



## Foreign Aid: USAID’s Legacy Foundations in Europe/Eurasia

Historically, the conclusion of an aid program has been due to completion of its development mission, poor behavior by the recipient country, or funding constraints. Whatever the case, the formal closing of a U.S. Agency for International Development (USAID) mission in the past has been viewed by many U.S. policymakers as diminishing avenues for U.S. influence in a country and by host country governments and their public as a loss of U.S. goodwill.

The United States has sometimes, and with considerable success, sought to extend its influence, goodwill, or development efforts to former beneficiaries beyond a period of direct aid intervention through a variety of legacy mechanisms. For example, a leading think tank in South Korea today, the Korean Development Institute, was established in 1971 with a \$70 million endowment from USAID. The Costa Rica United States Foundation for Cooperation (CRUSA), founded in 1996 with a \$12 million endowment, continues its work promoting economic growth.

### The Foundations and Their Funding

In the period from 2000 to 2010, nine so-called “legacy foundations” were established in East Europe and Eurasia. They share a common origin in the USAID-supported, private sector-managed enterprise funds that were created following the fall of communist systems beginning in 1989. These entities sought to stimulate free market economic growth, in part by making equity investments in small and medium firms, many of which had difficulty finding capital in the early years of capitalist development. While the development record of the funds is mixed, in many cases, the equity investments were profitable. As the time approached for fund liquidation—they had been expected to last about 10 years—the question arose of what to do with the profits. Foreign policy leaders in Congress and USAID generally agreed that a portion of the profits, representing half of the original grant, would be returned to the U.S. Treasury; the remainder would go to endow newly established grant-making foundations.

In practice, the proportion going to Treasury and an endowment has varied. Profits from the Central Asia and Slovak funds were too small to accommodate both a Treasury contribution and an endowment; in these cases, all profits went to an endowment. Disposition of Treasury’s portion of the Russia enterprise fund has been subject to two congressional holds since 2007, some Members wanting all proceeds to go to the U.S.-Russia Foundation or another endowment. In the case of Albania, Bulgaria, and Romania, profits greatly exceeded the original grant, and the endowment, rather than the Treasury, received the preponderant share. The total endowment for all nine foundations equals more than \$1.2 billion.

A 10<sup>th</sup> enterprise fund, the Western NIS Fund—encompassing Ukraine and Moldova—has not yet been terminated. Because the need for equity investing and other private sector development activities was, if anything, considered to be as critical to Ukraine now as it was in the 1990s, a decision was made both to extend the life of the fund, including making new investments, and, at the same time, to allow it to undertake legacy foundation-like activities. In 2015, it began to implement a \$35 million legacy program similar to those in other countries.

**Table I. Legacy Foundations and Their Endowments**  
(in \$ millions)

Polish-American Freedom Foundation (est. 2000)	\$263.0
Hungarian-American Enterprise Scholarship Fund (2003)	\$15.0
America for Bulgaria Foundation (2007)	\$422.5
U.S.-Central Asian Education Foundation (2007)	\$17.5
U.S.-Russia Foundation for Economic Advancement and the Rule of Law (2008)	\$150.0 (to date)
Albanian-American Development Foundation (2009)	\$200.0
Romanian-American Foundation (2009)	\$125.0
Baltic-American Freedom Foundation (2010)	\$37.5
Slovak-American Foundation (2010)	\$4.0
Western NIS (New Independent States) Enterprise Fund—still operating	\$35.0 (to date)

Source: USAID.

### Foundation Purpose and Activities

In accordance with federal regulations (2 C.F.R. 200.307) and the grant agreements with the foundations, the profits of the enterprise funds have to be used for the same purpose as the funds—private sector development. That objective has been interpreted flexibly by the foundations in some cases to include economic governance and rule of law if those affect the private sector, but also independent media, civil society, local community development, education, cultural heritage, and tourism.

The four foundations with smaller endowments use the funds exclusively for scholarships and internships in the United States. The smallest, the Slovak-American Foundation, focuses on grants to start-up entrepreneurs to participate in short-term programs in the United States targeted to their business interests.

Those foundations with larger endowments are able to undertake a broader range of activities. Several provide entrepreneurship grants that seek in a variety of ways to

strengthen business development. The American-Albanian Development Foundation, for instance, supports tourist improvement districts, whose revitalized historic areas grow tourist-related businesses. It similarly supports business improvement districts to enhance infrastructure and the environment in commercial neighborhoods.

Many foundations provide grants to nongovernmental organizations (NGOs) in support of rural community development activities. The Polish-American Freedom Foundation funds the institutional development of rural and small-town NGOs. The Romanian-American Foundation supports development of ecotourism destinations and funds farmers' agricultural associations to boost productivity.

The object of one foundation grant has received significant public attention. The legacy arm of the Western NIS Fund provided seed money to Prozorro, a Ukrainian organization that sought to counter corruption by bringing transparency to the local government procurement process. Its program was so successful that it was adopted by the national government for all procurements.

Because their endowments are large, the Romania, Bulgaria, and Albania foundations may be expected to exist for many years. The smaller endowed foundations, however, will cease to operate when their funds are spent out; the Hungary and Slovakia foundations are expected to be the first to dissolve.

### Foundation Management and U.S. Role

The management structure of each foundation was largely agreed between USAID and the enterprise fund as part of the fund liquidation process. In each case, the enterprise fund proposed the purpose and structure of a foundation and negotiated an agreement with USAID. The funds established the foundations in accordance with their agreement with USAID. Once the funds liquidate as a legal entity, U.S. authority over the foundations is limited to what was defined in the grant agreement.

The foundations are all 501(c)(3) nonprofit organizations registered in the United States. They each have a Board of Directors composed of both U.S. and host-country nationals. In addition to the requirement that they pursue the objectives of the original enterprise funds, they are required to give visibility to the U.S. role in their activities, noting these are a gift of the American people. They are all required to publish annual reports. Although they are not required to maintain websites, most do.

The U.S. role in foundation decisionmaking is limited. The United States maintains a nonvoting liaison to the board of each foundation. While USAID has the responsibility to make sure the foundations keep to their agreements, it does not always hold the liaison position. In some cases, such as in Poland, the U.S. ambassador is specified as the liaison. Although the agency no longer has a mission presence in most foundation countries, USAID often attends board meetings as an observer and maintains a relationship with each board. It continues to monitor the behavior of the foundations to ensure they maintain the correct board

composition, acknowledge U.S. government assistance in their operations, provide audited financial statements, and pursue private sector development.

USAID has no formal say in how legacy endowment funds are used. For example, while USAID has questioned the funding by the Bulgaria Foundation of a children's museum as inconsistent with the purpose of U.S. funding, it has little ability to prevent the activity. The one instrument of control USAID possesses is a "reversionary interest" provision included in the foundation grant agreements. This provision allows the United States to terminate a foundation and get back its money under a range of circumstances, including failure to honor the grant agreement and "foreign policy" reasons, which could include the broad aid prohibitions applicable under the Foreign Assistance Act of 1961. This ability, however, is viewed by some in the agency as a "nuclear option," a drastic step unlikely to be employed.

A USAID-commissioned independent evaluation of the foundations and their operations is expected to be published in the near future.

### Legacy Foundations as a Graduation Model

If structured well, legacy foundations may be a way to extend a U.S. "presence" and influence in a given country beyond the formal assistance program. The purposes of U.S. assistance could thereby continue to be promoted for many years. Further, foundations have an advantage over USAID development efforts in that they are embedded in the communities they serve and may take a more flexible and long-term approach which could enhance effectiveness. However, there are limitations to the current model that Congress may wish to address in future iterations of such legacy mechanisms:

- Endowment agreements provide only limited guidance on what the foundations can and cannot do. USAID could require agreement language with more precise direction.
- Similarly, existing agreements provide the U.S. government with limited authority to ensure that guidance is enforced. An option would be for the agreements to establish a governance structure that would give the United States a voting position on the board or project-by-project approval power, both likely requiring congressional authorization. The right to approve appointment and reelection of board members may also serve this purpose.
- Most countries do not have enterprise funds from which to draw profits for an endowment—others exist today only in Egypt and Tunisia. Establishing an endowment would require substantial appropriations, depending on the size of the country and the anticipated longevity of its operations.

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