



Dutch Good Growth Fund

Notice proposed transaction: Baobab Burkina Faso

Date of Publication: 27th of May, 2024

Taking into account the provisions for governing bodies that apply under the 'Freedom of Information Act' ('Wet openbaarheid van bestuur') and the 'Data Protection Act' ('Wet bescherming persoonsgegevens'), the Fund Manager of the DGGF part 'Financing local SMEs' will publish its anticipated transactions.

Views

Parties can express their views on the proposed transaction to the Fund Manager by contacting dggf@pwc.com within 30 days after the publication date of the notice. After the transaction has been closed, or after it has become clear that the transaction will not take place, the Fund Manager will respond as soon as possible to these Parties concluding on the expressed views by these Parties.

Description (English)

Part of DGGF

Financing Local SMEs

Name Intermediary Fund (IF)

Baobab Burkina Faso

Domicile IF

Burkina Faso

Nature of the activities of the IF

Baobab Burkina Faso (BBF) is one of the leading deposit-taking MFIs operating in Burkina Faso since 2016. It is the last subsidiary established by the well-known Baobab Group, currently their sole shareholder. BBF provides credit (micro loans and SME), savings and other products/services to low-income people and entrepreneurs in urban areas mainly. They are one of the leading SME-lending institutions in terms of Gross Loan Portfolio (GLP) (total GLP of EUR 58.7 M with EUR 39 M dedicated to SME) in a still relatively untapped SME market with high growth capacity. The average loan size of the overall loan portfolio is ~EUR 2.5k while the SME loan average is EUR 31.2k and maximum loan size is ~EUR 195k.

The MFI's operations are relatively centralized, with 7 branches in Ouagadougou (where the Head Office is) and 2 in the second largest city, Bobo Dioulasso, out



of 12 branches. The 3 remaining branches are in more remote cities, mostly covering rural activities.

Baobab BF is a well-performing MFI that maintained steady performance through the years. The MFI broke-even three years after starting operations (2016) and has since then maintained good profitability levels as well as a very decent asset quality.

Size of proposed investment

DGGF will provide a senior loan to Baobab Burkina Faso of EUR 3 million, disbursed in two equal tranches of EUR 1.5 (second tranche 9 to 12 months after the first), giving more control over the fund exposure considering the political context.

Intended transaction date

The Fund Manager aims to close the agreement with Baobab Burkina on June 27th, 2024.

Expected financial results

A positive financial return on the investment is expected.

Expected impact

The facility will be 100% earmarked to SME borrowers in Burkina Faso. Baobab Burkina Faso's strategy aligns well with the DGGF mandate as they have a considerable (and still growing) SME portfolio (66.5% of its total GLP) composed of six different SME products addressed to missing middle clients, not targeted by commercial banks. Of BBF's total portfolio (micro and SMEs), outreach to women is 51% (in terms of the number of clients). The FI has also developed three new products dedicated to agriculture activities in rural areas, that they want to develop further.

BBF's strategy is to continue increasing its outreach to these underserved client categories, in a country that has one of the lowest scores on the Human Development Index and a relatively young financial inclusion sector. DGGF's facility into the SME/Microfinance sector will also come in support of the underserved population in a critical moment, considering the current situation of the country.

ESG compliance

Baobab Burkina Faso has a varied ESG portfolio in trade, service, and manufacturing, and is exposed to a range of ESG risks. However, Baobab's management hereof does not currently meet DGGF's ESG requirements. The loan application process of Baobab Burkina Faso does not include a formal ESG due diligence. Currently, they use an ESG risk sheet which divides opportunities into three risk categories (A, B and C). During this identification process they do take some social and environmental considerations into account but those are not



formalized or standardized. The ESG risk sheet has been provided by group level. Additionally, ESG considerations are not incorporated into the follow-up of the ESG risk assessment, and there is only a very limited ESMS in place.

Baobab Burkina Faso has indicated they are dependent on Baobab Group to meet these expectations. From DGGF's experience with Baobab Group, we know that a policy is currently being developed at Group level. Given Baobab Burkina Faso's dependence on this policy and guidance, we have set compliance of Baobab Group's ESG policy with DGGF's ESG policy as a precondition for investment. When this has been met, the first tranche can be disbursed. Baobab Burkina Faso must be fully compliant with DGGF's ESG policy before disbursement of the second tranche. Specifically, Baobab Burkina Faso is to adopt the DGGF exclusion list, create and adopt an ESG policy & ESMS, deliver ESG training for relevant staff and management, align its grievance mechanism with DGGF ESG requirements, and share ESG documentation for two loan agreements as its conditions for investment. These conditions have been agreed with Baobab Burkina and Group.

DGGF will support Baobab Burkina Faso with review & guidance of its procedures, as well as by providing the DGGF ESG e-learn for FIs.

Tax compliance

Baobab Burkina Faso is a regulated financial institution domiciled in Burkina Faso and is subject to the statutory tax rate in Burkina Faso. Baobab Burkina Faso solely provides financing to local SMEs domiciled in Burkina Faso, which will be normally taxed at the applicable tax rates. Baobab Burkina Faso is not making use of artificial constructions to lower its taxation or the taxation of the SMEs it finances. DGGF's investment conditions focus on ascertaining this. Baobab Burkina Faso requires SMEs that it finances to comply with local laws and regulations, amongst others, those regarding tax. DGGF will monitor whether Baobab Burkina Faso meets its ongoing tax obligations and acts in accordance with the DGGF Tax Criteria.