EGYPTIAN-AMERICAN ENTERPRISE FUND

Disclosure Statement
Operating Principles for Impact Management
Egyptian-American Enterprise Fund
August 29, 2021

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

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 fulfills EAEF's obligations pursuant to Principle 9 of the Impact Principles. It affirms that EAEF's investment assets are managed in alignment with the Impact Principles.

Total Assets Under Management ("AUM") in alignment with the Impact Principles is $612.6 million as of May 31, 2021.

James Harmon

Chairman, EAEF

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 not for profit, privately managed entity that uses funding allocated by the U.S. government and proceeds from its own realized gains on investments to support Egypt's private sector by providing direct equity investments, loans, technical assistance and other forms of support to businesses with a focus on small and medium-sized enterprises ("SMEs").

History of EAEF and Enterprise Funds

In 2011, in response to a series of anti-government protests that swept across the Middle East and North Africa, known as the Arab Spring, the U.S. Congress authorized[1] the creation of EAEF with up to $300 million to provide economic assistance to Egypt's private sector after tourism and foreign direct investment declined following the country's revolution.

EAEF is modeled after several previous enterprise funds created following the breakup of the Soviet Union in the early 1990s to help the economies of Eastern Europe transition from state-based to market economies.

USAID Grant Agreement

The U.S. Agency for International Development ("USAID") provides supervisory oversight to EAEF and disburses its grant funding, which is intended to facilitate economic growth by providing loans, equity capital and technical assistance to small and growing businesses.

In 2013, EAEF signed its grant agreement with USAID, which legally reflects the mandate for EAEF to promote the development of Egypt's private sector by outlining the fund's purpose and a series of policies and procedures to help achieve its mandate. The grant agreement further

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

expands upon EAEF's authorizing legislation by providing guidance to the fund on its mandate, operations, administrative practices, investment policies, prohibited transactions, and monitoring and evaluation, among several other provisions.

Investment Objectives

EAEF's impact objectives are further described in the fund's investment strategy. 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, therefore, deploys capital on a profit-seeking basis with due regard to societal benefits in Egypt. The fund's overarching goals are:

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

EAEF is a long-term investment partner in Egypt that works with investors, Egyptian fund managers and local stakeholders to achieve its mandate. The fund's strategy targets opportunities where it can bring additional resources to the benefit of the investee, including fundraising, 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.

EAEF's investments align with many of the United Nation's Sustainable Development Goals (SDGs), including SDG 1 (No Poverty), SDG 3 (Good Health and Well-Being), SDG 4 (Quality Education), SDG 5 (Gender Equality), and SDG 8 (Decent Work and Economic Growth).

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 outlines five mandatory indicators that the fund must report on to its stakeholders annually.

1. Return on investment for capital invested by EAEF
2. Number of SMEs benefiting from EAEF's activities
3. Number of jobs supported at SMEs
4. Number of jobs supported at SMEs with women in positions of leadership
5. Amount of capital invested by both foreign and domestic investors in SMEs[2]

EAEF's impact measurement efforts have been guided by the fund's Performance Monitoring and Evaluation Plan ("PMEP") developed in coordination with USAID that includes additional indicators for EAEF to track progress on the impact of its investment activities in Egypt.

Recently, EAEF has replaced and supplemented some of these indicators by using metrics from the Global Impact Investing Network's (GIIN) IRIS+ system to deepen impact measurement of individual investments and to help standardize portfolio wide indicators for certain industries, such as healthcare and education.

EAEF conducts on-going monitoring of its investment portfolio, which culminates in an annual impact report highlighting the fund's activities and efforts to strengthen its impact measurement and management ("IMM") in the prior year.

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

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[2] In 2021, EAEF began working with USAID to refine these mandatory indicators to better reflect the specific impacts of its investment strategy in Egypt and efforts to strengthen its private sector.

In 2021, EAEF created an Impact Committee to strengthen its IMM. Its mandate includes helping to further develop impact criteria, targets, benchmarks, and monitoring plans in coordination with EAEF's Investment Committee. This will ensure that impact goals and criteria are clear and being met by EAEF's fund managers and direct investees. It will also help to better establish and monitor impact performance for the whole portfolio.

As a result of 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.[3] *The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

EAEF's authorizing legislation and grant agreement outline EAEF's contribution to the achievement of impact in Egypt. As described in its grant agreement, the fund's purpose is to develop Egypt's private sector by using loans, equity capital and technical assistance to support small and growing businesses that can contribute to long-term and inclusive, sustainable economic growth in Egypt. On a financial basis, EAEF helps the private sector grow by providing access to equity capital in an undersupplied market as well as loans at preferential rates.

On a non-financial basis, EAEF offers technical assistance to its fund managers and investees that includes support for governance, finances, operations, and fund-raising. These contributions are stated in EAEF's grant agreement and results framework,[4] and are communicated annually to external stakeholders in impact reports.[5]

In 2021, EAEF is participating in the Impact Frontiers initiative under the Impact Management Project ("IMP"), which convenes a select cohort of asset owners and managers to advance the field of impact management and impact financial integration.[6] As part of the program, EAEF is working to create an impact rating for its past and future investments. This will help the fund better manage impact on a portfolio basis and allocate capital to high-impact sectors by using a framework to evaluate a prior investment's impact vs risk-adjusted financial returns.

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[3] 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.

[4] See EAEF's Results Framework (Pg. 8) in its inaugural impact report, https://eaefund.org/2020-Website/wp-content/uploads/2020/03/EAEF-Impact-Report.pdf

[5] Please see EAEF's 2020 impact report for two case studies on EAEF technical assistance grants during COVID-19. https://www.eaefund.org/2020-Website/wp-content/uploads/2021/06/eaef-5-rp-FNL-spreads-a.pdf

[6] "Impact Frontiers" Impact Management Project, 2021, https://impactmanagementproject.com/impactfrontiers/

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[7] *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?*[8] *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[9] *and follow best practice.*[10]

Prior to receiving approval to commence due diligence on a transaction, EAEF and its managers present a memorandum to the IC that outlines, among other transaction details, the positive impact potential deriving from the investment. This assessment reflects the intended positive social and/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 investment strategy and results framework informs EAEF and its fund 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. EAEF is working with its fund managers during the pre-investment period to set impact targets to track the impact potential of an investment from baseline to exit. This helps the Fund and its partners monitor impact progress and recalibrate investment approaches, if needed, to achieve set impact targets.

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[7] 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.

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

[9] 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.

[10] 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.

EAEF also works closely with fund managers and investees to increase ownership around impact reporting by soliciting their feedback on what indicators would be useful to their underlying business operations. Investment indicators are sourced from EAEF's M&E plan and IRIS+ to ensure they are aligned with current best practices.

EAEF is working to align its IMM with the IMP's five dimensions of impact: what, who, how much, contribution and risk—to help quantify the positive impact potential deriving from an investment.

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)[11] 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.[12] 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 assess the potential negative effects of an investment, identify ESG risks, and set plans to monitor and mitigate these risks accordingly during the investment's life cycle.

EAEF maintains a Principles for Environmental Management that must be followed by its fund managers and investees to ensure that its investments will not support any activity that poses a significant threat to the environment. 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.

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

In 2020, for example, EAEF provided a technical assistance grant to one of its fund managers to create an ESG policy aligned with national regulations and the IFC performance standards. This policy also prescribe ESG checklists and monitoring plans to help investees manage and mitigate ESG risks.

EAEF is working to strengthen its ESG efforts by encouraging positive screening of social and governance factors in its investments. This will not only help its partners improve their own ESG

[11] 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

[12] 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*).

policies but contribute to EAEF’s mission of building a healthy private sector that supports Egypt’s socioeconomic development.

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.[13] *The Manager shall also seek to use the results framework to capture investment outcomes.*[14]

EAEF's result framework outlines the fund's resources, activities, outcomes, and strategy for achieving its goal of developing a sustainable and inclusive private sector in Egypt.

The results framework helps EAEF monitor the progress of its investments in achieving the fund's impact goals and objectives. EAEF works with fund managers and portfolio companies to set impact targets and monitoring plans to evaluate an investment's expected impact over time. Annual portfolio review sessions by fund managers and investees allow EAEF's board of directors and senior management to track progress toward impact targets and respond accordingly to help achieve positive impact.

As prescribed by EAEF's grant agreement and M&E plan, the fund requires annual reporting for fund managers and portfolio companies on mandatory indicators in addition to other sector-specific indicators. Annual impact surveys are sent to partners in Egypt, who submit answers via Survey Monkey to EAEF's head of impact with data that is subsequently uploaded into secure Google spreadsheets.

Shareholder agreements with investees and fund managers codify EAEF's information and reporting requirements to ensure compliance with the fund's grant agreement.

[13] 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

[14] 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/*).

PRINCIPLE 7:

Conduct exits considering the effect on sustained impact.

When conducting an exit,[15] 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.

Under its grant agreement, EAEF will seek to develop appropriate exit strategies, where possible, for its investment portfolio. EAEF considers several factors, including impact, when conducting an exit.

Sustained long-term impact is engrained into EAEF's mandate. As a long-term strategic partner mandated with developing Egypt's private sector, EAEF looks for opportunities that will have sustained impact over the long-term and support Egypt's socioeconomic development. This reduces the likelihood that the exit of an investment would affect the sustainability of its impact in the long-term.

[15] 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 plan in coordination with USAID outlining its impact measurement and management 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, including in quarterly board meetings and annual portfolio review sessions to evaluate data and compare the expected versus actual impact of an investment, and respond accordingly to achieve positive impact outcomes.

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. 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 if needed, outline remedial actions to help EAEF advance its mission of developing Egypt's private sector.

EAEF's impact measurement and management has evolved significantly over recent years based on multiple iterations of impact reporting and documenting the impact performance of investments. With the creation of a new Impact Committee in 2021, EAEF is strengthening its efforts to review, document and improve its IMM policies and use impact data to improve impact management and strengthen the Fund's investment strategy to better achieve its mandate.

PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification[16] 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.

This disclosure statement reaffirms EAEF's alignment with the Impact Principles and will be updated annually (August 2022).

EAEF's independent verification report from December 2020 can be found here: https://www.eaefund.org/2020-Website/wp-content/uploads/2021/01/EAEF-OPIM-Verification-page-121020-r.pdf

EAEF plans to undergo its next independent verification in 2023.

[16] 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