund, also known as the Hungarian High Technology Venture Capital Fund (HHTVCF), which was originally the microenterprise lending program considered by HAEF too far removed from its venture capital mission. The Small Equity Fund was set up in 1998 as a wholly owned subsidiary of HAEF and as the recipient of a separate pool of capital. It was also expected to provide advisory services to HAEF, although the scope of these advisory services and fee structure is not clear from the documents the evaluation team has seen. HHTVCF was conceived of as a high-tech business play, focusing on "near businesses" and early stage ventures. It was expected to emulate the Israeli incubator approach. HAEF negotiated with USAID a modification to the GA that provided an additional grant worth $2.5 million from USAID as its 50 percent contribution to the initial capital of HHTVCF. The other $2.5 million were provided by HAEF.

  The June 1998 SAR shows that HAEF planned to establish another wholly owned subsidiary to serve as the management company of HHTVCF. HAEF's rationale for the set-up of HHTVCF was to isolate the funding of HHTVCF from that of HEP to be able to calculate the costs of high tech seed and early stage investing, and measure the performance of the team. The long-term objective was to create stand-alone investment vehicles based on the assumption that this would make it easier to attract EBRD and EU technical assistance and funding. This strategy proved wrong.

  The operating costs of HHTVCF and its planned management company, as discussed in the June 1998 SAR, were also going to be substantial. Staff salaries were discussed to be initially in the range of $200,000 - $275,000 but to increase and reach MAVA's rates eventually. In addition to

the fund's operating costs and the costs and fees of the planned management company, an independent Advisory Board of technology experts was also discussed. These individuals were expected to provide pre- and post-investment counsel and facilitate partnerships. Ideas were discussed about paying these Advisors fees or allowing them to invest in portfolio companies or in parallel with HHTVCF in exchange for their services ("sweat equity"). This proposal raises questions about the actual independence of these advisors and potential conflict of interest. It is not very clear what happened to these ideas, based on the SARs available to the evaluation team.

- Hungarian Innovative Technologies Fund (HITF) was set up as a HAEF subsidiary in 2000. Its president and CEO was the HAEF President and CEO. Initially there was turnover in the management, as two senior executives left in 2000. Eventually, a HAEF employee was promoted to Managing Director. The fund was supposed to raise $25-$30 million for technology-related investments. Due to limited capacity, in 2001 PwC was also providing assistance with portfolio investments. HITF failed to raise funds and was closed in December 2003.

Fund Evaluation Question #2

Given its investment strategy, one of the more venture capital-oriented ones among the Enterprise Funds, HAEF needed technical assistance to build up the commercial viability of portfolio companies. Investments made through a Small Equity Fund set up in 1998, also known as the Hungarian High Technology Venture Capital Fund (HHTVCF) were "near businesses" and early stage ventures. Another HAEF subsidiary, the Hungarian Innovative Technologies Fund (HITF), was set up in 2000. The fund was supposed to raise $25-30 million for technology-related investments. The much-needed technical assistance in this set-up was provided through MAVA Consulting, and arm of MAVA Investment Management Kft., the Hungarian-based fund manager of all HAEF direct investments.

A general commentary on the potential conflicts of interest in this and other situations with the Funds is included in Section 5.3 of the report that covers corporate governance. In the context of the view of the Hungarian Fund on technical assistance, it appears that the view evolved as advisory and capacity building services became profit-making opportunities for associates in a rather complicated structure set up around the Hungarian Fund. Technical assistance in this scenario is not necessarily an investment made by the Fund. The documents reviewed by the evaluation team do not allow for detailed analysis of what fees were charged by MAVA Consulting to the Fund for technical assistance versus the portfolio companies for such services. In fact, in this and in other cases, the transparency of the fees charged by management advisors, including to portfolio companies, is a serious issue. In addition to the need for a better understanding of what fees were charged for capacity building services and to whom, what is missing from the documentation is what the scope of such consulting services was and how its quality and results were measured and by whom. In the absence of such documentation, it is impossible to quantify investments or payments for technical assistance, and to determine what the return on this investment was.

The evaluation team has reviewed some but not all SARs. The information provided in the SARs on portfolio companies discusses the financial and operational performance of companies. However, the point of view is not on building internal capacity, but rather on analyzing financial performance and potential returns, developing scenarios to mitigate and manage risks, and analyzing potential returns in the event that HAEF and its subsidiaries would not be able to resolve disputes with management and would need to attempt to liquidate a company. In some instances, there is mention that external investors, such as EBRD, were potentially interested in a portfolio company. It cannot be determined from the information in the SARs whether this was due to HAEF investments in stronger management or business performance improvement.

The Fund did invest in some profitable enterprises, but like other EFs and as expected, there were some failed bets and missteps. The Fund took a hard nose approach to underperforming portfolio companies and worked to off load them from the portfolio. Unlike some other Funds, there is no evidence that HAEF invested in building up the management teams of its portfolio companies in general management, operations, financial management, accounting, and other areas to bring them up to western standards and make them more attractive to additional investors. HAEF seems to have interpreted its mandate as a relatively short-term approach to investing with relatively quick exits and a need to recycle capital fast. This is HAEF's interpretation, which they had the right to make and it was approved by the Board.

HAEF's objective was to create employment and exports; however, the Fund cautioned in its analysis that sometimes restructuring and business optimization initially led to layoffs. They provided examples of two companies in which as part of the privatization process, employment was initially reduced, but the salaries of the remaining employees reportedly increased significantly. In one of the portfolio companies, employment eventually went up to the previous level. This is a fair argument. HAEF included company performance data in the SARs but not really in the form that would be useful to USAID.

HAEF's record is mixed in terms of the Fund's success in attracting private moneys. Although HEP attracted Limited Partners and Hungary was touted as very attractive for FDI inflows, the capital raised by HEP was below its initial target. HITF was closed because it did not attract capital. The performance of the funds is also relatively modest despite the very optimistic projections early on that the HAEF portfolio would be worth $120 million by 2006. Overall, the Hungarian Fund did not leverage outside funding for its portfolio companies. There could be a number of reasons for this, including the venture capital strategy and focus on very early stage businesses. The amount of time the evaluation team had for reviewing the Hungarian Fund, two working days in Hungary and a couple of days for desk review, did not allow us to investigate this question further.

Fund Evaluation Question #3

Based on reviews of correspondences between USAID, the Department of State, the counsel of HAEF, and HAEF's Chairman of the Board, it is evident that there were some missteps in the early years of HAEF's operations and specifically around the time of the creation of EurAmerica Capital Corporation in 1992. The President and CEO of HAEF at the time made undisclosed decisions that created conflict of interests, one of which involved payments to a senior Hungarian government employee. These decisions and conflicts ended up being discussed at the highest levels of USAID and the Department of State (DOS), provoked a Congressional inquiry, and were covered in the media. Both USAID and DOS engaged very proactively to resolve the matter expeditiously and firmly. HAEF's President and CEO resigned, USG was ready to accept the resignation of the Chairman of the Board, if necessary (this did not happen), and disbursements to HAEF were temporarily suspended.

This episode, which coincided with other Congressional inquiries about conflicts of interests among Directors of the Boards and managers of EFs, created an impetus to strengthen the conflict of interest clause in the grant agreements of all EFs and, in the Hungarian case, to revisit and strengthen the oversight role of the Board. Unfortunately, USAID and DOS found themselves engaged in a similar, albeit lower profile case in 1997-1998, when a USAID/Hungary employee reported a potential conflict of interest for one of the Board Directors who was also associated with the First Hungary Fund raised by HAEF in 1997. That Board Director resigned in 1998. That instance was another example of the lack of proactive enforcement of conflict of interest rules and best practices in corporate governance by the HAEF Board. The evaluation team did not have enough visibility in the MAVA/Danubius management agreements situation and the deliberation about it on the Board and with USG to assess the effectiveness of the Board in ensuring absence of any conflict of interest.

HAEF's Strategic Management Plan of 1993 discussed the role of the Board in overseeing the management of the Fund. It paid specific attention to the special role of Hungarian Directors. These directors were considered uniquely qualified to provide country-specific insight as well as guidance on investment decisions. For this reason, all Hungarian Directors participated in the Investment Committee of the Board. Unlike some EFs that did not have any local Directors of the Board, HAEF had several. This should have provided for an active participation of the local HAEF Board members and rich investment discussions.

The evaluation team was able to meet with only one Board member, who also happens to be a local Director. According to this Director, local members were not really prepared to serve on a corporate Board, something unfamiliar to them at the time in Hungary. No orientation was provided and they were also dealing with a very strong President and CEO (following two changes in that position), who by this account ran the show and dismissed opposing opinions. The local Directors felt intimidated and did not consider the dynamics productive. This opinion was confirmed by another party, although not a Board member. Apparently, some Board members' concerns and frustrations were not articulated and properly addressed. The evaluation team tried to find additional information and reviewed some additional documentation provided by USAID Washington but was not able to secure other interviews with Hungarian EF Board members due to time and budget constraints.

Since the evaluation team has not had access to Board meeting minutes, it is not possible to comment on the deliberations by the Board on decisions and changes in the attitude towards the use of affiliates and subsidiaries, for example, that was not the original Board policy. It is also not clear if there were discussions about development impact and technical assistance during Board deliberations on the investment strategy of HAEF.

Another important question we cannot answer is how the Board handled any real or perceived conflicts of the President and CEO, who had the same position at HAEF and at the subsidiary HITF and was the Managing Director of Danubius Managers Ltd., and the owner of the investment manager of HAEF, MAVA Investment Advisors, or the EVP of HAEF who was also the Managing Director of MAVA, or the CFO of both HAEF and MAVA Investment Advisors. Given the limited information provided on the structure of some of the affiliates and subsidiaries, there may have been other considerations and discussions relevant to best practices in corporate governance of which the evaluation team is unaware.

Fund Evaluation Question #4

According to the Grant Agreements of all EFs, USAID was entitled to a limited amount of information coming from the Boards in the form of SARs, an annual report, and a copy of the annual report from the external auditor. Section 7, Monitoring and Evaluation, of HAEF's original Grant Agreement's general provisions is very concise and states that "the Fund shall publish an annual report that will contain a comprehensive and detailed description of the Fund's operations, activities, financial condition, and accomplishments for the preceding U.S. fiscal year. Further, the Grantee shall consult with USAID semiannually concerning its progress." This is the USG reporting requirement in its entirety.

USAID/Hungary did not have routine interactions with HAEF, could not attend Board meetings, unless invited, and did not receive minutes from Board meetings. In the later years, the U.S. Embassy was not engaged with HAEF either. Unless there were special circumstances, such as the undisclosed conflict of interest situations with the HAEF senior management and the Board as well as the lax Board oversight, USAID and DOS were not in a position to obtain greater visibility into the operations of the Fund. This set-up was by design. Enterprise Funds were set up as largely independent entities, and their Boards were considered USG's first line of defense. Problems arose when this first line of Defense failed to fulfil its role. The reasons for such a failure could vary, and in the HAEF case it appears that the reasons were at least two-fold: 1) HAEF senior executives did not fully consider the implications of their engagements

with other enterprises that put them in conflict of interest situations, and did not disclose properly the resulting conflicts, and 2) some Board members did not feel prepared for the role and comfortable to challenge the decisions of other more assertive Directors.

To their credit, members of the Washington-based USG team managing HAEF did their best to exercise their oversight responsibilities and involved USAID and DOS senior management in resolving sensitive corporate governance and conflict of interest matters diplomatically but resolutely. The weakness in this set-up was that it could be applied to putting out fires, when needed, but it could not address the root causes of the problem. Given the independence of HAEF and its Board, USAID could not help the Board strengthen its capacity and effectiveness, for example. USAID could not identify potential risks in governance, oversight and other areas and develop risk mitigation strategies either, as the USAID staff did not have sufficient visibility into the operations of the Board, even when there had been problems previously. USAID and DOS were alerted to a potential COI issue with a member of the Board in 1998 by a USAID/Hungary employee, someone who theoretically would have had even less interaction with HAEF.

Hungarian-American Scholarship Enterprise Fund (HASEF)

Foundation Evaluation Question #1

As HAEF began the process of liquidating its portfolio investments, the Board determined that continuation of the Fund's mandate as a contributor to Hungary's economic development would be best served through the establishment of a scholarship program that would provide selected Hungarians displaying outstanding academic and / or professional qualifications with professional training opportunities in the United States encompassing research, product development, and application of both to practical, industrial purposes.

The objective of the Hungarian-American Enterprise Scholarship Fund (HAESF) is to promote free enterprise and development in Hungary and to continue to strengthen ties between the United States and Hungary by creating opportunities for accomplished Hungarians and those of great promise to gain professional experience in the United States, thereby enhancing their contribution to Hungarian society.[47] Among the activities contemplated to be undertaken by HAESF were scholarships, fellowships, awards, student loans, and exchange programs throughout Hungary"[48] and the proposed model was that HAESF "… shall contract with an organization to administer its scholarship programs … whereby the Council for International Education Exchange has been contracted to carry out administration of the HAESF program."[49]

[47] Source: HAESF website.
[48] Grant Agreement between HAEF and HAESF, November 21, 2003.
[49] ibid.

Council on International Educational Exchange (CIEE)
CIEE was founded in 1947 as a non-profit organization promoting international education and exchange. Operating in over forty countries, CIEE is a provider of U.S. university students' study abroad programs and enjoys relationships with some 300 universities in an "academic consortium," in which partner institutions certify CIEE programs for accreditation. CIEE is the largest J1 visa sponsor for interns, research scholars, and summer training program participants, and provides pre-departure orientation as part of the program. CIEE has seen a 100 percent placement rate in the HAESF program (applicants must be Hungarian citizens) and enjoys good relations with the U.S. Embassy in Budapest. Elizabeth Simon, a staff member of CIEE, is managing the scholarship program out of Budapest. In effect, HAESF does not have staff or independent operations; it is a pass through with all activities managed by a contractor, CIEE.

HAESF's focus was on supporting education in business, government, and non-profit activities, with a stated aim to engage Roma participants in the program. Anticipated programs included a Fellowship for Distinguished Scholars (post-doctoral) and an Undergraduate Scholarship Program, and such programs were deployed in the course of the CIEE's work. That said, the Professional Internship Program (PIP) has been the HAESF's flagship program and is the sole remaining program in operation, while a Senior Leaders Program, supporting young professionals for secondments in the U.S., has been the Fund's second program in terms of popularity.

The initial plan called for the Scholarship Fund to run for 10 years; it is currently operating in its thirteenth year thanks to budgetary savings. The last cohort of participants will likely be for the fall semester of 2017, and the program is expected to close in the spring of 2018. This may change, however, as the Fund holds assets (property near the Budapest airport) which, if sold, could extend the program.

Practical training was identified as a major gap in Hungary, as university education normally consisted of five years of study with no practical experience. Therefore, HAESF targeted practical, professional experience as its value added, with focus on business management as well as selected majors in the social sciences field. Most applicants have been business students at Corvinus University in Budapest and students studying STEM subjects, human rights, international relations, and public service.

A professional internship program (PIP) was deemed to be a useful programmatic approach. PIP was envisioned as a twelve-month program in the United States at a partnering academic institution, with logistical arrangements such as visas to be taken care of by the program. The program has a residency requirement; participants commit to return to Hungary for a minimum of three years.

HAESF did take into consideration local market demand and employment opportunities in the private sector when choosing the types of scholarships to offer. During the course of implementation of the program, the scholarship fund shifted the focus slightly to reduce the number of research-based educational opportunities and increased the emphasis on private sector-related programs. This decision was based on the evidence that only about 25 percent of scholarship recipients were going into private sector careers.

Application and Selection Process

Evaluation of applications and research proposals for Fellowships ensures that the work could only be done in the U.S. and can be completed in the anticipated timeframe. The application process involves submission of applications / proposals, conduct of interviews, and final selection by HAESF's Board of Advisors (BoA) on the Chair's recommendation. Research proposals are evaluated by BoA, assuming no conflict of interest and relevant expertise, otherwise the evaluation is outsourced. The BoA comprises

acclaimed Hungarian professionals in their field, typically business or the social sciences. Earlier, some HAEF Board members were also involved in interviews, including then-Chairman Bod Peter Akos (formerly President of the National Bank of Hungary, who served as BoA Chair for 5 years). Successful evaluation is then followed by a personal interview with Ms. Simon and two other BoA members. The research proposal must show practical applicability and a component demonstrating technology transfer.

Custom internships and visa sponsorship have comprised CIEE's approach. CIEE deploys a thorough vetting process, which means that every PIP participant is individually placed and must take ownership of his or her program. The program seeks good students who also demonstrate leadership qualities, engage in extracurricular activities, and have a clear expectation from the program and understanding of how their experience will contribute to the development of Hungarian economy. For example, one PIP learned how to use an MRI machine for clinical and research purposes. At the time, no one in Hungary knew how to operate an MRI machine.

The application / acceptance / preparation process normally takes six months from application to participant departure (the corresponding process at Fulbright takes 1.5 years, according to HAESF). April applicants travel the following fall, and October applicants travel the following spring. BoA meetings are held in June and December for proposal approvals, program reviews, and planning.

Support Services and Costs

HAESF's Senior Leaders Program targeted individuals who had achieved career success and had a project idea that could be pursued only in the U.S., often via professional contacts. HAESF supported Senior Leaders, providing up to $60,000 per year in scholarships to ensure that researchers did not need to be concerned with finances (support covering, for example, conference attendance, family and housing costs for the duration of overseas residence). Location would play a role in determining costs.

PIPs, by contrast, have received maximum $30,000 per year to cover airfare, insurance, visa fees, Student Exchange Visitor Information Service (SEVIS) fees, and a stipend (not employment) to cover accommodation, local transportation, and personal expenses. The host institution would provide project support.

Lessons Learned and Shifting Trends in Education in Europe

While the Bologna system, which sets compatibility in standards and quality of higher education qualifications among European countries, comprises 3+2 years of formal education, three years (BA-level) is not sufficient for participation in the HAESF program. Applicants must be at graduate school level (Master's Degree). Ideally, students are between years 4 and 5.

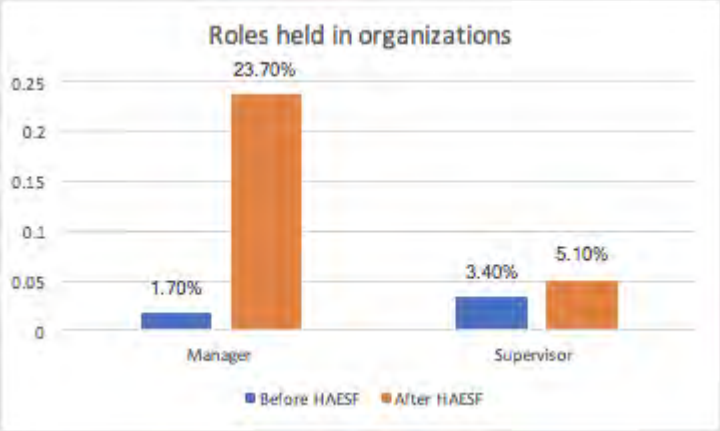
Application trends for the Fund's flagship PIP program show that students are preparing for business and industrial careers, particularly in the fields of pharmaceutical product development, biology, biotechnology, biochemistry, and mechanical engineering. Architecture was favored for a time, however this presented challenges with respect to placements in the U.S., and the labor market in this sector in Hungary is saturated.

Over the years, a number of European Union (EU) educational exchange programs have become quite popular. As they have no residency requirements, are based on the same compatible education system in most European countries, the students are placed in locations relatively close to home, and labor mobility in the EU is not a problem, these programs are often seen by students as more attractive compared to programs with various conditions.

Alumni

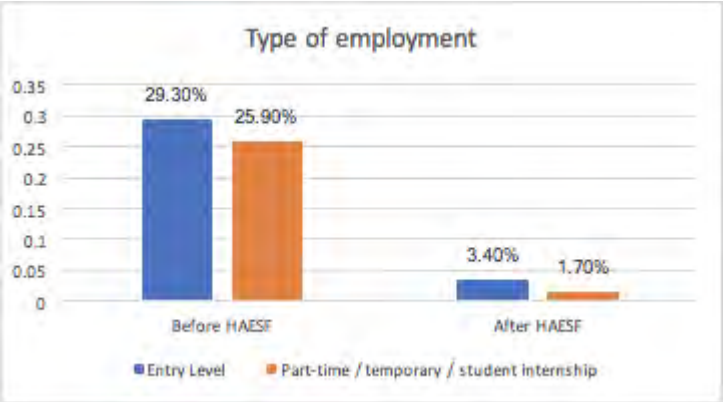
A number of alumni have become successful professionals, scientists, and political leaders. In CIEE's assessment and based on feedback from participants in a ten-year evaluation of the program, the personal and professional enrichment effects are lifelong, including better communication skills, wider horizons, and improved interaction with colleagues at the workplace. The ten-year evaluation of the program indicated an overwhelmingly positive view on the part of participants of the U.S., which suggests success with respect to citizen diplomacy and the program's concept and delivery.

The evaluation team conducted an e-survey among sixty bursaries of various HAESF Programs over the period 2004-2017. Data from the e-survey support the evaluation findings. All respondents find that HAESF activities contributed to private sector and economic development in Hungary. On a personal level, 98 percent of respondents believe that HAESF participation has contributed to broadening their career choices "greatly" or "to some extent." Similarly, 97 percent consider that their HAESF participation contributed to enhancing their professional credentials and led to an increase in technical knowledge and marketable skills relevant to their current work.



Over 68 percent of respondents think that their HAESF participation played a role in finding their current job and 58 percent believe that it contributed to getting promoted.

HAESF participation appears to have built considerable leadership potential. 62 percent of respondents believe that their ability to serve in a leadership position has been increased. This finding appears to be supported by comparing the roles bursaries held in their organizations at the time they received their scholarship or fellowship and after. The number of managers and supervisors has increased, while the number of entry level and part-time or temporary positions has decreased.



Another important contribution of HAESF program was expanding the participants' professional contacts or collaboration with peers in the U.S. 65 percent of the respondents assess the HAESF contribution as "great" or "some." Of the 10 start-up companies set up by HAESF bursaries, all were unanimous in estimating that the impact of HAESF participation on their start-up performance and growth was "moderate" or "high." The following reasons were cited: "clients who came from the professional network built during the internship," "the U.S. culture of entrepreneurship," and "the idea for the enterprise came from the U.S."

Finally, all respondents were unanimous in rating the quality of the support they received from HAESF staff, both in Budapest and in Portland, as "good" to "very good" at all stages of the process (i.e. during HAESF application, scholarship or fellowship participation, and return to Hungary). 60 percent of alumni

are still involved with HAESF and those who are currently not would like to participate in supporting and mentoring future alumni and promoting HAESF activities.

Over time, a network of successful and ambitious Hungarian professionals has been developed. Specific successes cited by CIEE include:

- Ten start-up companies established by alumni. Examples include:
  - Terra-Cycle company, recycling un-recyclable matter and finding market for use;
  - Hand-in-Scan, a company that has developed a hand hygiene quality management solution for hospitals, and now employs several program alumni;
  - An earthquake rods and plates company;
  - Dream Jobs, a staffing company.
- A PIP graphic designer helped develop the logo of the Wounded Warrior Project;
- Four program alumni are currently staffers at the U.S. Embassy in Hungary;
- The Hungarian General Consul in Chicago is a program alumnus;
- One PIP became Hungarian Ambassador to the UK;
- A PIP became a senior Governmental official in Lithuania; and more.

HAESF seeks to establish an alumni association independent of HAESF as a "grandchild" of HAEF, with the intention of giving back to society and conducting fundraising with the possibility of keeping PIP going. Fundraising includes annual Thanksgiving and 4th of July events. The Alumni Association is doing charity work for children as a team-building activity, planning workshops and further awareness-raising activities on topics that they learned about in the U.S.

Foundation Evaluation Question #2

As HAESF operates through an outsourced model with a contractor running the scholarship program, the evaluation team could not administer the Foundation organizational capacity assessment. Information on governance was collected through interviews with CIEE staff, a member of the Advisory Board, and the Chair of the HAESF Board.

The HAESF Board is engaged in the oversight of the program and receives and reviews regular updates on the implementation of the program and the progress of individual scholarship recipients. Currently, the Chairman of the Board is also very engaged in exploring options for the sale of a remaining HAESF asset, a plot of land. He reported being in weekly communication with CIEE. HAESF, through CIEE, reports annually to the Board, the latter regularly providing feedback. The Board meets twice annually, typically in New York City or Washington, D.C., with Directors further spending time with HAESF on occasional visits to Budapest. It should be noted, however, that in Hungary CIEE informed the evaluation team that the Board has not traveled to Hungary in the last 2-3 years.

The Board, which has no committees, is provided with statistics on program participation and placements, alumni anecdotes, selections, and financial reports. According to the Chairman of the Board, at times the Board has questioned higher or lower than anticipated numbers of proposed scholarships. Such fluctuations are not driven by a financial incentive for CIEE, as their fee is fixed. Changes to the program are subject to Board approval, as was the case when graduate and undergraduate scholarships and an entrepreneurial category were added to the PIP and SL programs.

There has been some continuity on the Board from the HAEF Board, with new members added over time. The current Chairman, Mr. Ryan Schwarz, credits the strength and engagement of the Board to the fact that Directors are members of the Hungarian diaspora with deep understanding of the country and strong ties to the Hungarian cultural and business communities.

The Board has placed a lot of confidence in the Advisory Board, which consists of prominent Hungarian business, science and research, and other leaders, to lead the section of fellows and scholarship recipients. The Advisory Board was organized by the contractor CIEE; it was not very clear what formal selection process had been used to designate and select Advisory Board members. The Board believes that there is no conflict of interest risk involving CIEE and members of the Advisory Board. However, it was not clear what conflict of interest rules govern the members of the Advisory Board and how they disclose potential conflicts of interest with applicants. The HAESF Board did not know how conflict of interest is handled at the Advisory Board level.

Foundation Evaluation Question #3

There is very little contact between CIEE/HAESF and USAID. In the Hungarian case, USG's visibility is even more limited, as HAESF is not required to publish annual reports. CEII publishes some updates on the HAESF's website, and commissioned a ten-year evaluation of the program, a copy of which was provided to the evaluation team. The U.S. Embassy does not maintain regular contact with HAESF. This set-up does not provide sufficient information to USG for oversight. Given the fact that HAESF is preparing to close down and there is still one asset whose sale is currently being negotiated and may potentially bring in funds sufficient for a couple of more years of operation, or alternatively, the sale may not be possible before the current funding is used, it is prudent for USG to consider a greater level of engagement at this time. The evaluation team understands that USAID Washington has been in communication with the Chairman of the Board regarding the planning for the close down.

Annex M: Western NIS

Fund Evaluation Question #1

Financial Performance Underpinned by Commitment to Sustainability: WNISEF

WNISEF was formally established with the execution of a Grant Agreement dated September 21, 1994 by the United States Government through USAID. The total planned grant funding from USAID to the grantee was $150 million. Similar to the Baltic and Central Asian Enterprise Funds, WNISEF was established as a regional Fund. WNISEF's original mandate was to operate in Ukraine, Moldova, and Belarus; however, due to the political environment in Belarus, the focus shifted after a few years to investments only in Ukraine and Moldova.

WNISEF is unique among the Enterprise Funds created pursuant to the SEED Act and the FREEDOM Support Act in its current operation as a Fund that also manages Legacy Programs. The Fund's liquidation plan envisioned the establishment of a Legacy Foundation, following the pattern established by the other Enterprise Funds. The proposal to establish a WNISEF Legacy Foundation did not receive Congressional approval; instead, the Fund extended several times its liquidation date, currently to 2023, and began implementing four legacy programs in 2015. These are reviewed under the evaluation questions focusing on foundation activities (see Section 6).

In terms of investment activities, other than the reduction in geographic scope, WNISEF has not deviated from the objectives in its Grant Agreement and has sought to balance financial returns and development impact objectives. The Fund has been able to achieve most of the objectives set out in its original grant agreement, while navigating a difficult and prolonged transition period, two revolutions, a military conflict, and unstable economic conditions in the country, which have affected the performance of some of its investments and its ability to optimize its liquidation strategy.

The investment strategy outlined by the WNISEF's first President was to use capital and technical assistance to make portfolio companies commercially viable. The Fund articulated the five services it would provide to portfolio companies: capital, advisory services (knowhow and training), information systems, corporate governance, and recruiting. In the first years of the implementation of the technical assistance program, the Fund provided trainings, consulting and other services to portfolio companies at no cost. These services are described in detail in the SARs provided by the Fund to USAID. According to WNISEF reports, the Fund developed and provided business training programs for more than 1,000 representatives of portfolio companies and their distributors, and introduced U.S. and international best practices in corporate governance, quality control, financial management, utilization of management information systems, general management, business development, and sales and marketing within portfolio companies. Previously aggregated USAID statistics show that WNISEF had the third largest technical assistance grant program, after the Russian and Polish Funds.

The Fund sought opportunities to make investments and provide assistance that could have demonstration or other systemic effects in support of economic reform. Despite the numerous challenges, one notable success in this context is the fact that the Fund has reportedly "unlocked $1.4 billion of total capital for Ukrainian and Moldovan companies over 20 years." A breakdown of the major contributions to this leverage is summarized below.

The contributions of WNISEF to financial sector deepening include the establishment of new financial institutions and development of new financial products. Examples include:

- WNISEF's Small Business Loan Fund — the first small loan facility in Ukraine with an investment of $4 million, of which $3.8 million was committed. The facility created the demonstration effect needed by the Ukrainian banking sector to enter this market segment.

- WNISEF established the first specialized residential mortgage bank in Ukraine, International Mortgage Bank (IMB). IMB implemented international standards of underwriting, lending, and transparency and became the first bank to securitize mortgages in Ukraine.
- The Fund initiated the registration of the first non-bank financial institution and paved the way for non-bank financial institutions in terms of licensing, regulatory, and monitoring processes.
- Other financial institutions created or strengthened by the Fund as well as other capital mobilized for them included as of March 2013: Platinum Bank ($361.3 million), ProCredit Bank Ukraine ($140.5 million), ProCredit Bank Moldova ($33.6 million), Agroindbank (MAIB) ($35 Million), and Fincombank ($5 million).
- WNISEF portfolio companies were early leaders in the issuance of corporate bonds, outside of the energy sector in Ukraine.
- WNISEF supported the development of an energy efficiency lending program.

In 2006, three senior WNISEF executives and a Director of the Board became Founding Partners of Horizon Capital, a private equity fund manager that began managing WNISEF's direct investments as well as two funds:

- Emerging Europe Growth Fund I, LP (EEGF I), a $132 million mid-cap fund raised for investments in Ukraine and the region, in which WNISEF is an anchor investor with $25 million and a Limited Partner; and
- Emerging Europe Growth Fund II, LP (EEGF II), a follow-on, $370 million fund with the same investment philosophy as EEGF I. WNISEF was not an investor in EEGF II.

Further, according to WNISEF, a new, third fund, Emerging Europe Growth Fund III (EEGF III) had just had its first closing on June 21, 2017. WNISEF is an anchor Limited Partner in EEGF III.

Through Horizon Capital, WNISEF has attracted over $500 million in additional capital, including from over 40 blue-chip institutional investors from the U.S. and Europe. According to the CEO of Horizon Capital, Ms. Lenna Koszarny, the fund was raising capital for EEGF III at a time when no other funds had been able to raise capital for Ukraine. Over the years, Horizon Capital has attracted commitments from the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the Black Sea Trade and development Bank (BSTDB), the Dutch Entrepreneurial Development Bank (FMO), and others.

Through Horizon Capital, WNISEF has had a demonstration effect, not only based on its track record of attracting additional capital and de-risking investments as an anchor in EEGF I. The corporate governance premium is another value added of the technical assistance interventions and hands-on management of portfolio companies, which makes these firms more attractive to potential investors. WNISEF's investments in the Moldovan financial services sector, FinCom Bank and ProCredit Bank Moldova, withstood the recent $1 billion-dollar banking scandal in the country.

In the area of regulatory reform and business enabling environment, WNISEF's contributions span a broad range of legislative and institution building activities:

- WNISEF co-funded the Ukrainian Mortgage Finance Association in 2004 and facilitated new legislation, regulations, and the creation of a mortgage-friendly legal environment.
- The Fund provided assistance for the development of the President's Foreign Investment Advisory Council, Ukraine's Foreign Investment Promotion Agency, and the Competitiveness Council of Ukraine.
- With the Ukrainian American Chamber of Commerce's Finance and Investment committee, WNISEF developed a position paper on the draft Joint Stock Company Law, which was adopted into the Law on Joint Stock Companies.

WNISEF was deliberate and consistent in its approaches and documented in detail the resources invested in capacity building. As part of its mandate to develop an investment strategy, the WNISEF management team grappled with the concept of the dual objectives and articulated its views on the matter. In the WNISEF Investment Policy & Performance Measures document dated January 1997, the first President and CEO of WNISEF, Scott A. Carlson distinguished between performance measures that aligned the operations of the Fund with its goals and mission, and performance measures that were informative and served more to respond to USAID reporting requests rather than to measure the performance of WNISEF, as the Fund's Board and management saw it. Among the former metrics, Mr. Carlson and the WNISEF Board identified:

a) Overall return of the Fund;
b) Staffing and management: number of host country personnel hired and trained by the Fund; number of portfolio companies per investment officer;
c) Overhead costs: ratio of annual operating costs to authorized capital;
d) Use of technical assistance to portfolio companies to achieve Fund objectives;
e) Leveraging capital: value of additional capital raised and managed by the Fund;
f) Return on capital; and
g) Portfolio company performance indicators: sales growth, profitability, cash flow, cost of capital.

Among the latter, development impact measures, WNISEF management listed:

a) Employment (both total employment supported and new employment created) with some of the above-mentioned caveats;
b) Introduction of new financial instruments and products, with the caveat that this would depend on banking regulations in the country — for example, WNISEF was not able to lend for about a year and a half after it was set up; and
c) Small and medium business development (with a focus on its portfolio companies and not on the sectors at large).

Overall, the WNISEF initial investment policy took the position that "Fund management would not know how to take credit for the policy reforms in Ukraine and avoid the blame for the collapse of the private sector in Belarus," and "As stated in the Grant Agreement and the Fund's mission, the Fund can demonstrate its impact solely through the performance of the portfolio companies. Fund management would know how to presume to point to developments in the private sector unrelated to the portfolio companies." It should be noted that WNISEF's position changed somewhat later on under different management, and the Fund did include in its Semi-Annual Reports (SARs) information on policy and legal environment reforms, impact on financial institutions and lending adopted by them, and economic impact measured by employment creation, tax contributions and other proxy indicators. In fact, WNISEF went beyond any of the development impact measurement efforts committed by the other Enterprise Funds and commissioned two economic impact studies to measure its performance – one in 2002-2005, and a follow-on study in 2015.

Fund Evaluation Question #2

Capacity Building as a Risk Mitigation Strategy

Some Enterprise Funds emphasized the improvement of the capacity of their portfolio companies in the belief that such investments would reduce the investment risk in investees and would make these investees more attractive down the road for other investors. One notable example is the Business optimization program started by WNISEF, which sought to build the capacity of potential portfolio companies up to western standards and ensure in the process that these companies also had 'skin in the game.'

WNISEF Management Development Program

The investment strategy outlined by the WNISEF's first President was to use capital and technical assistance to make companies commercially viable. The investment strategy was growth-oriented, focusing on high-growth sectors and on management's attitude and aptitude and commitment to expand their company from the local market to the nationwide market. The Fund defined its strategy as "Buy and Build," using its initial investment in the portfolio company as a platform for expansion throughout the region. WNISEF also articulated the five services it would provide to portfolio companies: capital, advisory services (knowhow and training), information systems, corporate governance, and recruiting.

WNISEF's leadership adopted a deliberate and strategic approach to investing in small and medium-sized firms, while utilizing effectively the flexibility built into the Grant Agreement to design economic development interventions best suited to mitigate investment risk. This approach that balanced the dual mandate of the Fund is best illustrated by the Management Development Program described in an Interoffice Memorandum by then Chief Investment Officer (CIO) Harold J. Schroeder to the President and CEO of WNISEF, Scott A. Carlson, dated March 9, 1995. The CIO proposed a six-phased approach that would address the general finding that the management of Ukrainian companies in 1994 did not have the competencies to rationalize and optimize the businesses they were in charge of and did not have adequate information and financial management systems that would enable them to do so.

Using a phased approach, WNIESF investment officers would:

- Phase 1: Identify potential investees with perceived advantage in product and management.
- Phase 2: This initial assessment would be validated through a so-called flash audit of the operations performed by IESC experts, while a western accounting firm would examine the financial management and accounting system in place.
- Phase 3: On the basis of this expert assessment, paid for by the Fund, a determination would be made whether the company would be able to handle radical change and investment.
- Phase 4: The Fund would approach the company with a proposal to provide a market-rate interest loan in the range of $200,000-500,000 with a tenor of 36 months (inclusive of one year grace period during the business optimization) to be used to bring back the auditors or Fund staff to install a financial accounting and control system to western standards, use IESC experts for 3-6 months to address identified gaps, advise and train management, and finance small pre-approved capital expenditures to fine tune the business. During this phase, a timeline and benchmarks for capacity building would be developed, and the Fund would continually test the effectiveness of the training.
- Phase 5: This phase would take place after the conclusion of the business optimizations (6-12 months) and would mark the decision agreed between the company management and the Fund whether to proceed with additional investments. The decision would be based on a set of management, operations, and strategic questions used consistently to assess all potential investees.
- Phase 6: This phase would involve the development of the investment agenda for each investee, now optimized and infused with managerial and financial capacity, properly assessed and well-understood, the conversion of the loans made in Phase Four into equity to inject cash into the expansion.

This approach outlined an inexpensive and prudent way to conduct due diligence while leveraging IESC technical expertise and building up managerial, financial and operational capacities in potential investees who had "skin in the game" and incentives to bring their operations to western standards since they had taken out a loan from the Fund. In the optimization process the Fund investment officers and the company managers also got to know one another and determined whether they would be able to work

as partners. The optimization of the business and the adoption of western business practices theoretically improved the likelihood of attracting additional external investment in the company.

The systematic process adopted by the Fund to improve the flow of information and implement a computerized accounting and information system that was compliant with the statutory requirements and Western-standard financial and management reporting included Universal Business Systems (UBS), the Fund's management information system company. UBS was an integral part of the technical assistance provided by the Fund. It carried out the consulting and information systems improvement process in portfolio companies. UBS itself was a start-up WNISEF portfolio company with a $1.75 million commitment. The expectation at its set-up was that all portfolio companies of the Fund would use UBS to install the MIS system and train their people on the system's use. Unfortunately, USB could not become self-sustaining and in 2002, the Fund decided to write off completely its 100 percent preferred and 90 percent common stock worth $1.3 million.

One question worth examining when setting up endeavors such as USB is whether there is a perceived or real conflict of interest for a Fund to require all portfolio companies to pay for the services of a Fund-owned company that did not provide the only solution available on the market. If such a concern is legitimate, what would be some appropriate measure to mitigate the conflict of interest?

In the first years of the implementation of the TA program, the Fund provided trainings, consulting and other services to portfolio companies at no cost. These services are described in detail in the SARs provided by the Fund to USAID. According to WNISEF, it developed and provided business training programs for more than 1,000 representatives of portfolio companies and their distributors in the areas of finance, accounting, marketing, HR management, sales management, public relations, and corporate governance. As the portfolio matured, the responsibility for continued development of capabilities in these areas shifted to the portfolio companies themselves. WNISEF introduced U.S. and international best practices in corporate governance, quality control, fiscal management utilization of management information systems, general management and business development within portfolio companies. It designed a set of comprehensive corporate documents, policies and procedures that utilize a representative Board of Directors.

The technical assistance provided by the Fund to its portfolio companies is arguably one of its most significant value-added activities that improved the competitiveness of its investees and at the same time differentiated the Fund from competing investors. WNISEF has invested more than $13 million in technical assistance, the third largest such technical assistance grant program supported by an Enterprise Fund, after the Russian and Polish Funds. WNISEF created or strengthened a number of financial institutions and mobilized other capital for them. As of March 2013, the list includes: Platinum Bank ($361.3 million), ProCredit Bank Ukraine ($140.5 million), ProCredit Bank Moldova ($33.6 million), Agroindbank (MAIB) ($35 Million), and Fincombank in Moldova ($5 million).

Fund Evaluation Question #3

Initially, WNISEF started out with a larger Board – the earliest list of Board Directors the evaluation team had available was from 1998 when the Board consisted of 12 Directors and the Board Counsel. At one point the Board had 14 or 15 Directors. Over time, the Board decreased in size and in 2016, there were six Directors and the Board Counsel. As of March 2017, the Board expected that there would be five Directors, due to an expected resignation. The Board meets formally in face-to-face meetings at least twice a year, however, investment proposals and other urgent matters would be reviewed as often as monthly.

The Board of Directors approved the bylaws, Statement of Corporate Policies and procedures, Accounting Policies, Principles of Environmental Management, Personnel Policies, Business Plan,

Investment Policy and Procedures, and other guidance documents in 1994 and early 1995. The general policies appear well-articulated and detailed; however, the Conflict of Interest policy required revisions to address new situations and questions. These revisions were introduced through modifications to the Grant Agreement and were relevant and sent not only to WNISEF. The Board started out with three-year term limits and a staggered Board structure. Over the years, term limits were gradually extended and eventually removed.

A core group of the Directors of the Board have been very engaged in the provision of direction of and oversight over Fund activities. Most of the individuals currently on the Board have been involved as Directors of the Board since its inception. The composition of the Board of Directors raises two best practice questions, relevant to this and other Enterprise Funds: the lack of term limits for Board members, and the importance of developing a policy for Board and Leadership succession planning. As mentioned, most of the current Board members have been in these positions since the inception of the Fund in 1994. Although Board members of this and other Funds have offered the argument that keeping well-performing and committed Board members ensures continuity, one also needs to consider burn-out, the consistent ability to dedicate the same level of energy to the Fund in relatively advanced age, the need for different skill sets, especially after the transition from an investment fund to a legacy foundation mode, and in the WNISEF case, the agreement in the Legacy Program proposal to identify potential regional Board members.

The identification and need for vetting and preparation of potential new members of the Boards also highlights the need for proper succession planning. Since 2013, the WNISEF Board has lost three Directors and has added one new Director. The expectation is that one additional Director would retire soon, and there is no plan to replace him with another Director. The Board has discussed the situation over the years. Around 2009, when the Fund was approaching its planned liquidation phase, the Board decided that it did not make sense to recruit for replacements of Directors. Under the circumstances, the decision made sense. However today, and since the approval of the Legacy Programs, WNISEF has not been in liquidation mode. Given the fact that the Fund is no longer in liquidation mode, the fact that the Fund has just invested $30 million in EEGF III and is managing an additional $5 million investment program as well as four Legacy Programs, it seems appropriate and necessary for the Fund's Board to revisit the development of a succession and expansion strategy that considers the types of skill sets needed on the Board and adds members with the required experience. This expectation has been communicated to WNISEF by USAID Washington as part of the modification to the Grant Agreement when the legacy programs were approved, and is considered by USAID a critical priority the WNISEF Board needs to address.

Based on the review of available documentation, including SARs, Board meeting minutes provided by WNISEF, and written communication, the evaluation team has concerns about the WNISEF's Board ability to ensure impartial decision-making. The concerns are based on the following facts:

- The WNISEF Board has shrunk in size over the years, by over 50 percent, as confirmed by WNISEF documents. Given that quorum is defined in the bylaws of the Fund as 1/3 of the Directors, in effect, two Directors present for a vote would fulfil the requirement for a quorum.
- The majority of Board Directors stated interest in becoming LPs in EEGF, the first parallel fund of Horizon Capital, as documented in Board Meeting minutes. The Board meeting minutes documenting the analysis on potential conflict of interests presented by the counsel in a Board meeting in 2006 do not indicate that the counsel considered that there was no conflict of interest for all Board members who declared intent to become LPs in EEGF. The counsel stated that it was not clear if there was going to be a conflict of interest. Thus, although the Board deliberated, the result was inconclusive and it was assumed that Directors would recuse

themselves later on if there was a conflict. The problem with this decision was that all but one Director stated that they intended to become LPs in the EEGF.

- USAID only learned about this stated intent of the majority of Board members to become LPs in EEGF through Board meeting minutes provided in the course of this evaluation. USAID does not know if and which Board Directors are also LPs in EEGF II and/or plan to become LPs in EEGF III.
- As demonstrated by WNISEF, Horizon Capital, Horizon Capital Associates, LLC, and Horizon Capital Advisors, LLC documents, Board meeting minutes, and public documents:
    - One Board Director has documented financial interests in all of the above entities;
    - The same eight people, including the then President of WNISEF, a Board member and executives of WNISEF and Horizon Capital, have been disclosed in the Board Meeting Minutes provided by WNISEF to the evaluation team and in public documents as sharing the carry charged by Horizon Capital as well as being associated with a separate entity, Horizon Capital Advisors, LLC, that charged additional fees to Horizon Capital. The signatory on behalf of Horizon Capital Advisors, LLC for its contract with Horizon Capital is also a senior executive of Horizon Capital. Documentation for all of these instances is part of the USAID files and was also provided to the evaluation team by WNISEF.
- Despite the existence of a conflict of interest policy, Board meeting minutes from 2005 and February 2006 provided by WNISEF to the evaluation team show that a Board Director with stated and documented conflict of interest did not recuse himself from Board deliberations regarding the privatization plan, in which he had a financial interest. This fact is confirmed by WNISEF in writing. This violation of the conflict of interest policy happened in the presence of the WNISEF's legal counsel, who presented an analysis of potential conflicts of interest Board members faced in the privatization process, but never addressed the conflict of the Board Director who did not recuse himself from voting.

Fund Evaluation Question #4

This response also addresses Evaluation Question #3 for the legacy programs in the Foundation section.

As WNISEF still operates as a Fund, USAID Washington has retained greater visibility into the operations of the Fund. A USAID Washington Liaison participates in quarterly reviews and receives the quarterly reports that cover both the implementation of the WNISEF legacy programs as well as the WNISEF and Horizon Capital's investment performance. USAID Washington shares with USAID Ukraine and Moldova notes from these quarterly reviews. As part of the USAID Washington oversight, the USAID Washington Liaison occasionally travels to Ukraine and Moldova. This USAID Senior Advisor/Liaison is well informed about the WNISEF programs and their performance, has access to the executives and Board members of the Fund, and maintains regular contact with a designated point of contact manager in the USAID Ukraine Mission. The USAID Ukraine Field/Mission Liaison Officer maintains contact with the WNISEF managers in charge of the legacy programs. Other than the designated USAID Ukraine Field/Mission Liaison Officer, interviews with USAID Ukraine and USAID Moldova staff indicated limited knowledge of the WNISEF programs. USAID does not receive copies of WNISEF Board meeting minutes. Such documentation was requested as part of the evaluation, and was partially provided by WNISEF.

There is little engagement between WNISEF and USAID Moldova at present. USAID Moldova staff reported having traveled to Ukraine to meet with WNISEF leadership to discuss the Fund's plans for legacy program support for Moldova. A USAID Moldova officer knowledgeable of the Fund and its portfolio shared USAID Moldova's so-far unsuccessful attempts to ensure greater focus of the legacy

programs in Moldova. The general impression of the USAID Moldova staff was that WNISEF's primary focus was on Ukraine. Although the legacy programs are still gearing up, they have been functional for over two years, and USAID Moldova expects that Moldova will benefit from more than one small grant, as of March 2017, which USAID Moldova considers symbolic. WNISEF staff commented prior to the team's trip to Moldova that they had been unable to find scholarship candidates from Moldova and attributed this to the residency requirement of the scholarship program, which the evaluation team accepts as an explanation.

Legacy Programs

(Modified) Foundation Evaluation Question #1: To what extent do Legacy programs' strategic priorities, grant- making practices, and other activities adhere to their mandate to "promote private sector development and policies and practices conducive thereto" in host countries, as specified in their original Enterprise Fund Grant Agreement and Legacy Programs proposals as approved by USAID? If and when Legacy Programs have pivoted strategic direction and shifted programmatic focus, what linkages (if any) did those deviations have on evolving private sector development needs in the country of operation? For those programs focused primarily/exclusively on education activities, how closely have foundation- supported scholarships, internships, fellowships, and exchanges been aligned to private sector workforce needs in their home countries?

In January 2015, USAID approved the Fund's proposal to continue the mission of the FREEDOM Support Act of 1992 and the Foreign Assistance Act of 1961, through the existing WNISEF structure, and apply $30 million of investment proceeds earned to fund philanthropic programs in Ukraine and Moldova aligned with private sector development objectives. All of WNISEF's programs are grant-based with the exception of the impact investing program, which is providing loans at low interest rates (current market rates in Ukraine is 12 percent for individual loans, and 25 percent for corporate loans).

WNISEF supports three grants programs focused on local economic development, export promotion, and economic leadership, and an impact investing program. Since all programs began operations in 2015 and disbursements were lower than projected in the first year, it is too early to comment on the impact of the legacy programs.

Programs and priorities

Local Economic Development

The program targets support for practices and mechanisms to raise efficiencies and address corruption in the local economic environment, with projects including the School of Mayors (further detail below), a Start-up Ecosystem (an incubator supported by USAID), e-public procurement (further detail below), an Open Data Incubator, and Hub schools, the latter involving school reconstruction and upgrades, with science laboratories and teacher training.

Impact Investment

The program provides a low-interest mechanism to promote social entrepreneurship in cooperation with CredoBank and OchadBank. A dedicated Credit Committee decides on loan applications, with an overall objective of attracting over 150 social enterprises into the program. There is ongoing cooperation with other organizations supporting social entrepreneurship.

Export Promotion Ukraine and Moldova

Taking advantage of free trade agreements with the EU, the program targets SMEs and supports adjustments to new trade patterns, working with the government and private sector associations, and supporting development of a national export strategy. The project involves ongoing cooperation with

the International Trade Center, identifying competitiveness constraints, and is supporting capacity development at the Ministry of Economic Development (further details below).

Economic Leadership Program

The program is investing in groundbreaking work in developing IT schools, supporting young Ukrainian students in the U.S., a Ukrainian Leadership Academy (at which high-performing students spend a gap year), and work with SOEs.

Selected examples of programs / projects:

ProZorro is a "flagship" program within WNISEF's Economic Development Program. ProZorro, is an e-procurement system tackling corruption in public procurement, developed by activists in the Revolution of Dignity. The system is anonymous to avoid collusion or deal-making, and is hosted on Amazon. The system was developed with business contributions and much larger WNISEF assistance (almost $500,000) as well as donor support from USAID and GIZ, among others. Additionally, WNISEF funded ProZorro's $175,000 expansion into Direct Sales, creating an online auction platform for the sales of state deposit guaranty assets, further eliminating possibilities for corruption and maximizing the state's return for assets. Overall, WNISEF has granted $675,000 to ProZorro programs.

A new law was passed with support from the IMF requiring the system to be used for all public procurements. There is already evidence, as reported by ProZorro staff, that the system has reduced the hurdles for smaller firms to access public procurement opportunities, and has begun to reduce economic loss to corruption. The project, hosted by Transparency International, has a dedicated Steering Committee, including the Ministry of Economy, GIZ and other donors, with funding allocated to capacity building for users and administrators. The platform has been adapted and replicated in Moldova as well in 2017. The project has received two major awards, one of which is the International Public Procurement Award (London, 2016). The ProZorro team indicated that the project has resulted in $17 billion saved by the Government of Ukraine through reduction of corruption practices. The ProZorro team expects that the system will be sustainable from mid-2017 on the basis of modest fees charged to users.

WNISEF considers its flagship legacy program the five campuses of the **Ukrainian Leadership Academy** (ULA), whose campus in Kyiv the evaluation team visited. The ULA, a pioneering educational program for recent high-school graduates, trains the next generation of Ukraine's leaders by focusing on intellectual development, local history, civic responsibility, physical development, and self-awareness. Since the ULA's inception two years ago, 235 students have completed this ten-month program and entered for further studies in a wide range of disciplines at Ukraine's premier universities and technical schools. WNISEF considers its investment in these young people the true legacy of the program. To assure the ULA legacy is sustained, WNISEF has created a new NGO to raise independent funding for support of ULA in the long term. Given WNISEF's ambition to further expand the number of ULA campuses across the country and the short span of the legacy program, the development and execution of a successful fundraising campaign is of paramount importance in the next several years. This project is similar to the larger ticket items financed by the America for Bulgaria Foundation focusing on education and healthcare. They also provoked the same questions about sustainability in the debriefing session with USAID Ukraine. It should be noted that the evaluation team was very impressed by the young people at the Kyiv campus.

SEED Grant Scholarships: WNISEF's original legacy program proposal focused on a scholarship program providing support to students admitted to the top 50 American Universities. The Fund implements this program as one of its four legacy programs and has so far awarded 34 full (usually two-year) scholarships. Students are required to return and work for three years in their respective country

upon graduation. Of the 34 scholarships, 26 were for MBAs; five were for MPAs; and three were for LLMs.

School of Mayors: The project, whose objective is knowledge sharing among mayors, selected eleven teams with models of different aspects of governance, such as budget processes, committees, and partnership with CSOs. Activities organized to-date include: a study tour to Poland and another event held in Ukraine with the involvement of the Prime Minister and 250 participants. The project prioritizes attraction of investments and has produced promotional videos and an interactive map to present investment possibilities. Project activities support bottom-up self-governance, promotion of international sister-cities and overall cross-fertilization of knowledge and experiences. The project is also developing synergies with other programs as well as cooperation with Ukraine's Investment Promotion Office. A School of Mayors Alumni Association has been created to assess adopted strategies and generate feedback data.

Foundation Evaluation Question #2

Governing and Staffing Structures

Jaroslawa Johnson has been a member of WNISEF's Board of Directors for over twenty years, and was appointed to the position by President Clinton. While on the Board, she served as a member of the Investment Committee. In December 2014, the Chairman asked Ms. Johnson to replace Natalie Jaresko, who was appointed Minister of Finance, as President and CEO.

WNISEF's Board still comprises U.S. nationals only, having over time varied in size from 6-12 members, with a core of 6-7 typically more engaged. The Board expected its membership to drop to 5-6 this year. This core comprises Dennis Johnson (background in agri-financing), Jeffrey Neil (CEO, Merrill Lynch International), Whitney McMillan (ex-Cargill), with other members including a former Chairman of the Chicago Board of Trade, and a President of AT Kearney. These are high profile people representing a wide range of expertise. Scott Carlsson was WNISEF's first Managing Director, succeeded by his deputy, Ms. Jaresko.

WNISEF has an external independent Board of Directors, comprised of leading representatives from the U.S. business community. The Board consists of 6 members. No new Board members have joined within past year. Board members are drawn from a broad spectrum. Board appointments and terms are transparent and appropriate, confirmed by USAID. A USG representative is invited to Board meetings ex officio.

The Board has been cohesive, with political appointees usually leaving after a short while. With the Fund's first investment in 1995-96, the Board displayed a common perception that the agricultural sector would be a good target; however, the investment did not work out. Other investments like a brewery in Moldova worked well — the group learned over time and lobbied for legal and policy reforms to facilitate their investments. Initially, Belarus was a target country; however, WNISEF activities were not welcomed there.

There is a documented organizational chart, reflecting current programs. It is based on well-defined roles and responsibilities of departments, functions, and lines of authority. The organizational structure is updated on a regular basis once any changes in staff occur. Functional responsibilities and lines of authority are clear and appropriate, and staff are consistently involved in decision-making on major issues. Staff feels free to raise challenging issues and initiate discussions with management.

Board members are selected from well-known public figures and approved by the President of the United States. They are highly qualified candidates. To date, no Board member has received training, but training could be made available if needed.

Board committees are comprised of independent directors. The Board had Investment, Audit, Nominating and Corporate Governance Committees, which reviewed pertinent issues and presented their recommendations to the full Board for discussion and voting. Currently, the Board functions as a committee of the whole on all decisions. Out of the six Board members, five are members and receive no compensation. Board member Jaroslawa Johnson is also the President and CEO of WNISEF.

The annual meeting is held during the Board's annual visit to Ukraine, generally occurring in the fall of each year. There is usually also a meeting held in the spring in the U.S., as well as several telephonic Board meetings throughout the year. Special meetings of the Members may be called by the Chairman at the request of directors constituting a majority of the entire Board or at the request of management.

Strategic Planning and Management

The Board executes its duty in setting management roles, namely: The Board elects officers; approves the list of granted authorities and directs actions to be undertaken; and executes oversight. The Board fully executes its duty in leveraging resources, namely the Board reviews proposed investments and legacy programs and approve those that it believes will deliver high level of return and value for money, and ensures that the Fund's resources are maintained in trustworthy banks. Also, the Board reviews the annual budget and three-years forecast, discusses each part of it with management, makes recommendations and approves. The Board regularly reviews budget versus actual reports that are included in quarterly reporting.

Board members regularly review financial and non-financial reports on programs and approve significant new projects after discussion. All relevant information and decisions are recorded in Board minutes. The Board oversees risk management policy as well as the internal control system. Board members actively participate, attend board meetings, oversee management, and in general devote sufficient time to the Fund's operations and obtain all the necessary information to form an objective and independent judgement.

Every investment is approved by the Board, with half of the profits going to legacy projects, half to investments. The Fund's focus now is IT in Ukraine and Moldova, with both countries handled out of Kiev. Risk issues have been handled, for example, by providing training to companies in areas like IAS (with experts provided by the International Executive Service Corps). WNISEF recognized early on that training was necessary for private sector development given the environment, not least because there was no business or entrepreneurship cultural heritage in Ukraine (or Russia) as there was in CEE.

The organization's mission is to transform the lives of ordinary people in Ukraine and Moldova. The organization's vision is to enable citizens and communities to shape a new Ukraine and Moldova. Vision and mission are reviewed during staff orientation. The mission statement directly corresponds to the objective of private sector development and vision and mission statements are considered by staff to be fundamental for WNISEF's priorities and actions.

Grant-Making Practices

WNISEF relies on multiple grant models in initiating funding. Each proposal that WNISEF receives is assessed on a case by case basis. Upon passing all basic requirements for support, WNISEF then reviews the proposal and characterizes which grant model is best suited for the project at hand according to

needs, ranging from long-term hands on capacity building, to short-term project assistance and small grants.

WNISEF indicates its preference is to implement a partnership-based grant, which leans more towards cooperative projects and includes other donors contributing financing to the project. This means the support brings forth cooperation between different states and organizations in the region, as well as reduces the funding sum for WNISEF. Each Program Manager uses their professional judgement to assess the needs of the project and considers the models implemented appropriate.

WNISEF adheres to formal grant solicitation depending on the program and project. The process is made available publicly through multiple media, ranging from online resources to live events.

WNISEF has Conflict of Interest policies implemented as part of its Employees Handbook. The policies require all officers and employees to take appropriate steps to avoid both actual and apparent conflicts of interest and impropriety, and devote full working time and effort to WNISEF's interests and, therefore, avoid any activity that may distract from or conflict with WNISEF's interests. The policies cover conflict of interest and insider trading.

WNISEF has not experienced any issues in tracking and reporting on cost sharing projects. There is a clear understanding between grantees that a quality report provides them with a better chance for future cooperation and funding.

Monitoring, Evaluation, and Accountability

The Fund's financial statements are audited annually by the external auditor. The External auditor additionally issues a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with government auditing standards.

The Board invites the engagement partner of the external auditor to the Board meetings to review and discuss financial statements, discuss audit findings/recommendations, and make relevant enquiries. The Board approves the audited financial statements. The Chair of the Audit Committee follows up on recommendations and their implementation.

WNISEF reviews the information obtained from monitoring to see if there are patterns or trends that emerge from the process. Project results are stored on the intranet system shared drive, which helps to design subsequent projects in a more efficient manner.

Evaluations link program performance to private sector development. This is assessed by following the impact value chain. The factors that are considered are: input, activity, output, outcome, and impact. Defining the former, input: the investment into the program; activity: actions by WNISEF to solicit requests for proposals; output: the number of people served; outcome: the changes among the grantees/targeted demographic; and impact: the changes in the broader environment/ impact on society due to impact capital.

WNISEF has submitted a proposal to USAID which outlines the Fund's three-year strategic plan. This proposal was approved by USAID in the grant modification as of January 2015, and April 2016.

Annual work plans contain clear and specific goals, activities, timelines and responsibilities, as well as targeted key performance indicators. The work plans are linked to program budgets, and long-term ongoing projects are indicated in the program budget, as well as expected activities, and their timelines.

Annual work plans are used to guide management decisions, operational planning, monitoring and evaluation. The work plans are monitored on a quarterly basis, and used as a reference point throughout the year.

Communications

WNISEF is an active member of the Ukrainian Venture and PE Association (UVCA), established to publicize Ukraine's achievements and opportunities and to support investors, and the U.S.-Ukraine Business Council, which advances U.S. companies' trade and investment interests in Ukraine. WNISEF participates in activities organized by the formal networks, including steering committees, working groups, and networking events.

The key external audiences for WNISEF are government institutions, the business community, international organizations operating in Ukraine and Moldova, NGOs, and society. WNISEF communicates with the audience through communication campaigns, public events, conferences and forums, media and social media channels, as well as through one-on-one meetings, and business correspondence with stakeholders.

External communications messages are shared through media (press releases, press conferences, and events), public conferences and forums, official WNISEF website, and social media (WNISEF Facebook Page, YouTube channel, Twitter). Each type of external communication has its own advantages as it helps to reach different target audiences and to promote the Fund among different groups of stakeholders.

WNISEF has a communication strategy which is regularly revised, and was last updated in December 2016. Pre-testing of external communications and materials is done through strategic and public relations sessions.

Foundation Evaluation Question #3

Please see response under Question 4 in the Enterprise Fund section of this Annex.

Annex N: Baltics

The Baltic region was part of the desk review in the scope of this evaluation. The evaluation team reviewed a limited set of documents from the Baltic American Enterprise Fund and the Legacy Foundation, and conducted interviews with a Senior Executive of the Fund. Interviews with a couple of other stakeholders also included references to the Baltic American Enterprise Fund.

Baltic American Enterprise Fund (BalAEF)

Fund Evaluation Question #1

The Baltic American Enterprise Fund (BalAEF) was established on August 17, 1994. The amount of the approved investment capital in the Grant Agreement was $50 million. The original objective of BalAEF was to encourage the creation and expansion of small and medium-sized enterprises in the three Baltic states of Estonia, Latvia, and Lithuania. This objective was to be accomplished through transactions assisting in the initiation and expansion of a wide array of private enterprises, providing western business knowhow and practices, and showing that private investment can be profitable. Another objective was to promote policy reforms to facilitate private investment.

BalAEF benefitted from the broadly defined objectives and the flexibility of the Grant Agreement as the Fund proceeded to ground proof the assumptions underpinning the objectives in the agreement. To do so, the Fund engaged actively with the other Enterprise Funds, which swapped knowledge and shared experience. The Polish Fund's experience was beneficial as well as the experience of some Funds that had interpreted their objectives as an opportunity to develop a venture capital strategy. In the Baltics context, three small countries with small market capitalization, and no opportunity to monetize a venture capital strategy, a more basic, bread-and-butter lending strategy seemed more appropriate and feasible.

Regional Structure and Operations

BalAEF covered three countries, each with its own business environment and legal system. Therefore, The Fund opened offices in the capitals of the three Baltic countries. Programs were initiated that were common to all three countries, but they had very different experiences in each. During the initial period up to 1997, the three countries had similar success in generating new business loans (20, 38, and 32 business loans in Estonia, Latvia, and Lithuania respectively), but there were only 2 mortgage loans in Estonia, compared with 25 in Latvia, and 87 in Lithuania. There were very few non-performing loans during that period (zero in Estonia, one in Latvia, and two in Lithuania). Fund activity was overwhelmingly in lending: only one equity investment was made during that period (in Estonia).

The Fund did not have a hard line in terms of resource allocations among the three countries. The focus was on well performing programs and not on equal capital allocation. This policy created some incentives for local improvement at the level of the national governments.

The subsidiary entities (AmCredit, Hanseatic Capital) developed their own qualified staff, trained by BalAEF technical assistance resources. To optimize the operations, and given the uneven development of the countries, the Fund switched to a functional focus on the team. Teams with expertise in particular business lines (mortgage, mezzanine) had responsibilities for all three countries. This shift changed the managements structure as well.

The Fund did consider the expectation to produce a demonstration effect and prove that there were investable SMEs in the region; therefore, technical assistance was going to be a part of the strategy as well. Heavy investment in internal staff was also considered key. At the time, credit practices in the banking sector in the region were underdeveloped and lending was very short-term. The Fund's idea

was to start with short-term lending (120 loans were made), recycle the capital, go for the multiplier effect, and at the same time invest in building internal capabilities.

In 1997-2007, BalAEF discontinued its small business lending program and concentrated on two core activities instead: (1) residential mortgage lending, and (2) commercial finance. In mortgage lending, BalAEF was at the forefront of the privatization of the housing sector in the Baltics, attracting other funding sources so that the BalAEF mortgage lending programs mobilized a total of $260 million in external funding, and provided over 19,000 loans to homeowners through 2007. BalAEF established a mortgage lending subsidiary, AmCredit, as a local legal entity to facilitate mortgage lending in each country. The Fund created structured mortgage products with investment rate grading, which it sold successfully on the international market. AmCredit was sold to Allied Irish Bank in 2008 for $ 34.3 million.

Introduction of New Financial Products

Residential Mortgage Program
The Fund identified an early opportunity among entrepreneurs who needed a mortgage loan to bootstrap their ventures. The financing of renovations of flats became the test case for the Fund's strategy. This was a gap in the market where BalAEF determined that the Fund could make a real impact. The handful of banks operating in the market had no interest in structured finance. Thus, the $6 million Residential Mortgage Program was established, aiming to demonstrate the market potential for residential mortgages to local lenders. This program met with ready acceptance in Lithuania and grew rapidly; in Latvia, there were initial problems, which were resolved; while in Estonia, legal and regulatory obstacles hampered its development.

Issuance of Guarantees
In 1997, BalAEF's Board also approved the issuance of guarantees (contingent liabilities), totaling up to 20 percent of BalAEF's obligated capital. This program was to guarantee import letters of credit issued by local Baltic commercial banks, to give local importers access to financing at reasonable cost.

Mezzanine and Equity Investment
The next step in the evolution of the Fund's strategy was to develop **equity-linked loans**, a mezzanine product with an interest rate and profit participation. The Fund focused its efforts in this space, and developed two wholly-owned subsidiaries with 145 employees.

In 2003, BalAEF established Hanseatic Capital, a mezzanine and equity investment company. BalAEF was 100 percent owner of Hanseatic Capital, contributing EUR 7.5 million, and partnered with IFC who also contributed EUR 7.5 million as a subordinated loan. The Fund secured other debt funding from a local bank. By 2007, Hanseatic Capital had made 16 investments, largely in SMEs, totaling EUR 21 million, and had exited 10 of them successfully. Hanseatic Capital's success led to its expansion beyond the Baltics to Poland and Finland. Hanseatic Capital was sold to Arco Capital in 2007 for $24 million.

The Fund established a Strategic Directions program to provide mezzanine products and equity to growing businesses. The Fund also established the Baltic Small Equity Fund (BSEF), jointly with EBRD and SEAF. Because of BSEF's investment restrictions (to below 49 percent of equity), BalAEF aimed to co-invest with BSEF to provide enterprises with additional equity or loans.

BalAEF did keep in mind the dual objectives in the grant agreement. The Fund generated a high volume of loans that were used by people to upgrade their standard of living and greatly increased the value of

their homes. The Fund also brought new capital to the region, which boosted private sector development.

BalAEF was successful in its support for the development and enactment of legislative reforms that had a broader, positive, systemic impact and a multiplication effect, as they improved the enabling environment, encouraged additional capital flows and the uptake of new financial products and services introduced by the Fund. The development of legal structures in the Baltics to support the development of consumer and residential mortgage industry is a good example of BalAEF's influence.

BalAEF made a major and important contribution to the privatization of residential housing — a critical need in the early years following Soviet rule — and in developing mortgage lending in all three countries, overcoming regulatory impediments and advising the local governments on the legal and regulatory reforms needed to encourage mortgage lending. The BalAEF resources dedicated to mortgage lending were multiplied many times over by attracting other financing sources into this market. Later, BalAEF spearheaded the development of secondary market instruments for refinancing mortgage lending in the Baltics.

BalAEF's investment activity ceased in 2008. The Grant Agreement was modified in May 2010 to transfer the endowment to the Baltic American Freedom Foundation (BAFF). BalAEF contributed $37.2 million to the BAFF and returned $25 million to the U.S. Treasury. BalAEF filed for dissolution in 2011.

Fund Evaluation Question #2

Until 1997, BalAEF focused on building staff, providing technical assistance, and building a successful residential mortgage program. After 1997, the Fund shifted its focus on residential mortgage lending and commercial finance; established AmCredit, which it sold in 2008; created and sold internationally investment grade structured mortgage products, established a mezzanine investment company with IFC investment, and a Baltic Small Equity Fund.

BalAEF showed the way in corporate finance with the establishment of Hanseatic Capital and its successful investment program in all three Baltic countries. Hanseatic Capital was the only provider of mezzanine capital in the Baltics, and branched out into financing SMEs and the agricultural sector.

The Fund leveraged the $50 million of the initial grant to $700 million (partly backed by third parties).

Fund Evaluation Question #3

BalAEF had a U.S.-based Board, which was reported to be very effective and was headed by a senior retired U.S. diplomat continuously through 2010. The Directors of the Board were considered high-quality and had diverse and significant private sector experience, as well as Board experience. The first chairman of the Board was on the Boards of six Fortune 500 companies, for example. He was very disciplined and supportive, but held everyone accountable. Board meetings had full attendance, and the Board members spent two weeks each year going to all three countries. The Board had good relationships with embassies and other stakeholders. The Board composition evolved naturally over time as Directors retired. The members are focused on the foundation activities.

According to the interviewed Fund executive, the Board was strong and very involved, unlike some other Enterprise Fund Boards. All Directors had a financial background. During the transition from the Fund to the Foundation, initially all Board Directors remained; however, over time, the Board realized that it needed some new blood and skills, and currently the Board is new. Term limits never became an issue — the selection criteria were age, interest, and skill sets. The Board adopted bylaws and conflict of interest policies, and had good governance. As a result, the BalAEF portfolio was well managed and well-performing.

Fund Evaluation Question #4

The evaluation team had the opportunity to review selected SARs prepared by BalAEF. These reports are detailed and informative. According to the interviewed Fund executive, BalAEF was independently chartered. It did not use USAID as a clearing house. The Fund provided semi-annual reports and annual external audit reports to USAID.

As the Fund ended its operations years ago and the Baltic region was part of the desk review, the evaluation team did not have allocated time to look for additional evidence or correspondence between USG and the Fund to explore deeper the relationship and the visibility USG had years ago into the operations of BalAEF.

Baltic American Freedom Foundation (BAFF)

Foundation Evaluation Question #1

The objectives of the Baltic American Freedom Foundation (BAFF) are to provide support for continued growth of the private sector and civil society — noted as also conducive to a strong private sector — in the Baltic States, along with conditions and an environment supportive of both, and for advancing better relations between the United States and the Baltic States. The legacy proposal envisioned that the Foundation would accomplish these objectives by:

- Making grants and loans to eligible Baltic State or American non-governmental institutions, non-profit community organizations, public and governmental institutions, and individuals in furtherance of its goals;
- Providing training, technical assistance, support for research, and other educational support to include sponsorship of scholarships, fellowships, awards, student loans, and exchange programs within and outside of the Baltic States; and
- Determining other activities by the Board of Directors of the Foundation (the "Foundation Board") that will advance the objectives of the Foundation.

Specifically, the Foundation focused on the implementation of the following programs in furtherance of private sector development in the Baltic States:

- Professional Internship Program (PIP): To target recent college and graduate school graduates in business and economics, as well as engineers (especially in Estonia where this is a strength), and operate with placements, stipends, and support similar to the programs implemented in Hungary by the Hungarian-American Enterprise Scholarship Fund (HAESF).
- Senior Scholars Program: To be modeled after HAESF's similar program, bringing mid-career Baltic professionals of outstanding promise to the U.S. for further "on-the-job" training.
- Graduate Scholarship Program: To provide scholarship funds for graduate school programs as an adjunct to the overall program.
- Other activities in support of private sector development.
- BAFF also offers a Summer Leadership Academy, which strengthens ties between young entrepreneurs from the Baltics and the United States by providing an opportunity for entrepreneurs from the Baltic countries to spend three weeks in the United States immersed in an experiential and innovative curriculum.

BAFF's Semi-Annual Report of February 2013 contains an Executive Summary with a programming update, including enrollment data for the Professional Interns, Graduate Scholars and Research Scholars Programs, brief assessments of current program participants, enrichment trips for program participants to Boston and Philadelphia, recruitment for the Spring 2013 cohort, and updates on the Alumni Association. The summary also contains a brief discussion on residency requirements and new initiatives, including In-Region Marketing Coordinators and a Portland-based Program Coordinator, where the administrator of the program, CIEE, is based. Coverage of the 5th anniversary of the Foundation on its website includes a brochure with brief stories about 22 alumni. This information is too anecdotal to allow any rigorous impact-level analysis.

Council on International Educational Exchange (CIEE)

CIEE was founded in 1947 as a non-profit organization promoting international education and exchange. Operating in over forty countries, CIEE is a provider of U.S. university students' study abroad programs, and enjoys relationships with some 300 universities in an "academic consortium," in which partner institutions certify CIEE programs for accreditation. CIEE is the largest J1 visa sponsor for interns, research scholars, and summer training program participants, and provides pre-departure orientation as part of the program. CIEE also implements a very similar program for the Hungarian American Enterprise Scholarship Fund (HAESF).

Foundation Evaluation Question #2

As the Baltics region was part of the desk review in the scope of the evaluation, the evaluation team did not have the opportunity to apply the organizational assessment methodology to BAFF.

The June 2011 Semi-Annual Review of BAFF contains a Statement of Corporate Policies and Procedures (adopted January 18, 2011), which presents detailed information and guidance on BAFF's Mission, Statement of Duties, Conflicts of Interest, Code of Conduct, Compliance Procedures, Whistleblower Protection Policy, Political Activities, Management, and Expense and Budgetary Controls.

Foundation Evaluation Question #3

The BAFF website provides information about the educational programs supported by the Foundation, awards, and the alumni network of the Foundations, however, it appears that the latest published newsletter is from 2013. There are no other reports or updates. It is not clear how up-to-date USAID's information on the status of BAFF activities is.

Annex O: Central Asia

Central Asia was one of the countries selected for desk review in the scope of this evaluation. The evaluation team reviewed a very limited set of documents from the Central Asian Fund and Legacy Foundation and conducted interviews with a Director of the Central Asian Fund and Foundation and the contractor implementing the scholarship program of the Foundation. Interviews with several other USG officials who worked with the Funds and Foundations at different times also included references to the Central Asian Fund.

Central Asian-American Enterprise Fund (CAAEF)

The analysis provided below is based on a very limited se of documents made available to the evaluation team. These included the Program Description from the Grant Agreement, the revised Loan Manual dated October 2000, the Fund's Investment Guidance and Procedures, the Financial Control Manual, and three SARs dated April 1995, July 1998, and January 2000.

Fund Evaluation Question #1

The Central Asian-American Enterprise Fund (CAAEF) was established on August 12, 1994. The Fund's authorized capital, $150 million, was to be used for investments in Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. CAAEF drew down $106 million of the $150 million authorized for appropriation by the Fund. In addition to a Direct Investment Program, the Fund managed loans to micro-, small- and medium-sized (MSME) businesses. Initially, the Asian Crossroads Loan Company (ACLC), a wholly owned subsidiary of the Fund, administered the loans to MSMEs through participating banks in the region that shared the income with ACLC by sharing the credit risk. In 1999, the Fund took over the loans administered by ACLC. Mercy Corps International (MCI) administered the micro-loan programs under management agreements with the Fund.

The January 2000 SAR provides a quick summary of the Fund Board's interpretation of USAID's guidelines for technical assistance use. The interpretation is defined as "conservative," and states: "The Board has directed the President to disburse Technical Assistance only in those cases where a direct and meaningful impact to a specific Fund investment or potential investment occurs. The Fund does not engage in demonstration projects, impact projects or any other assistance which does not directly and immediately benefit the Fund." As a result, CAAEF spent the least of all EFs on technical assistance, according to one USAID presentation, $.2 million. According to the January 2000 SAR, the total amount for technical assistance from 1998-2000 was $646,246, although this amount appears to include other expenses not related to direct assistance to portfolio companies. Further, the Fund appears to have had limited engagement at the policy level through participation in fora and seminars related to enabling business environment and regulation, providing advice to local governments on laws and regulations to improve the development of a market-based economy, and information dissemination to encourage foreign investors' interest in the region. The Fund did not report results in the Strategic Framework Matrix under the policy reform rubric in the documents the evaluation team saw.

The Fund reported that it had formed one joint Venture with a U.S. firm, Koch Supplies (TsesnaKoch), and about 13 JVs (as of January 2000) with non-U.S. firms. It appears that the majority of these partners provided some form of in-kind payment rather than cash. The evaluation team did not have enough information regarding these deals.

Overall, the Fund was not successful and lost most of its invested funds, returning $5 million to the Treasury and endowing a Legacy Foundation with a total of about $17 million. Therefore, it is hard to argue that CAAEF had a meaningful and sustained financial or development impact. One interviewed USG policy maker expressed the opinion that part of the development impact of CAAEF was that it allowed USG to be present in the region and engage in discussions with the five governments of the

Central Asian Republics about the importance of the transition efforts and reforms. This is probably a stretch, and there are certainly cheaper ways to engage governments in policy discussions. Based on its stated policy of no interest in demonstration and impact projects, negligible investment in technical assistance, which arguably could have been a wise de-risking investment in portfolio companies, and actual lack of impact, CAAEF is at the weak-focus-on-development-impact end of the continuum.

CAAEF's management also determined that projects for demonstration effect and development impact were not of primary concern, while other Funds attempted to find some balance as their strategies evolved over time.

Fund Evaluation Question #2

The Central Asian-American Fund had the smallest technical assistance budget. Compared to the size of the grant, $150 million, the Fund invested minimal amounts in technical assistance — $200,000, according to a USAID presentation. There is no evidence that the Fund developed a rigorous approach to assessing capacity needs in portfolio companies and addressing those needs in a consistent and deliberate manner. The evaluation team was only able to review three years' worth of reports, which indicated that CAAEF established a special Technical Assistance budget for 2000 to allow it to underwrite the costs of recruiting and hiring expat professionals for its portfolio companies. CAAEF expected to recover these costs from the portfolio companies. It is not clear if CAAEF was able to implement this plan. Since the Technical Assistance budget for 2000 was listed as $192,000, it is also not clear where the expense for recruiting and hiring expats was accounted for later. The evaluation team did not see SARs for the subsequent years.

The Fund did not report on any specific efforts to bring additional investment inflows to portfolio companies. In the last three years for which the evaluation team saw reports, 1998-2000, the Fund spent a total of $646,246 on technical assistance, which contradicts the $200,000 reported by USAID, and seems to include expenses for engagement at the policy level as well.

Fund Evaluation Question #3

Given the large losses incurred by the Fund, it was important to see in the limited documentation available to the evaluation team that the Board made attempts to strengthen the Fund's internal operations and investment procedures. It is not clear, however, if enough was done. For example, CAAEF had very high operational costs, which the Board tried to control. Although gross expenses as a percentage of total investments fell from 24.4 percent in FY1998 to 19.9 percent in FY1999, total expenses in 1999 were still over $6.8 million, of which 49.5 percent (or $3.38 million) were personnel expenses, and 27.9 percent (or $1.9 million) were General & Administrative expenses. At the same time, total income as a percentage of total expense in 1999 was only 46.2 percent. Further, in the January 2000 SAR, the Fund reports program development and administration support costs (separate from G&A expenses) of over $9.21 million in 1998, and over $7.66 million in 1999. The SAR does not include an explanation of what these expenses included. These are red flags; however, it is not possible to assess properly the Board's response based on the three SARs that the team has seen.

Fund Evaluation Question #4

The Evaluation team saw one document that indicated direct engagement of senior level USAID officer in the review of the performance of the Fund five years after its inception. The review reflected concerns over the performance of the Fund and also over the deterioration of the economic environment in the region. Possible actions were also discussed to turn around the performance of the Fund. On the basis of only this document, it is not possible for the evaluation team to answer the question definitively.

An extraordinary case of an apparent lapse in USAID oversight is the transitioning of CAAEF and the Central Asian Legacy Foundation from the Europe & Eurasia Bureau to the Asia Bureau. The files had been moved to the Asia Bureau, but for some reason responsibilities for the management of CAAEF, or points of contacts for any queries during the transition and for continuity purposes, had not been clarified. The E&E Bureau struggled to get in touch with a counterpart in the Asia Bureau responsible for Central Asia and knowledgeable about the Enterprise Fund and the Legacy Foundation, and the evaluation team was never able to interview this counterpart. USAID E&E Bureau staff kindly managed to locate some of the old documents and shared the information and local contacts they had with the team.

U.S. Central Asia Foundation (US-CAEF)

Foundation Evaluation Question #1

CAEF has been structured as a Foundation sponsoring educational programs and scholarships through a subcontracting agreement with the American Councils for International Education. The Foundation operates in a spend-down mode. It will accept its last four-year cohort this coming school year. CAEF works with two regional universities. The Board considers this a much more cost-effective approach compared to sending students to the United States. There is one program that is implemented in the United States — a four-month internship program.

Over the years, CAEF has supported business scholarship programs (Enterprise Student Fellowships), business faculty and curriculum development programs (Enterprise Faculty Fellowships) early on, and U.S. business internships (Enterprise Intern Fellowships). The Foundation is also supporting the development of an alumni association.

The Foundation focuses on undergraduate, business-oriented majors. The scholarships, in economics, finance, accounting and business, directly support the private sector objective. The scholarships are need based and merit based. The program actively recruits in the farthest reaches of the five countries. Classes include students from all five countries. Another aspect of the strategy is to facilitate contacts across the countries as a way to reduce over time long-existing regional tensions. The strategy has been successful. The alumni association and various cultural exchange activities help to strengthen personal connections.

To date, The Foundation has funded 326 fellowships and 201 graduates, of whom 90 percent graduate in four years and 67 percent of the students are on Presidents' or Deans' lists. Foreign and local employers in the region are happy to hire the graduates, and all graduates find employment and contribute to the economic development of the region. According to the Foundation, 50 percent of graduates work for international businesses. So far, 96 percent of the graduates have remained in Central Asia, and 22 percent are pursuing post-graduate degrees, while 14 percent are working in start-ups, some of which they founded. Some examples include a woman who started a bakery and employs nine people, and another graduate who started the first 3D printing company in the region. Most of the business competition awards in the region are won by graduates of the program. The above statistics are some of the measures of success the Foundation uses to monitor its work. These statistics are included in the annual reports prepared by the Foundation and published on its website.

Foundation Evaluation Question #2

The Board was very involved in the developments of the legacy proposal, the tender, and selection of the American Councils as the manager of the program, and now in the monitoring of the performance of every student. The Board is in regular communication with the American Councils and the relationship is very good. Each year, one or two Board members travel to CAR for the graduation event. Sometimes, one or two USAID people from the region attend as well. The Board has been very

involved in the selection of the students and in monitoring their progress. The Board receives a grade report for each student every semester. Board members meet with alumni, fellows, and faculty when they travel to the region. They visit the universities in Almaty and Bishkek. In the last two years, Board members have also participated in an alumni awards ceremony.

According to the individuals interviewed, the Board is small, but mature and includes experienced members. Several members have been involved since the beginning of the work of the Foundation and even during the time of the Fund operations, and there have been a few additions over time. The Board has all standard bylaws and COI policies in place.

The contractor publishes quarterly newsletters and annual reports. The evaluation team noted that at the time of the interview with the Board Chairwoman, the latest annual report was not on the website, however the Chairwoman was able to provide it immediately after the interview.

Foundation Evaluation Question #3

The Board members were involved and coordinated with USAID to develop a detailed proposal that focused on a scholarship program. However, Congress took 3 ½ - 4 years from the close of the Fund to approve the Foundation proposal. Currently, the Foundation and the Board engage with stakeholders in the region, including USAID Missions and the U.S. Department of State, however, there is no coordination with the Asia Bureau or USAID Washington.

The American Councils are hoping to find a way to get the program picked up by USG for continuation. One major challenges in CAR is the lack of a culture of philanthropy. The Foundation is focusing on programs in conjunction with Governments and Embassies instead.

Annex P: Czech-Slovak

The Czech Republic and Slovakia were countries selected for desk review in the scope of this evaluation. The evaluation team reviewed a limited set of documents from the Czech-Slovak Fund, the Slovak Fund and the Slovak Legacy Foundation, and conducted an interview with the Chairwoman of the Slovak Foundation. Interviews with several USG officials who worked with the Funds and Foundations at different times also included references to the Czech-Slovak Fund, the Slovak Fund, and the Slovak Foundation.

Czech Slovak-American Enterprise Fund (CSAEF)

Fund Evaluation Question #1

The Czech Slovak-American Enterprise Fund (CSAEF) was established on April 4, 1991 with an approved investment capital of $63.9 million. From the outset, three units were established as investment vehicles: the CSEAF holding company; the Czech-American Enterprise Fund (CEAF) with a local office in Prague; and the Slovak-American Enterprise Fund (SEAF) with a local office in Bratislava. CEAF focused on Czech investments, SEAF focused on Slovak investments, and CSEAF made investments as well. This structure and model was reinforced when the "velvet divorce" split the Czech Republic and Slovakia into two countries in 1993.

An evaluation of Enterprise Funds conducted in 1994 concluded that CSAEF was failing to achieve its dual objectives. Both funds had made a number of direct investments as well as co-investments with EBRD, JAIDO, and others. CSAEF, CAEF, and SAEF invested in 51 small business loans (totaling $4.5 million between 1996-2008), technical assistance, and training programs. However, the Funds invested in high-risk small start-ups and high-risk sectors, and experienced substantial losses.

By 1996, a serious crisis had emerged, with a series of investment losses in both funds, but especially in CEAF. The CSEAF Board and USAID decided to terminate all Fund activity in the Czech Republic and to devote the remaining Fund grant solely to Slovakia. It was also decided to sell the CEAF portfolio at a discount, liquidate the investment portfolios of SEAF, and then rebuild the SEAF investment portfolio in Slovakia. During this troubled period, CSEAF experienced considerable Board and management turnover, both in the local and U.S. membership and staff.

Poor performance and governance issues led to the termination of CAEF and the re-focus on investments only in Slovakia. In 1996, SEAF was the only investment fund present in Bratislava, while various international investment funds (donors and private funds) were operating in Prague. Thus, from a competitive standpoint, it made sense to deploy the CSEAF grant solely in Slovakia.

The focus on riskier bets, relatively small focus on development impact, and the losses incurred did not allow CSAEF, CAEF, and SAEF to produce a sustained development impact. Further, it could be argued that institutions tainted by reputational damage, as in the Czech Republic case, are at a serious disadvantage in efforts to position themselves as agents of change and advocates for best practices in corporate governance, business and financial management.

This Grant Agreement was modified in October 2008 to transfer endowment to the Slovak American Foundation. The CSAEF investment activity ceased in 2008. CSAEF contributed 100 percent of its investment reflows (between $ 8 and $ 12 million) to the Slovak American Foundation. CSAEF filed for dissolution in 2012.

Fund Evaluation Question #2

CSAEF provided considerable technical assistance alongside its investment activity, which promoted Western business practices and knowhow, especially in Slovakia after 1996. At the outset, Slovakia had

no small business loans, so SEAF's small business loan program, provided together with a local bank, provided training and knowhow to both bank staff and small business borrowers, promoted good accounting practices, and advice on managing and growing small businesses. Similar support and knowhow was provided to entrepreneurs seeking equity investments from SEAF.

This Fund's investments, on the other hand, were a net negative, and in the early years even had reputational impacts. This was resolved in 1996 by terminating activity in the Czech Republic and liquidating the Slovak investment, refocusing on rebuilding SEAF in Slovakia, where the overall experience and impact was better (but with many troublesome investments).

Fund Evaluation Question #3

A single Board of directors was responsible for the oversight of both CAEF and SAEF until 1996. CSEAF had Board staffing difficulties and turnover during the period 1992-96, which aggravated the investment challenges in those early years. There were also questions about the quality of some of the Funds' Board members and of the American managers based in the country. This personnel situation was likely a factor in the poor investment performance in the early years. CSEAF was also hampered from an early stage by the split of the Czech and Slovak components of the original country. There was a string of poorly-performing investees, some the result of poor management of the investees, and dishonesty and fraud in a few cases, which led to prolonged subsequent court action.

In 1998, the CSAEF / SAEF Board of Directors decided to convene an Advisory Board to seek assistance in realizing the objectives of the Fund. Among the issues on which SAEF sought advice was the definition and measurement of success, as well as the balance between financial success and development impact. From the paper prepared by the Board for the solicitation for the Advisory Board services, it is clear that the Board struggled to turn around the poorly performing portfolio.

Fund Evaluation Question #4

The evaluation team reviewed SARs, which provided reasonable amount of detail on the portfolio of the Funds. The Funds also used the Strategic Framework Matrix to report on progress. The evaluation team, however, did not have access to any USG correspondence on the problems that plagued the portfolios and the Board of CAEF, SAEH, and CSAEF early on. We cannot comment on how much visibility USAID had before the problems on the Board became highly visible and apparently well-known, as most interviewees cited the Board of the CSAEF as an example of a poorly performing Board.

Slovak-American Foundation (SAF)

Legacy Foundation Evaluation Questions

Foundation Evaluation Question #1

The Slovak Foundation shifted its focus from scholarships to activities supporting entrepreneurship, which were firmly planted in the private sector development realm.

Initially, SAF activities were also developed to support private sector development in Slovakia, but were structured as an educational program providing scholarship and internship opportunities:

- **Professional Intern Program (PIP)**, targeting recent college and graduate school graduates, as well as individuals with up to three years of relevant work experience, in knowledge-based industries, with the goal of addressing the need for practical experience lacking in the existing educational system; and
- **Senior Scholars Program**, focusing on assistance for young faculty who could develop projects with longer-range commercial application, and who showed good potential for

becoming leaders within their institutions. The program would focus on science, information technology and engineering projects, in which technological innovation would serve as a basis for business formation providing an entrepreneurial and development focus.

Both programs were intended to generate an alumni network to facilitate peer-to-peer and mentor-mentee relationships. In addition, SAF was expected to monitor and assess other opportunities to "promote the growth of a vibrant open-market private business sector in Slovakia."

As indicated in a letter dated October 16, 2008, from Ginger Ehn Lew, Chair of the Czech and Slovak American Enterprise Fund to Maureen Dugan, Director of USAID's Office of Economic Growth, regarding the establishment of SAF, the newly-created Foundation intended to retain the services of the Council of International Educational Exchange (CIEE) to implement and administer the PIP and Senior Scholars Program.[50] The program was implemented and it ran until 2014.

At SAF's Board of Directors Meeting on April 25, 2014 in Washington, D.C., the decision was made to terminate the contract with CIEE in light of the fact that "the general nature of the exchanges, when coupled with the growing momentum around entrepreneurship in Slovakia has presented an opportunity to making changes to how SAF funds are expended."[51] The Board meeting minutes suggest that cost - efficiency of the program was a key area of concern.

The Foundation's shift in focus to entrepreneurship was made in light of ongoing relevant developments in Slovakia and SAF's engagement therein, as described in a memorandum, dated September 11, 2014, from Director Mary MacPherson to the SAF Board, namely, ongoing work at the Slovak Ministry of Economy through the Small Business Administration on a "Startup Development Program," which would involve competitors sending startups to incubators / accelerators in Silicon Valley and Boston, with tenders to be issued for Slovak incubator participation. The memo also references ongoing work at the Slovak Ministry of Finance on a program that would focus on the startup ecosystem and related legislation, administrative reforms, and tax and other incentives.

Foundation Evaluation Question #2

SAF's Board showed engagement and readiness to adjust its strategy and programming as indicated above with respect to the CIEE-administered program, which had been deemed in the course of implementation to be cost-ineffective. At one point during the April 2014 Board discussion, which led to termination of the CIEE contract, in response to a suggestion that savings could be achieved by reducing the number of program participants or shortening the length of their stay, Board member Frederick Frank, according to the meeting minutes, commented on the need for visibility of SAF, and that U.S. tax dollars were the basis of the program. This suggests a commitment to fiduciary responsibility as well as an understanding of the need to implement programming with maximum efficiency for the benefit of both the Foundation and its program awardees.

Foundation Evaluation Question #3

Immediately following the strategic decision made by SAF's Board of Directors, at the Board meeting of April 25, 2014, to terminate the contract with CIEE as administrator of the Foundation's PIP and Senior Scholars Program, Steve Eastham, Senior Capital Markets Adviser, USAID, joined the Board for lunch and was briefed on the discussion and the Board's decision to terminate the CIEE contract. Mr. Eastham, according to the minutes, agreed with the decision to make that change, to shift the Foundation's focus to entrepreneurship, to continue to build the Board with Slovak members, and to support a vibrant alumni network in Slovakia. This suggests engagement and communication between SAF and USAID.

[50] The same letter requests consideration that 100 percent of CSAEF funds be transferred to SAF, estimated to be around US$8-12 million, citing the Central Asia Fund model as precedent.
[51] *Source*: Board Meeting Minutes.

Annex Q: Poland

Poland was one of the countries selected for desk review in the scope of this evaluation. The evaluation team reviewed a limited set of documents from the Polish Enterprise Fund and Legacy Foundation and conducted an interview with a Director of the Polish Foundation. Interviews with several other USG officials who worked with the Funds and Foundations at different times also included references to the Polish Fund and Foundation.

Polish-American Enterprise Fund (PAEF)

Fund Evaluation Question #1

The Polish-American Enterprise Fund (PAEF) was established in May 1990 with an investment capital of $240 million. The original objective of PAEF under the Grant Agreement was to encourage the creation and expansion of small and medium-sized enterprises in Poland, through transactions that assisted in the initiation and expansion of a wide array of private enterprises, promotion of Western business knowhow and practices; and to demonstrate that private investment could be undertaken profitably in Poland. Like TUSRIF and WNISEF, PAEF was better than some of the other seven Funds in balancing its dual mandate to deliver financial returns and promote development impact. Although the PAEF SARs do not include Strategic Framework Matrices, the Fund provided in its reports lists of the beneficiaries of technical assistance. These lists did not include budget or impact details.

A Trail Blazer

PAEF established a number of precedents that inspired or were followed by other Enterprise Funds in their selection of operational models, use of technical assistance, and negotiation of compensation plans.

In 1992, PAEF's Board approved an investment strategy based on a structure of parallel investment funds, managed by an investment management company. That same year, PAEF established the investment management company Enterprise Investors LP (EI), which was owned 60 percent by PAEF and 40 percent by EBRD, and was staffed by PAEF investment officers transferred to the new company. PAEF also established the Polish Private Equity Funds (PPEF), capitalizing it with $150 million ($50 million each from PAEF, EBRD, and other investors). In 1996, PAEF and EBRD sold EI to its staff, and established a second investment fund, PPEF II, and capitalized it with $150 million as with PPEF I. These two investment funds were the primary vehicles through which PAEF made its investments in Polish SMEs. Through the two investment funds PPEF I and II, PAEF leveraged $650 million by 1999, when the Fund stopped making investments.

PAEF also established the Polish-American Mortgage Bank (PAMBank), contributing 50 percent of its equity ($6 million from PAEF, together with two local investors, a bank, and a construction company) plus a $4 million, 10-year loan. PAEF's lawyers assisted in rewriting Polish laws to provide a framework for mortgage lending, and PAMBank showed the way for the market to develop such lending.

Another PAEF strategy was to establish specialized investment programs and invest through them in targeted investee categories. Such "core programs" included:

- The Small Business Loan Program, though which PAEF had made more than 8,000 loans and had disbursed more than $355 million through the end of March 1999;
- Fundusz Mikro (a microloan fund), which disbursed more than 22,600 loans worth more than $34 million over the span of its operations;
- The Housing Development Corporation (HCD) and its 50 percent subsidiary, the Polish Real Estate Fund. As of March 1999, HCD had financed 17 projects and 1,061 apartments and homes;

- The Polish-American Community Assistance Fund, making loans to a large number and range of community and civil society organizations pending their receipt of their contributions, thereby permitting them to operate; and
- the Polish-American Micro-Enterprise Flood Fund created by PAEF to assist microenterprises that had suffered from the flood in 1997. All of the allocated $3.5 million were disbursed by Fundusz Mikro in the form of subsidized loans in November and December of 1997. The program provided 981 loans, many of which were the first type of support received by the business owners to re-open their businesses.

Fund Evaluation Question #2

The Polish Fund followed through on its commitment to capacity building and developed strategic approaches to delivering targeted technical assistance. PAEF invested $17.3 million in technical assistance activities and provided relatively detailed reports on these technical assistance efforts. The Fund set up the Enterprise Assistance Corporation that provided tailored organizational support to:

- The Educational Enterprise Foundation, which promoted entrepreneurship and supported a faster transition to a market economy;
- Fundusz Micro — the Fund's small loan program for fledgling businesses unable to access funding from commercial banks;
- The Mass Privatization Program — technical assistance for research of investment opportunities for companies in Poland's Mass Privatization Program;
- Industry consultants; and
- Private banks — on-going technical assistance to the Fund's banking investments, such as the Polish-American Mortgage Bank, First Polish-American Bank in Poland, and Rabo Bank Rolno Przemyslowy.

PAEF's technical assistance investment is rivaled only by the capacity building funding provided by TUSRIF.

Similar to several other funds, PAEF created success with its external capitalization strategy and attracted additional capital to investment vehicles and portfolio companies. PAEF attracted $100 million in debt and co-investments by third parties in PAEF companies.

Like the other Enterprise Funds, PAEF did not collect the type of monitoring and evaluation data that would allow attributions of improved managerial practices and other business-related outcomes to the technical assistance provided by PAEF. There was no USAID requirement for PAEF and the other Funds to collect such detailed information. The initial USAID plan was to commission mid-term and end of project evaluations for all Funds. Unfortunately, this did not happen for most Funds. PAEF, however, was evaluated by GAO in 1999. The focus of the evaluation was not an impact assessment; rather, the appropriateness and consistency with the SEED Act of changes in the structure of the Fund, its privatization approach, and compensation plan.

Fund Evaluation Question #3

From its inception, PAEF has had a strong and dedicated Board of Directors. The Directors were highly respected business and political leaders with deep knowledge of the Polish context. The Board was effective in its strategic and operational planning, policy development, oversight, and stakeholder relationship management roles.

The Board decided in 1992 to manage its investments locally through a combination of a PAEF office, and the establishment (with EBRD) of an investment management company to which it transferred some of its personnel, and which would manage the investment portfolios of the two investment funds (PPEF), in which PEAF was one but not the only investor. In 1996, the shares of the investment management company were sold to its local personnel. This governance structure was intended to replicate the structures and incentives in the private equity business.

The changes in the PAEF structure and compensation apparently prompted questions within USG, and the GAO conducted an evaluation in 1999 to determine if the changes were consistent with the SEED Act. The GAO confirmed that the model and compensation terms were compliant with the SEED Act, arguably a relatively low bar, as the SEED Act does not prescribe any model or compensation structure. Nevertheless, the strong Board did fulfil its role well, and did act as a first line of defense to ensure that decisions were made in the best interest of the Fund.

Fund Evaluation Question #4

The evaluation team reviewed very limited documentation, primarily SARs, but no actual correspondence between the Board and USAID, or Board meeting minutes (to know whether USG representatives participated ex-officio). The SARs provided by PAEF contain detailed progress information. Two GAO reports and a DAI evaluation provide additional information and analysis on the Fund's performance. Given the fact that a 1999 GAO report on PAEF was triggered by a USG inquiry, it appears that USG was engaged in the oversight of the Fund and had insight into the evolution of the model of the Fund. USG also acted prudently in seeking GAO's assessment of the changes in the PAEF structure. The strong Board was cited by interviewees as a key success factor on several occasions.

The Compensation Plan

PAEF established the precedent and standards in many aspects of the operations of the Enterprise Fund. Shortly after the establishment of each Enterprise Fund, discussions regarding the compensation of the expat investment managers were prompted by the fact that compensation from USG funds was capped at $150,000 per annum. The Fund managers compared this remuneration with that in the private equity industry and considered it inadequate. Compensation became a recurring theme in the discussions between the Funds and USAID, as indicated in a USAID Issues Memorandum titled "Executive Compensation — Enterprise Funds" dated September 1996, that also mentions that USAID had engaged in 1992 The Hay Group, Personnel Consultants, to survey compensation in the private equity industry in response to a PAEF proposal to establish a private equity fund using a portion of its grant to capitalize the entity. The purpose of the survey was to determine the reasonableness of allowing PAEF employees to participate in the profits of the Fund through carried interest. The recommendation in that Memorandum was to consider amendments to Grant Agreements on a case-by-case basis.

Sharing the Polish Experience in Transformation

The Polish Foundation has also implemented a unique scholarship that allows others to travel to Poland and learn from the Polish experience with economic and democratic transformation and European integration. The PAFF Lane Kirkland Scholarship program has been implemented since 2000. It is targeted at representatives from Eastern Europe, the Caucasus and Central Asia, and offers two-semester complementary studies at Polish universities. The program is currently addressed to candidates from Ukraine, Russia and Belarus, as well as Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, and Kirgizstan. Under individual study programs, the scholarship holders study select aspects of economics and management, public administration and business, law, social and political sciences, journalism, NGO management, and culture management.

Polish American Freedom Foundation (PAFF)

Legacy Foundation Evaluation Questions

Foundation Evaluation Question #1

As set out in the Grant Agreement, the objectives of the Foundation were rooted in the programs created by PAEF. The Foundation's mode of operation is that of a grant-making foundation that also provides scholarships and facilitates the development of partnerships. PAFF was established to exist in perpetuity. The initial Foundation's objectives included:

1. Economic Reform: To support or create economic reform institutes to facilitate, among others, completion of enterprise privatization, banking and financial market and regulatory reform, agricultural and labor relations reform, development of private insurance and pension systems, and redesign of health care.
2. Leadership Development: To foster development of the next generation of leaders in Poland through mentoring programs that focus on business and modern management practices for companies and non-governmental organizations, public Administration, and development of Polish leaders.
3. Civil Society: To support, among others, health care reform, environmental protection, and inter-ethnic cooperation in Poland.
4. Local Government and Business Climate: To promote administrative and governmental practices conducive to the development of the private sector at the local levels.
5. Legal Reform: To consolidate an independent judiciary and rule of law as it affects the private sector through fellowships, seminars, and exchanges among Polish bar associations and local, regional and/or other authorities, and to provide legal assistance for private citizens, and other efforts to provide access to the legal system.

PAFF has refocused its objectives somewhat, but the focus on private sector development remains. The current names of the priority areas are as follows:

1. Initiatives in education
2. Development of local communities
3. Sharing the Polish experience in transformation

Foundation Evaluation Question #2

Poland was part of the desk review in the evaluation scope. Therefore, the evaluation team was unable to administer the organizational assessment. However, the evaluation team interviewed a Director of the Board who shared that the relatively small Board worked very well together and had a very good mix of skill sets, including experience in finance, education, and business. All members had extensive knowledge of Poland, and 50 percent of the Directors were local members from the start. The Board was very engaged, and met twice a year — in NYC and in Warsaw. While in Poland, the Board members also organized and visited events, presentations, and communities and libraries supported by Foundation projects. During the tenure of the interviewed Director, the main concern has been to rejuvenate the Board. The Board analyzed its make-up and identified needs and priorities (age, gender, background). A new Director has been added to the Board.

The role of the Foundation Board is to provide direction and oversight, and to help with the big decisions. The Board reviews periodically progress, and focuses on the effectiveness of the programs.

Regarding composition of PAFF's Board of Directors, the Grant Agreement stipulates the following:

- A Board of Directors consisting of citizens of the United States and Poland;
- Staggered three-year terms for Directors;

- A Board of Directors authorized to invest in public or private United States, Polish, or other financial instruments and securities in a manner consistent with its fiduciary duty and with the Foundation's financial needs to carry out its planned program of activities; and
- A permanent, ex officio, non-voting liaison to the Board, who would be the United States Ambassador to Poland.

The evaluation team also reviewed PAFF's Board Book of May 2004, which included a Review Report prepared by an Ad Hoc Review Committee that worked with an independent consultant to assess PAFF's operation and delivery since inception. The report, based on a review of PAFF's processes and procedures and selected grants, as well as a sampling of staff and program manager interviews and grantee visits, stated that PAFF "compares favorably with the very best foundations, such as Ford, Rockefeller, Mellon and Pew, utilizing many of the 'best practices' in the industry."

Findings of the review include PAFF's development and refinement of a clear mission, with activities targeted appropriately on priority areas in light of Poland's needs. PAFF's well-conceived program strategies are reinforced, according to the report, by an effective grant management structure, strong internal and grant management controls, and effective grantee monitoring systems.

Recommendations focus on lengthening funding cycles from one year to three-to-five years to enable greater flexibility in achieving desired impact; developing the institutional analytical and evaluation capacity to facilitate design of new programs and adjustment of ongoing programs; and strengthening of program staff beyond grant processing and monitoring toward internal evaluation.

The review further assessed PAFF's small grants programs (Act Locally, Leveling the Playing Field / Equal Opportunity and Region in Transition (RITA)) as being largely successful, with the recommendation for future design to better enable evaluations based on precise criteria.

Foundation Evaluation Question #3

The Polish Foundation is one of the two Legacy Foundations (the other being the Hungarian Foundations) that are not required to publish annual reports. Nevertheless, PAFF provides substantive and regular program updates on its website.

The U.S. Ambassador attends Board meetings, hosts a dinner for the Board in Warsaw, and is engaged in an English-speaking program that sometimes includes Embassy staff as lecturers.

The Board is happy to send representatives to USAID conferences and discuss programs with USAID. The Board Directors believe that it is the Board's role to provide oversight of the Foundation.

Annex R: Russia

Russia was one of the countries selected for desk review in the scope of this evaluation. The evaluation team reviewed a limited set of documents from the Enterprise Fund and Legacy Foundation in Russia, and conducted an interview with the Chairman of the Russian Foundation. Interviews with several other USG officials who worked with the Funds and Foundations at different times also included some references to the Russian Fund and Foundation.

The U.S.-Russia Investment Fund (TUSRIF)

Fund Evaluation Question #1

TUSRIF was established in August 1995. The planned life-of-project grant funding was up to $440 million from USAID to TUSRIF, which was inclusive of amounts previously obligated to the Russian-American Enterprise Fund (RAEF) and the Fund for Large Enterprises in Russia (FLER) under separate grant agreements. The Fund was supposed to provide equity, other types of financing, and related technical assistance to medium-to-large enterprises that emerged from the privatization efforts underway in Russia. The funds provided under the grant were part of USG's contribution to the multilateral Special Privatization and restructuring Program agreed upon by the G-7 countries at the Tokyo Summit. By the time of the liquidation of the Fund, USSID had transferred to TURSIF $328.87 million.

TUSRIF adopted a balanced approach in its pursuit of financial returns and development impact. The Fund was deliberate and consistent in its efforts to strengthen the institutions and companies it was investing in, and documented in detail the resources committed to capacity building of portfolio companies, subsidiaries, and financial institutions.

TUSRIF invested through its small business program $55.3 million until 2002 when the program ended. The small business program included four components:

5. Small business lending, administered by DeltaBank, which disbursed $44.28 million to 622 companies, of which 209 were women-owned companies;
6. Microenterprise loans, administered by DeltaBank, which disbursed about $1million to 390 borrowers, of which 115 were women-owned companies;
7. Auto lending, also administered by DeltaBank, which disbursed $9.83 million to 1,371 borrowers, of which 411 were women-owned companies; and
8. Mortgage lending, which disbursed $185,236 to 16 borrowers, of which 8 were women. This program was transferred to DC Mortgage effective January 1, 2001, at a transfer price of slightly over $5 million.

TUSRIF invested successfully in a portfolio of loans and investments and established a number of programs and companies designed to assist the development of a market economy in Russia. The initial USG investment of $328.87 million generated $614.8 million in total investment reflows as of September 30, 2011.

The Fund also invested resources in the establishment and strengthening of a number of financial services institutions through its Bank Partner Program, including in remote regions of Russia, such as the Far East. Over $55.3 million in debt financing to small businesses was provided through the program. Further, the Fund instituted rigorous and comprehensive lending policies, financial models for credit analysis, and best practices for marketing and monitoring loans. As a result, several banking partners began lending to this sector using their own capital, promoting further private sector development. The Bank Partner Program strengthened credit policies and analytical techniques within Russian banks, according to the Fund's reports. As part of this program, TUSRIF created the following institutions:

- Delta Bank was founded by the Fund in 2001 and adopted a consumer finance strategy focusing on consumer loans and credit cards. The bank launched the first revolving credit card in Russia. The bank attracted $40.51 million in other capital and was sold to GE Consumer Finance in 2004 at 4.3 times the book value.
- DeltaCredit Bank pioneered mortgage lending in Russia and was actively involved with the State Duma in enacting legislation to develop the framework for mortgage lending in Russia and foster market growth. The bank also provided assistance in the development of legislation on the securitization of mortgage assets. DeltaCredit Bank attracted $238.02 million in other capital.
- DeltaLeasing, formerly Delta Lease Far East, was a regional version of the original DeltaLeasing. Its customers were primarily in the wood processing, fisheries, and manufacturing sectors. The company mobilized $19 million in other capital.
- Europlan, formerly DeltaLeasing, was a leader in providing long-term equipment leases to small and medium-sized enterprises in Russia. The company supported the development of legislation for small businesses in the leasing sector. Europlan was founded by TUSRIF in 1999 and sold in 2003. The company mobilized $21.21 million in external capital.
- The U.S. Russia Center for Entrepreneurship (CFE) set up in 2002 to train entrepreneurial managers and to promote a culture of entrepreneurship where none existed. CFE's focus was on training and networking. CFE partnered with Entrepreneur of the Year (EY) to launch the EY competition in 2003 and collaborated with the Young Entrepreneurs' Organization to sponsor conferences, panel discussions and networking events that promote the establishment of an entrepreneurial culture in Russia.

In 2004, the Fund established a private management company, Delta Private Equity Partners, LLC (DPEP), to manage the Fund's remaining investments and to raise and manage the private successor fund, Delta Russia Fund, L.P. (DRF). This entity became UFG Investors Limited – Delta Private Equity Partners, LLC (UFG-DPEP). TUSRIF raised DRF, "a semi-private successor fund" with first closing in June 2004 and final closing in May 2005, and a total of $119 million raised.

The only part of the implementation plan that TUSRIF did not pursue was the mandate to set up Joint Ventures with U.S. firms. TUSRIF did not form any Joint Ventures.

Fund Evaluation Question #2

The Grant Agreement of the Russian Enterprise Fund incorporated language encouraging the Fund to:

> *"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 targeted at the development of sound commercial practices and standards in the emerging private sector. It is anticipated that the Fund will attempt to work with these programs to identify appropriate investments and source of capital, and to coordinate the provision of post-privatization assistance."*

The Russian Fund was also expected to prioritize efforts to strengthen corporate governance in its portfolio investments. In the Russian Enterprise Fund case, the Overseas Private Investment Corporation (OPIC) had also reserved a significant portion of its FY 1994 budget for loan guarantees for Fund investments compliant with OPIC criteria, and Eximbank and other United States institutions were available to assist with raising private capital for investment by the Fund, according to the Grant Agreement. The mandate in the Russian Grant Agreement highlights the uniqueness of the Fund's mandate — it could work with medium-to-large enterprises emerging from the privatization process in Russia — and the enormity of the challenge.

TUSRIF followed through on its commitment to capacity building and developed strategic approaches to delivering targeted technical assistance. The Funds provided detailed reports on the technical assistance interventions, which included the actual cost of each activity and detailed narratives.

Summary of TUSRIF's Capacity Building Program (1995-2008)

- Investment: over $34.3 million in technical assistance;
- U.S. Russia Center for Entrepreneurship established 2002 as a continuation of TUSRIF's technical assistance program ($10.62 million invested as of 2008);
- Technical assistance grants to Partner Banks' staff training in credit analysis in support of the Small Business Program;
- More than $4 million for technical assistance to portfolio companies to enhance their commercial viability (management information and financial reporting systems, engagement of MBA Enterprise Corps executives for trainings; marketing, sales and production trainings, intensive business skills training, logistics, entrepreneurship, etc.);
- Over $7.58 million to strengthen financial services entities, some of which were created by the Fund, such as DeltaBank (attracted $40.51 million in other capital and was sold to GE Consumer Finance in 2004 at 4.3 times the book value), DeltaCredit (attracted $238.02 million in other capital) and DeltaLeasing (mobilized $19 million in other capital), and Europlan, a leader in long-term equipment leasing to SMEs (mobilized $21.21 million in external capital);
- $769,000 invested in small businesses, including businesses based in the Far East, a priority area for TUSRIF;
- $62,000 invested in corporate governance-related assistance;
- Direct technical assistance to six portfolio companies through the payment for consulting services worth $188,916; and
- TUSRIF counted as part of its technical assistance, support for the raising of a private fund and for the establishment of the U.S. Russia Investment Fund.

Source: TUSRIF SAR March 2009

Fund Evaluation Question #3

Initially, the Board of TUSRIF included only U.S. citizens with planned inclusion of Russian nationals later on. As with all other EFs, the Board approved the Fund's bylaws, Statement of Corporate Policies and Procedures, Personnel compensation policies, Environmental protection policies and procedures, and a detailed statement of the Objectives of the Fund.

Although the SARs reviewed by the evaluation team did not include Board meeting minutes, and no correspondence between USG and the Board was made accessible to the team, the level of programmatic and financial detail in the SARs indicates that preparation for Board meetings was thorough and the Board was well informed about progress. It is noteworthy that Board members were elected annually every January. This regular review and re-election of Board members sets the TUSRIF Board apart from other Fund Boards, which did not conduct Board self-evaluations or even removed term limits.

Based on several references in the SARs, it appears that the contract with the Fund's manager, UFG-DRF, contained claw back clauses protecting the interests of LPs.

Fund Evaluation Question #4

As the documentation provided to the evaluation team did not contain correspondence or other types of feedback from USAID, it is not possible to answer this question with certainty. The type of

documentation provided to USAID is the same as that provided by other EFs — SARs, annual reports, external auditor reports (which the evaluation team did not see). As in other countries, USAID was not invited to Board meetings. As with all EFs, the USAID staff managing the EF grants were overstretched and did not have sufficient resources to manage and monitor implementation.

Interviews with USG staff indicate that both the Department of State and USAID paid attention to TUSRIF. This is not surprising given the fact that this was the largest EF by the amount of funds distributed by USG and the arrangement that combined a couple of existing grants with the TUSRIF funding.

U.S. Russia Foundation (USRF)

Legacy Foundation Evaluation Questions

Foundation Evaluation Question #1

The U.S. Russia Foundation for Economic Advancement and the Rule of Law (USRF) is the legacy foundation of TUSRIF. TUSRIF earned sufficient capital to create the endowment for USRF with the twin goal of promoting long-term economic development in Russia and strengthening ties between the United States and Russia.[52] USRF was registered as a not-for- profit corporation in the United States in 2008 and in early 2009, USRF was registered in Russia as an affiliate of the U.S. organization.

USRF's mission is to support long-term economic development of Russia's market economy by supporting human and institutional capacity based on three overarching concepts: Enterprise, encompassing entrepreneurship, private property, individual initiative, and related values that encourage commercial achievement; Accountability, covering government's responsibilities to its citizens as well as proper corporate governance and the responsibilities of business to its employees, customers, and shareholders; and Partnership, based on a co-equal relationship, focusing on common bonds and interests between the United States and Russia.

As set out in the Grant Agreement, USRF's proposed program areas included Law-Based Governance; Business and Civil Society; Transparency and Access to Information; Entrepreneurship and Business Education; Economic Reform; and Commercializing Innovation and Technology Development. Accordingly, from the outset, USRF's specific programming activities included:

- Support for the Center for Entrepreneurship, a TUSRIF grantee, that provides training for Russian entrepreneurs;
- A joint, co-funded program with the Supreme Arbitration Court of Russia that brings together American and Russian judges and court administrators to share information and provide expertise in the areas of judicial ethics and access to courts;
- Co-funding a project led by OPORA, an association of Russian entrepreneurs, that analyzed the barriers to growth of small and medium-sized businesses and formulated a set of recommendations for the Russian government;
- Developing a project with the Russian Ministry of Education and Science aimed at strengthening Russian national research universities in the area of entrepreneurship and the commercialization of research; and
- Funding a project with the Institute of Law and Public Policy and the Russian Constitutional Court, focused on legal education.

[52] As announced by Presidents Bush and Putin at the G-8 Summit of July 15, 2006.

The Russian Foundation faced another unique challenge. As relations between the U.S. and Russia deteriorated, USRF found itself operating in an increasingly difficult environment. USRF (designated an "undesirable organization" by the Russian Government in December 2015) has restructured its organization and programming to continue advancing the core dimensions of its mission under new realities. Implementation of existing grants continued and new grants were awarded, with overall grants in place remaining close to pre-2016 levels. In response to the new legal situation, the USRF moved its headquarters and grants management operations to the United States, closed down its office in Russia, and adjusted its grants administration to comply with the new Russian legal requirements. Concurrently, in discussions with USAID, partners, other foundations, and experts knowledgeable about private sector development, USRF developed a new strategy to promote USRF's core mission by working with organizations in the U.S., Europe, and elsewhere that continue to conduct effective programming with Russian partners. In making these adjustments and revisions, USRF has also undertaken a full review of its management structure and operating procedures with a view to maximizing efficiencies that can reduce overhead costs and institute practices appropriate for the new realities within which USRF now operates.

Foundation Evaluation Question #2

The evaluation team was not able to administer the organizational capacity assessment for USRF.

Foundation Evaluation Question #3

Information provided by USRF indicates that USAID and USG officials attended quite regularly USRF Board meetings over the years. The evaluation team reviewed USRF reports from 2009-2013, which provided detailed programmatic and financial updates and analysis.

Annex S: ABF Statement of Differences

AMERICA FOR
BULGARIA
FOUNDATION

American optimism meets Bulgarian potential

August 15, 2017

Robert R. Camilleri, Ph.D.
Acting Director, Technical Support Office
Europe and Eurasia Bureau (E&E/TSO)
U.S. Agency for International Development
rcamilleri@usaid.gov

RE: STATEMENT OF DIFFERENCES
USAID | Enterprise Funds and Legacy Foundations Evaluation
DevTech Systems, Inc – Final Evaluation Report – Dated August 8, 2017

Dear Dr. Camilleri,

On behalf of the Board of Directors of the America for Bulgaria Foundation (ABF), we are writing to respond with a STATEMENT OF DIFFERENCES to the USAID | Enterprise Funds and Legacy Foundations Evaluation, submitted August 8, 2017. As was stated in our July 7, 2017 response to the Second Draft, we take exception to several statements appearing in Section 6.1.2, which are repeated throughout the report.

We are disappointed by many of the statements that seem intended to diminish the good work and legacy of the Bulgarian American Enterprise Fund (BAEF) and the America for Bulgaria Foundation (ABF). Since the Final Evaluation Report will be published in a public forum, we feel obligated to the directors, management, staff, and partners over the more than 25 years of our joint efforts to set the record straight. Indeed, the visionary authors of the Support for East European Democracy (SEED) Act should look with pride on the manner in which BAEF and its legacy foundation ABF have implemented this vision. BAEF had, and ABF continues to have, transformational impact on the Bulgarian economy and on Bulgaria's people.

In our July 7, 2017 response to the draft report, we took the evaluation to task, line-by-line, either correcting misstatements or challenging the assumptions of the evaluators and/or USAID. Some of our responses were taken into account, and for that, we are grateful. However, in too many cases, the evaluation team and/or USAID, chose to ignore or reject our corrections by restating the same arguments that we disproved in our earlier correspondence.

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AMERICA FOR BULGARIA FOUNDATION

It is unfortunate and disappointing to once again take significant time to respond to the report, as the DevTech Systems evaluation team (presumably the same team authoring this report), provided overwhelmingly positive opinions during exit interviews held in Bulgaria on February 24, 2017 – after spending ten full days meeting with seventy (70) individuals knowledgeable about BAEF and ABF. These in-person positive reports were communicated to ABF management and, at a separate meeting, to a senior U.S. Embassy representative. We are at a loss to comprehend what transpired between the date of the exit interviews and this report to so negatively impact their clearly favorable views.

Instead of reiterating our "statement of differences" line by line, we will respond with statements of fact as the report's repeated criticism that BAEF did not have a development impact is seriously wide of the mark. To correct the record, below are a small selection of the BAEF's many accomplishments:

1) Beginning with $55 million in late 1991, BAEF spurred economic activity through loans to more than 3,000 micro, small, and medium-sized businesses throughout Bulgaria, in addition to equity investments in several key-growth businesses;

2) BAEF helped author the mortgage bond legislation in Bulgaria, created the country's first home mortgage loan program, issued the country's first mortgage bonds, and the first special purpose investment vehicles…all of which continue to positively impact Bulgaria's economy;

3) BAEF was one of the founders of the American Chamber of Commerce in Bulgaria;

4) BAEF created the Bulgarian American Credit Bank (BACB) which quickly grew into the most successful, award-winning bank in the region based on ROE and ROI;

5) BAEF engineered a western-style, underwritten initial public offering in Bulgaria, selling BACB shares to domestic and international investors;

6) In 2008, BAEF sold most of its remaining interest in BACB for 5.4 times net book value and 16 times net earnings;

7) As a result of its success, in adherence to the Grant Agreement, BAEF returned 50 percent of its original grant – $27.5 million – to the U.S. government. We understand that this has happened only once before in U.S. history;

8) BAEF was the most successful of the ten Enterprise Funds with an 800 percent return, totaling more than $450 million;

AMERICA FOR BULGARIA FOUNDATION

9) Of the $1.3 billion endowed by the Enterprise Funds to the legacy institutions, BAEF is responsible for nearly 35 percent of the total though it accounted for less than 5 percent of the funds initially obligated to the ten Enterprise Funds.

All Enterprise Funds relied on the uniquely American tradition of volunteerism and service to others. The BAEF's directors – all successful in their chosen careers – were unpaid volunteers, providing thousands of hours of valuable time over nearly twenty years. The report's assertion that BAEF's successful business strategy relied on real estate speculation is an affront to their service, their vision, and the facts.

Now, we turn to the report's criticisms of the America for Bulgaria Foundation (ABF), the legacy foundation endowed by BAEF with $420 million of its investment returns.

1) The report overstates ABF's obligation to fund only projects that support private sector development as USAID defines it; further, USAID has not defined it. In addition, that conclusion is, at once, both misleading and too simplistic. The document governing such obligation is the Grant Agreement between the BAEF and the ABF, reviewed and approved by USAID and its legal counsel prior to signing. The report gives the role of the Board, as a fiduciary under Delaware law, no regard;

2) The assertion that ABF lacks *a "coherent strategy that explains how priority areas contribute to private sector development"* has been repeatedly challenged by documents submitted by ABF to USAID. ABF board and management take seriously their strategic mission and have provided supporting documentation of how each of the six areas of interest contribute to private sector development. This has been presented repeatedly, beginning in 2010, to senior representatives at the U.S. State Department and USAID during regular, semi-annual reviews of ABF;

3) ABF strongly objects to the evaluator's assertion that ABF acts outside of its grant agreement. We simply can't fathom the reason for the evaluator's leap in logic to suggest an individual grant is *"... an acknowledgement that ABF recognizes that not all its grants support private sector development, and that ABF's Board does not feel bound to support private sector development objectives, believing that the Foundation is free to pursue activities that are 'unassailable ethical priorities.'"* In our earlier response, we requested attribution of this phrase. Our request was ignored and the quote remains and is repeatedly invoked without attribution. We firmly reject this statement in its entirety. It is false and incendiary; (Pages 73, 219)

AMERICA FOR BULGARIA FOUNDATION

4) USAID states that "they had not been able to communicate their concerns to ABF in writing afterwards (but have communicated them verbally) due to the inability to reach agreement and formulate one USG position on the situation with ABF." (Pages xvii, 61, 70, 71, 216, and 223). The USG has monitored ABF's implementation of its strategy since 2009 – more than eight years – and still, the various constituencies within the USG cannot come to a consensus. It is noteworthy to highlight several statements from the report:

- "…views expressed by the Ambassadors and staff in Albania, Romania, and Bulgaria were universally positive." (Page xix)
- "The evaluation team met with U.S. Ambassadors and their staff in Albania, Romania, and Bulgaria. In all three countries, Ambassadors had favorable opinions of the work of the Foundations and demonstrated knowledge of priorities and some key successes." (Page 100)
- "The Bulgarian, Albanian, and Polish Foundations also enjoy a good relationship with and support from the U.S. Embassies." (Page xix)
- "The U.S. Embassy is highly complementary of ABF's work." (Page 224)

The ABF board and leadership take seriously its adherence to the Grant Agreement and accept this responsibility as stewards of the SEED Act legacy. ABF is proud to represent the support and friendship of the American people to the citizens of Bulgaria. We will continue to prudently invest ABF's resources to the betterment of Bulgaria through the growth and development of its private sector.

Very truly yours,

Lynn M. Daft
Chairman

Nancy L. Schiller
President & CEO

cc: Ambassador Eric S. Rubin
Ms. Margot B. Ellis, USAID

Annex T: WNISEF Statement of Differences

Western NIS Enterprise Fund

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August 15, 2017

VIA E-Mail: rcamilleri@usaid.gov

Robert R. Camilleri, Ph.D.
Acting Director, Technical Support Office
Europe and Eurasia Bureau (E&E/TSO)
U.S. Agency for International Development

Dear Mr. Camilleri,

Your letter of August 9, 2017 transmitting "USAID/Enterprise Funds and Legacy Foundations Final Evaluation Report" provides our Fund with an opportunity to submit a Statement of Differences to the Final Report findings.

Attached is the text of the WNISEF Statement of Differences for inclusion in the Final Report Annex.

Sincerely,

Dennis A. Johnson
Chairman

cc: David Cowles
Jeffrey C. Neal
Patrick H. Arbor
Ambassador John Herbst
Lenna Koszarny
Jaroslawa Z. Johnson
Andrew T. Karron

WESTERN NIS ENTERPRISE FUND STATEMENT OF DIFFERENCES

The Western NIS Enterprise Fund ("WNISEF") respectfully submits this Statement of Differences with respect to the USAID/Enterprise Fund and Legacy Foundations Evaluation Report submitted on August 8, 2017 ("Report").

WNISEF agrees that evaluation of U.S. government developmental aid programs to determine whether they have achieved their intended objectives is desirable. (Report at viii). Indeed, as the Report notes, to that end WNISEF commissioned economic impact studies of its activities in 2002-2005 and again in 2015. (Id. at xiii). WNISEF also agrees that an objective overall evaluation of the novel enterprise fund development experiment initiated by the U.S. Government after the fall of the Soviet Union to identify "lessons learned" that could be considered in establishing future development programs is desirable and appropriate. (Id. at viii).

Regrettably, the Report does not provide such an objective evaluation. As discussed below, notwithstanding detailed comments and supporting documentation submitted by WNISEF on July 14, 2017 and July 24, 2017, identifying and seeking correction of factual errors, omissions, mischaracterizations, and unfounded speculation in an earlier draft of the Report, certain fundamental flaws of Report remain uncorrected. This is particularly true with respect to the Report's discussion of WNISEF's establishment of a Long-Term Equity Incentive Plan, the spin-off of WNISEF's management team into a new entity in connection with the establishment of Emerging Europe Growth Fund, L.P. in 2006, and WNISEF's development and implementation of its Legacy Program – all of which occurred with extensive U.S. Government oversight and approval. It is also true with respect to the Report's discussion of WNISEF's corporate governance. Thus, although WNISEF appreciates the Report's numerous favorable comments regarding WNISEF's performance[1], we feel compelled to address the remaining flaws in the Report.

Part I of these Differences focuses on specific errors of fact and interpretation in the Report. Part II discusses the significant methodological and procedural flaws that appear to have generated and perpetuated these errors. We believe this second section is necessary both to enable potential readers of the Report to evaluate its reliability and, we hope, to understand its inherent weaknesses and to avoid replication of these flaws in future reports.

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[1] See, e.g., Report at 257("WNISEF has not deviated from the objectives in its Grant Agreement and has sought to balance financial returns and development impact objectives. The Fund has been able to achieve most of the objectives set out in its original grant agreement, while navigating a difficult and prolonged transition period, two revolutions, a military conflict, and unstable economic conditions in the country, which have affected the performance of some of its investments and its ability to optimize its liquidation strategy."). See also id. at xii (WNISEF among enterprise funds that were "deliberate and consistent in their approaches and documented in detail the resources invested"), xiii (WNISEF was only enterprise Fund to do impact studies), xiii (WNISEF's "business optimization program" as a "notable example" of efforts to achieve long-term improved portfolio company capacity to attract investment by bringing their [management] capacity "up to western standards"), 17 (WNISEF's "strong development impact focus"), 25-26 (strong development impact of WNISEF and follow-on private funds sponsored by Horizon Capital), 36 ("WNISEF's leadership adopted a deliberate and strategic approach" including technical assistance and business optimization), 49 (WNISEF Board of Directors "acted very prudently and in the interest of [WNISEF] and [the U.S. Government]" in developing and deploying a joint venture and ownership structure for Ukrainian investments).

I. SIGNIFICANT ERRORS OF FACT AND INTERPRETATION

A. Long Term Equity Incentive Plan

As the Report reflects, WNISEF adopted a Long Term Equity Incentive Plan ("LTEI Plan") after the Polish American Enterprise Fund adopted an LTEI plan that was reviewed and approved by USAID. (Report at 45 (noting "documents indicating extensive USG [overnment] review and deliberation")). The Report also acknowledges that the General Accounting Office reviewed the Polish LTEI plan and concluded in 1999 that it was consistent with the SEED Act. (Id. at 44).[2] The Report is critical of the LTEI Plan, which it asserts could and should have incorporated different terms, including hurdle rates and clawbacks. While the Report directs most of its criticism at USAID for failing to obtain expert legal advice that might have led it to seek modifications of the LTEI Plan terms, the Report also attempts to minimize the significance of the U.S. Government's approval by accepting USAID's explanation that it relied on recommendations by the enterprise funds' boards of directors that the proposed LTEI plan was in the best interest of the fund. (Id. at 44-45). The implication is that WNISEF's Board of Directors (as well as those of other funds) failed to fulfill their fiduciary duty. (Id.)

There is no merit to this criticism. Reasonable people can disagree about the wisdom or necessity of LTEI programs, or about what are appropriate terms for such programs. But any suggestion that the WNISEF Board failed to fulfill its fiduciary duty ignores the relevant facts and governing legal principles. To the contrary: the contemporaneous record reflects that the issues identified by the Report were in fact identified and discussed.

1. The Report omits any discussion of the extensive process of discussion and review of the LTEI, both internally by the Board (including its Investment Committee of seasoned financial executives) and with USAID, as well as with congressional stakeholders. In particular, the WNISEF LTEI plan was based on a Bulgarian Enterprise Fund plan that included terms developed by Rep. Jim Kolbe of Arizona, whose congressional committee was responsible for reviewing and approving any LTEI plan. The discussion and review process is reflected in multiple contemporaneous Board minutes which WNISEF voluntarily provided in its comments to the Report's authors (who had never reviewed Board minutes) noting the flaws in the LTEI discussion.[3]

2. The Report also ignores the thorough process, which is documented in the Board minutes, whereby each portfolio company investment was independently valued by an outside "Big 4" accounting firm. Investments were valued at the *greater* of cost or current market value at the inception of the LTEI. This created a bias in favor of WNISEF (as opposed to its managers) that provided for the highest possible baseline against which any LTEI would be determined.

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[2] The prior draft Report did not address the GAO Report; the discussion in the Report appears to be in response to WNISEF's comments on the draft which noted that omission.

[3] 10/21/02 Board minutes at 4; 2/4/2003 Board minutes at 3; 5/17-20/2003 Board minutes at 13-15; 10/20-21/2003 Board minutes at 12-18; 2/3/2004 Board minutes at 7-8; 10/18-19/2004 Board minutes at 2.

3. The Report's speculation (at 46) that the LTEI might lead managers to ignore poorly-performing investments in favor of "expected winners" ignores the actual history, reflected in WNISEF's Board minutes and investment portfolio review materials that the Report's officers admittedly did not read, which refutes the speculation.

4. The Report acknowledges the point that more restrictive LTEI terms might have caused harm to enterprise funds due to loss of investment professionals with expertise in operating in what the Report acknowledges was a uniquely difficult environment, but then dismisses the risk as "plausible but not really tested." (Report at 52). As WNISEF's experience showed, this was no theoretical risk: during the period the LTEI Plan was under consideration, WNISEF lost some professionals to competitors. Retaining such talent was strongly in WNISEF's interest to maximize the likelihood of realizing successful exits and value from the investment portfolio.

5. More fundamentally, the "not really tested" argument and other criticisms ignore the Business Judgment Rule, the long-established legal principle that directors are entitled to a presumption that they acted in good faith fulfillment of their fiduciary duty.[4] Where as here the record indisputably reflects that the WNISEF Board acted on an informed basis, in the reasonable, good faith belief that their decision was in the best interest of WNISEF, there is no valid legal or logical basis for criticizing its balancing of the competing risks in reaching its decision.

6. The Report confuses issues in linking the LTEI Plan, which was adopted in 2004 after many months of discussion, to the spin-off of WNISEF's management as Horizon Capital and the raising of EEGF in 2006 under the rubric "The Compensation Question." (Report at 43-45). It is true that, as noted, in evaluating the LTEI the Board took into account the potential impact of staff departures on WNISEF's ultimate ability to achieve successful exits from investments and raise a private fund with a strong investment pipeline. But as the calendar shows, these were separate decisions.

B. Horizon Capital and the Emerging Europe Growth Funds

As the Report recognizes (at 26), "[t]hrough Horizon Capital" and the Emerging Europe Growth Funds (EEGF) sponsored by Horizon Capital, "WNISEF has had a demonstration effect." "Through Horizon Capital, WNISEF has attracted over $500 million in additional capital, including from over 40 blue-chip institutional investors from the U.S. and Europe." (Id.) The Report also recognizes that "[t]he corporate governance premium is another value added of the technical assistance" and that "WNISEF's investments in the Moldovan financial services sector . . . withstood the recent $1 billion-dollar banking scandal in the country."[5] (Id.)

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[4] See *Gagliardi v. TriFoods Int'l Inc.*, 683 A.2d 1049, 1052 (Del. Ch. 1996) (setting out rationale for the rule).

[5] The Report's question (at 37) whether WNISEF's use of a portfolio company as the contractor to provide technical MIS and other financial data management training to other portfolio companies potentially involved a conflict of interest is baseless. There is no evidence that the rates charged were not market – or even that there were any viable

In light of these benefits, including substantial investment returns and particularly the "corporate governance premium," it is ironic that the Report asserts "concerns about structural weaknesses that make it difficult for the WNISEF's Board to demonstrate impartial decision-making." (Id. at 50). Once again, these criticisms are based on misunderstanding or mischaracterization of the relevant facts.

1. Board minutes and other documents confirm that the Horizon Capital structure and spinoff, and the terms of agreements between WNISEF and Horizon Capital were rigorously negotiated and reviewed carefully by the Board and also vetted and approved by USAID.[6] In particular, prior to approving the privatization process that led to the creation of Horizon Capital, USAID was provided with the 194-page WNISEF Privatization binder with 14 tabs and all of the relevant documents. The entire process was fully transparent, reflected in detailed minutes to which USAID and the Report's author had access, and has never been questioned in the decade since these transactions occurred.

2. The Report acknowledges that the Board sought and relied upon the advice of experienced corporate counsel in connection with reviewing and approving the transactions, including with respect to addressing appropriately potential conflicts of interest that might be presented. (Report at 50). The Report's criticisms regarding the handling of potential conflict of interest issues are baseless.

a. Investment by certain WNISEF Board members in EEGF.[7]

i. Investment in EEGF I by certain Board members was consistent with the experience of other enterprise funds and was viewed favorably by investors as indicating confidence in the investment team and the region. This helped raise EEGF, which was a goal of WNISEF as approved by USAID.

ii. The Report mischaracterizes the advice of counsel reflected in the contemporaneous February 10, 2006 Board minutes. The minutes reflect that counsel stated that: (i) until the close of EEGF I occurred, no Board member would have an interest in it or any potential financial conflict; (ii) as limited partners in EEGF I alongside limited partner WNISEF, Board member investors would have interests *aligned* with WNISEF's and potentially *adverse* to the Horizon Capital general partner entity; and (iii) in light of those circumstances, precedent involving other enterprise fund board investments in follow-on private funds, and disclosure to USAID, which had not objected to such participation, WNISEF counsel did not believe that the investing Board members had any

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competitors. Use of a company with known competence and reliability made sense. Certainly the arrangement did not harm any stakeholders since it provided for payment *to* a WNISEF-owned portfolio company.

[6] 6/11-14/2005 Board minutes; 11/7-8/2005 Board minutes; 2/10/2006 Board minutes; 2/19/2008 Board minutes.

[7] In response to the Report's observation (at 50) that "USAID does not know if and which Board Directors are also LPs in EEGF II and/or plan to become LPs in EEGF III", we note that, had we been asked, we would have advised them that no Board member is an LP in either entity.

conflict of interest requiring recusal. The Report's assertion (at 50) that the potential conflict of interest question was not resolved is false. The Board received and appropriately relied on its counsel's advice.

b. Board member relationship with Horizon Capital.

The Report misspells WNISEF Board member Jeffrey Neal's name and misidentifies his prior employment.[8] More significantly, its criticism of his voting on WNISEF Board resolutions with regard to management agreements by Horizon Capital Associates, LLC is misplaced. Mr. Neal does not work for Horizon Capital Associates, LLC or provide management services to WNISEF. Nor is he or has he been a beneficiary of any WNISEF LTEI Plan. It appears that this error is based on the Report's author's failure to identify accurately (or inquire as to) the relevant Horizon Capital entities that perform different functions. In any event, the Report does not (nor could it) identify any instance in which Mr. Neal's vote regarding a Horizon Capital entity management contract, or the decision to privatize the WNISEF management team and raise a second, private fund, affected the outcome of the vote. WNISEF's minutes, which have long been available to USAID and the Report's author, are replete with examples of Mr. Neal's recusal when required.

3. Horizon Capital Associates, LLC management contract. The Report correctly notes (at 46) that "the WNISEF contract with Horizon Capital [] follows the standard template of a private equity contract, including a hurdle rate and an extensive list of fees not included in the management fee" and characterizes this as a "positive example" of a management contract. In light of this comment, it is unclear what if any criticism the Report has of the management agreement, which has saved WNISEF money by spreading the cost of investment management infrastructure across multiple entities (WNISEF, EEGF, EEGF II, and EEGF III) on pari passu terms with EEGF, which negotiated favorable terms.

4. Shared services contract. The Report complains cryptically (at 47) that "in the WNISEF case, [a shared services contract was] developed on a set of staffing assumptions that are no longer relevant, yet the fee was never reduced." We do not understand the basis for this comment, particularly as the Legacy program has required an increase in WNISEF staff and operations in the past two years.

[8] Report at 96, 266. Although we noted this error in the prior draft in our July 14 comments, these and similar errors remain in the Report. See, e.g., Report at 28 (misspelling name of Weil Gotshal law firm), 264 (misspelling name of Kredobank). The WNISEF website reflects the accurate spelling of Mr. Neal's name and his professional background. http://wnisef.org/board-of-directors/jeffrey-c-neal/

C. Board Membership

While praising the engagement and activity of the WNISEF Board, the Report also notes the lack of turnover on the Board. We continue to believe the continuity of Board membership has been a strength, particularly in a region that has undergone two revolutions and the great recession starting in 2008. Those events, coupled with WNISEF's entry into wind-down prior to its original 2009 termination date[9] and subsequent uncertainty regarding WNISEF's Legacy operation, which was not approved by the U.S. Government until 2015, frustrated recruitment of qualified Board members. After the U.S. Government extended the Termination Date and approved the Legacy program, WNISEF recruited, obtained Presidential approval of, and elected a new Board member, former Ambassador to Ukraine John Herbst.

D. Legacy

The Legacy discussion is woefully incomplete. WNISEF is proud of the success of ProZorro in combating corruption in public procurement (Report at 78) and of WNISEF's efforts to help the Ukrainian government develop an export promotion strategy (Report Annex C). However, we believe that any fair presentation and evaluation of WNISEF's Legacy operations requires consideration and discussion of other aspects of the Economic Leadership program (including establishment of Ukrainian Leadership Academies and an NGO to help make them self-sustaining; scholarships for promising Ukrainian and Moldovan students to attend leading western business and public administration graduate programs), the Local Economic Development Program, and the Impact Investing Program, all pursuant to the Legacy proposal approved by USAID. A detailed description of these programs is contained in our website, http://wnisef.org/. A list of the 99 projects that are completed or ongoing since the Legacy's inception in 2015 is attached as Exhibit A.[10]

The Report's criticisms of the Legacy Program are not well-founded.

1. The criticism of WNISEF for not having a long term strategy (Report at xix, 80) is incomprehensible when it is undisputed that WNISEF is operating under a three-year Legacy strategic plan which was heavily negotiated with and approved by USAID in the grant modifications of January 2015 and April 2016 (id. at 98). As the Report itself notes (at 135), "it is not clear whether there would be any continuation of these programs or any other type of legacy work two or three years from now. This lack of clarity makes planning very difficult."

2. The criticism that WNISEF makes short-term grants that make it difficult for recipients to make long-term plans or assure sustainability (id. at 135) similarly ignores the short time horizon of the Legacy program. More importantly, the Report ignores WNISEF's deliberate strategy of phasing short term grants to avoid diversion or misuse

[9] The aftermath of the Ukrainian revolution resulted in a change in U.S. government policy in 2014 regarding continued operation of WNISEF. USAID amended WNISEF's Grant Agreement to extend the Termination Commencement Date to December 31, 2022 and the Termination Completion Date to December 31, 2023 and to permit WNISEF to make new investments. U.S. Government approval of the Legacy program in January 2015 provided additional clarity regarding its intended scope and operations.

[10] We previously provided this list to the Report's author.

of funds in an environment that still suffers from endemic corruption. Advancing subsequent tranches of grants only upon project review confirming expected accomplishments is a well-recognized technique for achieving some assurance of effective and appropriate use of funds. Similarly, "pilot" project funding is a well-recognized grant technique, particularly for novel, innovative projects.

3. If the assertion that there is no "monitoring and evaluation strategy" (id. at 81) is meant to imply that monitoring and evaluation do not occur, that certainly is not the case. As reflected in Board minutes and Board books (available to but apparently unreviewed by the Report drafter), Board meetings include extensive review and discussion of ongoing and contemplated Legacy projects, which are developed and supervised by experienced staff recruited for their expertise in the relevant area. Proposed projects are approved only after review and discussion of memoranda and other supporting documentation from management describing the proposed project and goals. That documentation, along with the criteria set forth in the Amended Grant Agreement, provides benchmarks against which to evaluate project performance.

4. As the Report notes (at 134), it is hardly surprising that USAID Ukraine's planned efforts with respect to trade promotion were not credited in written MEDT documents given that they had not yet commenced and aid given to date was direct budget support which USAID does not provide (but which WNISEF was authorized to do). The home page of WNISEF's website prominently displays the USAID logo and acknowledges USAID's support of WNISEF. http://wnisef.org/.

5. The assertion that USAID Ukraine and USAID Moldova staff informed the evaluation team that the Missions had tried to engage WNISEF in USAID activities and had unsuccessfully asked for direct support of USAID Mission initiatives (Report at 134) ignores that, pursuant to the congressional design reflected in the SEED Act and the FREEDOM Support Act of 1992, WNISEF is a separate corporate entity with a Board of Directors that is regulated by USAID headquarters in Washington, D.C. It also ignores WNISEF's funding of SEED grant scholarships for Moldovan students and trade assistance for the Moldovan government. The Moldovan USAID Mission's request for financial assistance for building projects was rejected as too expensive given the limited resources of the Legacy Program.

II. METHODOLOGICAL AND PROCEDURAL FLAWS

The Report's errors of fact, characterization, and analysis are due in substantial part to the defective process by which it was prepared. That process was not reasonably designed to produce a thorough, objective, accurate evaluation.

1. A fundamental flaw in the project design is that it was dictated exclusively by USAID. The enterprise funds were established by Congress as a deliberate departure from the traditional development model pursued by USAID and were intentionally designed to function with a significant degree of independence. See Report at 108 ("current approach whereby the foundations are essentially independent and free of USG / USAID direct influence or control is the appropriate one.") WNISEF has always done

its utmost to work cooperatively with USAID, and believes that the relationship generally has been mutually respectful and productive. But the fact remains that USAID's vantage point inherently is not objective.

2. Soliciting input from the enterprise funds at the outset would have facilitated a design more reasonably calculated to address the issues focused on by the Report, particularly with respect to corporate governance issues. As noted previously, although the Report focuses extensively on alleged corporate governance flaws, prior to preparing its penultimate draft the author had not reviewed such basic corporate governance documents as WNISEF's bylaws, Board minutes or Board Book materials, even though WNISEF management offered to make them available. This would hardly have been a burdensome task: the relevant minutes, which are well-indexed, are less than 15 inches thick and could easily have been reviewed in less than a day. Conducting such a review in the United States prior to the expensive process of conducting 189 interviews over five 10-day long site visits to overseas enterprise fund geographies, including 38 interviews in Ukraine alone, undoubtedly would have made the fact-gathering process more efficient and accurate.[11] Instead, a draft Report was prepared with no reference to these basic corporate documents, and the only review of such documents occurred after WNISEF provided them in support of comments identifying errors in the draft.

3. The Annex to the Report reflects that, although the Report ostensibly was solicited to evaluate the overall experience of all enterprise funds, disproportionate focus was placed on WNISEF and its activities. For example, Annex A contains a contract modification providing that "[a]s previously agreed upon, [contractor] will only submit one case study, for the WNIS Enterprise Fund, as an annex to the Final Report." (Report at 122). No explanation is provided as to how many case studies originally were planned, or why any such studies were abandoned. Nor does the Report (or contract modification) explain why it made sense to have the sole case study focus on WNISEF, which was atypical of enterprise funds in having no independent Legacy program and only recently having received authorization to implement a Legacy program. Focusing on a single element of an atypical Legacy program is, to say the least, a strategy ill-suited to identifying broadly applicable lessons for future program.

4. The disproportionate focus on WNISEF is reflected in the interview data referenced in the Report. They indicate that 8 Ukraine Mission USAID personnel (plus 6 USAID Washington personnel) were interviewed, compared to 2 in Albania, 1 in Moldova, and 0 in Bulgaria, Hungary, and Romania. The Report further indicates in Annex C (at 130) additional debriefings by the Report's author of USAID Ukraine Mission personnel.

5. We have no explanation for the disproportionate focus on WNISEF in the Report. We find it surprising, particularly given the Report's overall recognition that WNISEF has been among the most successful of the enterprise funds in achieving its mission. The discussion in Annex C suggests that the extra scrutiny may have been motivated by

[11] Although the USAID RFP Statement of Work is attached as Annex A to the Report, budgetary and expense information is omitted.

dissatisfaction on the part of certain members of the USAID Ukraine Mission with WNISEF's pursuit of its investment and Legacy programs under the supervision of USAID in Washington, D.C., without ceding control of its Legacy Export Promotion Program to USAID Ukraine. If true, that is quite disturbing. A policy disagreement with the operations of WNISEF as authorized by Congress and USAID in Washington, D.C. is not a proper basis for instigating a process through which taxpayer funds are spent for a longstanding USAID contractor to prepare a report that largely rehashes decade-old policy debates in the guise of an evaluation of corporate governance without review of the relevant governance documents and virtually no documentary citation whatsoever.

6. The defects in the process by which the Report was initially developed have been compounded by a deficient review and comment process. Notwithstanding the more than nine-month gestation of the Report, WNISEF was given a very limited opportunity to review and comment on it.

a. We were given two weeks to comment on an incomplete Second Draft of the Report (not including annexes), and provided comments on July 14. The comments included voluminous documentary appendices supporting our explanation of the errors in the draft Report.

b. The Report's author took a week to prepare a letter responding to our comments, which was sent and received on Friday, July 21. Although it suggested the Report might be modified in response to our comments, no revised draft was provided. We were given until the close of business Monday, July 24, to respond – essentially over the weekend. We complied with this deadline.

c. On the afternoon of August 9, 2017, a copy of the final Report was sent to WNISEF's Chairman. Although the Report was not required to be posted publicly to USAID's website until 90 days after the Report's August 8, 2017 completion date, we were directed to provide any Statement of Differences to the nearly 300-page final Report within 7 days, by no later than August 16, 2017, with such Statement to be no more than 10 pages long. We now have done so.

Dennis A. Johnson
Chairman
Western NIS Enterprise Fund

August 15, 2017

Exhibit A to Western NIS Enterprise Fund
Statement of Differences

WNISEF LEGACY PROGRAM TIMELINE

Legacy Program Approved by USAID on January 1, 2015

#	Program Name	Project/Event	Event Date or Project Commencement Date	Status
	Export Promotion Policy Program			
1	Export Promotion Policy Program	Ukraine Open for U video funded	June 22, 2015	Complete
2	Export Promotion Policy Program	US-Ukraine Business Forum held in Washington, DC	July 13, 2015	Complete
3	Export Promotion Policy Program	Development of National Export Strategy for Ukraine contract signed; project is ongoing	September 7, 2015	Ongoing
4	Export Promotion Policy Program	RITO booth at CIFF 2015 Trade Show	August 05, 2015	Complete
5	Export Promotion Policy Program	Grow Ukraine video funded	August 14, 2015	Complete
6	Export Promotion Policy Program	Experience Ukraine video funded	September 23, 2015	Complete
7	Export Promotion Policy Program	Kazakhstan-Ukraine Business Forum	October 9, 2015	Complete
8	Ex port Promotion Policy Program	Ukrainian Honey Producers Business Development Mission to ANUGA 2015 Trade Show	October 10, 2015	Complete
9	Export Promotion Policy Program	Ukraine is Changing video	October 15, 2015	Complete
10	Export Promotion Policy Program	Germany-Ukraine Business Forum	October 23, 2015	Complete
11	Export Promotion Policy Program	Export Promotion Office established	November 2, 2015	Ongoing
12	Export Promotion Policy Program	Ukraine Pavilion at WTM 2015 Trade Show in London	November 3, 2015	Complete
13	Export Promotion Policy Program	Ukraine pavilion at International fashion Showcase 2016	February 27, 2016	Complete
14	Export Promotion Policy Program	Kerameya Booth at Constructexpo 2016 Trade Show	March 1, 2016	Complete

15	Export Promotion Policy Program	Canada-Ukraine Free Trade Agreement translation	March 2, 2016	Complete
16	Export Promotion Policy Program	Ukraine IT future video funded	March 16, 2016	Complete
17	Export Promotion Policy Program	Moldova Pavilion at China Food & Drinks Fair 2016	March 20, 2016	Complete
18	Export Promotion Policy Program	Ukraine Pavilion at ITB 2016 Trade Show	March 24, 2016	Complete
19	Export Promotion Policy Program	Netherlands-Ukraine Business Forum	March 30, 2016	Complete
20	Export Promotion Policy Program	Free Trade Agreements consulting assistance to MEDT	April 1, 2016	Complete
21	Export Promotion Policy Program	Ukraine Trade Policy Review Networking Reception in WTO	April 21, 2016	Complete
22	Export Promotion Policy Program	Ukraine Pavilion at IMEX 2016 Trade Show	April 30, 2016	Complete
23	Export Promotion Policy Program	Razom IT trip to US	May 20, 2016	Complete
24	Export Promotion Policy Program	UVCA Startup Challenge / SVOD Conference	May 25, 2016	Complete
25	Export Promotion Policy Program	Online Video Course on Exporting to EU development commences	June 1, 2016	Ongoing
26	Export Promotion Policy Program	Canada-Ukraine Business Forum and Made in Ukraine Showcase	June 19, 2016	Complete
27	Export Promotion Policy Program	Canada-Ukraine Chamber of Commerce Reception for Canadian Prime Minister Justin Trudeau during the Canadian delegation's visit to Ukraine	July 11, 2016	Complete
28	Export Promotion Policy Program	Ukraine Trade Mission to Malaysia and Indonesia	August 4, 2016	Complete
29	Export Promotion Policy Program	Support to Infrastructure Sector Reforms	September 15, 2016	Ongoing
30	Export Promotion Policy Program	Healthcare Reform Technical Office established	September 15, 2016	Ongoing
31	Export Promotion Policy Program	UkraineInvest - Investment Promotion Office established	September 15, 2016	Ongoing
32	Export Promotion Policy Program	Ukraine Pavilion at Toronto Ukrainian Festival	September 16, 2016	Complete
33	Export Promotion Policy Program	Public-private partnership management office established	September 29, 2016	Ongoing
34	Export Promotion Policy Program	Ukraine Pavilion at Baltic Fashion and Textile 2016 Trade Show	September 29, 2016	Complete
35	Export Promotion Policy Program	France-Ukraine Business Forum	October 28, 2016	Complete

36	Export Promotion Policy Program	Kodisoft Booth at MAPIC 2016 Trade Show	November 16, 2016	Complete
37	Export Promotion Policy Program	Support to Exporters of Chernihiv region	November 21, 2016	Ongoing
38	Export Promotion Policy Program	Glas Container Prim Booth at Vinitech-Sifel 2016 Trade Show	November 29, 2016	Complete
39	Export Promotion Policy Program	Ukraine Trade Mission to Kenya and Tanzania	December 3, 2016	Complete
40	Export Promotion Policy Program	National Export Promotion Policy Development and Implementation Assistance	December 1, 2016	Ongoing
41	Export Promotion Policy Program	Israel-Ukraine Entrepreneurship Forum	December 14, 2016	Complete
42	Export Promotion Policy Program	Ukraine Pavilion at CES-2017 Trade Show	January 5, 2017	Complete
43	Export Promotion Policy Program	Ukrainian Nights Program at the 2017 World Economic Forum in Davos	January 16, 2017	Complete
44	Export Promotion Policy Program	Strategic Export Plan for Furniture Industry of Ukraine drafting begins (ongoing)	February 6, 2017	Ongoing
45	Export Promotion Policy Program	Ukraine Pavilion at BioFach 2017 Trade Show	February 15, 2017	Complete
46	Export Promotion Policy Program	Ukraine Pavilion at International Fashion Showcase 2017	February 17, 2017	Complete
47	Export Promotion Policy Program	Ukraine Pavilion at Gulfood 2017 Trade Show	February 26, 2017	Complete
48	Export Promotion Policy Program	Ukraine Trade Mission to Israel	March 6, 2017	Complete
49	Export Promotion Policy Program	Ukraine Trade Mission to Sweden	March 20, 2017	Complete
50	Export Promotion Policy Program	Ukraine Pavilion at Annual Investment Meeting 2017 in Dubai	April 3, 2017	Complete
51	Export Promotion Policy Program	Printing the National Reforms Council Report "Reform progress monitoring 2016"	April 13, 2017	Complete
52	Export Promotion Policy Program	Ukraine Trade Mission to Germany	April 24, 2017	Complete
53	Export Promotion Policy Program	Increasing Awareness about Pension Reform in Ukraine	May 12, 2017	Complete
	Local Economic Development Program			
54	Local Economic Development	Reconstruction of Schools in Donbas region	May 1, 2015	Complete
55	Local Economic Development	ProZorro Electronic Public Procurement System initiated	June 18, 2015	Ongoing

56	Local Economic Development	CANactions School of Urban Studies established	September 9, 2015	Ongoing
57	Local Economic Development	Open Court	September 10, 2015	Complete
58	Local Economic Development	1991 Open Data Incubator established	December 28, 2015	Ongoing
59	Local Economic Development	Hub Schools 24 Project commences	March 1, 2016	Ongoing
60	Local Economic Development	Dutch Ukraine–European Union Association Agreement Referendum	April 6, 2016	Complete
61	Local Economic Development	School of Mayors	April 8, 2016	Complete
62	Local Economic Development	Mykolaiv Development Agency established	August 10, 2016	Ongoing
63	Local Economic Development	DREAMactions established	September 27, 2016	Ongoing
64	Local Economic Development	ProZorro.Sales commences	September 28, 2016	Ongoing
65	Local Economic Development	City of Startups (Greencubator) established	November 18, 2016	Ongoing
66	Local Economic Development	First International Mayors Congress	December 5, 2016	Ongoing
67	Local Economic Development	Kyiv External Advertising Geolocation commences	December 19, 2016	Ongoing
68	Local Economic Development	Technovation Challenge initiated	April 13, 2017	Ongoing
69	Local Economic Development	City Development (Lviv Forum)	March 24, 2017	Complete
	Impact Investing Program			
70	Impact Investing Program	Low interest loan for "Horikhovyi Dim" Social bakery, Lviv	July 1, 2016	Ongoing
71	Impact Investing Program	"Social Entrepreneurship in Ukraine" research. Charitable grant for NGO "Socium-XXI"	July 27, 2016	Ongoing
72	Impact Investing Program	"2nd All Ukrainian Forum of Social Entrepreneurs". Grant for NGO "Socium-XXI"	September 23, 2016	Complete
73	Impact Investing Program	Impact Investment Roundtable (Chatham House)	October 25, 2016	Complete
74	Impact Investing Program	Low interest loan for "My Atelier", Dnipro	October 25, 2016	Ongoing
75	Impact Investing Program	Low interest loan for "Sadovod" Collective Enterprise, Cherkasy	November 11, 2016	Ongoing

76	Impact Investing Program	Low interest loan for Kramatorsk UTOS (Ukrainian Partnership of Blind), Donetsk region	February 10, 2017	Ongoing
77	Impact Investing Program	Low interest loan for Dnipro UTOS	March 17, 2017	Ongoing
78	Impact Investing Program	Low interest loan for "Horikhovyi Dim" Social bakery, Lviv	May 31, 2017	Ongoing
79	Impact Investing Program	Low interest loan for "Agrobiznes-KPP" Farm, Luhansk region	June 12, 2017	Ongoing
	Economic Leadership Program			
80	Economic Leadership Program	Entrepreneurial Exchange Program (Thiel Summit)	June 2, 2015	Complete
81	Economic Leadership Program	SEED Grants initiated	June 18, 2015	Ongoing
82	Economic Leadership Program	First Ukrainian Leadership Academy established	August 17, 2015	Ongoing
83	Economic Leadership Program	Nove Pokolinnya (Children Summer Camp)	December 7, 2015	Complete
84	Economic Leadership Program	CEOs Leading Transformation of State-Owned Enterprises	December 7, 2015	Complete
85	Economic Leadership Program	Executive Search for TOP 40 Leading State Owned Enterprises	February 19, 2016	Complete
86	Economic Leadership Program	Harvard Trek Ukraine	May 12, 2016	Complete
87	Economic Leadership Program	Our Kids initiated	June 10, 2016	Complete
88	Economic Leadership Program	School of Educational Innovations (On time)	August 5, 2016	Complete
89	Economic Leadership Program	British Council Communication Training for Servants from Leading NGOs	November 15, 2016	Complete
90	Economic Leadership Program	Leadership Developmnet Program for Servants from Leading NGOs	November 25, 2016	Complete
91	Economic Leadership Program	Stanford Fellowship Program approved	December 1, 2016	Ongoing
92	Economic Leadership Program	Teach For Ukraine	December 9, 2016	Ongoing
93	Economic Leadership Program	Scholarship Program with UCU for ATO veterans	January 23, 2017	Ongoing
94	Economic Leadership Program	Scholarship Program with LvBS "Women in Tech"	January 23, 2017	Complete
95	Economic Leadership Program	Beetroot Academy IT School in Kramatorsk	February 8, 2017	Complete

96	Economic Leadership Program	Brain Basket IT Schools, Technology Nation Kids	March 1, 2017	Ongoing
97	Economic Leadership Program	Building Ukraine Together	April 1, 2017	Ongoing
98	Economic Leadership Program	Youth Entrepreneurship (Moldova Rockit Digital Conference)	May 11, 2017	Complete
99	Economic Leadership Program	Aspire Academy	March 15, 2017	Ongoing

Annex U: Axxess Capital Statement of Differences

axxess capital partners

To: Mr. Robert R. Camilleri, U.S. Agency for International Development
August 16th, 2017

Dear Mr. Camilleri,

Thank you for sharing with us the final report prepared by DevTech on the evaluation of the Enterprise Funds and Legacy Foundations. We have carefully reviewed the document and we would like to reiterate one comment that we have previously also shared with the DevTech representatives:

- the report contains several references to conflicts of interest – please refer to pages 42 and 51. Please note that any and all potential conflicts of interest mentioned in your report were duly disclosed to the Board of Directors of RAEF and submitted for the Board's and USAID's approval. Furthermore, no transaction entailing a potential conflict of interest was carried out without RAEF Board's approval or USAID's consent. Moreover, all agreements concluded between the Fund and the management were drafted by RAEF's legal advisors and approved by the Board of Directors of RAEF and by USAID before being executed and implemented.

  Therefore, we strongly reject any allegation that there ever existed undisclosed conflicts of interest or financial interests of the Fund's management and ask that the necessary changes are made in the final report.

We thank you in advance for taking into consideration the above comments.

Sincerely yours,

Horia Manda
Managing Partner
Axxess Capital Partners SA

33 Aviatorilor Blvd., Bucharest 011853, Romania

Annex V: USAID Response

External Evaluation of the Europe and Eurasia Enterprise Funds and Legacy Foundations
USAID Response

The United States Agency for International Development (USAID) welcomes and appreciates the evaluation's finding that the Enterprise Funds were broadly successful, demonstrating significant development impact while generating positive financial returns and attracting substantial additional capital to their portfolio companies. Meanwhile, the Legacy Foundations have allowed for continued U.S. engagement on important issues in a number of countries long after USAID has exited. USAID views the evaluation findings as invaluable to informing the Agency's understanding and application of the Enterprise Fund model and to help guide and strengthen our ongoing partnerships with Legacy Foundations, which continue to promote private sector development across the region. USAID commissioned this evaluation to obtain the advice and expertise of financial sector and philanthropic experts on the Funds' and Foundations' governance and operations to help USAID, these partners, and the broader development community better understand the nature and potential of these powerful, unconventional models of U.S. foreign assistance.

As noted in the evaluation, the Enterprise Fund model and resulting Legacy Foundations were unique and innovative development tools, designed to address the needs of transition countries in Central and Eastern Europe and the Former Soviet Union. Responding to rapidly evolving local dynamics and needs, each Fund interpreted and addressed its development impact mandate differently, offering a rich, diverse story and learning opportunity for the Agency.

Precisely because of the innovative nature of these tools, USAID had little relevant experience in the oversight of these funds and foundations. In consultation with the U.S. State Department and Congress, USAID developed procedures and practices over time based on the Agency's accumulated experiences in exercising its responsibilities. This learning and adapting process is ongoing, and this evaluation has greatly aided in documenting and informing the process. In fact, the Agency has already taken numerous steps that respond to issues and challenges raised in the evaluation:

Foundation Private Sector Development Mandate. The evaluation found that the definition or interpretation of private sector development varies across Legacy Foundations in terms of the Boards', and by extension senior management's, views on the range of activities that align to the Foundations' mandate. To address any potential divergence of opinion and ensure the appropriateness of Foundations' activities, USAID will provide to Foundations clear guidance on the definition and parameters of private sector development, based on extensive literature and policy guidance issued by leading development agencies worldwide. Copies of the forthcoming

guidance will also be shared with relevant U.S. Embassies and the U.S. State Department's Office of the Coordinator of U.S. Assistance to Europe and Eurasia (EUR-ACE).
In the case of America for Bulgaria Foundation (ABF), the evaluation notes an inability to reach agreement and formulate one unified, consistent U.S. Government (USG) position with respect to ABF's noncompliance with the terms of the Grant Agreement between the Bulgarian American Enterprise Fund and ABF, specifically their failure to adhere to the requirement to support private sector development in Bulgaria. Communication and coordination between USAID, the U.S. Embassy in Sofia, and EUR-ACE is much improved, and as a result, the USG now communicates with ABF with a unified voice. Recent measures taken by ABF, USAID, and USG counterparts to improve communication include:

- An agreement on ABF's part to provide semiannual reports to USAID on its grant-making activities, as well as USAID's written evaluation of these reports, shared with the U.S. Embassy and EUR-ACE,
- ABF's agreement to produce a strategy document describing how targeted investments can advance private sector development in Bulgaria, which will guide future grant making and regular communication with USAID on this topic,
- Regular communication with U.S. Embassy counterparts on progress and issues, preceding the Ambassador's participation as the USG's non-voting liaison to the ABF Board, and
- Submission of ABF Board meeting summaries by the U.S. Embassy to USAID.

Coordination between USAID/Ukraine and WNISEF. The Western NIS Enterprise Fund (WNISEF) is unique not only as the only still-operational Fund in an active USAID partner country, but also because WNISEF is actively engaged in legacy-like activities, several of which overlap with USAID's active program areas. WNISEF's status presents unique coordination issues and important opportunities for collaboration with USAID's activities in Ukraine. While communication between USAID/Ukraine's point of contact and WNISEF has been frequent and effective, the evaluation notes that communication and coordination between WNISEF and USAID/Ukraine at-large could have been stronger. In recent years there has been a concerted effort to improve communication between the technical staffs of both organizations and there are now several excellent examples of initiatives undertaken by WNISEF that were subsequently supported by USAID, including development and deployment of the highly regarded ProZorro public procurement online platform, education initiatives to develop Ukraine's youth and leadership potential, as well as research and investments in Ukraine's information technology sector.

Central Asia Fund and Foundation Oversight. The evaluation report cited a poorly executed transition of oversight responsibilities for the U.S. Central Asia Enterprise Fund and Education Foundation from the Europe and Eurasia (E&E) Bureau to the Asia Bureau during a USAID regional restructuring in the late 2000s. USAID notes that the two bureaus are now working together to share information and best practices on oversight and monitoring, so that Asia Bureau is well-positioned to liaise and oversee the Central Asia Foundation moving forward.

Mitigating Potential Conflict of Interests. USAID recognized that the Enterprise Funds, like all investment funds, would face situations that presented potential conflicts of interest (COI). This risk was recognized and addressed in the "disclose and recuse" safeguards built into the standard COI provisions that were included in the Grant Agreements with the Funds and that

were in accordance with standard corporate practices at the time. USAID relied on the Boards to take appropriate measures to ensure disclosure of such relationships and to take appropriate action to mitigate these potential conflicts, in accordance with the provisions of their Grant Agreements. This typically required affected Board members to disclose their potential conflicts to the entire Board and to recuse themselves from participating in decisions related to such conflicts as necessary. As the evaluation points out, this did not always work as intended, and when such conflicts were brought to USAID's attention, the Agency addressed them swiftly and appropriately. We think several of the evaluation's findings and recommendations relating to Board governance, succession planning, and stronger USAID oversight will position Enterprise Funds still in operation and those established elsewhere to further mitigate such potential COI risks.

USAID Institutional Knowledge. The evaluation report encourages USAID to consider creating or utilizing informal and formal channels to share Fund-related knowledge, experiences, and performance information to increase awareness and understanding across the Agency of how they can function and be structured to maximize results and minimize risk. The evaluation found varying opinions and, in some cases, a lack of understanding within USAID regarding the Enterprise Fund model and its application. The model has now been used and proposed in several different contexts, with some key variations, and Fund structuring and oversight requires a firm grasp of complex issues and best practices in the field of private equity, particularly those relating to Board governance, succession planning, staff compensation, and parallel fund management. To further USAID's institutional knowledge on this topic, USAID's E&E Bureau convened relevant Agency colleagues involved with Enterprise Funds to review the evaluation's findings and recommendations. The group is considering options for establishing an "Investment Fund" working group and file repository to serve as permanent information-sharing platforms. E&E Bureau is also working closely with USAID's Bureau for Policy, Planning, and Learning to integrate insights from this evaluation into ongoing Agency-wide legacy planning initiatives.

Acknowledgements
USAID would like to thank the DevTech Systems, Inc., evaluation team and the myriad of stakeholders who have participated in or otherwise contributed to this evaluation. These specifically include participating USAID Missions and U.S. Embassies, investees and grantees, and most importantly, current and former Fund and Foundation employees, whose contributions were essential for this long-overdue learning exercise.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523