

GRADING THE EGYPTIAN AND TUNISIAN ENTERPRISE FUNDS

HEARING BEFORE THE SUBCOMMITTEE ON THE MIDDLE EAST AND NORTH AFRICA OF THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS

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WEDNESDAY, JUNE 21, 2017

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST AND NORTH AFRICA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (chairman of the subcommittee) presiding.

Ms. ROS-LEHTINEN. The subcommittee will come to order.

After recognizing myself and Ranking Member Deutch for 5 minutes each for our opening statements, I will then recognize other members seeking recognition for 1 minute or so. We will then hear from our witnesses. And, without objection, the witnesses' prepared statements will be made a part of the record, and members may have 5 days to insert statements and questions for the record, subject to the length limitation in the rules.

The Chair now recognizes herself for 5 minutes.

When the Obama administration proposed establishing enterprise funds in Egypt and Tunisia in 2011, I admit that I was skeptical. Previous versions of these U.S.-funded entities, first established by the George H.W. Bush administration, following the breakup of the Soviet Union, had a mixed track record. Establishing new funds in Tunisia, and especially in Egypt, where the Muslim Brotherhood had just taken power, seemed like a risky proposition.

So, despite a rocky start, I am happy to say that these funds have made some positive progress. And one thing we learned from the previous reviews and hearings on enterprise funds is that the capabilities of each fund's chairman and board of directors may be the single most determining factor of that success.

So I commend both Jim and Bow for their tremendous work over the past few years. We are grateful to each of you gentlemen for your time and for your leadership.

And, as Jim and Bow lay out in their written testimony, the road getting here was not easy, especially working in two countries with rapidly changing political conditions, difficult regulatory environments, and in need of serious economic reforms.

Although both funds are still in the relatively early stages, it is an opportune time to provide congressional oversight and take a look at how each fund is fulfilling its dual mandate, making a profit, and developing their respective private sectors.

In Egypt, we are finally seeing some positive economic signs after years of being on what seemed to be the edge of a crisis. Foreign direct investment is increasing. Investors are buying Egyptian bonds, and the foreign currency shortage has abated. With difficult austerity measures already in place, it is critical that President Sisi continue to make the hard decisions necessary for long-term growth.

In Tunisia, the government is also taking important steps to reform the economy, including raising interest rates and launching an initiative to tackle corruption. In addition to corruption, however, there are still many other concerns, including underemployment of educated Tunisians, an extremely high unemployment rate among working age youth, and a tourist sector that still has not recovered from several devastating terrorist attacks.

Reforming the economy in both Egypt and Tunisia is no easy task, and it is going to take an extraordinary amount of political will from each of their governments, in addition to international assistance, to make the necessary changes. That is one reason why so many people are excited about the prospect of these enterprise funds and the economic assistance opportunities that they can provide.

In Egypt's case, the Sisi government continues to prevent programming of regular U.S. economic assistance through both international and domestic NGOs, and we still have a backlog of hundreds of millions of economic support fund dollars.

And in the case of Tunisia, I am concerned that we are not providing the level of assistance that is required to meet U.S. stability and security goals in the region.

The President's proposed cuts to both the FMF and ESF accounts for Tunisia would unnecessarily hinder our ability to assist with our partner's crucial democratic transition. As important U.S. allies, both Egypt and Tunisia's economic well-being are critical to U.S. interests, and it is important that we find ways to support them any way we can.

Last month, I was proud to introduce, alongside Ranking Member Deutch and a number of our colleagues, a bill that would authorize a new enterprise fund for another U.S. ally, Jordan. With the chairman of the Egyptian-American and Tunisian-American Enterprise Funds here with us today, I am hoping that, in addition to answering questions about their funds and addressing any concerns members may have, they also will provide recommendations for setting up a fund in Jordan.

While enterprise funds should not be looked upon as a panacea, it is clear that they can be powerful drivers of economic growth and spur the necessary development of sustainable private sectors and turn a profit at the same time. I look forward to hearing our witnesses' thoughts about enterprise funds as a foreign policy tool, as well as any lessons that they may have learned along the way.

And now I am honored to turn to my ranking member, Mr. Deutch of Florida.

Mr. DEUTCH. Thank you, Madam Chairman, for holding this hearing today to highlight the work that these two American programs are doing, through USAID and in partnership with local leaders and governments.

I am grateful to you both, Mr. Harmon and Mr. Cutter, for taking the time to come here and shine a light on the role these funds are playing in advancing American interests and fostering prosperity abroad.

I just want to say that, as the chairman and I and our staffs prepared for this hearing, one thing was abundantly clear, and that is that it is because of the leadership of both of you that these funds have been successful. And you do this all pro bono, so we are especially grateful for your service.

Even as we consider the challenges that you face, operating in countries where bureaucracy moves slowly and corruption is still rampant, the successes of the Egyptian- and Tunisian-American Enterprise Funds deserve to be acknowledged, not only as stand-alone programs, but as examples of innovative U.S. policy.

While USAID serves many roles through many different approaches, the structure and approach of the EAEF and TAEF are indicative of the new direction that the United States development assistance has taken, under the leadership of Congress and previous administrations.

Congress established the Egyptian- and Tunisian-American Enterprise Funds in order to back local innovation, support local entrepreneurs, and strengthen local institutions. This focus on in-country capacity reflects the new emphasis of U.S. foreign assistance laid out under the USAID Forward Initiative, which was begun in 2010. By spending our money through carefully vetted local banks and businesses, as the EAEF and TAEF are doing, we multiply the impact of the dollars spent by achieving the goal of economic growth, while also building enduring institutions.

The funds rely on the knowledge of experts from the private sector who are working to strengthen small and medium enterprises in Tunisia and key sectors in Egypt. Both TAEF and EAEF have worked hard to build their boards of directors and learn about the investment climate in each country. And while some have questioned the slow pace of investments, it seems as if both of you learned lessons from the European funds in the 1990s and worked to correct many of the mistakes that were made in the past.

Over the past decade, United States assistance has emphasized accountability and returns on investment. The American Enterprise Funds in Tunisia and Egypt are good examples of this principle in action. They seek tangible returns to be reinvested into local businesses; and they open their books to regular audits, in the interest of transparency.

In 2015, the GAO issued recommendations for USAID to increase its oversight of these funds, all of the recommendations which have now been implemented. We look forward to hearing more from both of you how the vetting and oversight process works.

AID dollars are a finite resource, and the United States has redoubled its efforts to spend them in areas where they will best advance our national interest. Security and stability in these countries is critical, and economic turmoil feeds instability. Tunisia was the birthplace of the Arab Spring, and its young democracy can be a model for other nations seeking to move from authoritarianism and oppression to democracy and freedom, but we must address the root causes of the uprising; namely, an overeducated, under-

employed youth population, which is a focus of the enterprise fund, as I understand it. I look forward to hearing from you about that.

I am deeply concerned about the proposed cuts to security assistance to Tunisia that might undermine progress being made in building democratic institutions and strengthening the economy. In Egypt, the relationship with the United States is longstanding, and it is of major strategic importance, but it can be fraught with tension, particularly when it comes to spending USAID dollars.

Support for these funds demonstrates the increasingly bipartisan support that international development has enjoyed in Congress. The TAEF and EAEF are examples of the broad support for the important work of international development that I hope will continue in Congress, even as this White House attempts to dramatically reduce American engagement abroad.

There has been a clear effort to make America's development work more efficient and more focused, and at a time when agencies like USAID and OPEC are finding their very existence being threatened by President Trump it, is good for us to remember that fact. In many ways, the Egyptian and Tunisian-American Enterprise Funds reflect this new direction, and I am eager to discuss their individual successes as well as their work as part of a broader conversation reaffirming the longstanding American commitment to a fully engaged foreign policy.

Again, welcome to the witnesses.

And thank you, Madam Chairman.

Ms. ROS-LEHTINEN. Thank you very much. Excellent opening statement, Mr. Deutch, as always.

And now I am pleased to recognize members for any opening statements they might have. And we will start with Mr. Issa of California.

Mr. ISSA. Thank you, Madam Chair.

I am really looking forward to this for a reason that perhaps hasn't yet been explained. Our use of NGOs in these countries, Tunisia, and particularly Egypt, has been problematic on the political side. There can be little doubt but that our NGOs, operating in the best interest of democracy, were actually part of putting the Muslim Brotherhood into the role they had, by developing naive, liberal political organizations that thought that the problem in Egypt was the WTO; that, in fact, the problem in Egypt was corruption alone. Rather than looking at the narrow band of water that makes up the historic economy of Egypt, they simply looked and blamed outside forces.

An NGO that works on enterprise can help solve that, and I am looking forward to the continued progress. But, as I close, I think it is important that we understand, unlike the Marshall Plan at the end of World War II, which took historic industries and helped restore them, and historic skills and helped put them back to work, we cannot, in fact, put Tunisians and Egyptians back to work in cotton and in other areas that have historically been part of their economy. They will not support the workforce, in the case of Egypt, of over 87 million people. We have to be part of those new enterprises, being the enterprises of the 21st century and not the 19th or 20th.

And, Madam Chair, thank you very much for your indulgence.

Ms. ROS-LEHTINEN. Good point. Thank you, Mr. Issa.

Mr. Chabot is recognized.

Mr. CHABOT. Thank you very much, Madam Chair.

The Egyptian and Tunisian economies have been pretty abysmal for the past several years. In Egypt, we have watched the public debt and unemployment rates rise significantly in recent years, while Tunisia has faced a litany of obstacles, including terrorist threats to their tourism sector, among other things.

Unfortunately, the economic strife has discouraged young Egyptians and Tunisians from participating in the economy. And, as many of my colleagues know, the young and unemployed are ripe for conversion by ideological extremists. This is just one of the reasons why I believe it is imperative that we continue to encourage these countries to take the necessary steps to attract further investment and stimulate the economy.

Enterprise funds are one of the tools at their disposal. By leveraging the private sector, providing technical assistance to entrepreneurs and offering equity investments, enterprise funds can help facilitate real economic improvements in both Egypt and Tunisian and, in fact, other countries as well.

And I would just note, Madam Chair, I apologize, we have a markup in Judiciary, then I have to chair the Small Business Committee at 11. So I will review the testimony.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chabot. Don't worry about it. And I am going to introduce Ambassador Wagner, who will soon take over for me while I go to the Intelligence Committee open hearing on Russia.

So I am now proud to recognize Ambassador Wagner for her opening statement.

Mrs. WAGNER. Well, I thank you, Madam Chairman. And I will tell you that I will waive my opening statement because I have a good deal of questions. And just to move the process along, I will yield back to the chair.

Ms. ROS-LEHTINEN. Thank you so much, Mrs. Wagner. And I am going to introduce the witnesses, and then if you could take over for me, that would be great.

First, we are delighted to welcome Mr. James Harmon, chairman of the Egyptian-American Enterprise Fund. Mr. Harmon is also chairman and chief investment officer of Caravel Management. Prior to working for Caravel Management, he served as chairman, president, and CEO of the Export-Import Bank of the United States from 1997 to 2001.

Mr. Harmon, thank you for coming. We all look forward to your testimony.

And next, we want to welcome Mr. Bowman Cutter, the chairman of the Tunisian-American Enterprise Fund. He is also a senior fellow and director of the Economic Policy Initiative at the Roosevelt Institute. Mr. Cutter served with distinction during two Democratic Presidencies at the National Economic Council, and at the Office of Management and Budget.

Mr. Cutter, thank you for coming. We look forward to your testimony as well.

Your prepared statements will be made a part of the record. And I have read them, so don't think I am skipping out on that. And I hope to come back in time for some questions.

Thank you, Mrs. Wagner, for stepping in for me.

Hold on 1 second.

Mrs. WAGNER [presiding]. Mr. Harmon, you are recognized.

**STATEMENT OF THE HONORABLE JAMES HARMON,
CHAIRMAN, EGYPTIAN-AMERICAN ENTERPRISE FUND**

Mr. HARMON. Thank you very much. Madam Chair and Acting Chair, Ranking Member—

Mrs. WAGNER. Could you please hit the green button. There you go. Thank you.

Mr. HARMON. Madam Chair and acting chair, ranking members and members of the subcommittee, thank you for holding this hearing and for inviting me to testify.

In January 2012, the White House and the State Department called and asked me to take on this particular assignment. Some few months later, I started the process of visiting former chairs of enterprise funds. I visited six of them and, to the man, they said, why would you want to do this? The challenges you will have between the Egyptian Government and the U.S. Government will be great. We didn't have those challenges in the European enterprise funds back in the 1990s, and they pointed out all of the difficulties. It actually proved to be a good reason why I would take on this assignment, because we could do a lot better in building relationships between Egypt and the United States.

In March 2013, we signed the Grant Agreement with USAID. That year, we made a critical decision not to place Americans in Cairo to seek and manage investments. We were fortunate, indeed, to meet a very talented Egyptian investment banker who would prove critical to the success we have had to date. He organized the management company, Lorax, to lead the search for and management of the Egyptian-American Enterprise Fund assets. In time, he would add five additional professionals. Only 3 years later, it is on the way to becoming one of the leading private equity asset managers in Egypt.

In 2013, we organized a board of directors, in compliance with the legislation. Credit to Congress for its guidelines and the terms of our Grant Agreement. Three Egyptians and six Americans, three of whom are Egyptian-American. This board has been highly engaged in our efforts. None of the board members receive compensation for their time. We are grateful to our directors for their service and dedication.

And 3 years ago, we were fortunate to recruit an Egyptian woman who was graduating from the Harvard Business School and had prior experience at the Ministry of Finance in Egypt. She came in and has become our director in New York City, and is sitting behind me. I am grateful for the good work that she has done.

Egypt's private sector remains underdeveloped. It suffers from a gap in financing, infrastructure, and talent. This curbs its ability to expand and grow the economy. An underdeveloped private sector results in underserved markets, high unemployment rates, and low financial inclusion.

Egypt has the largest population in the Arab world, and the third largest in Africa. The youth accounts for 44 percent of the population, of which 31.3 percent are unemployed, leaving 51 percent of the population living in poverty. Alarming high unemployment rates are a great loss of human talent, a growing burden on the economy, and a threat to social stability, all of which hinder the country from realizing its full potential.

Furthermore, only 13.7 percent of the population owns a bank account, which represents one of the lowest financial inclusion rates in the Middle East and around the world. Small- to medium-size enterprises account for 99.6 percent of the companies in Egypt. However, they are greatly underserved, especially in the financial sector, limiting their ability to scale.

It is rare for anyone to hit a home run in their first at bat, but I think we did it with our first investment for the fund—Fawry, Egypt's largest electronic bill payments platform. Fawry extends basic financial services to Egypt's unbanked population and promotes financial inclusion, a major part of our mission. Traditionally, Egyptians have had to wait hours in line to pay their bills in cash. Fawry's digital platform saves time for consumers by allowing them to not only make payments and pay bills, but also to add credit to their cell phone accounts, buy plane tickets, and other services. It does this via its online Web site and its more than 65,000 kiosks located across the country.

In 5 years' time, this little company, which started with no Egyptian customers, now has 20 million Egyptians using the service. It is my prediction that within the next 5 years, half the population of Egypt will be using the Fawry service. So it is a good illustration where technology has played a critical role for the developing countries, and particularly for Egypt.

In 2015, we also made a large investment in Sarwa Capital, a consumer finance company that extends financial services such as lending to SMEs and to Egypt's large unbanked population. In fact, since our investment, it has provided loans to 9,000 new clients, mainly to Egyptian youth, to help finance, for example, finishing and furnishing new homes, which would otherwise be unaffordable to this growing group. Half of the Sarwa clients did not have a bank account before receiving a loan from Sarwa. Sarwa also provides funding to several hundred SMEs, which help to meet our commitment to creating jobs and improving the lives of Egyptians by providing access to financing.

Last but not least, we have seeded a venture capital fund, Tanmiya Capital Ventures, that invests in small- and medium-size enterprises and Egyptian entrepreneurs. By investing in this new venture and other VC firms, we are enabling new fund managers to seek our investments not only in Cairo, but across Egypt, even in more rural locations.

We have invested today \$100 million, and we have brought in an additional \$100 million from two institutions that had heretofore not invested in Egypt. It is my expectation that we will invest an additional \$100 million by the end of this year. We will have invested \$200 million of the original 300 and another 110 that we have brought in.

I would add that these investments come as the Egyptian Government has embarked on an ambitious economic reform agenda that has seen the phasing out of long overdue energy subsidies and a floating of the Egyptian pound, and to their credit, the signing of the agreement with the IMF, a \$12 billion loan to Egypt.

The Egyptian Government deserves additional credit for all these tough but necessary decisions. I think the fund will produce significant profits over its life. It is my opinion that, upon liquidation, proceeds should go first to return to the United States its original capital, and thereafter, profits should be divided between both countries.

Finally, economic development is critical to the growth and prosperity of developing countries. Enterprise funds, with their development mission, can be an important weapon in the war on terror.

Thank you.

[The prepared statement of Mr. Harmon follows:]

**Statement for the Record
Grading the Egyptian and Tunisian Enterprise Funds**

**James A. Harmon
Chairman, Egyptian-American Enterprise Fund**

**House Committee on Foreign Affairs,
Subcommittee on the Middle East and North Africa
June 21, 2017**

Chairman Ros-Lehtinen, Ranking Member Deutch, and Members of the Subcommittee, thank you for inviting me to testify on the Egyptian-American Enterprise Fund (EAEF). It is my distinct pleasure to share with you my experience as Chairman of the fund over the last five years and to highlight its importance as a tool for U.S. foreign policy. I will begin with an overview of the fund, a description of our investments to date and our ability to serve as a catalyst for attracting foreign capital. I will conclude by covering why I believe enterprise funds represent a model for sustainable economic development at little, if any, cost to the U.S. taxpayer. This is especially relevant at a time when others seek to scale back economic assistance to Egypt and U.S foreign aid more broadly.

History of the EAEF

Following the uprisings that took place across the Middle East and North Africa in 2011, the Obama Administration established two new enterprise funds in Egypt and Tunisia. Modeled after the enterprise funds created in the 1990s under President George H.W. Bush following the fall of the Soviet Union, these funds were developed to address the underlying economic issues that drove the revolutions in Egypt and Tunisia.

Initially, as the Subcommittee knows, the Egyptian-American Enterprise Fund faced objections from Members of Congress, who were concerned about the Egyptian government's commitment to democracy. In March 2013, the EAEF finalized its grant agreement with a dual mandate to 1) promote private sector development in Egypt, and 2) generate financial returns that will provide for a return of capital to the U.S. government. As part of our mandate, we seek investments that create jobs, promote financial inclusion and improve the quality of life for Egyptians

We have now been up and running for the past two years as active investors in Egypt, and to date, have invested \$98 million USD in Egypt and attracted an additional \$110 million USD in foreign investments.

The Importance of a Strong Management Team

As noted in prior testimony given in the 1990s about U.S. enterprise funds in Eastern Europe, a committed board of directors and strong management are critical for success. We are fortunate to be supported by an excellent board of directors. As stipulated by Congress, the board must consist of three Egyptian citizens and six American citizens. In addition to our three Egyptian board members, three of our six American board members are Egyptian-American. These board members have diverse backgrounds and bring private sector experience to the EAEF. They are passionate about the mission and have been instrumental to screening and approving our investments.

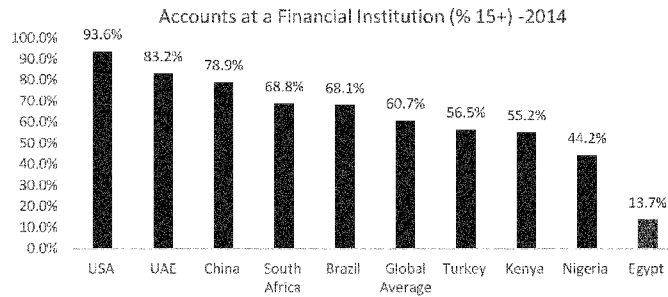
In coordination with the EAEF's board of directors, one of our most important decisions was to seed a local management company, Lorax Capital Partners. Lorax serves as our investment advisor and asset manager in Egypt. They source investment opportunities and oversee our portfolio companies and projects. They are staffed by what I believe to be one of the most qualified teams of investment professionals in Egypt. It is important to note that they are all Egyptian citizens. They possess deep insight and expertise of Egypt's markets, and are critical on-the-ground partners. Our achievements to date would not have been possible without them.

As Chairman of the fund, I am supported by our Executive Director, Amal Enan, a native Egyptian and graduate of both Harvard Business School and Cairo University. Amal brings a unique perspective and knowledge of Egypt's public and private sectors.

Empowering Egyptians and Creating Jobs

Egypt's private sector remains underdeveloped. It suffers from gaps in financing, infrastructure and talent which curbs its ability to expand and grow the economy. An underdeveloped private sector results in (1) underserved markets, (2) high unemployment rates and (3) low financial inclusion.

In Egypt, approximately 13.7% of citizens have access to traditional financial services. This is far below the global average of 60%. Improving access to financial services, e.g., loans and bank accounts, is critical to driving economic growth and eliminating poverty.



Source- World Bank

In 2015, we began to address this issue when we completed our first major investment in Fawry, Egypt's largest electronic bill payments platform. Fawry extends basic financial services to Egypt's unbanked population and promotes financial inclusion—a major part of our mission. Traditionally, Egyptians have had to wait hours in line to pay their bills in cash. Fawry's digital platform saves time for consumers by allowing them to not only make payments and pay bills, but to also add credit to their cell phone accounts, buy plane tickets and other services. It does this via its online website and its more than 65,000 kiosks located across the country.

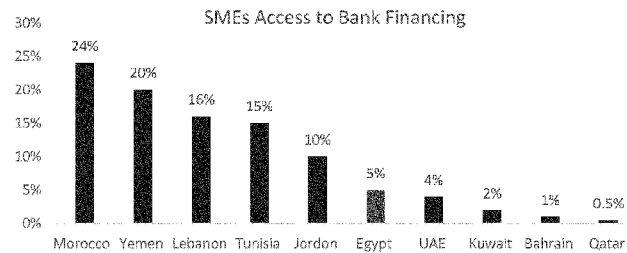
The EAEF invested \$21 million USD in Fawry, and managed an additional \$80 million USD consortium with two international institutional investors. In the last two years, Fawry has grown rapidly. It has added 213 new employees and reached 5 million new customers, bringing its total number of users to 20 million—a 33% increase since our investment. Fawry's net income grew considerably in 2016 and is slated to grow even more in 2017 as a result of its continued expansion of services. In Egypt, Fawry channels the largely, cash-based informal economy into the formal sector by improving access to financial services and regulatory infrastructure.

However, our work on financial inclusion did not stop here. Egypt is a highly underpenetrated credit market where there are less than 0.18 credit cards per person, among the lowest card penetration rates in the region. Credit is a strong catalyst for accelerating economic activity. To this end, the EAEF is committed to investing in platforms that increase the range and quality of financial services offered to both households and small and medium-sized enterprises (SMEs).

In Egypt, SMEs are a critical source of employment and could potentially employ vast numbers of the country's low-skilled workers. In a country where more than 50% of the population is under 30 and nearly 30% of youth is unemployed,¹ growing SMEs are key to addressing youth unemployment and promoting a stable and prosperous Egypt. Unfortunately, a large

¹ Adel Abdel Ghafar, "Youth unemployment in Egypt: A ticking time bomb," *Brookings Institute*, July 28, 2016, <https://www.brookings.edu/blog/markaz/2016/07/29/youth-unemployment-in-egypt-a-ticking-time-bomb/>

percentage of these SMEs lack access to financing, which prevents them from growing and ultimately hiring more workers.



Source- IMF, World Bank, Ministry of Investment

To support household consumption and SMEs access to financing, in 2015, we invested \$56 million USD in Sarwa Capital, Egypt's largest independent consumer finance provider. Sarwa extends financing to SMEs and lending to Egypt's large unbanked population. In fact, since our investment, it has provided loans to 9,000 new clients, mainly to Egyptian youth to help finance for example, finishing and furnishing new homes, which would otherwise be unaffordable to this growing demographic. Half of Sarwa's clients did not have a bank account before receiving a loan from Sarwa.

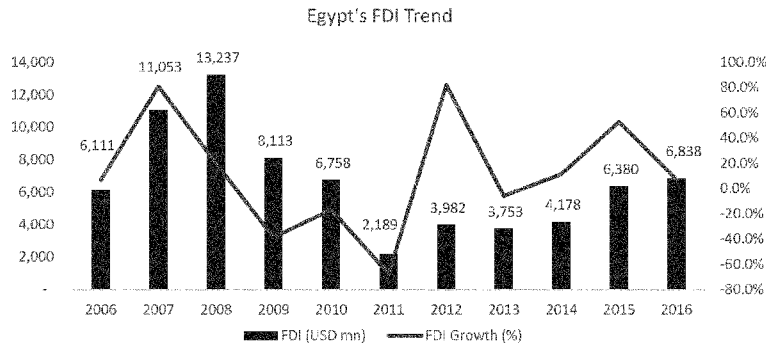
In 2016, Sarwa also extended 196 contracts to SMEs amounting to \$14 million USD with an average loan value of \$73,000 USD. In 2017, the company is planning to extend over 300 contracts to SMEs in the aggregate amount of \$25 million USD. Sarwa's SME business helps to meet our commitment to creating jobs and improving the lives of Egyptians by providing access to financing. We are pleased to report that in the last two years, Sarwa has also hired nearly 175 new employees.

In 2016, we seeded two new venture capital funds, Algebra Ventures and Tanmiya Capital Ventures. These funds invest in SMEs, startups, and entrepreneurs, which are the next wave of jobs creators in Egypt.

We are pleased to disclose that our investments to date have directly created over 430 jobs. By investing in companies with platforms that reach hundreds of SMEs and thousands of households, such as Fawry and Sarwa, we will create many more jobs in the coming years.

Leveraging Private Capital in a Healthy Business Climate

Following the January 2011 revolution, Egypt experienced a sharp drop in tourism and foreign direct investment (FDI). In the graph below, we see that FDI in Egypt plummeted by more than \$4 billion USD from 2010 to 2011 post-revolution. FDI has slowly increased over the last several years but still remains well below its high of \$13.2 billion USD in 2008.



Source- CAPMAS, Egypt

Under President Abdel al-Fattah Sisi, the government has embarked on an ambitious economic reform agenda. This included developing a plan to successfully phase out energy subsidies and floating the Egyptian pound in November 2016, which devalued its currency by 48%. These steps were necessary to securing a \$12 billion USD loan from the International Monetary Fund to bolster the economy. In January 2017, Egypt's cabinet approved a long-awaited bankruptcy law to protect investors and encourage entrepreneurship. It now awaits approval from parliament. In May 2017, Egypt's parliament passed a new investment law to stimulate new business and FDI. Following these moves, there has been an increase in FDI and renewed confidence in the Egyptian economy. Egypt's economy now possesses the right macroeconomic fundamentals for attracting more FDI.

By investing in Egypt, we are inspiring confidence in the economy and leveraging the success of our investments to attract new flows of foreign direct investment. This creates a multiplier effect and helps bolster the government's economic reform agenda. It also helps to sustain Egypt's growth long after the EAEF is liquidated.

U.S.-Egypt Relations: An Opportunity for Enterprise Funds

With lawmakers rethinking U.S. foreign assistance to Egypt, calling this hearing to evaluate the work of the EAEF is timely.

According to the Congressional Research Service, the United States has provided over \$77 billion to Egypt in economic and military aid since 1948.² While military assistance has stayed steady at \$1.3 billion per annum, U.S. lawmakers recently reduced economic aid in the FY 2017 Omnibus Appropriations Act to its lowest level in years in response to a backlog of unobligated Economic Support Funds (ESF).³

Given efforts to restructure U.S. economic assistance to Egypt, the EAEF presents a promising opportunity to improve the lives of Egyptians and create jobs. These aims are vital to U.S. interests. The EAEF operates as a private entity—so while we consult with the Egyptian government, we have the liberty to choose investments that we believe will allow us to achieve the mission of the EAEF.

In my five years as Chairman, I have seen an increased willingness from Egyptian businesses and the government to work with the EAEF. As seen through our investments, we are creating new business relationships, improving the lives of ordinary Egyptians and helping to create jobs. These are high priorities for the Egyptian government and are in alignment with U.S. interests. The private sector in Egypt has not grown fast enough to generate the number of jobs needed to employ Egypt's large, growing youth population.⁴ We need to accelerate our effort to help address this challenge.

The U.S.-Egypt relationship is at an inflection point. Why not redirect the scarce resources toward economic development programs, such as the enterprise fund that creates and sustains jobs?

A Model for Sustainable Economic Development

The enterprise fund's mission to foster inclusive private sector growth generates jobs and serves as a model for sustainable economic development. At the onset of the fund, we believed and still do, that for the enterprise fund to be successful, Egyptians must be at the forefront of our investments. By seeding a local management company of highly qualified, Egyptian investment professionals, we not only positioned the fund to be a constructive investor in Egypt but laid the foundation for it to continue to be an active player once our mandate ends.

² Jeremy M. Sharp, "Egypt: Background and U.S. Relations," *Congressional Research Service*, March 24, 2017, <https://fas.org/sgp/crs/mideast/RL33003.pdf>

³ The Tahrir Institute for Middle East Policy, "Omnibus Spending Bill Reflects Changes to U.S. Assistance to Egypt," May 11, 2017, <https://timep.org/wp-content/uploads/2017/05/TIMEP-Report-Omnibus-Spending-Web.pdf>

⁴ The World Bank, "Egypt's Private Sector: A Driving Force for Job Creation," September 18, 2014, <http://www.worldbank.org/en/news/feature/2014/09/18/egypts-private-sector-a-driving-force-for-job-creation>

Because of the investments led by our local partner, we are attracting foreign capital and developing new relationships that will be sustained long into the future.

For these reasons, enterprise funds represent a sustainable economic development model. In addition to empowering local actors and creating jobs, they also return capital to the U.S. government. This is especially relevant in today's political climate as the Administration seeks to restructure U.S. foreign aid and leverage the power of the private sector to advance its agenda. Members of Congress and this Subcommittee are uniquely situated to explore how enterprise funds can be incorporated into the U.S. foreign policy apparatus.

After five years serving as Chairman of the EAEF, I am proud of what we have accomplished and I look forward to continuing this important work into the future. Thank you.

Recommendations for Enterprise Funds

- Upon liquidation of an enterprise fund, proceeds should first go to the U.S. government to return the original U.S. capital invested in the fund. In addition, there should be an interest rate, possibly the Treasury 5-year rate compounded over the life of the fund, paid to the USG at liquidation prior to sharing the balance of the proceeds with the host-country.
- Disburse an appropriate amount of capital to the enterprise fund at its creation to begin operations and signal to partners in the host-country that it is open for business.
- Designate a member of the Executive Branch as a coordinator to oversee current enterprise funds and convene quarterly meetings with enterprise fund chairmen to share updates and best practices.
- Establish a mechanism by which former Chairmen and Executive Branch coordinators of enterprise funds share experiences and best practices with current Chairmen.
- Keep enterprise funds as not-for-profit entities but consider whether Chairmen and board members, who are not compensated, can have the opportunity to invest alongside enterprise funds, which would help raise additional capital for the host country.

Mrs. WAGNER. Thank you, Mr. Harmon, for your testimony and opening statement.

Mr. Cutter, you are now recognized for 6 minutes. Thank you.

STATEMENT OF MR. BOWMAN CUTTER, CHAIRMAN, TUNISIAN-AMERICAN ENTERPRISE FUND

Mr. CUTTER. Madam Chairman, thank you. I will cough my way through the presentation.

I want to thank—

Ms. ROS-LEHTINEN. Again, could I please ask you to hit the green button and move your mike a little bit closer to your mouth, sir.

Mr. CUTTER. Okay?

Ms. ROS-LEHTINEN. Perfect.

Mr. CUTTER. Thank you very much for holding this hearing and for taking the time to be part of it. It is an honor to be at the hearing, and I should say right at the onset that it is an honor to chair the Tunisian-American Enterprise Fund. I was delighted to have been asked, and I am delighted at serving over the last 5 years and at what we have accomplished.

I probably should simply include, by reference, most or all of my friend, Mr. Harmon's presentation, since our experiences, in significant ways, parallels his, as you will find at the questioning session. So I will talk more about mission and strategy.

Turning first to our mission, we are expected to function as a private sector institution, to invest our funds in the private sector of Tunisia and to be a partner in the revitalization of the Tunisian economy, to help focus on employment, on women entrepreneurs, on young people, and on geographic diversity, and earn a profit. We are an investment fund, not a grant-making program.

Moving to strategy, in brief, our strategy has been an exclusive focus on Tunisia's small- and medium-enterprise sector. I should underline that I firmly believe that for all countries, a healthy SME sector is the magic bullet. It is the key to true and equitable economic growth in Tunisia, the U.S., and everywhere else.

My TAEF, Tunisian-American Enterprise Fund, colleagues and I have tried from the start to be both rigorous and innovative in finding ways to invest across the full spectrum of this sector. So let me say how we invest across the sector.

To invest in the smallest of enterprises—and I have in mind here the pushcart businesses, the really tiny family enterprises—we have helped to finance Tunisia's quite new, I mean, brand new microfinance efforts. We have invested both debt and equity in these microfinance businesses. We have helped them to find their operations and think through how to deal with very small enterprises. Through our board, we bring enormous expertise in microfinance, and I think our Tunisian colleagues would say that we have been extremely helpful in helping shape that industry.

Second, to invest in the whole middle range of the SME sector. And these would be businesses ranging from roughly \$150,000 a year in annual revenue to perhaps \$2 million a year in annual revenue. And as in Egypt, it is this core, which is probably close to 99 percent of the GDP of all of the businesses in Tunisia.

We created our own investment vehicle, which is called TASME, the Tunisian-American Small and Medium Enterprise company.

Through this vehicle, we are pioneering in Tunisia a new and innovative approach, which has been quite well-received and allows us to tailor investment to the precise needs of entrepreneurs.

As one example, one of our investments is a very high-quality date processing business in the south of Tunisia, a region that has seen almost no real private sector activity and that badly needs economic growth. Another is in a porcelain manufacturing business. A third manufactures customized packaging. We have a long pipeline now and are investing at quite a high rate.

And finally, to reach the top end of the SME sector, businesses with, say, \$10 million in annual revenue, we have partnered with high-quality Tunisian businesspeople. We helped create a fund called Croissance, which is growth in French, and through it leveraged other money from other institutions. And we are now in the process of creating, with others, a follow-on fund that will also leverage equal amounts of money.

We are—and I hope that Mr. Issa is able to see or read this part of my presentation—we are testing the opportunity for true startups in Tunisia. We have partnered with others in Tunisia and with an Egyptian firm to create the first full-scale incubation, acceleration, and financing effort for startups in Tunisia. Our first class of startup businesses and entrepreneurs begins in the first week of July. We narrowed down to eight people who will enter our class from 200 proposals that we received in mid March. We plan to start a new class every quarter for the next several years. This is the first effort in Tunisia to create a kind of full-blown ecology for startups.

None of this is without challenges, and I have thought about the challenges as falling into three baskets: First, what we are doing is essentially a complete from scratch startup of a financial business. This doesn't differ much operationally, in my experience, from any other start-up, including enormous time demands. And we are doing it in the area of finance, as is Mr. Harmon, which in both the U.S. and in Tunisia involves grappling with enormously complicated regulatory systems which we have to comply with at every step along the way.

Second, within the U.S. Government system, enterprise funds are unfamiliar animals. The first set of them, the first tranche of them were negotiated and put together in the Bush one administration. Like Mr. Harmon, I know and have talked to almost all of the previous chairs, but there has been little institutional memory over the 25 years from then to now. So I think—and we can talk about this—that our principal difficulties at the start were really that, the absence of an institutional memory. And I hope now that has been codified.

And finally, it is fair to say that the Tunisian administrative bureaucracy is particularly difficult. I have had the enormous good fortune of working with Tunisian Government officials who are extremely supportive of America, and who understand what we are trying to do, but it doesn't make the bureaucraties any easier. Basic Tunisian law works on different principles than American common law. And, more importantly, Tunisia endured for a generation a kleptocratic ruler, which ate the heart out of the center of the Tunisian economy. As a result, the Tunisian financial sector re-

quires vast reform. They are embarking on that. I talk to government officials all of the time. I understand what it is they are trying to do, but in the meantime, we have to figure out how to operate within it.

I will conclude by reflecting on enterprise funds, although, obviously, I really only understand just one. They are important economic development tools. They are valuable both for the host company and for America. And while I am not a scholar and I hate even to mention the word “terror,” I think that building economies that work for ordinary people, which is the heart of what we are trying to do, is one of the best ways to combat extremism. It is not trivial to emphasize that these funds can be supported by the American taxpayer because they can be run at a profit.

I will underline the last point. We make our investments only after rigorous due diligence. We track our investees carefully. We know they will experience ups and downs. We haven’t yet, but we know we will see failure, but we fully expect at the end of this to earn a modest profit when we are finished. And we expect, upon liquidation, that it will be dealt with in the same way that Jim Harmon proposed at the end. Thank you very much.

[The prepared statement of Mr. Cutter follows:]



Statement for the Record
W. Bowman Cutter, Board Chair, Tunisian American Enterprise Fund
House Foreign Affairs Committee
SubCommittee on the Middle East and North Africa
June 21, 2017

Chairman Ros-Lehtinen, Ranking Member Deutch, and Members of the Committee, I thank you for this opportunity to appear before you to discuss our experience establishing and operating the Tunisian American Enterprise Fund (TAEF).

I will start with the current status of our appropriations and grants, share a short history of TAEF, describe our core strategy and current and projected investments and discuss the impact of our activity. In conclusion, I will share some thoughts on enterprise funds as a tool for development.

STATUS OF APPROPRIATIONS AND GRANTS

The following chart details the grant funding status for TAEF:

Date	Status	Amount
July 2013	Appropriated & Granted	\$20,000,000
September 2013	Appropriated & Granted	\$20,000,000
November 2014	Appropriated & Granted	\$20,000,000
2015	Redirected to Guarantee for Tunisia	-
December 2016	Appropriated & Granted	\$20,000,000
Total Appropriations & Grants		\$80,000,000
2017	Expected	\$20,000,000
Expected Total		\$100,000,000

It was understood at the outset that TAEF would be fully funded at \$100 million. If all goes smoothly, TAEF expects to receive the fifth, and final, \$20 million tranche in 2017 late summer / early fall. Note that TAEF, like other enterprise funds, draws down the funds as needed.

Additional funding for TAEF will come from investment returns and, possibly, from third party investors.

TAEF HISTORY: ESTABLISHING TAEF AND EARLY IMPLEMENTATION

Establishing a new institution such as TAEF takes time. The critical initial tasks of building a board of directors, negotiating the grant agreement, creating the incorporation documents and finding the right person to lead our Tunisian efforts took well over a year. These steps laid a firm foundation for the formation and implementation of our strategy and required time and care.

The next phase of TAEF's corporate life, establishing operations in the U.S. and in Tunisia, determining how best to legally structure the fund's investment activities and building staffing capacity was also labor and time intensive.



A brief timeline highlighting TAEF's early institutional milestones through our first investments follows.

- February 2012 Congressional authorization to establish the Tunisian American Enterprise Fund
- February 2013 Creation incorporation documents. Founding board created.
- July 2013 Complete grant agreement negotiation and sign final documents.
- July 2013 First funding drawn down from U.S.A.I.D.
- December 2013 Tunisian COO hired. Initial strategy formed.

- January 2014 Tunisian subsidiary incorporated. Formal operations could begin in Tunisia.
- June 2014 First TAEF investment made in a Tunisian private equity fund (TunInvest Croissance) investing in large-cap SME enterprises.

- February 2015 Incorporation of a dedicated SME investment sub fund, the Tunisian American SME Company (TASME).
- August 2015 TAEF invests in first microfinance institution.
- August 2015 TASME invests in first SME
- Ongoing Active investing

According to U.S.A.I.D.'s study *Enterprise Funds in Europe and Eurasia: Success and Lessons Learned, July 4, 2013*, enterprise funds have historically required up to 24 months to make their first investment. TAEF made its first investment 16 months after signing of the corporate documents and 11 months after the grant agreement was finalized.

In the run-up to our first investment, TAEF actively laid the groundwork for a successful investment institution.

- Because the world of financial regulation and compliance was much more complex in 2013 when TAEF was created than it was in the 1990s when the first enterprise funds were created, TAEF established a one-person U.S. office to interface with the U.S. government, oversee compliance and finances and work with the board.
- After a thorough search, TAEF's board hired our Managing Director – COO, a talented Tunisian investment professional dedicated to building a dynamic investment company in Tunisia. The hiring of the right person is possibly the single most important decision we made as an early institution.
- Over the course of several trips to Tunisia, I met with government officials, private sector leaders and others to form a clear picture of the Tunisian economy and of the SME investing ecosystem. This research and these relationships proved important to both forming and to implementing our investment strategy.
- Creating the legal and institutional framework in Tunisia also required substantial time. The simple part was creating a subsidiary to serve as our investment advisor. More complex was figuring out how to structure entities that would permit the innovative financing we wanted to bring to Tunisia's SMEs. The Tunisian legal and regulatory environment is very different from that of the U.S., and it took the combined efforts of our COO, Tunisian and U.S. lawyers and several government Ministers over the course of months to determine how to proceed in a way that would be effective and permitted under the existing financial regulatory framework.

TAEF has now completed the early operations and development phases of growth. We are building a highly capable Tunisian investment institution with a consistent level of quality that is seen as a responsible and desirable partner to SMEs and other financial institutions. TAEF has a clearly defined strategy (see below), capable staff, a growing investment track record, ability to work with a variety of

local partners and proven commitment to working creatively to meet financing needs across the Tunisian SME sector. Our next phase will be one of growth of scale and multiplication of impact.

TAEF INVESTMENT STRATEGY

TAEF invests in the full spectrum of Tunisian SMEs from micro-business to large-cap SMEs. We do so with a multi-pronged strategy described and illustrated below. The flexible nature of our funding allows TAEF to deploy a variety of financial instruments to meet the financing needs of Tunisia’s SMEs.

Note that we developed TAEF’s strategy in response to gaps in the Tunisian SME economy. A variety of approaches have been required to address the range of SME financing needs. One of the strengths of TAEF as an enterprise fund is that we have been able to tailor the strategy to Tunisia’s existing environment.

TAEF Investment Strategy – June 2017

Segment	MICROBUSINESS	SMALL & MID CAP SMEs	HIGH GROWTH START-UPS	LARGE CAP SMEs
Investments	Microfinance Institutions	TASME Fund	Flat6Labs AriavaSeed Fund	TunInvest Croissance INMA RE Fund Entrepreneur in Residence / Direct Investments

Microbusinesses: TAEF invests in Tunisia’s smallest SMEs indirectly through microfinance institutions (MFIs). Until 2011, Tunisia had no regulated microfinance sector. Microfinance activity was led by NGOs without financial sustainability or professional standards. Starting in 2011, new Tunisian microfinance legislation addressed the microfinance business and granted licenses to international MFIs and local investors to establish operations in Tunisia. TAEF is committed to investing in many of these MFIs by providing debt and equity, as they provide a proven, sustainable and profitable way to make financing available to Tunisian’s micro-entrepreneurs.

Small & Mid-Cap SMEs: TAEF created the Tunisian American SME Company (TASME), a new non-bank financial institution, in order to finance Tunisian’s mid-sized SMEs. Through TASME, TAEF has adapted an innovative financing approach tailored to the needs and constraints of family-owned SMEs that combines equity, debt and a revenue share of increased revenues over a defined period of time, with investment tickets ranging from \$150,000 - \$2.5 million. TAEF has committed \$50 million of our fund to TASME, and we are entering conversations with third party investors interested in investing alongside us.

High Growth Start-Up: TAEF joined in partnership with Tunisian investors Meninx Holding and Banque Internationale Arabe de Tunisie (BIAT), to bring the successful Flat6Labs model to Tunis. Flat6Labs



combines a rigorous accelerator program with seed financing for start-ups offered through the Anava Seed Fund. Establishing these two new institutions (Flat6Labs and Anava Seed Fund) required a protracted effort to gain the special authorizations and approvals required.

TAEF believes that Flat6Labs' proven, rigorous approach to identifying, training and mentoring start-ups combined with an investment fund backing the financing rounds of the startups provides the best chance of success in this strategic focus area.

TAEF has committed \$3.6 million, 40% of the \$9 million funding. Flat6Labs Tunis expects to support and invest in more than 90 Tunisian startups within the next five years through its accelerator program and early stage fund.

Large-Cap SMEs: TAEF's approach to larger SMEs has several components.

- **TunInvest Croissance:** TAEF found an exceptional local partner in AfricInvest, a Tunisian based private equity firm investing throughout Africa. Their Tunisian-specific fund TunInvest Croissance is targeted at mid to large sized SMEs. TAEF joined this local partner, taking a 15.5% share in the fund. TAEF also has the option of providing follow-on investments to any TunInvest Croissance SME that needs additional financing to fund growth. Note that TunInvest Croissance is fully invested and will not create a follow-on fund for financing additional SMEs in Tunisia.
- **INMA Holding:** TAEF is an investor in the newly formed private equity fund INMA that targets larger Tunisian SMEs poised for growth but constrained by financing. This fund is similar to our earlier investment in TunInvest Croissance; it will not be a competitor as the TunInvest Croissance Fund is completely invested. Investment in INMA is consistent with our strategy of partnering with local financial institutions.
- **Entrepreneur in Residence/ Direct Investments:** TAEF has initiated an Entrepreneur in Residence program with an experienced and driven Tunisian manager. This is the first such effort to be launched in Tunisia and we see it as an innovative mechanism that can address the financing needs of Tunisian enterprises, limit the "search phase" costs and boost entrepreneurial competencies. The Entrepreneur in Residence initiative is one of TAEF's mechanisms to source direct investment opportunities in larger SMEs with real growth trajectories.

TAEF INVESTMENTS – CURRENT AND PROJECTED

The table below shows by strategic focus area how we have allocated our funds, the extent of our commitments and the size of our current active pipeline. The full \$100 million funding expected by TAEF is allocated with the largest portion, \$50 million allocated to our TASME investment sub-fund. Note that these allocations are guidelines and actual investments per strategic focus area may vary slightly.

As of the end of April 2017, we had made firm commitments and partially disbursed \$33.76 million. Our investment team is continually sourcing new deals and is carrying out active deal review and due diligence on a pipeline of \$56.48 million. I will address each area of strategic focus separately.



TAEF Investment Overview as of May 31, 2017

OVERALL ALLOCATION TAEF			STATUS AS OF 5.2017		HOT PIPELINE	
Strategic Focus	Allocation	Platform	Approved / Disbursed or in process	# Companies	Amount	Companies
Microbusinesses	\$15,000,000	Existing MFIs	\$2,500,000	Teyss	\$3,533,438	MFI
			\$5,934,718	CFC Desardin	\$6,247,762	MFI
Small / Mid-cap SMEs	\$50,000,000	TASME	\$12,154,562	18	\$17,000,000	18
High Growth Startups	\$15,000,000	FlatLab	\$3,652,134			
Large cap SMEs	\$20,000,000	Tuninvest Overseas & Co-investments	\$2,400,000	10	\$1,000,000	2
		INMA Holding	\$6,847,752			
		Entrepreneur in Residence & Direct Investments	\$273,910		\$27,900,000	7
TOTAL	\$100,000,000		\$33,763,066		\$56,481,249	

Microbusinesses: TAEF has commitments to two MFIs and has two additional MFI investments in the pipeline. Together, the committed and MFI pipeline investments reach \$18.8 million.

MFIs provide the single most effective way to reach and provide financing to microbusinesses throughout the country.

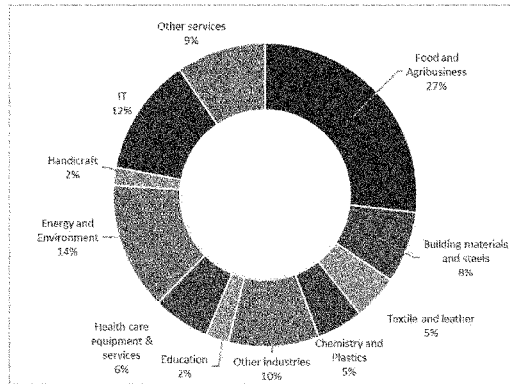
Small & Mid-Cap SMEs: TAEF has allocated \$50 million to TASME. As of the end of April, TASME had a combined total of committed investments and active pipeline of \$29.45 million.

TASME’s innovative financing approach to small and mid-cap sized SMEs is proving successful. Each investment has three components: 1/ an equity investment with a pre-negotiated put option in a five to seven year time frame, 2/ a loan with a competitive fixed interest and 3/ a performance revenue share. This model addresses the missing financing gap for small and family- controlled companies in Tunisia.

TASME Investments & Pipeline: Sector Distribution, May 2017

TASME intentionally invests across a wide variety of economic sectors such as information technology, manufacturing, education and handicrafts. (See chart.) This diversification both mitigates sector risk for the fund and responds to the more limited number of potential investments in any given sector due to the size of Tunisia’s economy.

Examples of investees include a date processing plant, water treatment technology, handicraft production, clothing design and manufacture, and IT software design.





TASME's first investees have begun repaying loans and revenue shares of increased revenues.

Given the demand demonstrated by the sizable active pipeline, TAEF has begun seeking sources of additional funding for TASME. Early conversations with third party investors are promising. In addition, we will begin re-investing investment returns from TASME investees' loan and royalty payments.

High Growth Start-Up: TAEF has committed \$3.6 million to Flat6Labs. The first cohort of 18 promising start-ups has been selected from over 250 applicants and has begun the boot camp training program. Ten of these start-ups will be chosen by the selection committee to join the acceleration program and benefit from initial seed funding. Ultimately, the start-ups have the opportunity to pitch their businesses to the investor community during a demo day in November. We expect 2 cohorts to complete the cycle each year.

Large-Cap SMEs: TAEF has committed \$20 million to this newest investment area, which represents a concerted effort to invest in large-cap SMEs with the potential for growth.

- **TunInvest Croissance:** As stated earlier, TunInvest Croissance provided TAEF the opportunity to partner with local investors and target mid- to large -cap SMEs. This fund is fully invested in ten Tunisian companies. The manager of TunInvest Croissance has decided not to have a follow-on fund. At this point, a positive return is projected.
A benefit from our TunInvest Croissance investment has been their referring potential investments to us when they are unable to invest. TunInvest Croissance is an important source of pipeline investment deals.
- **INMA Holding:** TAEF's Board recently approved our investment in this new private equity fund designed to invest in large-cap SMEs. It will continue TAEF's commitment to partner with excellent local financial institutions. In addition, INMA, like TunInvest Croissance, may prove to be a source of new investment opportunities for TAEF, referring companies that do not fit their criteria but which might fit into TAEF's strategic framework.
TAEF expects to inject the first draw of funds by the end of 2017.
- **Entrepreneur in Residence / Direct Investments:** TAEF has identified an entrepreneur and defined the investment search criteria; the entrepreneur has begun actively sourcing potential investments. In addition to this initiative, TAEF also actively sources and reviews other potential direct investment opportunities in large-cap SMEs, with a focus on companies in agribusiness, education, environment and health.

INVESTMENT RETURNS AND IMPACT

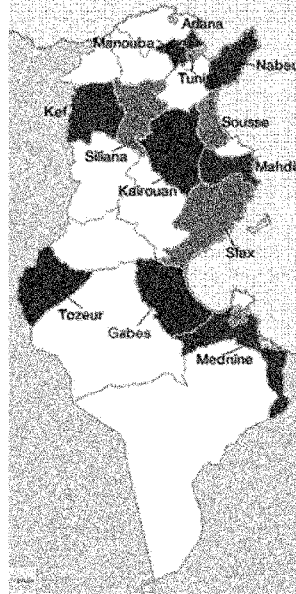
Investment Returns: Although TAEF is a young investment fund with less than 3 years of active investing, we have begun to receive financial returns from our investments. The bulk of these returns will be reinvested in TAEF's growing portfolio; TAEF expects the returns to act as a multiplier to the initial grant funding.

Returns on the fund as a whole will not be known until fund liquidation. Per the grant agreement, TAEF will propose a liquidation plan closer to the end of the fund's term.

Impact: In addition to financial returns, TAEF monitors impact in terms of geographic distribution throughout the country and beyond the capital city region, jobs created and secured and youth and women employment.



**Map of TAEF Investments
June 2017**



- **Geographic.** The map shows that TAEF’s efforts to invest throughout the country are bearing fruit. Our ability to invest in regions, however, is limited by the existing economic activity in that region.
- **Employment.** TAEF expects employment retained and created to grow along with increasing investments. As of 2016, TAEF’s investments have supported more than 5,000 positions.
- **Leverage.** TAEF has already leveraged U.S. government funds by attracting other investors to invest alongside us in PE funds and Flat6Labs. We have built an effective institution and mechanisms for investing in a challenging regulatory environment and are developing a track record that should be attractive to investors committed to Tunisia and the region.
- **Demonstration effect.** TAEF expects to prove that investing in Tunisia’s SMEs can be profitable. Our use of innovative financing in Tunisia may pave the way for other investors to either join TAEF’s efforts or to duplicate the efforts. The power of TAEF’s demonstration will not be known for years.
- **Training.** TAEF invests in its professional staff, bringing high standards of analysis, presentation and investment discipline. Our staff has begun to be sought after by other investors in Tunisia, a recognition of our high quality staff. Our challenge will be to retain staff.

ADMINISTRATION

TAEF has worked diligently to keep administrative expenses low while building first rate operations. Each year, we have been well below the 5% administrative cap on administrative expenses as a percent of the authorized capital, as the table below shows.

**TAEF Ratio of Annual Administrative Expenses to Authorized Capital
(Cap of 5%)**

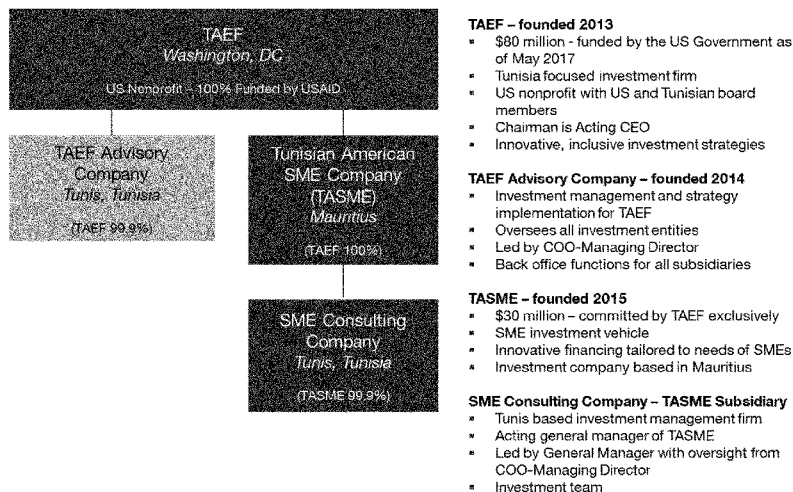
2013	0.38%
2014	0.83%
2015	0.79%
2016	0.82%

As reported to Congress annually, our highest expense categories are staffing and professional fees, both of which are critical to execution of our mission.

It is worth mentioning that TAEF made a conscious decision to base all of our investment operations in Tunisia and to hire Tunisians. We maintain a one-person U.S. office to handle compliance and oversight and to interface with the U.S. government.



The organization chart below illustrates our corporate structure, a structure designed specifically to facilitate our investments within the Tunisian regulatory framework.



GOVERNANCE & OVERSIGHT

TAEF's board provides critical oversight and guidance. Our board is composed of 9 members, 6 U.S. citizens and 3 Tunisians, as specified in the grant agreement. Board members are all extremely accomplished professionals who bring to TAEF their vast experience in private sector investing, international nonprofits, investing in Tunisia and managing and growing organizations.

Additional oversight is provided by U.S.A.I.D. through regular reporting, meetings and periodic evaluations. We also report to Congress and to the State Department.

CHALLENGES

An undertaking such as TAEF is not without challenges. I will highlight a couple of the greater challenges here.

Structuring our Investment Institutions: From the outset, TAEF aimed to create an investment fund in Tunisia able to deploy a variety of financial instruments. In order to set up structures that allow for the full realization of our investment strategy, we had to navigate complex issues such as governance structure, tax optimization, foreign exchange regulation, fund repatriation and Central Bank regulations. This process was time consuming.

Complex financial regulatory environment: I have had the enormous good fortune of working with Tunisian governments and ministers who are extremely supportive and who understand what we at



TAEF are trying to do. Even with that level of support, the Tunisian administrative bureaucracy is difficult. Basic Tunisian law, in particular financial sector regulations, are complex, largely as a legacy of a long-time kleptocratic dictator. As a result, the Tunisian financial sector is ripe for vast reform. While the Tunisian government is presently addressing needed reforms, we have to navigate existing regulations, which often delay investments for months at a time.

Sector restrictions for foreign investment: In select sectors, foreign investors are limited in their investments. Two of these, in particular, have had an impact on our investment activity.

- **Education:** Foreign investors are capped at 35% of shares in education institutions.
- **Agriculture:** Foreign investors are not allowed to own agricultural land. Consequently, TAEF cannot invest in a company that owns agricultural land, effectively limiting our investment in this sector, or obliging us to use legal engineering to remove the land from the company, create a separate Tunisian owner and establish a rent agreement for the land between the land owner and the company. This legal procedure is complicated and risky.

Macro challenges: Many factors have exacerbated the weak Tunisian economy since the revolution and contribute to a low level of growth: terrorism attacks in the country, poor growth of the European economies that are Tunisia's major partners, the tenuous situation in Libya that affects the growth of Tunisian SMEs working with that country and the liquidity shortage of Tunisia's financial system. These factors increase the challenge of finding strong investment opportunities.

RECOMMENDATIONS

I believe that enterprise funds provide a powerful economic development tool for introducing financial innovation and investing in difficult to finance sectors of an economy. Several factors are key to the success of TAEF, and to my mind, to that of other successful enterprise funds:

- **Country focus.** An exclusive focus on Tunisia is key to our being effective. We have expended significant time and energy to understand the constraints and opportunities in Tunisia.
- **Flexible structure.** Each enterprise fund can design a unique strategy tailored to the specific conditions of its host country at that point in time.
- **Flexible funding.** The funding is flexible and can be used for equity, loans, revenue sharing, risk capital, technical assistance, etc. I cannot emphasize enough how rare and how powerful it is to have such flexible funding. Other organizations are working in Tunisia to support the SME sector, but, in my view, we are the only institution with highly flexible real capital.
- **Fund life.** The time horizon of active investment for ten years after the last tranche of funding is obligated by U.S.A.I.D. provides enough time to craft a strategy, implement it, revise as needed, and exit investments. A shorter time frame would make it difficult to attract top tier staff and to invest patiently.
- **U.S.A.I.D. support.** The U.S.A.I.D. professionals have been helpful in responding to questions and in helping us to navigate the U.S. government requirements. In addition, an existing U.S.A.I.D. program has provided technical assistance to several of our investees, a complementary and valuable program.
- **Patience.** Enterprise funds are complex entities held to high standards and operating within the complex financial regulatory environments of two countries. It takes time to set them up, to find the right people for the board and for the staff, to design an appropriate strategy, to source potential investments, to carry out due diligence and to make investments.

**CLOSING**

Notwithstanding the challenges described above, TAEF has recruited high quality people, built the right institutions and the capability to carry out its investment responsibilities. I believe we can make a substantial contribution to the health of Tunisia's private sector.

In closing, I would like to thank those who have supported TAEF's work during these early years.

- The government of Tunisia, and in particular the successive Ministers of Finance and of International Development who have gone out of their way to be helpful.
- The private sector of Tunisia, and in particular the Tunisian-American Chamber of Commerce.
- Our entrepreneurs, who had to trust us before we had a track record and who work day in and day out to build better futures for their families and communities.
- U.S.A.I.D.'s contract partners in Tunisia with whom we've worked closely.
- U.S.A.I.D. and the State Department who re-established enterprise funds and work alongside us.
- Our TAEF board members, all experienced professionals who generously share their time and talent.
- Our talented and dedicated staff.

I am grateful for the opportunity to be Chair of the Tunisian American Enterprise Fund.

Mrs. WAGNER. I thank you, Mr. Cutter, for your testimony and your opening statement. We will make sure that Representative Issa sees every word of it.

Mr. CUTTER. Thank you.

Mrs. WAGNER. I now recognize myself, in the capacity of the chair, for 5 minutes.

Promoting financial stability and building the capacity of the private sector in the Middle East and North Africa are key concerns of the U.S. Government, and I appreciate Mr. Cutter and Mr. Harmon for their hard work in managing the enterprise fund.

Mr. Cutter, unemployment in Tunisia may be as high as 37.6 percent among working age youth, and there is a real lack of high-skilled jobs. To what extent is the enterprise fund focused on addressing those needs, and what steps can the Tunisian Government take to reduce the youth unemployment rate and create more high-skilled jobs?

Mr. CUTTER. I will try not to filibuster. I will be short, but I am happy to engage in this as long as you would like. It is a very, very important topic. May I say first that I would be suspicious of any Tunisian statistic that has a decimal point in it. I don't think—

Mrs. WAGNER. I will round up to 38.

Mr. CUTTER. I don't think anybody knows. But I accept—I certainly take your point that it is way, way too high.

I don't think that the answer to this kind of unemployment problem stems from a magic bullet. I don't think there is going to be one giant investment that solves that. It is going to come because the SME sector works better.

To be trivial about it, if there are 500,000 Tunisian small businesses, and every one of them hires 10 or 20 people, you have solved the problem. And that speaks to the guts of the problem, which is that the SME sector is heavily burdened. It has not been the focus of government effort, and for 30 years it was essentially the source of depredation by governments.

There is far too much casual corruption, which this government today has made a big deal of. But corruption really is a tax particularly—on small businesses. Every step along the way of creating a business or running a business has some tiny amount of corruption attached to it.

And one of the great benefits of an enterprise fund is we know this. We talk to the entrepreneurs all the time. They tell us this. So there is the problem that the SME sector is not going to focus, there is the corruption, and it is quite hard to do business in Tunisia.

Mrs. WAGNER. Thank you, Mr. Cutter. I have got several more questions.

Mr. Harmon, I understand that half of all EAEF investment is in one company, Sarwa Capital. This company offers consumer credit services to finance auto loans, home furnishings, insurance, and, basically, general consumer spending. Are these services utilized by Egyptians from all social classes, or just by those who already are considered middle to upper middle class? And why has this particular company received such a substantial amount of funding?

Mr. HARMON. We realized—

Mrs. WAGNER. Button, please.

Mr. HARMON. Thank you. I think we realized very early, you cannot solve this problem by going out and trying to put small amounts of money into various different small businesses in Egypt, in our opinion. We needed to have a vehicle that could reach thousands and thousands of Egyptians. Thirty-one percent or so of the youth population is unemployed. So our first preference was to look for a bank, but we were not allowed to do that, so we bought a consumer finance business, which was in a position, through its auto activities, its leasing activities, to reach the small- and middle-size enterprises.

So I would say, through Sarwa, we have now, most recently, reached some 9,000 SMEs, and we are reaching a very significant amount of SMEs. We could not do it any other way without using some kind of vehicle, but an active, growing consumer finance business can reach out.

We had some of the same problems when I was at the Ex-Im Bank. We didn't know how to reach in sub-Saharan Africa the large number of smaller enterprises and the banks didn't want to make loans to them. So we had to find a vehicle. We lent money then to that vehicle. That vehicle lent it to the many SMEs that were in all of the sub-Saharan Africa. But that is the approach we have taken in Egypt. I think over a period of time, we will reach a large number of the SMEs in Egypt, one way or the other, that will help them to provide the funding. SMEs do not have the funding, obviously, and the banks don't want to loan money to them.

Mrs. WAGNER. Thank you, Mr. Harmon. I will continue until our ranking member returns. Mr. Cutter, my home State is Missouri, and agriculture is very important to us. So I was interested in your insights on the Tunisian agriculture industry. As foreign investors in Tunisia cannot own agricultural land, how have agricultural restrictions impacted the fund's activity?

Mr. CUTTER. As I said in the prepared testimony, it precludes—this provision precludes some investment, because you simply cannot—some you simply can't manage around. And in others, it has required us, working through Tunisian regulatory authorities, to essentially structure a deal so that we are investing in the non-agricultural part, and we can show that we have no ownership of the land.

Mrs. WAGNER. Are you having success in dealing with the Tunisian Government in this regard?

Mr. CUTTER. Yes. But we haven't been able to change the basic law. And I think the basic law is a holdover from a long time ago when there were Colonial attitudes about buying and owning land, and I think they are an anachronism.

Mrs. WAGNER. Thank you. Mr. Harmon, what impact have terrorist incidents, the fear of terrorism, and political uncertainty, had on the operations of the enterprise funds in Egypt? And to what extent has the political environment discouraged other investors and sources of credit for the private sector?

Mr. HARMON. Significantly. The tourist business was down, at one point, as much as 50 percent.

Mrs. WAGNER. Fifty? Five-O?

Mr. HARMON. Five-O at one point. It is coming back a little bit now. The tourist business is still impacted, and a very important part of the Egyptian economy. We talk all the time about what we are going to do about that. We are exploring right now with a major hotel chain there creating a school for training young Egyptians on hotel activities as a way to create jobs, but also as a way to stimulate the growth of the hotel business. But there is no question that terror has frightened foreign direct investors and frightened visitors.

We have come away, in the last 6 months, with an IMF agreement, which is a credit to the Egyptian Government, the decision to let the currency float, which meant a significant decline in its value. It's credit to our investments that they are still worth more than what we paid even after the devaluation. But the devaluation makes traveling to Egypt much cheaper. So people are looking, obviously closer at the opportunities to travel there.

I suspect that if they can manage to keep terror from reappearing, that the tourist business will return to Egypt. But all of this had an impact on the Egyptian economy, and only now, with the program that President Sisi has done, which is not only the IMF agreement but the international loan that was done, which was very successfully received, and a number of other moves at the cabinet level. There is one particular minister, the Minister of International Cooperation, Minister Sahar Nasr, who has done a very good job. She understands what the enterprise fund is doing, and understands the issues that we are talking about now.

So good people at the government level, and the kinds of reforms that the government have taken will lead to a recovery of the economy.

Now, it is interesting that the enterprise fund is somewhat of a beneficiary. We invested at the low point. So it didn't take a genius to invest well when we did it. I think that we will show very significant profits as a result of that. But our goal is more than just showing profits. Our goal is how do we help, on the development side, to bring in more investors which is one of our major efforts by seeding of the funds that will do that. But there is no doubt that this, the terror activities there, had a major impact.

Mrs. WAGNER. To that point, Mr. Harmon, foreign direct investment in Egypt, it is no secret, has rebounded from a significant dip in late 2015. What developments have contributed most significantly to this increase in FDI, and how is the EAEF taking advantage of this?

Mr. HARMON. Well, the most important thing is what I alluded to a moment ago, and that is the agreement with the IMF, which, concurrent with allowing the currency to float, that meant that the Egyptian pound is down very significantly, and that meant it was much more attractive to invest. It has slowed up the enterprise fund from investing. After our first two major investments and a few of the smaller ones, then management, knowing that there was a devaluation coming, paused. Now we are back into the market, which is why I think we will—we, as well as other investors, will invest more actively in Egypt. And we brought along two major institutions for \$100 million invested. Many other institutions from around the world come and visit us now in New York or in Cairo

and ask: Is this the right time to invest in Egypt? The answer is, yes, it is the right time, in my judgment, after the devaluation, because it is much cheaper to invest.

So I would predict that you will see foreign direct investment recover more, significantly more, and by the way, the market in Egypt, the stock market has also done very well. All of this speaks well. Now, we have to do more, obviously, in order to help create jobs and help on the development side. But I am cautiously optimistic about the economy now.

Mrs. WAGNER. Thank you, Mr. Harmon. Final question here, Mr. Cutter. In your testimony, you wrote that flexible funding is important to the success of the enterprise fund. Are there additional ways to improve the fund to make it more flexible?

Mr. CUTTER. I hate to be Polyannaish, but from the point of view of what the U.S. could do, I feel as if I have all of the flexibility I need, and shame on me if I can't figure out how to engineer anything.

It is the case that, like a lot of financial systems in many countries, the Tunisian financial system is out of date, and there are ways that it could allow more flexibility. And I have made this clear in my testimony, but also in Tunisia.

Mrs. WAGNER. Thank you very much. At this point, the chair would now recognize Mr. Connolly, the gentleman from Virginia, for 5 minutes.

Mr. CONNOLLY. I thank the chair and am delighted to be with you, and all of our colleagues.

Mrs. WAGNER. I have plenty more questions.

Mr. CONNOLLY. Okay, good. Let me see. Mr. Cutter—no, actually, I am sorry, Mr. Harmon. Congresswoman Ileana Ros-Lehtinen and I had requested a review of the whole Egyptian assistance program. Have you seen that report?

Mr. HARMON. No.

Mr. CONNOLLY. What percentage of the—how much and what percentage of our bilateral assistance is in the form of cash grant transfer?

Mr. HARMON. I don't know the answer to that question. I can only tell you that the amount that has been allocated, the Egyptian-American Enterprise Fund, we have received \$212 million. We expect to receive the full \$300 million.

The amount of financial aid to Egypt for economic assistance has been declining. So it has been cut back. I think military has been held even, but the amount—I remember some numbers, but I have to really see that. But it has definitely come down.

Mr. CONNOLLY. Well, I used to work on the Hill and I used to write the foreign aid bill on the Senate side when I was a committee staffer a number of years ago when we started sort of ratcheting up the percentage of the ESF fund that was provided as a cash grant transfer. And I always worried about that, because if we need to—if we are going to show a peace dividend, you know, for Camp David to the people of Egypt, it is never going to be in the form of a check written to the Egyptian treasury to, you know, stabilize their budget. I mean, maybe the controller of the treasury is happy, but the average Egyptian sees none of that. And that was

the nature of my question, you know, where are we today. But that is not something you follow?

Mr. HARMON. It is a very complicated question. On my first visit to Egypt, the Egyptian Government kept making the statement that the \$300 million that was allocated to the enterprise fund was, in fact, really money that should be given to the Egyptian Government to be spent as they wished to do it. And I debated that point with them. We have since come to some understanding about that.

Our investments have been able to reach millions of Egyptians. So on one investment alone, the Fawry investment, where it is a pace like PayPal, a pay service allows Egyptians to pay their bills, borrow a little bit of money on the telephone call, has changed the lives of 20 million Egyptians. It is growing at such a rate and it will reach, in my judgment, in the next 5 years, 40 million. So half of the population will use this financial service. That is a very important addition that we have been able to do, and we are going to get all of our money back, plus a profit on that investment.

So we are trying to impact the so-called financial inclusion question. If you take the other investment we made, most of the loans that Sarwa has made were to people who do not have a bank account. Thirteen percent of Egyptians have a bank account. So it is the smallest number probably of any of the poorest countries in the world. So Egypt needs financial inclusion, and we have been addressing that. We are addressing it in a way which I think the United States is going to get all of its money back.

Mr. CONNOLLY. When you have 13 percent of the population with bank accounts, that tells me that the informal economy dominates most people's lives.

Mr. HARMON. Yes, that is true. Certainly is true in Egypt. It also tells you that banks don't want to make loans, because they can buy treasury securities, which give them 12, 13, 14, 15 percent return, why take a risk in making a small business loan which is why we sought to make this investment in the consumer finance business, where we now are positioned to take the risk needed to reach the poor and the number of unbanked clients.

So we are going after that very market that you are referring to as a way to make a difference. When they write the history book on enterprise funds and on Egypt, I think that will be our most important contribution. It won't be because we made money. It won't be because the United States got its money back. It is because we made a difference in reaching the average Egyptian and changing the quality of life for the Egyptians, because we gave them the money needed for them to finish their home, or them to buy an auto, or for them to do a lot of basic things.

Mr. CONNOLLY. My time is almost running out, but I want to—presumably, you are involved in the tourism industry in some fashion. Can you tell us a little bit about what is happening to tourism in Egypt, because it is such a huge source of foreign exchange. And presumably the current climate has depressed tourism in Egypt.

Mr. HARMON. The tourist business dropped 50 percent.

Mr. CONNOLLY. 50 percent.

Mr. HARMON. Five-0. That is a huge drop in any country. The western world has never experienced anything of the magnitude of that kind of percentage decline. Now, you have to factor in, there

were various different terror attacks specifically cutting back on Russian tourists, and cutting back on most western tourists. If I tell people of my very first trip to Egypt—I sometimes, in loose moment, explain to them I was there, oddly enough, to meet with the Muslim Brotherhood, and I had a meeting that night. And security took me in a car with two of the young people from the State Department. We went in front of the square. We were blocked immediately because of the protests.

Security said to me when the tear gas comes, stay in the car, because you would not live to get to the corner. For 2½ hours, we stayed in that car. Tear gas was all around us. By the time I got out, needless to say, I was wondering what I had ever agreed to do to take on this assignment. I met with the head of the Muslim Brotherhood, and I leveled in saying, If you are now the leadership of this country, you are never going to attract foreign investment if you can't even drive, if you are frightened about it. I never even shared it with my family. It was such an experience.

Now, recent trips are much better. People can go to Egypt and feel comfortable. They have come a long way. But if you lived through—I happened to say that was the day of the Benghazi attacks, so there was a lot of action going on in Cairo and all over. But that kind of experience and people who saw it and read about it, it will frighten people from going to a country like Egypt. That has changed very significantly, because, fortunately, people have a good memory, and because of the IMF agreement and new money coming in and investment pouring in, you can overcome that. But if you have terror, it will discourage almost anybody from going. And I think we have come a ways. We still have a further way to go.

Mr. CONNOLLY. Just to, if I may, Madam Chairman, just quick addition. And is it your observation that the Egyptian Government has beefed up security at obvious tourist sites?

Mr. HARMON. Yes. I think the Egyptian Government doesn't get appropriate credit for a lot of good things they do. Of course, they get criticized for the NGO law. I, too, am saddened by it. But I think what they have done in the financial area, in terms of the IMF agreement, in terms of allowing the currency to float, in terms of reducing the subsidies, is to their credit. What they have done on security is also to their credit, but you don't read too much about that in the newspaper. Newspapers want to write about the worst part about it, and that is somewhat unfortunate. I hope, in due time, there will be further reforms in Egypt on the issues of the NGOs. But right now, they have done good work in security and good work in the financial area.

Mr. CONNOLLY. Thank you so much.

Thank you, Madam Chairman.

Mrs. WAGNER. Thank you, Mr. Connolly.

As was mentioned in the opening statement of our chairman, Ileana Ros-Lehtinen and the ranking member Deutch, they recently introduced a bill that would authorize a new enterprise fund in Jordan. Considering your experiences over the past 5 years, is Jordan a good candidate for the enterprise fund? I will let you decide who would like to answer.

Mr. CUTTER. I will start.

Mrs. WAGNER. Mr. Cutter.

Mr. CUTTER. I think it is almost an ideal type.

Mrs. WAGNER. An ideal type.

Mr. CUTTER. An ideal type. It is small enough so an enterprise fund can have enormous effect. It has the beginnings of the right institutions. It has a nascent but reasonably sophisticated, in the sense of being nascent, financial sector so you can actually function there. And it is receptive to innovation, all of the kinds of things that I have found in Tunisia. So I would have thought, looking across the Middle East after—obviously because I am biased, but after giving preference to Tunisia and to my friend, Mr. Harmon, and to Egypt, I would have thought Jordan was where you ought to go next.

Mrs. WAGNER. Thank you. Mr. Harmon, any additional?

Mr. HARMON. Were I to be in a position to decide where we go, I would be more aggressive. We can do enterprise funds so it doesn't cost the taxpayer anything. We are going to have profits in Egypt so the money will come back to the United States. That's one.

Two, there is a lot of talent available in many of these countries, who are working together with someone like Mr. Cutter or myself, and could do a very good job running enterprise funds. So I would go bigger. I would look at Iraq. I would think a lot. I would have a team in the United States Government studying which countries we should do. Should we consider, some day that is a long time from now, but some day we will do it in Syria. Some day we will have it in Afghanistan. But I would have a planning stage right now for all of the failing States. And there is a lot of talent. We would love to participate in such a study group at any time at no cost to the United States Government, but there should be more plans for somewhat larger countries because this does not cost us anything to do. So it is almost a no-brainer.

There is too much focus, in my judgment, at State or at the Council on Foreign Relations, on conflict resolution, and not enough focus on economic development. Economic development is successful and you create jobs, that is a major force for reducing conflict in the future. Enterprise funds are the model for that.

Mrs. WAGNER. Thank you, Mr. Harmon. I appreciate your optimism. Many observers have suggested that finding the right chairman and board of directors is the single most important element in achieving long-term development goals and financial profitability of an enterprise fund.

What can you tell us about the composition of your boards and how the directors are chosen? Mr. Cutter?

Mr. CUTTER. I certainly think, thinking about my colleague, that finding the right chairman is extraordinarily important. Whether or not it applies to me or not, I will leave alone. But our board—I think our board is fantastic. By law, it is six American citizens and three Tunisian citizens. All of them come from diverse backgrounds. All of them are experienced in business. Some are quite senior players in the financial industry from the United States, and from Tunisia. They have all taken risks in their lives. They have all been entrepreneurs. They understand, and I think almost all of them have focused, in particular, on the small and medium enter-

prise sector. Some from the perspective in Tunisia of family businesses of their own, some as investment directions from the United States.

So what I have found—and it is a little bit like the board membership of one of these is like the shortstop who can't hit, but on the other hand can't field—is that these are jobs that don't pay anything but, on the other hand, take an enormous amount of time. And what we have found—

Mrs. WAGNER. Thank you. Mr. Harmon, anything to add on the board and board members, chairman?

Mr. HARMON. Yes. I would advise future chairs when you think of a board, try not to take high-profile people who are very busy, because you need people who can get engaged.

Mrs. WAGNER. Workhorses, not show horses.

Mr. HARMON. You need people who are going to work on that. The first thing we look for is very big names, and I am so glad we didn't do it, because the people who really do the work are critical. And they have to have a real interest in the country. So we found that Egyptian-Americans were quite valuable. But the Americans that we had, some had real good private sector experience. A board is one of the most important parts of an enterprise fund, much more so than the private sector boards. They are important too, but boards here, if they are engaged, really can help you a lot.

Mrs. WAGNER. According to the Egyptian fund's 2015 financial statement, approximately \$56 million of its funds were being held in Mauritius. Is this still the case? And what is the rationale for holding funds in Mauritius rather than Egypt and the United States? Mr. Harmon?

Mr. HARMON. I am sorry. I didn't hear the question. If you could say it again.

Mrs. WAGNER. According to the financial statements of the Egyptian's fund, their 2015 financial statements, they said approximately \$56 million of the funds were being held in Mauritius. Is this still the case, and what is the rationale for doing so, for not holding it, I suppose, in Egypt or in the U.S.?

Mr. HARMON. I think part of that might be reflective of the fact that in anticipation of a devaluation, there were funds being held outside the country, because if you were holding Egyptian pounds, you were about to suffer somewhat. There was a long pause in investing, and many companies, including some we know very well, kept dollars outside of the country in Mauritius, waiting for the devaluation to take place, which took place really only 6 months ago. Money is coming back into Egypt right now. So there was conservatism in keeping money in banks in Mauritius as an example as one of the explanations.

Mrs. WAGNER. Do either of your funds hold cash or own companies outside of your host countries or the U.S.? Mr. Cutter?

Mr. CUTTER. No.

Mrs. WAGNER. Mr. Harmon?

Mr. HARMON. No.

Mrs. WAGNER. My last question, finally, it is my understanding that the Egyptian fund is still waiting on a delayed tranche of funding from USAID. What can you tell me about this?

Mr. HARMON. I think you really have to ask State and AID about it rather than myself. We have a pipeline right now where we are ready to make investments, but it in fairness to them, that pipeline didn't exist until maybe last 4 or 5 months, as we maximized our efforts after the devaluation. There may have been some reason to feel that we weren't going to deploy it quickly enough. But right now, I hope that it will get disbursed to us so that we can accelerate our investment program now that we have the pipeline that we are having.

If I may be allowed just to correct one thing I said earlier, I didn't want to imply to anyone that I wasn't supportive of the Jordan enterprise fund. I think it is very worthwhile to do. I just felt that we could also be reaching to an even larger size. And I also wanted to encourage a little bit more study of how many other countries we could do enterprise funds in. If I were running the program, I would be—I would expand the enterprise funds concept very significantly.

Mrs. WAGNER. Great. Thank you, very much.

Mr. Connolly, anything else?

Mr. CONNOLLY. If I just could with Mr. Cutter, Madam Chairman?

Mr. Cutter, you have been involved in Tunisia for how long? How long have you been involved in Tunisia?

Mr. CUTTER. Five years.

Mr. CONNOLLY. Five years. You go there a lot?

Mr. CUTTER. Yes.

Mr. CONNOLLY. You think it is an important relationship?

Mr. CUTTER. Absolutely.

Mr. CONNOLLY. So any comments on the proposed budget the President submitted that would cut aid to Tunisia by 62 percent?

Mr. CUTTER. I try my best to stay out of politics with respect to the Fund, but I think it is short-sighted, that Tunisia is strategically important. The Tunisian Government, if you kind of run down a list of the kinds of things that you use as indicators of countries you ought to invest in: Two free elections; an open, liberal constitution; the most open society in the Arab world to women's rights; all of the economic indicators turning up; a recent IMF agreement; a real anticorruption direction; and financial reform, this is a country we should invest in.

Mr. CONNOLLY. And that litany you just read—and I am sure we could add to it—all of that is after the Arab Spring?

Mr. CUTTER. Yes, sir.

Mr. CONNOLLY. And it is the only country emerging from that, you know, big, hopeful turmoil—

Mr. CUTTER. I think Egypt has a pretty good—but you are right.

Mr. CONNOLLY. It is the only—yeah. But it is the only one that kind of had a happy ending from a democratic point of view?

Mr. CUTTER. Absolutely. And if you talk to people in Tunisia now, the mood, from the top levels of the government, all the way down to the entrepreneurs that we deal with—some of whom are street entrepreneurs—the mood is up in a way that was really quite different 2 years ago.

Mr. CONNOLLY. Sounds like a country we ought to be supporting, not cutting back in. Thank you.

Mr. CUTTER. May I say one other thing?

Mr. CONNOLLY. You certainly can.

Mr. CUTTER. I forgot to mention that—but particularly given your background—I am an eighth generation Virginian from Augusta County, Virginia.

Mr. CONNOLLY. Good for you.

Mrs. WAGNER. A kissing cousin, Mr. Connolly.

Mr. CONNOLLY. Lord Almighty, Madam Chairman. I should have come earlier.

Mrs. WAGNER. Thank you very much, Mr. Connolly.

And I thank our witnesses very, very much for their testimony. I know that the ranking member—I just received a note—has been held up in the judiciary markup. We have a number of markups going on this morning. I am running to one in Financial Services myself. Do know that we are grateful for the work that you are doing; we are grateful for your testimony here today, and I know that other members will be submitting questions in writing.

So, with that, the subcommittee on Middle East and North Africa stands in adjournment.

Mr. CUTTER. Thank you very much.

[Whereupon, at 11:11 a.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE RECORD

**SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128**

**Subcommittee on the Middle East and North Africa
Ileana Ros-Lehtinen (R-FL), Chairman**

June 14, 2017

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held by the Subcommittee on the Middle East and North Africa in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at <http://www.ForeignAffairs.house.gov>):

DATE: Wednesday, June 21, 2017
TIME: 10:00 a.m.
SUBJECT: Grading the Egyptian and Tunisian Enterprise Funds
WITNESSES: Mr. James Harmon
Chairman
Egyptian-American Enterprise Fund

Mr. Bowman Cutter
Chairman
Tunisian-American Enterprise Fund

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.



COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON the Middle East and North Africa HEARING

Day Wednesday Date 06/21/17 Room 2172

Starting Time 10:07 a.m. Ending Time 11:10 a.m.

Recesses (___ to ___) (___ to ___) (___ to ___) (___ to ___) (___ to ___) (___ to ___)

Presiding Member(s)

Chairman Ros-Lehtinen, Rep. Wagner

Check all of the following that apply:

Open Session

Electronically Recorded (taped)

Executive (closed) Session

Stenographic Record

Televised

TITLE OF HEARING:

Grading the Egyptian and Tunisian Funds

SUBCOMMITTEE MEMBERS PRESENT:

*GOP- Chairman Ros-Lehtinen, Reps. Steve Chabot, Darrell Issa, Lee Zeldin, Ann Wagner, Brian Fitzpatrick
Dem- Ranking Member Deutch, Reps. Gerald Connolly, Brad Schneider*

NON-SUBCOMMITTEE MEMBERS PRESENT: (Mark with an * if they are not members of full committee.)

HEARING WITNESSES: Same as meeting notice attached? Yes No

(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: (List any statements submitted for the record.)

Mr. Connolly's Statement for the record

TIME SCHEDULED TO RECONVENE _____

or
TIME ADJOURNED 11:10 a.m.

Antonia Danolo
Subcommittee Staff Associate

Statement for the Record
Submitted by Mr. Connolly of Virginia

Inspired by post-Cold War efforts in Eastern Europe, Congress authorized enterprise funds to spur economic development in Egypt and Tunisia following the Arab Spring in late 2011. Enterprise funds are U.S. government-funded private sector entities designed to promote the development of the private sector in foreign countries. Given the role socioeconomic grievances have played in the region's political upheaval, improving economic opportunity is key to fostering stability and development in Egypt and Tunisia.

USAID established the Egyptian-American Enterprise Fund (EAEF) and the Tunisian-American Enterprise Fund (TAEF) by grant agreement in March and July 2013, respectively. In February 2015, the Government Accountability Office found that most of the administrative and corporate governance infrastructure had been established for both funds; however, they lacked requisite performance monitoring plans, policies to prevent illicit use of funds, branding provisions, and proper cash management tracking. According to GAO, USAID has since implemented each of these recommendations.

The two enterprise funds have taken time to tailor the program to each country's unique business environment. Stagnant economic growth, soaring public debt, and high unemployment have characterized Egypt's economy since 2011. In exchange for a series of economic reforms, the International Monetary Fund and other multilateral and bilateral creditors recently approved numerous loans that are infusing into Egypt desperately needed hard currency and foreign investment. EAEF's leadership sought to maximize the fund's impact by purchasing a bank that could lend money to small and medium-sized businesses, but the Egyptian Central Bank rejected that plan. Instead, EAEF has made five equity investments totaling \$97.3 million and is currently conducting due diligence on eight companies that could lead to \$200 million in investments in 2017.

While Egypt's enterprise fund has focused on larger companies, Tunisia's enterprise fund has channeled most of its nearly \$15 million of investment into 13 companies through the Tunisia-American Small-Medium Enterprise (TASME) program that blends debt and equity financing. High income inequality plagues Tunisia's economy, as wealth is concentrated along the Mediterranean coast, while the interior suffers from lack of investment. Tunisia's 15.2 percent overall unemployment rate and more than 30 percent youth unemployment rate demonstrate the limited access to broad-based economic opportunity. In response to these economic conditions, the TAEF has sought to provide financing to underserved segments of the SME market. TAEF is currently conducting due diligence on nearly 20 other small to medium and microfinance businesses that could lead to \$45 million in investments in 2017.

USAID is currently conducting the first of three required evaluations of Egypt and Tunisia's enterprise funds. A thorough read of these evaluations and the implementation of any recommended adjustments will be important to ensure that incremental progress continues. Judge Ted Poe and I led the effort to apply transparent monitoring and evaluation principles to U.S. foreign assistance administered by the State Department, USAID, and other Federal agencies. And last year, President Obama signed our bill, the Foreign Aid Transparency and Accountability Act (P.L. 114-191), into law.

I've worked closely with Chairman Ros-Lehtinen to improve accountability in our foreign assistance programs in Egypt and throughout the region. Whether it is ensuring that U.S. security assistance is being used for its intended purposes or that State and USAID are spending unobligated economic support funds, I am pleased to see that we are holding foreign assistance programs accountable. I look forward to hearing from our witnesses on how these enterprise funds can generate economic opportunities for Egyptians and Tunisians at the lower end of the economic spectrum.