



## **Egyptian-American Enterprise Fund “EAEF”**

### **2017 Annual Letter**

February 13<sup>th</sup>, 2017

Dear Stakeholders of the Egyptian-American Enterprise Fund,

2016 marked an inflection point for Egypt with the government embracing difficult reforms that we believe will form the foundation for economic prosperity in the years ahead. Policy makers passed important value-added tax (VAT) legislation, energy subsidies were reduced by 40% and the exchange-rate regime was liberalized. These bold measures were applauded by Egypt’s bi-lateral and multi-lateral partners and led to successfully negotiating a USD 12bn loan with the IMF. Markets have also responded favorably. The country successfully closed a USD 4bn international bond offering that was 3x oversubscribed by leading US and European institutions.

We expect more positive stories to unfold in 2017. With the currency devaluation behind us, this is a time to accelerate EAEF’s investment activity. After careful examination of funding gaps in the Egyptian market, our Board of Directors has seeded Algebra Ventures and Tanmiya Capital Ventures (TCV), two first-time funds that identify and support high-potential businesses in underserved markets. Algebra Ventures is a USD 40mn technology venture capital fund that invests in Egyptian entrepreneurs. EAEF partnered with IFC, EBRD and Cisco on this investment. TCV is a mid-market, SME focused investment fund that is prioritizing opportunities in Egypt’s export and industrial sectors. We continued our constructive relationship with Lorax Capital Partners “LCP” to execute EAEF’s mission to increase financial inclusion in Egypt. It also enhances our ability to support import substituting and defensive industries needed to create jobs during Egypt’s economic transformation.

Despite Egypt’s economic challenges, the companies that we invested in 2015 continue to thrive. We feel privileged to have the opportunity to invest in excellent management in underserved markets. Both our consumer finance company, Sarwa Capital, and the payment processing business, Fawry, exceeded their operational and financial targets for 2016. Fawry and Sarwa utilize technology to improve efficiency and access to information, improving the quality of life for their customers. Now they are expanding their range of products and services to include microfinance, mortgages and leasing. As the CEO of PayPal best describes it: our goal is ‘democratizing financial services and making the opportunity to move and manage money a right for every citizen, not just the affluent’<sup>1</sup>. Egyptians have historically stood for hours in line to pay a utility bill and the majority remain uninformed on the process of getting a personal loan. In a highly unbanked country, we believe we can enable our investees to go where banks cannot go. During the year we made an investment in SmartCare, a tech-enabled healthcare services company improving the affordability and accessibility of healthcare services to Egypt’s labor force. EAEF’s investment provided the company with capital to develop its technology infrastructure.

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<sup>1</sup> From the book ‘Thank you For Being Late, An Optimist’s Guide to Thriving in the Age of Acceleration’, Thomas Friedman



We are also excited about the pipeline and optimistic that EAEF will be able to execute on a number of transactions this year. We are seeing opportunities in financial services, healthcare, manufacturing and exporting sectors, in line with our focus on job creation and long-term growth. In addition, we continue to follow a number of new local funds as we aim to support areas where we see a funding gap in Egypt and sectors of high development priority.

Egypt's principal challenge in 2017 is to alleviate the social and economic pain that comes with high inflation. Our investments in financial services and healthcare are aimed at supporting the consumer during this time. Moreover, we are looking at exporting businesses that diversify and expand Egypt's foreign currency earnings. Our development goal is to create and maintain jobs that utilize Egypt's talent and support economic growth. We are often asked by other investors, 'Is another devaluation a risk?' 'Will the pace of reforms slow down?' It is possible, but we are very long-term investors. In that regard EAEF is different from other funds.

We cannot end this letter without addressing the one question on the reader's mind: What will a Trump Presidency look like and what is the impact on Egypt? As I have said to my investors in Caravel, there are potential positives to Mr. Trump's "America First" approach. Fiscal stimulus, deregulation and tax reform in the US will drive global growth, improve business confidence and exports from developing countries will increase. The concern is short term protectionist policies that reduce US trade with the world and drive dollar strength. I expect that President Trump will moderate his approach to trade negotiations to achieve his "America First" objectives and avoid hurting the very people he is trying to protect. President Trump's rhetoric and reputation in real estate suggest that he will be the ultimate "deal" President. The warm relationship he shares with the Egyptian leadership gives us hope that this is an opportune moment for Egypt to build a constructive relationship with the US.

Regarding EAEF's Board of Directors, we are pleased to announce that Ms. Nada Shousha, the previous Regional Manager at IFC for Egypt, Libya and Yemen has joined the Board. We are very proud of the Board and its level of engagement and I am pleased with the team and fund managers. Last but certainly not least, Amal Enan, our excellent Chief of Staff has been promoted to Executive Director.

We are fortunate to have the support of both Governments who share our long-term objectives for a prosperous Egypt and a strong relationship between the two countries.

Please do not hesitate to email or call if you have any questions.

Sincerely,

James A. Harmon  
Chairman