



Egyptian-American Enterprise Fund 2016 Annual Letter

January 25th 2016

Dear Stakeholders,

It has been five years since the Egyptian Revolution brought political change to the country. In March 2011, Former Secretary of State Hillary Clinton, stressed that political reforms must be matched with economic reforms. To that end, Secretary Clinton announced the establishment of the Egyptian-American Enterprise Fund (EAEF), demonstrating economic support for Egypt. Today, Egypt has made considerable progress toward political and economic stability, and the EAEF is proud to have made its own modest contribution. The timing begs the question: Is this the moment to consider replicating the EAEF model in other countries in the region?

For this reason, I am pleased to share with you the achievements and challenges the EAEF experienced to date and its goals for the future.

Following the signing of the grant agreement in March 2013, the focus was to get the right people on board to build a successful business. We assembled a full board of nine thoughtful American, Egyptian-American and Egyptian professionals with extensive and diversified private sector and investing experience. The board defined the Fund mandate and crafted an investment strategy aimed at promoting job creation, expanding financial inclusion and improving quality of life in Egypt.

Instead of hiring an external manager, the board carefully selected a team of experienced professionals in Egypt to execute on the EAEF's unique mission of realizing financial returns concurrent with delivering on its development objectives. The purpose is to provide and attract foreign direct investment to Egypt that can deliver social benefits and sustainable economic growth. The EAEF has supported the team to expand and form an independent management company. The company, Lorax Capital Partners, has hired eight professionals and will continue to grow and invest in Egypt long after the Enterprise Fund completes its mission.

The EAEF recognizes that a healthy financial sector is critical to economic development. Only 10% of Egyptians have a bank account, so in order to promote financial inclusion, the EAEF has invested in two financial services companies. The first, Fawry, is an electronic payments company with over 15 million customers that rely on the service to meet their money transfer needs. The EAEF partnered with two other international financial investors to attract close to USD 80 million to support the company's management in their expansion plans. The EAEF also made a USD 56 million investment in Sarwa Capital, a growing consumer finance company which is now diversifying its product offerings and extending financing to SMEs. Both companies are fueling financial innovation and challenging the incumbent players to follow. In both investments, EAEF is viewed as a value adding shareholder, employing its resources and network to bring the portfolio companies best commercial practice from around the world.

EAEF works closely with the management teams of its portfolio companies to develop and refine strategy. Through these relationships, the Fund better understands the challenges which face entrepreneurs in Egypt. As a result, the EAEF board has formed a venture committee to support innovation, encourage entrepreneurship and empower risk taking among young professionals that want to build something in and for Egypt. Advising this committee is a seasoned investor and serial Egyptian entrepreneur who can mentor and invest in promising entrepreneurs capable of creatively tackling market opportunities in Egypt.

Despite the Egyptian government's reform efforts, the fragile global environment has exposed some of Egypt's economic vulnerabilities. A strong dollar has intensified foreign exchange risks. Lower oil prices reduced the urgency for further subsidy reforms. Slower global trade limited Suez Canal revenues. Meanwhile, regional instability has acted as a double edged sword for Egypt. Tourist arrivals fell by over 35% year on year, but the country continues to receive financial assistance from the Gulf, cushioning the economy from a hard landing.

In the current low oil price environment, Gulf financing is becoming more restricted shifting from grants to investments for returns. Egyptian investment banks have a healthy IPO pipeline ready for the market when conditions improve. For Egypt's business community and policymakers, the EAEF is more critical today than ever before. It can play a significant role in signaling to investors that an international institution is investing profitably in Egypt despite the headwinds. Providing direct equity investments in hard currency, free of the burden of debt financing to be repaid in foreign currency, is essential to Egypt.

Our management team is busy meeting and assessing businesses in need of growth capital but, it is clear that the EAEF's USD 300 million is not enough to address all of the investment opportunities that we are seeing. Our hope is that the EAEF can help facilitate the entry of other institutional investors into the Egyptian market by developing a "parallel fund" that could invest alongside the EAEF.

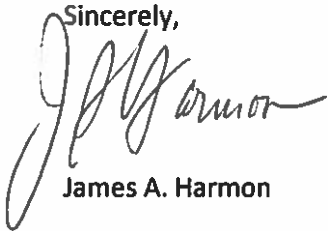
A parallel fund has the potential to attract multiples of the EAEF capital available for Egypt. In this regard, the Enterprise Fund would be unlocking its true value in supporting the Middle East. In a region where 60% of the population is under the age of 25, a diversified and sustainable pool of funding that finances businesses for long-term job creation can make an important contribution to global security.

We will market the parallel fund to the private sector and to sovereign wealth funds. There will be no USG funds invested in this fund. In time we will report further on the parallel fund activities. The intent is to increase foreign direct investment into Egypt and to thereby leverage the US taxpayer seed capital in the Enterprise Fund.

Enterprise Funds invest in people. They are an alternative model of economic support capable of transforming challenged economies. In the long run, economic stability paves the way for political stability and security.

I take this opportunity to thank all the stakeholders and friends of the EAEF who over the last three years contributed to shaping the Enterprise Fund model, believing in its long term benefit to Egypt and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read "James A. Harmon".

James A. Harmon

Chairman

EAEF Board of Directors:

Tarek Abdel-Meguid
Nadim ElGabbani
Hala ElMohandes
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