EAEF
EGYPTIAN-AMERICAN ENTERPRISE FUND

Disclosure Statement
Operating Principles for Impact Management
Egyptian-American Enterprise Fund
August 19, 2020

The Egyptian-American Enterprise Fund ("EAEF") is a signatory to the IFC-led Operating Principles for Impact Management ("the Principles").

The Operating Principles for Impact Management provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This disclosure statement serves to fulfill EAEF's obligations pursuant to Principle 9 of the Principles. It affirms that all of EAEF's investment assets are managed in alignment with the Principles.

Total Assets Under Management ("AUM") in alignment with the Principles is $424.8 million as of June 22, 2020.

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PRINCIPLE 1:

***Define strategic impact objective(s), consistent with the investment strategy*.**

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

Background

The Egyptian-American Enterprise Fund (EAEF) is a private entity funded by the U.S. government to invest in Egypt's private sector. The purpose of the fund is to support the development of Egypt's private sector with loans, equity instruments and technical assistance.

EAEF seeks to implement a model for investing in challenged economies through a range of investment tools to support the growth of private sector enterprises. EAEF adopts a dual-bottom line approach of 1) contributing to Egypt's socioeconomic development; 2) generating financial returns to demonstrate to other potential investors that private sector investment can be undertaken profitably in Egypt.

History of EAEF and Enterprise Funds

In 2011, in response to the political and economic transitions in the Middle East known as the Arab Spring, the U.S. Congress authorized[1] the creation of the Egyptian-American Enterprise Fund with up to $300 million to strengthen the private sector of one of the United States' most important allies.

EAEF is modeled after the enterprise funds created following the breakup of the former Soviet Union to help the newly-formed Eastern and Central European countries transition from state-based to market economies. The U.S. Agency for International Development (USAID) oversees enterprise funds and provides their seed capital, which is intended to facilitate economic growth by making investments in a diverse array of businesses in line with host countries' developmental needs.

[1] Consolidated Appropriations Act, 2012, Pub. L. No. 112- 74, Div. I, § 7041(b).

Investment Objectives

EAEF invests in private enterprises in Egypt that contribute to long-term, inclusive and sustainable economic growth. EAEF deploys capital with a dual mandate to deliver financial returns and promote socioeconomic development in Egypt. The fund deploys capital on a profit-seeking business with due regard to societal benefits in Egypt. The fund's goals are:

1. Job Creation
2. Improving Egyptians' Quality of Life
3. Promoting Financial Inclusion

Additionally, EAEF seeks to attract foreign investment into Egypt, promote commercial best practices and improved corporate governance among its investees and fund managers. EAEF encourages entrepreneurial activities, environmental accountability and favors investments that have a positive demonstration effect for other Egyptian businesses. EAEF's investments align with many of the United Nation's Sustainable Development Goals (SDGs).

Investment Strategy

EAEF is a long-term investment partner to Egypt and seeks to partner with other investors, managers and stakeholders with objectives that align with EAEF's mandate. The fund's strategy targets opportunities where it can bring additional resources to the benefit of the investee, including additional investors, technical assistance, and commercial best practices. EAEF works to achieve this via board representation and seeking minority stakes in investee companies. EAEF does not engage in competitive bidding and crowding out of other private investors and seeks to invest across Egypt in line with the country's development priorities.

Investment Criteria

It is at the center of EAEF's mission to work closely with our fund managers and portfolio companies to develop an impact-driven investment approach in which socioeconomic impact and financial returns are aligned. EAEF considers the following criteria in the investment process:

1. Need for growth capital or capital to restructure operations
2. Investees' primary country of operations must be Egypt
3. Expectations for profitability and/or development returns of the company and EAEF's investment

PRINCIPLE 2:

Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

EAEF's grant agreement requires that it conduct monitoring and evaluation on an ongoing basis to inform progress toward its mandate of developing Egypt's private sector.

EAEF developed a Performance Monitoring and Evaluation Plan (PMEP) in coordination with USAID that includes indicators to track progress of the impact of EAEF's activities in Egypt. These indicators are drawn from EAEF's results framework, which can be viewed in further detail in our inaugural impact report (page 8). These indicators are supplemented by metrics from the Global Impact Investing Network's (GIIN) IRIS+ system to strengthen impact measurement in specific market segments. EAEF conducts on-going monitoring of its investment portfolio, which culminates in an impact report.

To ensure ongoing impact measurement and fulfill USAID's reporting requirements, EAEF includes information and reporting covenants in shareholder agreements with investees and fund managers. EAEF and its fund managers also manage impact on a portfolio basis by articulating the developmental impact of an investment during the IC process, which helps to inform subsequent impact measurement after a transaction is executed.

Given EAEF's dual-bottom line approach, financial performance and developmental impact are embedded in EAEF's mandate, which incentivizes managers to achieve both.

PRINCIPLE 3:

Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[2] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

The U.S. Congress authorized the creation of EAEF to develop Egypt's private sector. The fund seeks to accomplish this objective by using loans, equity capital and technical assistance that can contribute to long-term, inclusive and sustainable economic growth in Egypt. EAEF helps the private sector grow by providing access to capital in an undersupplied market, promoting and disseminating international best practices and attracting foreign investment into Egypt.

To achieve this objective, EAEF adopted a model of empowering local fund managers to source and manage its investments—a key component of its success to date. These partnerships have helped catalyze the growth of Egypt's private equity (PE) and venture capital (VC) markets and play a critical role ensuring the long-term viability of a sustainable investment environment in Egypt.

As part of its strategy, EAEF targets opportunities where it can bring additional value to its investees and fund managers. This includes helping to raise additional investments for its investees and fund managers from the United States, providing technical assistance and taking board seats on companies to promote international best practices and improve corporate governance policies.

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[2] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

PRINCIPLE 4:

Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[3] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[4] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[5] and follow best practice.[6]

Prior to receiving approval to commence due diligence on a transaction, EAEF and its managers present a memorandum to the Investment Committee that outlines, among other transaction details, the positive impact potential deriving from the investment. This assessment reflects the intended positive social or environmental impact of an investment within the market context of Egypt and the country's development priorities. This intended impact should align with EAEF's mandate of private sector development in Egypt and its objectives of creating jobs, improving quality of life and expanding financial inclusion. EAEF's investments are expected to contribute to an overarching goal of stimulating the private sector and promoting a climate for sustainable, long-term investment.

As previously noted, EAEF and USAID developed a performance monitoring plan to capture performance data needed to measure progress toward the fund's goals. It is a theory of change-

[3] Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

[4] Adapted from the Impact Management Project (www.impactmanagementproject.com).

[5] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

[6] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

based monitoring and evaluation (M&E) plan that examines EAEF's progress toward its higher development goals and whether an investment has any negative or unforeseen consequences.

This M&E plan and its associated results framework informs EAEF and its investment manager's assessment of an investment's impact by outlining what is the intended impact and its scale, and who are the project's beneficiaries. ESG effects of an investment are also considered in the context of EAEF's efforts to provide technical assistance and promote commercial best practices in Egypt.

Investment indicators descend from this M&E plan and are measured on an ongoing basis to help monitor the impact of an investment. Additional indicators from GIIN's IRIS+ are included, if applicable, to deepen impact measurement of an investment.

Lastly, per EAEF's grant agreement, the fund will participate in three impact evaluations over its lifecycle financed by USAID. The evaluations will evaluate progress toward attainment of the grant's objectives and EAEF's overall developmental impact. They will also outline any issues that would inhibit such attainment and provide recommendations for rectifying such constraints for EAEF to better fulfill its mandate.

PRINCIPLE 5:

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[7] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[8] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

During the due diligence process, EAEF and its managers evaluate the potential negative effects of an investment, develop strategies to strengthen ESG standards, and monitor the investment accordingly throughout its life cycle to ensure alignment with EAEF's mandate.

As part of its efforts to develop Egypt's private sector, EAEF targets investments where it can bring additional resources for the benefit of the investee, including technical assistance, management skills and international best practices. EAEF takes into account such considerations as internationally recognized worker rights, and other internationally recognized human rights, gender and environmental factors. EAEF has adopted Principles for Environmental Management as part of its policies and procedures approved by USAID.

An important aspect of developing Egypt's private sector is to encourage the emerging private sector to be sensitive to the environmental implications of its activities and work to ameliorate over time any negative environmental repercussions of such activities. To this end, EAEF seeks to ensure that it and the firms in which it invests will not support any activity that poses a significant threat to the environment.

In making decisions regarding investments, EAEF complies with applicable environmental laws, and whenever practicable, attempts to follow policies underlying the International Chamber of Commerce's Business Charter for Sustainable Development and the CERES Principles. EAEF expects management of the firm in which it invests to demonstrate a commitment to improving the environmental performance of their firms and to reducing the harmful effects their operations may have on the environment. Once financing is available, and where feasible and necessary,

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[7] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6

[8] Examples of good international industry practice include: IFC's Performance Standards (*www.ifc.org/performancestandards*); IFC's Corporate Governance Methodology (*www.ifc.org/cgmethodology*), the United Nations Guiding Principles for Business and Human Rights (*www.unglobalcompact.org/library/2*); and the OECD Guidelines for Multinational Enterprises (*http://mneguidelines.oecd.org/ themes/human-rights.htm*).

EAEF will attempt to arrange for ongoing advice and technical assistance to firms in which it invests.

PRINCIPLE 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[9] The Manager shall also seek to use the results framework to capture investment outcomes.[10]

EAEF's result framework outlines the fund's resources, activities, outcomes and strategy for achieving its goal of developing Egypt's private sector in an inclusive and sustainable manner. The results framework serves as the foundation for EAEF's PMEP, which is an ongoing process that allows EAEF to monitor the progress of its investments in achieving the fund's impact goals and objectives. The PMEP includes the fund's results framework/theory of change, relevant indicators and outlines data collection processes, responsibilities and frequency.

Data is collected on an ongoing basis and culminates in an impact report. The M&E system was designed and developed to ensure a continuous collection and flow of data that enables USAID, EAEF management, and evaluators to closely monitor progress, ensure that activities are being implemented as planned, take strategic decisions, and evaluate whether the fund is achieving the intended and planned impact. Impact measurement allows EAEF to monitor the progress of its investments in achieving impact against prior expectations and whether an investment continues to be in alignment with EAEF's objectives.

This PMEP is intended to be a management/evaluation tool. It is intended to help EAEF and its managers measure and report their performance, highlight their successes, and focus on areas that need attention and change. Impact measurement helps EAEF and its managers strengthen operations management of underlying portfolio companies.

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[9] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance

[10] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (*www.oecd.org/dac/*).

Shareholder agreements with investees and fund managers outline EAEF's information and reporting requirements to ensure compliance with the fund's grant agreement and M&E plan.

PRINCIPLE 7:

Conduct exits considering the effect on sustained impact.

When conducting an exit,[11] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Per its grant agreement, EAEF's fund managers will seek to develop appropriate exit strategies, where possible, for its investment portfolio.

As a long-term strategic partner mandated with developing Egypt's private sector, EAEF seeks investments that generate financial returns and promote the country's socioeconomic development well into the future.

During the initial investment period, EAEF looks for opportunities that will have sustained impact over the long-term to strengthen Egypt's private sector. Sustained long-term impact is engrained into EAEF's investment strategy and given the same priority as financial returns. This reduces the likelihood that the exit of an investment would affect the sustainability of its impact in the long-term.

[11] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

PRINCIPLE 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

As previously indicated, EAEF developed an M&E framework in coordination with USAID that outlines its impact measurement and management (IMM) processes to review, document and improve decisions and procedures based on progress toward achieving its impact objectives. EAEF and its managers work with portfolio companies on an ongoing basis to collect data and compare the expected versus actual impact of an investment. This information informs EAEF and its managers' understanding of the socioeconomic impact of an investment and strengthens their management of the underlying portfolio company.

All impact data is accessible to USAID and fund managers to enable continuous monitoring of EAEF's investments to assess whether the activities of the fund are on track in achieving its intended results and to identity any need for corrective actions.

Impact measurement occurs on an ongoing basis and culminates in an impact report, which helps to inform the fund's strategic investment decisions for the next year. EAEF recently collected comprehensive data of its investments from their baseline into mid-2019. It is currently reviewing this experience to explore how to strengthen its IMM processes going forward.

As noted in Principle 4, EAEF must also participate in three impact evaluations financed by USAID during the beginning, mid and end-stage of the fund's lifecycle. These evaluations are designed to analyze the fund's progress toward its expected objectives, highlight any obstacles in advance of these objectives and outline remedial actions, and examine EAEF's overall developmental impact in Egypt.

PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification[12] of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

To comply with the Principles, EAEF's disclosure statement will be published annually.

As a taxpayer-funded entity, EAEF seeks to undertake external verification in a cost-effective and credible manner. Given the nascent market for independent verification of alignment with the Principles, EAEF is currently studying different options for verification. EAEF's goal is to secure independent verification by December 2020.

[12] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality