

The Russian-American Enterprise Fund

On September 27, 1993, the Russian-American Enterprise Fund (RAEF) was incorporated under Delaware law as a private not-for-profit corporation. The concept of the RAEF was discussed by President Clinton and President Yeltsin at the Vancouver Summit in April. Following the Tokyo Summit, President Clinton announced, on July 9, 1993, the intention of the U.S. Government to proceed with the Enterprise Fund and he named E. Gerald Corrigan as its Chairman. The primary role of the RAEF will be to make loans and investments to small and medium sized private enterprises in the Russian Federation. The Fund will be capitalized by grants from the U.S. Government through the Agency for International Development (AID) totaling \$340 million, beginning in fiscal year 1993.

The purpose of this paper is to provide basic information regarding the initial organization and operation of the Fund.

I. Activities

The RAEF will engage in three major lines of activity: first, making loans and investments to qualified enterprises in Russia as discussed below; second, providing selected technical assistance in direct support of Fund investments and potential investments; and third, helping to identify and highlight opportunities that may facilitate the development of the private sector and private investment in Russia.

II. Organizational Structure

The Fund operates under the general supervision of a Board of Directors, the non-executive Chairman of which is E. Gerald Corrigan. President Clinton has named 13 U.S. directors of the Corporation whose names and business affiliations are attached. It is expected that the Russian Government will nominate three-to-five Russian members of the Board in the near term. Other Russian directors will be named as the Fund's activities in Russia expand.

The executive officers of the Fund will include a President and Chief Executive Officer, a Senior Vice President and Chief Financial Officer, a Vice President and Senior Program Officer, a Vice President and Senior Investments Officer and Managing Directors of each of the Fund's offices in Russia. None of these officials have yet been appointed.

III. Corporate Offices

The Fund's headquarters will be in New York City. Initially there will be two offices in Russia, one in Moscow and another in a far-eastern location yet to be determined. Several additional offices may be established elsewhere in Russia as experience and needs dictate.

IV. Status of Organizational Efforts

As of October 15, 1993, the Grant Agreement between the Fund and AID has been

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signed, the Fund has been incorporated, and the organizational meeting of the Board of Directors has been held. At the organizational meeting of the Board a number of corporate policies were adopted, subject to review and approval by the U.S. Government. In addition, preliminary discussions are underway with the Russian Government in order to put in place the necessary arrangements for the Fund to begin its operations in Russia. It is hoped that all of these preparations on both the U.S. side and the Russian side will be completed during the course of the fourth quarter of 1993. Simultaneously, the Fund will begin to recruit personnel, secure suitable office space in the U.S. and Russia, and complete the multitude of administrative tasks to allow it to commence operations in early 1994. This, of course, represents a very ambitious schedule.

V. Lending and Investment Policies

At such time as the Chief Executive Officer and other top executives are in place, detailed lending and investment policies will be prepared and submitted to the Board of Directors for approval. In general terms, however, the broad philosophy that will guide the Fund's lending and investing activities can be summarized as follows:

- a high degree of diversification with regard to both industry and geography;
- a focus on small and medium private firms, which in a Russian context might include some firms with as many as 2,000 to 2,500 workers; and
- a focus on transactions that have the potential for visible and constructive demonstration effects.

The Fund will actively seek out opportunities to leverage its financial resources by encouraging other private lenders or investors to be co-financing partners. In this regard, the Fund may enter into joint ventures with Russian and U.S. firms as well as with non-Russian investors so long as at least one such investor is a U.S. entity.

By year-end 1993, the Fund will establish procedures to be followed by individuals or business entities seeking financial assistance from the Fund. Inquiries or requests for funding received prior to the establishment of such procedures will be maintained for subsequent review and consideration.

VI. Commencement of Operations

The RAEF hopes to be in a position to begin evaluating proposals for financial support from eligible clients during the first quarter of 1994. In that same time frame it will be commencing a broad-based outreach program throughout the Russian Federation aimed at informing relevant parties of the objectives, policies and procedures of the Fund. The Fund will also be actively involved with the design and development of its technical assistance programs.

These technical assistance programs will be aimed at helping to strengthen the managerial, financial and operational skills of the management teams of clients and prospective clients. These technical assistance programs are considered a vital component of the Fund's overall effort, recognizing that merely providing financial capital--while ignoring the human capital side of the equation--will not go nearly far enough to insure that the financial as well as policy objectives of the Fund can be realized.

VII. Interim Arrangements

At the present time, the Fund's activities are focused primarily on the completion of the various organizational steps outlined above. While it will begin to engage full time personnel over the course of the next several months, it is currently operating with a very limited staff. Pending the acquisition of permanent office space in the U.S. and Russia, its mailing address is 33 Liberty Street, Room 1101, New York, New York 10045. Its telephone numbers and individual contacts at the Fund's temporary office are Paul DiLeo at (212) 720-1253 and Ted Oppenheimer at (212) 720-5576.

This report will be updated on or about January 1, 1994.

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October 15, 1993

**RUSSIAN-AMERICAN ENTERPRISE FUND
BOARD OF DIRECTORS**

E. Gerald Corrigan, Chairman
Russian-American Enterprise Fund
New York, NY

Robert S. Straus
Akin, Gump, Strauss, Hauer and Feld
Washington, DC

Robert M. Brown, III
Managing Director
Lehman Brothers
New York, NY

Sharon Tennison, President
Center for Citizen Initiatives—USA
San Francisco, CA

Sarah C. Carey, Partner
Staples & Johnson
Washington, DC

Richard Turner
Senior Vice President
South Shore Bank
Chicago, IL

Richard W. Fisher
Managing Partner
Fisher Capital Management
Dallas, TX

Gary Hart
Coudert Brothers
Englewood, CO

Robert D. Hornata, Vice Chairman
Goldman Sachs International
New York, NY

Karen Horn, Chairman and CEO
Bank One Cleveland, NA
Cleveland, OH

Delano E. Lewis
President and CEO
C & P Telephone Co.
Washington, DC

Professor Earl Molander
Executive Director
Free Market Business Development Institute
School of Business Administration
Portland State University
Portland, OR

Richard Sklar
Executive Vice President
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San Francisco, CA