FINDEV CANADA TRANSACTION SUMMARY

Banque Ouest Africaine de Développement

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.

BOAD

Transaction Description

This transaction consists of a loan to Banque Ouest Africaine de Développement ("BOAD", or the "Bank"). As a regional development bank, BOAD plays an important role in West Africa to advance economic development and equitable regional growth. This loan is designed to support BOAD's lending activities to the private sector, in particular small and medium-sized enterprises ("SMEs") and agribusinesses in the West African Monetary Union. In addition, 30% of FinDev Canada's financing will be earmarked to support women-owned or led enterprises.

Transaction Details

COUNTERPARTY	Banque Ouest Africaine de Développement ("BOAD", or the "Bank")
DOMICILE	Togo
COUNTRY OF OPERATIONS	Sub-Saharan Africa
TERM OF FINANCING	10 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category FI-1 (equivalent to Category A)
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	EUR 30M
DATE OF TRANSACTION DISCLOSURE	21/09/2022
DATE OF TRANSACTION SIGNING	02/12/2023
DATE OF TRANSACTION SUMMARY PUBLICATION	22/12/2023
2X CHALLENGE QUALIFYING	Yes

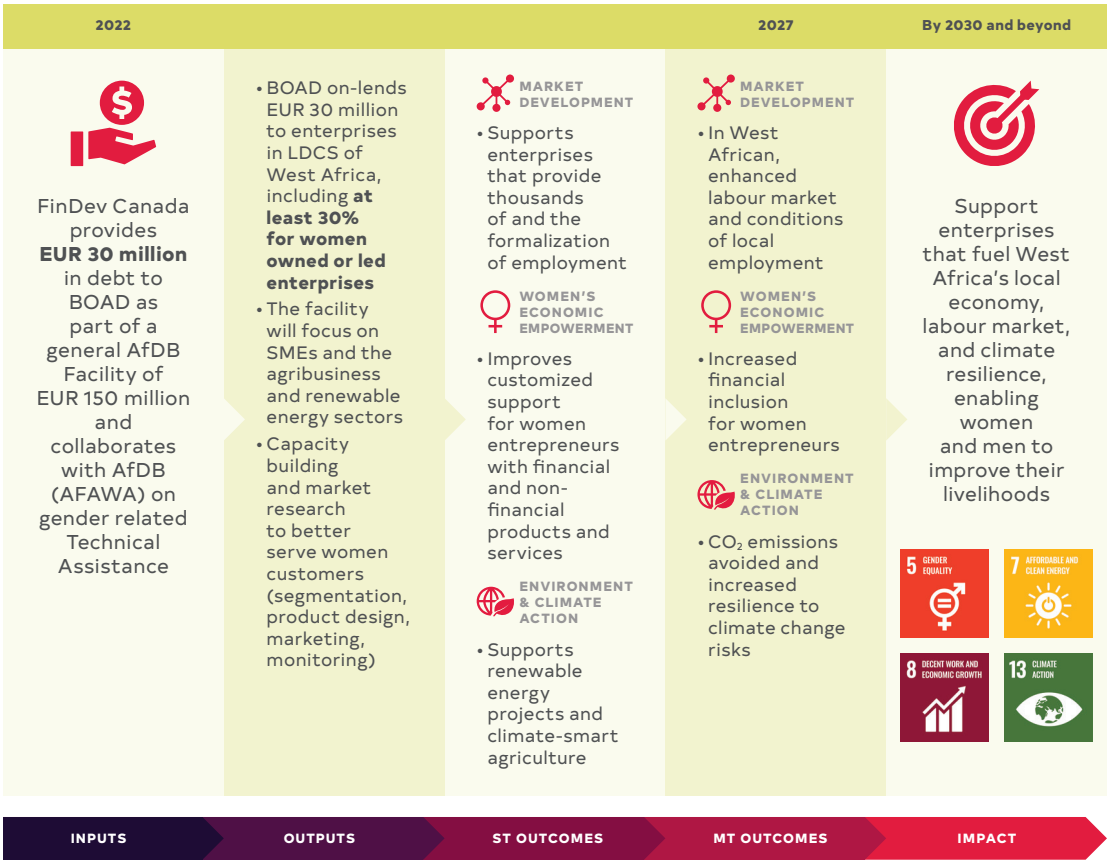
FinDev Canada

Summary of Anticipated Development Impacts

The development impact value proposition of this transaction is to offer financing to the private sector in several of Africa's least developed countries ("LDCs"), with a focus on supporting SMEs, as well as the agribusiness sector. For this transaction, BOAD will contribute to FinDev Canada's long-term development impact goals and the SDGs, particularly SDG 8 "Decent Work and Economic Growth", SDG 13 "Climate Action", SDG 7 "Affordable and Clean Energy", and SDG 5 "Gender Equality", per the impact Theory of Change below.

Barriers:

- 35% of population in LDCs live in extreme poverty
- 86% of employment in Africa is informal, which is associated with lack of social protection, rights at work and poor working conditions
- Financing gap in Africa is US$42 billion for women-owned businesses
- Women entrepreneurs in Africa face challenges in receiving loans from the formal banking system
- LDCs are particularly vulnerable to climate change risks, which can have devastating effects on agriculture, livelihoods and local economy



MARKET DEVELOPMENT

- **Strengthen local economy in LDCs:** BOAD operates in eight countries in West Africa[1], seven of which are classified as LDCs. The Facility will support SMEs, as well as the agribusiness sector, both important contributors to the local economy.
- **Contributing to formal local employment:** BOAD's objective is to support the creation of 245,000 jobs by 2025, of which at least 53,000 would be in the private sector or through SME on-lending. BOAD provides guidance to many of its clients on formalizing employment in their workforce, decreasing risks associated with informal employment.

WOMEN'S ECONOMIC EMPOWERMENT

- **Improving employment for women:** The Bank has a Gender Action Plan that defines its priorities to strengthen gender equality and diversity, and its representation of women at different levels of the organization (33% of senior management and 37% of employees in 2021) through improved recruitment, retention and career progression practices.
- **Supporting women entrepreneurs:** BOAD committed to channel at least 30% of FinDev Canada's loan to women-owned or led businesses. BOAD will implement a gender-disaggregated data tracking system, as well as methods to better serve its women clients through the offering of financial and non-financial products catered to this segment.

CLIMATE MITIGATION AND ADAPTATION

- **Sustainable practices within operations:** BOAD has an Environmental and Climate Strategy, with KPIs to reduce its office consumption of water, electricity, fuel and waste production. The Bank has decreased its operational carbon footprint by using solar power generation to provide a portion of the energy used at its head office in Togo.
- **Reduction of GHG emissions:** BOAD supports renewable energy projects and climate-smart agriculture with a projected reduction of 18 million tons of CO_2 emissions by 2025.
- **Supporting client's climate change resilience:** The Bank is integrating climate change resilience measures in its activities, including piloting crop insurance offerings to agribusiness clients in several countries of operations.

[1] Benin, Burkina, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

This review has been completed in accordance with FinDev Canada's Environmental and Social Policy. FinDev Canada considers the transaction to be Category FI-1 (A), which is specific to financial institutions, as the majority of BOAD's existing portfolio includes substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. As a Category FI-1 (A) transaction, FinDev Canada is required to provide a 30-day ex-ante disclosure of the transaction, located on the Transparency Page of our website.

The benchmark review of BOAD's E&S management capacity was conducted against IFC Performance Standards (IFC PS) 1 and 2. The due diligence activities consisted of E&S documentation and records review, and interviews with representatives from BOAD (Environment and Climate Finance, Human Resources, internal audit, and risks). Environmental and social documents reviewed included BOAD's Environmental and Social Management System (ESMS), audit reports and human resources policies. FinDev Canada did not undertake a site visit due to the ongoing COVID-19 pandemic and associated travel restrictions.

The E&S risks associated with this transaction lie with the individual organizations and projects that BOAD may support with the FinDev Canada funds it receives. BOAD's lending portfolio is focused on West African countries and primarily composed, for the private sector, of loans to financial institutions and shareholding, energy and natural resources, and infrastructure and digital economy. Given the use of proceeds, it is anticipated that FinDev Canada's support will be directed towards Agribusiness and SME loan portfolio expansion. Even though there will be a condition to limit use of proceeds to Category B projects, the review of BOAD's ESMS revealed several gaps in the Bank's E&S policies and procedures — including in the current project categorization process — which could limit the client's capacity to comply with this condition, at least in the short-term. Therefore, the overall transaction-related E&S risks are assessed to be high.

While BOAD has developed E&S procedures that aim to systematically identify projects with potentially major E&S impacts, and to manage them appropriately throughout the initial project appraisal and due diligence, contract negotiations, as well as during the monitoring and evaluation phase, several gaps were identified, all of which are addressed in a fit-for-purpose ESAP. FinDev Canada acknowledges that BOAD is actively working to strengthen its management systems and capacity in order to meet best practices. Based on its review, FinDev Canada is confident that BOAD will meet ESAP expectations, adhering to loan covenants and maintaining regulatory compliance in the markets in which it functions.

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions