Key contacts:
Jérémie Gross - jeremie.gross@bio-invest.be
James Dunham - james@morgangreenadvisory.com

BIO Investing in a Sustainable Future

ATKINS Member of the SNC-Lavalin Group

Morgan Green Advisory

Climate Risks and Climate Finance Portfolio Evaluation

Why BIO commissioned this evaluation

BIO is seeking to better understand material climate-related risks and opportunities in its portfolio. In addition, BIO seeks to consider the risks and opportunities for BIO to strengthen its institutional capacity to manage climate risks (both physical and transitional) and finance high impact climate action (both in climate change mitigation and adaptation investments).

Atkins' and MGA's experts led an independent review of climate-related risks and opportunities in BIO's project portfolio and operational activities. This process was informed by a deep dive into representative sample projects, and by engagement with clients and internal stakeholders.

Findings and outcomes

Strategy - The extent to which BIO's strategy is aligned with stakeholder expectations, and is responsive to material risks and opportunities.

This evaluation represents BIO's first steps towards understanding its exposure to climate risk and the extent to which BIO leverages private sector investment in climate action. Key conclusions of this evaluation are:

- **Alignment of strategy** - Since the publication of BIO's Investment Strategy, stakeholder expectations and good practice on climate risk management and investment in climate action have significantly evolved. As a priority, it is recommended that BIO realigns its Investment Strategy with enhanced ambition, defined commitments and other good practice, and realigns the Environmental & Social (E&S) Policy with the updated Investment Strategy.
- **Opportunities to finance climate action** - BIO's investment priorities focus on mobilising private capital and catalysing enterprises in developing countries to invest in sustainable economic growth. 'Climate change' is identified as one of five focus areas. While climate finance volumes are comparable with its peers, there is an opportunity to raise ambition, increase diversification, and take proactive action.
- **Climate risk management** – Climate-related risks are relevant across all focus areas (financial inclusion, energy, agribusiness, health & education, digital economy) and BIO's portfolio is exposed to transitional and physical climate risk. There is an opportunity to integrate climate risk across all focus sectors, beyond the use of exclusion criteria.

Key contacts:
Jérémie Gross - jeremie.gross@bio-invest.be
James Dunham - james@morgangreenadvisory.com

BIO Investing in a Sustainable Future

ATKINS Member of the SNC-Lavalin Group

MGA Morgan Green Advisory

Governance - BIO's governance of climate risk and opportunities for investment in climate action.

The management of the climate risk and opportunities requires an integrated internal control process that is fully aligned from BIO's strategy to its policies, investment processes and portfolio management. Although BIO has a clear legal mandate under BIO's Establishment Act and Management Contract, there is an opportunity to better integrate and align interest with Strategy, E&S Policy and E&S Processes, and to build institutional capacity. As a priority, it is recommended that BIO:

- Assigns senior management responsibility/risk appetite for climate risk management and investment in climate action.
- Updates the E&S Manual with new climate risk and opportunity management processes, tools, and templates.

Risk and opportunity management - BIO's operational policies and processes for identifying, assessing, and managing climate-related risks and opportunities.

BIO currently generally considers climate risk as a subset of E&S risk. There are however limited references to climate risk within BIO's E&S Policy, E&S Manual or Investment Manual. Investment papers do include a section on climate change, but the application of climate risk and opportunity management is ad hoc and inconsistent. These factors, when combined with low internal capacity to assess climate risk to projects and to assess the capacity of counterparties to manage climate risk, mean that the management of climate risk and opportunities is insufficiently robust. As a priority, it is recommended that BIO establishes an integrated climate risk management function.

Metrics and targets - the metrics and targets used by BIO to assess and manage material climate-related risks and opportunities, and BIO's performance against these targets.

A robust understanding and disclosure of a project's sustainability performance is a central principle of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the EU Sustainable Finance Disclosure Regulation (SFDR). Existing frameworks need to be augmented and indicators developed to allow for the robust and transparent measurement of a project's sustainability (including climate-related) performance to offer confidence and reassurance to shareholders, regulators and project stakeholders. Guidance provided in TCFD and SFDR related to indicators, should be considered and integrated within operational processes.

The pathway forward

This evaluation has identified 20 recommendations structured by the four Task Force on Climate-related Financial Disclosure (TCFD) pillars. Each recommendation is rated by 'Operational Priority', 'Ease of Implementation' and 'Beneficial Impact' and includes a relative timeline, based on implementation phases: 'Develop', 'Implement', and 'Maintain'. An operational pathway has been developed to support implementation.