BIO aims to support private sector growth in developing and emerging countries, enabling them to gain access to growth and sustainable development.

BIO supports financial institutions, investment funds, companies and private infrastructure projects. Endowed with EUR 581.5 million of capital, BIO provides tailored long-term financial products (equity, quasi-equity, loans and loan guarantees) either directly or through intermediaries. BIO is also able to fund technical assistance programmes for client companies as well as feasibility studies. BIO requires its business partners to implement and comply with environmental, social and governance standards.

BIO operates as a financing partner complementing traditional financial institutions, looking for projects with a balance between return on investment and development impact.

BIO is a member of EDFI (European Development Finance Institutions).
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
</tr>
<tr>
<td>Foreword from the Chairman</td>
<td>p2</td>
</tr>
<tr>
<td>Highlights 2011</td>
<td>p5</td>
</tr>
<tr>
<td>Why we support the private sector in developing countries?</td>
<td>p6</td>
</tr>
<tr>
<td>Retrospective</td>
<td></td>
</tr>
<tr>
<td>Review of 10 successful years</td>
<td></td>
</tr>
<tr>
<td>2001: Establishment of BIO</td>
<td>p12</td>
</tr>
<tr>
<td>2002 - 2004: working with Intermediaries</td>
<td>p16</td>
</tr>
<tr>
<td>2005-2009: branching out into direct investments, technical assistance</td>
<td>p17</td>
</tr>
<tr>
<td>and feasibility studies</td>
<td></td>
</tr>
<tr>
<td>Since 2010: moving into corporate and infrastructure projects</td>
<td>p24</td>
</tr>
<tr>
<td>Operational review</td>
<td></td>
</tr>
<tr>
<td>2011 Operations</td>
<td>p36</td>
</tr>
<tr>
<td>Global portfolio</td>
<td>p38</td>
</tr>
<tr>
<td>Financial Sector portfolio</td>
<td>p40</td>
</tr>
<tr>
<td>Enterprises portfolio</td>
<td>p45</td>
</tr>
<tr>
<td>Infrastructure portfolio</td>
<td>p48</td>
</tr>
<tr>
<td>Financial report</td>
<td></td>
</tr>
<tr>
<td>Balance sheet</td>
<td>p54</td>
</tr>
<tr>
<td>Income statement</td>
<td>p60</td>
</tr>
<tr>
<td>Cash flow</td>
<td>p62</td>
</tr>
<tr>
<td>Report of the Court of Audit</td>
<td>p63</td>
</tr>
<tr>
<td>Statutory auditor’s report</td>
<td>p64</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>p66</td>
</tr>
<tr>
<td>Glossary</td>
<td>p67</td>
</tr>
</tbody>
</table>
Introduction

Foreword from the Chairman of the BIO Board of Directors

At the last Stakeholders Meeting of the Belgian Development Cooperation in May 2011, the evolutions and challenges development cooperation is facing today were extensively debated.
The new development aid paradigm involves integrating emerging economies with different development models. Moving away from compassionate assistance, the focus is now on building development alliances with new stakeholders such as the private sector and civil society.

In the majority of countries, development cooperation has evolved to become one lever of a whole range of change and development initiatives. Though only part of the overall solution, development cooperation can play a catalyst role in fighting poverty and promoting social protection, economic growth and sustainable development.

This evolution was confirmed at the 4th High Level Forum on Aid Effectiveness held in Busan (South Korea) at the end of November 2011. The final document approved there sealed this policy reorientation from aid to development¹. Its starting point is the observation that the world has changed considerably since the first cooperation projects sixty years ago. Numerous countries have been successful in leaving poverty behind them, with some even becoming aid donors. It advocates a new global partnership for effective development cooperation where civil society organisations and the private sector have a place in the cooperation agenda.

Support for the private sector plays an essential role

Support for the private sector in developing countries is a relatively recent priority in

¹ "Busan partnership for effective Development Cooperation"
Introduction

both international and Belgian development cooperation policy. The establishment of BIO in 2001 gave Belgian development cooperation a support instrument dedicated to the private sector, following the example of other major European countries where this type of institution has existed for several decades.

Though the private sector’s potential as a motor of economic growth is already well-recognised, there is a severe lack of funding necessary for its long-term development. A recent report¹ published jointly by 31 multilateral and bilateral development finance institutions (DFIs) spotlights the essential role played by such DFIs as BIO in this respect. It highlights the main obstacles hindering the development of companies, especially small and medium enterprises (SMEs), i.e. infrastructure, investment climate, local expertise and access to finance. The financial crisis has had a very negative impact on funding availability and there is a risk of this situation further deteriorating in the light of increased needs in terms of investment in developing economies, to which the public sector is unable to respond.

However, as highlighted in the Report, the gap between investment needs and availability is not just attributable to a lack of funding but also to a lack of bankable projects due to an unfavourable investment climate and the absence of planning and institutional capacities on the part of the States in question and the private sector. These observations again confirm the necessity for consistent development policies involving all stakeholders, leveraging their respective assets and taking their respective objectives into account to promote long-term and effective development cooperation.

This Annual Report constitutes the ideal occasion for charting BIO’s development and achievements since its establishment ten years ago. BIO has now become an institution recognised by its peers and working together with national and international development community. Its Board of Directors would like to highlight the integrity and quality of the work carried out by BIO, using the occasion to thank all employees for their unfailing motivation in achieving its mission.

¹ “International Finance Institutions and development through the private sector”

Michel Van der Stichele
Chairman of the BIO Board of Directors
Highlights 2011

Development impact

• Total jobs maintained or created in 2011: 42,953 of which 25,785 direct jobs
• Net government revenues generated by projects in 2011: EUR 42.93 million
• 90% of projects contribute to MDG 1*: Eradicate poverty and hunger

Portfolio

• Number of disbursed projects: 96
• Outstanding investments: EUR 220.7 million
• Net commitments: EUR 397.7 million
• Number of financing applications: 287

Organisation

• Staff: 38
• 13 Investment Officers

Results

• Revenues: EUR 13.7 million
• Net profit: EUR 4.5 million

* Millennium Development Goal 1
Introduction

Why support the private sector in developing countries?

BIO’s mission

BIO has the mission of granting financing to the private sector in the least developed countries, countries ranked as low or lower-middle income by the OECD. BIO investments are untied to the interests of the national private sector, with BIO putting its specific focus on supporting micro, small and medium-sized enterprises (MSMEs) in the private sector. BIO provides financing for SMEs either directly or indirectly via intermediaries (financial institutions, investment funds, etc.).

The aim of such BIO support is not speculative, as witnessed by the fact that loans are granted on a medium and long-term basis (generally maturing in 5-10, or in some cases even 12 years).

Projects selected by BIO must have a long-term impact on the development of the concerned country, whether in terms of employment creation, the environment or economic and social growth. BIO seeks to bring an added value to each of its projects, in particular by supporting good governance and pioneering concepts and / or new initiatives, or by attracting further investors. BIO intervenes in «no-go» situations where private investors and the local financial sector consider the risk too high.

The importance of supporting the local private sector in development aid

It is generally accepted that a dynamic private sector is a driver for growth. Indeed, investment in the private sector in developing countries helps support local economic growth, with a focus on creating jobs and tax revenue for local governments. One of the best ways for anyone to move out of poverty is to find a job.

A recent report published by the IFC and McKinsey highlights the fact that MSMEs provide 45% of jobs and 33% of GNP in developing countries1. It is also the sector of any economy with the highest growth potential.

The problem for private companies in developing countries, and especially for SMEs, is access to financing. Unmet demand for credit in the

1 Two Trillion and Counting, IFC&McKinsey, October 2010
area of MSMEs in emerging and developing countries is estimated to be between USD 2.1 and USD 2.5 trillion, with a total of 365-465 million MSMEs affected. Estimates put the percentage of MSMEs not able to obtain financing from financial institutions at 70%, with a further 15% being under-funded.

BIO’s mission, and more specifically its focus on MSMEs as a target group, is to play an active role in improving local companies’ access to funding.

The three pillars of development aid are financial support to governments or civil society (the traditional field of NGOs), the development banks with their focus on the public sector (multilateral institutions) and investments in the local private sector.

As an instrument of Belgium’s development cooperation policy, BIO belongs to the third pillar, with its mission complementing that of development NGOs in general. BIO supports projects which have already attained a certain degree of maturity by financing their further growth, while the NGOs support projects in a more premature phase in areas not covered by BIO (education, primary healthcare, etc.). The advantage of BIO’s way of support is that it enables BIO to reinvest the return from profitable projects in new projects with a sustainable impact on development. Moreover, thanks to BIO support, supplementary private funds can also be mobilised for certain projects, thereby multiplying the impact of public investment (catalytic effect).

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<td><strong>Portfolio (in k€)</strong></td>
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<td>Nets commitments* (cumulative)</td>
<td>22,470</td>
<td>41,715</td>
<td>59,948</td>
<td>93,381</td>
<td>104,328</td>
<td>125,513</td>
<td>179,936</td>
<td>261,448</td>
<td>325,110</td>
<td>397,684</td>
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<tr>
<td>Outstanding (cumulative)</td>
<td>9,354</td>
<td>17,195</td>
<td>30,961</td>
<td>56,514</td>
<td>58,885</td>
<td>87,182</td>
<td>111,836</td>
<td>138,262</td>
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<td>Projects</td>
<td>5</td>
<td>10</td>
<td>18</td>
<td>24</td>
<td>36</td>
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<td>64</td>
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<td><strong>Staff</strong></td>
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<td>36</td>
<td>38</td>
</tr>
</tbody>
</table>

*Net commitments = Signed and BoD approved projects - reimbursements
Retrospective

Review of 10 successful years p12
2001: Establishment of BIO p16
2002 - 2004: working with intermediaries p17
2005-2009: branching out into direct investments, technical assistance and feasibility studies p24
Since 2010: moving into corporate and infrastructure projects p28
BIO looks back on 10 years of successful achievements
Review of 10 successful years

In the ten years it has been operating, BIO has followed its mission of supporting the local private sector through investments in near to 100 projects in more than 60 developing countries. With its target scope having grown over the years, BIO is now recognised by its peers as a reliable and effective development finance player, in particular vis-à-vis SMEs. Here is an overview of the milestones marking its first ten years.

- First investment in the Mekong Enterprise Fund
- Investment in ProCredit

Establishment of BIO (Law of 3 November 2001)

BIO becomes a member of EDFI

BIO becomes a member of EDFI:
start of European co-operation
**2002 - 2004**

**working with Intermediaries**

BIO began by providing funding to regional or local intermediaries (banks, investment funds, etc.) devoted to supporting SMEs and microfinance providers. These indirect investments enabled BIO to limit its risks, while at the same time benefiting from the experience of longer-established organisations.

BIO progressively built up its own expertise, positioning itself as a reliable though modest partner – against the background of its more limited financial resources – of its European peers, such as Proparco (F), DEG (D) or FMO (NL).

- Development of a scorecard for measuring development impact
- African portfolio reaches 30% (against 4% in 2002)
- Establishment of European Financing Partners (EFP)
- Doubling of investment volumes
- Establishment of the Technical Assistance Fund
- Establishment of the Portfolio Monitoring Department
**2005-2009**

branching out into direct investments, technical assistance and feasibility studies

In the exercise of its work, BIO observed that, in a lot of countries, SMEs were having no luck approaching these intermediaries and had no access to long-term financing. Local financial institutions tended to focus on only providing short-term financing, mainly in the form of commercial loans. These factors all forced local entrepreneurs to finance their investment projects via short-term loans, putting their whole financial structure on a precarious footing.

To deal with these specific problems, BIO’s mission was expanded, with the creation of the ‘SME Fund’ (2004) enabling it to directly support local SMEs and thereby compensating for commercial banks’ general reluctance to finance SME activities.

At the same time, BIO was given the opportunity of financing feasibility studies (in 2005) supporting local entrepreneurs in planning their expansion or branching out into new business areas. BIO also received financial resources for subsidising technical assistance programmes (in 2004) benefiting its client companies.

SME financing requires a particular approach, one where taking into account the personality of the promoter is crucial for project success. The risks attached to this type of investment are much greater than when supporting large companies or financial institutions. From a purely financial point of view, the profitability of BIO projects does not always meet the criteria of private companies. However this is offset by the major impact these projects have on local populations.
Since 2010
moving into corporate and infrastructure projects

To better respond to the needs of the private sector in developing countries and in the light of the financial and economic crisis, BIO wanted to diversify its range of services targeting larger companies and to start financing infrastructure projects serving local communities, including businesses.

Up to recently, the maximum amount foreseen for direct investments in projects was EUR 1 million for each investment dossier. This prevented BIO from getting involved in larger projects creating more jobs and having a significant impact on development.

The Agreements binding BIO to the Belgian State have therefore been modified to allow BIO to also support larger companies (Corporate) with a local presence, while excluding investments in very large companies and multinationals.

The financing of infrastructure projects has also been looked into, as needs are very high, especially in Africa. Such projects are also an important development instrument, meeting the Millennium Development Goals by enabling local populations to gain access to basic services and contributing to the development of local economies. BIO is mainly targeting projects in the field of renewable energy and investments related to climate change.

- Signing of the "Principles of Responsible Financing"
- Establishment of the Audit Committee
- Rome Consensus: classification of environmental and social risks
- Endorsement of the Private Equity Principles (ILPA)
- Endorsement of the Microfinance Client Protection Principles (SMART Campaign)

- Launch of "Infrastructure" operations
- Development of centres of expertise (microfinance, technical assistance, infrastructure, private equity) and recruitment of specialists
- Organisation of the EDFI General Meeting
- New website

- Development of the Management Information System
- Definition of new strategic fields: access to clean energy and water, MSME financing, agro-food, access to basic financial services, Central Africa
- Strategic focus on Client Protection
- Implementation of a KYC policy
Retrospective Key Milestones

2001

European Co-operation

Leveraging financing capacities and sharing best practices with European DFIs

In much of its work, BIO relies on partners, benefiting from their experience and presence on the ground as well as for running co-financing projects.

Its close links with large international donors allow it to also work as a catalyst by mobilising additional capital.

BIO has been a member of EDFI (European Development Finance Institutions) since 2001. EDFI is an association of 15 bilateral institutions operating in developing and reforming economies, mandated by their governments to:

- foster growth in sustainable businesses
- help reduce poverty and improve people’s lives
- contribute to achieving the Millennium Development Goals

by promoting environmentally and socially sustainable business development through financing and investing in profitable private sector enterprises.

EDFI strives to strengthen information flow and cooperation between its members and other bilateral, multilateral and regional development financial institutions, as well as the European Union, principally with the European Commission and the European Investment Bank (EIB). EDFI sets out to create synergies between the various institutions, develop joint procedures and pinpoint investment opportunities that can lead to co-financing.

In 2004, ten EDFI members concluded a framework agreement with the EIB to create the EFP (European Financing Partners), a European initiative based in Luxembourg. The funds given to the EFP are used to finance SME projects in the ACP countries. Via the EFP, BIO has strengthened its partnerships with other Development Finance Institutions, in particular the EIB, and expanded its presence in Africa.

An evaluation of the EFP1 undertaken by the EIB’s Operations Evaluation Department in 2008/2009 confirmed the relevance of the EFP initiative, highlighting that, while sharing its common objectives, EFP members participated with their own institutional agendas. While larger partners focus on financial leverage and risk sharing, smaller partners focus on exchanging experience and best practices. These diverse strategic objectives are not only consistent with EFP objectives, but also greatly contribute to their achievement.

In 2010, BIO also invested in the ICCF (INTERACT CLIMATE CHANGE FACILITY), a joint venture between the Agence française de Développement, EDFI and EIB. Based on the EFP model, this co-financing vehicle focuses on renewable energy and energy-efficiency projects in poor countries.

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1 “Evaluation of Activities under the European Financing Partners (EFP) Agreement”, EIB, 2009
Working with intermediaries

Reaching local SMEs effectively and sustainably

On establishing BIO, the Belgian legislator favoured BIO using indirect intervention to accomplish its mission. Thus, BIO’s Constitutive Agreement stipulated that 70% of its interventions are to be indirect. This guideline has since been included in the majority of Agreements signed with the State. This has led to BIO focusing its work on financial intermediaries: investment funds, banks focusing on SMEs, leasing companies and microfinance institutions.

Prompting this strategy is the requirement for BIO to deploy its resources effectively. Investment projects targeting micro-entrepreneurs and SMEs present heightened risks, being difficult to manage from a distance. Indirect investment allows BIO to leverage the expertise of institutions close to the target businesses (SMEs and micro-businesses), multiply the impact of its financing and also to spread its risks.

Why invest in funds?

Investment funds allow support from investors with different perspectives to be pooled around a common investment goal, and to select and finance a management team for implementing such a strategy. Funds constitute a valuable investment instrument for such development institutions as BIO: in 2010, 30% of the EUR 22 billion invested in developing countries

Why funds are based in Offshore Financial Centres

A number of investment funds supported by BIO are based in Offshore Financial Centres, jurisdictions providing a regulatory, professional and legal framework, political security and stability not otherwise offered by most of the countries in which BIO operates. In doing so, BIO operates in the same way as many other development players such as bilateral and multilateral institutions (the World Bank, the Asian Development Bank, the African Development Bank) and a number of NGOs.

When selecting fund jurisdictions, BIO subscribes to strengthening fiscal transparency and combating money laundering. Two international organisations, of which Belgium is a member1, have defined standards in this area and have the responsibility of monitoring their application by those jurisdictions. The choice of the jurisdictions in which BIO may invest is based on the evolution of the work carried out by these organisations. BIO is also a member of the EDFI (European Development Financial Institution) working group on OFCs, which aims to defining guidelines and best practices in this area.

There is no realistic alternative to OFCs in terms of the effectiveness they offer for the benefit of developing countries. At present the structures offered by OFCs only exist to a little extent or not at all in the countries in which BIO operates, countries in which it is rare to find well-developed regulatory and administrative structures. In addition, the majority of these countries do not offer the political stability and security needed to attract a pool of international investors. Last but not least, most of them do not meet the criteria regarding transparency and combating money laundering.

Finally, it is important to point out that BIO’s motivation for investing via OFCs has nothing to do with fiscal considerations. BIO invests through the funds for such reasons as proximity, safety, and risk reduction and pooling.

by European development financing institutions passed through investment funds.

For its part, BIO basically used the funds and intermediaries for missions which it was not able to carry out directly and where it needed to rely on local teams with the requisite expertise. The funds were therefore the spearhead of BIO’s riskier and more specialised investments. The main investment sectors that it would have been difficult to deal with directly with the same effectiveness are:

- **Investments in microfinance:**
  - Equity investments in Latin American, African and Asian microfinance institutions: Accion, AfriCap, ShoreCap, Rural Impulse Fund I and II (RIF I and II)
  - Investments in Tier 2 institutions: Locfund, Regmifa, RIF I and II

- **Equity investments in SMEs in North Africa (MPEF II, CNAV), in Asia (Aureos, Mekong I and II), in Sub-Saharan Africa (GroFin, AfricInvest I and II, Catalyst) and in Latin America ((TAF, LGF, CASEIF II)

- **Investments in the renewable energy sector:** CAREC in Central America, REAF for India, Mekong Brahmaputra for South-East Asia.

**Heightened effectiveness**

Funds have a multiplier effect on BIO’s projects, enabling substantial savings in human resources. With a team of just two people and a disbursed portfolio of EUR 56 million, BIO reached out to more than 300 companies through its funds as of 31/12/2011.

The funds enable BIO to target its strategic areas. In 2010, Africa represented 40% of the projects, followed by Asia and Latin America. Taking a sectoral perspective, the funds prioritised microfinance (32%), manufacturing and services (29%), the agro-food industry (14%) and ICT (10%). 2010 and 2011 approvals of funds dedicated to renewable energy should see the importance of this sector in the portfolio increasing.

Effectiveness can also be seen in terms of financial viability, as the close supervision of companies by the local teams also helps limit the portfolio at risk.

Funds enable BIO to spread the high risk taken by BIO regarding its available resources, with risk-spreading taking place at both country and project level, and in the management teams.

**A multiplier effect**

The development impact of investments in funds is diverse and difficult to achieve via direct financing:

- **Equity support:** More than a lever, SMEs are in need of equity, enabling them to share risk with local promoters and providing long-term funding independent of the ups and downs of business development. This is the type of funding contributed by BIO’s partner funds. It also benefits from close supervision (through the presence of local teams) and from strategic support, both of which help contain the risk of such investments.

- **Institutionalisation:** Once a financial investor becomes involved, companies – often family-run put their governance
on a formal footing through holding management board meetings, setting up procedures and complying with them, or introducing international accounting standards.

• Knowledge transfer: Fund managers are selected on the basis of their ability to provide technical expertise to the companies in their portfolios. Such assistance can be in different forms, including participation in the strategic development of business operations, putting companies in contact with international players, selecting consultants, or negotiating with customers, suppliers and debt providers. In case of setbacks, it is not unusual for the fund manager to take over management of the company and select a new management team.

• Creation of economic value: a major part of management teams’ remuneration is tied to the economic value created for shareholders. This economic value is related to the development of the income and profitability of the portfolio companies with all that this entails in terms of jobs, the development of products and services for the country, and tax revenues.

• Mobilisation of capital: the investment funds allow private investment to be mobilised, whether in the form of equity holdings or attracting new shareholders or lenders to their portfolio companies. The institutionalisation associated with a fund’s equity participation is of particular value when attracting new investors.
Retrospective Key Milestones

- **Environmental and social standards**: All the funds in which BIO invests undertake to comply with strict environmental and social standards. Apart from identifying negative environmental impacts, managers recommend corrective action plans and undertake to track compliance with these plans and all related negative events.

**Extensive monitoring procedures**

BIO closely monitors the quality of its partners and the appropriateness of activities financed, taking every precaution to ensure that its funds are used effectively and legitimately.

- BIO conducts on-site audits as a way of ensuring the quality of the management teams with which it collaborates. It also checks that management teams have a good reputation and that they are willing to and apply strict standards of governance and fiscal transparency.
- BIO knows all fund shareholders and requires fund managers to look into the background of each shareholder.
- Fund interventions are strictly regulated, especially with regard to company and investment size, intervention sectors, managing possible conflicts of interest, and the quality of the entrepreneurs involved.
- All disbursements are conditional on BIO receiving a detailed description of the anticipated use of the funding, which must meet up with contractual commitments.
- BIO requires a detailed report (quarterly and annual) on the use of its funding and on the health of the companies invested in. This reporting also tracks company performance with regard to development impact (job creation, environmental and social impact, etc.).
- BIO generally participates in the governance bodies of the funds, enabling it to monitor their functioning and the development of their investment strategies.
- Fund managers enter into a contractual commitment to comply with international standards against money laundering and terrorist financing¹ in line with international standards and best practices (the FATF recommendations and the Wolfsberg standards) and to apply these standards to all their investments. They are also subject to local regulations to this effect.
- BIO conducts KYC checks before committing new funds. In turn the funds themselves perform KYC checks on all investors.
- Fund accounts and investee companies are audited by internationally recognised auditors. Moreover, the fund managers generally participate in the governance bodies of these companies with a view to improving governance and helping them develop their business strategies.

Finally, an internal monitoring report is compiled, generally 3 times during the average life of a 10-year fund: the interim financial performance and development impact is then analysed in greater depth.

Technical assistance

Building capacities to boost development and sustainability

The private sector is acknowledged as a crucial link in development processes. Small and medium-sized enterprises (SMEs) create jobs, wealth and pay taxes, making them key growth vectors. BIO acts as a catalyst, with its impact investments\(^1\) leading to sound and sustainable business practices particularly in regions with a higher risk profile.

With the creation of its Capacity Building Fund\(^2\) in 2008, BIO moved towards linking funding with technical assistance. Facilitating the provision of advice to the private-sector in developing and emerging countries has long been a natural part of BIO’s work, but beyond this role, BIO devotes resources to ensuring that businesses are managed sustainably and generate a positive impact on local communities.

The Development Assistance Committee (OECD) defines “business capacity-building” as the process whereby people, organizations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time\(^3\). For BIO, this involves providing its clientele with training, advice and coaching opportunities, as well as access to know-how and innovation.

BIO’s legitimacy is the result of its close work with, and knowledge of, companies that in some cases it has been supporting for almost 10 years.

\(^1\) An Impact Investor proactively seeks to place capital in businesses that can generate financial returns as well as an intentional social and/or environmental goal. This concept of combined financial and other benefits is known as Triple bottom line.

\(^2\) The Capacity Building Fund was created in 2008 following the merger of the TA Fund and the Study Fund.

\(^3\) OECD, 2006
To be effective and efficient, capacity building initiatives are demand-driven, de facto responding to business demand for a shared strategic vision and commitment to change. Identifying shortcomings in capacity requires, in most cases, supporting entrepreneurs in their thinking. Entrepreneurs are consequently asked to contribute between 25% and 50% of the cost of the project, depending on the level of risk and the balance that has been struck between innovation and commitment.

BIO must therefore demonstrate sound skills and knowledge of the issues faced by the relevant sector as well as its ability to formalize structural issues underpinning the decision-making process.

LocFund L.P.

- **Region:** Latin America and the Caribbean
- **Grant amount:** USD 100,000
- **Expected results:** 30 MFIs embed tailor-made financial management systems and good social performance practices into their daily operations.

LocFund provides local currency financing to microfinance institutions in Latin America and the Caribbean. Widely focused on institutions with limited access to funding and less opportunities to reducing foreign currency risk of MFIs, hence improving the access to adapted local currency financing to final clients.

LocFund also devotes resources to supporting microfinance institutions' growth by setting standards and good practices through its Technical Support Facility, a grant-funding window currently financed by Norfund and BIO.

The Technical Support Facility devotes resources to upgrade microfinance institutions’ asset and liability management and risk control standards. A key priority is on reducing over-indebtedness and credit risks. LocFund attaches great importance to avoiding over-indebtedness risks and promoting further responsible underwriting practices within its investee network. It is of fundamental importance to ensure that microfinance institutions have adequate knowledge of their clients’ repayment capacities, and not merely ensuring that clients truly understand the particular features of the products they adopt.

At least thirty microfinance institutions will benefit from the Technical Support Facility over the period 2011-2012. They will see benefits in their credit risk performance, improving their operational activities. They will also create better loan portfolio practices and consolidate the industry in their operating countries.

Sound managerial and social performance practices in microfinance pave the way to sustainable growth.
Combining investment with capacity-building within private sector enterprises is a relative new approach to meeting development challenges. Supporting business activity via funding, putting enterprises on a long-term footing via better organization and governance, and developing new made-to-measure goods and services help BIO to strengthen its development leverage and increase the chances of the Millennium Development Goals being met. By developing their own social and environmental responsibility, enterprises can enhance their role as motors for improved living conditions in their local communities.

**CEB La Meublerie**

- **Country**: Cameroon
- **Grant amount**: EUR 45,300
- **Expected results**: A wood-traceability management system sets the base for a potential FSC® certification; European exports increase by around 25% due to ethical commercial efforts.

CEB La Meublerie, a woodworking company operating in Cameroon since 1978, has set up a 12,000 sqm production unit in Douala for industrially manufacturing such wood products as flooring, doors, windows, stairs or kitchens. It sells directly to the African and European markets. Based on an updated strategic vision, CEB requested BIO to provide assistance in setting up a wood traceability management system for the purpose of monitoring all stages of its production starting with the sourcing of raw materials. Complementing CEB’s current environmental and social commitments, the system also aims at anticipating European regulations on the legal origin of the wood used in all wood products sold in Europe.

In mid-2011, an international expert helped CEB to design its management system based on the Forest Stewardship Council® standards (FSC®). Key employees were trained and wood supply is now fully monitored thanks to a pilot partnership with FSC-certified forests in Cameroon. This process will very probably lead CEB La Meublerie to envisage future Forest Stewardship Council® certification.

This new strategy, combined with increased sales efforts on the European market, has led to CEB gaining new market shares and increasing exports.
In 2004, the Controlling Department was established at the request of the Board. Its task is to ensure the monitoring of investments, control customers’ compliance with their contractual obligations, and to inform the Board on a regular and timely basis on how dossiers are progressing. Since being set up, its powers have evolved significantly and it has now become the Portfolio Management Department, encompassing control functions, providing information to the Board, conducting risk analyses (financial but also social and environmental), monitoring loan files and companies in difficulty, and analysing the effect on development and the impact of technical assistance.

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2005

SME-Fund: start of operations

Direct financing and assistance to local SMEs

To overcome the lack of direct financing available to small businesses, BIO’s mission was expanded to include direct investment in local SMEs. This led to the creation of the SME Fund (now the Enterprises Department) in 2004. BIO grants SMEs long-term loans and capital to finance their growth. BIO is now acknowledged by its peers as a player targeting SMEs. As this work entails a high risk profile and requires a hands-on approach, BIO has over the years tried to involve more and more local partners to perform project follow-up.

One of the main problems for private companies in developing countries, and especially in the MSME (micro, small and medium-sized enterprises) sector is access to financing, even though this is the segment of the economy with the greatest growth potential.

Today, BIO is the only DFI in Europe providing direct financing to smaller SMEs, as this business is considered too risky by many other DFIs. BIO plays an additional role here, providing access to finance for local entrepreneurs in cases where it is unavailable or inaccessible.

At the end of 2011, BIO was supporting 29 direct investment projects with a total volume of EUR 23.6 million. SME support will continue to remain a core BIO competence, representing one of its unique features in the world of development finance institutions.
GPR: Measuring impact
Generating an impact on local development by helping to put companies on a long-term footing

BIO, in line with all other Belgian international development institutions, is working to reduce poverty in developing countries and improve the living standards of local populations. The specific mission conferred on it by the Belgian government is to support the development of a strong private sector on a long-term footing. Against this background, BIO is working to remedy the deficits faced by the private sector in terms of funding, knowledge, good practices and governance, and striving to create and / or support sustainable projects and maximize the impact of its investments on development.

BIO’s projects have a significant impact on the development of local economies, in particular through creating jobs and government revenues, boosting energy supplies, reducing the isolation of local populations, assisting SMEs and farmers, and developing the financial sector.

The issue of measuring the development impact of such work remains complex and a subject of great debate. A large number of tools have been developed, each with their own strengths and weaknesses. Though all offer the opportunity to assess projects in an identical manner, and provide complete transparency in this respect, BIO, in line with several other European development financing institutions, opted for a measurement tool called GPR© (developed by the German development agency DEG) in 2006.

GPR© enables a certain number of parameters favouring development to be evaluated: job creation, income generation, access to training, enlargement of supply and the market, environmental protection, etc.

Every year, BIO publishes a report on the development impact of its investment projects. Since 2010, the development impact criteria used by GPR have been broken down in accordance with the basic principles of development relevance defined in the law on Belgian International Cooperation. Assessments are based on “ex ante” data. Results based on “ex post” data will also soon be included in the reports on development impact.
Non-financial constraints also impacting growth. One of the main obstacles is the lack of an efficient infrastructure (e.g., a reliable electricity supply). A high-quality infrastructure is a prerequisite for the development of a country or region; however, the majority of the population in low-income and least developed countries (LIC and LDC) have no access to basic services due to a lack of suitable facilities.

To tackle these infrastructure needs, BIO’s mandate was enlarged in 2010 to include the financing of private infrastructure projects. As project finance requires strong technical skills in addition to financial competences, a new Infrastructure department was set up with 3 specialists in this field. To meet the instructions given by the Belgian Government to invest in larger infrastructure projects within very short terms, BIO signed a Risk Sharing Agreement with FMO in 2010 to cooperate and jointly finance infrastructure investments. FMO has extensive experience in this sector, amongst others via its Infrastructure Development Fund. BIO initially earmarked EUR 45 million for financing infrastructure projects in the context of this cooperation. At the end of 2011, the facility was renewed for another 3 years with a maximum amount of EUR 60 million. Through this cooperation agreement BIO can benefit from FMO’s sound experience and substantial pipeline in the field.

**Strategic directions**

**Energy**

Even though BIO will always give priority to renewable and clean energy projects, other sources of energy generation can be considered in particular cases, or where no alternative is available.

- **Renewable and sustainable energy sources**
  
  Hydro, geothermal, wind, and solar energy contribute to the reduction of greenhouse gas emissions.

- **Traditional energy sources (gas, coal, oil)**
  
  Financing such projects makes sense in countries where there is no or little renewable energy potential, or when the aim is to ensure a stable energy supply (renewable – conventional mix). The involvement of development institutions guarantees that projects meet the most stringent environmental standards and use the cleanest technologies.

- **Alternative energy sources (biomass, biofuel)**
  
  BIO will only consider projects involving biofuel when they can demonstrate beforehand that they do not have a negative impact on food security in the concerned country, that the environmental risks are kept to a strict minimum and that they will have a significant impact on the local economy.

These projects mainly have a strong impact in terms of job creation and increased electricity cogeneration in the country concerned.

Energy efficiency projects may also be eligible for funding as they can help reduce the need for infrastructure investment and cut down polluting emissions. Such projects involve the refurbishment of existing equipment with the aim of decreasing the use of primary energy for the same energy output, or maintaining the same primary energy input while increasing output.
In addition, BIO can also support projects involving electricity transmission between power stations and local grids.

**Access to water**

Development finance institutions can play an additional and catalytic role in the financing of water production and distribution, and wastewater treatment, by accelerating private funding. However, these projects, historically state-financed, remain challenging in terms of financial sustainability and output.

BIO also participates in irrigation projects indirectly supporting the agricultural sector.

**Other activities**

**Telecommunications**

BIO focuses on projects aimed at improving accessibility in rural areas at prices affordable for the local population.

**Transport**

Private railway or harbour projects can contribute to the expansion of regional trade and reduce the cost of freight transport in a country or region.

**2011**

**Strategic focus on Client Protection**

Supporting and encouraging transparent and sustainable practices within the microfinance sector

The global financial crisis, along with the recent crises in the
From its earliest roots as a social movement, the microfinance industry has evolved into a multi-faceted financial services industry for the millions in the world without access to financial services. Among the advancements of the industry, we are seeing lower interest rates and transaction costs, increased competition and efficiency, an emphasis on savings, and the rising use of technology to reach rural clients. However, many within the industry have seen an overemphasis on the supply side, which can have the effect of microfinance institutions not adequately knowing their clients’ repayment capacities and not ensuring that clients truly understand the particular features of the products they adopt.

The phenomenon of over-indebtedness has drastic negative consequences. First, over-indebted microcredit borrowers are subject to the material, psychological and social consequences of being unable to respond to repayment obligations. Second, over-indebtedness can hamper financial sector development by harming the trust relationship between (financially inexperienced) microcredit borrowers and MFIs. Third, over-indebtedness is a great risk to the quality of any MFI’s loan portfolio, and subsequently constitutes a risk for microfinance investors. Due to the detrimental impact over-indebtedness can have, all possible efforts should be undertaken to prevent markets from overheating, without holding back the desired market development in general. This is a key challenge to the entire industry.

With microfinance increasingly becoming part of the local and international financial system, it also faces problems of the
finance industry in general, and responsible investors will need to have an honest discussion on the challenges facing microfinance in order to contribute to the sustainable development of the industry. Consequently, as a Development Finance Institution, BIO attaches great importance to avoiding over-indebtedness risks and promoting further responsible underwriting practices within its investee network. This is a key milestone of BIO’s responsible finance agenda. BIO endorsed the Client Protection Principles together with other investors and donors in 2009 and has since become actively involved in the SMART Campaign\(^1\). The investors supporting this initiative undertake to work together to support providers adequately protecting their low-income clients, and to identify practical ways of incorporating the Client Protection Principles into investors’ due diligence, monitoring and governance roles.

The SMART Campaign was formed to bring people together across the microfinance industry to implement a common code of conduct governing how clients should be treated and helping to implement client protection safeguards within the industry’s operations. By incorporating client protection into all aspects of business operations, microfinance institutions can proactively and collectively strengthen microfinance and position the industry as a leader in responsible financial services. There is consensus within the microfinance industry that providers of financial services should adhere to these core principles:

1. **Appropriate product design and delivery**
2. **Prevention of over-indebtedness**
3. **Transparency**
4. **Responsible Pricing**
5. **Fair and Respectful Treatment of Clients**
6. **Privacy of Client Data**
7. **Mechanisms for Complaint Resolution**

In 2012, BIO intends to continue to support the implementation of the 7 client protection principles (CPPs) by:

1. Co-financing SMART assessments
2. Supporting specific MFIs for updating their procedures to integrate CPPs
3. Integrating a number of MFIs in the SMART Certification pilot programme

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\(^1\) The SMART Campaign is an initiative of CGAP (World Bank) and ACCION International’s Centre for Financial Inclusion: [www.smartcampaign.org](http://www.smartcampaign.org)
BIO’s activities and the potential negative impact on BIO’s reputation, adequate safeguards must be put in place that can help to ensure that BIO does not enter into any relationship with any parties involved in fraudulent or corrupt activities, money laundering and other illicit or illegal practices, and to prevent BIO’s funds being used to finance any such activities.

BIO has established and implemented a Know Your Customer (KYC) policy and procedure, in line with FATF’s 40 recommendations, the relevant KYC provisions of the Belgian anti-money laundering law of 11 January 1993 and procedures and policies adopted by other EDFI institutions.

Extensive reputation and background checks are carried out at the different stages in an investment project’s lifecycle:

- before it is declared admissible for further due diligence (preliminary clearance),
- during due diligence,
- prior to signing (final clearance),
- at the moment of disbursement and during the monitoring phase.

Risk-based checks are carried out based on the various sanctions lists (UN, EU, Belgian, etc) and comprehensive reputation checks are performed with the help of specific and generic web-based tools and local contacts (banks, suppliers, Embassy representatives, etc).

Potential risks are identified and assessed, based on established criteria. If a potential investee (and/or related parties) is not cleared in accordance with the procedure set out in BIO’s KYC manual, BIO is prohibited from entering into a relationship with such party.
Microfinance Strategy

Supporting microfinance as a way of boosting financial inclusion

Ever since BIO was established 10 years ago, microfinance has been and continues to be one of BIO’s priority business areas. At the beginning of 2011, BIO’s Board of Directors approved a strategy specifically targeting microfinance, thereby demonstrating BIO’s desire to boost its position in this sector.

This strategy defines four founding principles which will be guiding the development of BIO’s microfinance portfolio over the coming years. These principles are outlined in the opposite diagram.

- **Sustainability / financial return**: No profit maximization, but offering market conditions
- **Additionality**: Financial and know-how (Subsidiarity, mobilization of third party capital, participation in governance body...)
- **Standards of Doing Business**: Corporate governance, Client Protection and Social Performance
- **Financial Inclusion**: Increase outreach, importance of diversification of the MFI’s of the sectors financed

Regmifa

Regmifa is a microfinance debt fund that mainly targets Tier 2 & 3 microfinance institutions (MFIs) in sub-Saharan Africa. In its 18 months of activity, Regmifa has succeeded to build a portfolio of more than USD 43 million, granting loan facilities to 20 MFIs in 11 different countries and reaching out to more than 100,000 clients. These strong results are attributable to the dynamic and professional team of Symbiotics, the fund manager. On top of that, Regmifa’s investors – including BIO – have always paid particular attention to social performance and clients protection principles since the inception of the project.
**Financial return** is a primary principle, being crucial for putting BIO’s work on a long-term footing. This is in line with the operating rules set down by the Belgian State, requiring BIO to provide a reasonable return on investment to its shareholders. This is therefore a primary criterion in any investment decision. A second principle involves **additionality**, similarly part of BIO’s mandate and committing BIO to having its interventions provide a certain added value. The **standards of doing business** constitute a third founding principle. Here, BIO has identified three priorities: corporate governance, client protection, and social performance. In the course of 2011, in the wake of the overindebtedness crises which shook certain regions of the world, BIO started giving priority to developing client protection principles, actively participating in the international “SMART Campaign”¹. To raise its staff’s awareness of this issue, BIO held a specific training course on these principles, attended by other leading institutions and fund managers such as Incofin, Symbiotics and the World Savings Bank Institute². Last but not least, **financial inclusion** is the fourth cornerstone of any intervention. One of the fundamental reasons behind any work done by BIO, especially in the field of microfinance, is to improve access to financial services suited to the needs of previously excluded populations. Priority is given to boosting microfinance service coverage, supporting innovative projects, expanding branches networks, enhancing customer proximity (with a specific focus

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¹ See p.27 of this Report for more details on the SMART Campaign

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*Prasac*

Prasac is a leading institution in the field of rural microfinance in Cambodia. With its network of 162 branches covering a large part of the country, Prasac supports more than 125,000 clients. In 2011, BIO took the decision to upgrade its shareholder status together with staff, LOLC, Dragon Capital and FMO. Moreover, Prasac has endorsed the client protection principles, undergone a SMART assessment early 2012, and intends to review its procedures to become one of the first MFIs worldwide applying for SMART Campaign certification.

*See also the interview on p. 43*
BIO is involved in extending financial services in Uganda, a priority country for the Belgian development cooperation. This is being done through its equity share in the new microfinance institution, the Centre Financier aux Entrepreneurs / Financial Centre for Entrepreneurs (CFE). The CFE is a model company developed by the Canadian NGO DID, the development branch of the Desjardins cooperative. DID’s mission is to replicate Desjardins’ Canadian success in developing countries, particularly in Africa, where DID has been working for more than 40 years. With the support of BIO and AfricInvest Financial Services, CFE Uganda intends to provide savings and credit services to more than 30,000 clients over the next 5 years.

In its desire to maintain the balance between these four principles in all investment decisions, this strategy translates into the following operational measures:

- **A particular focus on Africa:** BIO has decided to boost its presence in the field of microfinance on the African continent where needs and demand are some of the highest.

- **Supporting small and medium-sized microfinance institutions:** finding it difficult to gain access to the funding necessary for their growth and thus helping them in a significant way to diversify their financial offering for the benefit of clients previously excluded from financial services.

- **Strategic partnerships with leading players in the sector:** BIO would like to boost its collaboration with international players able to demonstrate the impact their activities have on development.

- **A proactive role in the development of client protection principles:** out of a concern for consistency, BIO, after having endorsed the client protection principles in 2009, is now actively involved in implementing them, mainly in Africa. In collaboration with the SMART Campaign, BIO is also supporting the pilot process of evaluating and certifying African MFIs.

on rural and semi-rural areas), encouraging the diversification of activities financed by microfinance institutions (for example agriculture, housing improvement, craft industries), but excluding all forms of consumer credit. BIO’s priority goal is to boost its presence in Africa, where needs are greatest.

In its desire to maintain the balance between these four principles in all investment decisions, this strategy translates into the following operational measures:

- **A classification of the portfolio into three distinct categories:**
  - The “catalytic” category includes investments primarily helping Tier 2/3 MFIs to increase their coverage.
  - Finally, the “mature institutions” category covers perceived lower-risk institutions, thus enabling BIO to balance its portfolio.

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Operational review

2011 operations p36
Global portfolio p38
Financial Sector portfolio p40
Enterprises portfolio p45
Infrastructure portfolio p48
10 years of
Challenging Partnerships
Operational overview

2011 operations

Financial resources

BIO’s financial resources are allocated by the Belgian government in the form of Development Certificates. Combined with earlier funding, the total funds, excluding capital, available to the company for investments (excluding subsidies) were EUR 460 million at the end of 2011. At the end of 2011 the government allocated additional funds of EUR 116.5 million, to be paid at the beginning of 2012.

Since its creation, BIO has deliberately laid down rules to ensure a sufficiently liquid position, especially by forming reserves of funds equivalent to the undisbursed allocations of signed projects, reserves for officially accepted projects but not yet signed, and reserves for projects submitted to a due diligence procedure.

Human resources

At the end of 2011 the team consisted of 38 people of 10 different nationalities.

Activities

New applications

In 2011 BIO looked at 287 funding applications across the world for a total of EUR 978 million. Compared with 2010, the total amount has increased by 26 percent.

Decisions

In 2011 investments for a total value of EUR 128.9 million were approved by the Board of Directors, which represents an increase of 12 percent compared with 2010.

Signed contracts

In 2011 BIO entered into and signed contracts for a combined value of EUR 94.5 million; a slight decrease compared with 2010.
Subsidies

Feasibility studies
In 2011 the Board of Directors approved eight subsidies. Moreover, nine contracts were signed for a total combined amount of EUR 404,615.

Technical assistance
In 2011 eleven technical assistance grants were approved by the Board of Directors. Also, twelve technical assistance agreements were signed for a total amount of EUR 795,000.

Contracts signed in 2011

<table>
<thead>
<tr>
<th>Projects</th>
<th>Sector</th>
<th>Country/Region</th>
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<tr>
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<tr>
<td>Financial Sector</td>
<td>Microfinance fund</td>
<td>Worldwide</td>
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</tbody>
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Operational overview

Global portfolio

Net commitments
At a constant USD/EUR exchange rate, as at 31 December 2011 BIO’s net commitments\(^1\) were EUR 397.7 million; an increase of 20 percent compared with 2010 figures, which were EUR 331.1 million.

Outstanding investments
The outstanding investments (volume of disbursements less repayments) increased by 23 percent, from 179.7 EUR million in 2010 to EUR 220.7 million in 2011.

Geographical spread
Some investments agreed by BIO are in funds or companies which cover several countries, regions or even continents. These are listed as “multiregional”.

More specifically, 37 percent of the outstanding investments are located in partner countries of the Belgian Development Cooperation. 40 percent of BIO’s portfolio is aimed at Least Developed Countries and Low Income Countries.

Treasury
BIO’s Belgian government funding comes in the form of development

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\(^1\) Net commitments = signed and BoD approved projects - reimbursements
Cash levels are dependent on several factors:

1) The funds received from the government are not immediately disbursed for investment projects, as the approval cycle for any project can take several months, from project identification, via verification to final approval. Once approval has been gained, contracts with the project beneficiary need to be negotiated between the parties. After signing, the beneficiary may request lump-sum payment or payment in several tranches depending on contract modalities. It should be pointed out at this juncture that disbursement schemes to investment funds may cover several years, in line with the funds’ own investment periods.

2) In addition, BIO exercises great caution in its treasury policy, building cash reserves (cash reserved for approved or identified projects) equivalent to:
   - 100% of non-disbursed amounts fully committed through signed contracts;
   - 100% of contract amounts officially approved by the Board, but not yet signed;
   - 66% of the value of projects subjected to due diligence.

Only the balance of available resources, apart from capital, can be used for new investments. Apart from funds allocated to subsidies at the end of 2011, BIO’s treasury consisted of EUR 259.7 million, of which EUR 245.8 million was “reserved”, which leaves EUR 13.9 million available for new investments.

This reservation policy and BIO’s treasury management are currently being reviewed with a view to making the reservation rules more flexible and to freeing up funds available for investing in new projects.
Operational overview

Financial Sector portfolio

Achievements 2011 and prospects 2012

Financial Institutions

BIO has committed €50 million in 13 projects in 2011 and aims to increase its commitment to 115 million euro in 2012.

New clients in 2011 include:

- **Sacombank** in Vietnam, a bank dedicated to the SME sector. BIO granted a USD 15 million subordinated loan to consolidate its capital basis and extend new financing to its clients.
- **Oragroup**, a banking group active in Togo, Benin, Mauritania, Gabon, Guinea Conakry and Chad: BIO has become a shareholder with the objective to support the development of the group in its target countries and towards new markets in West and Central Africa.
- **LAAD**, an institution that finances small and medium-size agribusiness companies in Latin America, to which BIO extended a USD 10 million credit line targeted to our eligible countries.
- **AB Nigeria**, the recently created Nigerian affiliate of the microfinance group, Access Holding: BIO provided a EUR 2 million credit line to develop the loan portfolio in Lagos.

Our portfolio is well balanced between our three regions of operations: Africa, Latin America and Asia. From a sector angle, the growth of our portfolio has come mainly from our investments in banks (now 37% of our portfolio) whereas our portfolio of non-banking financial institutions and microfinance portfolio has remained stable. We expect in 2012 that the banking sector will still fuel our growth but that we will increase our activity in microfinance by a strategy of partnerships with well-reputed microfinance players.

Besides our investment work, we enhanced access to financial services for micro, small and medium size enterprises through our technical assistance services. Our technical assistance is directed to support financial institutions to better serve the SME market segment. In 2011, **Cogebanque** in Rwanda, **Banque de Crédit de Bujumbura** in Burundi, and **Bank of Africa** in Tanzania have been granted an aggregate amount of around EUR 200,000 by our Capacity Building Fund to support credit underwriting, train professionals and improve SME service. In addition, in syndication with FMO, DEG and Norfund, BIO has granted **Sacombank** in Vietnam technical assistance to develop, integrate and implement an Environmental and Social Management System and upgrade their corporate governance standards.
Non-banking financial institutions in our portfolio have also benefited in 2011 of TA to strengthen institutional capacity to serve SMEs by developing tailor-made and flexible factoring and leasing products: *Financiera Summa* in Guatemala, *Alios* in Zambia and *Aquila Leasing* in Nigeria have hence been granted an aggregate amount of around EUR 200,000 by our Capacity Building Fund.

In 2012, we expect to grow significantly our portfolio by entering into larger transactions and by focusing our prospection efforts towards new markets in Africa and Asia. We intend to remain active in smaller transactions that meet our main strategy niches: Tier 2 and 3 microfinance institutions, creation or strengthening of financial institutions in underserved market in particular in Africa. We will also promote actively equity and quasi-equity instruments in order to increase the impact of our investments and improve the overall return of our portfolio. Overall, our growth will be both in volume and in number of projects.

**Private Equity**

BIO’s total commitment to funds now reach EUR 138 million of which EUR 56 million disbursed. Our funds invest in Africa, Asia and Latin America in SMEs, microfinance institutions as well as in infrastructure projects. BIO committed EUR 22 million to four new funds in 2011:

- **MPEF III**: an SME fund dedicated to the Maghreb region. The Fund was launched following the Arab Spring and intends to invest in a dozen of companies across Morocco, Tunisia, Algeria and Lybia.
- **Argan Infrastructure Fund**, dedicated to the infrastructure sector in Morocco, the Maghreb region and Middle Africa.
- **ASEAF II**: an SME fund focusing on East Asia (Vietnam, Laos, Cambodia, Indonesia) managed by Aureos, a well-reputed and experience manager.
- **Catalyst**: a fund dedicated to East Africa launched by a new fund manager.

Through our investment in 31 funds, we are contributing to the financing in long-term capital of around 310 enterprises (including 100 microfinance institutions) and to the modernization of the private sector across our countries of intervention. The development impacts of our fund activity includes among others: provision of long-term capital, improved governance and management, transfer of industrial expertise, creation of value (improved return and competitiveness), employment creation, instauration of environment and social international standards.

From a return perspective, we estimate that, out of 11 funds that have entered their divestment
Operational overview

Evolution net commitments and outstanding investments

<table>
<thead>
<tr>
<th></th>
<th>In k EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>Net commitments*</td>
<td>296,563</td>
</tr>
<tr>
<td>Outstanding investments</td>
<td>175,620</td>
</tr>
<tr>
<td>Number of outstanding projects</td>
<td>61</td>
</tr>
</tbody>
</table>

* Signed and BoD approved projects - reimbursements

Outstanding investments

**Breakdown per sector (in volume)**

- Microfinance (institutions & funds) 32%
- Commercial banks 21%
- Non bank financial institutions 26%
- SME Funds 21%

**Regional breakdown (in volume)**

- Africa 33%
- Asia 21%
- LAC 20%
- Multiregional 21%

**Breakdown per country category (in volume)**

- LDC 48%
- LIC 20%
- LMIC 11%
- Other 21%

Besides our investment work, we support on an ad-hoc basis the provision of technical assistance in portfolio companies of the Funds we have invested in. Early 2011, we have signed a technical assistance agreement with AfricInvest II to provide support to portfolio companies in areas such as management, governance, environment, social, quality and safety.

period, ShoreCap (microfinance fund in Asia and Africa), AfricInvest (SME fund in Africa), Mekong II (SME Fund in Vietnam), MPEF II (SME Fund in North Africa) and CNAV (SME Fund in Morocco) could provide net return above 10%. We however expect funds dedicated to the small enterprise market (investments below EUR 1 million) such as GroFin (East Africa), Mekong and TAF (Colombia and Peru) to post negative returns.

We however expect funds dedicated to the small enterprise market (investments below EUR 1 million) such as GroFin (East Africa), Mekong and TAF (Colombia and Peru) to post negative returns.
Interview -  Sim Senacheert, President & CEO of Prasac

Microfinance helping rural economy

The “Programme to Rehabilitate and Support the Farming Sector in Cambodia” (Prasac) began in 1995 in the form of a programme covering the six provinces around Phnom Penh. Initial financing came from the European Union. From 2001 onwards, the programme changed gradually into an independent microfinance institution (MFI). Together with four other investors, BIO has taken part in institutionalizing and privatizing Prasac MFI. Each investor has taken 19% of the shares, with the remaining 5% held by employees. On top of that, BIO provided a loan facility amounting to USD 4 million in 2010 to further fuel the institution’s growth and consolidate its portfolio.

Today Prasac is in the top 4 of MFIs in Cambodia. The institution mainly lends to individuals and a great portion of its clients are women (72%). It plays a leading role in expanding access to financial services, by servicing the lower income population, promoting entrepreneurship and allowing poor clients to enter the economic activity. Prasac has proven its resilience and sustainability over the years despite the financial crisis.

Since inception, Prasac has been leading the way to responsible finance. It is one of the first MFI incorporating environmental aspects in the analysis of each client, prior to disburse a loan. It has as well included the client protection principles into its procedures and processes, emphasizing the transparency of its services, the high ethical behaviour and professionalism of its staff and the care of preventing overindebtedness.

Here, Sim Senacheert, President & CEO of Prasac elaborates on the role and evolution of the institution.

What is Prasac’s role in terms of financial inclusion and poverty alleviation?

PRASAC provides microfinance loans to the poor in rural areas of Cambodia. It has created a large number of offices in rural areas, now having the largest office network of all MFIs in Cambodia. With PRASAC continuing to develop its network, more and more poor people in remote areas are able to benefit from PRASAC’s microfinance service. PRASAC loans help clients improve their businesses and living standards, provide better opportunities for educating their children as well as creating jobs for poor Cambodians.

Country: Cambodia
Type of investment: Equity and debt
Investment amount: EUR 700,000 in equity and EUR 3.2 million in debt
Time period: Signed in 2006
Development impacts:
1. Strengthen the microfinance sector in Cambodia
2. Provision of access to finance for low income and rural population
3. Bridging the development gap between urban and rural areas
Interview - Sim Senacheert, President & CEO of Prasac

Is it easy to obtain financing from local banks in Cambodia?

Local banks in Cambodia require land or buildings to be registered in the land register. However, in Cambodia only a small proportion of properties are registered and these are mainly located in uptown locations. Furthermore, banks prefer to offer their services to higher-class people and large businesses, and the loan approval process is not standardized. Poor or average people have virtually no chance of obtaining financing from banks.

As a shareholder, BIO has been supporting Prasac’s development for the last 5 years. How did BIO contribute to the growth of Prasac over this period?

BIO has been active in providing input for PRASAC’s strategic planning and has provided a supporting areas such as capacity building and debt financing. Since the early days of BIO’s involvement, PRASAC’s staff appreciated its commitment and collaboration.

Could you please describe the impact of a Prasac loan on a typical client?

PRASAC has provided loans to thousands of people mostly living in rural areas and working in micro or small family businesses or farms. With PRASAC loans and advice from its employees, thousands of people have been given the opportunity to increase their capital and grow their businesses, thus improving their living standards, helping their children to gain better education and sometimes creating jobs for other people.

What has been your experience of working with the BIO team up to now?

Working with BIO is a wonderful experience. BIO has provided helpful advice and comments. BIO needs to continue supporting PRASAC in different areas.

What socio-economic challenges do you foresee possibly hampering sustainable growth in the microfinance sector in Cambodia?

The number of registered MFIs which are regulated by the Central Bank is steadily increasing. With so many NGOs, unregistered MFIs and private money lenders in the market without regulation they pose a serious threat to the sustainability of the microfinance sector in Cambodia.

What are the main challenges of your organization?

One of PRASAC’s main challenges is the fierce competition. More and more banks are lowering their sights to target clients in the lower market segment. The number of banks entering the Cambodian market is increasing. Another concern is over-indebtedness in the Cambodian microfinance sector, though the situation is expected to improve once the Cambodia Credit Bureau is up and running. High funding costs and a lack of local currency are also a challenge. Funding diversification remains a challenge. Lack of client financial information and formal collateral are further concerns.

What is Prasac’s position with regard to the Clients Protection Principles?

PRASAC adheres to the Clients Protection Principles. These are considered to be the best microfinance practices worldwide.
Enterprises portfolio

Achievements 2011 and prospects 2012

The Enterprises department developed gradually since 2007. BIO is the only DFI providing direct untied financing to SMEs. Last year, BIO committed a total of EUR 11 million to 7 projects. The majority of these investments were in the agriculture and agro-industrial sector. BIO’s Board of Directors approved two projects in agriculture in the DRC and in Cameroon, two agro-industrial projects in Sierra Leone and in Sao Tome, one biomass project in Cambodia, and one health project in India.

Considering our development impact and the increasing request of the government for profitability, the Enterprises Department will have to increase its credit amounts and target larger companies. BIO will still be offering smaller loans and serve the SMEs in a number of African countries thanks to an increasing cooperation with local partners.

BIO’s target sectors are:
- Agriculture and food processing: While these sectors are highly risky in view of the climate risk as well as commodities price volatility, the development impact for local population is huge. Access to food and development of local employment will allow people to improve their living standards in rural areas in order to prevent their migration to large cities where slums are emerging.
- Industrial transformation: All aspects related to industrial transformation are core for the country development and to ensure access to affordable goods.

Evolution net commitments and outstanding investments

<table>
<thead>
<tr>
<th>In k EUR</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net commitments*</td>
<td>49,590</td>
<td>45,710</td>
<td>32,285</td>
<td>17,311</td>
</tr>
<tr>
<td>Outstanding investments</td>
<td>23,592</td>
<td>22,482</td>
<td>18,505</td>
<td>11,361</td>
</tr>
<tr>
<td>Number of outstanding projects</td>
<td>29</td>
<td>28</td>
<td>26</td>
<td>19</td>
</tr>
</tbody>
</table>

* Signed and BoD approved projects - reimbursements
Operational overview

Outstanding investments

Breakdown per sector (in volume)

Regional breakdown (in volume)

Breakdown per country category (in volume)

Countries in which BIO’s Enterprises department has invested:

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Burkina Faso, Cameroon, Democratic Republic of Congo, Ivory Coast, Mali, Niger, Rwanda, Senegal, Tanzania, Tunisia, Uganda</td>
</tr>
<tr>
<td>Asia</td>
<td>China, Mongolia, Vietnam</td>
</tr>
<tr>
<td>Latin America</td>
<td>Ecuador, Peru</td>
</tr>
</tbody>
</table>

- Telecoms: Increasing the access to communication is key to ensure knowledge transfer to population and attractiveness of the country for industrial development.
- Small renewable energy infrastructure will remain important in the development of local welfare. Indeed, access to energy has an immediate impact on economic development and people.

BIO’s additionality is also driven by the long-term maturity of the investment. This makes BIO very complementary to local banks which generally offer short-term debt.

Geographically, BIO will remain focused mainly on Sub-Saharan Africa. More specifically, BIO’s knowledge of the Democratic Republic of Congo is valuable for the investee companies.
Interview - Bagoré Bathily, CEO, La laiterie du Berger SA

Since when has BIO been your partner?
BIO was our first financial supporter back in 2007. Though we also had other funding sources, our partnership with BIO was always the closest. The team supporting us takes a real interest in what we are doing, i.e. supporting domestic milk production and promoting consumption of Senegalese products. We are doing all this as a social business, and also enjoy the support of Danone Communities, which help us in technical and marketing aspects.

What status does your relationship with BIO have?
We work in a spirit of mutual trust, not hesitating to ask for advice in financial matters, for example when taking a decision on currency hedging. We have also benefited from technical assistance for training our financial management team and learning about reporting methods. Thanks to the investments granted, our company has expanded rapidly, reaching critical size in just 5 years. We now employ some one hundred people. Our priority is now on profitability and we have started restructuring. Our objective is to achieve financial autonomy between now and 2014, meaning that we can live off what we earn.

What exactly does La Laiterie du Berger do and what makes it so outstanding?
In Senegal there is a tradition of consuming milk curds and about 30% of the population live from livestock herding, with an overall population of over 3 million cows. Yet most of the dairy products consumed in the country are produced on the basis of imported milk powder. La Laiterie du Berger produces and markets mainly yogurt products, along with fresh milk and cream. We are meeting a real demand from consumers who want the taste of Senegalese milk (very rich) but we are also bringing added value to the local economy. We collect the milk from some 800 herders. You can almost say that they are employed by us. The steady income they get from us enables them to give their livestock better feed and better veterinary care. This in turn means that there are fewer seasonal ups and downs and not so much of a downturn in production during the dry season (January - June).

What is competition like?
We started by targeting clients in Dakar, with premium products similar to the organic ones you find in Europe. With the 2008 crisis and the rise in raw material prices (especially milk on the global markets), our yogurt products became competitive vis-à-vis those made from imported milk powder.

2009 saw La Laiterie du Berger products being distributed in Senegal under the Dolima brand. The word means “give me more” in Wolof, and products are stamped “Good for me, good for my country”. We are now in 3rd position in Senegal in terms of market share.

What are the next developments in the pipeline?
Given that milk curds are traditionally seen as food, we are planning to diversify our range, for example adding cereals or trace elements. Another major growth lever could be exporting our products to other big cities of Senegal.

In the meantime, processing fresh milk into premium products is enabling us to build up dairy know-how in Senegal and create jobs in the field of logistics and production.

What are the next developments in the pipeline?
Achievements 2011 and prospects 2012

Private infrastructure financing has been included in BIO’s range of offered financial instruments as from mid 2010.

The mandate granted to BIO implies a limitation of its activities to private sector financing. When it comes to infrastructure, this translates in a focus on projects initiated by private sponsors, often holders of concessional rights, with a demonstrated profit generation capacity. These projects are generally built on a "non recourse" basis, meaning that the repayment guarantee lies in the global project itself. As a consequence, all the parameters influencing the risk profile of each project have to be deeply analyzed and ring fenced by a series of specific agreements and with the support of specialists in each field: technical, commercial, legal, insurance, environment & social,…

Due from the one hand to the nature and size of this type of infrastructure projects and on the other hand to its limited financial and human means, BIO has to insert itself in global financing packages, together with others bilateral or multilateral financiers.

In 2011, BIO has strengthened its cooperation with FMO, allowing for the full utilization (EUR 45 million) of the Risk Sharing Agreement concluded in 2010 between the two institutions. By the end of the year, this
agreement has been extended for the next three years.

Alternatively, BIO has developed its relations with others specialized institutions like IFC or AfDB. A cofinancing agreement has been concluded with CIFI, targeting Central and Latin America.

By the end of 2011, the infrastructure portfolio includes 7 signed projects for a total of more than EUR 50 million.

The breakdown of the figures below shows that the strategic orientations as defined initially for infrastructure financing have been met.

In 2012, the promotion for BIO inclusion in big private infrastructure projects financing will be pursued.

### Evolution net commitments and outstanding investments

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net commitments*</td>
<td>51,531</td>
<td>48,856</td>
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<tr>
<td>Outstanding investments</td>
<td>21,528</td>
<td>13,237</td>
</tr>
<tr>
<td>Number of outstanding projects</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

* Signed and BoD approved projects - reimbursements

### Outstanding investments

**Breakdown per sector (in volume)**

- **Energy**: 28%
- **Transport & Logistics**: 72%

**Regional breakdown (in volume)**

- **Africa**: 58%
- **Asia**: 22%
- **LAC**: 20%

In 2011, 2010

- **Net commitments**: 51,531, 48,856
- **Outstanding investments**: 21,528, 13,237
- **Number of outstanding projects**: 6, 1

*Signed and BoD approved projects - reimbursements*
Generate critically needed electricity and reduce Rwanda’s reliance on costly and polluting diesel-powered generators

BIO participates in a loan facility of USD 91.25 million with the Emerging Africa Infrastructure Fund, the Netherlands Development Finance Company (FMO) and the African Development Bank to support the KivuWatt project, which aims at removing and processing otherwise hazardous methane gas trapped in the waters of Lake Kivu for use as fuel to generate critically needed electricity.

What is the history of the KivuWatt project?
ContourGlobal signed a 25-year concession with the Government of Rwanda in March 2009 for an amount of lake gas corresponding to 100 MW of capacity over the life of the concession. At the same time, a 25-year PPA was signed with the Rwandan utility (at the time, Electrogaz). The contracts are divided into Phase I for the initial 25 MW and Phase 2 for the remaining 75 MW. Design for Phase I, which is effectively a pilot for the full 100 MW of production, began after signing the concession, with the gas extraction facility launched in August 2011. Construction of the power plant began simultaneously. We expect to produce "first gas" sometime during late 4th quarter of 2012.

How will the project contribute to meeting Rwanda’s energy needs?
Rwanda has a very low electrification rate (currently estimated at less than

Here, William Barry, Vice President, Business Development, ContourGlobal, highlights the key aspects and assets of this unique project.
10%), and with an under-developed hydro-electric sector its economy relies heavily on expensive diesel fuel generators. By tapping the indigenous methane dissolved in the lake’s deep waters, the project is set to play a key role in the country’s development, raising the electrification rate to nearly 20%, more than doubling the country’s electricity generating capacity, and significantly reducing the country’s per-kWh cost of electricity (by displacing diesel generation).

What are the major challenges during the construction phase?
We have over 30 contracts for equipment for the gas extraction facility. Coordinating the delivery of this equipment with the barge outfitting and power plant contracts in order to achieve the targeted project completion date will be the principal challenge. In addition, we need to ensure that barge construction corresponds to our detailed design specifications, thereby ensuring that the gas extraction facility will operate in accordance with our expectations.

What are the technical challenges of such a project?
Apart from the ones mentioned earlier, a further significant technical challenge involves constructing the gas extraction facility so that it operates in accordance with design specifications – specifically the extraction of gas with a methane concentration in the neighborhood of 85% for the power plant. Lower than expected methane quality contributed to poorer performance of existing Lake Kivu pilot plants.

What is the role/added value of DFIs such as BIO in the project?
They were critical. No commercial bank would have considered financing a project such as this in Rwanda, even before accounting for the unproven nature of the technology. Remember that neither of the existing pilot plants operated on a level anywhere near this scale, or even successfully at their smaller scale (c. 5 MW). Moreover, the risk of causing a gas “overturn” (eruption) made this an especially difficult deal to finance. That said, however, we and indeed the broader scientific community are confident that our facility will in fact reduce the risk of an eruption, by safely removing the lake gases. This is the second (in addition to providing critically needed power) “mission” of the project.

How do you manage and mitigate the environmental and social issues linked with the project?
We have implemented plans, in coordination with the Rwandan government, to relocate and/or compensate affected residents (of which there actually were few). In addition, we will be monitoring the “lake effects” of the facility to ensure that lake waters are not adversely affected by the gas extraction and that the gas resource is used efficiently. We will also be monitoring the effects of the project on the lake’s fish population, first establishing a base line and then regularly monitoring fish catches.
Financial report

Balance Sheet p54
Income statement p60
Cash flow p62
Report of the Court of Audit p63
Statutory auditor’s report p64
Board of Directors p66
Glossary p67
10 years of Human & Financial results
## Balance Sheet

### ASSETS

#### FIXED ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formation expenses</td>
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<tr>
<td>Intangible assets</td>
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<tr>
<td>Tangible assets</td>
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<td>171,219,510</td>
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<tr>
<td>Furniture and vehicles</td>
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<tr>
<td>Leasing and similar rights</td>
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<tr>
<td>Other tangible assets</td>
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<td>207,775</td>
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<tr>
<td>Financial assets</td>
<td>213,618,860</td>
<td>170,680,073</td>
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<tr>
<td>Participating interests in affiliated enterprises</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Participating interests in other enterprises</td>
<td>85,189,817</td>
<td>74,608,870</td>
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<tr>
<td>Amounts receivable and cash guarantees</td>
<td>128,429,043</td>
<td>96,071,203</td>
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#### CURRENT ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
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<tbody>
<tr>
<td>Amounts receivable within one year</td>
<td>1,392,212</td>
<td>4,960,576</td>
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<tr>
<td>Investments</td>
<td>222,461,175</td>
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<tr>
<td>Cash at bank and in hand</td>
<td>41,964,313</td>
<td>1,721,423</td>
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<tr>
<td>Deferred charges and accrued income</td>
<td>5,769,290</td>
<td>2,312,096</td>
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#### TOTAL ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>485,749,556</td>
<td>377,869,856</td>
</tr>
</tbody>
</table>

### Notes to Balance sheet

#### Formation expenses

In addition to the notary fees, preliminary expenses related to the setting up of BIO, the establishment of the Local Currency Fund and the SME-Fund, the increase of the financial resources of the Development Fund and the Local Currency Fund, were capitalised. Formation expenses are depreciated on a straight line basis over 5 years.

#### Intangible assets

Expenses relating to the purchase of software, amounting to at least EUR 1,250, are capitalised and depreciated on a straight line basis over 3 years from the date of acquisition.

In 2011, investments are mainly pertaining to tailor-made software under development upon BIO’s request.

#### Tangible assets

This item relates to office furniture, computers and other office equipment and the furnishing of the rented facilities. Amounts are capitalised as from EUR 1,250, depreciation is on a straight line basis from the month of acquisition over 10 years for
## LIABILITIES

<table>
<thead>
<tr>
<th>CAPITAL AND RESERVES</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>4,957,873</td>
<td>4,957,873</td>
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<tr>
<td>Reserves</td>
<td>460,612,192</td>
<td>355,612,192</td>
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<tr>
<td>Legal reserve</td>
<td>495,787</td>
<td>495,787</td>
</tr>
<tr>
<td>Reserves not available for distribution</td>
<td>460,116,405</td>
<td>355,116,405</td>
</tr>
<tr>
<td>Profit carried forward</td>
<td>7,575,988</td>
<td>7,575,988</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROVISIONS AND DEFERRED TAXES</th>
<th>2011</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>Provisions for risks and costs</td>
<td>590,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Other risks and costs</td>
<td>590,000</td>
<td>85,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CREDITORS</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts payable after more than one year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amounts payable within one year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Current portion of amounts payable after more than one year</td>
<td>5,718,957</td>
<td>4,815,142</td>
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<tr>
<td>Trade debts</td>
<td>442,726</td>
<td>224,697</td>
</tr>
<tr>
<td>Taxes, remuneration and social security</td>
<td>799,765</td>
<td>532,891</td>
</tr>
<tr>
<td>Other amounts payable</td>
<td>4,476,466</td>
<td>4,057,554</td>
</tr>
<tr>
<td>Accrued charges and deferred income</td>
<td>6,294,547</td>
<td>4,823,661</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL LIABILITIES</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>485,749,556</td>
<td>377,869,856</td>
</tr>
</tbody>
</table>
lead to the booking of an actual depreciation or reduction in value.

Receivables are valued at nominal value. Additional costs relating to the acquisition are charged to the financial year during which they were incurred. Depreciation takes place if there is uncertainty as to reimbursement of all or part of the amount receivable on the due date.

In 2006, a general provision has been established for expected depreciation and reduction in value, which represents 1.5% of the outstanding amounts of the Development Fund and the Local Currency Fund, plus, 10% of the outstanding amounts of the SME Fund. This percentage is adapted annually according to the portfolio turnover and each actual reduction in value is compensated by the provision. This provision will be limited to a maximum of 3% of the outstanding amounts of the Development Fund and the Local Currency Fund at the end of each fiscal year.

In 2011, an additional provision of EUR 1,238,893 has been set up. Specific provisions have been required for 5 specific portfolio components, for a total of EUR 1,376,563. One specific provision of EUR 728,227 has been recovered, as the loan amounting to EUR 49,947 was repaid at the beginning of 2011, hence the provision became redundant and justified the recovery of EUR 678,280. The total provision for expected depreciation and reduction in value amounts to EUR 7,152,227 at the end of 2011, of which EUR 6,561,117 reserved for specific projects.

If the exchange risk and the currency risk are covered by a financial instrument that meets the hedging criteria on an ongoing basis, in terms of maturity, interest and currency, valuation of the financial instrument follows the valuation rules for the underlying asset.

BIO’s liabilities at the end of the fiscal year are converted at the closing rate of the financial year and referred off-balance sheet. The submission of a letter of intent to a potential customer implies the off-balance sheet registration of the amounts committed.
### Disbursed in

<table>
<thead>
<tr>
<th>KHR</th>
<th>RWF</th>
<th>TZS</th>
<th>FCFA</th>
<th>HNL</th>
<th>PEN</th>
<th>NGN</th>
<th>ZMK</th>
<th>euro</th>
<th>Euro equivalent</th>
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</thead>
<tbody>
<tr>
<td>3,941,580,880</td>
<td>1,090,000,000</td>
<td>8,767,776,337</td>
<td>4,177,594,180</td>
<td>69,612,301</td>
<td></td>
<td></td>
<td></td>
<td>69,854,169</td>
<td>220,744,853</td>
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<td>3,941,580,880</td>
<td>1,090,000,000</td>
<td>6,956,061,612</td>
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<td></td>
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<td>10,731,819</td>
<td>35,045,383</td>
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### Committed in

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<td></td>
<td>78,629,794</td>
<td>176,934,197</td>
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</table>
The interest and currency risk related to 41 loans amounting to a total of USD 110 million, FCFA 1,991 million, ZMK 3,914 million, NGN 1,146 million, TZS 1,812 million and PEN 4 million was covered by an interest and currency swap (CCIRS/Cross Currency Interest Rate Swap), converting the counter value of the future instalments and interest payments into EUR loans at fixed interest. Thirteen loans for a total amount of USD 8 million were covered by currency contracts.

**Amounts receivable within one year**

Commercial debts amount to EUR 43,401.

The remaining receivables mainly refer to the receiving of a subsidy for the Capacity Building Fund (EUR 1 million), yet to be re-claimed VAT (EUR 175,125), taxes (EUR 120,093) and one open receivable valuated at year’s end rate (EUR 140,998) for which one specific provision has been maintained for the same amount.

The general provision of 3% was set at EUR -41,548.

Cumulated unpaid interests for a total of EUR 1,046,965 were considered as doubtful and a corresponding reduction in value has been booked. The balance of EUR 12,045 is made out of down payments to be affected.

**Cash at bank and in hand**

This item includes unallocated cash of which BIO disposes to implement its corporate mission.

Deposits and long-term accounts with credit institutions and cash at hand are valued at par.

No value adjustments were applied.

**Deferred charges and accrued income**

This item includes deferred costs for EUR 151,877, accrued income for EUR 5,745,860 and positive conversion variances for EUR 68,272. Deferred costs of EUR 151,877 mainly consist of rent, insurance, subscriptions, travel expenses and legal fees. The fees of outside lawyers used in obtaining projects in portfolio are spread, until the end of 2006, over the duration of the project or over 10 years, in case of participations that may remain in the portfolio for an indefinite period. They are recorded in the deferred charges line. Accrued income of EUR 5,745,860 mainly consists of accrued interest, not overdue on loans granted.

The positive conversion rates of EUR 68,272 hold the difference in rate between the cash rate and cover rate. These conversion rates are spread over the duration of the instrument used and the loans.

**Reserves**

The development certificates are included in unavailable reserves. Depreciation and capital losses are directly charged to these certificates without having to proceed to a modification of the articles of association. At the end of 2002 EUR 62,070 was charged to the certificates. The result of the fiscal year 2004 was allotted to the legal reserve, bringing it up to EUR 74,905. Of the 2005 result (EUR 448,437) EUR 420,882 was allotted to the legal reserve, which reached its limit of 10 % of the capital. The balance has been transferred to the next fiscal year. The result of fiscal year 2006 (EUR 2,467,428.48) was partly allocated to BIO’s personnel (EUR 80,000) by means of profit participation and partly paid as dividend (EUR 1,377,205.71). The balance has been transferred to the next fiscal year. The 2007 result has been fully transferred to the next fiscal year.

For 2008, EUR 101,672.41 was allocated to the personnel under the form of profit participation and the balance of the result, amounting EUR 2,798,742.40, was deferred to the next fiscal year.
For 2009, the result of EUR 796,984.25 was also deferred to the next fiscal year.

The result of fiscal year 2010 was allocated for EUR 160,397 to the personnel in the form of a profit participation plan, and for EUR 3,897,156 to capital remuneration.

The result of fiscal year 2011 will be allocated for EUR 140,654 to the personnel in the form of a profit participation plan, and for EUR 4,321,271 to capital remuneration.

**Provisions for risk and charges**

An additional provision was made to cover the exchange rate risk of a still ongoing hedging contract regarding a loan that will probably not be honoured. Another provision of EUR 500,000 has been made to cover a contract breach.

**Amounts payable within one year**

Commercial debts include EUR 341,820 of outstanding invoices and EUR 100,905 of invoices to be received. Tax debt includes expired withholding tax of EUR 33,516 and advanced tax payment of EUR 16,101. The non-expired advanced tax payment amounts to EUR 176,709. The due corporation tax amounts to EUR 36,274.

Debts relating to remunerations and social security concern the provision for statutory holiday pay and a wage balance of December 2011 amount to a grand total of EUR 441,821, national insurance contributions of EUR 95,344.

**Deferred charges and accrued income**

This heading includes costs to be charged amounting to EUR 2,986,435. This is mainly the provision for interest incurred and not due to the CCIRS contracts amounting to EUR 1,179,723 and a subsidy of EUR 1,806,712 granted by contract. The deferred accrued income amounts to EUR 3,296,738, consisting of the Capacity Building Fund subsidy. In addition, this item covers negative exchange differences for EUR 11,373.
## Income statement

### in €

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from financial fixed assets</td>
<td>21,842,881</td>
<td>17,106,370</td>
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<tr>
<td>Income from current assets</td>
<td>8,844,082</td>
<td>7,210,745</td>
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<tr>
<td>Other financial income</td>
<td>9,180,283</td>
<td>5,125,112</td>
</tr>
<tr>
<td>Other operating income</td>
<td>17,487</td>
<td>63,780</td>
</tr>
<tr>
<td>Exceptional income</td>
<td>2,876,028</td>
<td>2,172,629</td>
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<tr>
<td><strong>Charges</strong></td>
<td></td>
<td></td>
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<tr>
<td>Services and other goods</td>
<td>925,001</td>
<td>2,172,629</td>
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<tr>
<td>Remuneration, social security costs and pensions</td>
<td>671,322</td>
<td>2,172,629</td>
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<tr>
<td>Depreciation</td>
<td>159,146</td>
<td>162,991</td>
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<tr>
<td>Minusvalue</td>
<td>1,538,007</td>
<td>1,611,774</td>
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<tr>
<td>Other operating charges</td>
<td>2,627,871</td>
<td>2,101,694</td>
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<tr>
<td>Financial charges</td>
<td>209,840</td>
<td>110,041</td>
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<tr>
<td><strong>Profit for the period</strong></td>
<td>4,461,925</td>
<td>4,057,554</td>
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</tbody>
</table>

### Notes income statement

#### Operating income

Other operating income incorporates the EUR 1,782,720 subsidy related to the TA, the Study Fund and the Capacity Building Fund, various fees for EUR 923,509, a re-invoicing of costs amounting to EUR 51,416, EUR 26,861 of advanced tax payment exemption as well as damages and compensation of credit hours for EUR 91,522.

#### Operating charges

The heading “miscellaneous goods and services” includes general operating costs such as rent and related charges, insurance, office supplies, membership fees and documentation, remuneration costs, fees, travel expenses, promotion costs. These charges amounted to EUR 2,924,747. Remuneration, social security contributions, staff insurance and extra legal benefits amounted to EUR 3,937,030. Depreciation on tangible assets amounted to EUR 159,146 and reduction in value on receivables amounted to EUR 671,322.
Other operating charges of EUR 1,538,007 relate to a EUR 1,511,181 approved subsidy for TA and Study and Capacity Building Fund, various taxes and levies for EUR 26,826.

Financial income

The income from BIO’s core activity in 2011 consists of the returns on loans granted, amounting to EUR 7,755,422 and dividends amounting to EUR 1,088,660.

Income from the deposit of unallocated cash of which BIO disposes to implement its corporate mission amounted to EUR 9,180,283 in 2011. The income from CCIRS is included under this heading. Other financial income (EUR 17,487) mainly relates to differences of exchange rate and payments.

Financial charges

The “interest payable and similar charges” heading includes the interest on the leasing contracts and the CCIRS, for a total amount of EUR 5,045,854. Other financial charges refer to the interests on receivables amounting to EUR 17,534, the results of exchange rates amounting to EUR 207,121 and EUR 42,482 of banking costs relating to payments for projects, guarantees and the use of financial systems.

Income taxes

This heading contains the provision for corporation tax for fiscal year 2010 (EUR 36,275), the foreign taxation on 2011 revenues (EUR 230,536), and the recovery of foreign taxes for EUR 56,969.

Extraordinary income

The extraordinary income includes a EUR 54,293 appreciation as a result of the realisation of assets, recovery of reductions in value on receivables for EUR 728,227 and VAT recovery for EUR 142,481.

Extraordinary costs

The reductions in value on fixed financial assets are, as explained here above, the registered provisions for EUR 2,009,222. The realised reduction in value of financial fixed assets amounts to EUR 118,650. A provision of EUR 500,000 was made for a contract breach.
## Cash flow

<table>
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<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
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<tr>
<td><strong>Operating result / EBIT</strong></td>
<td>-8,253,869</td>
<td>-7,348,513</td>
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<tr>
<td>Adjustment</td>
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<tr>
<td>Depreciation, decrease in value</td>
<td>-159,146</td>
<td>-162,991</td>
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<td>Provisions</td>
<td>1,565,312</td>
<td>2,754,141</td>
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<td><strong>Operating cash flow</strong></td>
<td>-6,847,704</td>
<td>-4,757,364</td>
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<tr>
<td>Current debts &amp; receivables (net)</td>
<td>3,826,599</td>
<td>-4,379,833</td>
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<td><strong>Cash flow from working capital changes</strong></td>
<td>-3,021,105</td>
<td>-9,137,196</td>
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<td>Acquisition of financial assets</td>
<td>-45,225,145</td>
<td>-39,176,576</td>
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<tr>
<td>Acquisition of tangible and intangible assets</td>
<td>-163,415</td>
<td>-143,458</td>
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<tr>
<td><strong>Cash flow from investment activities</strong></td>
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<td>-48,457,230</td>
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<tr>
<td>Income from current assets</td>
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<tr>
<td>Income from financial fixed assets</td>
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<tr>
<td>Other financial income</td>
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<tr>
<td>Other financial charges</td>
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<td>-2,703,476</td>
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<td>Plusvalue</td>
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<td>1,679,550</td>
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<td>Taxes</td>
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<td>Net financial income</td>
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<td><strong>Free cash flow</strong></td>
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<td>Increase/decrease of longterm financial debts</td>
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<td>Increase/decrease of capital</td>
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<td>Dividends paid</td>
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<td>Development certificates</td>
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<td>Proceeds from financing</td>
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<tr>
<td><strong>Net flow of funds</strong></td>
<td>65,047,814</td>
<td>-28,323,639</td>
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<tr>
<td><strong>Net variation in deposits and cash</strong></td>
<td>65,047,814</td>
<td>-28,323,639</td>
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REPORT OF THE BELGIAN COURT OF AUDIT

on the accounts for the financial year ended 31 December 2011 to the general assembly of shareholders of BIO NV/SA (public limited company)

Pursuant to article 459 of the 24 December 2002 programme law (I) (Belgisch Staatsblad/Moniteur belge - Belgian Official Journal of 31 December 2002), which introduced article 5 bis in the 3 November 2001 law relating to the establishment of the Belgian Investment Company for developing countries (BIO), the Belgian Court of Audit's general assembly elected an auditor among its members on the 21st of April 2004 to perform the audit.

In accordance with the provisions of the law and the articles of association, this auditor has examined the annual accounts of the Belgian Investment Company for developing countries (BIO) ended 31 December 2011. The audit included the following documents: the balance sheet, the profit and loss account, the notes to the annual financial statements and the annual report.

This audit was conducted in accordance with the INTOSAI auditing standards and has not resulted in any qualification.

Brussels, 23 April 2012

The Belgian Court of Audit
Represented by

Jozef Beckers
Member of the Court
Statutory auditor’s report to the general meeting of shareholders of Belgian Investment Company for Developing Countries - BIO - on the financial statements for the year ended December 31, 2011

In accordance with the legal and statutory requirements, we report to you on the performance of the engagement of statutory auditor, which has been entrusted to us. This report contains our opinion on the true and fair view of the financial statements as well as the required additional statements.

Unqualified audit opinion on the financial statements

We have audited the financial statements of Belgian Investment Company for Developing Countries - BIO - for the year ended December 31, 2011, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of €48,349,536 EUR and a profit for the year of €4,401,925 EUR.

Management is responsible for the preparation and the fair presentation of these financial statements. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the Auditing Standards applicable in Belgium, as issued by the Institute of Registered Auditors (Institut des Revenirs d'Entreprises / Institut van de Bedrijfsrechters). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement, whether due to fraud or error.

In accordance with the above-mentioned auditing standards, we have carried out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selection of these procedures is a matter for our judgment, as is the assessment of the risk that the financial statements contain material misstatements, whether due to fraud or error. In making these risk assessments, we have considered the company’s internal control relating to the preparation and fair presentation of the financial statements. In order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control. We have also assessed the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall financial statement presentation.
Finally, we have obtained from management and the company’s officials the explanations and information necessary for our audit. We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

In our opinion, the financial statements for the year ended December 31, 2011 give a true and fair view of the company’s assets and liabilities, its financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

Additional statements

The preparation of the Directors’ report and its content, as well as the company’s compliance with the Company Code and its bylaws are the responsibility of management.

Our responsibility is to supplement our report with the following additional statements, which do not modify our audit opinion on the financial statements:

- The Directors’ report includes the information required by law and is consistent with the financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our engagement.

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.

- There are no transactions undertaken or decisions taken in violation of the company’s bylaws or the Company Code that we have to report to you. The appropriation of results proposed to the general meeting complies with the legal and statutory provisions.

Zaventem, April 23, 2012

BDO Auditeurs d’Entreprises Soc. Civ. SCRL
Statutory auditor
Represented by Michel Grignard
Board of Directors

HRH Prince Philippe of Belgium
Honorary Chairman of BIO

The BIO Board of Directors comprises 14 members, 10 of whom are appointed by the State and 4 by SBI (Société belge d’Investissement international).

The Board of Directors exercises strict internal control on the basis of regular reporting. It oversees the implementation of BIO’s mandate and has the final word on all investment projects.

Two Government Commissioners, one appointed by the Ministry for the Budget and the other by the Minister for Development Cooperation, assist the Board of Directors in ensuring that funds made available by the State are well-managed.

President
M. Van der Stichele

Vice-President
Mark Lambrechts

Members
B. de Gerlache de Gomery
H. De Koker †
F. Demeuse
Y. Haesendonck
C. Michiels
M. Moll
P. Moors
J.-P. Smit
F. Thys
A. Vandewalle
M. Van Hecke
J. Van Wassenhove

Government Commissioners
F. Blomme
Y. Dricot
Glossary

ACP: African, Caribbean and Pacific Group of States
BoD: Board of Directors
CGAP: Consultative Group to Assist the Poor
DEG: Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFI: Development Finance Institution
EDFI: European Development Finance Institutions
EFP: European Financing Partners
EIB: European Investment Bank
FATF: Financial Action Task Force
FMO: Dutch Development Bank
GPR: Geschäftspolitisches Projektating
ICCF: Interact Climate Change Facility
IFC: International Finance Corporation
ILPA: Institutional Limited Partner Association
KYC: Know Your Customer
LDC: Least Developed Countries
LIC: Low Income Countries
LMIC: Lower Middle Income Countries
MDG: Millennium Development Goals
MFI: Microfinance Institution
(M)SME: Micro, Small and Medium Enterprise
NGO: Non-Governmental Organisation
OECD: Organisation for Economic Co-operation and Development
TCX: The Currency Exchange Fund
BIO in a nutshell

BIO aims to support private sector growth in developing and emerging countries, enabling them to gain access to growth and sustainable development.

BIO supports financial institutions, investment funds, companies and private infrastructure projects. Endowed with EUR 581.5 million of capital, BIO provides tailored long-term financial products (equity, quasi-equity, loans and loan guarantees) either directly or through intermediaries. BIO is also able to fund technical assistance programmes for client companies as well as feasibility studies. BIO requires its business partners to implement and comply with environmental, social and governance standards.

BIO operates as a financing partner complementing traditional financial institutions, looking for projects with a balance between return on investment and development impact.

BIO is a member of EDFI (European Development Finance Institutions).