Evaluation of BIO's contribution to reducing inequalities

Summary findings

10 REDUCED INEQUALITIES

steward redqueen

BIO
Investing in a Sustainable Future

Introduction

With its mandate to support a transformative and responsible private sector that stimulates decent jobs, fosters innovation, and pays taxes that enable governments to deliver essential public services, BIO aims to contribute to the Sustainable Development Goals (SDGs). SDG 10 is among the SDGs that BIO directly addresses in its Theory of Change (ToC) and investment strategy.

SDG10 is an important but under-focused SDG. It calls for reducing inequalities in income *among* and *within* countries. In addition, it targets inequalities on factors such as age, sex, disability, race, ethnicity, origin, religion, or economic status. Inequalities continue to be a significant concern despite progress and efforts to narrow disparities of opportunity, income, and power.

The evaluation's objective is to assess BIO's contribution to reducing inequalities/SDG10, and to identify how BIO could improve its contribution in the future. The evaluation study has been carried out by a team of Steward Redqueen consultants between March and December 2022.

Methodology

The evaluation study combines 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.

Key findings

The key evaluation questions and findings have been structured in accordance with the DAC evaluation criteria, which are widely adopted for evaluating development interventions, and are further specified below.[1]

Relevance

What is the relevance of reducing inequalities/SDG 10 for BIO?

Reducing inequalities is arguably one of the most pressing global challenges together with climate change. By investing in Least Developed Countries (LDCs) and fragile states, DFIs like BIO can stimulate employment, private sector growth and productivity in these countries which should reduce inequality among countries in the long term. In the short term, there are opportunities for DFIs to reduce inequalities within countries by supporting inclusive businesses (businesses that make people at the base of the pyramid (BoP) part of their core business value chain as suppliers, distributors, workers, retailers, or customers). However, DFIs also risk exacerbating inequalities, especially in highly unequal countries, when they mainly support highly educated and financially literate local elites or companies serving higher segments of the population.

Contributing to SDG10 is a key objective in BIO's investment strategy and ToC, but not adequately elaborated nor explicitly operationalised. BIO has prioritised SDG 10 alongside SDG 5 on Gender Equality for its interventions in its ToC. While BIO has developed a gender strategy outlining how it aims to contribute to SDG 5, BIO does not explain in sufficiently clear terms how its activities link to reducing inequalities/SDG 10, and what its concrete ambitions are.

BIO does not explicitly and systematically identify, prioritise, or select clients that contribute to SDG10, although there is an implicit focus through proxy indicators. In the sourcing and selection of deals, Environmental & Social (E&S) risks and potential impacts play an important role. While reducing inequalities is not addressed as a topic by itself, some of the E&S risks and potential impacts identified for investments have a clear link to SDG 10.

While BIO annually monitors investees' individual E&S performance, impact is mostly assessed at portfolio level. BIO monitors an investee's E&S performance by reviewing the Environmental & Social Action Plan (ESAP) implementation (which could include requirements related to SDG 10) and the annual E&S monitoring reports that are required for all investees. While BIO tracks impact indicators for all investees (some of which can be linked to SDG 10) these are subject to limited data availability and are mostly analysed at portfolio level. Furthermore, BIO relies heavily on self-reporting by clients. 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.

[1] The DAC evaluation criteria have been developed by the Development Assistance Committee of the Organisation for Economic Co-operation and Development.

Coherence

What are synergies and interlinkages between BIO and interventions of other Belgian development actors and DFIs?

There is no explicit reference to reducing inequalities in BIO's mandate, but it is part of Belgium's foreign policy and there are informal expectations. The Belgian Government selected SDG10 as one of the key SDGs it aims to contribute to. Furthermore, in the Belgian Development Agenda, the 'leaving no one behind' principle is stressed. As Belgian development actor, BIO is expected to contribute to Belgium's development priorities. Furthermore, in BIO's mandate the sector priorities and end-goals identified for BIO link to the objective of reducing inequalities, although this is not made explicit. Expectations on BIO's contribution to reducing inequalities are further underlined by the recent NGO reports, which inter alia challenge BIO on its lack of explanation on how it contributes to SDG10 and its ability to reach the poorest populations.

Collaboration between BIO and other DFIs and Belgian development actors on SDG 10 is limited, and operationalisation of the topic within organisations differs. While Enabel, another key actor in the Belgian Development Cooperation, also identified reducing inequalities as one of its five key focus areas, there is no exchange between Enabel and BIO on the topic. The strongest collaboration between BIO and peers on reducing inequalities is the EDFI working group on harmonisation of client protection standards for MFIs that BIO recently took the lead on. BIO is also involved in other initiatives among DFIs, but these have a more general focus.

Effectiveness

What are BIO's achievements related to reducing inequality among and within countries?

Through Code 5 investments, BIO has high potential to contribute to reducing inequality. 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. BIO aims to invest €50m of capital in Code 5 investments between 2019 and 2023. As of December 2021, it committed a total of €33.7m, of which the largest share (€27.7m) was committed during 2021.

BIO invests a relatively large share 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. These are investments that are linked by BIO to the BIO Development Goals (BDGs) related to financial inclusion, food security and rural development, access to basic services and goods and/or gender. However, the definitions of the BDGs are not specific enough to determine whether these businesses are indeed inclusive businesses. Most of these businesses are in highly inequalitarian countries, where there is high potential to reduce inequalities but also high risk of exacerbating them.

BIO invests about 33% of its indirect investment volume through funds in businesses in agriculture value chains and the energy sector, as well as in MFIs, which have a relatively strong link to reducing inequalities within countries. Compared to BIO's direct investments, BIO reaches more MSMEs with its indirect investments, which are typically more closely linked to un(der)served, vulnerable populations than large corporates.

Efficiency

Does BIO efficiently use its resources to contribute to SDG 10?

BIO's risk appetite and instruments (especially Code 5 investments) enable BIO to reach LDCs and fragile states as well as inclusive businesses, but this is not formally incentivised. Code 5 investments allow BIO to do smaller tickets with lower return objectives compared to Code 8 investments. However, these investments require the same resources which make these deals less efficient. As BIO only has volume targets, these investments are not incentivised, even disincentivised.

BIO's organisational capacity is not fully set up for direct investments specifically targeting reduced inequalities. BIO has its main office in Brussels, and recently opened two local offices in Nairobi and Abidjan. BIO only has a small E&S team of three people, and an impact team of two people. With limited local presence and resources, it is challenging for BIO to get a good understanding of power imbalances and other inequalities on the ground and provide sufficient handholding and follow-up for less institutionalised investments. For insights into the local context, BIO to an extent relies on external stakeholders such as Belgian embassies, local NGOs, fund managers, etc. Furthermore, BIO has outsourced part of the E&S work. The downside is a loss of control and limited internal capacity building on SDG10.

Impact

What difference does BIO make in its contribution to reducing inequalities at client level (informed by the interviews, field visits and case studies as part of this evaluation in the agriculture, health, and financial sectors)?

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 key SDG10-linked development impacts for its investees, but the rigorousness of the analysis, and level of investee engagement varies. In the agricultural sector, BIO identifies the development impacts related to improving rural livelihoods and food security when relevant. The analysis regarding rural livelihoods is clearly defined, and BIO helps investees to better understand and improve these impacts. However, for food security there is more room for interpretation in the analysis, and there is no evidence of engagement by BIO on improving the investee's contribution to food security. In the financial sector, BIO identifies financial inclusion, but no structural approach is taken in the further detailing the outreach in terms of target group of these microentrepreneurs (e.g. operating area or sector). In the health sector, BIO currently does not have any direct investments, which limits their opportunity to assess development impacts directly and to play an active role.

BIO identifies and analyses risks of exacerbating inequalities systematically through the International Finance Corporation's E&S Performance Standards (IFC PS) but faces challenges in mitigating some risks. Although the IFC PS are systematically applied they are minimum standards that are not always sufficient to fully address risks related to exacerbating inequalities. For example, while BIO assesses wages at agriculture investees compared to the national minimum, BIO does not systematically mitigate the risk of low wages by engaging with investees on applying living wages. On the other hand, in the financial sector BIO is aware of the risk of unhealthy competition and over-indebtedness, and carefully assesses the MFI's credit and client practices' alignment with local regulation and client protection principles, and whether the MFI offers financial education. In addition, BIO supports MFIs with client protection principles. In the health sector, BIO identified the key risks in the sector related to exacerbating inequalities and developed an approach which largely avoids their exposure to those risks for direct investments.

Sustainability

How likely is the continuation of benefits created with BIO's contribution?

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, which could improve the sustainability of a client's operations. The BDSF can be fed by the DGD up to EUR 2M per year, but typically disburses less. Besides the focus on gender, improving a company's contribution to reducing inequalities or helping them to mitigate risks related to exacerbating inequalities is not an explicit focus area. However, for some of BDSF's offering, especially for (M)FIs there is a strong link to reducing inequalities. For (M)FIs BIO carries out social audits, which include an assessment of client protection principles. Subsequently, the BDSF can provide technical assistance to improve upon areas identified in the social audit, including tackling financial literacy and over indebtedness. BIO is currently supporting 14 financial institutions with these types of projects.

BIO contributes to the resilience of disadvantaged populations by improving the financial ecosystem in developing countries. Through its investments in, and capacity building of, (M)FIs and fund managers that reach BoP BIO contributes to the strengthening, expansion, and sustainability of financial services for these groups, as well as for private sector parties that serve or employ them.