

Factsheet

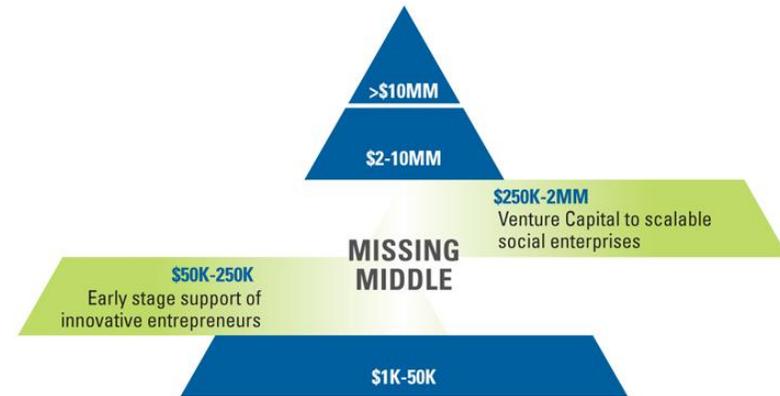
SME Investing | Burkina Faso

Client/Partner:	I&P/Sinergi Burkina Faso
Country:	Burkina Faso
Investment Manager:	John Lindhout
Period Investment:	2014-2023
Phase:	Approved – signing investment documentation
Amount:	\$ 200,000 in equity (IRR 6,7%)
Destination:	Conduit financing of SMEs
Impact:	Generate 700 new jobs, maintain 1100 jobs in 10 years, resulting in \$8M in salaries, \$4M in taxes and \$11M in extra added value! Also substitute imports with \$10M in exports.

Goal and objectives | The goal of this investment project is to finance small and medium enterprises in Burkina Faso through Sinergi. This will be done through one big investment in a local SME development company. This leads to multiple smaller investments in SMEs, which will impact at least 1800 people.

Investment | The total investment of Incluvest B.V. in Sinergi will be \$ 250,000. By investing \$ 250,000 Incluvest participates in the first round of capitalization of Sinergi and acquires a stake of 8%. To spread the risk we propose an investment of \$ 200,000. Incluvest B.V. will hold the remaining \$ 50,000.

I&P (Investisseurs et Partenaires) will establish Sinergi Burkina S.A. with a start-up capital of 1.7 billion CFA, which equals approximately \$ 3.2 million. From this capital it will make 50 investments in the period 2014-2023 of 90 million CFA (\$ 170.000) on average. This will be done through equity and shareholder loans.



Source: Lundin Foundation

Current situation | SMEs (Small and Medium Enterprises) in Burkina Faso have difficulties in getting access to finance, limiting their growth and potential to create jobs. Access to credit or loans is hampered for a variety of reasons. From a supply perspective:

- the banks have limited interest in financing SMEs as the amounts are relatively small leading to high transaction costs per loan.
- relatively small banking sector focusing on the consumer market and large corporations, lack of appropriate financial products for SME's (only 1 institution offering lease and factoring), and lack of supportive institutions (credit reference bureau, enterprise statistics).

From a demand perspective:

- the SME's often do not have sufficient securities to provide as collateral.
- SME's do not have sufficient equity to match the solvability requirements.
- most owners of SME's lack capacity to properly plan and manage the business, mainly financially.

Opportunities | I&P, the promoter of Sinergi, has identified the CFA 20 million (\$ 38.000) to CFA 200 million (\$ 380.000) as the 'missing middle' category of finance demand in Burkina Faso. The lack of collateral and lack of internal competences makes it difficult to provide loans to the 'missing middle'. The best way to stimulate SME growth is the provision of equity in combination with technical/management support. However it is impossible to do small investments in SMEs directly from Europe. I&P has developed an approach to establish local investment companies which can provide the SMEs with a mixture of equity and debt finance. To make sure the SMEs will run properly Sinergi will take a share in the company itself, as well as providing technical assistance.

Future | Sinergi Burkina S.A. will focus its investment services on the following sectors: food processing, agribusiness, biodiversity/transformation of local produce, small manufacturing, energy, health and education. Up till March 2014, Sinergi Burkina was able to generate 54 leads of which 77% is active in agribusiness, food processing and/or directly related to agricultural/food value chains.

How | I&P will establish Sinergi Burkina S.A. with a start-up capital of 1.7 billion CFA, which equals approximately \$ 3.2 million. From this capital it will make 50 investments in the period 2014-2023 of 90 million CFA (\$ 170.000) on average with an estimated 30% in equity and 70% in shareholders loans and/or other forms of shareholder loans. The average investment period in each SME is about 6 years and Sinergi aims to expand with 5 investments each year. In order to be able to overcome some of the indicated management and technical risks, Sinergi will have one investment manager per 6 investments in order to be able to offer each investee the required support.

As starting and expanding an SME requires guiding as well, 3% of the budget will be used for training and capacity building of the SMEs.

I&P aims to generate a financial return on equity in Sinergi of 6% per year from year 6 and onwards. In the projected period of 10 years Sinergi will support at least 50 SMEs, generate 700 new jobs and contribute to maintain 1100 jobs.

Partner | I&P is a well known French institutional investor. I&P has a strong regional network in West Africa and solid relations with institutional investors. I&P's mission is to contribute to the rise of a sustainable private sector in Africa. Its action combines a global social vision and a pragmatic approach to economic efficiency. Since its establishment in 2012, I&P Développement has invested over 10 million Euros in 30 businesses -of which 7 Microfinance Institutions- in over 12 African countries. This has created or maintained approximately 1.400 jobs, as well as annual growth rates of 30% on average for the last 3 years in the investee companies.

Country | Burkina Faso is one of the poorest countries in West Africa and ranked 183rd (2013) out of 187 countries on the UN Human Development Index. About 40% of the population lives under the poverty level. Many people are self employed due to low formal employment. A large part of the population depends on subsistence farming and informal income activities.

SMEs are a game changer in this. They provide many jobs, and as they usually have a much greater scale they also have an impact on the whole community. However, SMEs also lack the ability to get credit or loans. In general, access to credit is considered difficult in Burkina Faso. Burkina ranks 130th out of 189 countries on the Doing Business list. It is known that only 2% of the bank loans are long term loans. And this percentage is even decreasing!



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