

# Climate and ecological sustainability strategy for BIO's investments

Supporting Climate and Ecological Sustainability of Private Entrepreneurship in Emerging and Developing Markets

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## Context and purpose

### The urgent need to support the transition to low-carbon, resilient and nature-positive economies in developing countries

The fight against climate change and nature loss has become a global priority. Loss of biodiversity and rising temperatures already have a dramatic impact on the environment, people and economies, in all regions of the world and all sectors of society. Expert reports and analyses show we are not on track to solve the climate and nature crisis<sup>1</sup>. Current policies and actions implemented at country level are expected to lead to a warming of 2.6 to 2.9°C<sup>2</sup>, and scientists have shown that six of the nine planetary boundaries have already been exceeded<sup>3</sup>. There is a global consensus on the need to systemically tackle the various crises we are facing. Acting to limit and adapt to climate change, while also tackling related ecological and social issues (such as biodiversity loss, gender inequalities and just transition) is key to create long-term value for businesses and society as a whole.

Such global consensus takes shape in United Nations led international agreements, including the 2015 Paris Agreement to combat climate change and the 2022 Kunming-Montreal Global Biodiversity Framework which have defined the necessary global ambition to tackle these crises.

#### *Box 1 - Key goals from the Paris and Kunming-Montreal Agreements*

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##### **Key Paris Agreement goals**

- Keep the increase in the global temperature well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase even further to 1.5°C;
- Increase the ability to adapt to the adverse impacts of climate change;
- Make financial flows consistent with a pathway towards low GHG emissions and climate-resilient development.

##### **Key Kunming-Montreal Global Biodiversity Framework goals**

- Restore 30% degraded ecosystems globally (on land and sea) by 2030;
  - Conserve and manage 30% areas (terrestrial, inland water, and coastal and marine) by 2030;
  - Tackle climate change through nature-based solutions.
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In our fight against climate change, we need to address both its causes (mitigation) and its impacts (adaptation). Climate change mitigation means decarbonising economic activities, for example through the development of low-carbon energy sources or through sustainable production and consumption practices, and protecting and enhancing carbon sinks<sup>4</sup>, for example through the fight against deforestation and the development of carbon removal practices, to achieve net-zero emissions globally by 2050. Climate change adaptation means strengthening the ability of ecosystems, populations, organisations and infrastructures to withstand and recover from disruptive climate events (such as more severe heat waves and floods, intensification of droughts, rise of sea level, spread of wildfires). And when it comes to tackling the climate crisis, nature is our greatest ally. Ecological sustainability means reducing strain causing nature loss (through land and water use and change, natural resource over-exploitation, pollution, and increase of invasive species) and maximising contributions to positive outcomes in terms of health, abundance, diversity and resilience of species, populations and ecosystems, to align with the goals of becoming “nature-

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<sup>1</sup> [www.ipcc.ch/report/sixth-assessment-report-cycle/](http://www.ipcc.ch/report/sixth-assessment-report-cycle/)

<sup>2</sup> [climateactiontracker.org/global/temperatures/](https://climateactiontracker.org/global/temperatures/)

<sup>3</sup> [www.stockholmresilience.org/research/planetary-boundaries.html](https://www.stockholmresilience.org/research/planetary-boundaries.html)

<sup>4</sup> A carbon sink is a natural or artificial process that removes a greenhouse gas from the atmosphere. Forest, soil and ocean are the main natural carbon sinks.

positive by 2030” as defined by the Global Goal for Nature<sup>5</sup>. For entrepreneurs, striving for nature-positive operations means they will maximise efficiency opportunities and explore innovative business models such as those using eco-friendly inputs or circular economy principles. These models can at the same time preserve natural resources and provide competitive advantages, think of lower costs, access to new markets or anticipation of upcoming regulations.

Protecting, conserving and rebuilding biodiversity and ecosystems will not only help us to tackle the causes and the impact of climate change, but will also provide benefits to address other societal challenges such as human health, and food and water security, ensuring the well-being and livelihoods of local communities that rely on healthy ecosystems for their survival. This is why it is particularly important to address societal challenges in a systemic way. Climate-smart agriculture practices (such as agroforestry) can be a good example of system change, using nature-based solutions to enable farmers to retain more carbon in their fields as they improve the productivity of their crops and the resiliency of their activity.

While developing countries are particularly vulnerable to climate change, because of their higher exposure to risks, higher sensitivity to impacts and lower ability to adapt to the changes<sup>6</sup>, they are also in a very good position to benefit from opportunities linked to climate and nature action. Developing countries often have abundant (meaning also cheaper) renewable resources, are home to a majority of the world's species and ecosystems, and can benefit from local knowledge and high levels of innovation and adaptability. Some countries are also less entrenched in carbon-intensive systems, meaning they have the opportunity to leapfrog older, more polluting technologies to develop low-carbon infrastructures best fitting their needs.

## The crucial role of European DFIs

Development Finance Institutions (DFIs) such as BIO have a particularly relevant role to play to support and mobilise the private sector in developing countries to embrace the opportunities of the low-carbon, resilient and ecological transition. DFIs have the ability and responsibility to support the development of new models that reconcile socio-economic development with the planetary boundaries. While the EU climate and environmental regulatory frameworks (including the six environmental objectives of the EU Taxonomy<sup>7</sup> or the sustainability disclosure requirements), set the way forward, DFIs have to take into account the countries’ specific circumstances when defining the expected standards to be applied in all their investments.

In line with the concept of double materiality<sup>8</sup>, a robust approach is needed to assess and limit the impacts of a DFI’s investment on the environment, but also the impact of climate change and nature loss on the company they invest in, and therefore indirectly on the broader local economy. Such a systemic approach is aligned with BIO’s mission, i.e. ensure long-term value creation for clients, support a strong private sector in developing and emerging countries, and contribute to sustainable socio-economic growth aligned with the Sustainable Development Goals.

Together with multilateral institutions, DFIs are at the forefront of the financial sector’s transformation to better take into account the climate impact, and more recently the impact on biodiversity, of their investments. Key initiatives include the alignment of new investments with the

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<sup>5</sup> [www.naturepositive.org/](http://www.naturepositive.org/)

<sup>6</sup> [www.weforum.org/agenda/2022/11/loss-and-damage-climate-change-harms-poorest-countries/](http://www.weforum.org/agenda/2022/11/loss-and-damage-climate-change-harms-poorest-countries/)

<sup>7</sup> Article 9 of the Eu Taxonomy Regulation defines six environmental objectives: (1) Climate Change Mitigation; (2) Climate Change Adaptation; (3) Sustainable Use and Protection of Water and Marine Resources; (4) Transition to a Circular Economy; (5) Pollution Prevention and Control; and, (6) Protection and Restoration of Biodiversity and Ecosystems.v

<sup>8</sup> The concept of double materiality takes the notion of financial materiality (material information are any information that can affect the judgment of an informed investor) one step further: information should be considered as material not only if they cover climate-related impacts on the company, but also if they cover impacts of a company on the climate.

long-term goals of the Paris Agreement, the development of reference frameworks for climate and biodiversity finance strategy, and the development of methodologies to identify and assess climate and nature opportunities and risks. Box 2 below summarises the key drivers for DFIs to engage their clients in climate and ecological sustainability.

*Box 2 - Summary of the key drivers for DFIs*

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**Key drivers for DFIs to support clients on climate and ecological sustainability**

- Acting to fight climate change and nature loss is one of the main global priorities of our time to protect well-being and economic prosperity in all regions and sectors
  - Climate and nature are inter-related with other social and economic challenges, requiring a holistic approach to achieve better overall outcomes
  - Developing countries are particularly vulnerable to climate change and nature loss, but they are also in a very good position to benefit from opportunities linked to climate and nature action
  - DFIs have the ability and responsibility to support the development of new business models that reconcile socio-economic development with the planetary boundaries
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## **Purpose and approach of BIO's strategy**

Supporting climate and ecological sustainability of private entrepreneurship is part of BIO's overall mission aligned with the Sustainable Development Goals, in particular SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action) and SDG 15 (Life on Land). BIO's mission can be achieved both through dedicated investments and as a transversal objective across investments, action plans and technical assistance programs. So far, BIO focussed on the climate mitigation priority by investing in renewable energy and energy efficiency projects that also help to increase energy access in its target countries. BIO has also supported projects with a climate adaptation dimension, however without systematic tracking. As part of EDFI (the Association of Bilateral European Development Finance Institutions), BIO is committed to the EDFI Climate and Energy Statement.

#### **EDFI Climate and Energy Statement**

1. European DFIs will align all new financing with the objectives of the Paris Agreement by 2022 and will transition their investment portfolios to net-zero GHG emissions by 2050 at the latest.
  2. European DFIs will exclude new coal and fuel oil financing, and will limit other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest.
  3. European DFIs will build on their track record in climate finance and the mobilisation of private sector finance by holding themselves to ambitious individual targets and by reporting publicly on their progress.
  4. European DFIs will invest strategically and provide assistance to their clients to support the development of Paris-aligned projects, and to promote green growth, climate adaptation and resilience, nature-based solutions, access to green energy, and a just transition to a low-carbon economy.
  5. European DFIs will make climate-related financial disclosures in line with high international standards, specifically adopting the recommendations of the Task Force on Climate-related Financial Disclosures.
  6. European DFIs will embed climate action and climate risk management at every level of the institution.
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This update of BIO's climate strategy reflects these commitments, aligns with best practices in the development finance community, and takes into account the ecological sustainability dimension. The strategy is also aligned with the impact targets defined in BIO's new management contract agreed between BIO and the Belgian State for the period 2024-2028<sup>9</sup> (see Box 4 below) and will serve as one of the bases to develop the new investment strategy. The possibilities to directly or indirectly (through EDFI) access concessional funding/guarantees from the European Commission and/or other international funders to support the climate and nature ambition will also be part of the new investment strategy.

While BIO is also taking action to reduce the climate impact of its corporate operations<sup>10</sup>, this document focuses on BIO's approach with regards to investment activities.

#### **Key climate commitments from the new Management Contract**

- BIO will align all new investments with the long-term goals of the Paris Agreement
  - BIO has defined specific impact targets (1) to include climate adaptation and biodiversity conservation / sustainable management of natural resources related actions in new commitments, and (2) to invest in projects qualifying as climate finance (mitigation and adaptation)
  - BIO will work towards long-term alignment of its portfolio of investments with the transition of the global economy to net-zero emissions by 2050
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<sup>9</sup> [www.bio-invest.be/files/BIO-invest/About-BIO/Governance/20231221-BeheersContract\\_ContratdeGestion.pdf](http://www.bio-invest.be/files/BIO-invest/About-BIO/Governance/20231221-BeheersContract_ContratdeGestion.pdf)

<sup>10</sup> [www.bio-invest.be/en/our-carbon-footprint](http://www.bio-invest.be/en/our-carbon-footprint)

BIO's approach builds on the framework set by TCFD recommendations<sup>11</sup> and on good practices and principles from other global initiatives such as GFANZ<sup>12</sup> and UNEP FI<sup>13</sup>. The approach includes four dimensions:

1. the strategy, covering BIO's ambition and three main priorities;
2. the operationalisation, covering how BIO will implement the priorities to maximise opportunities and reduce risks;
3. the commitment, covering how BIO will develop required internal capabilities and work with clients and other stakeholders;
4. the reporting, covering BIO's impact metrics and references for disclosure.

The approach will be complemented by supporting policy documents, including sectoral guidelines for risks and opportunities assessment, strategic impact targets tracking approach or the carbon accounting methodology.

## BIO's approach towards climate and ecological sustainability

### Strategy - BIO's ambition, objectives and priorities

In line with BIO's sustainable development mandate and overall strategic priorities, BIO's ambition is to engage with and support its clients to steer capital towards projects in line with the low-carbon, resilient and ecological transition as defined in the Paris and Kunming-Montreal Agreements on climate and biodiversity, also considering important related social issues of gender inequalities and just transition. BIO's climate strategy builds on the objectives and strategic impact targets set in the new management contract and reflects the ambition set by the government for the Belgian Cooperation. The strategy also aligns with and builds on existing relevant strategies and policies, including the Harmonised EDFI Fossil Fuel Exclusion List<sup>14</sup>, the EDFI Statement on Climate and Energy Finance<sup>15</sup> and the BIO climate commitments (not publicly available).

BIO's ambition will be developed, implemented and tracked based on **three overarching climate and ecological sustainability priorities**:

- **Priority 1: Do no significant harm to long-term climate & ecological sustainability**  
BIO will ensure all its investments align with long-term climate and ecological sustainability objectives, seeking to balance risks and opportunities of BIO's clients. This priority is aligned with the objective set in the new management contract to align all BIO's investments with the long-term goals of the Paris Agreement.
- **Priority 2: Mainstream climate and ecological sustainability in BIO's investments**  
BIO will focus on strengthening the climate and ecological sustainability of its clients that are willing to commit to low-carbon, resilient and nature-positive operations. Climate actions will also support the goal to align BIO's portfolio with the transition of the global economy to net-zero emissions by 2050, in line with the Paris Agreement. This priority is aligned with the impact targets set in the new management contract (targets 8 and 9) to include climate adaptation related actions in at least 20% of new commitments, and biodiversity conservation and sustainable management of natural resources related actions in at least 10% of new commitments over the 2024-2028 period.

<sup>11</sup> [www.fsb-tcfd.org/recommendations/](http://www.fsb-tcfd.org/recommendations/)

<sup>12</sup> [assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf](https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf)

<sup>13</sup> [www.unepfi.org/banking/bankingprinciples/](http://www.unepfi.org/banking/bankingprinciples/)

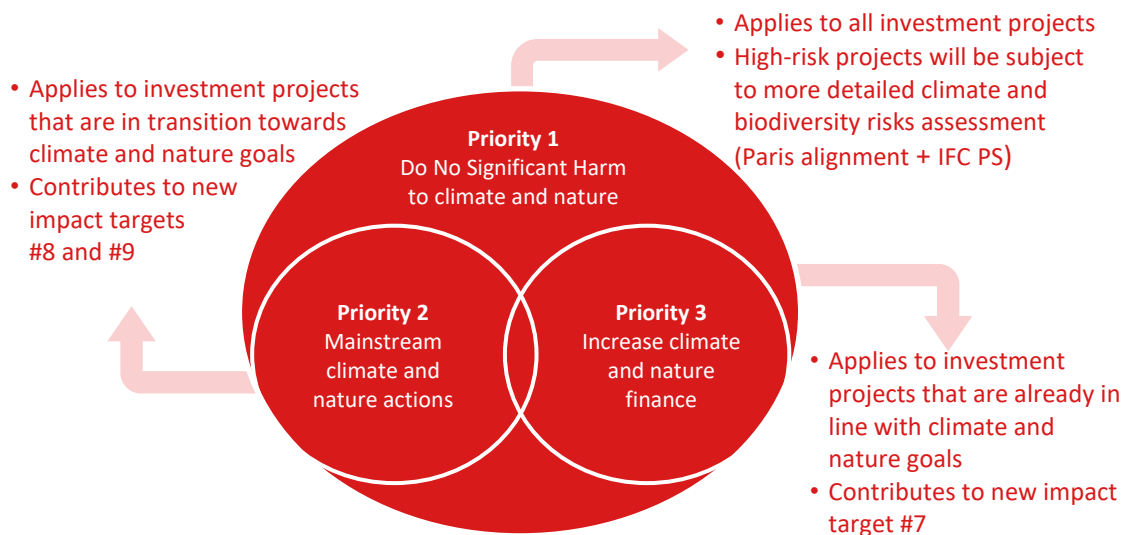
<sup>14</sup> [edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Fossil-Fuel-Exclusion-List-October-2020.pdf](https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Fossil-Fuel-Exclusion-List-October-2020.pdf)

<sup>15</sup> [edfi-website-v1.s3.fr-par.scw.cloud/uploads/2020/11/1.-EDFI-Statement-on-Climate-and-Energy-Finance-Final.pdf](https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2020/11/1.-EDFI-Statement-on-Climate-and-Energy-Finance-Final.pdf)

- Priority 3: Increase climate and nature-positive finance ambition**  
 BIO will increase its financing in projects that primarily target and already contribute substantially to mitigation, adaptation and biodiversity objectives. This priority is aligned with the impact target set in the new management contract (target 7) to invest at least 20% of new commitments over the 2024-2028 period and at least EUR 25 M per year in projects qualifying as climate finance (mitigation and adaptation).

As shown in Figure 1 below, the three priorities build on and complement each other. While priority 1 will apply to all investments, priority 2 and 3 will be more targeted to some specific BIO investments (see details in next section). Such an approach reflects BIO’s willingness to apply high standards to all its investments while recognising that climate change and ecological sustainability are only one of several targeted impact dimensions, next to others such as gender equality and decent work. The updated strategy will be reflected in the new investment strategy 2024-2028 for each investment sector, so that all BIO’s investment activities are aligned with the ambition of this strategy.

Figure 1 - Articulation of BIO’s overarching three climate and ecological sustainability priorities



## Operationalisation – Allocating resources to maximise opportunities and reduce risks

This section presents the action plan to implement each of BIO’s overarching climate and ecological sustainability priorities as described in the previous section, covering both transaction (project) and portfolio levels.

### Priority 1: Do no significant harm to long-term climate & ecological sustainability

*“BIO will aim to reconcile long-term climate and ecological sustainability objectives with a positive contribution to socio-economic development”*

#### What does BIO want to achieve?

- BIO will further develop its climate and broader environmental assessment to ensure financed projects align with the long-term goals of the climate and ecological transition<sup>16</sup>, and more importantly, will use it as a basis to identify the opportunities to further strengthen BIO’s clients towards low-carbon, resilient and nature-positive operations (see priority 2 below). BIO

<sup>16</sup> Long-term climate and ecological objectives include achieving climate neutrality, strengthening resilience and reducing vulnerability to climate change, advancing towards a regenerative growth model and protecting, preserving and restoring biodiversity.



will only support projects that do no significant harm<sup>17</sup> to climate<sup>18</sup> and ecological sustainability<sup>19</sup>.

- BIO will follow this approach without losing sight of the socio-economic and development aspects, by supporting local entrepreneurship and projects that create jobs, add value, and generate local value chains and economic activity. BIO will therefore continue to assess relevant projects holistically, from a socio-economic perspective but all the while seeking opportunities for projects to strengthen climate resilience of local vulnerable communities or suppliers, or for creating new and decent jobs in green sectors, particularly for low-income workers, rural communities and women.

### *How will BIO get there?*

- BIO will strengthen its assessment if the project presents specific climate change and environmental risks and will identify how to mitigate them (when possible and/or required). Those risks will be assessed systemically, also considering potential interdependencies (e.g. between climate mitigation and biodiversity for forestry projects) and related socio-economic development issues (e.g. inequalities generated by climate change impacts).
- Such risk assessments will also support the identification of opportunities to strengthen projects' sustainability through innovation and better competitiveness (e.g. supporting agri projects to strengthen climate resiliency of rural communities in their supply chain or green infra projects to train women and youth in their workforce towards green quality jobs).
- Three key sustainability dimensions will be assessed:
  - **GHG emissions** – for energy and carbon intensive projects (taking into account scope 1, 2 and 3 GHG emissions), BIO will assess if the activity (1) takes into account expected low-carbon innovations and policy developments included in country or sector 1.5°C aligned pathways from recognised sources<sup>20</sup>, (2) considers decarbonisation and energy efficiency opportunities to protect itself against the risk of “carbon lock-in<sup>21</sup>” and, (3) has adequate engagement tools to identify decent job creation and training opportunities for more vulnerable workers and local communities related to the low-carbon transition.
  - **Climate hazards** – for projects in vulnerable locations or sectors, BIO will assess if the activity (1) has identified the potential present and future impacts of climate change on their operations and supply chain, (2) considers opportunities to increase its resilience to those impacts, (3) has adequate engagement tools to identify opportunities to strengthen the resilience of more vulnerable workers and local communities related to the impacts of climate change.
  - **Biodiversity** – for projects in sectors and locations with high environmental risks, BIO will assess if the activity (1) considers opportunities to manage natural resources in a sustainable way and comply with IFC Performance Standards<sup>22</sup> as set in BIO's

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<sup>17</sup> 'Do No Significant Harm' is a key principle embedded in several pieces of EU sustainable finance legislation. It was introduced to ensure that an economic activity does not qualify as environmentally sustainable if it causes more harm to the environment than the benefits it brings. It requires that a specific assessment is carried out at the level of the economic activity to ensure that the activity does not significantly harm other EU environmental objectives. As BIO is not operating in an EU context, we refer to other recognised international standards to specify what can be considered as potential 'significant' harm.

<sup>18</sup> Aligned with the mitigation and adaptation goals of the Paris Agreement.  
[https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf)

<sup>19</sup> Aligned with the IFC Performance Standard 3 on Resource Efficiency and Pollution Prevention and Control and IFC Performance Standard 6 on Biodiversity Protection and Conservation, and Sustainable Management of Living Natural Resources. <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

<sup>20</sup> Such as country NDCs, country Long-Term Low Emissions Development Strategy, IPCC scenarios, IEA sectoral roadmaps, scientific literature.

<sup>21</sup> “Carbon lock-in” occurs when fossil fuel-intensive systems perpetuate, delay or prevent the transition to low-carbon alternatives required to achieve the objectives of the Paris Agreement.

<sup>22</sup> [www.ifc.org/en/insights-reports/2012/ifc-performance-standards](https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards)

Environmental and Social Strategy and Policy<sup>23</sup>, and (2) has adequate engagement tools to identify opportunities to involve local communities to increase effectiveness of nature protection and conservation initiatives.

- BIO will engage with clients and use international standards, internal sectoral guidelines and dedicated tools to perform the assessment. In line with the willingness to strengthen its clients position, BIO will request, when relevant, an independent external assessment of key dimensions during due diligence (including, for example, the assessment of the carbon footprint, the vulnerability risk or the biodiversity impact of the project).

#### *How will priority 1 be tracked?*

- The main KPI for this priority will be a qualitative reporting integrated into the BIO Development and Sustainability Report to demonstrate that all projects are already aligned or working towards alignment with BIO's environmental and social minimum requirements, while maximising their sustainability impact, including on climate and biodiversity aspects. The reporting will include an update on how BIO continues to apply the EDFI fossil fuel exclusion list and does not invest in projects that are not in line with the 1.5°C objective of the Paris Agreement.

### **Priority 2: Mainstream climate and ecological sustainability in BIO's investments**

*"BIO will support clients that are willing to engage towards low-carbon, resilient and nature-positive operations"*

#### *What does BIO want to achieve?*

- BIO's objective is to support clients in reducing the negative and strengthening the positive impact on climate and nature (e.g. reduce GHG emissions or impact on soil, water, ecosystems) and increasing their resilience to adverse impacts of climate change and nature loss. In line with the EDFI Statement on Climate and Energy Finance, BIO will also work towards long-term alignment of its investment portfolio with the transition of the global economy to net-zero emissions by 2050, in accordance with the Paris Agreement.
- Building on the assessment of climate and ecological sustainability of projects developed in priority 1, BIO will seek to embed most relevant actions to support its clients, both directly within their operations and indirectly in their value chain.

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<sup>23</sup> [www.bio-invest.be/en/es-strategy-policy](http://www.bio-invest.be/en/es-strategy-policy)

*Box 5 - Example of actions that can bring positive impact from both environmental and economical sustainability*

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**Examples of measures relevant for all sectors**

- measure the carbon or environmental footprint (e.g. by using GHG Protocol)
- identify and manage climate or nature-positive opportunities and risks (e.g. by running a vulnerability and risk assessment or identifying resource efficiency opportunities)
- develop a climate action or resiliency plan or set a climate or biodiversity target (e.g. by using SBTi<sup>24</sup>)
- develop robust reporting of their actions (e.g. using TCFD framework)

**Examples of measures particularly relevant for direct investments**

- implement climate and ecological sustainability measures in products and production processes (e.g. energy and resource efficiency, pollution prevention, water management, circular economy)
- deliver training to increase climate resilience and ecological transition awareness in value chains

**Examples of measures particularly relevant for investments in financial institutions and funds**

- improve awareness and increase internal capabilities
  - develop climate and ecological sustainability strategies and action plans
  - develop climate and nature-positive products and services for clients (green loans, adaptation insurance products, etc.)
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***How will BIO get there?***

- BIO will start assessing all new projects to identify opportunities to limit their impact, or to increase their resilience, using a dedicated client questionnaire and internal sectoral guidelines with support of the Development and Sustainability team. When relevant, BIO will request an internal or external assessment of opportunities during due diligence. Actions will be discussed and agreed with the client and included in the ESAP (Environmental and Social Action Plan), along with other E&S actions, as described in BIO's E&S Policy. BIO will work with its clients to implement identified actions, leveraging its Business Development Support Fund to offer technical assistance support. BIO will not support projects with high climate and environmental risks if the client is not committed to reduce its impact(s) or increase its resilience.
- In parallel, BIO will assess main opportunities to reduce negative climate and environmental impacts and increase resilience of its existing investments, and will engage with clients with highest GHG emission intensity, with highest biodiversity and natural resource impact, or in the most vulnerable locations and/or sectors.
- BIO will also assess the GHG emissions associated with its portfolio (scope 1, 2, 3), and will report the results in 2025 in line with PCAF<sup>25</sup> GHG Accounting and Reporting Standard. This will serve as baseline to define the relevant pathway for the long-term alignment of BIO's portfolio with the transition of the global economy to net-zero emissions by 2050, in line with the Paris Agreement.

***How will priority 2 be tracked?***

- The main KPIs for this priority will be the annual share of new commitments and the cumulative share of all investments that include relevant actions contributing to climate change mitigation, climate change adaptation and/or biodiversity conservation and sustainable management of natural resources (following the definition of "significant objective" from the Rio Marker methodology). BIO will specifically target areas considered as

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<sup>24</sup> [sciencebasedtargets.org/about-us](https://sciencebasedtargets.org/about-us)

<sup>25</sup> [carbonaccountingfinancials.com/](https://carbonaccountingfinancials.com/)

more challenging: climate adaptation and biodiversity conservation and sustainable management of natural resources. The reporting will include BIO's progress towards the new management contract's impact targets to include (1) adaptation related actions in at least 20% of new commitments and (2) biodiversity conservation and sustainable management of natural resources related actions in at least 10% of new commitments over the 2024-2028 period.

### Priority 3: Increase climate and nature-positive finance ambition

*"BIO will increase origination of climate & nature-positive projects with highest impact"*

#### *What does BIO want to achieve?*

- One of BIO's objectives is to increase the share of funding for private entrepreneurs who contribute to fighting climate change, to building climate resilience or to protecting and restoring nature. Taking into account its size and capabilities, BIO will seek to have the highest impact possible by targeting projects that are economically sustainable in sectors with the highest needs and where BIO already has expertise.
- As a priority, BIO will build on its strong track record of investments in climate mitigation projects such as renewable energy and energy efficiency, but will also explore how it can increase its support in other sectors key for the climate and ecological transition (e.g. in overall green energy value chains, in regenerative agriculture, or in innovative low-carbon and circular industries and infrastructure). Over the next five years, BIO will dedicate specific attention to grow the pipeline of commercially viable projects qualifying as adaptation finance which are currently more challenging for the private sector because of the level of risk and the lack of clear revenue streams. Projects potentially qualifying for nature-positive finance are still lacking recognised international references and will therefore be explored in an opportunistic way in order to increase BIO's understanding of associated risks and impact measurement approaches. Nature-positive investments can include projects in companies developing regenerative agriculture that enhance ecosystems, circular-economy models that save resources, or pollution prevention processes that protect biodiversity.
- BIO will explore climate and nature-positive finance opportunities both with direct investments in this area and with financial institutions and private equity funds that invest in projects that aim to strengthen climate or biodiversity positive impact. BIO will seek to optimise the risk-return-impact of its investment strategy to originate projects that will deliver both meaningful impact and long-term economic value. Code 5 investments<sup>26</sup> will play an essential role to support earlier-stage and less mature projects with a high development potential.

#### *How will BIO get there?*

- BIO will aim to identify more investment opportunities that qualify both for BIO's investment criteria and for climate or biodiversity finance criteria. To support investment officers in their new origination efforts, specific sectoral guidance will be developed to identify investment opportunities fitting with the scope of the new investment strategy (to be developed in 2024), and with climate or biodiversity finance criteria. Those guidance documents will be complemented by internal awareness raising and origination support from the new climate officer (see section III on commitment for more details).

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<sup>26</sup> Code 5 refers to the Subsidies in Capital instrument that enables BIO to develop a portfolio of investments with high impact potential but with a higher risk or a lower return profile than the projects it currently would do. See details in BIO's investment strategy: [www.bio-invest.be/en/our-investment-strategy](http://www.bio-invest.be/en/our-investment-strategy)

- BIO will refer to the Rio marker approach to assess the qualification of projects for climate or biodiversity finance, and will also use reference frameworks from the development finance community. See Box 6 for the definition of the criteria to be used for projects to qualify.

***Box 6 - Definition of the criteria to be used for projects to qualify as climate or nature-positive finance***

**Criteria to qualify as climate mitigation finance:**

- (1) climate change mitigation shall be one of the principal reasons to undertake or finance the project (following the definition of “principal objective” from the Rio Marker methodology), and;
- (2) the project shall contribute substantially to reducing GHG emissions or enable a substantial reduction by others (following the definition from the MDB and IDFC Common Principles for climate mitigation finance tracking).

**Criteria to qualify as climate adaptation finance:**

- (1) climate change adaptation shall be one of the principal reasons to undertake or finance the project (following the definition of “principal objective” from the Rio Marker methodology), and;
- (2) the project shall directly reduce physical climate risk and build the adaptive capacity of the system within which the activity takes place, or contribute to reducing the underlying causes of vulnerability to removing barriers to adaptation to climate change (following the definition from the MDB Joint methodology for tracking climate change adaptation).

**Criteria to qualify as nature-positive finance:**

- (1) nature conservation or enhancement shall be one of the principal reasons to undertake or finance the project (following the definition of “principal objective” from the Rio Marker methodology), and;
- (2) the project shall make a considerable contribution to nature or enable a substantial contribution by others (following the definition from the MDB Common Principles for tracking nature-positive finance).

- Direct investments will be assessed internally against those criteria and in most cases all the funding will then be qualified as climate or nature-positive finance. In case of a dedicated funding agreement or when reasonably possible, BIO will disaggregate qualifying activities from non-qualifying activities. Indirect investments through private equity funds will qualify based on the commitment from the fund manager to invest in companies that meet the climate or nature-positive finance criteria (for the entire fund or for a specified portion of it only). For investments in financial institutions, only dedicated lending that meet the climate or biodiversity finance criteria will qualify.

***How will priority 3 be tracked?***

- The main KPI for this priority will be the share of new commitments qualifying for climate mitigation, climate adaptation and nature-positive finance. The reporting will include BIO’s progress towards the new management contract’s impact targets to invest at least 20% of new commitments over the 2024-2028 period and at least EUR 25 M per year in projects qualifying as climate finance (mitigation and adaptation). On a best effort basis, BIO will aim to increase the percentage of investments in adaptation and resilience over the term of the 2024-2028 management contract.

**Engagement – Building capacities and fostering collaboration**

BIO will develop an internal capacity building plan in 2024. The objective is to develop the technical skills required for project assessment in terms of climate and ecological impact, and to ensure effective sharing of climate related information. It covers (1) trainings of colleagues at all levels, on

key topics such as carbon footprint, Paris-Alignment, climate and biodiversity risks assessment, climate and biodiversity finance tracking, etc., (2) knowledge sharing, e.g. through the development of dedicated tools and databases, regular info sessions and climate news, and (3) information management, general and project related.

BIO will build on its current engagement approach to support its clients to adopt climate and nature-positive best practices and to develop new initiatives towards decarbonisation and resilience. The Business Development Support Fund will play a key role in such engagement to support BIO's clients in their climate and ecological transition through technical assistance. As described in priority 2 in the previous section, BIO will systematically assess and promote opportunities for climate and biodiversity actions for new clients, and will adopt a pragmatic approach to focus on committed clients for whom positive climate or nature impact is seen as a real opportunity. BIO will also regularly engage with existing clients along the overall investment cycle to reduce the negative impact and increase the resilience of its overall portfolio.

BIO's climate officer will play an important role to ramp up the origination efforts for projects qualifying as climate and nature action or as climate and nature finance. As described in the previous section, specific guidance will be developed to identify risks and opportunities for the key sectors fitting in with the scope of the new investment strategy (to be developed in 2024). The sectoral guidance will also include a list of the most relevant actions that BIO could fund through the Business Development Support Fund.

Finally, BIO actively and regularly engages and cooperates on climate change and related topics including biodiversity, just transition and gender equality with its other key stakeholders, including the EDFI members, Enabel, DGD-subsidised programmes and networks, and Belgian civil society and NGOs. BIO will also participate in relevant climate initiatives organised by the impact investment community in Belgium or the EU.

## Reporting – impact metrics and approach for improved disclosure

BIO has reviewed its development impact framework to reflect the new climate ambition and targets defined in the 2024-2028 management contract. BIO will track and monitor indicators covering both new commitments and the overall portfolio, as set out in the Management Contract.

### KPIs for new commitments:

- Direct and relevant indirect GHG emissions (scope 1, 2 and 3) from direct projects
- Investment volume (% and absolute) in projects qualifying as climate finance, mitigation and/or adaptation (Rio Marker level 2)
- Investment volume (% and absolute) in projects including climate adaptation actions (Rio Marker level 1)
- Investment volume (% and absolute) in projects including biodiversity actions (Rio Marker level 1)
- Avoided emissions from new commitments in renewable energy projects
- Sequestered emissions from new commitments in forestry and agricultural projects

### KPIs for portfolio monitoring:

- Portfolio GHG emissions (scope 1, 2 and 3) in line with PCAF standard (total and by sector)
- Avoided emissions from new commitments in renewable energy projects

From 2024 onwards, BIO will also track the below dimensions

- Percentage of projects qualifying as climate finance, mitigation and/or adaptation (Rio Marker level 2) + total commitment since 2024

- Percentage of projects that implemented identified climate adaptation and/or biodiversity actions (Rio Marker level 1)

BIO also intends to report on how its strategy will contribute to the transition of the global economy towards climate neutrality, climate resilience and nature-positivity, in line with the Paris and Kunming-Montreal Agreements. BIO will therefore develop its approach for climate reporting with the aim to disclose its overall performance in 2025, in line with TCFD recommendations and with the relevant EU reporting requirements.

## Key milestones for the strategy implementation

BIO's climate strategy is effective as from the publication date of this document. The strategy includes elements that are already applicable and elements still to be developed and implemented. The key milestones of the strategy implementation, in line with the elements of the four strategic pillars defined above, are as follows:

- **BIO will continue to develop tools and guidance to deliver on the 3 priorities**
  - Formalise the approach to identify risks and opportunities that align with long-term climate and ecological transition goals (priority 1)
  - Develop sectoral guidance to identify relevant climate and biodiversity actions in projects (priority 2)
  - Define criteria for projects to qualify as climate and biodiversity finance (priority 3)
- **By the end of 2024, BIO will**
  - Develop the internal capacity and training plan on climate and ecological sustainability
  - Estimate portfolio GHG emissions (scope 1, 2 and 3)
  - Define the relevant pathway(s) for the long-term alignment of the portfolio in line with the 1.5°C objective
- **In the course of 2025, BIO will**
  - Disclose its portfolio GHG emissions (scope 1, 2 and 3)
  - Disclose climate and ecological sustainability management approach in line with TCFD and TNFD recommendations

BIO will aim to assess and potentially revise the climate strategy in 2026.