Disclosure Statement
Operating Principles for Impact Management
Egyptian-American Enterprise Fund
August 31, 2022

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

The Impact Principles 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 $484.8 million as of August 19, 2022.

James Harmon — Chairman, EAEF

Cornelius Queen — Vice President, 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 EAEF is a not for profit, privately managed entity that uses funding authorized by the U.S. government and proceeds from its own realized gains on investments to support Egypt's private sector by providing equity investments, loans, technical assistance and other forms of support. EAEF relies primarily on local investment managers to deliver this assistance.

History of EAEF and Enterprise Funds

In response to Egypt's 2011 revolution, the U.S. Congress authorized[1] the creation of EAEF with up to $300 million to provide economic assistance to the country's private sector after a severe decline in tourism and foreign direct investment.

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

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

[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 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

To achieve these goals, EAEF employs a private equity model, which, in the context of Egypt, has meant investing in first-time fund managers to drive impact. These managers invest in businesses that generate financial and social impact returns, and in turn, receive equity incentives that allow them to grow their businesses.

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 achieves this via board representation and seeking minority stakes in investee companies.

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 conducts reporting at the portfolio and investment levels at the end of each calendar year culminating in an annual impact report. The impact report highlights EAEF's efforts in support of Egypt's private sector, including longitudinal data analysis of key indicators, case studies on individual investments and how the fund is strengthening its impact measurement and management ("IMM") in line with best practices.

EAEF's IMM processes are informed by the fund's monitoring and evaluation (M&E) plan developed in coordination with the USAID and its grant agreement, which prescribes mandatory indicators for the fund to track. These mandatory indicators include:

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

EAEF goes beyond these indicators by leveraging guidance from the Global Impact Investing Network's IRIS +, which allows EAEF to measure its impact in additional industry sectors using generally accepted performance metrics.

Since its creation in July 2021, EAEF's Impact Committee has been working to develop a more comprehensive IMM policy that outlines the fund's investment policies, impact goals, performance metrics and what actions will be taken, if any, to ensure achievement of these goals by EAEF and its fund managers.

As a result of EAEF's double-bottom line mandate, financial performance and developmental impact are embedded in EAEF's investment strategy, which incentivizes its fund managers to achieve both.

[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.

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.*

As a long-term investor, EAEF is committed to improving the social and economic well-being of Egyptians. EAEF uses the Impact Management Project's ("IMP") five dimensions of impact to articulate its contribution to the achievement of impact. This framework can be found in EAEF's most recent impact report. This framework flows from EAEF's authorizing legislation and USAID grant agreement that outlines the fund's impact goals and available resources to execute its investment strategy.

As described in its grant agreement, the fund's mission is to develop Egypt's private sector by using loans, equity capital and technical assistance to support small and growing businesses that contribute to long-term, inclusive and sustainable economic growth. A cornerstone of EAEF's strategy has been to support first-time fund managers by providing investment capital and mentorship to help them build track records and mobilize additional capital to their funds and portfolio companies. On a financial basis, EAEF provides access to long-term, flexible capital and loans at below-market rates, including potential first-loss provisions.

On a non-financial basis, EAEF offers technical assistance to its fund managers and investees that includes support for stronger governance, financial book-keeping, fund-raising, and IMM and ESG practices. These contributions are outlined in EAEF's grant agreement and impact framework. They are communicated to external stakeholders in annual impact reports.[4]

---

[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] Please see EAEF's impact framework on pg. 16 of its 2021 impact report and year-over-year data on the fund's impact achievements. https://www.eaefund.org/2020-Website/wp-content/uploads/2022/05/2021-EAEF-Impact-Report-Hi-Res.pdf#page=16

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[5] 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?[6] 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[7] and follow best practice.[8]

Prior to receiving approval to commence due diligence on a transaction, EAEF fund managers presenting before the Investment Committee must outline the anticipated impact of prospective investments using the five dimensions defined by the Impact Management Project. The five dimensions outline what is the intended impact, who are the intended beneficiaries and how significant the intended impact will be. The fund manager's contribution to how it will strengthen the company's potential impact and manage possible risks are also included in this framework. Any assessment of the anticipated positive social and/or environmental impact of an investment accounts for the relative size of the issue being addressed in the context of Egypt and its development priorities.

As part of outlining the anticipated impact of an investment, EAEF fund managers must also set impact targets for prospective investments alongside financial projections. These targets include indicators that are aligned with industry best practices, such as GIIN's IRIS+ platform.

In 2021, EAEF joined Impact Frontiers — a learning and innovation collaboration among leading asset owners, managers, and associations to advance the field of impact management. A

[5] 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.

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

[7] 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.

[8] 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.

main deliverable of the collaboration is to develop impact ratings so investors can assess the expected impact of an investment to strengthen their decision-making process. EAEF is currently studying how best to develop a proprietary rating system in coordination with its fund managers as part of its investment decision-making process.

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)[9] 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.[10] 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 fund managers assess the potential negative effects of an investment, identify ESG risks, and set plans to monitor and mitigate these risks during the investment's life cycle, accordingly.

EAEF fund managers maintain individual environmental and social management plans to ensure portfolio companies are reviewed against national standards, IFC performance standards, Equator principles, EIB environmental and social standards and EBRD performance requirements when appropriate. Fund managers screen and categorize investment by various social and environmental factors. As part of their portfolio management, ESG focal points work with investees to monitor and mitigate key risks flagged during the due diligence process or the investment period.

To support these efforts, EAEF may offer technical assistance grants to fund managers to strengthen their ESG policies in line with national and international standards. EAEF is working to strengthen ESG efforts among its partners by encouraging positive screening of social and governance factors. This will not only help EAEF's partners improve their ESG policies but contribute to EAEF's mission of building a healthy private sector that supports Egypt's socioeconomic development. In line with its grant agreement, EAEF maintains a "Principles for Environmental Management" to help ensure 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

---

[9] 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

[10] 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*).

implications of its activities and work to ameliorate over time any negative environmental repercussions of such activities.

EAEF requires management of the firms 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.

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.[11] *The Manager shall also seek to use the results framework to capture investment outcomes.*[12]

EAEF's impact framework outlines the fund's contribution to the achievement of impact by five dimensions: what, who, how much, contribution and risk. As part of its yearly impact measurement, EAEF's impact lead sends out surveys at the end of each calendar year to its fund managers and direct investees to collect data on portfolio-wide indicators linked to the fund's impact framework. These surveys also include indicators from EAEF's grant agreement and industry-specific metrics from IRIS + to capture more in-depth data on key investments. Surveys are sent via Survey Monkey and responses are uploaded and collated into secure spreadsheets through Google. EAEF reporting requirements are outlined both in its USAID grant agreement and M&E plan.

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

EAEF's Impact Committee recently finalized an updated set of metrics for the fund to measure and is exploring how best to monitor progress against these metrics, including taking corrective action, if appropriate.

EAEF recently began to require that fund managers presenting before the Investment Committee outline the anticipated impact of prospective investments before receiving approval to commence due diligence. This assessment also includes setting impact targets with relevant indicators that fund managers can track going forward. This provides an additional reference point for EAEF to monitor impact achievement and complements its own portfolio-wide reporting efforts.

[11] 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

[12] 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,[13] *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 investor committed to developing Egypt's private sector, EAEF looks for opportunities that will have lasting impact and strengthen Egypt's socioeconomic development.

[13] 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.

EAEF established an Impact Committee in 2021 to develop a clearly defined, formal, and rigorous process to ensure that impact considerations are incorporated into the fund's investment strategy. This includes creating a process to review, document, and improve decisions and processes based on the achievement of impact and lessons learned. EAEF impact reports and year-over-year data collection allow the fund's board of directors to review the impact performance of each investment and use these findings to improve decision-making. Quarterly board meetings provide an opportunity for directors to inquire about the expected versus actual impact of an investment and respond accordingly to achieve positive impact outcomes.

Additionally, impact data is accessible to USAID 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 also must participate in three impact evaluations financed by USAID during the beginning, mid and end-stage of its 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.

PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification[14] 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 2023).

EAEF's independent verification report from December 2020 can be found here.

EAEF plans to undergo its next independent verification in 2023.

[14] 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