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.
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

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

![SMEs Access to Bank Financing](chart)

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.

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.

Source- CAPMAS, Egypt
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. 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).

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. 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.

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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.