Investment strategy
2019-2023

Introduction

The objective of this investment strategy is to set the goals and priorities for the coming 5 years. They will support the deployment of our organisation, taking into account the objectives of the Belgian Cooperation, the evolution of our ecosystem as well as some of our global challenges including climate change, rising inequalities and a new digital paradigm.

This investment strategy will be carried out in the framework of BIO's Law of 03/11/2001, most recently modified by the Law of 25/10/2018, and of the Second Management Contract of 12/12/2018. Specifically, BIO shall (a) provide evidence of positive development impacts, (b) apply adequate Environmental, Social and Governance (ESG) standards, (c) promote gender equality, (d) invest on market-basis conditions, be additional and endeavour to be catalytic. This investment strategy is also built around the strategic priorities defined in the Management Contract (the financial sector; contribution to financial inclusion; the agriculture sector; energy generation and energy efficiency; enterprises contributing to the fight against climate change; infrastructure contributing to SMEs and social enterprises; the digital economy; and basic services to the population).

In the next 5 years, as per the Management Contract, BIO expects new contributions from the State in the form of a capital increase of €40M in 2019 and €10M in 2021 and 2022. In addition, between 2019 and 2020, the State will provide €50M capital for projects dedicated to climate change mitigation and adaptation. The Belgian State will also provide BIO with subsidies in capital for an additional €50M, with a maximum disbursement of €12M a year. Finally, during the 5-year timeline, the Belgian State will allocate €10M with a cap of €2M per year.

This investment strategy will set out BIO's goals, both qualitatively and quantitatively.

Qualitatively, we aim to be relevant in our markets, customer-focused, open in our approach and proactive to contribute to promote sustainable economic growth, full and productive employment and decent work for all.

Quantitatively, over the coming five years, we want to deploy €1B in 150 new high impact and sustainable projects with a focus on Financial Inclusion, Climate Change, Agribusiness, Health and Education and to engage cautiously in the growing Digital economy. All in all, this will result in a doubling of BIO's portfolio.

We also intend to invest €50M subsidies in capital to support around 25 projects with more innovative features, requiring additional time to reach financial sustainability or presenting a higher risk and "less investable" profile but that are needed to create the entrepreneurs of tomorrow.

We also will use our subsidies programs to support our clients to develop their business. To name a few areas for development, this will include developing smaller scale project at international standards level, creating revenues and training opportunities for small farmers, setting up gender lenses programs, improving environmental awareness and supervision processes and incorporating digital use to increase operational efficiency and outreach.

Finally, we will seek and use funds from the European Union to enhance our investment activities.

Our investment strategy aims to reach full sustainability not only in terms of a long-term return but also from a development impact and environmental and social (E&S) viewpoint.

Building a convincing triple bottom line track record, we also expect to mobilise third party private investors to join us in impact investing in developing countries.

The 2019-2023 investment strategy is built on our experience and existing footprint. Additionally, it includes (a) an increase of equity in our portfolio (40% compared to 32% today), (b) an increased focus on agribusiness, health and education, and (c) a stronger prospection and environmental and social follow-up of our projects. We also expect to develop our leadership capacity in small and medium size projects across sectors. Finally, we aim to become a bridge between the private players, both investors and enterprises, in Belgium and in our targeted regions.

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I BIO's Vision, Mission and Theory of Change

BIO's proposed vision and mission statements are in line with our Theory of Change and our commitment to contribute to the SDGs.

- **BIO's vision:** we aim to develop sustainable entrepreneurship in our countries of intervention and participate to create a world with **No Poverty – SDG 1**: **economic growth must be inclusive to provide sustainable jobs and promote equality.**
- **BIO's mission**: we contribute to sustainable human development in our countries of intervention by supporting the private sector via direct and indirect investments to develop targeted enterprises.

BIO's **Theory of Change** has been revised to integrate the SDGs. It sets out the logic of our interventions by outlining causal linkages between inputs, outputs (delivered through a set of activities), outcomes and, finally, expected development impacts, i.e. inclusive and sustainable economic growth in line with SDG1.

- The **inputs** provided by BIO, classified under three broad categories, are:
  - *BIO's funding*, which more broadly includes 'BIO's stamp of approval', i.e. the positive reputation of BIO as a publicly owned entity providing funding
  - *BIO's in-house expertise*: in terms of finance structuring, origination & supervision of deals (legal, risks,…)
  - *Development and Sustainability support*: E&S expertise, Business Development Support Fund and Monitoring and Evaluations of development effects
- The **outputs** are the *direct and indirect investments in Enterprises and MSMEs*, in the following sectors: financial institutions, health & education, agri-value chain, renewable energy and energy efficiency and digital technology.

  BIO's **activities** related to these outputs are:
  - Loan provisions and equity participation
  - Governance: seats in Board/Advisory Committee when equity participation, legal covenants in contracts, formalisation of investees, …
  - E&S compliance: BIO's E&S Policy and E&S contracting requirements
  - Technical Assistance and Feasibility Studies to support our clients and deliver value-added services, contributing to business sustainability
  - Development assessment: BIO's development assessment framework (incl. BIO Development Goals)
- The **outcomes** of BIO interventions lead to *strengthened social inclusiveness*, *private sector growth* and *good environmental practices*. At the level of the outcomes, the Theory of Change refers to a limited set of SDGs, with a deliberated focus on:
  - **SDG5 Gender** & **SDG10 Reduced Inequalities** for social inclusiveness;
  - **SDG8 Decent work and economic growth** & **SDG9 Industry, Innovation and Infrastructure** for private sector growth;
  - **SDG7 Affordable and clean energy** & **SGD12 Responsible production and consumption** for good environmental practices.

These SDGs are highlighted as they are the closest related to BIO Development Goals[1], they cover the priority investment sectors of BIO, and can be monitored through indicators at the level of SDGs sub-targets (as indicated in the Theory of Change). It does not mean that the other SDGs are not taken into consideration as outcomes, but rather that they are transversal to BIO's operations. At the level of our clients, these outcomes translate into increased economic activity, capacity and knowledge building, E&S practice improvements and other development effects – through e.g. formalisation and growth of SMEs, women's equal opportunities, adoption of sustainable processes, decent working conditions, increased resources for the State, switch to renewable energy, improved access to basic goods and services,...

BIO will report on generic and specific development indicators[2] for each investment project, based on the SDGs sub-targets at the outcome level, to demonstrate how we contribute to **SDG 1– No Poverty,** creating inclusive and sustainable development impact**.**

Finally, BIO has been and will be working with many other actors to achieve its mission. In the next five years, cooperation with other European Development Finance Institutions (EDFIs), Multilateral Development Banks (MDBs), private investors and Belgian and international development actors will be strengthened (**SDG17 Partnerships for the Goals**).

This Theory of Change will be further detailed by the end of 2019 and presented separately as a publicly available document with specific links to the priority themes of gender, climate change, food security and digital and the development indicators associated therewith. It will also refer to the (ongoing) DGD "SDG compass" study, aligning with the overall efforts of the Belgian International Cooperation to come up with a common framework to assess its contribution to the SDGs.

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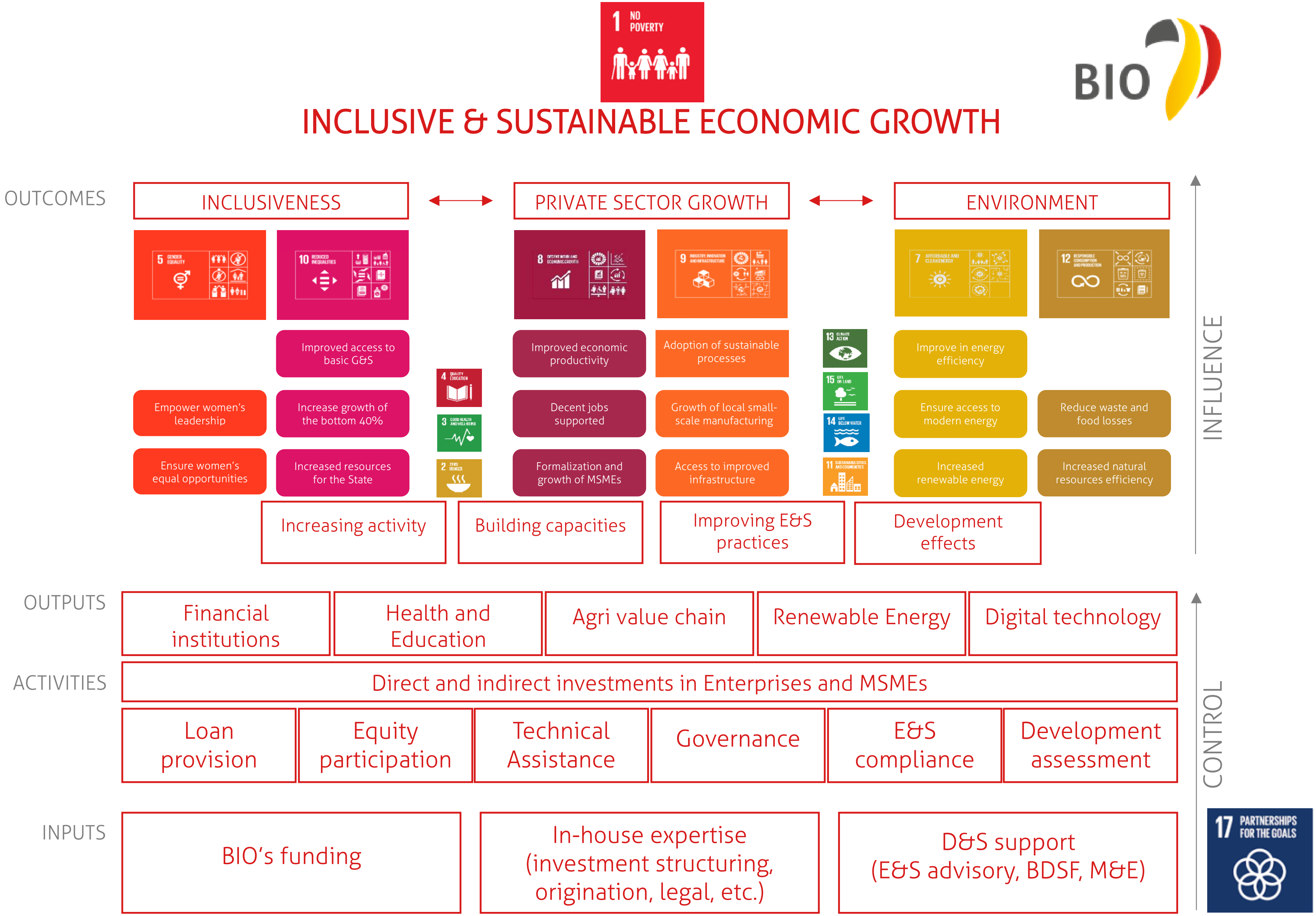
1 Local economic growth, Private sector consolidation/innovation, Food security & rural development, Access to basic goods and services, Financial inclusion, Fight against climate change & preservation of natural resources, Promotion of ESG, Gender.

2 The complementary document on the ToC will set out the list of indicators that BIO monitors for each SDG and its sub-targets. At the moment, BIO already monitors and reports on a number of development indicators such as number of (female) jobs, tax payments, MWh produced, GHG emissions avoided, access to financial services (number of disbursed loans for MSMEs), access to energy, ...

INCLUSIVE & SUSTAINABLE ECONOMIC GROWTH



II BIO' strategic positioning and actions

Aligned with our vision and mission, and in order to drive our action and strategy, we aim to be:

- ✓ Relevant
- ✓ Customer-centric
- ✓ Open

Relevant

One of the challenges for the coming five years is to maintain and improve the relevance of our activities in a global context of high liquidity and reduced interest rates and the limited human capacity of BIO compared to peers. In our operations, BIO would need to rely on some principles

- Select our battles: BIO remains a small player in the development finance world. In view of our size and relatively large investment scope, we need to define the topics and expertise we will develop internally and those where we will rely on indirect channels. We propose the following

Follow the lead areas	Create lead capacity
➢Large banks, insurance	➢Financial inclusion
➢Medium and large infra including energy & ports	➢Small-scale energy projects, off-grid projects
➢Large projects in agri, health and education	➢Support institutionalisation of SMEs in the agribusiness, health and education
➢Equity in digital technology	➢Direct equity in focus sectors
➢Medium-sized funds.	➢Financial inclusion & Small enterprise funds

- Increase sourcing power: With the objective to meet higher investment targets as well as improve the risk profile (with a larger pool of investments, selection can be tougher), BIO needs to intensify its prospection work. There are four main sources for projects: Direct sourcing, Co-investments with DFIs, Follow-on investments and fund managers approaching us directly (mainly fundraising).
    - Direct sourcing:
        - Increase local visibility with liaison offices
        - Expand generalist team to handle execution and free up prospection time for specialised teams
        - Maintain direct prospection trips and presence in conferences. Assess effectiveness in the long run
    - Co-investment with DFIs and like-minded investors:
        - Develop an effective and formalised collaboration with DEG in infrastructure and corporate investments and maintain an active partnership with FMO
        - Entertain strong links with DFIs or like-minded investors with syndication capacity including Proparco, Norfund, Finfund, CAF, CABEI & CIFI to create co-investment opportunities.

- Follow-on investments: BIO will strive to maintain a good communication flow and to have a proactive commercial approach with solid partners and clients that form new projects to pursue their expansion. These historical clients usually account for 10% to 20% of our yearly commitment.
- Fund managers:
  - Select fund managers with potential for good collaboration and market knowledge
  - Have a systematic approach towards co-investments with funds

- Be fit for purpose:
  - Review country list to incorporate developing countries that have an increasing and strong demand for a formal private sector.
  - Review our pricing policy to target market-based pricing and decrease the 5% floor (determined when treasury bonds in Belgium were 2-3% higher than the current period) to 3%. This policy shall be adapted if significant changes occur on the long-term euro bonds.
  - Increase investment ceiling to €20 million for infrastructure projects as this is often the entry ticket for participation to large projects as well as for financial institutions that present less credit risk.
  - As per the new Management Contract and BIO's OFC Guidelines, focus the shareholding's review on good fiscal practices.
- Keep profitability on track: with low interest rates and increased competition on low-hanging fruits projects, BIO needs to become better at handling risks:
  - Increased sourcing power will allow us to be more selective in our project choice.
  - Institutionalise lessons learnt through (i) harmonised investment analysis and credit risk analysis per department, (ii) workshops and (iii) regular training.
  - Strengthen coaching and intermediary levels management to create more collegiality in the analysis of projects and internal checks on analysis, structuring and process.
  - Balance the portfolio between innovative / riskier projects and lower risk-profile projects.

Customer-centric

- Be agile: Our unique selling point is our flexibility, allowing us to work with SMEs, small infrastructure projects and financial institutions. This will need to be preserved as our institution grows.
- Keep it simple: DFIs tend to overburden projects with requirements that are difficult to track both for the client and the DFI. We propose to maintain a pragmatic approach on legal, financial, E&S as well as development aspects and make sure we follow adequately on those and focus on the essential.
- Proactivity: Keep the assessment process short. Take a proactive approach to identify the main stumbling blocks in the assessment early on. Improve training and coaching of staff.

- **Keep costs low:** Benchmark the offers of external consultants, work with local consultants if services can be considered equivalent to international ones and use grants to reduce entry costs (feasibility studies including E&S and technical) if needed to reach high standards.
- **Follow the lead approach**: In syndication with high-profile DFIs that have equivalent standards to BIO, for projects that meet our strategic priorities; accept to follow recommendations in terms of E & S, Development, KYC as long as we haven't identified reputational risks and as long as BIO doesn't compromise on its standards.
- **Adapt project financing to the project needs**: Understand the financing needs of a project and adapt the structure (including repayment schedule, currency, security package).
- **Accompany our clients**: The relationship with a client should be maintained during the life of the project in order to generate new ideas, projects and encourage word of mouth. In the same vein of idea, we should intensify relationship with home-based companies and support their investment overseas as long as they agree to comply with our principles and standards.
- **Support clients with Technical Assistance**: because our clients not only need tailor-made investments, but also the skills and know-how to increase their business performance and improve their sustainable practices, BIO's Business Development Support Fund will strengthen its support to our investees with technical assistance programs and feasibility studies.

Open in our approach

- **Understand the environment** and context in which we work: connect with Embassies, be open to external recommendations
- When useful, reach out to stakeholders of our projects including local communities and NGOs.
- Get a fine understanding of sector, of players and of the full value chain.
- Seek cooperation with other actors of the Belgian Development Cooperation.

III New market orientations

This chapter aims to capture the main evolutions and common thematic of discussions in Development and Cooperation and to identify how BIO shall position itself identifying paths for implementation. More detailed strategic lines are provided for the gender and climate change topics.

A Recent market evolutions

DFI Environment

	Strategy 2019-2024	Considerations for implementation
SDGs overarching reference	- Build investment strategy, development reporting and communication around SDGs, in line with BIO's Theory of Change	- SDG 1 as our overarching objective, and SDGs 5, 7, 8, 9, 10 and 12 as our specific focuses. Develop a yearly reporting based on SDGs, in line with our current development assessment framework and Theory of Change - Communication actively on how BIO contributes to SDGs - Harmonise reporting with EDFIs on priority themes: gender, reduced inequalities, climate, indirect jobs modelling and jobs decency - Create opportunities for private Belgian investors to participate to SDGs
Impact investment on the rise	- Consider seeking additional funds from public entities (EU in particular) - Mobilise private funds in Belgium	- Create a working group to understand EU processes and requirements and suggest proposals to bid for EU funding - Pursue the SDG Frontier Fund
Increasing public scrutiny	- Sharpen the development message and strengthen E&S supervision of our projects. - Improve understanding of projects' ecosystem/contextual risks to anticipate negative development impacts. - Engage proactively with stakeholders.	- Create a specific cell to address high profile project communication - Create internal opportunities for debate on sensitive subjects. - Engage with NGOs and civil society to discuss specific themes on a case by case basis. - Think on ways to mitigate potential negative impacts of a project.
Increasing intermediation of projects	- Seize this opportunity, as locally rooted fund managers can bring more value to local economies.	- Strengthen the PE team to select high potential fund managers and build bridges for collaboration. - Create local offices to reach out to the market.

	- Regularly reassess our role and niches of intervention in a moving market. - Develop our sectorial relevance.	- Strengthen origination.

Themes

	Strategy 2019-2024	Considerations for implementation
Inequality	- Support a greater access to finance, energy, digital services, health and education. - Take into account the fairness of distribution of revenues between clients, financiers and other stakeholders (including the State), in particular in those industries directly affecting a poor population.	- When selecting projects, screen for sufficient access of the population to the services, the transparency of prices, the respect for the customers and consistent quality. - Use Technical Assistance to support programmes increasing access to services.
Gender	- Create opportunities to push the gender agenda in some of our projects.	- Finalise the gender policy by end 2019. See infra for implementation plans at investment level.
Migration / Demographic evolution / Urbanisation	- Emphasise basic services to the population and food security - Invest in the private sector to support both urban and rural employment.	- Increase availability and access to services. - Set objectives in terms of job creation / support both directly and indirectly including in rural areas.

Sectors

	Strategy 2019-2024	Considerations for implementation
Climate Change	- Expand investment in sectors combating climate change - Identify opportunities for better use of natural resources in our existing and future portfolio - Consider risks of climate change in our portfolio	- See chapter III-C
Digital technology / Artificial Intelligence	- Support digitalisation of Financial Institutions - Create VC competency internally	- See chapter III-D

B Gender

Women have a crucial role to play in the economic growth of a country and the reduction of poverty. They, however, most often face unspoken barriers at the workplace, in accessing education as well as financial services, in developing their career and taking on professional responsibilities. Beyond the ethical dimension of such inequality, this precludes them from delivering their full potential in the development of the private economy which is a missed opportunity for the development of their countries. BIO is committed to use its investments, technical assistance services, as well as expertise, in supporting equal consideration of women in the development of the private sector.

Our **objectives** during the strategy period is to:

- Ensure that basic standards in terms of gender are taken into account in our E&S assessment;
- Strive to develop a gender-sensitive company ecosystem empowering women as workers, leaders, consumers and stakeholders and erasing barriers in access to profession for both men and women;
- Support equal access of women to products and services including health, education and financial services.

BIO will focus on **the following actions and measures** to develop a gender-lens approach across our investments:

1) **Raise awareness internally** to convey a consistent and convincing message externally and provide training to the investment team on gender-lens investment. This will also involve identifying our own gender-biases.
2) **Create tools to approach clients on this topic** and improve communication on gender equality issues. This includes:
    - Minimum standards to be integrated in our E&S analysis
    - Diagnostic and monitoring checklists per sector to support project's appraisal and supervision.
    - Standard argumentation for investment officers to address perceived issues reported by clients linked to women employment (fi, in terms of flexibility and reliability).
3) **Use subsidies to engage in proactive measures**. For instance, we could support through subsidies:
    - Diagnostic to review HR policies (including grievance or signalment mechanisms), organisation to improve gender balance.
    - Training programme to facilitate access to women to executive positions.
    - Studies to develop products and services targeting women
4) Engage actively in our investment activity in favour of women:
    - Continue our microfinance activity, which is mostly focused on women clients.
    - Support projects that offer fair access to women, in particular in the health and education sectors.
    - Support the presence of women at the emergence of a sector (e.g. tech sector) or in sectors that are less woman-friendly (e.g. infrastructure)
    - Propose at least as many women as men as BIO representatives on boards of our equity participations.

5) Partnership

Last but not least, with "gender-lens investment" gathering a lot of traction, BIO will maintain in close contact with peers, with DGD and Enabel as well as with organisations with a true gender focus (Women World Banking for instance) to learn from them and to create effective programmes. BIO is already a member of the Advisory Council on Gender and Development[3] and participates to the Gender Collaborative initiative within EDFI.

As a first step in launching our own strategy, BIO will propose entering the **2X Challenge program** that calls for the G7 and other DFIs to join together to collectively mobilise **$3 billion** in commitments that provide women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access.

C Climate Change

Over the strategy period, BIO will develop its assessment of risks and vulnerabilities associated with climate change and how they can be best mitigated through appropriate mitigation or adaptation measures[4].

BIO will work on four dimensions:

1) Engage our clients to go beyond IFC performance standards compliance and **identify solutions for increased efficiency** in the use of natural resources. To achieve this, BIO shall:

   - Make a "Climate scan" per investment sector and geography to understand where risks and opportunities lie in BIO portfolio.
   - Propose an audit to select higher-risk clients to identify potential for mitigation and/or adaptation actions. BIO would support such audits with the Business Development Support Fund.
   - Create a concise climate change check list per investment sector in order to facilitate the communication with the client, investigate prevention / mitigation measures that are taken or can be taken by the client regarding climate change impacts and raise awareness on efficient and sustainable use of natural resources (water, energy, raw material...) and waste management
   - Propose technical assistance to financial institutions to structure green financing instruments and hence facilitate the end beneficiaries in their energy transition.

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[3] https://www.argo-ccgd.be/

[4] **Mitigation** refers to efforts to reduce or prevent emission of greenhouse gases. Mitigation can mean using new technologies and renewable energies, making older equipment more energy efficient, or changing management practices or consumer behaviour. Examples are: renewable energy and energy efficiency projects, sustainable transport, fertilizer reduction and better land use in agriculture, reforestation, use of low-carbon methodologies,...

Adaptation refers to adjustments in ecological, social, or economic systems in response to actual or expected climatic stimuli and their effects or impacts. It refers to changes in processes, practices, and structures to moderate potential damages or to benefit from opportunities associated with climate change. Examples of projects are biodiversity management, flood prevention, improving assets/infrastructure to changing weather situations, water preservation.

- Increase staff awareness through trainings and case study presentations;

The Business Development Support Fund will play a role in providing subsidies or direct support programmes to help prospective and portfolio companies to undertake measures to mitigate their emissions or increase climate change resilience.

2) Pursue our investment in **clean energy projects with an objective to invest at least €150M in 15 projects over the strategy period**. This would include renewable energy projects and funds (including hydro, solar, wind, geothermal based energy) as well as energy efficiency projects. It is important to note, however, that an important level of capital is currently available from other public funders, including blended financing, and that well-developed projects at market conditions are increasingly difficult to find. The role of BIO is therefore not only contained on € volume but also on supporting small projects (up to 10MW), that raise less appetite from other funders in view of their size and complexity, yet still meet an acute need in our targeted countries.

3) Expand our investment scope in sectors combating climate change. BIO will, in particular, expand its investment scope to:

   - Off-grid renewable energy projects which, in view of the low maturity of the industry and lack of return, would probably fall under the code 5 vehicle;
   - Sustainable forestry projects (including reforestation and sustainable forest management) that capture carbon emissions and avoid their release;
   - Investments to improve the use of natural resources as well as smart technology.

4) **Mitigate financial risk of projects highly sensitive to natural disasters** (for instance, in agribusiness and renewable energy) by identifying insurance covers, creating buffers in financial projections to allow for an adaptation period after a natural disaster (typhoon, drought, etc), supporting emergency measures (new liquidity lines and stand-off period for loan repayment) as well as sensitise financial institutions and funds in taking adequate measures for their end-beneficiaries.

D Digital for Development (D4D)

In line with the Management Contract (art. 14 §7), it is foreseen to finance companies that have "digital" as core business, or that integrate a digital or digitalisation element in their activities.

Considering that, in BIO's target countries, most of these companies are often still in their start-up or early development stage, we foresee to invest mostly indirectly through Venture Capital funds. We will extract lessons from our first venture capital experiences (TL Com, Five, Omnivore) to guide us on additional investments.

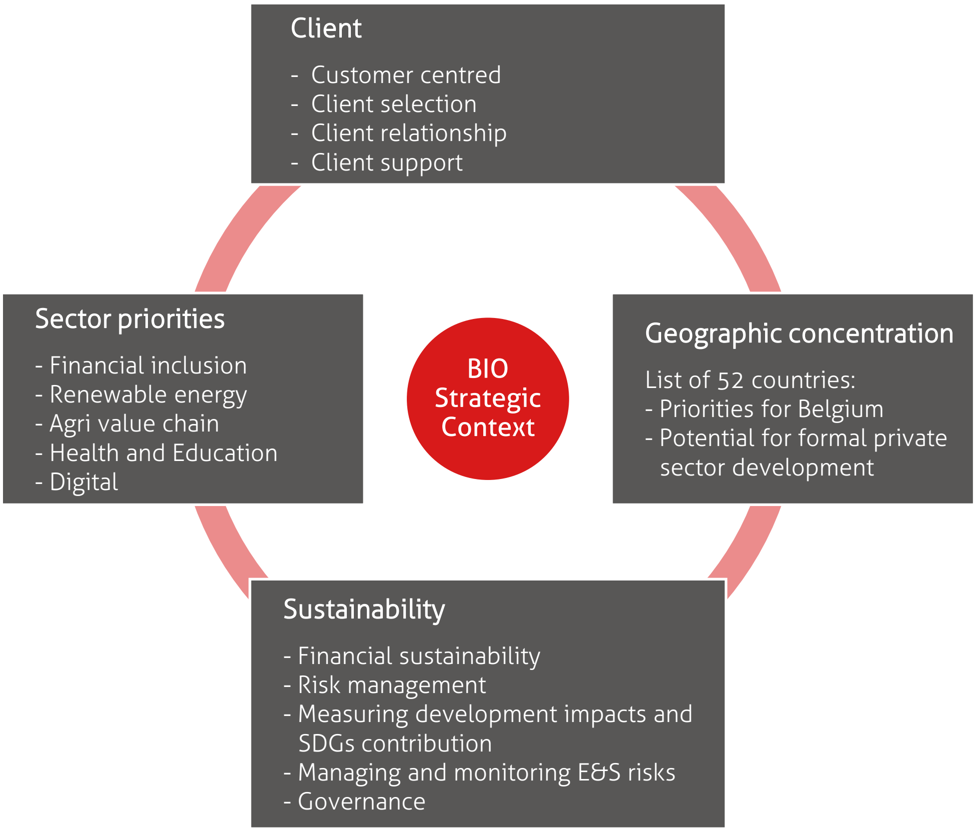
We also acknowledge that, as a priority, early-stage ventures need business incubation and development support, grants and sometimes concessional funding. In this respect, *Wehubit*, the D4D- programme of Enabel, DGD and BIO, is essential, as it offers exactly this type of support.

BIO's priority focus will be on integrating digitalisation in the activities of our client. Since mid-2018, assessments of potential clients and investment projects systematically include the investigation of their use of digital technologies or their intention to do so, in view of putting particular emphasis on them or providing particular support to them through TA subsidies. In addition, in 2019, BIO has launched a mapping of how our financial institution clients make use of digital tools, with the objective to provide TA support in cases of deficiencies.

BIO will also strive to increase awareness on digital and artificial intelligence topics through conference participation, internal presentations and workshops, so that teams can be aware of opportunities (and risks) offered by digital development.

IV Strategic Directions

A Our Ecosystem



BIO's strategic directions take 4 dimensions into account: the client, the geographical framework, priority sectors and sustainability. The Investment strategy takes place in the context of the Law on BIO of 03/11/2001, lastly modified by the Law of 25/10/2018 and the Management Contract agreed upon by the Belgian State and BIO with a duration of 5 years.

B Clients

BIO's core asset is its capacity to identify and select professional clients / entrepreneurs that not only have good projects but also share its values and collaborate to make a sustainable and positive impact on local economies. BIO's work is to accompany the entrepreneur who will achieve a positive evolution in a sector and a country. In this sense not only the client selection but also the quality of the client relationship should remain our priority. The other side of the coin is that our work starts and ends with an entrepreneur and that BIO is less qualified or equipped to spark entrepreneurship starting from a sector or country analysis.

C Geographic Concentration

As much as the clients are the cornerstone of our work, the selection of countries of operation is paramount to undertake our mission adequately. This selection depends on various aspects; on the one hand the existence of an economic, regulatory and security context allowing formal businesses to bloom and long-term investments to take place, and on the other hand the absence of private financing to ensure the additionality of our interventions.

The Management Contract provides for a selection of 52 countries. Previously, these countries were the following:

Africa	Algeria, Angola, ***Benin***, ***Burkina Faso***, ***Burundi***, Cameroon, Côte d'Ivoire, ***Dem. Rep. Congo***, Ethiopia, Ghana, ***Guinea***, Kenya, Madagascar, Malawi, ***Mali***, ***Morocco***, ***Mozambique***, ***Niger***, Nigeria, ***Palestinian Territories***, **Rwanda**, **Senegal**, South Africa, **Tanzania**, Togo, Tunisia, ***Uganda***, Zambia, Zimbabwe
Asia	Bangladesh, Cambodia, India, Indonesia, Lao PDR, Mongolia, Myanmar, Nepal, Philippines, Sri Lanka, *Vietnam*
Latin America & Caribbean	*Bolivia*, Brazil, Colombia, Dominican Republic, *Ecuador*, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, *Peru*

Current partner countries of the Belgian Federal Cooperation, *former partner countries*

We propose to maintain the core of our previous scope of countries in Africa, South East Asia and Latin America, where we have built knowledge and relationship. We will, however, amend the previous list to take into account:

- The interest of Belgium and EU to stabilise the Middle East & North Africa (MENA) region economically by supporting the development of job opportunities. That is why we have added a new MENA category that includes – on top of our previous countries – Egypt, Lebanon, Jordan, Iraq and Syria. In addition, we have added Pakistan to our Asian countries.
- The removal of countries with limited economic scale such as Angola, Haiti, Laos, Mongolia and Togo.

BIO shall therefore concentrate its efforts and investments in the following countries.

Asia	Bangladesh, Cambodia, India, Indonesia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, *Vietnam*
Latin America & Caribbean	Bolivia, Brazil, Colombia, Dominican Republic, *Ecuador*, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, *Peru*
Middle East & North Africa	*Algeria*, Egypt, Iraq, Jordan, Lebanon, Morocco, ***Palestinian Territories***, Syria, Tunisia
Sub-Saharan Africa	***Benin***, ***Burkina Faso***, ***Burundi***, Cameroon, Côte d'Ivoire, ***Dem. Rep. Congo***, Ethiopia, Ghana, ***Guinea***, Kenya, Madagascar, Malawi, ***Mali***, ***Mozambique***, ***Niger***, Nigeria, Rwanda, Senegal, *South Africa*, ***Tanzania***, ***Uganda***, Zambia

Current partner countries of the Belgian Federal Cooperation, *former partner countries*

As per the previous strategy, we shall continue to consider funds and investment companies with a wider spectrum of intervention as long as at least 60% of BIO's investment is expected to be directed at our targeted countries.

<u>Africa</u> requires enormous investments to close the gaps of financial inclusion, infrastructure, skills and entrepreneurship in a context of fast population growth and urbanisation. While the previous decade benefited from a commodities rise, the current lows have curtailed the economy of commodity reliant countries such as Nigeria, Mozambique and South Africa. Our portfolio of investments will focus on the diversification of the economies, the creation of local champions, the development of infrastructure and the deepening of financial inclusion. End of 2018, Africa accounted for circa 50% of our outstanding portfolio. We expect to maintain such high exposure level in the future. We will focus on key economies for the continent including Ivory Coast and Kenya, where we will open local liaison offices, but also

the Democratic Republic of Congo, Mozambique and Nigeria as these countries have the size and dynamism for a scalable and formal private sector and play a catalytic role in their respective subregions with entrepreneurs expanding businesses outside their borders. BIO will maintain her prospection activities in the priority countries of the Belgian Federal Cooperation even though we expect that investments in Guinea, Benin, Niger and Burundi will probably be handled by the Capital in Subsidies facility. Finally, we intend to continue our initial exploration of Ethiopia.

In MENA, next to Morocco and Tunisia where we are already doing business, we expect an interesting pipeline could be developed in Egypt thanks to our existing partners (DFIs and Private Equity (PE) managers such as AfricInvest). Palestine would however remain mostly a code 5 option in view of the fragile political and economical context. More research will be needed for Lebanon and Jordan before we can start investing. BIO also added Iraq and Syria to its list of countries, acknowledging, however, that active investments will only start once adequate security allows for a relaunch of international cooperation, a resurrection of a formal private sector and a return of foreign direct investments.

South East Asia and South Asia account for 25% of the world unbanked and is the region most vulnerable to the climate change. Financial inclusion and renewable energy / energy efficiency shall remain the priorities in our action. In South-East Asia, our prospection efforts will focus on Myanmar and Indonesia, both economies that require significant investments for financial inclusion and infrastructure. Depending on the success of the local liaisons in Africa, we could consider opening a liaison in South East Asia by 2022/2023 to gain a deeper understanding of the market and of interesting projects and clients. In South Asia, India will remain the core country of investment. In view of our limited room for new investment in the country, we will focus on investments (a) improving financial resources for the very poor (through microfinance, support of smallholders agri value chain), (b) creating efficiency in use of resources (water, energy) or (c) in innovative projects benefiting a large population. Similar to Egypt, we expect an interesting pipeline could be developed in Pakistan thanks to our existing partners (DFIs and PE managers such as Incofin).

In Latin America, we will focus the direct prospection on the larger economies (Ecuador, Peru, Colombia, Paraguay) while projects in other countries shall be sourced through regional conferences and partnerships with other DFIs. In our intermediary work, we shall prioritise debt funds over PE funds as they prove more resilient in the region while still providing SMEs access to funding.

MIC versus LIC and LDC: Though many countries in our intervention scope are LDC and LIC, BIO will continue supporting Middle Income Countries as they require significant investments in private projects to maintain and consolidate their economic position, reduce the regional and social inequalities and resolve uneven access to finance. MIC will also often drive the changes in less developed countries, such as is the case for Morocco and Tunisia, which are active in SSA. DFIs such as BIO can also play a counter-cyclical role during macro-economical headwinds, as currently the case in Tunisia.

In the 14 Priority Countries of the Belgian Cooperation, BIO will make a special effort to identify projects and make full use of its array of instruments including Subsidies in Capital, Technical Assistance, mobilisation of third-party blended finance and guarantees to carry out its mission. BIO also intends to collaborate closely with Enabel, DGD and the regional embassies to foster an enabling environment for the emergence of a strong private sector.

D Strategic priorities

The strategic priorities as per the Management Contract include:

- The financial sector contributing to financial inclusion of the local population and of targeted enterprises (in particular SMEs).
- The agricultural sector through enterprises active along the agricultural value chain – BIO would be particularly attentive to ensure the consistency of its approach for the full value chain and to contribute to food security.
- The energy and energy efficiency sector to improve the quality of life of the local population and economic development. BIO will prioritise enterprises producing energy from renewable sources.
- Enterprises that fight climate change with an objective to reduce CO_2 emissions and substitute fossil energy generation.
- Infrastructure projects that are directly relevant for the MSMEs and the social economy
- Digital enterprises or enterprises including digital elements in their core business.
- Basic Services to the population.

In terms of prospection, deal identification and expertise/experience building, we propose that the team focuses on the following four sectors:

- Financial sector for financial inclusion;
- Energy with a focus on renewable energy and energy efficiency and the fight against climate change;
- The agricultural value chain;
- Health and Education.

On top of these prospection priorities, BIO will place digital technology as an over-arching instrument that creates efficiency, expands access to products and services, reduces costs and creates new opportunities for developing countries. As such, BIO will endeavour to build knowledge in **the digital economy** and will collaborate with players (mostly fund managers) that have access to a large spectrum of enterprises in the rising digital economy and are able to select the most promising ventures. BIO could also co-invest in funds dedicated to digital on a case-by-case basis. BIO will also devise programmes to direct clients towards more digitally-based processes.

BIO will still consider investing in projects in other sectors including telecoms, harbour, water treatment plant, manufacturing, without however actively prospecting in these sectors.

1. Financial sector for financial inclusion

"Financial inclusion is on the rise globally. (…) 1.2 billion adults have obtained an account since 2011, including 515 million since 2014. In developing economies, the share (of adults who have an account through a financial institution or mobile money services) rose from 54 percent in 2014 to 63 percent in 2017. Yet, women in developing economies remain 9 percentage points less likely than men to have a bank account. This third edition of the database points to advances in digital technology that are key to achieving the World Bank goal of Universal Financial Access by 2020."

Global Findex Database 2017.

Over the past strategic period, we have noted the following evolutions in the financial sector:

- The financial industry moved towards financial inclusion as an objective, replacing the earlier focus on microfinance and microentrepreneurs. This entails that industry players now target the full population, as well as micro and mezzo entrepreneurs, and endeavour to offer a large range of financial services in an ethical and sustainable manner.
- Increased professionalisation at supervisory and regulatory levels. In most markets, the smooth communication between the regulatory authorities and the practitioners reduces the disruptions in the financial sector (such as unilateral pricing cap), improves the transparency and decreases the over-indebtedness crisis in the market. Much still remains to be done to maintain a safe, open and enabling regulatory environment for finance providers and to adapt to an increasing digitalised environment.
- Increased financial maturity of microfinance institutions, some of which transform into banks and gain access to deposits and sometimes capital markets allowing for more autonomy and capacity to serve their market.
- Digitalisation is now on the agenda across the industry. Starting with improved financial services reaching out to the population through mobile, efficient information systems to monitor the activities of the institution, over digitalisation tools effectively processing loans, to the use of Artificial Intelligence to streamline credit decisions. As a result, there is a rising number of technology companies specialised in financial services ("fintechs")
- Awareness of Environmental and Social risks is rising, but most banks have not yet developed E&S processes and supervision tools.
- Women-focused programmes are developed by organisations like IFC and FMO, including specific credit lines for women entrepreneurs and business support subsidies.

Besides in the financial institutions sector, financial inclusion and access to capital to SMEs is also supported by **investment funds** and PE funds in particular. These offer long-term patient capital to SMEs and intervene actively in the governance and strategic decision making of enterprises, improving standards and transparency and facilitating exchanges of experience and knowledge. The PE industry has been growing in our markets and is now in full expansion in new regions (for instance Ethiopia, Cambodia, Myanmar) and sectors (agri, education, venture capital) creating significant opportunities for local entrepreneurs to improve their competitiveness and outreach.

We propose to pursue the following type of investments in financial inclusion:

- Providing credit lines to MSMEs channelled through financial institutions – including microfinance institutions, leasing, factoring and banks either targeting MSMEs only or with a specific strategy for the MSMEs.
- Improving the capital basis (through equity participation, tier 2 financing and other subordinated debt) of financial institutions playing a significant role in financial inclusion.
- Supporting funds that have a strong outreach and create substantial value for their investees and are additional to our intervention.

On a more qualitative basis, in the coming 5 years, BIO will endeavour to

- diversify its clients' offer of services to micro and small entrepreneurs and a wider underserved population through various type of loans (encompassing business loan but also health, education or housing loans), savings, microinsurance as well as digital access to financial services;
- improve outreach to underserved populations, regions and sectors and test credit lines with agri- and gender dimensions.
- teach all clients working with the most fragile population about the Client Protection Principles (CPP) in order to foster price transparency and respectful client relationships and to limit the risk of over-indebtedness.
- encourage clients to get involved in programmes supporting local financial sector creditworthiness (through credit bureaus) and good practices.
- increase the awareness of fund managers in terms of E&S standards and development objectives

Areas that we would want to cautiously explore include:

- interacting with players active in consumer financing, as long as they are ethical and comply with stringent customer protection principles and focus on access to basic services to the population. Consumer financing can support better access to services for the wider population including health, education, water, electricity and housing.
- insurance companies that allow economic players and the general population to better address inherent risks.
- Fintech either through loans to support the development of a credit portfolio or through capital to create scalability and reach profitability.

With BIO's mainstream investment instruments ("code 8"), we will invest through equity and debt in banks, leasing institutions as well as medium to large microfinance institutions to foster financial inclusion and refinance MSMEs. We will also provide equity mainly to funds to support SMEs with good prospects to reach scale and high operational standards. The Subsidies in Capital instrument ("code 5") will, however, allow us to target small cooperatives and microfinance institutions with a strong development mandate as well as more innovative initiatives, greenfield institutions and fragile countries.

2. Energy with a focus on renewable energy and energy efficiency

In the energy sector, BIO has two main objectives:

- Efficient and low-priced access of **energy to all** supporting economic growth, employment, equal opportunities and quality of living;
- A large clean-energy component mitigating climate change.

In the coming 5 years, we will prioritise **renewable energy** both in terms of prospection and time allocation. This includes hydroelectric, geothermal, wind & solar energy. Hybrid projects (for instance solar with diesel backup), biomass, waste-to-energy as well as energy storage will also be considered. If these projects have grown in our portfolio during the past 5 years, it is important to underline that there is a lot of public money chasing a few birds and that it becomes increasingly difficult for our team to find bankable project at market interest rate.

BIO will only support projects using **conventional resources** (gas/oil) if they are key for an adequate energy mix, if they significantly improve access and outreach and if alternative renewable energy projects are insufficient to meet production, price and security of supply targets. Support of such projects will mostly be in Sub-Saharan Africa where lack of energy access constrains the economic development and industrial competitiveness of the region. Such projects will always be scrutinised on compliance with both environmental and social standards and the host country's engagement during or following the COP21[5] .BIO's intent is to prioritise renewable alternatives to conventional energy projects and to tend towards a 100% renewable portfolio.

We will also support energy efficiency projects either as the main characteristics or as a side-benefits of the project intervention.

The range of projects could include, on a non-exhaustive basis:

- Independent Power Producers selling electricity on-grid to a local distribution company on the basis of a long-term purchase contract or on the wholesale market;
- Captive power projects for commercial and industrial off-takers including mines, cement facility, other types of factories, tourist centres, hospitals or industrial parks;
- energy production for mini-grids with often pay-as-you go options.
- off-grid projects that offer household electricity and connections to consumer appliances (typically solar home systems);
- corporates investing in an energy efficiency program.

Though we will actively pursue collaboration with other DFIs (e.g. FMO, DEG, Proparco) for large infrastructure projects, we will **profile BIO as a reliable leading financial partner in smaller-size renewable projects**. We expect to build on the experience gained on Rwimi in Uganda, San Martin in Nicaragua and now Hydroneo in Rwanda to develop such a know-how across the infrastructure team. BIO will also partner with like-minded players such as Triodos, Oikocredit and responAbility that share the same objectives and standards. Also, in order to give more flexibility to the team in structuring small energy projects, BIO will be able to commit up to 60% of such project costs.

We will also **provide equity to support developers** in the renewable energy / energy efficiency space through investments in funds. We also expect to support **off-grid and mini-grid projects** through our Subsidies in Capital facility as this growing sector still lacks maturity and sufficient evidence of long-term financial sustainability.

3 Agriculture Value Chain

The 2018 Management Contract establishes that BIO will support entrepreneurs along the whole agriculture value chain (from producers to consumers) with attention to the impact of its intervention at each level of the value chain and clear link with the food security in our target countries.

The internal Agri Task Force set up in 2017 came up with 15 recommendations (cf. Box 1) for future interventions.

[5] COP21 is the United Nation Conference on Climate Change which took place in December 2015 in Paris

Recommendations Task Force

1. Increase the volume of indirect investments, both on PE Funds and FIs, MFIs with specific focus on agriculture and agribusiness. Continue to invest directly in agro-industry projects
2. Agro-forestry projects should be considered on a case by case basis
3. Invest more in local currency, also through an external guarantee
4. Further look for "aggregation points" to reinforce smallholders' inclusiveness as well as external support for risk mitigation
5. For direct investment take the farmers' perspective during due diligence and implement a close qualitative monitoring
6. Hire an agriculture investment expert and develop internal expertise
7. Pilot local presence, specifically in Western and/or Eastern Africa
8. Prioritise ESG requirements for direct investments with strong developmental perspective
9. Enhanced use of the MSME Support Fund to support agro-industry projects including a strong focus on smallholder empowerment.
10. Increase alignment & complementarities with other development cooperation actors. Business advisory, business development services and technical assistance to increase the pipeline of sustainable agri-projects
11. Invest in companies that enhance agriculture value chains and their actors' functioning
12. At project level, enhanced coordination between private sector development actors and explore the opportunity of a projects pipeline platform/clearinghouse
13. Connect with CSAF and other networks of actors
14. Increase BIO's impact with new financing instruments and/or an external guarantee
15. Review the MSME SF scope to support PE equity funds with high risk, low return but expected high impact

When investing in agriculture and agro-industry projects BIO specifically aims to:

- Promote rural economic activity and strengthen and expand agricultural and agro-industrial activity in general to feed a growing world population. This means improving the production potential in terms of quantity, quality or efficiency.
- Increase access to food, in particular for the hungry/poor
- Stimulate rural economic development
- Strengthen employment (supporting and creating jobs)
- Invest in export-focused agriculture in view of the items mentioned above under conditions that it does not adversely affect the domestic market
- Structure value chains
- Ensure fair deals for smallholders (via outgrower schemes, contract farming...) and fair risk and cost/benefit sharing between farmers and the other actors in the value chain
- Increase domestic resource mobilisation: taxes and (gross) salaries paid, local purchases of goods and services, and any other (net) cash transfer from a BIO client to the local economy
- Increase ESG standards at investee level, including decent working conditions

- Improve the quality of products delivered on markets and promote private sector innovation

Our strategy is to:

- Support aggregators to reach farmers and rural areas. These can be funds (e.g. Fairtrade Access Fund), financial institutions or direct projects (e.g. Babban Gona or Laiterie du Berger);
- Consider (agro) forestry projects with a strong link to local communities;
- Use the code 5 tool to expand the range of possibilities for our investments;
- Expand our prospection capacity through offices in Nairobi and Abidjan;
- Create a close collaboration with AgriFi, Incofin and other specialised players to identify opportunities;
- Create new learning opportunities for our teams through training and exposure in conferences.

Thanks to a renewed focus, the use of Subsidies in Capital for higher risk / lower-return projects, partnerships, co-investments and a more local prospection with our offices in Nairobi and Abidjan, we aim to have at least 15% of our new deals to have an agri-feature annually.

4. Health and Education

These basic services are directly linked to SDG 3 and 4. Access to health and education are key elements of quality of life, resilience capacity, empowerment of women and men and the creation of economic opportunities at all levels of society. In a context of strong demographic growth, the need for these services is acute and requires significant investments, the development of new outreach models, cost-effective service delivery, an effective insurance coverage in the case of healthcare and the enhancement of skills and employability in the case of education. We believe that the objectives of universal access to healthcare and to quality education require a combination of efforts of both the public and private sector.

The private sector can play various roles:

- Provide financial support – such as emergency loans, savings, health insurance (through MFIs & insurance companies), education loans (by MFIs as well as banks).
- Develop health facilities accessible to a broad population, including hospitals, primary and secondary clinics, diagnostic centres, dialysis centres, ambulatory services, etc
- Provision of K-12 education, college, universities, as well as professional education and complementary training for adults;
- Management of health & education facilities;
- Development of telemedicine services, auxiliaries to education (on-line tutoring, coaching, etc) to allow remote access to services.
- Delivery of essential goods - with the pharmaceutical industry in particular.

Working on these topics, BIO needs to ensure that the approach of our clients is inclusive (allowing access to a large share of the population), consistent with the policy of public authorities and beneficial to the other actors of the sector. In particular, BIO should ensure that its investees collaborate with public authorities such as regulators, supervisors and policy-makers and to create beneficial and strong links with public operators.

With an adequate selection and evaluation of projects, we can make a significant positive impact on the local population by improving the access and quality of services and supporting important initiatives in our intervention countries. We consider that this topic is also well suited to BIO's size and SME focus.

E Sustainability

We aim to be financially sustainable so we can reinvest in new projects and support the mobilisation of private investors in developing countries. We need to measure our development impacts adequately to confirm our positive role in the economic development of our target countries and to manage and reduce the environmental and social risks of our work.

1. Financial sustainability

Three components are key to ensure financial sustainability:

Profitability of our operations: As the treasury interest rate remains low, we rely entirely on the healthy growth of our portfolio to drive our profitability. One of the challenges ahead is to reach a higher use of BIO's capital (of BIO's 2018 capital, only 55% was disbursed and 80% committed) and to maintain an adequate risk/return position. BIO's current minimum pricing is above the level accepted by sister DFIs and limits our capacity to expand our portfolio. We therefore propose to reduce the minimum pricing for loans in euro to 3% and to aim at a minimum 10% return for equity. This proposal is to be revisited in case of significant variations of 10 years OLO[6].

Quality of investment process: The quality of our portfolio depends on the quality of the selection, of the evaluation and the negotiation of projects. Increasingly, BIO intends to work in team, coordinated by the investment officer, to ensure that all risks of a project are taken into account, that all risk mitigators are identified and put in place and the lessons learnt are shared. This is expected to also improve the transition of deals to the portfolio department when completed and hence also the quality of the officer/client relationship. One of the main tasks during the current investment strategy period will be to formalise some investment guidelines and rules per expertise that can support the institutionalisation of our credit processes.

Diversification of portfolio: Another key feature of risk management is limiting exposure to one specific sector, country or counterpart. On this aspect, we expect to maintain the same historical rules:

- Maximum 5% of total BIO's means per client
- Maximum 10% of total BIO's means per group or holding
- Maximum 10% of total BIO's means per country
- Maximum 50% of total BIO's means per continent.

We will also add the rule that max 5% of BIO's total means shall be engaged with one counterpart. This is particularly relevant for energy projects whose sole final off taker is a

[6] Obligation linéaire / lineaire obligatie

public company. We also propose that the maximum ticket per project be increased to €20M (versus €15M in previous strategy) for investments that present an excellent credit risk.

Finally, we propose to increase the maximum exposure to an enterprise or infrastructure project from 50% to 60% of the balance sheet of the project and to maintain it at 25% for financial institutions.

2. Creating and measuring development impact

Responsibly managed companies, supported directly or indirectly by BIO, play a vital part in development: they employ and train people, pay taxes, and build and operate infrastructure and services. They not only generate sustainable inclusive economic growth, reducing poverty, but also set an example for other companies and contribute to the SDGs.

The framework for development assessment, reporting and monitoring is currently well in place with the current focus on improving the consistency and continuity of our reporting and monitoring to track our impact properly. Good progress has been made in 2018, with the creation of a database of development impact indicators across our portfolio, and, starting in 2019, we now expect to issue a yearly development report. This reporting, based on a comprehensive database of key indicators monitored over the years, will allow us to better measure, understand and learn from our investment activities. Our focus will also be on mapping our contribution to the SDGs in line with our Theory of Change, through a clear and systematic approach, and as far as possible, in line with other EDFIs.

Additionally, our annual evaluation allows us to draw lessons from a number of our investments and to implement these in our investment and monitoring operations. Also, the assessment done at the completion of every project will be reviewed and strengthened in the next years, thanks to the increasing amount of quantitative development indicators collected. Lastly, the contribution to the SDGs will be included in each end-of-year assessment.

3. E&S risk management and value-added to our clients

We will continue creating a positive impact on the local communities through our investments, through decent and safe working conditions, respect of human rights and environmental sustainability. We recognise that, although investments may bring about such positive outcomes, they may also have adverse environmental and social effects if not properly managed. Therefore, we integrate E&S considerations, based on internationally recognised standards and guidelines, into the entire investment lifecycle.

Over the past 5 years, BIO has taken significant steps in the assessment and supervision of environmental and social risks. More recently, the E&S Policy and Procedure Manual have been revised, improving our approach to assess E&S risks and to monitor progress and incompliances.

We work with clients willing to manage and improve their E&S impacts. In addition to the clear ethical reasons, we also believe that E&S risks and opportunities can translate into costs or benefits. Hence the early identification of E&S risks and opportunities allows BIO and its clients to reduce business risks, increase profits and business value and to improve development impact. While we must ensure compliance with our E&S standards, we will also look at opportunities to go beyond compliance and seek to leverage positive environmental and social impact.

To support this objective, we will strengthen the following pillars in the next 5 years:

- Improve E&S awareness of the investment and portfolio team;
- Ensure adequate support by E&S experts to clients;
- Implement our E&S policy and integrate best practices from peers including on climate, gender and human rights;
- Integrate E&S monitoring and reporting as part of the development effects reporting and Theory of Change and as part of our communication strategy.

In the next 5 years, we will consolidate the E&S risk management of our operations and tie it closer to the investment cycle, with a special focus on going beyond compliance and bringing E&S value-added to our operations and eventually to our clients. These developments will also allow BIO's to take the lead in more sensitive projects.

4. Governance

Governance is now part of the analysis of all relevant investment files. BIO is also a signatory to the Corporate Governance Development Framework and participates annually to the Corporate Governance DFI meeting. This allows for the sharing of practices, of updates on the evolution of corporate governance in the industry and for making harmonisation efforts. In the coming 5 years, BIO will continue to harmonise its approach vis-a-vis its peers in the industry, while maintaining a pragmatic approach in view of the small scale of our clients.

V Intervention channels

A BIO's Equity

In the coming 5 years, most financing will continue to stem from our equity under "code 8" financing from the Belgian state and accumulated reserves. This financing requires a return above the Belgian 10-year T-Bill (which in the past 5 years ranged from 0 to 1%) which has been successfully achieved over the past investment strategy period but requires us to maintain a high level of scrutiny as we continue to explore new niches, markets and search for additionality.

A key challenge will also be to put this capital to full use: to do so, we will need to expand our range of investment opportunities and to increase our annual commitments to €200M (from an average €150M currently). This will require expanding prospection work as well as increasing average ticket sizes to €6/7M (from €5 to 6M).

In order to maximise our additionality and leverage the long-term nature of this capital while maintaining a liquid position and shorter-term return objective, we propose to target a **40/60 equity/debt** distribution of assets (compared to the current 32/68). The equity portion will allow us to provide patient capital to final clients (SMEs & financial institutions mostly) and targets returns at a 5-10-year horizon. The debt portfolio will provide immediate returns and shorten the turnover of capital (including longer term infrastructure projects that usually get prepaid half-life). It is important to stress that the shift towards more equity will lead to more varied results (depending on the exit agenda and capital gains level) and an overall riskier portfolio.

On the equity side, considering the high-risk profile of our countries of intervention, we will target in priority **investments in funds**, as these allow for a maximum diversification of our risks and for us to rely on experienced and local management teams. The selection of funds will be made on the basis of (i) their capacity to complement and deepen our knowledge and intervention in a country, (ii) their willingness to collaborate closely with our investment team, (iii) their ability to come up with an interesting investment thesis in full understanding and respect of our development and ESG goals and (iv) the risk/return profile of this investment thesis. BIO will also be open to consider mezzanine funds with lower risk and higher liquidity than PE funds, as these can provide SMEs with much needed long-term capital with reduced governance and exit constraints.

BIO will also invest in **direct equity**, especially in financial institutions targeting MSMEs – as has been successfully done in the past – as well as directly in enterprises when co-investing with partners (either fund managers or DFIs) that have the means to closely monitor the investee. In the coming 5 years, we will carefully define our equity mandate as we estimate our maximum equity monitoring capacity to be around 20 investments. We will also regularly reassess our role in these equity participations and proactively implement exit strategies once our role is completed and an adequate return has been achieved. This will also allow us to recycle our capital on those projects with an urgent need for capital to develop.

BIO's main investment instrument will remain loans to financial institutions, infrastructure projects, enterprises and funds. This includes mostly senior loans but also subordinated loans with a higher risk/return profile. The maturity of loans will range from 4 years (for microfinance institutions) to 18 years (for renewable infrastructure projects) as required by the structure of the underlying investments. The extent of the collateral structure will also depend on the nature of investment, ranging from non-existent (in the case of microfinance institutions) to a very comprehensive security package (for infrastructure investments).

B Subsidies in Capital

BIO will receive €50M of Subsidies in Capital in the coming 5 years to develop a portfolio of investments with **high impact potential but with a higher risk or a lower return profile** than the projects we currently would do. Subsidies in Capital will support investments from €0,5M to €3M. Taking an average of €2M per project, this represents around **25 to 30 new investments** over 5 years (also considering the potential for new projects following repayment) and will therefore require BIO to significantly strengthen its operational teams and internal organisation.

Investments will only be made in projects that are in line with our strategic priorities, which include financial inclusion, agriculture, renewable energy, fight against climate change, digital, health and education. With this instrument, we will prioritise projects in Africa and we will do our best to develop a pipeline in the priority countries of the Belgian Cooperation. A few projects in Latin America and Asia could also be selected, as long as there is a strong fit with our 52 countries' geographical footprint.

The **additionality** of our interventions will be a core component in the selection of these projects. While we estimate that other DFIs will also be able to invest in these projects, we expect this to be done using only or mostly blended & off-balance sheet means.

We also intend that Subsidies in Capital become **a core component of our strategy to "Create Lead Capacity"** in financial inclusion, small-scale energy and off-grid projects, institutionalisation of SMEs in the agribusiness, health and education, direct equity and small funds, as per chapter II of this document.

BIO will also strive to be **catalytic** and to nurture those projects that have the potential to become eligible for mainstream investments by BIO and other DFIs in the medium to long run. This will also help create a sense of **continuity** in our operations.

In terms of **operationalisation**, this instrument will require a profound shift in our risk culture and appetite as well as in our prospection. To lead this process and establish this new culture, we will identify a **Coordinator**. This person will report directly to the Chief Investment Officer on the topic and will be responsible to feed the pipeline and the prospection, to develop new relations, to conduct prospection in some core countries, to report on progresses, to mobilise deal teams around projects, to create internal champions and to communicate internally and externally. In the coming 5 years, we will also need to recruit new team members to add execution and supervision capacity.

C Mobilisation of third-party investments

BIO will leverage its experience and expertise in impact investments to mobilise and administer third party funds. A first milestone would be the closing of a fund of funds structure (the SDG Frontier Fund) in 2019. If successful, BIO will build on this experience and strive to replicate it for other investment topics.

With its 2018 seven-pillar assessment completed, BIO is now qualified to bid for managing EU funds and to develop a blended investments capacity. An internal task force has been set up to liaise with the EU and identify the programmes that could support our operations and fit with our investment strategy. It appears that there would be an opportunity (to be confirmed by the European Commission in Q3 2019) in the current EFSD (European Fund for Sustainable Development) guarantee programme to develop a programme to support the agriculture sector through a portfolio guarantee for direct (SMEs) and indirect (microfinance institutions) investments projects.

Additionally, new programmes for blended finance and guarantees will be set-up under the new Commission. The task force will engage with the Commission and prepare to actively participate in order to access additional EU funding and guarantees that we can use to leverage our expertise as well as work with higher risk profiles for certain projects. We plan to develop such programmes when we see a clear fit with our existing strategy as well as our internal process capacity. The Coordinator for Subsidies in Capital could also play a key role in developing the EU relationship and programmes.

VI Organisation

BIO's operations are centralised in Brussels with four key operational departments involved in the investment cycle: the Investment Department, the Portfolio and Risk Department, the Legal Department and the Sustainability Department.

With a significant increase in number of projects (from 25 per year during the past Investment Period to 35 to this Investment Period) and new mandates expected, BIO will need to recruit across the organisation and to create new mid-management positions.

Focusing on the Investment Department, BIO has selected to structure the teams around 4 specialisations: Financial sector, Infrastructure, Enterprises and Private Equity. In the coming 5 years, we will develop a more commercial-focused approach to fill the pipeline with interesting projects. The **opening of two local offices in Nairobi and Abidjan** are a key move to sustain such development and improve our visibility. These offices are opening mid-2019 and are expected to transition from an expatriate staff to locally-hired recruits, allowing for a deeper access to and understanding of the local entrepreneurial environment and ensuring the continuity of our regional anchoring. With local offices, additional emphasis will be put in building links with Belgian Embassies and teams of other institutions of the Belgian Cooperation.

Over the coming 5 years, we expect to build the organisation around these 4 specialisations, one Brussels headquarter and two local offices and to keep a prudent approach to new mandates that could divert our attention and resources away from the high investment targets that we set ourselves to deliver.

VII Operationalisation of the Investment Strategy

The following table identifies actions and a timeframe to pursue the main strategic directions presented. This action plan will be subject to an annual review and update and constitute as a basis for setting internal roles and responsibilities as well as driving and assessing internal teams.

	2019	2020	2021-2023
Increased sourcing power	- Launch local liaisons - Sign collaboration agreement with DEG. - Prolong FMO collaboration agreement. - Sign Findev cooperation agreement. - Organise formal collaboration meetings with Norfund, Proparco.	- Add local hires at liaison offices.	- Evaluate local offices' performance end 2021. - Consider new collaboration agreements on a case by case.
Fit for purpose	- Finalise Investment Strategy. - Identify a coordinator for Subsidies in Capital and recruit a Director of SDG Frontier Fund. - Identify 2 IOs to launch local offices and recruit replacements. - Recruit to meet increased activity challenge.	- Strengthen mid-management of investment department. - Step up investment execution (linked in particular to Subsidies in Capital and increased sourcing power) through additional hires - Review or set-up investment guidelines per sector.	- Hire new collaborators linked to the increased supervision workload.
Third Party management	- Launch SDG Frontier Fund. - Identify programmes of collaboration with EU.	- Arrange second closing of SDG Frontier Fund. - Bid for EU Funds if good fit with our investment strategy.	
Gender	- Finalise Gender strategy.	- Participate to 2X Challenge Program. - Raise awareness internally. - Create tools including minimum E&S standards, check lists, argumentation. - Propose a couple of TA for proactive measures for gender equality.	- Pursue awareness trainings. - Improve tools. - Target a couple of TA programs every year.

	2019	2020	2021-2023
Climate Change	- Improve knowledge of the investment team on forestry and off-grid investments. - Map of off-grid opportunities	- Make a Climate Scan per investment sector - Define climate change check lists per investment sector. - Train for staff awareness and climate change check lists adoption. - Launch first climate audits. - Identify adequate mitigation measures to be proposed to clients or to internalise in our investment process. - Finalise first direct off-grid investments.	- Systematically use climate change check lists. - Propose climate audits regularly to clients. - Offer TA to financial institutions to structure green financing instruments. - Propose TA for supporting mitigation measures.
Digital Technology and Artificial Intelligence	- Arrange digital scan of financial institutions in our portfolio. - Adapt financial sector investment form to support digital analysis.	- Provide TA to a couple of clients to support their digital development. - Learn from our first VC funds investment in digital technology. - Create awareness through workshops.	
Geographic Concentration	- Inform our partners of changes in geographic concentration.	- Develop a pipeline for the MENA region. - Create new relationships in this region.	- Develop a MENA portfolio.
Financial inclusion	- Develop a pipeline for Subsidies in Capital. - Finalise digital mapping of our clients. - Adhere to new E&S standards for financial sector.	- Map existing initiatives by other DFIs in green loans, gender-lens loans, agri loans.	- Launch new products if enough market and relevant.
Renewable Energy & Energy Efficiency	- Do strong prospection work to maintain pipeline. - Collaborate anew with DEG, maintain strong links with FMO. - Develop capacity to lead small projects at all level (investment, legal, E&S, technical, etc). - Define an investment line for off-grid and build a pipeline for Subsidies in Capital.	- Collaborate with DFIs on at least two projects. - Enhance partnership beyond DFIs with other impact investors. - Lead at least two renewable projects. - Make first investments in the off-grid sector.	- Have a solid portfolio of on-grid renewable energy projects. - Develop an off-grid portfolio. - Develop a network of DFI and impact investors partners + renewable energy developers.

	2019	2020	2021-2023
Agribusiness	- Make Agri core focus of Enterprise department + significant target for funds and financial institutions. - Use Subsidies in Capital to target agri value chain. - Train on agri-financing.	- Leverage financing and guarantees for new agri projects from EU. - Identify sustainable agri projects through local offices	- Have a solid portfolio of agri projects (15% of deals should have an agri feature). - Address different stages of evolution of agri projects through full range of instruments available to BIO
Health and education	- Make a couple investments per year in these sectors. - Use TA to support improved access and services quality. - Engage with local authorities to ensure projects benefit the overall sector.		
Theory of Change and measurement of Development Impacts	- Approve final Theory of Change. - Launch a yearly Development Report.	- Align with SDG compass study. - Map our contribution to SDGs in line with Theory of Change. - Communicate actively on BIO's contribution to SDGs. - Harmonise reporting with EDFIs on priority thematic. - Review and strengthening of the end-of-project assessment.	
Environmental and Social		- Develop mandatory training programs for investment and portfolio team to improve E&S awareness. - Develop E&S handouts for each of our investment type (direct investment, fund, FI & MFI). - Create tools on climate, gender and human rights. - Improve external communication.	- Organise annual refresher on E&S for investment and portfolio team. - Support development of E&S officers' expertise. - Improve monitoring through increased client interactions and visits. - Exchange with peers and continuously improve tools with best standards. - Develop constructive relationship with NGOs on selected topics.
Subsidies in Capital	- Identify and execute first projects. - Identify an internal coordinator for Subsidies in Capital. - Develop next year's pipeline. - Develop communication tools.	- Do active prospection work, also leveraging local liaisons. - Build network among impact investors. - Develop reporting tools for this new instrument. - Execute annual target.	

VIII Portfolio Balance

On BIO's balance sheet, the portfolio is expected to maintain the around the same split in terms of development goals. We do, however, expect to double in size and impact over the coming 5 years, to manage an additional €50M for higher impact & risk projects (Subsidies in Capital) and to manage an additional €50M for third parties. We have made some simulations of this strategy up to 2023. Main assumptions being:

- Average investment of €6.5M
- €200M of new projects approved under Code 8 per year, 90% of which effectively signed.
- 35% new equity commitment per year, of which 20% direct and 80% in PE Funds.
- An average interest rate on loans declining from 4.7% to 4% by 2022.
- A dividend yield of 3.5% and 1.7 exit multiple for direct equity.
- A PE fund exit multiple of 1.5.

1 - KPI Code 8	2018	2023
Primary development Goal		
Financial inclusion	56%	45-55%
Energy	35%	30-40%
Agroindustry	8%	10-15%
Health and Education	1%	1-5%
Volume		
Net commitments	€780M	€1300 M
Outstanding	€514M	€950 M
Number of projects	128	220
Number of projects per year	25	30 +
Instruments used		
Equity	32%	40%
Debt	68%	60%
Average 5-year Return	**3.5% (2015-2018)**	**1.6% (2019-2023)**
Return end of strategic period	**1.1%**	**2%**

2 - KPI Subsidies in Capital	2018	2023
Net commitment	€0M	€50M
Number of projects	0	25/30
Number of projects per year	0	5/6

3 - Management for third parties	€0M	€50M

Abbreviations

CPP	Client Protection Principles
DFI	Development Finance Institution
DGD	Directorate General Development Cooperation
E&S	Environmental and Social
EDFI	European Development Finance Institutions
ESG	Environmental, Social and Governance
FI	Financial Institution
HR	Human Resources
IO	Investment Officer
K-12	Primary & Secondary Education
KPI	Key Performance Indicator
KYC	Know Your Customer
LAC	Latin America & Caribbean
LDC	Least Developed Countries
LIC	Low Income Countries
MDB	Multilateral Development Bank
MENA	Middle East & North Africa
MFI	Microfinance Institution
MIC	Middle Income Countries
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organisation
OFC	Offshore Financial Centre
OLO	Obligation linéaire / lineaire obligatie
PE	Private Equity
PE	Private Equity
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
TA	Technical Assistance
VC	Venture Capital

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