Investment Strategy 2024-2028

July 18, 2024

Contents

ANNEXES:

Acronyms

AVC – Agri Value Chain
BDSF – Business Development Support Fund
C&I – Commercial and Industrial
DFI – Development Finance Institution
EDFI – the Association of Bilateral European Development Finance Institution
EDFI MC – EDFI Management Company
EFP – European Finance Partners
EFSD+ - European Fund for Sustainable Development Plus
EIB – European Investment Bank
E&S – Environmental and Social
EU - European Union
FCAS – Fragile and Conflict-Affected States
ICCF – Interact Climate Change Facility
IFC – International Finance Corporation
IFI – International Finance Institution
IT – Information and Technology
IPP – Independent Power Producer
LDC – Least Developed Countries
MFI – Microfinance Institution
MIC – Middle Income Countries
PDF – Private Debt Fund
PE – Private Equity
PEF – Private Equity Fund
PPA – Power Purchase Agreement
SDG – Sustainable Development Goal
SHS – Solar Home Systems
SIT – Strategic Impact Target
SSF – Small Scale Farmers
SME – Small and Medium Enterprise
TGVC – Transformational Global Value Chain

I – Executive Summary

This investment strategy 2024-2028 will guide BIO's investment work along the main priorities in terms of impact, operational scope and principles, and risk and return expectations set by the new Management Contract. It will be implemented alongside the framework of BIO's Law of 03/11/2001, lastly modified by the Law of 25/10/2018, and of the Third Management Contract dated 02/01/2024.

During this 5-year investment period, BIO is expected to invest **EUR 1.2 billion in Capital and Capital Subsidies in about 150 projects**. Under the Management Contract, BIO will not receive new non-earmarked Capital and hence will recycle its own capital for its mainstream investments. The Belgian State will however allocate an additional EUR 85M of Capital Subsidies to BIO for investments with a higher risk / impact profile as per the new Management Contract.

This Investment Strategy, in line with the Management Contract orientations, sets ambitious development goals including

(i) **intensifying our impact and additionality:** BIO will extend its work in Africa (aiming at 45% of new volume of investments in Africa), and in fragile and poorer countries (aiming at 30% of new volume of investments in Least Developed Countries (LDC) and Fragile and Conflict-Affected States (FCAS); BIO will expand its use of Capital Subsidies to support riskier enterprises active in the agri-value chain directly & indirectly supporting smallholders as well as in climate finance and to a lesser extent in microfinance in LDCs;

(ii) **improving our transformative work:** BIO will guide the gradual transformation of clients regarding environmental and social standards, gender equality, decent work and, if relevant, adaptation to climate change, and the development of a human rights approach;

(iii) **reaching clear and measurable impact targets**: For the first time, BIO has set up an impact framework around key Sustainable Development Goals by defining precise and measurable Strategic Impact Targets (SIT) that orient our prospection work and support our decision-making. The impact framework is built around indicators of economic development, support of micro, small and medium enterprises (MSMEs), reducing inequality between countries and in countries, gender equality, climate mitigation and adaptation, preservation of biodiversity, and technical assistance support of BIO clients.

As the Management Contract orients BIO towards riskier areas (in terms of geography and sectors), BIO will strengthen its risk-return approach to maintain a return on equity above 1% over the next 5 years and support its long-term sustainability:

(i) **Sharpen capital allocation**: BIO will invest its own capital (Code 8) <u>mostly</u> in sectors that have historically proved stabler and more profitable, i.e. loan and equity in financial institutions and debt funds but also generalist private equity funds, and infrastructure projects. BIO will use Capital Subsidies (Code 5) for riskier investments, i.e. most direct enterprise financing, innovative climate projects, and investments in smaller LDCs and FCAS, while not excluding the use of Code 8 for such investments when appropriate.

(ii) **Supervise geographic allocation**: BIO will <u>concentrate</u> its portfolio (85% in 30 countries expected) in regions / countries with higher market potential and lower-perceived risks (including Middle Income Countries (MICs)) and <u>diversify</u> exposures in small African LDCs, and Fragile and Conflict-Affected States (FCAS).

(iii) **Improve risk framework**: in the next 12 months, BIO will define a risk policy with adequate tools for risk monitoring. A temporary risk framework is presented in this note including concentration limits, target portfolio, maximum investment amount per sector and instruments to support the investment process in the meantime.

(iv) **Develop Risk mitigation strategies:** BIO will actively look for instruments (including European Guarantees, country insurance) to enhance risk management, participate in DFI syndication to access lower risk transactions in an efficient manner and develop lessons learnt.

BIO will focus on sectors with sufficient market depth in which it has built expertise and a track record, and will, in limited sub-sectors, either **strengthen** its practice or **explore** new opportunities**.**

(i) **Financial sector: Focus**- BIO will deliver MSMEs financing through banks, leasing and microfinance institutions. **Strengthen- BIO** will integrate fintechs in its practice as they allow to multiply financing outreach and the range of financial services at a lower cost, as well as insurance companies that create economic resilience, including to the effects of climate change.

(ii) **Private equity: Focus-** BIO will provide capital indirectly (through aligned and carefully selected private equity funds) to hundreds of SMEs, develop climate projects and support the financial sector. **Strengthen-** BIO will expand its direct equity practice and investments in debt funds.

(iii) **Enterprise: Focus-** BIO will provide direct loans to the agri-value chain actors with a strong orientation towards small-holder farmers and food security. **Strengthen-** It will also expand its consideration of industrial projects and basic goods and services, and **Explore** climate positive projects.

(iv) **Infrastructure: Focus-** BIO will prioritize renewable energy projects globally. **Strengthen**- BIO will develop its expertise in Information and Communication Technology in Africa (including data centers, telecommunication towers and network development) and **Explore** e-mobility, logistics and waste management.

There are also projects that BIO will **not invest** in: (i) enterprises excluded as per article 5 of the Management Contract as well **as (ii) direct investments** in venture capital, forestry and non-African based infrastructure projects not related to climate mitigation or adaptation.

This investment strategy will be complemented with policy papers relative to (i) Human rights, (ii) BIO's Strategic positioning, and (iii) a comprehensive Risk Policy by December 2024. In addition, by mid-2025, BIO will further reflect on (i) its ambition and approach towards private capital mobilization (especially Belgian impact investors) based on a mid-life evaluation of the recently deployed SDG Frontier Fund, (ii) its position towards European level objectives like Global Gateway, (iii) its focus and priorities goals for agriculture and agribusiness value chain development.

II – Presentation of the Strategic Context for Impact Investment

After years of rapid economic growth and social improvements, storm clouds are now gathering in BIO's countries of operation resulting in the stagnation or even reversal of some of the development achievements. These setbacks call for an even more ambitious development agenda that relies both on public financing and mobilization of private funds. The role of the Development Finance Institutions (DFIs) and other impact players is therefore crucial to restore a healthy and sustainable growth path in developing economies, and to contribute to addressing climate challenges and improving inclusivity.

A- Recent development economic outlook

Rapid global changes over recent years have had direct and indirect consequences on the development work of BIO and its peers.

- **The impacts of multiple shocks are partly reversing progresses made towards the realization of the Sustainable Development Goals (SDGs) by 2030** (half are moderately off-track, a third have stagnated or regressed) with 700 million people living in extreme poverty. The goals of no poverty, decent work and economic growth, climate actions, and quality education are most in jeopardy[1]. OECD estimates that the SDG financing gap of developing countries increased by 50% to USD 3.9trillion since the COVID pandemic.

- The World Bank as well as development literature abundantly **point to the need for (i) inclusive growth and (ii) actions to avoid transgressing the planetary boundaries working hand in hand to address the upcoming global challenges without one agenda overshadowing the other.** For instance, the Club of Rome issued a book in September 2022: "Earth for All: A Survival Guide for Humanity" that closely links inequality and preservation of the planet arguing that addressing the growing gaps of income between and in countries is required to revert to a growth within the planetary boundaries. The transformation required to remain within these boundaries will be disruptive and needs to be fair and just for all to avoid rejection. The five turnaround actions proposed relate to poverty, inequality, gender empowerment, food, and energy.

- **Political and economic risks in emerging markets are on the rise**. About 60% of the poorest countries are at extreme risk of debt distress, if not already facing it (World Bank), and the danger is spreading to many middle-income countries. The COVID period, the recent trends of inflation and high interest rate of hard currencies have undermined the value of local currencies in weaker economies, reinforced public over-indebtedness with looming (Kenya) or actual default of governments (Ghana, Zambia, Sri Lanka, etc.) and discouraged new investors as well as local capital to invest in developing economies. The world is becoming a more dangerous place in which democracies are undermined, where consequences of the war in Ukraine are felt in Africa, with rebel armed groups attacking civil societies and undermining governments in the Sahel countries, Nigeria, East of Democratic Republic of Congo or, linked to drug trafficking, in some Latin American countries.

- **Geopolitical competition for influence** from China, the US and the EU towards Africa, Asia and Latin America aims to ensure access to resources and creates a move away from globalization towards regional partnerships. With more protective measures in the larger economies and the reconfiguration of global value chains towards regionalization, **near-shoring** is increasingly an interesting economic option for neighboring countries (e.g. Morocco/EU, Mexico/US).

- **EU plans to weigh in on this strategy of influence with the Global Gateway platform that intends to mobilize EUR300 billion between 2021 and 2027** to support local and sustainable projects with lasting benefits in developing countries while building connections with Europe and supporting European private sector players to invest and remain competitive. Key investment priorities under Global Gateway include digital transition, energy connectivity, transport, health and education. The European Fund for Sustainable Development Plus (EFSD +), one of the Global Gateway instruments, allocates EUR40 billion in risk-sharing instruments to implementing partners (EIB, IFI, EDFI), including EUR13 billion in guarantee programs to invest in challenging markets. Additionally, the EU expects to strengthen global supply chains for critical raw materials and will seek partnerships with emerging markets and developing economies, notably under the Global Gateway framework.

- **Developing economies are particularly exposed to increased risks relative to:**
    - **Human capital** that suffered significantly during recent years with increased poverty, stalled gender equality progress and limited access to education. Growing demographic trends will result in increasing needs for health and education services that weigh heavily on the more fragile countries' public budgets.
    - **Climate change** that directly impacts fragile economies with lesser adaptation capacity and resilience, jeopardizing agricultural production and food security and deepening social fractures with the poor generally more affected (lower income, migration, diseases).

[1] https://unstats.un.org/sdgs/report/2023/progress-chart/Progress-Chart-2023.pdf

- **From a micro-economic viewpoint, the development of value chains in developing countries has become more complex** due to competitive pressure. Many value chains (agri – cocoa, cashew nuts, mining materials, oil, etc.) are ultimately transformed elsewhere. More developed countries are increasingly pushing an on-shoring or near-shoring agenda. Finally, many developing countries lack levers in terms of public spending to respond to these challenges.

B – The role of the private sector to address challenges ahead

With global development under threat, the role for the private sector to channel funds in the development agenda is crucial as public funding is constrained by rising public debt and limited fiscal space. The private sector can help (i) foster economic growth to create jobs and strengthen economic resilience, (ii) develop inclusivity among and within countries, and (iii) address the climate agenda (adaptation, resilience and mitigation).

- **Fostering economic growth**: **40 million jobs are needed annually[2] up to 2030** to absorb the growing global workforce and maintain social cohesion. The private sector plays a key role in the absorption of this workforce as it accounts for 90% of the jobs in developing countries, but it remains largely underfinanced as IFC measures that 65 million firms have unmet financing needs of USD5.2 trillion every year, out of which USD 4.5 trillion from SMEs. The private sector and SMEs' access to financing is conducive to job growth: USD 1 million invested in SMEs results in the creation of 16.3 additional jobs over 2 years[3].
- **Development of inclusivity within and between countries: USD 480 billion per year is needed in Least Developed Countries** (LDCs) to be in a position to eradicate extreme poverty and USD1 billion per year to double the share of manufacturing in GDP[4].
- **Addressing the climate agenda**: by 2025, developing countries are estimated to need around USD 1 trillion annually for **climate investments**, rising to roughly USD 2.4 trillion each year between 2026 and 2030[5]. Financing energy transition as well as adaptation will largely fall upon the private financial sector.

C – Development Finance Institutions as a catalyst for Impact Investment

Development finance institutions (DFIs) and impact investors play an essential role in narrowing development gaps and creating local resilience by providing the financial means and technical assistance to build and run sustainable local activities. To implement this, DFIs are deeply embedded in the local economic fabric and leverage their network of local financial institutions the micro and small businesses, fund managers and entrepreneurs can access. The role of DFIs extends to their capacity to mobilize private financing, including through the development of instruments to mitigate the risks of private investments (blended finance for instance or hedging of currency risks).

New impact investors are **emerging to support** developing countries and existing players are broadening their mandate. This is **the case for new publicly owned development finance institutions such as** DFC for the US, Findev for Canada, as well as the expansion of EIB and EBRD scopes to Africa, the deployment of the Green Climate Fund and increased means granted to domestic DFIs (e.g. Swedfund had its resources tripled). On the private side, some impact investors and foundations are also taking interest in developing markets including those channeled by DFIs through syndications or funds or private fund managers (Incofin, Mirova, Lendable,

[2] wcms_667247.pdf (ilo.org)
[3] SMALL BUSINESS, BIG GROWTH: How investing in SMEs creates jobs (ifc.org)
[4] https://unctad.org/system/files/official-document/ldc2023_en.pdf
[5] https://www.oecd-ilibrary.org/docserver/e20d2bc7-en.pdf?expires=1711098571&id=id&accname=guest&checksum=9024E3FEFA74624F607910ABB81F26D8

responsAbility, etc.). In the increasingly complex impact field, it is all the more important to collaborate for more effectiveness with aligned DFI partners (as was done very successfully during the COVID period) while developing competencies and capacities to add value in specific activities.

Mobilization of private capital is crucial to be able to address the financing challenges encountered by developing countries to reignite growth and to adapt to climate change. USD 740 billion per year from private financing could be required to meet the SDG-related agenda, more than half of which could go towards sustainable infrastructure.[6] Mobilization can take the form of traditional syndication or co-financing with private players, the development of platform approaches to channel funds to a large projects range (similar to the SDG Frontier Fund set up by BIO), green bonds that allow to attract capital in the greening of economy, or blended finance structures.

Blended finance instruments in the form of first losses of funds that facilitate equity and loans fundraising, guarantees to mitigate investors' risk or subsidized investments (equivalent to BIO's Code 5) encourage capital going into the riskier fields of investment. The objective of blended finance is to accelerate innovation, support development of new sectors and encourage entering frontier markets. The fallback risks are the long-term market distortion it might create as players get used to subsidized financing and the loosening of investment discipline that may fundamentally undermine development players' credibility. In addition, the programs take a long time to put in place and might not allow the rapid scaling-up of private mobilization that is required to face upcoming challenges.

With the volatile exchange rates, it is all the more important to be able to support our clients and ultimate beneficiaries **in local currency** without all the risks of devaluations falling on BIO's shoulders. As such, DFIs need to continue to look for tools to address these needs and reduce the risks attached. TCX has become widely called upon to allow DFIs to provide local currency hedged financing. TCX is also working with blended financiers (including the EU) to solve its shortcomings in terms of maturity (essential for enterprise and infrastructure projects) and non-deliverable nature of its hedges (not protecting against the transfer risks).

D – BIO's Strategic Positioning in the Impact Investment Ecosystem

BIO is the public reference in Belgium for overseas impact investment. BIO is **a key actor of the Belgian development cooperation and** foreign policy through its focus on Africa, LDCs, SMEs, climate change, human rights based approach, and recently Ukraine.

BIO directly accesses key private sector development players in Belgium and Europe. Among private players in Belgium, Incofin stands out with a similar size as BIO (USD1.2 billion of assets under management) whereas Alterfin, Kois, Kampani and Inpulse are smaller in size and scope of operations. BIO collaborates actively but at arms' length with the Belgian impact actors including through investment, exchange of services, event contribution, governance participation, project consultation and knowledge exchanges. The recent launch of the Impact Finance Belgium association has further connected and promoted the ecosystem of impact. BIO, as a member of Team Belgium, is also a party to reflections around private sector support led by the Belgian Cooperation and has access to the Belgian diplomatic network that contributes to our outreach and political umbrella. BIO, being pillar-assessed, benefits from its European connection through EDFI and EDFI MC, the latter facilitating access to European guarantees. BIO has also direct access to co-financing from EDFI partners (including through the syndicating companies EFP and ICCF). Through EDFI, it has a direct dialog with its peers in the US and Canada and connects with most International Finance Institutions (IFI) including EIB, IFC, IDB, etc.

[6] Strengthening Multilateral Development Banks: The Triple Agenda Report of the G20 Independent Experts Group (gihub.org)

BIO is however a small player among European Development Finance Institutions with only 2.8% in volume of annual commitments and 1.4% of overall portfolio of EDFI in 2022 (cf. Annex 1 for comparative figures). Our relative size will probably decrease in the coming years as substantial new financial resources are provided to a few other DFIs. In addition, BIO, with its limited scale and one of the lowest operating expense ratios among peers, can only develop limited depth of expertise and prospection outreach.

BIO has a pertinent positioning and expertise in its support of microfinance (12% of EDFI portfolio) and of SME financing (4% of EDFI portfolio) and has developed some internal capacity as to agri-value chain financing and small renewable energy projects. With the instrument Capital Subsidies, BIO is able to support small flagship projects outside of the scope of most impact investors. BIO is also increasing its climate expertise and ambition, alongside the adoption of a systematic climate lens. In other sectors, BIO is a follower (telecoms, large energy projects) acting through larger DFIs or fund managers. **As to geographic footprint, BIO has developed a relevant presence in Africa, and in the Latin American financial sector.** Among our clients, BIO often stands out for its flexibility, proactiveness, solution-oriented and impact-first approach.

In the next five years, BIO will consolidate its investment expertise in financial inclusion (microfinance, fintech as well as insurance), SMEs, relatively small renewable energy projects and equity investments. In parallel, it will take a follow-the-lead approach for larger projects that are better served through a syndicate of DFIs: i.e. large financial institutions, telecoms, large renewable projects as long as key development priorities (including E&S principles, human-rights approach and gender equality) are duly addressed by the leading DFI. BIO would follow the lead of either European DFIs or multilateral organizations such as the International Finance Corporation, the Interamerican Development Bank, the Corporación Andina de Fomento or the European Investment Bank. This follow-the-lead approach will allow BIO to dedicate staff and take more risks in other areas of investments (among which direct loans to SMEs and small renewable energy projects and equity investments).

BIO will also explore how it can better integrate the **EU Global Gateway agenda** in its mandate, especially for Belgian companies developing impactful projects in our geographical scope either by providing direct financing to the projects or by supporting the ecosystem around these projects. In all cases, these projects would need to evidence, first and foremost, a direct benefit to the local economies.

BIO will further elaborate its strategic positioning as an institution in a separate document that will specify the mission, vision, values, identity and ambitions that we want to nurture and project to our stakeholders including shareholders, partners, other impact actors in Belgium and clients.

III – Our Impact, Geographic, Sustainability and Risk Framework

A-Impact framework

1) BIO's Theory of Change

The mission of the Belgian Investment Company for Developing countries (BIO) is to support a strong private sector in developing and emerging countries, to enable them to gain access to growth and sustainable development within the framework of the SDGs. **BIO's Theory of Change** translates BIO's mission and outlines the links between inputs, outputs, outcomes and (expected) development impact of BIO's interventions, as well as its impact management approach.

To pursue its mission, the ***inputs*** of BIO are classified under three broad categories: (i) investment capital, (ii) development finance expertise and (iii) development impact framework.

With these inputs, BIO's ***activities*** to realize outputs are investments in (sub)debt and equity financing, (i) with the application of environmental and social (E&S) risk management and governance standards, (ii) along with a thorough development assessment, monitoring and evaluation, as well as (iii) business development support.

From these activities, the ***outputs*** are direct and indirect investments in Micro, Small and Medium Enterprises (MSMEs) aiming at job creation, financing for SMEs, microenterprises, investments in Least Developed Countries (LDCs), and inclusive businesses, as well as gender and climate finance initiatives. These outputs have been translated into a set of 10 Strategic Impact Targets (SITs), which are quantitative targets for the period 2024-2028 for new investment commitments for the next 5 years (see below section 2).

The ***outcomes*** of BIO's interventions typically comprise improvements at project level in E&S practices, decent and inclusive job creation, and growth in activity and related sector- and project-specific development effects – e.g. higher economic productivity and local value-added, economic opportunities and access to basic goods and services for the base of the pyramid, women empowerment, adoption of sustainable processes, resource efficiency, renewable energy, etc. – as well as capacity building and business development.

These outputs and outcomes are mapped out at ***impact*** level to a wide array of SDGs where private sector operations can play a pivotal role and BIO's investments can contribute the most directly, of which three overarching SDGs are transversal to all BIO operations: SDG8 (Decent Work and Economic Growth), SDG10 (Reducing inequalities) and SDG13 (Fight against Climate Change). Other SDGs that can be directly targeted – either more sector- or theme-specific – include SDG9 (Industry, Innovation and Infrastructure), SDG2 (Zero Hunger), SDG3 (Good Health and Wellbeing), and SDG5 (Gender Equality) for the social pillar; and SDG6 (Clean

Water and Sanitation), SDG7 (Affordable and Clean Energy), SGD12 (Responsible Consumption and Production), and SDG15 (Life on Land). While these are priority goals for which BIO's contribution is more tangible, other SDGs may also be relevant to BIO and its clients and this focus does not prevent BIO from adopting a holistic approach.

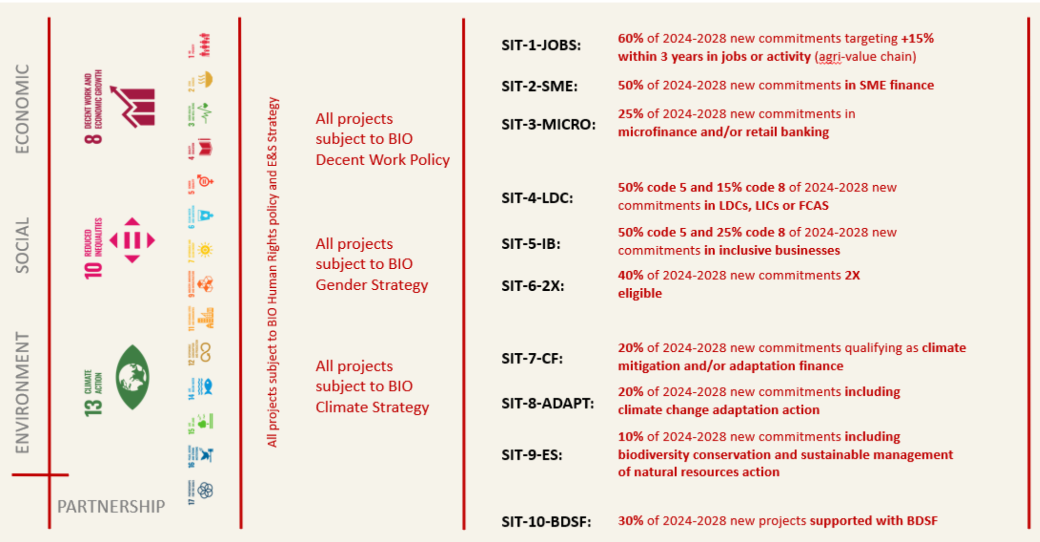
BIO is also committed to use its investments, grant support as well as expertise to support decent work (SDG8), gender equality (SDG5) and the fight against climate change (SDG13), those are transversal commitments to all BIO's interventions. Not only looking at the risk side, BIO also supports its clients to identify opportunities to create sustainable business development and maximize development impact for workers and other stakeholders.

BIO's ***impact management*** framework implies a systematic assessment, monitoring and evaluation of development effects. This is achieved using a set of key performance indicators that provide quantitative evidence of BIO's contribution to the SDGs, at both output- and outcome-level.

In line with SDG17 (partnerships for the goals), BIO creates partnerships with fellow European DFIs in EDFI. It cooperates with other development actors, such as the Belgian development agency Enabel and Civil Society Organizations, and mobilizes funds from the private sector, including through the SDG Frontier Fund.

2) Strategic Impact Targets (SIT) for 2024-2028

BIO's 2024-28 Management Contract sets a range of objectives and targets aimed at directing BIO's financing activities to the most important development finance gaps, alongside a set of transversal commitments (decent work, gender equality and climate) requiring a systematic approach from risk management to positive impact and transformation. Over 2024-28, BIO shall demonstrate its contribution to the SDGs by meeting the 10 targets listed in the visual below. See Annex 4 for more details.



3) Allocation of Strategic Impact Targets per sector

The table below summarizes the SITs targeted by BIO's main investment sectors, either directly or indirectly. The notation "++" indicates sectors that are expected to contribute to the corresponding target whereas the single "+" signals that the contribution is possible but not systematic, so optional or circumstantial targets. The notations "N/A" mean that the contribution is not foreseen or not relevant. SITs 4, 6 and 10 are cross-sector SITs that do not come with sector-specific expected contributions. The contribution to the SITs will be assessed for every new investment considered, based on a systematic approach.

	Direct and indirect investments (through funds and holding companies)						
	Banks	**Microfinance & fintech**	**Insurance**	**Enterprises Agri**	**Enterprises Other value chains**	**Renewable energy**	**Telecoms**
SIT-1-Jobs	++	++	++	++	++	N/A	N/A
SIT-2-SMEs	++	++	++	++	++	+	+
SIT-3-Micro	+	++	+	N/A	N/A	N/A	N/A
SIT-4-LDCs	Cross-sector target (50% C5 and 25% C8)						
SIT-5-Inclusive Business	N/A	++	+	+	+	N/A	+
SIT-6-2X	Cross-sector target (40%)						
SIT-7-Climate Finance	+	N/A	N/A	+	+	++	+
SIT-8-Adaptation	+	+	+	+	+	N/A	N/A
SIT-9-Ecological Sustainability	+	N/A	N/A	++	+	+	+
SIT-10-BDSF	Cross-sector target (30%)						

B – Geographic framework

As per its Management Contract, BIO will concentrate 85% of its portfolio in 30 countries. To implement this objective while mitigating risks, BIO selected countries in Africa, Latin America and Asia where a diversified and deep private sector exists and in which BIO already has a track record of investment. BIO has also defined a list of Tier 2 countries that will help address the best-efforts mandate towards Africa and LDCs & FCAS.

Latin America	Bolivia, Ecuador, Peru, Paraguay, Colombia, Brazil, Nicaragua, Honduras, Dominican Republic, El Salvador
Asia	Cambodia, Vietnam, Indonesia, Philippines, India, Bangladesh, Sri Lanka, Nepal, Pakistan
Africa Tier 1	Kenya, Uganda*, Tanzania*, Côte d'Ivoire, Senegal*, Democratic Republic of Congo*, Nigeria, Morocco*, Tunisia*, Egypt and South Africa*
Tier 2 LDC & FCAS mandate	**All other African LDCs and FCAS** among which partner countries: Benin*, Burkina Faso*, Mali*, Niger*, Guinea*, Rwanda*, Burundi*, Mozambique*, Malawi*. **Palestine*/ Ukraine**

In orange, FCAS and LDCs).

** Partner countries of the Federal, Wallonia-Brussels and / or Flanders Cooperation*

- There might be some mobility year on year in the 30 countries exposure, mainly between the Africa Tier 1 and Tier 2 categories, as (i) the evolution of the political and business environment can lead to the opening or closure of some markets and (ii) a couple of investments disbursed or repaid can weigh significantly in the final exposure table.

- Prospection efforts will be focused in **Africa** on the list of Tier 1 countries which are the most sizeable economies, but BIO will also **open up its prospection efforts to LDCs, FCAS and partner countries** in order to spread its risks in the most difficult markets.
- Regional investments in Latin America and Asia will be largely focused on the listed countries.
- The portfolio concentration ratio will exclude outstanding portfolio in countries in which BIO cannot invest during the period 2024-2028 as a result of sanctions (Myanmar) or recent entry in the prohibited jurisdictions list (Ghana, Guatemala) and be based on the net approved commitment (outstanding + signed and not disbursed + approved not signed) with split country estimates to provide an updated image of the portfolio situation.

The combined Africa & LDC/FCAS best efforts commitment (respectively 45% and 30% of new investments in volume) as per the Management Contract induces some changes in our operating model with the double objective of (i) expanding origination in Africa and (ii) mitigating the risks of investing in fragile countries. BIO's 5-year local African presence shows that the identification of projects that combine (a) bankability, (b) impact and (c) adherence to environmental and social standards is arduous and investment execution is complex and uncertain. Financial return is also pressurized by the presence of large pools of subsidized financing and does not adequately compensate for risks taken. To increase pipeline building in Africa while spreading the risks, we will implement the following approach:

- **Sectoral diversification:** while the financial sector, agribusiness & renewable energy remain core in BIO's activities, we will further expand the scope of prospection in Africa to telecoms and data centers but also to ports and other logistical investments (including in support of the circulation/logistics of raw materials and mining products), development of construction materials, manufacturing, etc. This expanded investment scope also corresponds to the needs of African economies for private investments to address urbanization, the digital and information divide as well as development of trade routes. BIO will work on a follow-the-lead approach to cover some of these new areas and will hence rely on external expertise.
- **African countries diversification:** BIO has historically been active in a few selected African countries. We will endeavor to reach a wider range of LDCs & FCAS to expand origination possibilities and spread risks efficiently. This will include LDCs with strong investment prospects previously out of our scope of investments (Togo, Sierra Leone, Angola) as well as selected small countries and economies where the depth of private sector is insufficient to conduct multiple investments (e.g. Guinea, Benin, Burundi, Malawi).
- **Proactively invest in sub-regional investments in Africa** to spread risks across a large number of countries and to reduce the impact of single country political events. As a matter of fact, a regional group can limit the impact of a country crisis by better performance in other countries therefore providing support to bridge the crisis period.
- **Code 5 focus on Africa & LDCs:** While all activities will strengthen prospection in Africa, we will use Code 5 (except for the means dedicated to Ukraine) nearly exclusively to meet the LDC and Africa mandate. Direct loans to enterprises under Code 5 will be exclusively dedicated to Africa and have a strong LDC/FCAS focus.
- **Maintain the Nairobi and Abidjan local offices and consider increasing/relocating staff there to enhance prospection and improve supervision once the regional portfolio has reached sufficient scale**.
- **Define, under the new risk management policy, capital exposure limits based on country and counterparty risk level, depth of economy and cooperation priorities** leading to a diversification of exposure in higher risk countries and some level of concentration in lower risk countries.
- **Actively search guarantees and insurance** to mitigate country risks.

BIO will continue to actively pursue projects in Latin America and Asia. Lending to financial institutions and climate-mitigation projects as well as fund investments will be spread across the three continents. Though we expect the direct equity and enterprise portfolio to be significantly oriented towards Africa, also for the sake of closer supervision, we will continue to instruct projects, with good risk return profile, on other continents. Based on our track record, we do expect that this diversified continental exposure will help to reach an adequate return and lower the risks of investing in more fragile regions. See VII-A to visualize the main focus per sector, instrument and type of capital.

Finally, **BIO is expanding its geographical mandate to Ukraine** in line with the commitment of the Belgian state to support Ukraine during and in the aftermath of the Russian aggression. As Lower Middle-Income Country and Fragile and Conflict-Affected State, Ukraine is eligible for BIO financing and we see BIO as an actor for the reconstruction of the country. Given the instability and economic insecurity in the country, financing will be under Code 8 if supported by third party guarantees or concessional under Code 5. Investments with EUR 10 M additional Code 5 means provided by the Belgian State and EUR 9 M Code 8 means earmarked for this purpose by the Belgian State within 2023 reported profits will not affect our Africa focus and geographical concentration under the current Management Contract and this investment strategy. In case of new commitments of the Belgian State for Ukraine, we will revise the Management Contract to adapt the Africa concentration requirement. As this is a new country, we expect first investments to be made in cooperation with other DFIs.

C- Transversal Development topics

1) Environmental & Social, Decent Work and Human Rights

The Management Contract frames the Environmental & Social, Decent Work and Human rights policies that BIO will implement during this strategic investment period. BIO will also rely on its growing experience of setting up and implementing action plans, collaborating with other DFIs and stakeholders, creating alignment with project sponsors and following up on more complex projects.

As member of EDFI, BIO adopted the EDFI Principles for Responsible Financing - which set the high-level principles that all European DFIs have committed to - and the EDFI Harmonized E&S Standards - which define different levels of environmental and social requirements, due diligence and monitoring measures for our investments. These principles and standards are embedded in our investment process and, thanks to them, BIO systematically assesses applicable environmental, social, labour and human rights laws and does not finance activities stated in article 5 §2 and §3 of the management contract, or in breach with the Harmonized EDFI Exclusion List, including Fossil Fuels activities. Across our operations, the IFC Performance Standards are the key reference applied to assess clients' environmental and social performances. Beyond the risk mitigation and compliance approach, BIO actively identifies opportunities for improvement throughout the investment life cycle, through Environmental and Social Action Plans set out in our legal documentation.

Because the development context and its related challenges can be complex in geographies where BIO invests, focusing on key aspects that are important in the context of the investment and on which concrete improvements can be realistically achieved in the investment period is crucial. BIO will continue to adapt the depth of assessment and the required compliance level based on the level of risk involved, the size of the company, the sector specificities, and the country context. This is why, as set out in our E&S Policy, we prioritize key E&S improvement measures, so that our clients can deliver on what we agreed upon, thereby creating sustainable impact for workers, for the communities and stakeholders as well as actors in the supply chains of our investments. However, a number of E&S standards are so fundamental and universal that we expect our clients to comply with them at all times during our investment period, such as no child nor forced labour, no significant environmental pollution, no net deforestation, etc. As part of our investment strategy, we want to avoid these major E&S risks while achieving tangible E&S improvements on key aspects.

Decent working conditions and protection of the fundamental rights of workers are fully embedded in this approach, as set out in our Decent Work Policy. Indeed, for any business, the workforce is an essential asset, and a sound worker-management relationship is a key ingredient in the sustainability of a company. Through a constructive worker-management relationship, and by treating the workers respectfully and providing them with safe and healthy working conditions, businesses create tangible benefits, such as enhancement of the efficiency and productivity of their operations. BIO will focus on supporting its investee companies in creating and promoting jobs that provide decent wages, ensuring safe working conditions, contribute to social protection, and safeguard workers' rights. Decent wages are typically challenges encountered in low skilled sectors and/or sectors where low-cost human resources are the main competitive advantage, such as in the agricultural or textile sector; health & safety is key in construction and processing, etc. As smaller companies are usually less formalized and less advanced in implementing decent work best practices, for these companies we will focus on developing the decent work basics first, while for larger and more institutionalized companies our expectations will be higher.

Businesses must respect human rights, as defined by the International Bill of Human Rights and the United Nations Guiding Principles on Business and Human Rights (UNGPs). The IFC Performance Standards are broadly convergent with the UNGPs, and each standard has elements related to human rights dimensions. Within this approach, due diligence by BIO and E&S assessments of clients against these Performance Standards aim at assessing the main relevant human rights issues in projects and provide a clear framework on how to apply appropriate remedy measures. The contextual risk assessment checks a range of human right risks such as whether the country ratified the core ILO conventions, how often violations to workers' rights are reported, etc. To further strengthen this approach, BIO will publish a dedicated Human Rights Policy that will complement the E&S and Decent Work Policies.

Focusing on value added and opportunity creation is fully part of DFIs' impact mandate. For this purpose, BIO will reinforce its E&S monitoring efforts to ensure a close follow-up of our clients' progress and identify E&S challenges to overcome. Furthermore, clients can call on BIO's Business Development Support Fund to co-finance studies, evaluations, trainings, and third-party expertise on E&S-related matters.

2) Gender equality and women's economic empowerment

SIT-6-2X, 40% of 2024-2028 new commitments being 2X-eligible

BIO considers gender equality as a fundamental human right, which is fully **integrated as a transversal topic** in BIO's investments since 2018. BIO's Theory of Change focuses on SDG10 – Reduced Inequalities, where SDG5 – Gender Equality represents a core pillar. Strategically, this priority objective is reflected in BIO's **gender strategy** which focuses on empowering women by enhancing their economic opportunities. To create these opportunities, BIO adopts a **360° gender lens** by considering the roles of women in its investments as entrepreneurs, leaders, workers, consumers, and community members. This gender lens, embedded operationally in BIO's development impact assessment, provides a framework to collect gender-related information, evaluate key dimensions of gender equality, and engage with clients on gender issues. In addition to identifying areas for impact **value creation**, this approach allows BIO to **prioritize projects** that directly benefit women's access to products and services, businesses that are owned and/or led by women entrepreneurs, or where gender and broader equality dimensions are integral components of the company's rationale or project business model.

BIO's mandate and approach towards gender equality builds on the 2019 EDFI Resolution on Advancing Gender Smart Investment[7] ("GSI") in which European DFIs committed to adopt the **2X Challenge Criteria** as their reference standard for voluntary reporting on financial volumes committed to gender-smart investments. First launched at the 2018 G7 Summit, the 2X Challenge[8] is a global-wide initiative which seeks to inspire DFIs and the private sector to channel their financing towards advancing women's economic empowerment. Through its criteria-based framework, the Challenge calls for directing resources towards initiatives that provide women with improved access to leadership opportunities, quality employment, finance, enterprise support, and products and services that enhance economic participation. Since its launch, USD 27.7 bn. of global private sector investments

[7] https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2017/09/EDFI-Advancing-Gender-Smart-Investing_Resolution_final_190515-003.pdf
[8] https://www.2xchallenge.org/

were mobilized under the 2X Challenge. BIO's share amounted to EUR400M in projects being 2X eligible. This initiative is led by **2X Global,** an organization dedicated to unlocking gender-smart capital at scale of which BIO is (and will continue to be) an active member since its very start.

Applying the GSI strategy, BIO **mainstreams structural gender equality** as part of its processes and practices by considering risks and opportunities in the assessment and monitoring of all investment projects. At screening stage, BIO assesses potential **contextual risks** related to gender discrimination and **2X challenge eligibility**. During due diligence, an in-depth **gender scan** of projects is conducted through a gender-specific client survey complementing BIO's E&S assessment. The scan allows to get a comprehensive picture of prospective investees' strategies, policies, practices and activities affecting gender equality, and to identify possible areas for BIO's support. The findings determine whether a project is 2X-eligible and under which criteria. In parallel, **gender actions** to mitigate existing risks and steer for improvements are identified, proposed to investees and formalized as part of BIO's project ESAP or value creation plan, to be included in the form of **technical assistance** actions supported by the BDSF or through a **gender Memorandum of Understanding**. As part of its annual monitoring, BIO collects and reports gender-disaggregated data on all 2X-related indicators and monitors relevant E&S and TA actions to **track progress** towards SDG5 at both project and portfolio level. BIO's **Gender Officer** is responsible for implementing BIO's strategy, advising on gender assessment and actions at project-level, and for strengthening existing practices related to gender mainstreaming in BIO's activities.

In addition to gender-specific actions in projects' ESAPs, BIO's investments include equity deals with a **gender objective** as part of fund managers' value creation strategy. Finally, BIO's **TA projects** with a primary focus on gender include the design and implementation of gender strategies and HR policies, trainings, career development and capacity building initiatives addressed to women and on gender equality principles and practices, as well as feasibility and technical support initiatives aimed at the development of products and services specifically targeted to women. BIO strongly values internal capacity as well as networking and community-building on gender equity through **stakeholder engagement**. For this, BIO implements internal portfolio and corporate initiatives, as well as wider ecosystem-level initiatives[9] in cooperation with the EDFI community and with its Belgian development cooperation partners[10].

3) Climate and Ecological Sustainability

SIT-7-CF, 20% of 2024-2028 new commitments qualifying as climate mitigation and/or adaptation
SIT-8-Adapt, 20% of 2024-2028 new commitments include climate change adaptation actions
SIT-9- Ecological Sustainability, 10% of 2024-2028 new commitments including biodiversity conservation and sustainable management of natural resources actions

BIO recognizes that fighting climate change and nature-loss is one of the main global priorities to protect well-being and economic prosperity in all regions and sectors. Developing countries are particularly vulnerable to climate change and nature-loss, but they can also highly benefit from climate and nature actions.

BIO intends to contribute to climate and ecological sustainability through dedicated climate and nature-positive investments or through awareness raising and support of clients in their transition towards climate and nature-positive goals. BIO has therefore revised its climate ambition in 2023 and developed a new climate and ecological sustainability strategy. The strategy builds on EDFI energy and climate commitments and on the SITs set out in the new management contract.

[9] Examples of portfolio-level initiatives: FI sector scan, training on prevention of GBVH risks in infrastructure projects; ecosystem-level: Ubora Prize, Awa Prize, BYKA programme, Female Future Program. https://www.bio-invest.be/en/gender

[10] BIO is a member of 2X Global and an observer member of the Conseil Consultatif Genre et Development (CCGD).

So far, BIO focussed on climate mitigation by investing in renewable energy and energy efficiency projects that also allow increasing energy access in its target countries. BIO has also supported projects with a climate adaptation dimension but without systematic tracking. Finally, BIO has supported clients through technical assistance on climate capabilities such as integrating climate considerations in internal risk management or developing climate strategy or climate governance frameworks.

BIO will build on its track record of investments but will also explore how it can increase its support in other key sectors including in the overall green energy value chain, in regenerative agriculture, in projects generating carbon credits or in innovative low-carbon and circular industries and infrastructures. Indirectly, BIO will support financial institutions and funds that provide green lending and insurance companies covering climate risks.

BIO's ambition will be deployed through three priorities, driving the investment approach across all departments:

- Priority 1: Do no significant harm to long-term climate & ecological sustainability
- Priority 2: Mainstream climate and ecological sustainability in BIO's investments
- Priority 3: Increase climate and nature-positive finance ambitions

Specific sections of the investment strategy explain how these priorities will be implemented by BIO's investment teams either under the Code 8 or Code 5 instruments. On top of these three priorities, BIO will reinforce technical skills required for project assessment in terms of climate and ecological impact and ensure effective sharing of climate related information. Key areas for training and knowledge sharing will be related to (1) climate and nature-related risks at project and portfolio level, and opportunities to mitigate / manage them and (2) the origination of innovative and financially sustainable climate and nature-positive projects.

Last but not least, BIO will leverage the Business Development Support Fund (BDSF) to support its clients with technical assistance to develop and implement the most relevant climate actions. BIO will focus on the following areas of support:

- **Climate and nature related independent external assessment (at due diligence stage):** This early assessment would allow for integration of any climate action investment need under the client's investment finance request.
- **Supporting clients' transition towards low-carbon, resilient and ecological sustainability** thanks to impact measurement, risks identification and assessment, climate strategy and action plan for implementation, training and internal awareness, reporting and engagement. Specific focus on climate adaptation and biodiversity (link with SIT 8 and 9).
- **Development of innovative climate and nature products and services related to transition** at the level of SMEs financed directly or indirectly through funds.

D – Credit Risk Management

During the 2019-2022 years, BIO was running at a loss and only broke even in 2023. This counter-performance can be explained by depressed interest rates and low capital gains affecting the top line and by a high number of non-performing assets as a result of higher country risks, materialization of some project risks but also due to COVID disruption of value chains and impacts of the Ukraine war. To maintain its license to operate while orienting its operations towards LDCs and fragile countries as per the new Management Contract, BIO needs to step up portfolio risk management.

1) Risk Framework under the Management Contract

Under the Law and the current Management Contract,

- BIO **targets a return that allows its contribution in capital to be classified as participation** in the public sector in accordance with the European system of national law and regional accounts.

- In addition, for the **capital subsidies**, BIO searches for break-even at portfolio level without taking into account the portion of capital subsidies affected to operational costs.
- BIO commits to enforce new **risk management tools** to mitigate portfolio risks resulting from the strong orientation towards LDCs and fragile countries.
- BIO also implements an **investment process** that ensures an objective and disciplined analysis of all aspects of each investment and takes adequate measures to control resulting risks. BIO carries out an efficient risk policy on the basis of the appetite defined by the Board. This policy takes into account the requirements in terms of risk, return attached to the financial means of BIO as well as its impact objectives and BIO aims to balance these elements. **BIO annually assesses this risk policy** and adapts it if necessary.

2) Formalization of an integrated risk policy

During the investment strategy period, BIO will **refine its risk management** including by mitigating foreign exchange risks, updating the credit risk rating, defining risk limits per country & risk rating, sector and type of project, developing second opinions for riskier projects and proposing instruments to mitigate risks. A preliminary portfolio risk management framework is being developed (cf. annex 5) but still needs to be approved and fully implemented. BIO will also work on improving current investment practices by identifying lessons learnt that can support internal training and permit informed decision-making. Guarantees will be actively sought to mitigate country and counterparty risks for higher risk projects. In addition, BIO will actively engage with other Belgian impact investors (including private impact players such as Incofin, Alterfin or Kampani as well as on-the-field NGOs) to identify most relevant and sound projects and develop common monitoring approaches.

BIO will also **formalize its top-down approach** that will take into account the development objectives and risk/return balance of our portfolio. This results in higher risks and additionality projects/sector being balanced by lower risk projects/sectors that stabilize the risk profile of the portfolio and offer a stable income basis. Such top-down approach will be integrated in the objectives of each investment unit to clarify the risk appetite and define the prospection objectives. This top-down approach will need to progressively integrate some orientations as to liquidity as BIO will, by the end of the Management Contract and unless new financing is received, have used its available treasury and rely on returning capital to pursue its investment strategy.

Eventually, an improved risk analysis and a top-down approach can improve arbitration as to **price setting** per project / sector and country.

3) Temporary approach towards risk

In the meantime, BIO will operate under the following risk framework that will be replaced once a differentiated and analysis-based country/sector/portfolio framework is approved by BIO's Board of Directors.

Portfolio approach

The portfolio approach includes (i) some concentration limits, (ii) target per sector based on net return and (iii) a targeted equity / loan portfolio.

Concentration limits

Limits (net approved commitment in % of total assets)	BIO Capital (code 8)	Capital Subsidies (code 5)
- per country	10%	20%
- per client	5%	12%
- per continent	60%	None
- per off-taker	5%	N/S

Targeted average approvals per sector and resulting estimated outstanding

	Realized		Target	
C8+C5	**% approvals 19-23**	**% outstanding (06/24)**	**% approvals 24/28 Average est.**	**% outstanding (e) (12/28)**
Financial institution loans	50%	29%	**47%**	**38%**
Financial institutions (equity)	2%	10%	**10%**	**11%**
Infrastructure loans	13%	18%	**14%**	**18%**
PE funds	19%	37%	**18%**	**24%**
SMEs	13%	7%	**11%**	**9%**

With these targets, BIO intends to build on the relatively good risk-return track record of the financial sector (debt and equity financing) to facilitate risky but high-profile investments in direct SMEs. As a matter of fact, the financial sector (debt and equity) and, to a lesser extent, debt funds have been providing BIO consistent and positive net return, private equity funds and infrastructure projects are about break-even whereas investments in SMEs have been clearly running a loss. This analysis has supported the projected return breakdown for the period 2024-2029 as per annex 3.

Equity / loan target*:* BIO will target to invest 35%/40% of its portfolio in equity (private equity funds and direct equity) with a hard maximum of 45%. Patient capital provided in the form of equity is very valuable to conduct our mission but could limit our investment capacity in the long run by restraining our liquidity.

Maximum investment per transaction

The following table sets the maximum investment allocation per Code 8 transaction with an upper limit provided in case of excellent risks. It also lists the considerations that allow to reach the upper allocation limit.

EUR M	**Financial institutions (Debt / Equity)**	**Infrastructure**	**Enterprise**	**Equity Fund**
Maximum amount	15	15	7	10
Upper limit for excellent risks	20	20	10	15
Considerations for upper limit	o Credit Risk Rating of BB/BBB o Gradual repayment for debt (no bullet) o For equity, regular cash distribution (dividends, capital gains) o Lower risk country (as per Credendo ratings) or multi-country exposure			
Specific considerations	- Tier 1 Bank or pan-regional Bank - Good track record (financials, repayment) - Excellent risk management - Diversified and granular funding (deposits)	- Solid IPP or bankable projects/business model - Financially strong sponsors & counterparts - Low technology risk - Strong projections - Multi-assets company	- Solid (deep-pocketed) sponsor & management - Track record of profits - Limited leverage - Good diversification of clients, products, suppliers, funders - Good security package in terms of selling value and coverage	- Relevant and good track record based on real distribution - Multi-country - Lower risk regions and sectors

Capital subsidies (Code 5), because of their blended nature, are reserved for smaller projects with a higher risk profile and higher development impact. Therefore, as per the Management Contract, the caps are set at EUR 5M overall and EUR 7M for thematic funds or climate finance projects. For excellent development impact projects, BIO will continue to pursue deals with ticket sizes in the EUR 1 M – 2 M range in Capital Subsidies.

Risk mitigants

BIO will eventually aim to develop risk mitigants under the form of guarantees for higher-risk transactions and country insurance (cf. VI-5), by entering syndications with high-quality DFIs to access lower-risk transactions and by developing lessons learnt to improve our investment practice.

V- Investment strategy by sector / instrument

BIO aims to achieve 10 Strategic Impact Targets. Still, BIO is internally organized in a hybrid way through sectoral services including Financial Institutions and SME/Infrastructure and a service dedicated to Private Equity. This internal organization is based on the most efficient way of working in terms of prospection, transaction follow-up and knowledge management. The section below describes the strategy per sector and instrument and the main SITs that are expected to be triggered by the different services. SIT 4- LDC and SIT 8- 2X are cross-sector SITs and are therefore not specifically referred to in the main SITs pursued per sector and instrument.

A- Financial sector

Impact	**SIT-1-Jobs**, 60% of 2024-2028 new commitments targeting +15% within 3 years in jobs or activity **SIT-2-SMEs**, 50% of 2024-2028 new commitments in SME finance **SIT-3-Micro**, 25% of 2024-2028 new commitments in microfinance and/or retail banking **SIT-5-Inclusive Business**, 50% Code 5 and 25% Code 8 of 2024-2028 new commitments in inclusive business
Risk-return	For loans, historically good return with low materialization of risks. ***Risk mitigant***: Access to MSME+ EU guarantee for higher risk projects in Africa and European neighbourhood. Lessons learnt & limits per rating. For equity, high return but also higher volatility of results. ***Risk mitigant***: selection of historically profitable institutions.
Market	Good and recurring pipeline in Latin America, Asia and to a lesser extent Africa. Good access to high-quality syndication with DFIs including IFC, FMO, CAF.

1) Rapid overview of recent evolutions/challenges

Through its investments in the financial sector, BIO **increases access to finance for low-income individuals and Micro, Small, and Medium Enterprises (MSMEs)**, in turn pivotal for employment, job creation, and livelihood, however still confronted with a substantial financial gap. In addition, **BIO contributes to the growth of a resilient and more inclusive financial sector** which is the cornerstone for developing local economies and creating financial inclusion. Furthermore, **BIO plays an active role in steering financial institutions** towards sustainable practices. Eventually, as economies worldwide undergo decarbonization and grapple with the consequences of climate change, BIO´s support to the financial sector can **assist in managing climate risks and opportunities.**

BIO´s strategy supports diversity and innovation in the financial sector. Diversity allows to support MSME through different instruments and various types and size actors and achieve sustainable investments while maintaining a good geographical diversification. In addition, BIO is progressively expanding its approach from traditional banking and microfinance institutions to more innovative actors such as fintech in view of their role as market innovators and their contribution to the evolution of financial services into more efficient, customized, affordable, and accessible products with an enlarged outreach to MSMEs and low-income populations.

Reaching a sustainable balance between limited risk, sustainable return, and strong impact is increasingly challenging in our core markets. Increasing exposure in LDC/FCAS for FIs could be particularly challenging in countries with weak financial sector regulation, supervision, governance, and transparency.

BIO's investments intend to maximize financial inclusion and act as a catalyst for fostering inclusive and sustainable growth.

2) Main strategic directions

Develop Financial Inclusion:

Financial inclusion remains at the core of BIO´s mandate. BIO is actively investing in the development of **microfinance** which plays a strong role in providing access to financial services to low-income and vulnerable segments such as women, youth, and rural populations. Microfinance strengthens the resilience of most vulnerable populations (individuals and groups) by increasing access to essential financial services with the aim of promoting entrepreneurship and economic independence but also of enabling access to basic goods and services such as housing, education, energy, etc.

The 2021 edition of Global Findex shows significant progress in financial inclusion over the last 10 years. Today, **76 percent of the world's adult population** has access to an account with a financial institution or mobile money provider, up from 51 percent in 2011. The widespread adoption of digital financial services during Covid-19 played a significant role in the progress of financial inclusion. Despite the evident progress globally, **1.4 billion adults remain excluded from the formal financial sector**.

The Covid-19 and subsequent crisis have reduced microfinance institutions' (MFIs) ability to support their clients, especially in fragile countries. Non-performing loans have increased, liquidity has tended to dry up, more particularly for MFIs that do not have access to public deposits and rely on international funders, and margins are narrowing due to the combined effect of higher cost of financing, inflation and increased portfolio risks. **Increasing the resilience of the sector** is a key priority as MFIs are under increasing pressure from new competitors, such as digital players, to improve efficiency and competitiveness.

BIO will invest senior, subordinated debt or direct equity in financial institutions that provide micro credit but also other services such as savings, micro-insurance, and money transfers.

BIO´s strategy to invest in the microfinance sector will consist of investments in

- Specialized microfinance institutions,
- Other financial institutions (cooperatives, NGOs, banks) that demonstrate clear microfinance strategy earmarking use of BIO´s funds to relevant segments,
- Specialized microfinance non-bank financial institutions (including fintech, micro leasing and microinsurance companies), and
- Debt/equity funds supporting microfinance providers (MFIs, fintechs, etc.).

BIO will pay specific attention to fund (a) un(der)served segments like informal/unbanked, rural populations/Small Scale Farmers (SSF)[11] and/or women-owned microentrepreneurs, and/or (b) products and services facilitating access to basic goods and services[12] (health, education, housing, energy, sanitation, climate change, etc.).

BIO will continue to engage its microfinance partners in best E&S practices. The Client Protection Principles (CPPs) are an extremely relevant framework for MFIs to engage in responsible and sustainable lending, particularly in countries with weak microfinance legislation and regulation. The External SPI4 assessment (a social performance audit tool to help financial service providers achieve their social mission) or the Client Protection assessment will be required for MFIs that face a high risk in terms of client protection for identification of potential gaps and a

[11] In line with BIO's strategic priority regarding Agricultural Value Chain (AVC) development.
[12] In line with BIO's strategic priority regarding basic goods and services-enabling investments.

progressive implementation of best practices. Via its BDSF, BIO will support MFIs to improve their practices and reach the highest standards.

Improving access to finance for SMEs:
SMEs play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development.

BIO´s investments in financial institutions (FI) **aim to increase the offer of suitable SME financing** by investing senior debt, subordinated debt or equity in the following segments:

- **The banking sector** which is a key enabler for BIO to deploy SME credit on a large scale in developing countries combined with a lower risk profile. BIO supports banks that (a) have a good track record on SME financing with a strong strategy and dedicated products and services or (b) have a nascent but credible strategy to develop a portfolio of SMEs. BIO will provide financing to mature banking institutions with a solid track record and good outreach. Tier I, II and III banks are eligible. BIO´s use of proceeds for senior loans should be earmarked for the development of the SME portfolio and ad-hoc impact incentives can be negotiated to further stimulate the expansion of the SME portfolios.
- **Non-Banking Financial Institutions** such as leasing, factoring, dedicated SME fintech or other companies also play a key role in expanding credit to SMEs and can be considered as specialized SME lenders. Leasing companies provide SMEs with flexibility to acquire new assets and equipment while factoring companies provide immediate liquidity by discounting invoices from clients. The leasing and factoring sectors remain an underdeveloped and fragmented market with strong potential, especially in Africa.

BIO will maintain a balance between traditional institutions such as banks and more innovative actors specialized in SME financing with a specific attention to direct funding in priority to (a) un(der)served SME segments like informal/unbanked, agri/rural[13] and/or women-owned SMEs, and/or (b) climate-related finance for companies or SMEs.

BIO expects to have strong non-financial additionality by supporting banks or NBFIs in setting up or improving Environmental and Social Management Systems (ESMS) toward best practices. FIs in developing countries are not always well equipped to assess and mitigate E&S risks including climate mitigation and adaptation risks. Via its BDSF, BIO will support FIs to improve their practices and grab opportunities to develop new and sustainable products (green bonds, climate-related loans, women-targeted products, etc.).

3) Newest Investment Sectors

Digital and Fintech
Financial technology "Fintech" is a major force shaping the structure of the financial sector. The Covid-19 pandemic has been an accelerator for the adoption of digital technologies and the success of fintech companies has been fueled by improved access to smartphones, declining internet costs and expanding network coverage as well as young and fast-growing populations.

Fintech players are delivering significant value to their customers; according to McKinsey[14], **transactional solutions can be up to 80% cheaper and interests on savings up to three times higher than those provided by traditional players, while costs of remittances may be up to six times cheaper.**

A growing fintech industry has the potential to create jobs, develop skills and opportunities across developing markets, and foster social inclusion. Still, many fintech models need to be confirmed by reaching scale and financial sustainability.

While its focus will remain on traditional financial institutions, BIO recognizes the importance of fintech solutions and supports the expansion of new technologies and digitalization as a key enabler for financial inclusion. The

[13] In line with BIO's strategic priority regarding Agricultural Value Chain (AVC) development.
[14] McKinsey & Company, Fintech in Africa: the end of the beginning

fintech ecosystem being large, evolving and complex, BIO intends to progressively develop expertise but also to rely on partnerships and co-investments. Hence, our strategy will focus on:

- For direct financing, **mature fintechs serving B2B/B2C** in selected sectors such as: digital lending, digital payment infrastructures, and other innovative platforms such as insurtechs (especially in the agriculture sector) that are aligned with our development objectives.
- For indirect investments, **dedicated fintech funds** to allow for diversification in terms of geographical scope, maturity and sectors.
- The fintech sector enjoying attention from different financial players. BIO will ensure its additionality for all its investments versus private financiers.

Responsible practices for the digital sector should be adopted by fintech investees. Although this sector is considered low risk in terms of E&S, **customer protection remains a top priority** when serving low-income and vulnerable clients and the application of CPPs remains extremely relevant for BIO to ensure fintech clients enforce ethical practices.

Inclusive Insurance /Micro-Insurance Sectors:

The **insurance** sector plays a crucial role in **supporting the growth and sustainability of the private sector**, particularly SMEs. Insurance products protect them from financial losses due to unforeseen events such as accidents, health issues, natural disasters, liability claims and business interruptions. By providing access to affordable and customizable insurance solutions, the insurance sector facilitates business continuity, expansion, and better access to finance, enabling SMEs to operate with more resilience in challenging environments. Moreover, by insuring risks related to employee health and safety, insurance facilitates the creation of better, safer, and more decent working conditions.

Insurance is also instrumental in building more socially inclusive and resilient societies. The extension of micro-insurance products narrows the protection gap of low-income and particularly vulnerable communities, including farmers, micro-entrepreneurs, women, and informal sector workers.

From a climate perspective, insurance products are pivotal for **adapting to climate change** as they provide financial protection against the increasing frequency and severity of weather-related events, helping individuals, businesses, and farmers to recover and rebuild in the face of climate-related risks. Furthermore, insurance can incentivize investments in resilient infrastructure and risk reduction measures, contributing to climate adaptation efforts by promoting sustainable practices and mitigating the economic impacts of extreme weather events.

Insurance penetration remains very low in most developing countries due to low income, underdeveloped insurance markets, and the lack of access to insurance products. BIO´s investment in the insurance sector has the goal to support the growth of the industry and its institutionalization. Beyond the regular SITs of financial institutions, insurance investments can play a role as to **SIT 7-Climate Finance, SIT-8-Adaptation**.

In terms of instruments, equity investment (direct or via investment funds) is the most appropriate instrument as insurance companies usually do not finance portfolio growth with external debt funding. BIO's strategy in the sector will consist of:

- Investing in both life & non-life (re) insurance companies, brokers, and distributors in countries with strong potential for growth and with opportunities to increase the offer of insurance products to either: (1) SMEs, (2) the mass market and more vulnerable populations (microinsurance), (3) health & accidents, and (4) agriculture and climate risk.
- Developing in-house expertise and capitalizing on BIO's initial investments in the insurance sector, prioritizing co-investment opportunities with other impact investors and DFIs already active in the insurance sector, and BIO's investments in funds active in the insurance sector.
- Cautiously exploring potential investments in Insurtech.

Towards a greener financial sector / Climate

Climate change is increasingly becoming a material risk for financial institutions. Climate change is already impacting the most vulnerable clients in sectors such as agriculture and infrastructure. Physical risks of climate change (such as floods, heats, and droughts) are therefore increasing the risk of default of the most vulnerable clients, impacting the credit risk of some financial institutions and their asset quality metrics.

An increasing number of financial institutions are progressively (1) exploring how to integrate those risks in their internal risk management system, (2) engaging with their clients on impact and opportunities for resilience, (3) starting to disclose their approach in line with the Institutional Stability Standards Board Framework, and (4) developing dedicated lending in sectors associated with the green and low-carbon transition. From a financial inclusion perspective, taking climate change into account is very relevant as well, considering that 1.4 billion adults remain financially excluded and that more than 80% of these adults live in the most climate vulnerable countries.

Following those trends, investments in FIs will actively contribute to BIO's **overall climate and ecological sustainability ambition** along the three strategic priorities:

- **Ensure investments in FIs align with the principle of 'Do No Significant Harm' to climate and nature.**

To manage its own clients' climate risks, BIO has committed to ensure all investments align with international long-term climate and nature goals, as defined in the Paris and Kunming-Montreal Agreements on climate and biodiversity. This means that for financial institutions with high climate risks, BIO will expect that these institutions formally commit to develop a climate action plan / strategy aligned with national policies and the long-term goals of the Paris Agreement (covering sectoral transition plan for mitigation and/or adaptation where relevant). If gaps are identified in the institution's strategy, required climate actions can be included in the financing agreement.

- **Mainstream climate and nature-positive actions in FIs' investments**

BIO will actively promote climate and nature actions within all financial institutions. Depending on the institutions' local context and level of maturity, BIO will support clients through its BDSF. As an example, BIO could support large commercial banks with exposure to carbon intensive sectors in (1) defining credible climate strategies/policies, (2) developing portfolio emission calculations[15] and internal climate risk management tools, and (3) preparing for climate related disclosure. For financial institutions with exposure to vulnerable populations, BIO could support (1) physical climate risks management and (2) the development of climate adaptation financing solutions.

- **Contribute to climate and nature-positive finance through FIs' investments.**

BIO will actively explore the opportunity to support investment opportunities eligible as climate and/or nature-positive finance. With commercial banks, BIO will consider credit lines dedicated to low-carbon, or broadly speaking green activities such as (but not exclusively) renewable energy, low-carbon transport, energy efficiency, sustainable agriculture or pollution prevention and control. With microfinance institutions, BIO will consider credit lines dedicated to climate resilience projects (e.g. water management infrastructures).

4) BIO´s instruments

Based on the last years' experience, financial institution investments show a positive track record in BIO´s portfolio and can therefore be considered less risky. Most traditional FI investments are expected to remain under **Code 8.**

Code 5 investments will be mostly dedicated to:

- Investments in LDCs and/or high-risk countries allowing us to increase access to finance in difficult geographies where other investors are less active, thereby maximizing our development impact.
- Investments in impactful smaller institutions, mainly microfinance institutions which focus on underserved/vulnerable populations/inclusive businesses, and new products and services (climate, biodiversity).

[15] PCAF = Partnership for Carbon Accounting Financials (https://carbonaccountingfinancials.com/standard)

- Investments in more innovative business models such as fintechs in high-risk countries or with less mature business models but delivering added value and accessible financial services to individuals and SMEs.

In terms of instruments, **senior and subordinated debt** will remain at the center of our strategy as the most common instrument with a strong financial additionality on our investments by a combination of funding of financial gaps, access to long tenors and financing in local currency.

BIO will also actively invest in **equity** as access to patient capital remains a challenge in developing markets while protecting solvency is pivotal for the development of a resilient financial sector. BIO´s strategy remains to acquire minority stakes in mature or early stage FIs with a strong growth potential. Focus will remain on the traditional sector (commercial banking, SME banks, leasing, or microfinance) with an openness to explore high potential new sectors such as insurance and fintech. BIO expects to add value beyond capital investments through its role in the governance of the companies to support the growth and institutionalization of FIs and the development of the MSMEs portfolios as well as by proposing support to make progress in strategic topics such as, among others, E&S best practices, gender and digitalization.

Other instruments

BDSF/ Code 3: BIO will concentrate the use of BDSF and transformational efforts on effectively addressing the most significant challenges associated with investments in financial institutions in developing countries such as E&S risks and opportunities (including gender), social performance and client protection i.e., over-indebtedness , innovation in financial technologies and digital transformation, climate-related risks and opportunities, risk management, product development and corporate governance.

- **Guarantee:** BIO has access to the MSME Guarantee managed by EDFI MC that addresses financial constraints faced by MSMEs in high-risk countries with a focus in Sub-Saharan Africa. The MSME Guarantee partially (up to 50%) de-risks investments by DFIs in an eligible financial institution to on-lend to eligible MSMEs. A first envelope was launched in 2022 and a top-up signed in 2024. BIO expects to make use of the guarantee to invest in high-risk countries or LDC/FCAS in SSA.
- **Syndication Partnerships**: BIO will strengthen its partnerships with fellow DFIs by co-investing in some projects and participating in syndications that are aligned with our investment strategy. Such syndications are usually organized by large DFIs (FMO, DEG, Proparco) and multilaterals such as IFC, CAF, IDB, CABEI among others. These collaborations allow us to reach our financial outreach objectives and to combine effective funding of financial institutions and increased leverage to negotiate and implement DFIs' harmonized standards in terms of E&S, governance and climate. The current investment ceiling of EUR 20 million is often the minimum ticket for participation in large financial institutions syndications. Under a renewed risk management framework, BIO will analyze the possibility to increase its maximum ticket to EUR25 million to offer more flexibility to work with syndication partners when the risk of the transaction is considered adequate.

B- Private equity

Impact	**SIT-1-Jobs**, 60% of 2024-2028 new commitments targeting +15% within 3 years in jobs or activity **SIT-2-SMEs**, 50% of 2024-2028 new commitments in SME finance **SIT-7-CF,** 20% of 2024-2028 new commitments qualifying as climate mitigation and/or adaptation
Risk -return	Funds- On average low return. Higher performance for funds targeting mid-size enterprises, South-East Asia and debt funds. Low liquidity. **Risk mitigants**: more selective towards higher performance typology of funds. Equity direct – high return but volatile for FI. No current portfolio in other sectors. **Risk mitigants**: Selecting profitable financial institutions. Co-investing with funds for other sectors.

Market	Excellent access to fund managers. Access to direct equity transactions to be improved by co-investing with funds.

BIO's private equity (PE) investments are done in two ways: PE funds (PEF) and direct equity (DE). PE is a financial instrument essential to enable BIO to accomplish its mission. More importantly, PE investments bring the necessary additionality to BIO's clients.

1) Private Equity Funds (PEF)

Characteristics & challenges

PEF are investment funds in which BIO has invested (quasi) equity. These funds are using all (or the majority) of the committed capital to invest in equity in private companies or sometimes through debt (loans). While historically PEF would mainly do equity investments, we can now see the **emergence of private debt funds** (PDF), typically with a blended structure. BIO has already invested in a few PDFs and should progressively increase its investments in them as they provide downside protection and higher liquidity.

PEF are crucial to address the funding gap in BIO's target markets and play a role in developing local PE ecosystems and supporting PE fund managers in attracting private investors, which are essential to have a dynamic and resilient economic environment. Thanks to its investments in PEF, BIO has an impressive reach today, i.e. to more than 600 companies but also in terms of geography, sectors, development impact, company types, (local) market intelligence and co-investment opportunities with fewer risks (thanks to diversification and fund managers' local presence and investment selection) than its direct enterprise investments.

PEF complement direct investments and dedicated SME on-lending facilities through financial institutions. PEF allow not only to reach a much larger number of SMEs, but also provide crucially needed long-term risk capital. Moreover, funds' teams actively participate in the governance and strategic management of their investees, typically adding value through a hands-on approach, especially crucial for relatively smaller companies and start-ups. Investing through such funds enables BIO to continue to build a diversified portfolio, across regions and sectors, while only picking up funds that are the best-in-class in terms of transversal priorities for BIO (decent work, gender equality and climate). For instance, generalist funds targeting the lower end of the SME segment with lower tickets, mezzanine finance or with a strong value-added-to-investee mindset on E&S, gender or climate practices are very well aligned with BIO's mission to support the emergence of strong, thriving and sustainable SMEs.
BIO has **excellent access to the PE fund managers community** active in developing countries. While the market supply (of PEF) is much bigger than BIO's demand, the quality level is globally low. The BIO PEF team continuously reviews the market propositions and very few funds pass the preliminary check. Thus, BIO has **little room to be more selective.**

The main challenges for PEF are not only the selection of relevant projects, but also the performance and the liquidity of its portfolio. Last years' events (COVID, war in Ukraine, price surges, supply chain disruptions, etc.) took a toll on BIO's portfolio results, and many funds requested extensions to make it through the turbulences. On a mid to long-term basis, the PEF portfolio might become too static, which is even more difficult to avoid given the limited possibilities of secondary and liquid exits.

Ambitions

In relation to PEF, BIO's main ambition is to **improve its performance, rotation and resilience, while investing in high development impact projects**. By doing so, BIO will be able to support its current and future clients through challenging periods.

It will also seek to **support direct equity activities** by more actively screening the current PEF portfolio to identify co-investment opportunities. Regarding the selection of future PEF, the quality of potential co-investments will become a more central aspect.

The PE team will review its selection process with the aim for **future investments to have a maximal contribution to BIO's Management Contract objectives**. Finally, it will launch **initiatives to increase operational cost-efficiency**.

Investment Strategy

SMEs in Africa will remain at the core of the PEF investment strategy and constitute half of the investments, with still some allocation for Asia and more limited for Latin America. We will maintain limited Venture Capital allocation especially for funds which are significantly active within BIO's focus sectors such as agri-tech, climate and fintech.

BIO will select both thematic/sectorial and generalist funds. Thematic funds with a focus on dedicated sectors like clean energy, financial inclusion/microfinance lending or agriculture are the best placed instruments to contribute to BIO's specific SITs. However, the lower diversification attached to these funds can cause higher potential risks than for generalist funds. BIO will hence continue to also invest in generalist funds, especially those with a strong development impact thesis.

Among sectorial funds, the PE team will have a **dedicated attention to funds contributing to the climate agenda**. PEFs' current exposure on climate finance is 22% at YE 2023 and in 2023, 38% of approved investments were related to climate finance (2 out of 4 funds). This focus will include funds (i) with a renewable energy infra centric approach, (ii) providing growth capital to companies fostering decarbonization & climate resilience (such as climate-smart agriculture, green transport & logistics, energy and resource efficient companies, waste & water management, sustainable forestry), (iii) supporting climate focused financial services, especially non-life insurance (having a climate angle) and green credit; and (iv) that are not dedicated to climate finance but where the climate topic is relevant and where BIO can support the definition of a credible climate ambition (based on a robust climate related pipeline of at least 25-30%). BIO will prudently explore funds with validated business approaches based on carbon credit revenues including the production and deployment of emission reducing products (e.g., clean cooking products, solar pumps, etc.) or reforestation projects linked to productive activities (e.g. agroforestry).

BIO will also **increase allocation to Private Debt Funds**, while keeping a majority of investments in pure PEF, as a way to increase liquidity and outreach in priority sectors. Such funds could also benefit from a blended structure which would ultimately mitigate risks for BIO. As such, we will continue to test innovative structures to support market development.

In terms of BIO's instruments allocation, we will limit Code 8 investments in small-sized funds, single-country funds, first-time managers and first closings and use Code 5 to boost impact at portfolio level. In particular, climate finance deals with more innovative business models and high-risk perspective will be considered under Code 5.

Moreover, investment decisions will also be guided by **a dedicated PEF risk management framework**, ensuring the PE investment team is acting **in line with the risk appetite defined by BIO's Board of Directors**. As for its peers, BIO's **PEF portfolio was also not spared by last years' turbulences**. This translated into lower-than-usual performances for the PEF, and into overextended holding periods for the whole PEF portfolio. Addressing these two aspects properly will be paramount to enable the PEF portfolio to deliver the expected performance and development impact.

Beyond investment, BIO's objective is to enable its clients to grow and prosper, generate jobs, and build expertise. Investees not only need tailor-made funding, but also skills, expertise, and knowhow to increase their business performance and improve sustainable business development practices at all levels. BIO is promoting setting up **one-off Technical Assistance (TA) interventions or Technical Assistance Facilities (TAF) for funds to co-finance projects aimed at strengthening investees' competencies, business performance and development impact.**

BIO, along with other DFIs will continue to foster an impact approach agenda that includes mainstreaming environmental and social, gender, climate and decent work topics as well as, when relevant with the funds' activity, a human rights approach. This agenda will be promoted by a mix of actions including required adoption of international standards (including EDFI exclusion list and IFC Performance Standards), capacity building at fund manager's level, monitoring implementation of action plans, developing technical assistance to promote impact at investees level (gender, climate, E&S) and suggesting good practices related to climate and biodiversity[16].

2) Direct Equity (DE)

Characteristics & challenges

On top of potentially higher financial return, **Direct Equity investments have an increased financial and non-financial additionality** compared to other instruments. As a direct shareholder, BIO takes part in the company's governance and can drive changes from the inside, in almost any dimension. DE investments enable BIO to be in the market, and thus to raise its investor profile (among DFIs for instance) and to gain direct, privileged access to country and sector information.

BIO has a **good track record with its DE portfolio**, of which **all the current deals are financial institutions** (FI), mainly made via an opportunistic approach. A good number of DE lines are currently reaching the end of their holding periods, enhancing the pressing need to rebuild the portfolio in the coming years.

Another challenge will be to further develop the approach for sourcing and monitoring DE deals, which will require increased time dedication and efforts from the team(s). While additional resources will be allocated to DE, it needs to be structured in an optimal way. Enhancing the monitoring approach of existing lines will increase the team's proximity to investees, contribution in terms of risk management, strategy, impact and ESG, and improve its approach and reputation as an engaged DFI investor.

Ambitions

Based on the track record, the ambition is to **further build a solid and structured DE practice,** with effective sourcing, rigorous monitoring and disciplined exits, integrating lessons learnt along the way.

This also means evolving from an opportunistic approach on FI only, towards a **methodological approach covering BIO's intervention scope, and developing a more active ownership attitude** to maximize our impact. As for PEF, this will entail managing the selection at the portfolio level (and not only at the deal level). Every key step of the selection and monitoring process will be boosted by already ongoing initiatives.

Actively managing a DE portfolio means also to divest. A **responsible exit strategy** based on impact results as well as financial results will be crafted and will result in a dedicated exit action plan and timeline for each DE investment.

Progressively exiting existing lines while **rebuilding a balanced DE portfolio up to 20 lines by 2028**, will also result in a decrease of the average holding period.

Investment strategy

In terms of **sourcing**, DE will **leverage internal stakeholders** (PEF, SME, Infra and FI teams which will systematically screen their respective portfolios, as well as the liaison offices) and **external stakeholders** such as DFIs and fund managers.

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[16] (1) measure their carbon or biodiversity footprint (e.g., using GHG Protocol[1]), (2) identify and manage climate or nature-related risks (e.g. by implementing TCFD[2] recommendations), (3) develop a transition / decarbonization plan (e.g. using SBTi[3]) and (4) report on their actions;

BIO will **aim for at least one direct equity deal per year**. In terms of sectors, BIO will continue to privilege financial institutions including banks, insurance companies, NBFI, fintechs and microfinance institutions. Over the 5-year period of the investment strategy, BIO will also aim to enter the capital of companies which are not financial institutions. Concretely, it means that BIO will explore relevant niches (Agri (food / tech), energy, digital, manufacturing, infrastructure, mobility, health) and build a pipeline in collaboration with the SME & Infra team. The objective is that these first deals set the bar high in terms of impact reached and will serve as inspiring and meaningful references in the long run. Code 5 could be an option to approach such projects.

Geographically, DE will specifically target African projects with a focus on West and East Africa, where we have liaison offices, and would remain open to Asian investments that present higher return potential, and opportunistically to Latin America.

Being a direct equity shareholder, BIO requests the investee to have an Environmental and Social Management System (ESMS). We will also play an active role through our seat at the board and by building alliances with other like-minded shareholders to propose a value creation plan for the company, covering key thematic priorities for BIO, i.e. climate, gender and decent work. BIO's upcoming Human Rights Policy will also specify our ambitions and requirements.

C – Infrastructure

Impact	**SIT-2-SMEs**, 50% of 2024-2028 new commitments in SME finance **SIT-5-IB**, 50% Code 5 and 25% Code 8 of 2024-2028 new commitments in inclusive business **SIT-7-CF,** 20% of 2024-2028 new commitments qualifying as climate mitigation and/or adaptation
Risk -return	Good return but high cost of risk due to a few old underperforming assets. High competition leads to higher risk and lower return. ***Risk mitigant***: Potentially upcoming EU guarantee (JEFFREI) and diversification/ increased granularity.
Market	Low access to syndication projects. In Africa – renewable energy, very competitive with few standard project finance projects. Possibilities in smaller renewable energy, off-grid, C&I and clean cooking projects. More depth in Asia and Latin America as well as other infrastructure sectors in Africa.

1) Overview of recent evolutions

Over the past 5 years, BIO's Infrastructure Team has been mainly active in **financing renewable energy projects ("RE"), on-grid and off-grid, telecom towers and clean cooking solutions;** directly or through specialized funds. 90% of the projects developed by the department in the past 5 years qualify as climate finance. The fight against climate change is and will continue to be at the center of the team's focus.

Having access to reliable, affordable and clean power is critical for developing markets, as they are facing unreliable grids and unsafe alternatives for light, heating and electricity, especially in remote locations. In particular in Sub-Saharan Africa, there is and will be a crucial need for (international) investments in renewables and grid expansion, as electricity demand is forecast to grow 66% per capita between 2020-2030.

Nevertheless, despite its importance for the transition, over the past years, we have observed a **decrease in the number of bankable traditional and medium size Independent Power Producers ("IPPs") to finance** in the markets we operate in. This is due to (i) **overcapacity**: in some of our countries of intervention, there is a need for public investments in the transmission and distribution systems to enable new generation projects to come online; (ii) **reduced number of project developers**: faced with the difficulties of developing projects in Africa due to regulatory, execution and financing constraints, many developers reportedly reduce their activity or even exit the continent, (iii) **increased tariffs pressure:** regulated feed-in tariffs are replaced by public tendering of Power Purchase Agreements ("PPAs"), which is becoming the preferred mode of contract award for renewable energy projects, decreasing the tariff to a level which does not allow commercial financing terms; (iv) **increased pricing pressure**: current macroeconomic changes with rising interest rates led to a discrepancy between the negotiated feed-in tariff and the financing costs of some projects, which are not bankable anymore and (v) **regulatory changes**: no take or pay contracts and/or no government guarantee anymore, leading to riskier PPAs and a less advantageous environment for investors.

In addition, BIO is facing **increasing competition to finance RE projects**. On the one hand, the "green" orientation of most impact investors leads to an increase in the funding available. Sometimes these investors have access to blended finance facilities / concessional funding to target riskier sectors, allowing them to offer better financing conditions, which, despite being necessary, distorts the market. On the other hand, especially in Asia and Latin America, local banks are ready to finance small and medium size projects with more attractive financing conditions than DFIs while big projects are financed by large regional development banks with local offices and political leverage. In Africa, the competition is fierce with big players such as DFC, IFC, EIB, BOAD or ADB, especially on large projects.

Furthermore, BIO's **EUR or USD financings are not always adapted** to local requirements as PPAs in some countries are denominated in local currency, as is the case in Colombia and Brazil. As we need to finance under market conditions and are not operating under local laws, **high legal costs** can also be a hurdle to investment.

However, despite the current market evolution, we believe BIO remains relevant in some market segments. Indeed, we observe a **growing need for diversification of green energy** (hydro plus solar for instance) in the same country to mitigate physical impacts of climate change and ensure constant electricity supply. More particularly, we consider that BIO can remain additional in **financing smaller size or less standard IPP RE projects in Africa, where BIO can be the sole lender**. This would also answer clients' demand to have fewer lenders and a faster transaction process, and can be facilitated by the presence of our local offices on the ground.

In line with our climate strategy, BIO's Infrastructure Team will continue investing in green projects. While this strategy largely builds on BIO's experience, BIO's Infrastructure Team will need to adapt to the current market evolution and accept to take more risks (for instance finance IPPs without government guarantee) as well as to explore **new market opportunities in other sectors, such as telecom and digital infrastructure** (see below). On an opportunistic basis, BIO's Infrastructure Team may look at **transport and logistics**, **water services and sanitation** as well as **waste management** projects.

2) Main strategic directions

Funding basic infrastructure such as energy, information and communication technology, and other basic services enabling infrastructures is a key priority in developing countries where financing and supply gaps are large. These investments not only **stimulate large-scale employment and economic growth** but also play a **crucial role in ultimately promoting human development** by providing access to basic services to the population, e.g. clean energy, internet access, telecommunications, transport, etc. There is also an opportunity to support the ongoing transition to green and resilient infrastructure, alongside improving the overall efficiency, reliability and sustainability of the infrastructure systems and the growth of the enabling environment.

1. Access to clean energy / renewable energies

To maximize the contribution of BIO's (future) investments to quality, reliable, sustainable and resilient infrastructure, BIO's approach will primarily focus on investing in energy infrastructure that addresses both the climate change and electrification challenges, and that are pursuing the following (combination of) objectives:

- Increasing **access** through (i) increase in capacity and generation, (ii) decrease in generation costs (through technology) and thereby lower pricing for end-users, and/or (iii) expansion of geographic coverage.
- Improving **quality** through (i) upgrade in technology/efficiency, (ii) increase in reliability of related supply/services, and/or (iii) increase in quality (other than reliability) of related supply/services.

- **Supporting the transition to green, sustainable and more resilient infrastructure** through (i) development of low-carbon technologies, (ii) increase in resilience to climate change, and/or (iii) promotion of ecological sustainability.

BIO's Infrastructure Team will therefore continue to finance **on-grid hydro, solar, geothermal and wind projects** (standard IPPs – public PPA-based projects - project finance). BIO will be open to **refinance existing IPPs -** provided that BIO's additionality remains justified, to **finance merchant and captive IPPs,** and to **directly finance IPPs developers,** possibly via equity instruments. **Relevant investments in the grid** (power distribution and transmission lines) might also be envisaged.

BIO will also invest in decentralized or **off-grid renewable energy instruments**. Especially **Commercial and Industrial ("C&I") projects** (private PPA-based projects) will be a focus, where grid tariffs are cost reflective, and the legal context is adequate. C&I projects offer an interesting and cost-efficient solution to provide reliable and affordable renewable energy to SMEs (commercial or industrial businesses).

Micro-grid, Mini-grid, and Solar Home Systems ("SHS"), which improve access to energy to low-income households or communities will be preferably looked at through (debt) funds. Mini-grids are the least-cost solution to provide access to affordable energy for people and are used when the grid coverage is low, especially in rural areas. However, nowadays DFIs generally use blended finance to invest in this segment. SHS will be looked at with prudence, but this model is already widespread in East Africa and is a growing market in West Africa. Rather than installing SHS for individuals, BIO will look at opportunities in collectivities or associations to mitigate credit risk on the counterparties.

BIO will also explore investment opportunities in innovative business models and technologies, related to **energy storage** (as the global Battery Energy Storage System ("BESS") market is expected to grow to USD 5.3 bn in 2023 and USD 13.8 bn in 2027) and to **energy efficiency solutions** (as greater energy efficiency can help reduce a country's dependency on energy imports as well as cut energy costs), which may also participate in the **digitalization of the energy market** (smart grids/smart meters). In this context, BIO will look at potential opportunities to finance **Energy-as-a-Service companies** ("EaaS") (successors of ESCOs), which are offering a particular service, such as heating or cooling, through standardized energy service contracts.

Over the past years, BIO invested in **clean cooking solutions** through a fund (Spark+). BIO might invest in companies manufacturing or delivering clean or improved cooking solutions as well as enterprises that provide specialized services within the value chain, such as technology integration and last-mile distribution services. This is in line with our climate strategy as polluting stoves account for nearly the same amount of all global carbon dioxide emissions as shipping and are a major driver of deforestation. Even though the number of clean cooking enterprises with well-established revenues continues to grow, the opportunities we come across are rather early stage and are dependent on the carbon credit market. For this type of projects, BIO will conduct a carbon footprint assessment, to ensure the project contributes to climate change effects mitigation.

Furthermore, BIO's Infrastructure Team retains an element **of opportunistic investments**, allowing for the exploration of other energy projects using new technologies to mitigate CO_2 emissions.

2. **IT and digital infrastructure, technology and communication**

Improving **access to and coverage of basic services, including telecommunications**, is key in emerging markets that need private investments to address urbanization, digital and information divide.

Over the past years, BIO has had the opportunity to invest in **telecom towers**. Leveraging on this experience, BIO's Infrastructure Team will continue to consider investments in that sector, especially in Africa (Latam and Asian markets seem saturated). Priority will be given to energy efficient projects that link telecom towers with renewable energies.

BIO's Infrastructure Team will also explore **new areas in the IT and digital infrastructure space**, such as **fiber connection** or **data centers**, which are basic services very needed in Africa. These projects require higher investment amounts and generally also depend on subsidies - mainly from international players. In order to build expertise in that field, BIO participates in such projects by entering syndications with other international lenders.

3. Thematical prospection

In terms of prospection, BIO will explore new impactful sectors, of which financial viability still needs to be proven. This includes investment in **logistics and transport**, in particular **green transport/e-mobility, waste management, water services and sanitation**.

The development of trade routes for SMEs in emerging markets is needed to foster business and economic growth. Therefore, BIO's Infrastructure Team will aim at **exploring investments in logistics**, being investments in logistic companies, middle and last-mile delivery businesses, visibility and intelligence providers, road-freight marketplaces and solutions, warehousing, etc. Investments in port terminals and in storage/warehouse solutions, especially for companies having a link with the agri value chain (circulation of raw materials) and the ones transporting mining products (necessary for the energy transition), might also be considered.

Special attention will be given to low-carbon transport. In just a few years, **electric mobility** (e-mobility) has emerged as an innovative, fast-growing sector, especially in Southeast Asia. E-mobility can improve air quality and reduces CO_2 emissions by replacing internal combustion engine vehicles as long as the country has or plans to have a big share of renewables in its energy mix. Moreover, the whole sustainable mobility sector offers economic benefits to the end-users, given the lower total cost of ownership over the lifecycle of the vehicles. BIO will pay special attention to the socio-economic background of the target population, to ensure that low and medium income populations can access electric fleets.

BIO will explore the entire value chain of e-mobility, including manufacturing of Electric Vehicles (EV), remanufacturing of existing vehicles in EV, battery swapping and recycling, charging infrastructure and fleet operations (fleet operators and EV fleets for individuals). The current hurdles to EV adoption are the lack of charging infrastructure and the high cost of vehicles upfront. At the moment, main bankable opportunities are seen in Asia and in India in particular.

Waste management helps to reduce landfilling waste which causes a huge environmental impact in terms of wildlife, ecosystems and human health. Investment in waste management encompasses **waste-to-energy plants**, **biomass-to-energy**, **recycling companies**, technology development, etc.

Waste treatment allows for selection of recyclable materials (metal, glass) before incineration. **Waste-to-energy projects** (biogas, biodigesters, etc.) can reduce the volume of solid waste by 90% and the use of fossil fuels by creating alternative energy sources. It is an interesting solution to treat and valorise the residual waste when the three R's waste management hierarchy[17] has been applied to the fullest extent possible, as it plays, on the one hand, a significant and useful role in waste disposal infrastructure and, on the other, produces stable and baseload electricity. There is also a high potential in non-valorized biomass, especially in our countries of intervention, which are dependent on agriculture. **Biomass-to-energy** can support farmers to convert agriculture residues or wood waste into electricity.

To minimize **environmental and social risks** while maximizing the impact, BIO will concentrate its Environmental and Social (E&S) and transformational efforts – including using the BDSF – on effectively addressing the most significant challenges associated with infrastructure projects within developing countries, such as supply chain Human Rights/E&S risks (e.g. solar panel), land acquisition/governance, community health, safety and security, decent work, with a focus on safeguarding (incl. modern slavery, Gender Based Violence and Harassment and the abuse or exploitation of children), low-paid unskilled workers (including temporary or contract labour, migrant workers, and workers who provide services via contracted service) and Occupational Health and Safety, pollution prevention, biodiversity conservation and climate adaptation, (digital) data protection and privacy.

[17] *i.e.: Reduce (reduce what is produced and what is consumed; if there is less waste, then there is less to recycle or reuse), Reuse (reuse items, or repurpose them for use different from what they are intended), Recycle (recycle items that will be transformed again into a raw material that can be shaped into a new item).*

Specific attention will be given to land use change and biodiversity preservation (for instance for hydro projects), type of energies used in projects not directly related to RE projects (digital for instance).

3) Instruments to be used and for what purpose

There are several instruments that can be used by BIO's Infrastructure Team to lower credit risk and that can be used in combination with riskier instruments such as Code 5 investments:

- **Blended finance**: (i) JEFFREI: this EU guarantee program (expected in 2025) will allow BIO to increase the invested amount in one project, located for instance in a risky country, to be less strict in our terms, to mitigate FX or transfer risk or to target riskier sectors (mini-grid, storage, etc.). The articulation between Code 5 investments and EU Guarantees will be defined once the guarantee is in place and operational; (ii) Green Climate Fund; (iii) collaboration with Enabel.
- **Code 3/BDSF:** traditional technical assistances cover DD costs for projects <20 MW and ESAP items, incl. climate actions.

Code 8 investments will be made mainly in the form of senior debt, in projects where risk-impact-return is adequate. Investments in small renewable energy projects, where **BIO is the sole lender,** will be capped with a ticket size of EUR 20M. Under a renewed risk management framework, BIO will assess if, in case of syndication, the ticket size can be increased up to EUR 25M. In this case, the **follow-the-lead approach** should be privileged.

The **tenor** of projects can be of at most 20 years, providing that there is enough tail, i.e. make sure that the PPA provides for a minimum 2-years "tail" over the tenor of BIO financing. In terms of **pricing**, BIO's Infrastructure Team will manage it at infrastructure projects portfolio level, enabling BIO to offer lower pricing for less risky projects in highly competitive or regulated markets while maintaining an adequate average profitability of the global portfolio. While the **gearing** should be conservative for big and medium size projects, we can increase leverage up to 80% for smaller projects <20 MW. As regulatory frameworks are evolving, BIO will explore financing standard RE projects without any government guarantee, in line with IMF requirements. BIO will also support **cross-border energy projects.**

In addition, BIO's Infrastructure Team will partner with the legal team to explore the possibility for **in-house loan documentation for infrastructure/project finance transactions under Belgian Law**. This will allow BIO to be more competitive and reduce transaction costs for our clients. It will entail a budget and extra work for our legal team as they would have to handle the negotiations of the documentation themselves as well as coordinating external counsel.

BIO's Infrastructure Team will adopt a thematic approach regarding Code 5 investments, which will be dedicated to climate projects including

- Climate mitigation projects in high-risk countries (imminent conflicts/macro impact possible) (i.e. LDCs, LICs and FCAS), and/or
- Early-stage projects in riskier sectors with a clear path to profitability offering an innovative/impactful business model and **with a direct link with climate and/or nature-positive finance.** This includes clean cooking / decentralised energy production and/or distribution / mini-grids / green hydrogen value chain, support of early development or of developers of renewable energy projects, support of innovative (both in terms of risk/return but also technology, business model and products/services delivered) projects contributing to fight climate change.

The team will aim to explore **direct equity investments** in IPP developers or in EaaS companies with a good track record, in collaboration with the PE team.

On the **prospection side**, BIO's Infrastructure Team, even though more focused on Africa, will actively continue the prospection in Latam and Asia. Given the lack of a suitable regulatory framework for infra projects in some LDCs in Africa, BIO's Infrastructure Team will need to have an **opportunistic approach, notably in terms of**

sectors. In order to identify and realize opportunities in the new exploration areas, BIO will develop internal expertise, allocate dedicated resources, and leverage the experience of current (as well as new) partners, including more experienced DFIs, fund managers, and other relevant development cooperation actors. In particular, BIO's Infrastructure Team will aim to allocate resources to **look deeper into our PEF in order to learn from their experience in the new sectors.** Synergies can be found with the Enterprises team as some of the new sectors are closer to corporate finance than project finance.

D – Direct enterprise loans

Impact	**SIT-1-Jobs**, 60% of 2024-2028 new commitments targeting +15% within 3 years in jobs or activity **SIT-2-SMEs**, 50% of 2024-2028 new commitments in SME finance **SIT-5-IB**, 50% Code 5 and 25% Code 8 of 2024-2028 new commitments in inclusive business **SIT-8-Adapt,** 20% of 2024-2028 new commitments include climate change adaptation actions **SIT-9-ES,** 10% of 2024-2028 new commitments including biodiversity conservation and sustainable management of natural resources actions
Risk -return	Low to negative return as a result of high cost of risk. ***Risk mitigant:*** Upcoming EU Guarantee (TGVC), Code 5. Lessons learnt and limits per risk rating.
Market	Good market access with SME dedicated team and African local offices but increasing DFI competition for low-hanging fruit projects.

1) Rapid overview of recent evolutions

Over the past 5 years, BIO's Enterprises Team has been mainly granting loans to companies active in the **agricultural value chain** ("AVC") and to companies involved in the provision of **basic goods and services** ("BGS") **to the population**.

Customers of BIO's Enterprises Team face some major challenges that result in higher costs or risks than other activities of BIO. In the first place, they operate in difficult macroeconomic environments, typically characterized by public sector inefficiencies, high inflation, high taxes and high depreciation rates. They also face logistics constraints with poor road conditions, difficult access to ports and warehouses, insufficient value chain integration and reliability, etc. Then, especially in Africa, SMEs in particular are characterized by their young age and limited maturity, lack of own financial means (equity) and collaterals, low level of institutionalization/formalization, poor management and governance. Therefore, they generally lack access to long-term financing from local banks. Furthermore, companies face growing global competition, which often leads to volatility in prices and in payment terms and can result in low margins, especially for SMEs.

As an investor, BIO also faces several challenges. Like other impact investors, the intrinsic characteristics of SMEs mentioned above have a negative impact on the number of feasible transactions. More recently, we observe an increasing overlap in the mandates of (European) DFIs, acting sometimes with blended finance, enabling them to take more risks. In our opinion, BIO still has a competitive advantage in comparison with other (European) DFIs as we have been active in this smaller ticket segment for a longer period of time, which allows us to have a **deep understanding of the needs of SMEs in emerging markets, and a strong know-how to establish long-term partnerships with less sophisticated borrowers**.

2) Main strategic directions

Agri-value chain ("AVC") investments

Regarding the agricultural sector, even though agriculture generally has a low GDP contribution in emerging countries (20%), nearly 75% of poor people in developing countries live in rural areas and derive their livelihoods from agriculture, forestry or related activities. Furthermore, agriculture plays a central role in ensuring that communities have access to sufficient, safe, and nutritious food, and small-scale farmers ("SSF") – many of whom are women – account for up to 80% of food production in sub-Saharan Africa and parts of Asia. These are the reasons why **growth in the agriculture sector has been shown to be at least twice as effective in reducing poverty as growth in other sectors[18]**.

Nevertheless, despite its importance for sustainable development, the agricultural sector is confronted with enormous challenges. At the level of the SSF, they generally face high transaction costs and have low bargaining power. Therefore, within the AVC, rural agricultural cooperatives, producer associations or aggregators play a key role to empower SSF economically and socially by connecting them to local and global markets and creating sustainable rural employment. **Export-oriented AVC remain a prominent and strategic sector for many countries** from a macroeconomic perspective, notably as they bring hard currencies to the country and improve trade balance – especially in Africa – but also at the micro level as they generate revenues for the local producers. While AVC and the export agro-industry are well-developed in Latam, AVC in Africa appears to be disorganized and the connection of SSF with the regional and international export markets much less developed. This is also a consequence of the ever-stricter quality standards as well as of legislative and customer-related changes for the export market of the EU and the US, notably in terms of traceability requirements. Regarding climate change, **AVC faces inherent physical and nature related risks** and SSF generally lack expertise and financial resources to adapt to climate events. On the financing side, as the agricultural sector is perceived as more risky by local banks, because of business seasonality and climate risk, companies upstream in AVC typically face working capital constraints and limited access to long term capex financing.

On the positive side, in a context where developing markets are still much more involved in primary production and in the first level transformation - where value added is often marginal compared to the processing and distributing phases that are typically located in developed countries -, we observe an **upward trend towards more local raw material transformation** and **the development of value-addition initiatives for the country**, also supported by government policies and programs. In addition, the emergence of a middle class with new consumption needs and habits brings along new opportunities for further local raw material transformation steps and routes to local and regional markets.

Therefore, as the agricultural sector is central to the economies of BIO's countries of interventions – especially in Africa and its growth particularly effective at reducing poverty and inequalities - financing **agriculture value chain development and growth will remain a strong priority for BIO.** We also expect that this will be the riskier segment in our range of interventions that would require using as many risk mitigants as possible (being Code 5 and external guarantees).

To maximize the contribution of BIO's (future) investments to inclusive and sustainable growth, as well as food security, BIO's approach to AVC development will focus primarily on investing in enterprises at various stages of the AVC – input, production, storage, processing and packaging, transport and wholesaling, marketing and retailing – that are pursuing at least one or a combination of the following objectives:

- **Agricultural sector growth and development of local value chains** through (i) **increase in agricultural productivity,** (ii) transformation of products and **creation of value-added, and/or** (iii) **upgrade of agriculture value chains** (incl. processing and logistics);
- **Agricultural sector inclusiveness** through (i) **focus on AVC including small-scale and smallholder farmers**, (ii) **creation of employment opportunities for rural** populations and local communities, and/or (iii) **increased access to affordable and**

[18] Robert F. Townsend (lead author), Ending Poverty and Hunger by 2030: An Agenda for the Global Food System, World Bank Group.

nutritious food (including through reduction in food loss and waste), all with a specific attention to **engaging and empowering women and youth, and encouraging balanced relationships with smallholder farmers;**
- **Agricultural sector sustainability** through (i) promotion of actions to **mitigate GHG emissions** and/or increase/protection of natural carbon sinks, (ii) increasing **climate resilience, and** (iii) the expansion of **sustainable food production practices/nature-positive agriculture** (such as agro-forestry).

Special consideration will then be given to how to support small-scale producers and link them to local and global value chains as a key mechanism to achieve the SDGs **and increase both agricultural productivity and smallholder farmers' incomes**. BIO will also take particular care that its projects are not detrimental to small-scale farmers.

In addition, BIO will strive for all new AVC projects to **enhance food security in the country of intervention or at least ensure that they do not have a negative impact on local food security.** As part of BIO's (upcoming) Human Rights Policy, BIO will further formalize its approach to human rights and ensure that investments in agriculture do not compromise local authorities' obligations regarding the progressive realization of the right to adequate food in the context of national food security, and all intended users' responsibility to respect human rights.

On sensitive topics (export-oriented large-scale agricultural investment, red meat production and processing, export through air-freight, etc.), BIO will carry out a **special impact assessment on a case-by-case basis** (i.e. independent food and nutrition security impact assessment, accounting of the project's life-cycle greenhouse gas (GHG) compared to baseline scenario, deeper assessment of the local communities engagement or of the competition with local food production, etc.). BIO will be vigilant to ensure that its interventions support the intrinsic developmental qualities of such projects and help to significantly mitigate the identified weaknesses. It will also bring these projects to the Investment Committee at an early stage to ensure strategic alignment.

To **minimize environmental and social risks** while maximizing the impact of agricultural investments, BIO will concentrate its E&S and transformational efforts on **effectively addressing the most significant challenges present in AVC** within developing countries, i.e. sustainable supply chains, traceability, community engagement, independent producers revenue level, seasonal and informal workers and low wages, inequality in wages, gender equality and economic opportunities between men and women, access to land/change in land use/crops, deforestation, environmental impact (i.e. crop protection products, use of water), vulnerability to climate impacts.

Other sectors

On an opportunistic basis, the Enterprises Team would consider investing in SMEs in other sectors with a particular emphasis on **small-scale industry, manufacturing and services,** that directly contribute to the facilitation of SME development and local economic growth, with inclusive and sustainable practices.

Regarding investments in the **provision of basic goods and services,** i.e. water, education, health and sanitation, as well as energy, connectivity or housing, BIO will **primarily focus on investing in SMEs** active in the provision of basic goods and services, ancillary services or acting as suppliers to public provision, that are pursuing the following combination of objectives:

- **Complementary to public goods and services:** improve supply of basic goods and services through (i) increase in availability, (ii) expansion of coverage, and/or (iii) support to local production of basic goods and services;
- **Affordability and inclusiveness:** expand access to affordable basic goods and services with a specific attention to un(der)served groups;
- **Quality:** upgrade quality/reliability of basic goods and services, i.e. schools must be accredited; healthcare centers must have adequate quality services and quality monitoring tools (trainings of medical staff, links with medical universities, quality indicators, integration in the health policy of the country and quality indicators, etc.).

BIO will ensure alignment of all basic goods and services investments with **national strategies (if any) towards universal access or at least ensure that they do not undermine universal access**. As part of BIO's (upcoming) Human Rights Policy, BIO will further formalize its approach to human rights and ensure that investments do not compromise local authorities' obligations regarding the progressive realization of the right to basic goods and services, and all intended users' responsibility to respect human rights.

Special consideration will be given as to how to consult public operators and other relevant stakeholders like Civil Society Organizations ("CSOs") or Non-Governmental Organizations ("NGOs"), as a key mechanism through which universal access to specific basic goods and services and the related SDGs can be realized.

To **minimize environmental and social risks** while maximizing the impact, BIO will concentrate its E&S and transformational efforts – including using the BDSF – on effectively **addressing the most significant challenges** associated with these projects within developing countries, such as resource diversion from the public sector, quality standards, affordability considerations, client protection, working conditions, resources efficiency, waste management, etc.

Climate

Aligned with our BIO's Climate and Ecological Transition Strategy, we will:

(i) Ensure that enterprises investments 'Do No Significant Harm' to climate and nature

BIO will aim to ensure all projects align with international long-term climate goals, biodiversity and management of natural resources, as defined in the Paris Agreement and the IFC Performance Standards.

(ii) Mainstream climate and nature-positive actions in Enterprises investments

BIO expects that many enterprise investments, especially in the agri-value chain, include climate and/or nature actions including: work with the agricultural value chain to increase resilience of SSF; identify physical risks from climate change towards specific assets or areas of production, and solutions to support their adaptation; integrate biodiversity and soil health considerations into agricultural production processes; decrease energy and/or input intensity of manufacturing processes.

(iii) Contribute to climate and nature-positive finance through SME investments

BIO will also source projects that qualify as **climate and/or nature finance**. This will require to explore new investing areas with a strong climate/nature component such as:

- Sustainable climate-smart agriculture, incl. organic cultures, regenerative agriculture, agro-forestry, agri-tech for resilience, etc.
- Bio-products from agricultural residues, biocontrol agents, bioenergy from waste, -composting or other valorization projects, re-use (circular economy projects)
- Eco-tourism
- Low-carbon, energy efficient investments in manufacturing

3) Instruments to be used and for what purpose

Code 8 investments will be made mainly in the form of senior debt, in well-established and more mature companies with a proven business model, at least 3 years of track record and positive EBITDA. In terms of securities, the Enterprises Team will work on **refining the approach on securities coverage** with the SOC team (lessons learnt).

Code 5 investments will be mostly dedicated to companies <u>in Africa</u>, especially in high-risk countries. Sector-wise, the enterprise department will use Code 5 for:

- projects in the agri value chain that directly or indirectly support smallholder farming or that support sustainable agriculture and aquaculture,

- any innovative activity to decarbonize SMEs and local economies, but BIO will especially aim to use the facility to support projects qualifying as climate adaptation finance, and
- Projects potentially qualifying as nature-positive will also be explored in an opportunistic way in order to increase BIO's understanding of associated risks and impact measurement approaches.

In addition, two main instruments will be used by the Enterprises Team to decrease credit risk in combination with riskier instruments such as Code 5 investments:

- **TGVC EFSD+:** this EU guarantee program (expected in 2025) will allow BIO to increase the invested amount in one investee, located for instance in a risky country, or to decrease the percentage of coverage needed in terms of securities for a transaction. The articulation between Code 5 investments and EU Guarantees will be defined once the guarantee is in place and operational.
- **Code 3/BDSF:** in addition to traditional TAs covering DD costs, ESAP items, incl. climate actions, the Enterprise Team will aim at proposing pre-investment TAs to improve the governance/institutionalization of a future client ahead of BIO's investment.

The team will have an opportunistic approach towards **climate finance projects.** BIO will seek projects that have a **strong climate angle, independent of the geography**.

In order to identify and realize opportunities, BIO will develop internal expertise, allocate dedicated resources, and leverage the experience of current (as well as new) partners, including more experienced DFIs, fund managers, and other relevant development cooperation actors.

VI- Intervention Channels

1) BIO Capital (Code 8): Equity and Loans

BIO expects to commit EUR 1.1 billion to about 120 projects over the period of this investment strategy. Investments will be made in the form of senior and subordinated loans and equity as per the sectoral investment strategy presented above.

2) Capital Subsidies (Code 5)

SIT-4-LDC/FCAS, 50% of 2024-2028 Code 5 new commitments in LDC/LIC or FCAS **SIT-5-IB**, 50% Code 5 and 25% Code 8 of 2024-2028 new commitments in inclusive business

Capital subsidies are to be allocated to projects with significant developmental relevance with the potential to be financially sustainable but that are deemed either too risky or with insufficient return to fit BIO's investment policy under its capital basis. The range of investment per project goes up to EUR 5 M and up to EUR 7 M for thematic investment funds or projects that contribute to the fight against climate change. For excellent development impact projects, BIO will continue to pursue deals with ticket sizes in the EUR 1 M – 2 M range.

On top of the riskier/lower return aspects of projects, BIO will adopt the following matrix to select eligible projects that have high development impact potential, spread over six investment strategy focus points.

Investment strategy focus	**Code 5 eligibility criteria** ***To be eligible the project has to comply with either the geographical scope AND/OR the specific criteria***		
	Criterion 1	**AND/OR**	**Criterion 2**

1. Financial services to MSMEs (through financial institutions)	SIT-4-LDC/FCAS	OR	SIT-5-Inclusive Business (with end-borrowers as key impacted stakeholders)
2. Agriculture value chains	SIT 4-LDC/FCAS OR SIT-5-Inclusive Business (with small-scale farmers as key impacted stakeholders)	OR	Sustainable agriculture, aquaculture (with relevant certifications and including agroforestry, soil conservation, land regeneration, biodiversity conservation or other innovative sustainable practices), contributing to SIT-8-ADAPT OR SIT-9-Ecological Sustainability.
3. Climate mitigation	SIT-7-Climate Finance (mitigation finance)	AND	SIT-4-LDC/FCAS OR SIT-5-Inclusive Business (with end-users as key impacted stakeholders) e.g. clean cooking, SHS, mini-grids, decentralised energy production and/or distribution OR Early development/innovative (both in terms of risk/return but also technology, business model and products/services delivered) projects contributing to fight climate change.
4. Climate adaptation	SIT-7-Climate Finance (adaptation finance)	-	-
5. Other SMEs	SIT-5-INCLUSIVE BUSINESS	OR	Social enterprises, innovative projects
6. Private Equity Funds	SIT-4-LDC/FCAS	OR	60% of capital expected to finance activities matching at least one of the categories 1 to 5 of the investment strategy focus.

All Code 5 investments - and in particular those associated with high-impact potential/expectations but limited impact knowledge - should be a **priority candidate for an impact survey as part of BIO's evaluation plan.**

3) Business Development Support Fund

An additional funding instrument that BIO can leverage to support its portfolio and prospective investees is the Business Development Support Fund (BDSF). Recognizing that sustainable growth hinges not only on tailor made financial investments but also on honing knowledge, skills, know-how, and operational capabilities, the BDSF plays a key role in supporting BIO's (prospective) clients.

Over the last investment period, the BDSF has evolved into more than just a financial support resource; it's a catalyst for improvement across economic, social, environmental, and developmental performances for both direct and indirect investees of BIO. By facilitating Technical Assistance (TA), conducting Feasibility Studies (FS), contributing to Due Diligence costs (DD), and offering Investment Support for innovative projects, the BDSF becomes an integral component of every stage of an investment's lifecycle.

Over the next five years, the BDSF will strategically target areas promoting inclusion (such as gender equality and support for low-income populations), climate change mitigation and adaptation programs, and support to environmental and social standards compliance and value creation, thereby fostering sustainable and responsible growth.

Supported projects will span a wide spectrum, from gap assessments to carbon emission studies, gender strategies formulation, client protection certifications, capacity building initiatives, and product development programs. Additionally, the BDSF will serve as a vehicle for knowledge dissemination at broader portfolio and eco-system level, with BIO conducting awareness campaigns, workshops, and specialized training sessions for targeted clients. Specific focus and resources will be allocated to C5 projects, especially these located in LDCs and FCAS.

The collaborative effort to identify BDSF opportunities, tailor support mechanisms, and monitor outcomes will involve both investment teams and the Development and Sustainability unit. These efforts will be bolstered by the guidance and resources provided by BDSF colleagues, ensuring alignment with BIO's overarching goals and standards.

4) Mobilization of third-party funding

Mobilizing additional private capital is essential to achieve the SDGs. With its SDG Frontier Fund, the private equity fund of funds launched in 2020, BIO had a **first experience in mobilizing and managing private capital**, from Belgian institutional investors and family offices. At the onset of the new Management Contract, BIO will conduct an **intermediary review** to capture the feedback from different stakeholders such as current investors, other interested parties who decided not to invest, SDG Frontier Fund board members as well as BIO's colleagues, board members and shareholders.

Based on this evaluation's results, we will further investigate which ways would be the most relevant for BIO to mobilize private capital, keeping in mind at least 3 dimensions:

- **Source of the funding & investor objectives:**
  - Private investors: institutional investors (pension funds, insurance companies, etc.), high net worth individuals and family offices, in Belgium (or beyond).
  - Multilateral institutions (European Commission, including the Global Gateway framework, Green Climate Fund, etc.).
  - Other Belgian state linked entities (Credendo, FPIM, Enabel, etc.).
  - Rationale to work with BIO: appetite for impact, Corporate Social Responsibility, uncorrelated diversification.
- **Investment scope and deployment capacity**
  - Investments in PEF, potentially including co-investments, loans in the financial sector, geographical scope (Africa vs Asia vs Latam).
- **Structuring of the investment:**
  - Legal structure/type of vehicle.
  - Managed account for one single large investor vs fund with more diversified investor base.
  - Jurisdiction (Belgium vs. jurisdiction with established environment for vehicles pooling funds).
  - Implications in terms of compliance and regulation.
  - Inclusion of a blended structure or tranche to mobilize more private sector funds.
  - Tenor.

We will also monitor **other DFIs' initiatives aiming at mobilizing private capital** and reach out to them to benefit from their experience. EDFI should set up a structured exchange platform about this important topic.

To note that BIO has also been involved over the last years in the **setting up of guarantee schemes** provided by the European Commission together with other EDFI members. The opportunity for BIO to make use of these guarantee schemes in the context of its investments will be further investigated.

5) Guarantees, Insurance and foreign exchange risk cover

During the first half of the Management Contract, under the program EFSD+ (European Fund for Sustainable Development Plus) of the European Commission, BIO will have access, through EDFI MC, to multiple guarantee programs to mitigate risks linked to (i) refinancing of MSMEs in Africa (existing program), (ii) supporting the decarbonization transition (Jeffrei), (iii) developing transformational global value chains, and (iv) developing carbon sinks. These programs can allow BIO to increase the outreach of its projects while mitigating risks, and could become an important toolbox for the development of our risk management policy.

Insurances could also be available to cover part of the country risk, either from Credendo, DFC or MIGA. Such insurance will in particular be sought in fragile contexts (in particular in conflict affected countries) acknowledging however that Credendo does not cover the highest country risks.

BIO will systematically examine whether **local currency financing** can be sustainably proposed to its clients while covering the currency risks induced either through the local markets or through providers such as TCX. Acknowledging that longer maturities remain difficult to hedge satisfactorily, BIO will remain on the look-out for solutions to lengthen local currency loans as much as possible.

BIO will endeavor to identify and use **guarantees, insurance and subsidies** to mitigate risks on its transactions while remaining cautious not to outweigh its internal capacity in the efforts required to obtain and administer such products.

VII – Expected evolution of the Company

A – 2024-2028 Investment approval expected evolution

Based on the Strategic Impact Targets framework, the risk allocation, BIO's market and internal capacity & expertise, and the type of instruments available, BIO expects the following allocation of investments per department. This table is indicative and aims to clarify the targeted portfolio at the end of the Management Contract. Please also confer to the charts in Annex VI to visualize expected sector split for Code 8 and Code 5.

Over 5 years (MEUR)	Volume of investment 2024-2028		Volume of investment 2019-2023		Africa	Asia	Latin America
	C8	C5	C8	C5			
Financial sector debt *incl. Microfinance*	450-650 *250-350*	10-20 *10-20*	434 *220*	9 *9*	35%	30%	35%
Enterprises / SMEs	50-70	50-70	93	24	80%	20% (C8)	
Infrastructure *incl. Climate finance*	150-250 *150-200*	0-10 *5-10*	117 *64*	3	60%	30%	10%
PE funds	160-200	15-30	152	6	50%	35%	15%
PE direct	80-120	0-10	32	-	60%	30%	10%
Total	**1100**	**100**	**848**	**42**	**45%**	**25%**	**30%**

Growth of investments **in capital (Code 8)** is expected to come from the financial sector, infrastructure and direct private equity whereas such investments in private equity funds will remain stable in total volume and decrease for enterprises. We estimate that this reflects the profile risk better that BIO would like to achieve in its capital operations. This split of objectives per activity reflects the Strategic Impact Targets framework including SIT 3-Micro in the microfinance objectives and SIT 7 – Climate Finance for the infrastructure objectives but also in a more limited manner in the private equity funds and financial sector loans targets.

As to capital subsidies (Code 5), direct projects in SMEs will take the lion's share with a focus towards Africa and LDCs and FCAS. Private equity and debt funds will be considered primarily for climate finance, and in particular adaptation as well as small agri-funds with innovative features and LDCs funds. Finally, under Code 5, we expect limited investments in small financial institutions prioritizing LDCs and renewable energy projects.

B – Organization

The investment program from origination to supervision depends on a deal team that includes investment officers, E&S, development and legal officers. Also in the loop of investments, though not in the deal teams per se, are the risk manager and special operations officers as well as the finance officers. BIO has built a solid basis on many of these functions with good experience and expertise as well as drive towards their mission.

An adapted recruitment plan and remuneration policy will be drafted to ensure proper implementation of this strategy, making sure key expertise in terms of investment selection and execution, risk, compliance, ESG, legal and sectoral investment knowledge, as well as the necessary monitoring, follow-up and support capacity can be assured.

The past investment strategy allowed the opening of two local offices in Abidjan and Nairobi and its staffing by two officers, one expat and one local officer. With the new priority towards Africa and LDCs, and the increased means in capital subsidies, we expect **local offices to gain importance in terms of sourcing as well as, when sufficient regional scale is reached, in terms of supervision.** In 2025, new decisions will need to be made as to staffing of the local offices based on sourcing results and potential versus additional staffing in Brussels. This reflection will also take into account possibilities of increased collaboration with other actors of the Belgian cooperation.

Efficiency in our operations is also required so that we allocate our resources in the best manner. In terms of investment policy, this leads to (i) setting a minimum project size of EUR2 M (exceptions possible for very impactful projects in capital subsidies), (ii) reinforcing the follow-the-lead culture across the deal team when working with a selected like-minded institution (such as DEG, FMO, IFC), (iii) continuing to share diligence responsibilities when collaborating with other DFIs, as well as (iv) developing harmonized standards across the DFI community to increase common leverage and approach towards clients, (v) creating tools to improve commercial efficiency, and (vi) maximize internal use of software solutions that increase efficiency. This also requires solid internal values that foster sharing experience and expertise across teams, transversal communication and valorizing high professional and ethical standards.

C – Financial projections

The projections for the 2024-2028 period are based on an approval rhythm of EUR240M per year (of which EUR20M under Capital Subsidies) allowing to absorb a large share of BIO's capital and capital subsidies by the end of the period. Over the period of the Management Contract, new means for investments will come from (i) non-distributed profits for BIO capital (Code 8), (ii) up to EUR85M of capital subsidies (Code 5) from the State (EUR15M per year + EUR10M Ukraine). As a result, in the next 5 years, the annual commitment of BIO under its capital will increase from EUR200M to EUR220M (10%) while its activities under capital subsidies would double (from a EUR9M average to EUR20M).

Projections over the next 5 years point to a profit ranging from EUR7M to EUR19M and an average return on equity of about 1%. Reaching these results would depend on BIO successfully (i) increasing its volume of operations, (ii) reaching an average debt and equity portfolio return around 5%/5.5% and (iii) limiting the cost of risk (provisions to gross portfolio) to about 2% (i.e. at most EUR20M per year) over the period. **It is important to**

note that the projected cost of risk of 2% is deemed conservative. It is based on the cost of risk of the last 5 years and hence integrates the consequences of the portfolio impact of the COVID pandemic and Ukraine war. In 2023 and mid-2024, the cost of risk was below 0.5%.

BIO is therefore **walking a thin line** as profitability can easily be jeopardized by external factors (or project-related ones. The increased risk attached to the new Management Contract (strong orientation towards LDCs) needs to be closely managed. In conclusion, **BIO will closely supervise its risk profile and verify impacts on its profitability of the Management Contract orientations.**

	2022 Audited	2023 Audited	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.
New means C8	10.000	-	-	-	-	-	-
New means C5	8.000	8.000	15.000	15.000	15.000	15.000	15.000
Cumulative C8	970.016	970.016	970.016	970.016	970.016	970.016	970.016
Cumulative C5	62.000	70.000	85.000	100.000	115.000	130.000	145.000
Approved C8	221.095	195.735	220.000	220.000	220.000	220.000	220.000
Approved C5	3.000	9.000	20.000	20.000	20.000	20.000	20.000
Total approvals	224.095	204.735	240.000	240.000	240.000	240.000	240.000
Loan	167.667	159.893	163.000	180.000	180.000	180.000	180.000
Equity	56.429	44.842	77.000	60.000	60.000	60.000	60.000
Net outstanding C8	562.572	605.505	629.434	703.587	812.528	896.996	974.588
Net outstanding C5	13.479	12.295	16.617	18.574	30.293	35.502	39.237
Total income	26.097	37.325	42.876	57.786	52.219	55.358	59.378
Net margin	14.409	23.289	27.748	39.943	33.439	35.484	38.433
Operating revenue	(15.574)	21.054	11.643	22.454	14.446	14.279	15.436
Net income	(12.780)	17.413	6.712	18.909	11.715	10.816	11.129
Gross yield on loans	5,3%	6,2%	6,1%	6,0%	5,6%	5,5%	5,4%
Net yield on loans	5,2%	5,2%	5,4%	5,3%	5,1%	5,1%	5,0%
Yield on equity	1,4%	1,6%	3,3%	7,6%	5,6%	5,3%	5,3%
Cost of risks	4,5%	0,3%	2,2%	2,2%	2,1%	2,1%	2,1%
ROAE	-1,2%	1,7%	0,6%	1,8%	1,1%	1,0%	1,0%

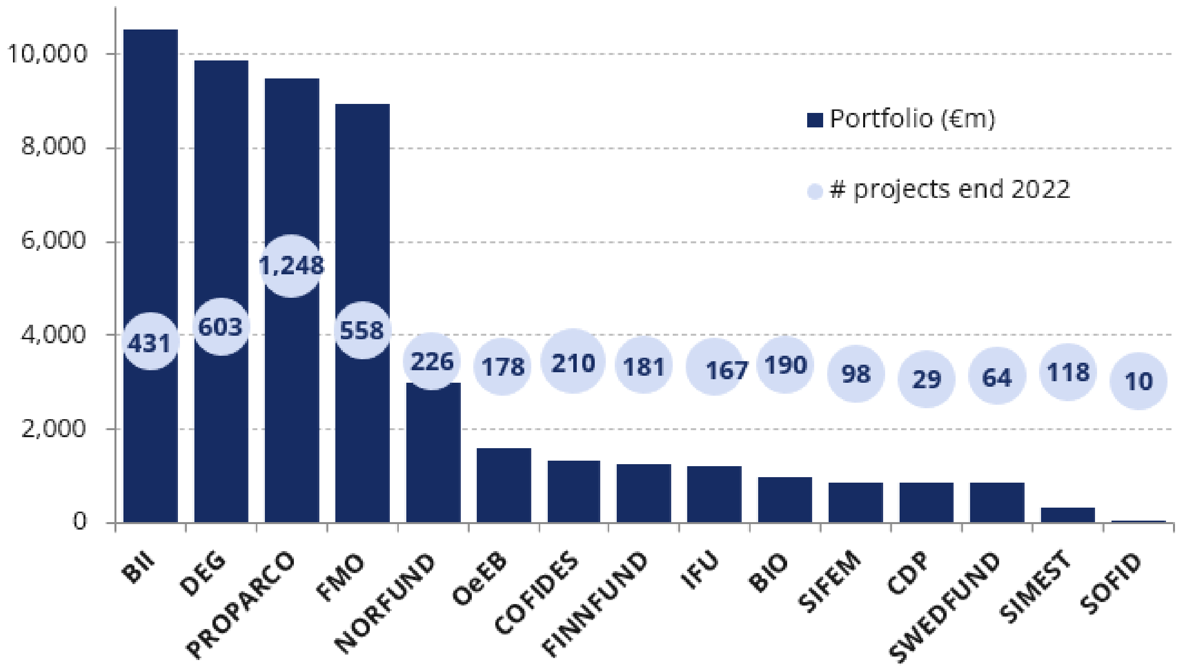
VIII – Next steps

Topics	2024	2025	2026-2028
SITs Implementation	By mid-year systematic implementation	Set-up of a comprehensive annual reporting	
Theory of Change	Reviewed by September		

Development policies	Gender policy reviewed Human rights approach policy	Responsible exit policy	
Recruitments	Additions to the investment & legal teams Change of head of local offices head Review remuneration policy to ensure retention	Addition in risk team Reflection on evolution of local offices	Addition in supervision teams
Risk	Credit risk policy FX risk policy	2nd opinion or advice on riskier files	Check changes of risk profile due to new strategic orientations
Efficiency	Collaborate to harmonize EDFI standards & reporting Follow-the lead implementation Development of commercial tools to improve prospection Maximize use of software solutions to improve efficiency		
Evaluation		Lessons learnt policy	Mid-term evaluation in 2026 Final evaluation 2028
Mobilization	Intermediary review of the SDG Frontier Fund	Define Mobilization strategy	
Investment Approval Volume and Orientation	Evaluate whether adjustment is needed after approval of strategic orientations		Mid-term evaluation to adjust allocation if needed (per instrument, sector, country, risk bucket)

Annex 1 – EDFI Comparative analysis 2022

Portfolio and number of projects



Key figures

Institution	Net profit after tax (€m)	Assets (€m)	Equity (€m)	Debt equity ratio (1)	Return on equity (2)	Return on assets (3)
BII	189.4	9,278	9,087	0.0	2.1%	2.0%
BIO	-12.8	1,113	1,101	0.0	-1.1%	-1.2%
CDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cofides	20.3	194	189	0.0	12.0%	10.5%
DEG	10.2	7,702	2,517	2.1	0.4%	0.1%
Finnfund	0.1	773	301	1.6	0.0%	0.0%
FMO	1.0	9,900	3,448	1.9	0.0%	0.0%
IFU	-11.9	767	623	0.2	-1.9%	-1.6%
Norfund	217.7	3,563	3,530	0.0	6.6%	6.1%
OeEB	3.6	1,349	59	21.9	7.0%	0.0%
Proparco	-37.3	7,692	1,105	6.0	-3.3%	-0.5%
SIFEM	-13.2	720	695	0.0	-1.9%	-1.8%
Simest	0.5	545	310	0.8	0.2%	0.1%
Sofid	-0.2	18	18	0.0	-1.1%	-1.1%
Swedfund	22.8	822	787	0.0	3.0%	2.8%
Total	**390**	**44,436**	**23,771**	**0.9**		
Weighted average					**1.7%**	**0.9%**

Sectoral distribution of EDFI portfolio

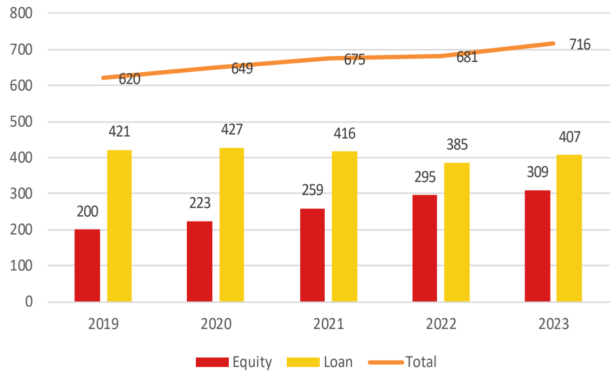
	Financial sector	Infrastructure (Power)	Infrastructure (Other)	Industry/ Manufacturing	Services	Agribusiness	Multi-sector	Total (%)	Total (€m)
BII	26%	25%	16%	4%	16%	7%	6%	100%	10,547
BIO	40%	25%	1%	4%	1%	6%	23%	100%	993
CDP	67%	5%	0%	18%	0%	3%	8%	100%	856
Cofides	42%	10%	21%	16%	4%	7%	1%	100%	1,345
DEG	28%	14%	8%	20%	12%	7%	12%	100%	9,866
Finnfund	23%	19%	13%	3%	4%	26%	12%	100%	1,262
FMO	41%	23%	8%	1%	0%	12%	14%	100%	8,934
IFU	33%	24%	5%	9%	8%	13%	8%	100%	1,200
Norfund	34%	37%	1%	3%	1%	7%	17%	100%	3,010
OeEB	41%	20%	6%	7%	0%	8%	17%	100%	1,618
Proparco	35%	11%	12%	19%	11%	8%	4%	100%	9,501
Sifem	24%	11%	6%	40%	4%	4%	12%	100%	859
Simest	0%	7%	4%	69%	8%	3%	10%	100%	331
Sofid	0%	0%	53%	30%	18%	0%	0%	100%	14
Swedfund	41%	25%	15%	2%	0%	0%	17%	100%	849
Total (€m)	**16,969**	**9,901**	**5,193**	**5,671**	**4,136**	**4,271**	**5,042**		**51,183**
Total (%)	**33%**	**19%**	**10%**	**11%**	**8%**	**8%**	**10%**	**100%**	
# investments	**1,740**	**950**	**450**	**1,088**	**495**	**596**	**1,064**		**6,383**
Average (€m)	**10**	**10**	**12**	**5**	**8**	**7**	**5**		**8**

Overview of development impact per member

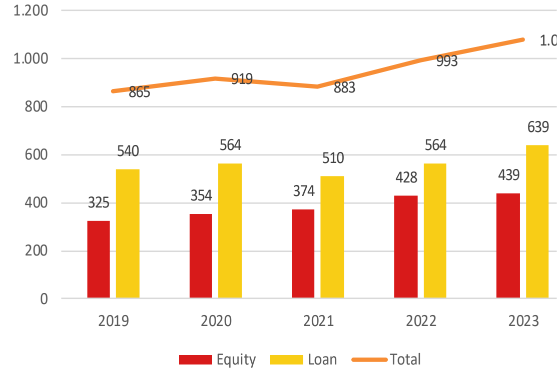
	# of 2X eligible new investments	Energy production, TWh	Direct employment (# of people)	Indirect employment, million				Private co-finance mobilisation, €m
				Supply chain	Induced	Power enabling	Finance enabling	
BII	57	58.0	278,648	2.2	1.5	1.3	6.7	1,511
BIO	16	5.7	117,976	0.8	0.7	0.3	11.1	43
CDP	-	1.0	275	-	-	-	-	16
Cofides	3	2.7	19,142	0.1	0.1	-	-	49
DEG	65	20.1	1,073,854	9.2	4.5	0.6	0.1	747
Finnfund	-	5.2	87,352	-	-	-	-	98
FMO	67	48.3	954,342	8.5	8.8	1.2	28.0	348
IFU	4	16.3	68,302	0.4	0.2	0.1	6.2	222
Norfund	-	15.9	141,325	-	-	-	-	641
OeEB	-	7.9	353,883	0.2	0.2	3.0	1.0	147
Proparco	19	12.5	1,115,076	1.2	1.4	0.1	7.2	941
Sifem	7	6.0	39,924	-	-	-	0.4	2
Simest	-	-	-	-	-	-	-	100
Sofid	-	-	725	-	-	-	-	-
Swedfund	11	10.0	83,116	0.3	0.4	0.2	0.6	38
Total	249	210	4,333,940	23	18	7	61	4,903
Total (adjusted for double counting)	**197**	**173**	**3,730,987**	**17.5**	**13.9**	**3.2**	**50.6**	**4,788**

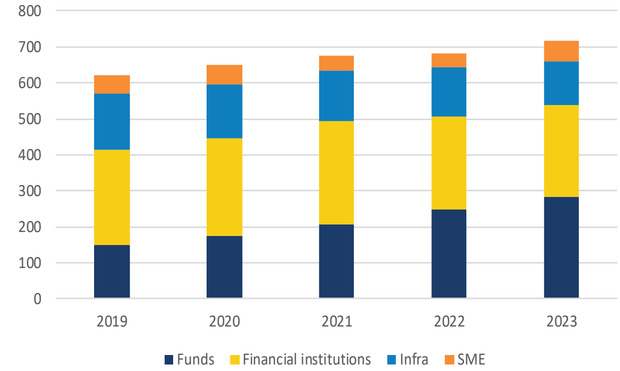
Annex 2 – BIO portfolio (Code 8 and Code 5)

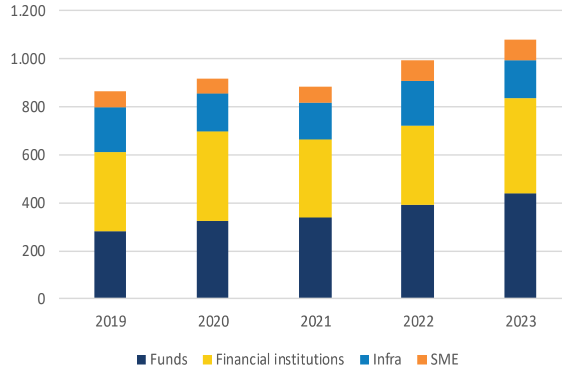
Outstanding evolution (M EUR):

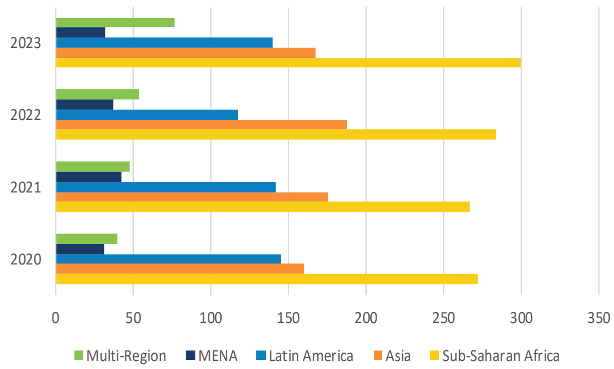


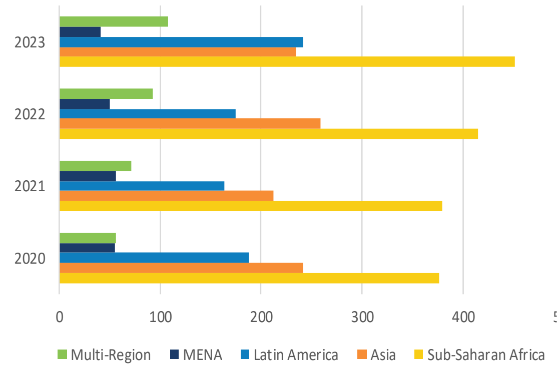
Net approved commitment evolution (M EUR):











Annex 3 – Expected profitability per activity in the 2024-2029 projections

P&L C8 from 24 to 29 (without treso related to portfolio)	Direct Equity	PE Fund	Financial Institution	Infrastructure	SME	Total
Income before COR interest	13.7%	3.5%	5.8%	6.2%	7.0%	5.7%
Provision & W/O on interests	0.0%	0.0%	-0.4%	-1.3%	-0.9%	-0.5%
Income after COR interest	**13.7%**	**3.5%**	**5.4%**	**4.9%**	**6.1%**	**5.2%**
Project costs	-0.2%	0.0%	-0.1%	-0.2%	-0.2%	-0.1%
Gross Margin	**9.3%**	**3.5%**	**5.3%**	**4.6%**	**5.9%**	**5.1%**
Opex	-1.4%	-1.6%	-1.8%	-1.9%	-3.4%	-1.8%
Net Margin (before COR)	**7.9%**	**1.9%**	**3.5%**	**2.7%**	**2.5%**	**3.3%**
Provision & W/O on Capital	-1.1%	-2.3%	-1.5%	-2.9%	-5.3%	-2.3%
Operating Result	**6.7%**	**-0.5%**	**2.0%**	**-0.2%**	**-2.8%**	**1.0%**
FX result & extraordinary result	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%
EBIT	**6.7%**	**-0.5%**	**1.9%**	**-0.2%**	**-2.8%**	**1.0%**

Annex 4 Strategic Impact Framework

Strategic Impact Framerwok 2024-2028						
Pillars	SDGs	Tranversal commitments	Targets for 2024-28 investment projects: Description	Indicator	Target	KPIs portfolio monitoring
Economic	SDG 8: 8.1, 8.2, 8.3, 8.5, 8.6, 8.7, 8.8, 8.10; SDG9: 9.1, 9.2, 9.3, 9.B, 9.C	**All projects subject to BIO Decent Work policy,** including systemaric assessment and requirements, possible actions plan, awareness raising and identification of opportunities for improvement on decent work.	**Target 1: Projects targeting a significant increase in jobs or, within the agricultural value chain, in economic activity**	Percentage of 2024-2028 new commitments targeting at least 15% increase within 3 years in jobs (as proxied by the value of outstanding loans for FI) or, within the agricultural value chain, in economic activity	> 60%	- Number of jobs supported - EDFI Harmonized job quality indicators (injuries, fatalities, employees under CBA, incidents, permanent employee ratio, turnover, lowest wage)
			Target 2: Projects contributing to access to funding, banking, insurance and other financial services for SMEs	Percentage of 2024-2028 new commitments in SME finance	> 50%	- Number of SMEs provided with access to financial services
			Target 3: Projects contributing to access to funding, banking, insurance and other financial services for microenterprises and individuals	Percentage of 2024-2028 new commitments in microfinance and retail banking	> 25%	- Number of microenterprises and individuals provided with access to financial services
Social	SDG 1: 1.1, 1.4, 1.5; SDG 2: 2.1, 2.3, 2.4, 2.A; SDG 3: 3.B; SDG 5: 5.1, 5.5, 5.A, 5.B; SDG 10: 10.2, 10.3, 10.4, 10.B	**All projects subject to BIO Gender Strategy,** including systematic assessment and requirements, possible actions plan, awareness raising and identification of opportunities for improvement on gender equality.	**Target 4: Projects contributing to reducing inequalities among countries**	Percentage of 2024-2028 new commitments in LDCs, LICs or FCAS	> 50% Code 5 > 15% Code 8	- Share of outstanding investments in LDC, LIC and/or FCS
			Target 5: Projects contributing to reducing inequalities within countries	Percentage of 2024-2028 new commitments in inclusive businesses	> 50% Code 5 > 25% Code 8	- Number of un(der)served (vulnerable) individuals reached i.e. low-income, rural, smallholder, youth, refugees, etc.
			Target 6: Projects contributing to gender equality	Percentage of 2024-2028 new commitments 2X elligible	> 40%	- Share of women jobs/clients supported
Environment	SDG 6: 6.3, 6.4; SDG 7: 7.1, 7.2, 7.B; SDG 12: 12.2, 12.4, 12.5, 12.6; SDG 13: 13.1, 13.A; SDG15: 15.2	**All projects subject to BIO Climate Strategy,** including systemaric assessment and requirements, possible actions plan, awareness raising and identification of opportunities for improvement on climate impact.	**Target 7: Projects contributing to climate change mitigation and climate change adaptation as principal objective**	Percentage of 2024-2028 new commitments qualifying as climate mitigation and/or adaptation finance	> 20%	- Share of outstanding investments qualifying as mitigation finance - Share of outstanding investments qualifying as adaptation finance - Tons of CO2eq emissions avoided - Energy production supported (in GWh)
			Target 8: Projects contributing to climate change adaptation as significant objective	Percentage of 2024-2028 new commitments including climate change adaptation action	> 20%	- Share of outstanding investments contributing to mainstreaming of climate adaptation
			Target 9: Projects contributing to biodiversity conservation and sustainable management of natural resources	Percentage of 2024-2028 new commitments including biodiversity conservation and sustainable management of natural resources action	> 10%	- Share of outstanding investments contributing to mainstreaming of biodiversity conservation and sustainable management of natural resources
Partnership	SDG 17: 17.1, 17.3, 17.11, 17.16, 17.17		**Target 10: Projects benefitting from technical assistance**	Percentage of 2024-2028 new projects supported with BDSF	> 30%	- Total commitments to BDSF projects

Annex 5 – Risk Management Framework

Risk Management framework

Micro Risk Management

Pre-disbursement

	Potential formalization & improvements	Purpose
Quality of the investment analysis		Insure that investments are correctly analyzed and structured so as to give a fair view of the reality and limit unnecessary/hidden risk taking
Experience, on the job learning	More seniority in investment staff, hiring of analysts	
External and internal trainings	Development of a coherent training process	
Good preparation of the due diligence - input from Screening committee	SO officers to participate to SC for SME and higher risk loans	
Support and inputs from the deal team and (senior) colleagues		
Use of lessons learnt	Presentation of real cases + vade mecum of risks	
Use of a credit risk rating tool	Improving the tool (more predictability)	
Balance between risk taking and Commitment		Avoiding reckless risk-taking and risk concentration by imposing objectively set limits
Limits per credit risk rating	Credit risk policy	
Limits per country risk rating	Country risk policy	
Risk amortizers		Reducing risk exposure on high risk investments/enabling the materialization of investments when a credit or country limit is reached
Use of Credit risk guarantees (and potentially country risk guarantees as the case may be)	To be explored with EU, Credendo or any other guarantee provider	
Adequate structuring of a collateral package and transaction terms		
Quality review		Challenging the investment proposal and validating the final version of the proposal before IC
Systematic review and follow up of the investment structuring by managers		
Systematic review of credit risk rating by the Portfolio Monitoring unit		
Potentially Informal second opinions later in the process by risk dpt (to be fine tuned)		
Review of the payment schedule structure by Finance		
Validation at crucial steps of the process by the CIO		
Use of lessons learnt		
Review & Validation from IC		Informed decision making
Based on the investment analysis and oral defense	Hiring of independent IC members knowledgable in investments	
Use of lessons learnt		
Contracting		Legal base reflecting the phylosophy of the investment approved by the IC and setting the ground for an adequate monitoring
Use of standard and taylor made legal clauses		
Use of covenants		
Prepared by Legal and reviewed by Deal team		
Potential new IC decision in case of material changes of the environment (country & company standing ...) since IC approval		
CP's for signature		

Disbursement

		Purpose
CP's for disbursement		Materialization of the investment according to the legal documentation and hedge of FX risks
Delaying/cancelling disbursement in case of material changes of the environment since contract signature		
FX hedging		

Post-disbursement

	Potential formalization & improvements	Purpose
Normal Monitoring		Ensure the repayment of the investment and the collection of the return by complying with the contractual documents signed with the customer + Generation of lessons learnt
Monitoring the customers' standing (covenants, valuation of equity investments ...)	Creation of a specific PRG for high risk investments	
Monitoring the respect of the contractual clauses	Creation of an ageing balance evidencing delay of loan repayments	
Monitoring of Equity investment (valuation,		
(Bi)-Annual review of risk rating		
Watch List		Ensure an earlier identification of risk materialization potentially triggering corrective measures to avoid non-performance (proactivity vs reactivity) +Generation of lessons learnt
Indicators of risk deterioration (country/financials/climate ...)		
Proactivity of Portfolio officers		
Special Operations		Optimizing the chances for the client to return to a normal monitoring/Maximizing the recovery rate in case of deep underperformance + Generation of lessons learnt
Seniority of the staff		
Strong support from the legal department		
Specific standing rules allowing flexibility to the decision process		

Macro Risk Management (Portfolio based)

	Purpose
Credit Risk	Giving a concise view of the credit risks in the balance sheet to potentially orientate the new production + information on realized credit risks
Calculation of COR on Capital and interests	
Exposure per credit risk rating vs limits	
Distribution of risk rating in GP, calculation of avg risk rating	
Country risk	Giving a precise view of the country risks in the balance sheet to potentially orientate the new production
Exposure per country vs limits	
Exposure per country risk rating	
FX risk	Giving a precise view of the FX risks in the balance sheet to potentially limit the new production of unhedged loans + information on realized FX risks
Calculation of COR FX	
Calculation of Open exposure and simulation (10% depreciation)	

Annex 6– Projected approval amounts per sector and geography 2024-2028