

Market Making

How Enterprise Funds Can Jump-Start Stagnant Economies

Innovations Case Narrative: Enterprise Funds

With a population of nearly 40 million and a GDP of approximately US\$765 billion in 2011, Poland ranks as one of the largest and most dynamic economies in Europe and among the top 21 economies globally.¹ The country boasted nearly a 4 percent annual GDP growth in 2011, up from 1.5 percent in 2009—the only country in Europe that year to achieve a positive growth rate. Poland's history as an oppressed Soviet satellite state for 45 years following World War II, with a command economy as recently as 1989, makes these statistics all the more impressive. So to what does Poland owe its success?

Certainly, Poland's industrious, entrepreneurial people and insightful policy-makers deserve most of the credit, but catalytic vehicles provided through U.S. assistance in 1989, like the Polish-American Enterprise Fund, played an important role in jump-starting the Polish private sector with business financing and technical assistance. Over the last 20 years and more, Poland has developed a vibrant market economy driven by a strong entrepreneurial spirit, leveraged its deep educational legacy, and built upon the Soviet period's emphasis on science and technology to capitalize on the country's inclusion in the European Union and on the global advantages that convergence affords.

Now Poland is wedging its way into Silicon Valley and seeking to build its own innovative economy that perhaps, as George Friedman predicted in his book, *The*

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Next Hundred Years,² will create a powerhouse of new technologies that the United States and Poland can both benefit from. This new possibility is not developing of its own accord; there are numerous ongoing and ad hoc initiatives undertaken by various institutions and individuals that are contributing to Poland's high-tech potential.

For example, in the past few months, the first groups of the "Top 500 Polish Innovators"³ have been participating in two-month-long educational programs at

Stanford University, assisted by the US-Polish Trade Council (USPTC),⁴ and the first alumni of this program are now calling for a "revolution in science" in Poland!⁵ In addition, after a decade of building technology and business links between the United States and Poland, USPTC recently opened the US-Poland Innovation Hub Center⁶ in Palo Alto, California, to support the physical presence of Polish tech entrepreneurs in the heart of Silicon Valley. It is becoming apparent that the diverse independent actors involved in these and other such efforts are, like the free market's "invisible hand,"

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beginning to represent a "Fourth Strand" to the so-called "Triple Helix" concept of industry, government, and academia combining to create new innovative technologies.⁷

Looking back from my own experiences over the past 20-plus years of transformation in Poland, it is fascinating to see what a big impact seemingly small incremental changes stemming from initiatives like those mentioned above have had in the aggregate over time. Such "marginal" developments all have added up to making Poland a vibrant market economy increasingly focused on creating new technologies and an innovative economy. I am honored to have been able to make my own incremental contributions to this process, and to similar processes of entrepreneurial development in other countries.

It is essential to appreciate that progress and development do not happen in a vacuum; rather, critical catalysts are needed, and that usually involves someone assuming risks and taking action to accelerate the process of change. If you get off on the right foot, the progress has a better chance of proceeding smoothly. On the other hand, if you get off on the wrong foot, progress can be hampered for years to come, and catching up can be difficult.

Faced with the collapse of Soviet Communism in 1989, U.S. policymakers could have opted to

- do practically nothing while taking a wait-and-see attitude
- take a traditional longer-term, government-to-government development assistance approach of supporting systemic policy change, undertaking institution-building, providing training for capacity-building, and the like
- design a bold and innovative initiative that could respond quickly to the pressing needs of the local population and play a catalytic role in helping them rebuild their country.

Fortunately for the people of Poland and indeed those of Central and Eastern Europe (CEE), the U.S. government chose the third option, while still employing traditional development assistance where that approach would work best.

Today, few realize the role the United States and its partners in the newly established post-communist Polish government played after the fall of the Berlin Wall to ensure that the drive and ingenuity of Poland's people could be unleashed quickly to achieve their fullest entrepreneurial expression. Nor do many see the broad array of current initiatives stimulated by Polish, Polish American, and U.S. entrepreneurs who are creating links between businesspeople, scientists, and engineers in both countries and are contributing to the development of a "Silicon Valley mindset" in Poland. What a great distance has been traveled over the past 20 years!

Poland's vast transformation did not just happen; rather, it was spurred on by the conscious, active decisions of risk-takers in government and the private sector, who drove the transformation process in a selected direction and accelerated change to the point of irreversibility. Moreover, the entrepreneurial models and private-sector mechanisms employed in Poland have by now been employed successfully in other countries and regions.⁸ It should be clear to policymakers that the fundamentals behind these private-sector approaches can be further adapted under varying circumstances to address today's seemingly insurmountable challenges in economic development elsewhere in the world.

In 1989, the transformation of a Soviet-style command economy to a free market had not yet been attempted, and there were no guideposts. Poland's economy had already been suffering under the impact of martial law imposed to stifle the Solidarity labor union's threat to Communist Party supremacy. State-owned enterprises that dominated the Polish economy were unprepared for compete under market conditions, and under Poland's so-called shock therapy approach to market liberalization, it seemed clear that if Poland's experiment in liberty was to succeed, it was going to be the Polish private sector that would pull the country through. Obviously, something dramatic needed to be done to support Poland's emergent private-sector businesses, and to drive the economic growth so critical to social stability and the development of democratic political institutions.

U.S. policymakers recognized that, after the communist regimes began collapsing in the former Soviet satellites, the first of these countries to gain independence—Poland and Hungary—needed support far beyond traditional development assistance. These countries needed to quickly jump-start their private businesses in

order to provide their local populations with goods, services, and sustainable jobs. In 1989, in a stroke of genius not seen since the creation of the Marshall Plan, and certainly not seen in U.S. reconstruction efforts in Iraq and Afghanistan or during the Arab Spring,⁹ smart U.S. policymakers in the first Bush administration and the U.S. Congress turned to American free-market, private-sector approaches and to

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seasoned business professionals for solutions. American ingenuity's answer took the form of legislation that created enterprise funds for Poland and Hungary, through which U.S. taxpayers' money would be managed by private investment professionals to finance private enterprises in the respective countries.

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By now my work in Poland has included participation in the establishment of the Polish-American Enterprise Fund (PAEF) and the management of one of 15 National Investment Funds in the Polish Mass Privatization Program of 550 state-owned enterprises. It continues through the investment activity of the Polish National Capital Fund—a fund-of-funds financing new Polish venture capital (VC) funds (KFK, for *Krajowy Fundusz Kapitałowy*¹⁰)—as well as the building of links between Silicon Valley and Poland as a director of the US-Polish Trade Council. I am also involved in helping Poland's Intellectual Property Management Institute promote a conducive ecosystem for entrepreneurship and create an appropriate intellectual property rights regime critical for the development of new technologies and an innovative economy. But my work has not been limited to Poland; I have been adapting my experiences there and applying them in other countries and under varying circumstances.

While this part of my career journey started in 1989, when President Bush called me to the White House to discuss U.S. strategy for rebuilding the Polish

economy, the foundation for that invitation was laid some 20 years earlier, when I studied Eastern European politics and economics in Austria at the University of Vienna—good preparation for this eventual opportunity.

In those days of 1968-1969, as I prepared to embark on my studies in Vienna, the Prague Spring had just been crushed by the Warsaw Pact, “Polish jokes” were popular, and the Iron Curtain was thought by many to be a permanent fixture. When a fund manager from London asked me in 1990 how I had connected at such high levels as President Bush and Lech Walesa, I simply said, “I was Polish when Polish wasn’t cool,” and added, “I knew ‘Hungary’ was not a state of appetite!” The point was that my long interest in the region and deep knowledge was being recognized.

In 1990, when the Polish-American Enterprise Fund was being organized, I was retained by the newly hired CEO of PAEF to draft the business plan for the fund, and I served as its vice president until 1995. At that point I had participated in a winning bid to manage a Polish Mass Privatization Fund, which would be taking deals to PAEF and other investors, and I was also advising PAEF’s sister fund in Hungary. In 1994, when a new CEO joined the Hungarian-American Enterprise Fund (HAEF), my manager at PAEF asked me to split my time between the two funds in an effort to provide him with seasoned support in the special challenges of running an enterprise fund.

Thus I applied in Hungary the lessons I had learned in Poland, in the restructuring of the Hungarian-American Enterprise Fund. Once that was accomplished, I helped raise HAEF’s parallel private fund, modeled on what PAEF did in Poland when it established its first side-by-side private fund with the European Bank for Reconstruction and Development and private institutional investors. Eventually I served as HAEF’s senior vice president until 2004, when we began to wind up HAEF and established its legacy foundation.¹¹ I also conceived and managed HAEF’s high-tech venture capital fund—Hungarian Innovative Technologies Fund (HITF)—which was one of the first such focused funds in the CEE region.

On this basis, I reengaged in Poland with support from political leaders interested in creating a similar high-tech VC fund to finance Polish technology entrepreneurs. I was invited to speak at high-level conferences, where I organized panels to highlight the need for Poland to focus on innovation and its wealth of intellectual capital in order to remain competitive in the 21st century. The bursting of the technology bubble slowed interest, but in 2007 I was recruited as a member of the investment committee of KFK, where I bring lessons learned in hands-on management at HITF in Hungary back to Poland to inform my advice on investing in Polish VC funds.

Along the way, I advised the Southern Africa Enterprise Development Fund (SAEDF), which was established post-apartheid for 11 countries in southern Africa to finance the development and growth of indigenous and other businesses there. I also applied the lessons learned from working for PAEF and HAEF when I was called on to help structure and prepare fundamental documents for the Millennium Challenge Corporation’s Regional Development Fund for the

Republic of Georgia, and when I advised on the formation of the Eurasian Development Bank, created by presidents Putin and Nazarbayev, and on development of the bank's investment policies and operations.

In the innovation and entrepreneurship realm I have worked closely with Armenian technology entrepreneurs and government officials on an initiative to enhance innovative small and medium enterprise (SME) competitiveness, and through my connections in Silicon Valley I have helped the Armenian entrepreneurs access opportunities there. I also advised the Government of Armenia (GOA) on structuring a VC fund tailored to Armenia's conditions and its need to reach external markets, and I negotiated a memorandum of understanding between the GOA and the San Francisco Global Trade Council to assist Armenia in Silicon Valley and California.

I am currently serving as the operations advisor to the newly launched Serbian Innovation Fund,¹² which is seeking to build the foundation in Serbia to support the development and commercialization of new technologies.

I am working there with a former chief

scientist of Israel, who serves as the fund's strategic advisor, and with prominent international technology and investment professionals outside of Serbia, who serve on the fund's investment committee. Together we are helping build the capacity of the local Serbian fund managers. It is a rewarding experience for me to be working at the outset of such an exciting initiative.

Last year I worked in Mozambique advising on the restructuring of an innovative new private corporation that was established and owned by Mozambican government agencies and conceived to facilitate private international investment in local tourism development. Like the enterprise funds, it too is a hybrid vehicle that presents special challenges in achieving commercial objectives while being driven by public policy considerations. The challenges the company faced were little different from those I saw at the beginning of the transition in Poland and Hungary, when private firms operated at the cusp of change and needed to have the flexibility to adjust to new realities.¹³

It never ceases to amaze me how experiences in one country can be adapted and transferred to another, or how they help to inform judgment in unrelated circumstances. There is a sense of "I've read this chapter before, and I know where this is going—unless I do something to influence change!" Additionally, these interrelated experiences across different countries have demonstrated to me that everything you do is a learning experience and that the fundamental principles in business and investment, in entrepreneurship, in technology and innovation are

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much the same whether you are in Warsaw or Washington, Serbia or Silicon Valley, Budapest or Boston, Armenia or Africa.

While remaining deeply connected to efforts in Poland and elsewhere in Central and Eastern Europe as an advisor and consultant on new initiatives to develop venture capital funds and the ecosystem for an innovative economy, I also specialize in encouraging creative financing vehicles to support the development of private enterprise as a critical component of stability in post-conflict reconstruction. This stems from work as far back as 1994, following the Oslo Middle East Peace Agreement, when a prominent Arab businessman approached me to prepare a proposal for a Palestinian Enterprise Fund, and invited me to attend the 1994 Middle East and North Africa (MENA) Economic Summit in Casablanca to assist him in presenting the concept.¹⁴ This gave me a fuller appreciation of how the concepts behind the enterprise fund model could be more universally applied in post-conflict and other reconstruction circumstances.

I continue to explore the application of similar fund models in environments that face unique challenges and conditions. After speaking at National Defense University and other public policy seminars on the role of a vibrant local private sector in post-conflict reconstruction and how the enterprise fund model could be adapted to support development even in those difficult environments as a means of creating to social stability, I was recruited by the Afghan-American Chamber of Commerce (AACC).¹⁵ From my vantage point on the AACC's board, I am helping to promote the development of the Afghan private sector and the creation of an enterprise-fund-like vehicle for that country, based on my experiences in the CEE's transformation.

As a result of these efforts to encourage adaptation of the enterprise fund model, along with my long experience in implementation, I have been asked to brief U.S. officials on the challenges in structuring and managing the enterprise funds proposed for Egypt, Tunisia, and the Afghanistan-Pakistan region, and have also assisted U.S. Senate staff members in the development of legislation calling for enterprise funds in Syria and in Haiti.

PART 1: BEGINNINGS TO 2004—A BOLD EXPERIMENT

My relationship with Eastern Europe that launched me on a career path began at a very early stage in my life and was shaped by various people who not only offered guidance, encouragement, and support in risk-taking but also served as intermediaries willing to introduce me to others. Their critical support was an important lesson for me, and I try to do the same for other deserving people, both young and old, wherever I can offer insight, introductions, and the like.

Looking back on more than 30 years of experience, there is another lesson I learned—and that is to be genuinely nice to people and treat them with respect. Even today I routinely cross paths with individuals I met back in the 1970s, and I've come to deeply appreciate the fact that you should treat everyone properly, because you never know the people you'll deal with again far down the road of life.

Reputation matters—especially when you have a name like mine, which despite the problems Americans have had pronouncing it, they never seem to forget.

Credibility and reputation are ever more critical in the Internet age, when old friends, classmates, and associates that I haven't seen in decades come across my name almost daily through social media. Just in the past month a Hungarian lawyer who advised our fund in Budapest in the 1990s contacted me from Australia, telling me he comes regularly to Serbia, where I advise the newly launched Serbian Innovation Fund. Similarly, a classmate from University of Vienna whom I hadn't seen in over 40 years tracked me down for a barbecue gathering of fellow Vienna classmates in the Washington suburbs.

As a student in Vienna, I visited Budapest in 1969. I walked the streets where freedom rallies had been held and saw the monuments where the revolution had been sparked, the buildings still badly pockmarked with bullet holes.

To all those young people starting their careers, I advise you to always try to be at your best, because what goes around, comes around—and now, with the digital age and the Internet, it will keep circulating for the rest of your lives!

I come originally from Virginia. My parents, while born in the United States, grew up in Polish communities and spoke Polish as their mother tongue. At the turn of the 20th century, my grandparents had helped establish our

little Polish farming community on the edge of the Dismal Swamp, where the peat decomposed into rich, black dirt. My mother went to school with local Indians at the Indian Mission School at the back end of their farm. During my childhood I knew everyone in our community, and as we traipsed across our neighbors' farms hunting or playing, my older brothers counseled me to respect their property. They allowed us free access to their fields, and we were careful to avoid damaging their crops, animals, and equipment.

Much of our life centered around the church my grandfather and other original settlers built nearly 100 years ago across the street from our house, which remains in my family. In the early 1960s, when we could not get Polish priests any longer, the bishop arranged for a retired Dutch priest, who had spent his career as a missionary in Chile, to come to our parish. He spoke six languages, none of which was English. With our family home across from the church, the priest became a regular fixture when he was not involved in his religious duties. I was preparing to study French, and his tutoring was instrumental in helping me perfect my accent and got me off to a great start with my teacher.

Understandably, a community like ours remained deeply connected with the issues of Eastern Europe. We were well aware of the tragedy of communist oppression around the world and were particularly sensitive to matters in Poland and the rest of the CEE trapped behind the Iron Curtain. I still vividly remember as an eight-year-old watching the scenes of the 1956 Hungarian Revolution unfold, and I recall the hope we all felt then for the Freedom Fighters and the Poles—a hope that was eventually dashed by the Soviet invasion and executions.

These were events that would continue to resonate with me when, as a student in Vienna, I visited Budapest in 1969. I walked the streets where freedom rallies had been held and saw the monuments where the revolution had been sparked, the buildings still badly pockmarked with bullet holes. In 2006, after working for HAEF the prior 12 years in building Hungarian businesses and creating new funds for Hungary, I was moved when the Hungarian ambassador in Washington invited me to participate in a year of celebrations honoring the Hungarian Freedom Fighters, and I again saw many of the same photos I had first seen broadcast live 50 years before.

Similarly, I remembered Castro entering Havana and the euphoria at the fall of Batista, followed suddenly by the shock of the summary executions we saw on TV and the imposition of the communist dictatorship that has ruled for the past 50 years and more. In my grade school class, we had a couple of “Peter Pan” children the Catholic Church had brought up from Cuba who were among some 50,000 who had left their parents there, so we were very sensitized to world affairs and to the impact of faraway events on our lives. Closer to home than Poland, I am looking forward these days—when events permit—to applying in Cuba the lessons learned in the CEE to jump-start private business development. Recently, in this regard, I spoke on a panel in Washington at the American Enterprise Institute that was exploring strategies for restoring economic opportunity in a post-Castro Cuba,¹⁶ and gave a radio interview on the enterprise fund model and Cuba’s needs in a transition.¹⁷

My father was a retired U.S. naval officer who had traveled the world for 26 years and had pictures and mementos of places like Italy and various South American countries from the 1930s. His comrades-in-arms during World War II would visit our farm and send postcards from their travels. As a small child, I would thumb through these items, wistfully hoping to see these places myself one day.

In my pre-teen and teen years I got early work experience on our family farm—in fact, the first money I made was before I even went to school, for picking cucumbers! My father paid me at the same rate as my older siblings, which amounted to only a few dollars, but with it my parents opened my own bank savings account, which taught me about saving money. During the summers I would drive our tractor mindlessly back and forth down the ruts in the field of our Virginia farm and dream of going off to Europe and other “exotic” places. So already by the eighth grade, when the Dutch priest arrived in our parish and tutored me in French, I had an abiding interest in travel.

With the growth of government in America and the burgeoning of intrusive government regulations, I wonder now if I were a farm child today whether I could get that same early work experience that my father provided. We also rode in the open bed of pickup trucks, jumped out of haylofts, and after months of helping an 18-year-old neighbor of ours rebuild a single-engine airplane, we took off from the airstrip he fashioned out of his mother's pasture. He was already acknowledged locally as an accomplished pilot, so I learned how to take risks and experience new things safely.

“We have to change things”

When I went off to college at Virginia Tech, I brought my heritage and my interest in the world outside of the United States with me to school. Like two brothers before me, I started there in mechanical engineering, and in those days VA Tech was largely a military school seeking to educate well-rounded graduate engineers. Thus I had to take a series of required courses in arts and sciences and humanities, and I found that I certainly preferred the history and politics courses. Ultimately I ended up in a life-changing honors class in economics, taught by Paul Craig Roberts, who was also studying at Merton College Oxford and was a scholar of the Soviet economy. He understood the Soviet system, and since he disagreed with Keynesian economics, he taught a different approach, which later became known as supply-side economics, of which he became one of the leading architects. What he was teaching made good common sense to me, and I approached him, saying that he was providing intellectual support for what I felt intuitively. As bright as he was, I asked why he was in academia instead of in industry making a fortune; he replied, “We have to change things.” And 13 years later I saw firsthand how the power of ideas can come to fruition, as it did during the Reagan Revolution.

In the 1980s, I watched as the Soviet Communists sought to crush the Solidarity labor union in Poland by arresting many of its leaders and imposing martial law, yet the Polish people had a powerful idea and an unquenchable desire for human liberty. By the end of the decade, the Solidarity movement had come roaring back, and this time it was the communist regime in Poland that buckled and broke. Again, it was the power of ideas that prevailed, and the recognition that if you are true to your principles, you will ultimately succeed.

I switched my major at VA Tech to economics, and Craig became my mentor. He introduced me to some of the giants in economics at the time, like Ludwig von Mises, James Buchanan, and Gordon Tullock, whom I studied under in my senior year, after he and Buchanan established their Center for Public Choice at VA Tech. Meanwhile, Craig had recommended me to a study abroad program at the University of Vienna, Austria. Many of my classmates ridiculed my plans. Back in 1968, VA Tech was focused on agriculture, engineering, and the sciences and did not have a study abroad program. I had to resign from Tech, reapply to return, and had no guarantee that my class hours in Vienna would be accepted. But I took the risk of going off to Europe to study, and it was such a terrific educational experience that I returned to Europe a few years later to study law in Paris. Today, when-

ever I have a chance, I encourage students to take advantage of today's ubiquitous study abroad programs.

My studies in Vienna focused on Eastern European politics and economics, and I traveled extensively across Europe. My experience in Austria included a skiing accident that put me in a provincial hospital for weeks; I had several operations and spent three months with my leg in a cast, but it endowed me with a much improved ability to speak German, which I've used a good deal since. Also, as noted, it was my education in Vienna that positioned me for President Bush's invitation to the White House 20 years later, when he called me in to discuss strategy for rebuilding the Polish economy, and a few months later to meet Lech Walesa, which, as it turned out, was only days after the fall of the Berlin Wall.

When I returned to the States in 1969 I found a different world—post-Woodstock. Classmates who wore coats and ties when I left VA Tech were now wearing granny glasses and Sergeant-Pepper-style band uniforms around campus! You always have to be prepared for change. There were anti-Vietnam War protests, and my uncle—Uncle Sam—required my services, so I joined the U.S. Naval Reserve to do my duty and get back to school as soon as I could. With a year of reserve duty to kill before I could go on active duty, I went out to California and worked as a swing-shift laborer in a glass factory in East Los Angeles, where I learned a little Spanish from my blue-collar coworkers.

Ultimately, my active duty orders arrived, and I was assigned to a ship leaving for a nine-month WestPac cruise, but days before its departure I was told I was being sent to "TAD"—temporary additional duty—to the office that assigned personnel to the Pacific Fleet theater, and that meant shore duty for the rest of my enlistment. Working there, I took full advantage of my situation and picked up a master's in systems management from the University of Southern California. During my leave time I stayed close to Craig Roberts, who was a Resident Fellow at Stanford's Hoover Institution on War, Revolution, and Peace. I attended a workshop there, and that experience established my deep admiration for education at Stanford. It is with great pleasure that I find myself periodically speaking now at workshops at Stanford on innovation finance and my fund experiences in Central and Eastern Europe.

After completing my military service, I started law school at the University of San Diego (USD). I excelled in the studies there, which allowed me to transfer to the University of Virginia to pursue a broader experience in international law. Already at USD during my first year, I became active in the American Bar Association's Section of International Law. I volunteered to help the chairman of the Multinational Corporations Committee, who lived in San Diego, and he took me onto his committee. Ultimately he was impressed by my personal demeanor and my focus on getting the job done. When I expressed interest in transferring to UVA, he offered to mobilize support for my application, and I was accepted.

At UVA I was selected for the *Virginia Journal of International Law*, and was ultimately elected to the journal's editorial board as its executive editor. The discipline I learned in that position honed my writing skills; as a result, friends and

associates are still bringing their work to me for a critical proofread. While at UVA I continued working on ABA Section of International Law projects with my lawyer friend in San Diego. The following year he moved to Washington, D.C., to launch the National Legal Center for the Public Interest as a conservative counterweight to activist groups that presumed their own views were representing what was in the public interest. I worked part-time for him at the center, and four years later, after I practiced law in California, he offered me a job at a different Washington-based public policy research institute he was then managing, which was analyzing how the national TV news and other media were covering U.S. business and economic issues. Looking back, I marvel at how seemingly disparate experiences thread together in life.

Meanwhile, after graduating from UVA Law School, I returned to California to work for Bank of America in San Francisco. I specialized in credit advice and focused primarily on real estate and construction finance. It was during the Jimmy Carter years, and my mentor in economics, Craig Roberts, who had been serving as Jack Kemp's economic advisor, wrote the famous Kemp-Roth Tax Bill and became the economics editor of the *Wall Street Journal*. He periodically called me to D.C. as part of the "shock troops" for the Reagan Revolution. Eventually I agreed to come for interviews on Capitol Hill, and I find it curious today, over 30 years later, that I am still in touch with some of the people I met on that trip.

Serendipitously, I had dinner with my lawyer friend, who was now managing the Media Institute, analyzing media coverage of business and economic issues, and three days later he called me in San Francisco to suggest that I come to work for him, as we had worked so well together before. He offered me the position of his deputy "to learn all about running a Washington public policy shop and how the news media works." I agreed, and this opportunity opened a whole new world of experience for me. I also had remained involved in the American Bar Association while I worked for Bank of America. Eventually I became an officer of the Section of International Law, and I helped create and also chaired the International Communications Law Committee. From the vantage point of these positions, I came into regular contact with prominent international lawyers and senior policymakers in government.

A challenging assignment in government

Members of the Media Institute's board of directors and board of advisors later put me on the path to two future positions. The first was in a consulting firm headed by the political director for George Bush's 1988 presidential campaign, who was also close to Ronald Reagan and had worked in a senior position on their combined 1980 campaign. The second opportunity was with a strategic and crisis communications firm established by a member of the Institute's board of advisors; a leading network news correspondent and lawyer, he had also served as vice chairman on the ABA committee I had chaired. I still see the former periodically in D.C. and have been meeting regularly with the latter for over 30 years now.

My work managing the public policy institute and for the business and politi-

cal consulting firm eventually positioned me to transition into government service at the U.S. Environmental Protection Agency (EPA). There I designed and executed Reagan administration reform initiatives to streamline government operations and increase efficiency. One EPA task force I worked on was devoted to bringing together the career managers and staff in procurement with other senior career managers and political appointees from around the agency, with the goal of streamlining the agency's procurement processes and making them more responsive. Interestingly, our approach was to present recommendations in "modules" to a steering group of senior EPA managers. Once vetted by them, the recommendations would go to the EPA's assistant administrator for approval, and implementation would begin immediately. Through this approach, we avoided producing a voluminous report at the end of the review process that then would require implementation; rather, by the time the recommendations on the last module went forward, the recommendations on earlier modules were largely completed.

Next, following President Reagan's firing of the EPA administrator and much of its political leadership as a result of a controversy over management, mainly of the Superfund program, I was tapped to serve on a three-person team that was designing and implementing a comprehensive review process of EPA's operations and to prepare the new EPA administrator's report to President Reagan on the agency's internal control, material weaknesses, and planned corrective actions. For my work on the two EPA task forces, I was awarded two Bronze Medals for outstanding service, after which the EPA sent me to the President's Council on Management Improvement. There I worked on an interagency team to streamline an across-the-board process for reviewing operations in federal civilian agencies for the purpose of preventing fraud, waste, and abuse.

What a great experience government service was. During that time, I began to encounter top professionals in the bureaucracy and others who were quintessential "bureaucrats" locked into an institutional mindset. The latter were not unlike their counterparts I met later in advising major multinational corporations (MNCs) embroiled in high-profile controversies. These individuals worked in their organizations for so long that it was a struggle for them to deal with anything out of the norm or to look at the processes of their job in any new and creative way.

So, in the time after law school, I continued to build on the relationships that would bring me to Washington, D.C., and to work in Reagan-style public policy

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reform. Drawing on my master's in systems management and subsequent law degree, I had come to specialize in how to analyze organizational systems effectively and be able to implement new creative vehicles for change. After EPA, I built on my Media Institute experiences to deepen my ability in crisis and strategic communications work in the private consultancy realm. The firm was made up mainly of lawyers with media experience who could walk the fine line of assisting companies in the midst of public affairs crises while ensuring that the company's response to the public's concerns did not later jeopardize their legal position. Sometimes the issues were brought on by innocent mistakes by company personnel, but also by unfounded allegations that threatened to escalate an incident into a corporate crisis. These companies tasked us with the development of their comprehensive communications strategy to make sure that such problems didn't spin out of control.

Our first rule was to advise our clients to always tell the truth to avoid losing their credibility and also to be responsive to the public. The company would know more about the problem and its solutions than anyone else and needed to focus on getting the truth out, because it could not rely on others who knew less about the situation or the problem to tell the company's story. On that basis, we helped put in place the strategies and systems for the company to deal with the public and prevent, to the extent possible, such a problem from occurring again.

I typically dealt with senior functional managers and either the CEO or the chairman of the MNC. My work called on me for both high-level strategic development and tactical implementation, as well as for learning thoroughly about the company, its internal culture, its relevant products or technology, its manufacturing processes, and frequently its environmental practices. I accompanied legal counsel to court, prepared scientists and engineers for public hearings, helped PR staff develop the communication materials, and prepared senior executives to respond to national investigative media. Like the challenges I would later encounter during the transformation of Central and Eastern Europe, there frequently were no roadmaps for what the company needed to do, and our advice, experience, and level-headed judgment under fire made a real difference.

On this kind of strategic communications consulting for major MNCs, I became involved in an opportunity that helped to define my career for two decades to follow, through a stint as an advisor to the first President Bush's 1988 presidential campaign. I had offered to help out the campaign and was assigned to the team developing strategy to inform and attract ethnic voters. I took on the drafting of some op-ed pieces focused on the interests and values of Americans of ethnic origins, which came to the attention of senior campaign staff. They were ultimately approved for George Bush's signature, and this brought me personally to the attention of the future president as someone who understood issues of relevance to Polish Americans.

One such op-ed that I was particularly proud of was entitled, "Our Values Make Us Great," which focused on faith, patriotism, and the work ethic—the values that so many who were still in touch with what had brought their families to

America could still identify with. Another juxtaposed the September 17, 1862, Battle of Antietam—the bloodiest day in American history—with September 17, 1939, when the Soviet Army attacked Poland from the east as the Poles tried to stave off the Nazi blitzkrieg in the west which led to betrayal and a totalitarian takeover of Poland.

After George Bush became president, the “Roundtable Talks” in Poland led to the legalization of the Solidarity labor union and to the communist regime’s agreement to the first free elections in a Soviet bloc country since the Iron Curtain descended on Central and Eastern Europe. While planning his first trip to Poland and Hungary in the summer of 1989, President Bush called me to the White House to meet with him and his national security advisor, other senior officials, and the leadership of the Polish American community from New York and Chicago to discuss strategy for U.S. support for Poland’s economic development. There were about a dozen of us assembled in the Teddy Roosevelt Room adjacent to the Oval Office to exchange ideas.

A couple of months later, the president invited me back to the White House to be present when he awarded the U.S. Medal of Freedom to Lech Walesa. This was with his cabinet, the heads of all federal agencies, the Supreme Court justices, the heads of the unions comprising the AFL-CIO, and selected congressional and other officials, as well as the leadership of the Polish American community and a few distinguished guests, such as Henry Kissinger. Stunningly, a few days before the Walesa event, the Berlin Wall fell, making that evening truly momentous!

With the collapse of communism in the CEE, U.S. political leaders knew that the U.S. government had to quickly take tangible action to instill hope in the local populations to contribute to stability. It was feared that places like Poland and Hungary would face widespread socioeconomic and political upheaval in the wake of the collapse of the Soviet regimes, and that this could cause them to turn back. Suddenly this region needed massive support for an almost immediate, and totally unprecedented, transformation from command economies to free markets. The Poles were doing their part with the introduction of Shock Therapy, which proved highly effective but also resulted in difficult adjustments. Traditional development assistance, while still necessary to solve some problems, would be insufficient for the task of rebuilding Poland’s private business sector as the engine of the nation’s economic development. There were no roadmaps for how to quickly get a society

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that had been operating under Marxist principles to make the leap to free-market principles, and effective strategies and implementation would be critical.

In my outreach to ethnic communities for the Bush 1988 campaign I had met many Polish American community leaders. By convening a meeting in July, the president showed his openness to work with the Polish American population in the United States, which understandably had a strong interest in the U.S. government's response to the changes in Poland's government and economy.

In that earlier White House meeting there was a recognition that something dramatic had to be done to support the Polish people, and by the time the president arrived on his visit to Poland and Hungary, the idea of enterprise funds of \$40 million to help Polish businesses and \$10 million for Hungary were woven into the his announcements in those countries. On his return, though, while Congress appreciated the value of the enterprise fund concept, it recognized that the amounts proposed were insufficient for the task at hand. Congress thus increased the size of the enterprise funds for each country sixfold and enshrined this in the Support for Eastern European Democracy (SEED) Act legislation passed in November 1989.

The policymakers in the Bush administration and in Congress knew that capital was the essential fuel needed to generate local business development, and they sensed that savvy entrepreneurs and private business and investment professionals, not bureaucrats in the new governments or in U.S. institutions, could do the best job of conceiving and executing private-sector development strategies. In particular, they appreciated that American private-sector professionals could most effectively develop the necessary strategy and take the business risks in deploying that public-sourced capital quickly in accordance with sound commercial disciplines.

Indeed, as is all too frequently illustrated by disastrous "investment" attempts by government, U.S. officials learned sometimes too late that they are no more effective at business decisionmaking than the Soviet bureaucrats who were managing their command economies (and who thankfully bankrupted the Soviet bloc nations).¹⁸ The problem in Poland and Hungary was that indigenous capital and investment skills were scarce, and sophisticated foreign financial investors were not ready to run unknown risks in these countries emerging from 45 years of communism.

As a result the U.S. Congress enacted the SEED Act,¹⁹ which creatively provided US\$240 million for a Polish American Enterprise Fund and US\$60 million for a Hungarian American Enterprise Fund, along with a package of other development assistance. Conceived as a mini-Marshall Plan, the architects of these initiatives intended, as the hallmark of the enterprise fund approach, that this U.S. public-sourced capital would be privately managed by professionals to finance viable local private businesses in the respective countries. The statutory objective of these enterprise funds was to promote the development of the Polish and Hungarian private sectors and to encourage policies and practices conducive to private-sector

development. The boards of directors and management teams of these two funds were mandated to devise creative strategies to achieve these ends.

Under the SEED Act and, applying the principles behind the enterprise fund concept, private-sector professionals would manage the funds' operations in accordance with sound commercial practices to allocate financing quickly and efficiently to local businesses, with an eye toward contributing to the economy's long-term success. In 1990, Kenneth Juster, then-senior advisor to the deputy secretary of state, would capture well the fundamental concepts behind the enterprise fund model when he said:

The enterprise funds are a bold experiment in a new way of delivering economic assistance. Rather than have the U.S. Government provide a one-time grant to Poland or Hungary, we have developed, instead, the enterprise funds as a means for tapping into private sector expertise to manage U.S. Government grants. The President, in consultation with Congress, has asked a group of prominent private citizens from the United States, and from Poland and Hungary for each of the two funds, respectively, to form a corporation to use U.S. Government money to make loans, grants, equity investments and other forms of financial transactions designed to promote private sector development in Poland and Hungary. The hope is that these enterprise funds will be able to manage the U.S. Government grants in a way that an investment banker might do—unencumbered by the bureaucratic constraints normally associated with government activities—and that they will be able to multiply many times over the financial impact of the initial grant.²⁰

In accordance with this approach, President Bush appointed boards of directors, reaching out to leading investment and other professionals to volunteer their skills, as the enterprise funds' board members served without compensation. They in turn recruited professional management, which these boards worked with in devising investment strategies best suited in their business judgment to jump-starting their respective host countries' private enterprise growth, thus achieving the developmental objectives Congress and the president were seeking to both benefit the Polish and Hungarian peoples and serve U.S. national security interests.

For example, President Bush tapped John Whitehead, formerly chairman of Goldman Sachs and deputy secretary of state, to chair the Hungarian Fund, with George Gould, formerly a founder and chairman of Donaldson, Lufkin and Jenrette as well as undersecretary of the treasury, to serve as John's vice chairman and, later, successor. For the Polish Fund, the president brought in John Birkelund, then-chairman of Dillon Read, as the chairman, along with the chairmen of General Motors and ConAgra and knowledgeable people like Lane Kirkland and Zbigniew Brzezinski.

The boards hired seasoned professionals to manage the funds. For me, working for such prominent investment professionals, as well as for my CEO at PAEF,

Bob Faris, and at HAEF, Scoci Scocimara, was an unparalleled educational experience. I had the added benefit of the advice and counsel of the former chairman and CEO of Dow Chemical, Zoltan Mersei, who chaired the board of advisors of the Hungarian Innovative Technologies Fund.

Meanwhile, in early 1990, I completed an assignment for the U.S. Department of Labor to help it devise a labor technical assistance strategy for Poland and

Hungary, where monies were already authorized under the SEED Act, and then to do the forward thinking about the appropriate approaches for labor to take in the rest of the Communist Bloc countries, as each became eligible for U.S. development assistance. In doing so, I drew on the foundation I had developed in Vienna when studying the political and economic systems of Central and Eastern Europe, supplemented the research current at the time. Without such deep understanding of the history, cultures, and dynamics of the countries in question, the task would have been much more difficult.

My studies in Vienna also paid off in an unex-

pected way. One of my university classmates there, who was by now a Catholic priest in Washington, D.C., knew of my meetings with the president and with Lech Walesa at the White House a few days after the fall of the Berlin Wall. He also knew the lawyers who had volunteered to organize the enterprise funds, and he mentioned to them my broad connections in the Polish American community and my knowledge of the CEE region. We met, and I ended up helping them pro bono without any real thought that I would become involved in the enterprise funds. They thought that with my background and network, I could be an asset to the newly hired CEO of the Polish Fund, Bob Faris.

When Bob Faris came down to Washington from New York City at the end of May 1990 to meet with the heads of the international sections of the U.S. treasury

The enterprise fund program, while ambitious and potentially very useful, had its fair share of challenges. How would the program garner support from stakeholders ranging from Polish government officials and citizens, to the U.S. taxpayers who would provide the initial funds for the program, to the various federal agencies involved, to the Polish-American community and, ultimately, any potential investors to contribute further funds?

and commerce departments and with other key players at USAID and elsewhere in the federal government, the lawyers arranged for us to meet. I gave him my advice based on years of experience, from my time in real estate and credit advice at Bank of America to my involvement with USAID consultancies, from my work with executives of major MNCs in the strategic and crisis communications business to my experience having met Walesa and other Solidarity leaders and my relationships in the Polish American community. As I outlined my background and the issues he would likely have to deal with, he asked if I could write a business plan for the Polish Fund. When I said yes, he hired me on the spot to do so. That opportunity would lead to a new job a few months later as vice president of the Polish-American Enterprise Fund.

The enterprise fund program, while ambitious and potentially very useful, had its fair share of challenges. How would the program garner support from stakeholders ranging from Polish government officials and citizens, to the U.S. taxpayers who would provide the initial funds for the program, to the various federal agencies involved, to the Polish American community and, ultimately, any potential investors to contribute further funds?

Observers were asking, “What is an ‘enterprise fund?’” Many groups and individuals seeking to tap into these significant pools of capital attempted to define the funds in terms of the services they sought to offer. For example, they said the fund needed to provide “entrepreneurship training,” or it needed to support “agricultural development,” or it needed to focus on “XYZ” sector, etc. But the direction the enterprise funds took, within their legislative mandate, was driven by their boards and management, as the view was that a special business-to-business approach was needed, and the development of effective strategy and its implementation could be best accomplished by seasoned investment and business professionals with knowledge of the host countries.

Given my strategic communications background, I had a particular strength in my ability to communicate the principles behind the funds’ actions. Nonetheless, once I joined the PAEF as a vice president and became its spokesperson, I was the one in the hot seat and had to wear a different hat than when I was a communications consultant. Previously I gave advice to senior executives of MNCs on responding to the media, and now, as the chief spokesperson for the Polish Fund, I would have to respond immediately in media interviews and the like, and frequently there were tough questions. Initially, I also often dealt directly with the Polish American community by traveling around the United States to give speeches on what we at the PAEF were already doing, what we intended to do, and how we were doing or intended to do it.

Often the issue of what and who we did this for came up—namely, the issue of why U.S. taxpayers’ money should be invested in private businesses in Poland and managed by private investment professionals. I explained that the enterprise funds were an instrument supporting U.S. national security, and if America wanted to build a private sector practically from scratch in Poland, who would be most capable of doing that? People in the private sector. And what fuels business develop-

ment? Capital. Most staff in government and typical NGO firms generally did not have the hands-on experience in investing and building private businesses or the stomach for the risks necessary to effectively deploy capital to emergent Polish entrepreneurs. The government could not just hand the money out; rather, to protect its value, the capital needed to be professionally deployed and managed effectively as a valuable asset. What was needed were people who could understand calculated risk-taking, exercise sound business judgment, and make choices about resource allocation based on market realities.

At the enterprise funds I often thought back to my time working for the Reagan administration, when I would encounter some career staff, and particularly auditors, who only knew how to tell those of us who needed to introduce changes to the status quo how our idea was not in compliance with some rule or regulation; when asked how to make adjustments to solve the noncompliance issue, they had difficulty answering. They just couldn't think out of the box, and in implementing dramatic change and new vehicles in Poland, we needed professionals who could think creatively and strategically—with an appreciation for established bureaucratic practice and regulation but with the vision to be an active agent of change. We needed investors who, driven by private-sector principles, could use good judgment to take risks, learn from missteps, and move forward flexibly to make better decisions as conditions evolved.

In my years at the Polish-American Enterprise Fund, and later in my role as an executive for its Hungarian counterpart, we encountered many challenges in our endeavor to build an ecosystem that supported investment in a new free market, where conducive rules, regulations, and practices were evolving. Initially we had to work with Poland's *notaires* to help educate them on new kinds of legal transactions that had to be approved in order for capital to flow into new private businesses in a proper way. We brought over American corporate and commercial lawyers to work on our deals and help introduce new approaches to practices in Poland.

In another effort to reach out broadly to many Polish SMEs, PAEF set up loan windows at eight state-owned regional banks to begin to support and grow small business loans and to transfer skills to local Polish bankers. Eventually that small loan program made 10,000 small business loans and turned around \$300 million in loans. Later, PAEF built a microloan program that ultimately made approximately 160,000 loans to 126,000 business over its lifetime. While such lending may seem commonplace in the United States, business loans were new to Poland. We were told even by those who did not qualify for a loan that they found just the process of completing the loan application helpful and worthwhile in better understanding their businesses. That educational effort became an important part of PAEF's contribution to the foundation for a vibrant private-sector economy in Poland. In a sense, such programs succeeded before even making the loans, because they demonstrated that in a market economy there would be access to credit and decisions would be based on creditworthiness, offering hope for a fairer, more transparent future.

Among the other institutions PAEF financed were commercial, agriculture, and mortgage banks as well as Poland's first leasing company. With a shortage of approximately two million homes, PAEF recognized strategically that home construction would be an important engine behind the Polish economy and needed to be supported. The fund invested in construction companies and then developed Poland's first mortgage bank to create market mechanisms for construction finance. The fund used its dedicated technical assistance funds to bring leading American mortgage bankers to Poland to help educate senior Polish officials on how mortgage banking worked and its value for social development. It also encouraged USAID to create a technical assistance program to reach out more broadly to educate others on principles of mortgage banking. Eventually the PAEF obtained a change in regulation that allowed for expedited foreclosure, and at that point took the risk of opening the mortgage bank without waiting to develop the perfect system. Rather, the system developed around the institution to meet Poland's needs.

In the years that followed, the Polish-American Enterprise Fund made about 50 equity investments totaling over \$200 million dollars, established a series of banks and other intermediary institutions, extended 10,000 small business loans and over 150,000 microloans, and recouped over \$375 million in investment proceeds. Ten years after commencing operations, the Polish Fund was the first of the enterprise funds to establish the tradition of returning its capital to the U.S. Treasury and of creating a legacy foundation,²¹ which PAEF has by now capitalized with approximately \$250 million. This, apparently, was the first time a U.S. foreign assistance program had returned its capital since the Finnish government repaid its post-WWI debt to the United States over 50 years before.

More enterprise funds were established for other countries of Central and Eastern Europe and the former Soviet Union, as those countries achieved levels of political and economic change. In all, U.S. public funding of approximately \$1.2 billion (including earmarked technical assistance) helped to establish ten funds throughout the Central and Eastern European region, an area that covers 18 countries and 346 million people. The funds established and financed 30 banks and microloan institutions. Lenders created by the funds extended more than a billion dollars worth of mortgage loans. It is estimated that every dollar invested by the enterprise funds in the region has attracted an extra two dollars from other investors. Of \$1.105 billion the U.S. government provided in the aggregate to the ten enterprise funds in the CEE for investment purposes, total net assets of these funds, including distributions, stood at the end of 2009 at approximately \$1.612 billion, which equals 144 percent of the capital provided by the government.²²

With regard to wind-down, six enterprise funds have already started to return their public-sourced capital to the U.S. Treasury and have established charitable legacy foundations to carry on development activities in their host countries and beyond. Although the Bulgarian-American Enterprise Fund, which was established in 1991, had encountered difficulties in Bulgaria's challenging marketplace, it was well managed by dedicated professionals on its board and among its officers,

and when it began its liquidation in 2007, it returned to the U.S. Treasury half of its original \$55 million grant, along the lines of the precedent established by the PAEF, and established its legacy foundation in Bulgaria with investment proceeds of more than \$400 million!²³

Most informed accounts of the experience of enterprise funds in the post-Soviet reconstruction of Central and Eastern Europe would characterize them as a tremendous success. Indeed, it should be noted that while the primary objective of the enterprise funds was developmental—an objective that all significantly contributed to in some form or other—most of these funds also succeeded financially under very difficult conditions in countries where they were the pioneers in investing in local private-sector businesses. As many of these funds wrap up or metamorphose into legacy foundations and/or vibrant private equity management firms, it is obvious from the example of KFK in Poland that the concept spawned can be cloned to achieve new private-sector development objectives.

It should be clear that the enterprise fund model still has a tremendous untapped potential for deployment in countries and regions that face similar challenges to those faced by U.S. policymakers and the enterprise fund managers at the onset of the 1990s.

PART 2: THE ENTERPRISE FUNDS— BUILDING ON A SUCCESSFUL MODEL

As the enterprise funds in the CEE wind up and take new forms, the question remains as to whether governments and societies facing their own unique challenges can benefit from replicating the enterprise fund model when considering how to jump-start their own private-sector development.

This approach can apply when the country's transition is still continuing, as in Poland and other countries of the CEE seeking to build high-tech SMEs and the foundation for an innovative economy. In the same way it built indigenous private business under post-communist conditions in the CEE and post-apartheid conditions in southern Africa, the enterprise fund approach can serve as a useful model to achieve related economic development objectives of rejuvenating private business activity in the aftermath of oppressive regimes, conflicts, disasters, and other systemic problems.

By now, the Polish private equity industry has grown from its inception with the Polish-American Enterprise Fund to multiple billions of dollars today. However, an equity gap existed in Poland for high-risk technology start-ups that private investors were reluctant to take the risks to fill. This was not unlike what the U.S. policymakers faced in supporting Poland's economic development in 1989.

This time, though—taking a page from the enterprise fund model of drawing on public funds to jump-start private business activity—it was Polish policymakers who conceived of the KFK, or Polish National Capital Fund, as a publicly capitalized fund-of-funds. KFK was created to invest in new Polish venture capital

funds, which in turn would invest in small, innovative tech entrepreneurs developing new Polish technology businesses à la Silicon Valley models. It is my privilege to have been appointed to serve on the investment committee of KFK since 2007.

Like the PAEF, KFK is managed independently of government bureaucracy by the investment professionals who, along with myself—the only non-Polish citizen associated with this fund-of-funds—make up its investment committee. KFK is designed to serve as a catalyst for the Polish venture capital industry to fill the equity gap faced by start-up high-tech SMEs. It does this by providing investment capital and grants to subsidize the operating costs of new, relatively small VC funds set up to finance these innovative SMEs. The maximum investment size of KFK's investee funds is currently 1.5 million euros, but there are expectations that, as market needs demand larger follow-on investment, this limit likely will be increased accordingly.

With KFK's seed funding from the Polish government in place, its management commenced operations and made their initial investments in two Polish VC funds, demonstrating their investment capabilities and allowing KFK to attract an additional 180 million euros in EU structural funds. As KFK expanded its investment activities in additional Polish local VC funds, Swiss development fund money increased KFK's capital base to its current level of approximately \$300 million.

Since KFK can commit a maximum of only 50 percent of total capital to any investee VC fund, its capital will leverage at least an equal amount from other sources. Thus, in coming years, with KFK's currently available funding, approximately \$600 million dollars will be available through KFK portfolio VC funds for investment in Polish seed and early stage innovative SMEs. So far, KFK has made commitments of more than \$160 million to 15 funds, nine of which are operational.

KFK is but one example of funds that have arisen in Poland and other countries since the introduction of the basic enterprise fund model of investing public-sourced capital managed by private professionals to achieve public and, increasingly, commercial objectives.

In many countries today there is still a lack of access to capital for large segments of the small business community. In 2007, the Organization for Economic Cooperation and Development invited me to speak at a MENA conference at the Dubai International Conference Centre on the topic of enterprise financing to explain how the approach of the enterprise funds could help meet those needs and contribute to social stability. I saw after the 1994 MENA Economic Summit how the needs of the small Palestinian entrepreneurs in the West Bank and Gaza were being ignored, and how, without economic opportunity, civil unrest has followed for years. Similarly, we are now witnessing the Arab Spring, which has toppled several Arab country governments, much like what happened in Central and Eastern Europe during the fall of communism; yet America's response has not seemed as bold and aggressive as it was in 1989. While there may be numerous reasons for the approaches taken, it seems clear that many of the needs of Arab small business-

people could be addressed quickly through well-designed and well-implemented enterprise fund vehicles.

Congressional legislators and U.S. civilian and military officials continue to grapple with the challenge of achieving sustainable development in countries like Afghanistan and Iraq in the wake of a decade of conflict. After having spent tens of billions of dollars with limited results, officials in the executive branch have moved to rethink U.S. development strategy with an eye toward cost effectiveness. Meanwhile, it would seem that the efficacy of the enterprise fund approach in financing private businesses that create jobs and contribute to stability already has been demonstrated and could offer viable solutions to private-sector development challenges in other markets.

Moreover, the enterprise funds' active engagement in their host countries has supported policy change from the bottom up to create the institutional infrastructure or ecosystem for private-sector development effectively on a sustained basis. This is in contrast to traditional development strategies, where models are created from the top down, take years to design and implement, and likely don't fit the needs of the local business community. While policymakers and administrators in the United States have begun to express interest in enterprise funds as an effective development alternative, especially given the growth in innovation and entrepreneurship as a national economic strategy among countries around the world, we have only just begun the conversation.

Through its hands-on, commercially disciplined approach, the enterprise fund model encouraged the bottom-up creation of critical institutional infrastructure supporting private enterprise in response to local needs. This approach also encouraged indigenous investment and strengthened local management capacity. In the case of the CEE, the enterprise funds played an important role in jump-starting the local private sector, with capital as the critical fuel. Government programs, on the other hand, which disburse grants to business with few strings attached, can create market distortions because that strategy lacks a quid pro quo from the recipients. The enterprise fund approach to development creates a different mindset from most other development strategies, because those who manage the funds require repayment in the case of loans and recouping their investment with capital appreciation in the case of successful equity investments. This approach can lead more effectively to the creation of viable businesses of unlimited life that create permanent jobs and generate returns for investors.

While public-sector "projects" might achieve short-term goals, they can create market distortions and unfairly empower politically anointed competitors over legitimate businesses that don't have similar subsidies. And with regard to the creation of employment, when the project funding dries up, usually the jobs do too. Targeted government programs might provide short-term income for workers, but they don't generally create the kind of permanent jobs that private businesses do. While they can achieve a specific good that others can build on, it's not the same as what the enterprise funds can accomplish in a holistic way. The enterprise funds took risks, jump-started businesses, and looked at development strategically—thus

the results were sustained both through the institutions that followed as professional investment management firms and through the individual businesses created.

Some officials have reservations about the enterprise fund model, because public money is turned over to private individuals to manage on behalf of the government and in the interests of the host countries—all subject to multiple layers of oversight and governance. Like any governmental development program, there can be instances of impropriety, but selecting investment professionals who understand their fiduciary responsibilities goes a long way toward preventing any such problems. Nevertheless, investing is a risk business, and in frontier markets it runs an especially high risk when driven to achieve critical developmental objectives.

Some uninformed commentators question the payment of incentive compensation to enterprise fund managers. In the case of Poland and Hungary, no such compensation was paid on the gain from the enterprise fund's public money; rather, a traditional "carried interest" was provided from the parallel private funds raised. Otherwise, enterprise fund officer and staff salaries were subject to a cap. Ultimately, however, proper market-based salaries and incentive structures have to be in place to retain staff. In Hungary, I lost a key manager I had spent more than two years training because the enterprise funds initially could not pay a carried interest on their public capital.

Later, because some other enterprise funds had trouble raising parallel private capital, Congress permitted such payments to ensure the retention of key staff to continue to manage the funds' public capital through liquidation. In those cases, some highly successful fund managers received incentive compensation on a portion of the capital appreciation they contributed to, in line with commercial practice. This was largely in exchange for their long-term commitment to the funds to protect the investment assets through wind-down and closure of the fund. As a result, some took the risk to stay with their funds in the expectation of an eventual payout, spending 15 to 20 years of their careers working for the same funds operating in difficult frontier market countries.

Where there is money, there is also a concern over corruption, but because the enterprise funds worked on the level of business-to-business rather than government-to-government, it was easier to avoid the potential for corruption. Part of our mission was to help introduce proper policies and practices conducive to local private-sector development, and we encouraged our portfolio companies to play by the rules as good corporate citizens. Moreover, we would only cooperate with government officials we felt were seeking to develop their communities and not seeking to benefit themselves through individual gain, and who supported the changes toward transparency that we needed in order to do business. If there were any implications of impropriety, we would simply go elsewhere. With that approach, the message was clear that we would support only legitimate transparent business ventures, and that everyone involved was expected to cooperate and contribute to the transformation we sought to achieve. Officials in Poland and in Hungary understood the value of the enterprise funds' approach.

I believe that the enterprise fund model can be adapted to the difficult conditions of post-conflict and even “conflict-affected” states, and that it can empower those segments of society that don’t have capital but need it to grow legitimate businesses. Commerce takes place every day in places that receive development aid where there is conflict. If the commerce is being conducted in legitimate ways, why not support it? Change is not accomplished by waving a magic wand, but by incremental developments that can be built upon.

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The enterprise funds supported entrepreneurs like these when we built the ecosystems for access to capital from the ground up. Beyond issues like tax collection and establishing property rights, these individuals drive economic growth, and stability comes when such people have a stake in the future.

and establishing property rights, these individuals drive economic growth, and stability comes when such people have a stake in the future. They can own their own businesses, have a place to live, put food on the family table, and send their children to school. They can have a better life. We need to see more strategies that address those fundamental human needs, no matter what the local conditions are.

This issue has reemerged relative to the conflicts in Iraq and Afghanistan, with military and civilian officials discussing ways to encourage post-conflict reconstruction. Since serving on the board of directors of the Afghan-American Chamber of Commerce and as chair of AACC’s working group on access

to capital, I have been involved in helping organize public policy conferences with the National Defense University. At our annual AACC Business Matchmaking Conferences, I have emphasized the need to mobilize the private sector in stabilization and have discussed the lessons learned in Eastern Europe and the applicability of that experience to Afghanistan’s situation. With Landis & Co., headed by Emily Walker, the former U.S. executive director of the European Bank for Reconstruction and Development, I have designed an Iraqi SME fund based on the enterprise fund model.²⁴

As policymakers struggle with how to best stabilize Afghanistan now that America is winding down its involvement there, answers will have to come from private-sector, sustainable solutions that create opportunities for the Afghan people and give them a real stake in economic and political progress. Clearly, local cit-

izens will be less inclined to blow up a cell phone tower if they have a stake in the benefits of that tower by relying on it to generate income to support themselves and their families.

The myriad opportunities for enterprise funds present themselves constantly, and while officials begin to ask questions about the promotion of economic stability and enterprise in these environments, the enterprise fund approach can provide some solutions. Until recent proposals for enterprise funds in the MENA region, however, few realized that the U.S. government had financed and promoted such a very successful program only a couple of decades before.

Since my work with the enterprise funds in Poland, Hungary, and elsewhere, I have continued to advise government officials, development professionals, and businesspeople with an interest in employing the enterprise fund approach in a variety of environments. However, we cannot just impose an abstract enterprise fund model for development on countries and expect it to work.

The needs vary from situation to situation, and each requires a unique approach. In order to develop that, I start with three questions: What are the objectives? What are the conditions? What are the needs? There are certain things some funds can't do or accomplish because of the individual conditions, and, similarly, the objectives of the fund's strategy should reflect the real needs of the citizens and the market where the fund intends to operate. By focusing on these questions, I can usually find a creative way to design a fund to carry out the desired mission.

In 2010, I testified at a congressional hearing on the potential for an enterprise fund for rebuilding the Haitian private sector.²⁵ My invitation followed an op-ed I penned in *Forbes* with Ambassador Roger Noriega in the weeks after the January 2010 earthquake that devastated the country.²⁶ Our op-ed was prompted by news commentators who questioned what entities could best rebuild Haiti: the government? NGOs? the private sector?

Government can play an important role, but between 1994 and the 2010 Haitian earthquake, the United States had expended by some count about three billion dollars in assistance to Haiti, and had allocated substantial additional funds and resources in disaster relief since the earthquake. One has to ask: What did the U.S. or Haiti get for all this spending? Many NGOs and the world's donor community have poured additional resources into Haiti, and still, what are the results?

A Senate bill proposing a Haitian-American Enterprise Fund failed to gain support in Congress. By now, if it had proceeded, such an enterprise fund might have already begun supporting the foundation of an emerging Haitian SME sector, which up to now has not had access to the capital needed to grow local businesses. The creation of such businesses would contribute to rebuilding the Haitian economy from the bottom up, so that Haitian entrepreneurs with a meaningful stake in their society could capably contribute to rebuilding their own country. To do so, however, they would need access to professionally deployed capital.

Given the past 20 years of unprecedented growth and transformation, the opportunities for growth in Poland and other countries of the CEE region have begun to multiply by orders of magnitude, and vehicles to meet that demand have

developed in order to meet new market demands. Thankfully, I've had the luck and position to count myself among those who could participate in contributing to that transition.

The enterprise funds had a mission driven by private-sector principles. They built businesses, and those businesses created jobs. They put the public's money to work in a commercially disciplined way to achieve significant development objectives. They built institutions crucial to a market, and they built human capacity for local investing and for growing companies. Furthermore, when their missions were complete, the enterprise funds returned money to the U.S. Treasury, and with the residue from investment proceeds, have had money left over for the legacy funds.

While the enterprise funds clearly have demonstrated their impact, many of the positive results confound measure. In fact, much of the language we heard from the local beneficiaries tended toward the simple but powerful idea of "the hope" that the enterprise funds instilled. We implemented an abstract concept and strategy, which demonstrated the local risks and opportunities and eventually proved itself. The reality of accomplishments speaks for itself so much more clearly than the original idea. When we see real and lasting development and watch emergent entrepreneurs grow from small-time merchants to larger players in the market, we know we contributed to creating not just something sustainable but something that has its own satisfying rewards in the results achieved.

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 3. <http://www.paccpnw.org/2011/12/top-500-polish-innovators-visit-silicon-valley/>
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 18. One clear exception has been the Overseas Private Investment Corporation.
 19. Support for Eastern European Democracy (SEED) Act of 1989, 101st Congress of the United States, November 1989.
 20. Kenneth Juster, Esq., Senior Advisor to the Deputy Secretary of State, U.S. Department of State, Rand Corporation Conference, September 21, 1990.
 21. See Polish-American Freedom Foundation <http://www.pafw.pl>
 22. See “Building Free Markets—SEED Act 1989-2009 Enterprise Funds – a closed chapter or a model to be followed?” by Krzysztof Bobinski at www.seedact.com
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 24. <http://www.invest-iraq.com>
 25. See The “Enterprise Fund” Model Employed as a Tool in Haiti’s Reconstruction, Congressional Hearing Testimony on “Rebuilding Haiti’s Competitiveness and Private Sector,” US House of Representatives’ Committee on Financial Services Subcommittee on International Monetary Policy and Trade, Washington, DC, March 16, 2010 http://www.house.gov/apps/list/hearing/financialsvcs_dem/hr_031210.shtml
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