



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 AnavaSeed Fund	TunInvest Croissance INMA PE 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	Platforms	Approved / Disbursed or in process	# Companies	Amount	Companies
MicroBusinesses	\$15,000,000	Existing MFIs	\$2,500,000	Taysir	\$3,533,498	MFI
			\$5,934,718	CFE Desjardin	\$6,847,752	MFI
Small / Mid-cap SMEs	\$50,000,000	TASME	\$12,154,552	13	\$17,300,000	18
High Growth Startups	\$15,000,000	Flat6Labs	\$3,652,134			
Large-cap SMEs	\$20,000,000	Tuninvest Croissance & Co-investments	\$2,400,000	10	\$1,000,000	2
		INMA Holding	\$6,847,752			
		Entrepreneur in Residence & Direct Investments	\$273,910		\$27,800,000	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.

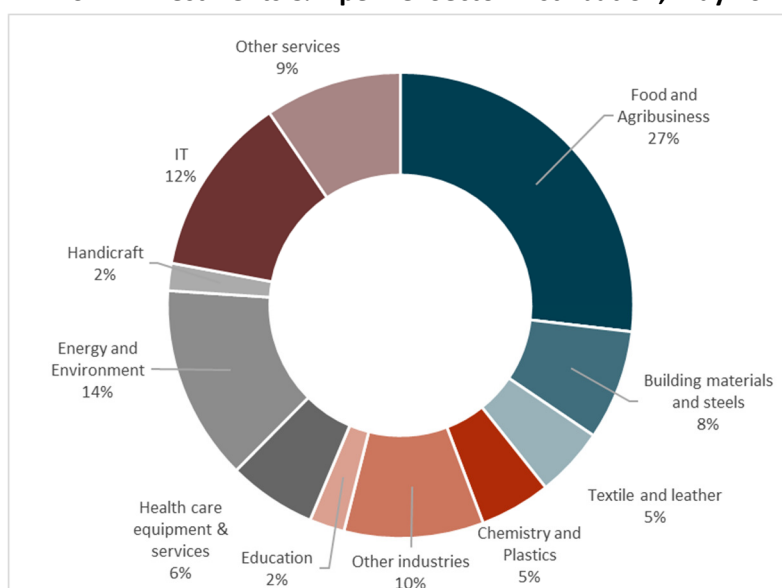
Small & Mid-Cap SMEs: TAEF has allocated \$50 million to TASME. As of the end of April, TASME had a combined total of committed investments and active pipeline of \$29.45 million.

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

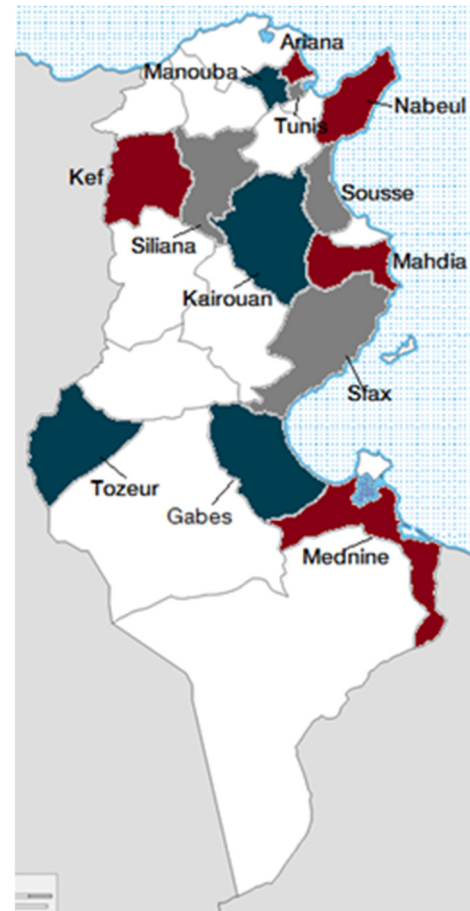
Investment Returns: Although TAEF is a young investment fund with less than 3 years of active investing, we have begun to receive financial returns from our investments. The bulk of these returns will be reinvested in TAEF's growing portfolio; TAEF expects the returns to act as a multiplier to the initial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

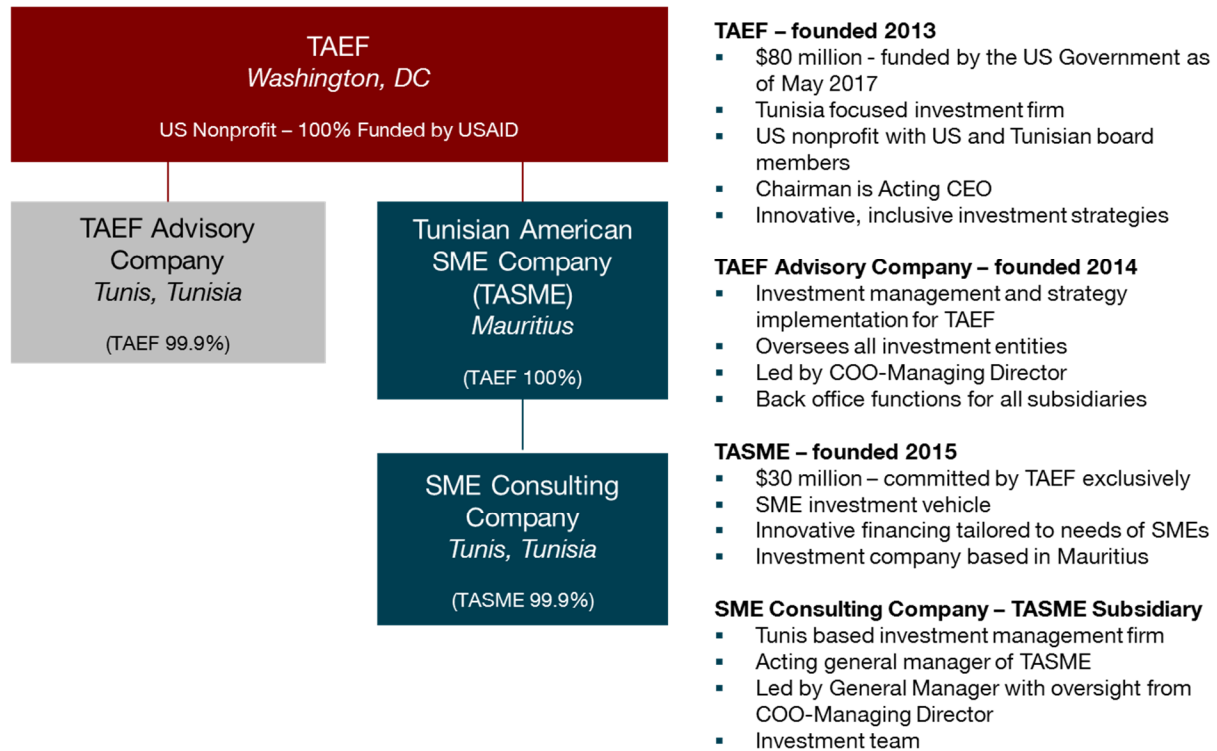
2013	0.38%
2014	0.83%
2015	0.79%
2016	0.82%

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.