

THE AFRICAN LOCAL CURRENCY BOND FUND

The ALCB Fund was founded December 2012 by KfW, the German development bank, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

The Fund's mission is to support the development of African capital markets by promoting primary corporate bond issuance in local currency. This is achieved by supporting African issuers, investors and intermediaries and acting as an anchor investor and providing technical assistance. The Fund is rated Baa2 by Moody's.

BAOBAB SENEGAL

Baobab Senegal, founded in 2007, is a financial institution that provides digital and traditional financial services to individuals underserved by the traditional financial sector, particularly SMEs and micro-entrepreneurs. The company is the largest private SME lender in Senegal, with over 340,000 clients served across its network of 45 branches.

Baobab Senegal is part of Baobab Group, which is present in Burkina Faso, Ivory Coast, Madagascar, Mali, Nigeria, Senegal, Tunisia, DRC, Zimbabwe and China. Baobab Group is one of the few global financial institutions to have deployed a profitable model of financing micro-enterprises and SMEs.

FIRST BOND IN 2016

In order to support portfolio growth, diversify its investor base, and refinance existing obligations, in 2016 Baobab Senegal carried out its first bond issuance, becoming the first MFI in the WAEMU region to do so.

The company began the bond issuance process in early-2016, appointing an arranger and obtaining a credit rating from WARA, which rated it BBB (investment grade). The company came to market in August 2016, attempting to raise XOF 7 billion (USD 12 million), and the ALCB Fund agreed to anchor the transaction by committing XOF 1.7 billion (USD 3 m) at 7 years.

Despite the Fund's supportive role, Baobab did not fill its book, raising in total XOF 3.8 billion (USD 6.5 m). While the transaction was a success in terms of providing some additional liquidity to the business and being the first corporate bond in Senegal since 2012, the outcome was sub-optimal and below the expectations of the company.

TAKING STOCK: LESSONS LEARNT

When taking stock of the transactions outcome, the following lessons were absorbed:

1) Timing: the book build of the transaction was at the same time as the issuance of a large sovereign bond transaction,

which reduced market liquidity.

2) Marketing: As a first-time issuer, Baobab was unfamiliar to most local capital market investors. Earlier targeting of potential investors and familiarising them with the business would have increased interest.

3) Pricing: More time needs to be taken to test the market and understand what pricing is acceptable to local institutional investors for an NBFi bond.

ALCB FUND TAF SUPPORT

Given the lessons learnt from its first book build, Baobab Senegal approached the ALCB's Technical Assistance Facility (TAF) to support a second bond issuance. The company identified a new lead arranger to address many of these issues by: broadening the base of potential investors, improving the marketing of the bond and investor sensitisation, increasing the credibility of the transaction, and providing enhanced structuring capabilities.

In response, the TAF agreed to run the selection process for a new adviser, whereby Société Générale Capital Securities WA was selected, and supported 50% of the arranger costs. Additionally, the Fund agreed to pre-commit to invest XOF 1.75 billion (USD 3 million) in advance of the book build for the second issuance.

SECOND BOND IN 2019: FULLY SUBSCRIBED

In collaboration with a new arranger, the support of ALCB Fund investment commitment, plus a rating upgrade to BBB+, Baobab Senegal returned to the capital market in June 2019. On this occasion, having appropriately assessed market appetite, the company also slightly revised its pricing to meet investor requirements. The company looked to raise XOF 10 billion (USD 17 m) bond with 7-year tenor, and the bond was successfully fully subscribed. The main investors were regional collective investment funds (38.5%), insurance companies (26.5%), pension funds (15%) and SGIs (1.5%) ; with the majority domiciled in Cote d'Ivoire.

"Baobab is fortunate to be able to rely on strategic partners such as the ALCB Fund, a key investor and supporter of our Senegalese bond programme. After the success of this issuance, we plan to further expand our use of local currency bonds for both Baobab Senegal and other subsidiaries of the group."

- Arnaud Ventura, President and Founder of Baobab Group



Fatou Fall (L), a tailor, and Samba Diop (R), an electronics repair shop owner, are two of the thousands of micro-entrepreneurs who benefit from the support of Baobab Senegal.

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