

# External Case Study Evaluation 2021-2022: Evaluation of BIO's contribution to reducing inequalities / SDG10

## BIO's management response to the evaluation's conclusions and recommendations

February 2023

### Introduction

The 2019-2024 management contract of BIO requires that each year a sample of BIO's investments, both ongoing and exited, must be selected for a detailed assessment of their relevance for local development. Beyond the pure accountability objective, BIO expects that the findings and lessons of the evaluations guide improvements in BIO's processes and investment strategy.

The mission of BIO – the Belgian Development Finance Institution (DFI) – is to support a strong private sector in developing and emerging countries, to enable them to gain access to growth and sustainable development within the framework of the Sustainable Development Goals (SDGs). An important SDG that is too little focused upon is SDG 10, which calls for reducing inequalities in income among and within countries, in addition to targeting inequalities on other factors such as age, sex, disability, race, ethnicity, origin, religion, or economic status. Inequalities continue to be a significant concern for developing countries despite progress and efforts to narrow disparities of opportunity, income, and power. Through its overall mission and specific interventions, BIO, alongside other DFIs, plays a significant role in reducing inequalities in income as well as on the above-mentioned other aspects, which, in turn, enables the realisation of other SDGs.

BIO seeks to address income inequalities between countries by investing in Least Development Countries (LDCs) and fragile states, through enabling economic structural transformations stimulating employment, private sector growth and productivity, and by targeting inclusive businesses (e.g. microfinance institutions, smallholder finance, agribusiness with smallholders, gender smart investment, off-grid power and solar-home systems, etc.). By triggering economic growth in low-income settings but also by directly targeting the bottom 40% of the population, amongst others through inclusive businesses, BIO's interventions aim at supporting reducing inequalities within countries. BIO is also combatting discrimination and inequality by supporting equal opportunity and protection for all the impacted stakeholders – including vulnerable consumers or communities – by promoting high Environmental & Social (E&S) standards, through imposing strong requirements regarding client protection, community health, safety and security, or land acquisition and resettlement.

While contributing to SDG 10 is a key objective under BIO's Investment Strategy and Theory of Change (ToC), the extent to which BIO's activities target SDG 10, benefit disadvantaged groups and effectively contribute to reducing inequalities has been less obvious. Hence, the aim of this evaluation was to assess BIO's contribution to reducing inequalities/SDG 10, and to identify how BIO should increase both the importance and the quality of this contribution. This aim involved analysing BIO's role towards the objective of reducing inequalities, its effectiveness in targeting this goal and

supporting clients to be (more) inclusive, as well as its client outreach to economically disadvantaged groups.

Through a call for tender process, the proposal submitted by specialized consulting firm Steward Redqueen was selected and the evaluation team – composed by Matthijs de Bruijn, Sabine Dankbaar, Rianne van Raaij, Morgane Fleury and Roberta Lesma – carried out the research and developed the report between March and December 2022.

The evaluation study combined both qualitative and quantitative data sources consisting of (i) BIO strategy and project documents as well as external literature, (ii) most-recent BIO portfolio data; (iii) an online survey among 31 (micro-) finance institutions (M)FIs (71% response rate); (iv) about 100 in-depth interviews with BIO staff, investees, Development Finance Institutions (DFIs), and other relevant external stakeholders; and (v) two field visits to Madagascar and Ecuador.

Table 1 – Case studies selected<sup>1</sup>

	Category	Company	Country	Type	Engagement
Agriculture	Large-scale production	JTF	Madagascar	Direct	Field visit
	Sourcing/processing, indirect support of rural jobs	Sofiary	Madagascar	Indirect (I&P)	Field visit
		Barnana	Ecuador	Indirect (EEF 3)	Field visit
		Niche cocoa	Ghana	Direct	Phone interview
	Processing & packaging	T&T fruits	Peru	Direct	Phone interview
	Packaging	Surpapel	Ecuador	Direct	Field visit
	Fund manager (VC)	Omnivore Partners	India	Indirect	Phone interview
Financial Sector	Generalist focus	Banco Solidario	Ecuador	Direct	Field visit
	Specific focus	Banco D-Miro	Ecuador	Direct	Field visit
Health	Targeting low-income clients	Ilara	Kenya	Indirect (Tide Africa)	Phone interview
		Opham	Madagascar	Indirect (Adenia)	Field visit
	Targeting high income clients	Khema	Cambodia	Indirect (CLMDF)	Phone interview

Thanks to the support and inputs from key experts at BIO, the Ministry, peers, and investees, the evaluation team was able to carry out an analysis of BIO’s strategy, practices, processes and portfolio (covering the whole 2021 portfolio, including funds’ investees) and an in-depth assessment for a sample of portfolio investment projects in the financial, agriculture and health sectors (see table 1).

The evaluation process has been supervised by a Steering Committee (SC) - made up of representatives of the Belgian Ministry of Development Cooperation (Ivo Hooghe, Evaluation Coordinator of the Special Evaluation Office – S2 ; Boogaerts Andreas, Member of the Results Unit – D0.1; Anne Van Malderghem and Filip Vandenbroeke, Private Sector Development unit – D2.4), a member of BIO’s Board of Directors (Annuschka Vandewalle), BIO Manager and Senior Portfolio Officer (Eric Suttor), and BIO Senior Development Officer (Jérémie Gross) who coordinated the assignment with BIO Junior Development Officer (Silvia Kuehl).

1 The data collection included interviews with the fund managers responsible for the indirect clients selected for the case studies: IPAE II, Ecoenterprises, TIDE Africa, Adenia, CLMDF, FairTrade Access Fund.

# Report findings

This report summarizes the findings of a systematic evaluation of BIO’s activities and projects/portfolio to assess BIO’s contribution to reducing inequalities/SDG 10, and to identify how BIO could improve its contribution in the future. This process was informed by an evaluation of:

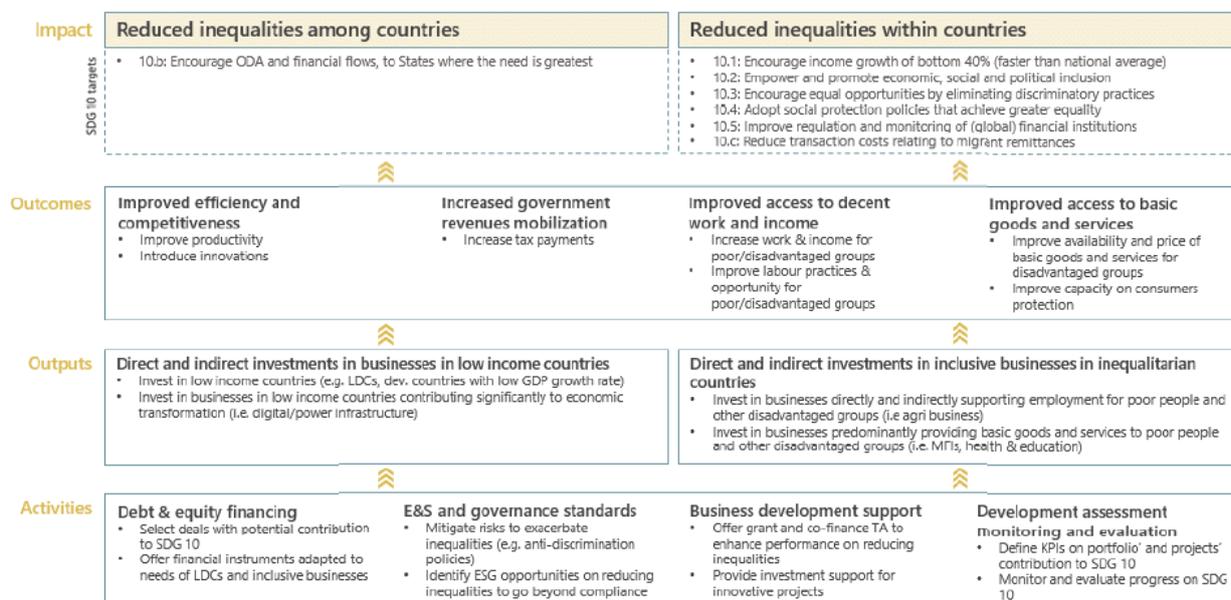
- BIO’s internal documents and other relevant/peers’ documentation;
- BIO’s investment portfolio (as of end of 2021);
- An evaluation of a representative sample of project case studies (table 1);
- Engagement with stakeholders (through an online survey, in-depth interviews and field visits).

Below are key conclusions from the analysis that are structured in accordance with the six OECD DAC evaluation criteria:

## 1. Relevance – To what extent do BIO’s activities and interventions address reducing inequalities/SDG 10?

- BIO and other DFIs can stimulate employment, private sector growth and productivity which should reduce inequality among countries, by investing in LDCs and fragile states. There are also opportunities for DFIs to reduce inequalities within countries by supporting inclusive businesses. However, DFIs also risk exacerbating inequalities, especially in highly unequal countries.
- Contributing to SDG 10 is a key objective in BIO’s investment strategy and Theory of Change (ToC), but not fully elaborated nor explicitly operationalised. BIO has indeed prioritised SDG 10 for its interventions in its ToC; however, BIO does not explain in sufficiently clear terms how its activities are linked to reducing inequalities/SDG 10, nor has it developed a strategy outlining what its concrete ambitions are in terms of contribution to this SDG.

Table 2 – Theory of Change of BIO’s contribution to SDG10



- BIO does not explicitly and systematically identify, prioritise, or explain how it selects clients that contribute to SDG 10, although there is an implicit focus through proxy indicators. In the sourcing and selection of deals, some E&S risks and potential impacts identified for investments have a clear link to SDG 10; however, these are not documented sufficiently while they are actually contributing to reduced inequalities. This could be addressed on a more systematic basis.

- While BIO tracks impact indicators for all investees, these are mostly reported and analysed at portfolio level. In contrast to some peers, BIO does not provide insights into progress related to SDG 10 over time, which makes it challenging to assess whether BIO is improving its performance on this front.

## **2. Coherence – How does BIO contribution to SDG 10 fit with interventions of other Belgian development actors and DFIs?**

- Through Code 5 investments, BIO contributes to reducing inequalities. Due to the smaller ticket sizes and lower return expectations, Code 5 investments are more tailored to LDCs and inclusive businesses than BIO's standard Code 8 investments.
- Collaboration between BIO and other DFIs and Belgian development actors on SDG 10 is limited, and operationalisation of the topic within organisations differs. There is no exchange between Enabel and BIO on SDG 10. While BIO is involved in initiatives related to this SDG among EDFIs/other DFIs, these have a rather general focus.

## **3. Effectiveness – What are BIO's achievements related to reducing inequalities among and within countries?**

- BIO requires more Code 5 investments, which have high potential of contributing to reducing inequalities, to address SDG 10 through its interventions.
- BIO invests a relatively large share of about a third of its portfolio volume in LDCs and fragile states, which could contribute to reducing inequalities among countries in the long run. About one third (€224m) of BIO's outstanding portfolio and 35% of its direct and indirect investees are in LDCs and fragile states, which is significant compared to other DFIs.
- BIO invests about 40% of its direct investment volume in businesses that potentially contribute to reducing inequalities within countries, mostly in most inequalitarian countries. However, the definitions used in BIO's development assessment framework are not specific enough to determine the effective contribution of these investments to SDG 10.
- BIO invests about 33% of its indirect investment volume in businesses in agri-value chains and the energy sector, as well as in MFI investments, which have a relatively strong link to reducing inequalities within countries. BIO reaches more MSMEs, which are typically more closely linked to un(der)served, vulnerable populations, through its indirect investments through funds, as compared to direct investments.

## **4. Efficiency – How efficiently does BIO use its resources to contribute to SDG 10?**

- BIO's risk appetite and instruments (especially Code 5 investments) enable BIO to reach LDCs/fragile states as well as inclusive businesses, but this is not formally incentivised.
- BIO's harmonization capacity is not fully set up for direct investments specifically targeting reduced inequalities. For insights into the local context of its interventions and part of the E&S work, BIO to an extent relies on external stakeholders. The downside of its limited local presence and resources and outsourcing is a loss of control and limited internal capacity building on SDG 10.

## **5. Impact – What difference does BIO make in its contribution to reducing inequalities at client level?**

- Awareness on the topic of reducing inequalities among BIO's investees is low. Reducing inequalities as such is not a topic that is top of mind of clients and is not explicitly part of discussions they have with BIO.
- BIO identifies the key development impacts for its investees, but the rigorousness of the analysis, and level of investee engagement varies.

- BIO identifies and analyses risks of exacerbating inequalities systematically through the IFC Performance Standards (PS) but faces challenges in mitigating some risks. The key risks identified and analysed through the lens of the IFC PS are minimum standards that are not always sufficient to fully address risks related to exacerbating inequalities.

#### 6. Sustainability – What is the extent to which the net benefits created with BIO’s contribution continue, or are likely to continue?

- Some of BIO’s Business Development Support Fund (BDSF) offering helps companies in improving their contribution to reducing inequalities or in mitigating risks related to exacerbating inequalities. However, improving a company’s contribution to reducing inequalities or helping them to mitigate risks related to exacerbating inequalities is not an explicit focus area.

## Management response

The feedback of BIO’s management to the evaluation is positive and the final report is deemed fit for its overall purpose. The management appreciates the quality and readiness of the report, including the comprehensiveness of the analysis, along with the identification of both risks and challenges as well as opportunities for BIO’s role in reducing inequalities, the storytelling narrative of the case studies and finally, the insights on the approach adopted by BIO in addressing SDG10 in comparison with other DFIs.

Nonetheless, the evaluation’s Steering Committee notes that some parts of the evaluation could have been more analytical to further improve the robustness of the findings. However, the assignment was not easy given the broadness of the topic and the scope of the evaluation, and the latter was conceived rather as a prospective study towards BIO’s possible approach vis-à-vis SDG 10. In that respect, the evaluation provides a lot of useful insights and material for BIO to better integrate SDG 10 dimensions in the future.

Based on their findings, the evaluators drew the following 10 recommendations:

- **Recommendation 1:** Clarify BIO’s role and ambitions regarding SDG 10 in a position statement.
- **Recommendation 2:** Translate BIO’s commitment to SDG 10 into more tangible investment guidance and strategic priorities.
- **Recommendation 3:** Join existing harmonization initiatives among peers to exchange knowledge on SDG 10 and improve synergies with other (Belgian) development actors.
- **Recommendation 4:** More systematically integrate SDG 10-related considerations into existing templates and tools, and link the BDGs more explicitly to reducing inequalities by aligning their definitions with the definition of inclusive business.
- **Recommendation 5:** Make SDG 10 related factors a more explicit part of investment decision-making and investee engagement.
- **Recommendation 6:** Better align staff incentives and resources with impact ambitions related to reducing inequalities.
- **Recommendation 7:** Develop an off-the-shelf BDSF offering related to SDG 10, next to existing tailored support.
- **Recommendation 8:** Be more transparent in reporting on SDG 10.
- **Recommendation 9:** Target investment funds that have local presence and specifically focus on inclusive business and/or locally owned MSMEs.
- **Recommendation 10:** Discuss a larger Code-5 pocket as these investments are more tailored to less developed countries and businesses than BIO’s standard Code 8 investments.

Most of these recommendations are linked to the lack of an explicit approach of BIO towards reducing inequalities, while some of these aspects are embedded informally into BIO's processes. Despite this, the report suggests that contributing to SDG 10 is central to BIO's activities and is implicitly embedded in its investment strategy and operational practices. In addition, the report indicates that BIO's portfolio is performing relatively well as compared to its peers in its effort to address SDG 10. However, the analysis truly points out the fact that BIO does not sufficiently explicit the scope and ambition of its contribution, as well as the importance to more formally integrate its approach to SDG10 into its strategy, processes and operations.

BIO's management acknowledges all the recommendations and assessed their relevance one-by-one, also taking into consideration BIO's own and external constraints and resources, as well as its operating context, including the Belgian development cooperation framework and its mandate as a DFI. The following key follow-up actions were identified in order to address these key recommendations (see detailed management response matrix in annex):

#### 1. Strategic level

- Make SDG10 a priority topic (Recommendation 1) and consider setting specific SDG10 targets for future commitments (Recommendation 2) and include these in corporate objectives (Recommendation 6), as part of the ongoing discussion on the next management contract with the Belgian State
- Request additional Code 5 funds that are more tailored to target LDCs/fragile states as well as inclusive businesses (Recommendation 10)
- Continue building knowledge sharing on reducing inequalities when engaging with other stakeholders (EDFIs, DGD, NGOs, etc.) (Recommendation 3)

#### 2. Operational level

- Ensure adequate integration and strengthen the assessment of SDG10-related dimensions, as part of BIO's Development, Assessment, Monitoring and Evaluation (AME) framework (Recommendation 4, 5, 8 and 9)
- Assess opportunities and the relevance of developing an off-the-shelf BDSF offering related to SDG 10 (Recommendation 7)

Given BIO's limited resources, the exact scope of these actions will depend on whether specific additional resources can be mobilized to develop more comprehensive approaches to diversity and inclusion, and further integrate these topics into BIO's future activities and operations. The specific additional HR needs shall be assessed according to the level of ambition vis-à-vis SDG10 and other priorities that will be discussed as part of the future management contract 2024-2028.

In conclusion, BIO's management would like to thank the evaluators for the valuable insights and the effectiveness of their report, that directly contribute to the relevance of the study findings and conclusions. It is also worth highlighting the excellent collaboration with the evaluation team who proved to be very committed, open and flexible all throughout the assignment, despite the faced challenges.

## Annex 1

Evaluators' Recommendation	BIO management response	Responsible	Follow-up actions	Timing
1 Clarify BIO's role and ambitions regarding SDG 10 in a position statement.	BIO's mission as reflected in its investment strategy is to contribute to addressing SDG 1 – No Poverty, by supporting driving economic growth through inclusiveness, sustainability and the creation of equal opportunities in the countries and communities it operates. These dimensions are intrinsic to SDG10 and are implicitly present in BIO's decision-making and operational practices, as evidenced by the evaluation and the good performance of BIO's portfolio with respect to this SDG, also compared to other DFIs. However, BIO recognizes that its own approach, scope and ambitions towards SDG10 are not explicit enough and therefore its performance is not adequately measurable and monitored. Hence, BIO will consider further clarifying its vision on the role that it can play in achieving SDG 10, and to set more specific ambitions and targets linked to this SDG, as part of the ongoing discussion on the new management contract with the Belgian state.	BIO management	Make SDG10 a priority topic in the ongoing discussion of the next management contract with the Belgian State	2023
2 Translate BIO's commitment to SDG 10 into more tangible investment guidance and strategic priorities.	BIO is part of several EDFI harmonization workstreams, some of whom involve topics directly linked to SDG10. Within these and other initiatives, BIO is active in sharing knowledge with its peers on strategic topics related to reducing inequalities on which it focuses (e.g., on living wages in 2022). In sourcing and assessing new projects, BIO regularly communicates with local embassies, relevant local stakeholders and DFIs, with whom it also performs common due diligences. As suggested by the evaluators, BIO will continue to leverage, during the investment process and through its interventions, local country expertise, networks, and resources of other Belgian and international development actors, including Enabel, NGOs, other DFIs and impact investors,	BIO management D&S/Investment units	Consider setting specific SDG10 targets for future BIO commitments	Q1 2024
3 Join existing harmonisation initiatives among peers to exchange knowledge on SDG 10 and improve synergies with other (Belgian) development actors.	BIO is part of several EDFI harmonization workstreams, some of whom involve topics directly linked to SDG10. Within these and other initiatives, BIO is active in sharing knowledge with its peers on strategic topics related to reducing inequalities on which it focuses (e.g., on living wages in 2022). In sourcing and assessing new projects, BIO regularly communicates with local embassies, relevant local stakeholders and DFIs, with whom it also performs common due diligences. As suggested by the evaluators, BIO will continue to leverage, during the investment process and through its interventions, local country expertise, networks, and resources of other Belgian and international development actors, including Enabel, NGOs, other DFIs and impact investors,	D&S/Investment units	Continue building knowledge sharing on reducing inequalities when engaging with other stakeholders (EDFIs, DGD, NGOs, etc.)	N/A

Evaluators' Recommendation	BIO management response	Responsible	Follow-up actions	Timing
4 More systematically integrate SDG 10-related considerations into existing templates and tools, and link the BDGs more explicitly to reducing inequalities by aligning their definitions with the definition of inclusive business.	SDG10 considerations are implicitly included in BIO's current tools used for impact and E&S management of interventions, namely within the set of prioritised development goals (BDGs), the gender questionnaire, indicators used for impact monitoring and E&S reporting (ESAP). BIO acknowledges that its development Assessment, Monitoring and Evaluation (AME) framework could further explicit the link and strengthen the way through which SDG 10-related dimensions are operationalised into specific investment objectives. It also recognizes that BIO could better monitor SDG10 aspects through impact indicators, better link these to E&S requirements, and integrate them into portfolio-level reporting. The ongoing update of the AME framework has taken this into consideration and include a more explicit link with SDG-10 dimensions. It will also include normative guidance associated to international development/impact finance sector standards, which will enable for a more structured and consistent assessment of specific SDG-10 aspects of new investments. BIO will also work on a more precise definition of the concept of inclusive business within the sectors it operates, and develop specific criteria to enable to earmark inclusive businesses, aligned with the future management contract ambitions. Finally, BIO is committed to continue improving its reporting on BIO's contribution to SDGs, as part of its more general effort towards increasing the quality of D&S reporting.	D&S unit	Ensure adequate integration and strengthen the assessment of SDG10-related dimensions, as part of BIO's Development, Assessment, Monitoring and Evaluation (AME) framework	Q1 2023
8 Be more transparent in reporting on SDG 10.				
5 Make SDG 10 related factors a more explicit part of investment decision-making and investee engagement.	As recognized by the evaluators, four of BIO's BDGs relates explicitly to SDG10: financial inclusion (BDG2), food security and rural development (BDG4), access to basic services and goods (BDG5) and gender equality (BDG9). The contribution of BIO's projects to these specific goals is indirectly prioritised during BIO's decision-making processes through the systematic scoring of each individual investments towards them. This contribution is formalised operationally during the investment process and included in a separate section of the investment note. The risks linked to possible externalities of BIO's interventions with respect to exacerbating inequalities are identified and discussed during the sourcing and assessment of new projects. Within a separate risks and mitigants section, the note also addressed the major SDG10-related dilemmas applicable to projects. BIO agrees on the suggestion to make SDG 10 related factors a more explicit part of its decision-making process, and intends to do so by better operationalizing the analysis of SDG10 dimensions in its AME framework. In addition, BIO will work towards taking a more active stand towards SDG10 as part of technical assistance (see point 7 below) programmes.	D&S/Investment units		

Evaluators' Recommendation	BIO management response	Responsible	Follow-up actions	Timing
6 Better align staff incentives and resources with impact ambitions related to reducing inequalities.	BIO already partly aligns investments objectives to impact, including SDG 10-aspects, through sector- and tool-specific investment targets (e.g., MFIs, Code 5 investments) corporate level. In addition, BIO has recently increased the number of resources dedicated to impact management and has invested part of these resources into improvements of its development Assessment Monitoring and Evaluation framework, including on better integrating key reducing inequalities topics. BIO agrees that its ambitions to SDG10 could be better formalized and reflected in its governance structure and corporate objectives, and strengthened in terms of resources allocated and incentives. However, given the HR constraints, the increased needed capacity should also be taken into consideration if the ambition on SDG10 is increased.	BIO management	Consider including (future) impact targets specific to SDG 10 in corporate objectives	Q1 2024
7 Develop an off-the-shelf BDSF offering related to SDG 10, next to existing tailored support.	Dimensions related to reducing inequalities are central to the scope of many of BIO's technical assistance projects supported through the BDSF. Through the BDSF, BIO assists its clients and prospective investees in addressing SDG10 through, among others, TA projects' focus on gender, equal opportunities, financial and social inclusion, resource management, access to basic services and improvement of economic opportunities of farmers. BIO's current BDSF strategy focuses on providing need-based, tailor-made support to its clients, as BIO reckons that such an approach is of added value to its own portfolio's specificities compared to standardized TA offering. Nonetheless, BIO's BDSF also takes a portfolio-wide, proactive approach towards its clients to help them deliver on the most pressing development challenges, and it does so through its horizontal focus on gender equality, climate and digitalization. BIO agrees to investigate whether developing off-the-shelf TA packages on multiple topics of interest to its clients, including on SDG 10, would be operationally feasible (also in terms of HR capacity) and relevant as part of its BDSF strategy.	D&S unit	Assess opportunities and the relevance of developing an off-the-shelf BDSF offering related to SDG 10	2023
9 Target investment funds that have local presence and specifically focus on inclusive business and/or locally owned MSMEs.	Funds that target specific SDG10 priorities are less diversified and usually show higher risk/lower return profile, in contrast to generalist or sector-agnostic funds. In view of their relatively lower risk profile, the latter constitute a large part of BIO funds portfolio. However, BIO has always considered local presence as a strong asset and is increasingly investing in funds specifically focusing on inclusive business (e.g., Fairtrade Access Fund, Alterfin, Phatisa Food Fund II and Incofin India Progress Fund). This was also possible thanks to Code 5 funding. More generally, BIO's development goals - including those related to SDG10 - are systematically taken into consideration when sourcing an investment fund, analysing its potential as well as in final decision-making. The assessment of these dimensions should be further refined as part of the update of BIO's AME framework that should also include a better integration of SDG10-related topics.	D&S unit / Investment department	Ensure adequate integration and strengthen the assessment of SDG10-related dimensions, as part of BIO's Development, Assessment, Monitoring and Evaluation (AME) framework	N/A

Evaluators' Recommendation	BIO management response	Responsible	Follow-up actions	Timing
10 Discuss a larger Code-5 pocket as these investments are more tailored to less developed countries and businesses than BIO's standard Code 8 investments.	The so-called "code 5" capital allows BIO investing in more impactful and risky investments, requiring additional time to reach financial sustainability or presenting higher risk and lower return expectations, but that best target specific strategic priorities. As acknowledge by the evaluator, Code 5 instrument is a key enabler for BIO, also as compared to the instruments available to other DFIs, to better reach LDCs/fragile states as well as inclusive businesses, through the possibility to make smaller tickets with lower return objectives compared to Code 8 investments. BIO committed to invest €50m of capital in Code 5 investments between 2019 and 2023, and as of December 2021, it committed a total of €33.7m, of which the largest share was committed during 2021. The current management contract was only providing a limited amount of Code 5 capital and access to additional code-5 funding would allow to focus further on specific projects addressing the SDG10.	BIO management	Request additional Code 5 capital that are more tailored to target LDCs/fragile states as well as inclusive businesses	Within 2 years