Belgian Investment Company for Developing Countries

Environmental and Social Policy

Approved by the Board 27.11.2018

Table of Contents

1. Purpose of the policy

The mission of the Belgian Investment Company for Developing Countries SA/NV (BIO) is to support a strong private sector through investments in developing and/or emerging countries, to enable them to gain access to growth and sustainable development aligned with the Sustainable Development Goal (SDG) 1 - No Poverty.

BIO's investments include direct investments (DI) in enterprises or infrastructure projects and indirect investments through financial intermediaries (FI) or private equity funds (PEF). For BIO, ensuring and promoting the environmental and social sustainability of its investments operations is an essential part of its contribution to sustainable growth.

Successful sustainability outcomes depend on joint efforts from BIO, its clients and often third parties. This policy presents BIO's environmental and social (E&S) commitments, the principles it adheres to and how they are translated into our investment process and operational activities.

This Policy is part of a broader sustainability universe at BIO. Indeed, BIO also acts on sustainability through a set of other mechanisms that are reflected in our operations. These are mainly: adherence to SDGs, impact measurement, good governance and responsible tax principles, its grievance mechanism, technical assistance and carbon neutralisation of our direct operations. This Policy therefore should be considered in conjunction with BIO's internal procedures, position statements and other principles or guidelines it adheres to.

2. Commitments and Principles

BIO aims to have a positive impact on the local communities where it invests, including through decent and safe working conditions, respect of human rights and environmental sustainability. We also recognize that although investments may bring such positive outcomes, they may also have adverse environmental or social effects if not properly managed.

Therefore BIO integrates E&S considerations into its entire investment lifecycle based on internationally recognized standards and guidelines.

BIO strives to work with clients who are willing to work on managing and improving their environmental and social impacts. Once E&S risks and opportunities for improvements are identified and assessed, performance improvements are contractually agreed with clients and monitored. BIO supports clients to adopt a beyond compliance approach and seek increased E&S performances.

Principles

As member of EDFI, BIO adheres to the EDFI Principles for Responsible Financing, which set the high level principles and requirements that all EDFI have committed to and which are reflected in this Policy. BIO does not finance activities in breach with the Harmonized EDFI Exclusion List. BIO also requires that all clients comply with applicable environmental, social, labour and human rights laws and international conventions in the countries they operate.

In addition, BIO refers to and promotes the following standards, including in its own operations, as applicable:

- IFC Environmental and Social Performance Standards (IFC PS, 2012) / Equator Principles
- World Bank Group Environmental Health and Safety Guidelines (WB EHS)
- International Bill of Human Rights and United Nations Guiding Principles on Business and Human Rights (UNGP)
- ILO Declaration on Fundamental Principles and Rights at Work and the eight core conventions
- Universal Standards for Social Performance Management in microfinance / SMART Campaign Client Protection Principles
- Responsible Finance Forum Guidelines for Investing in Responsible Digital Financial Services

Higher risk direct investments must comply with all applicable IFC Performance Standards and WB EHS Guidelines over the course of BIO's investment. For lower and medium risk projects, BIO requires that the client realises improvements in line with related IFC Performance Standards for key E&S risks or opportunities.

The IFC Performance Standards, numbered from 1 to 8 cover the following: Assessment and Management of Environmental and Social Risks and Impacts (PS1), Labor and Working Conditions (PS2), Resource Efficiency and Pollution Prevention (PS3), Community Health, Safety, and Security (PS4), Land Acquisition and Involuntary Resettlement (PS5), Biodiversity Conservation and Sustainable Management of Living Natural Resources (PS6), Indigenous Peoples (PS7), Cultural Heritage (PS8).

These Performance Standards are the key reference for BIO when assessing clients' environmental and social performances, through a risk and outcomes-based approach. The desired outcomes are described in the objectives of each Performance Standard, followed by specific requirements to help clients achieve these outcomes through means that are appropriate to the nature and scale of the activity and commensurate with the level of environmental and social risks and/or impacts. These Performance Standards also provide a solid base on which clients may increase the overall sustainability of their operations, identify new opportunities to grow their business, and build their competitive advantage in the marketplace.

If environmental, social or human rights risks or impacts are identified for a given investment, and BIO is of the opinion that the IFC Performance Standards do not sufficiently address them, BIO will refer to additional internationally recognized principles, standards or good practices, as relevant, to ensure that these risks or impacts are properly assessed and mitigated.

Alongside the state duty to protect, respect and fulfil human rights, BIO fully recognizes that businesses have the responsibility to respect human rights as well. Each of the IFC Performance Standards has elements related to human rights dimensions. Due diligence by BIO and E&S assessments by clients against these Performance Standards aim at assessing main relevant human rights issues in its projects and providing a clear framework to support clients on how to apply appropriate measures or remedy actions. In higher risk contexts or if BIO considers that IFC Performance Standards do not sufficiently cover a human right in a given investment, BIO will give special attention to such human right and adopt specific measures in connection with the E&S assessment and monitoring of such investment[1]. In line with the IFC Performance Standards, higher risk clients are required to have a grievance mechanism that can facilitate early indication and a prompt remediation of project related grievances. In addition, BIO also has its own grievance mechanism that provides an opportunity for third parties to submit online grievances[2].

3. Into our operations

To operationalize the commitments and principles referred to above, BIO has integrated E&S management into its organizational structure and investment process. Investments review processes, contracts and monitoring of the portfolio include environmental and social considerations. These are detailed in the form of a procedure in BIO's internal E&S Investment Manual. A dedicated team of E&S specialists work with BIO's investment and portfolio teams, as well as with our clients, on the management of E&S risks and opportunities throughout the investments life-cycle, adding value to BIO's operations and clients' businesses.

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1 This may result in adapted Due diligence scope or specific third-party expertise to assess specific human rights related risks (such as for example labour, land tenure, health, safety, gender expert, etc.).

2 http://www.bio-invest.be/contact/grievance-mechanism.html

Exclusion list and policy alignment

In the initial assessment of potential investments BIO checks that the investment does not breach the Harmonized EDFI Exclusion List in Annex 1. If a potential client conducts an activity provided in the exclusion list, the investment cannot proceed.

Assessing prospective clients

Categorization

The next step of the investment process is the screening. At screening, projects are categorized according to their environmental and social risks. Category levels A, B+, B or C (respectively high, medium-high, medium-low and low impact) are used in line with the IFC and EDFI approach to risk categorization. For direct investments, risk categorisation is based on the client's activity, IFC Performance Standards triggered transactions[3] and prevailing local contextual E&S challenges. For investments in funds or finance institutions, the category levels are based on the portfolio characteristics. Depending on the risk category, different levels of environmental and social requirements, due diligence and monitoring measures are applied.

Due diligence

During due diligence, BIO undertakes an environmental and social assessment of its potential clients. Beyond the review of readily available public information, technical documentation and environmental and social studies, this due diligence includes, depending on the E&S risk category and information gaps, an independent E&S assessment, and/or a site visit by BIO E&S expert and/or investment staff.

In line with IFC E&S Performance Standards, where the client can reasonably exercise control, the due diligence will also consider those excluded activities referred to above along with other key E&S risks and impacts associated with primary supply chains.

The aim of the due diligence is to identify main E&S risks and strengths that a client is exposed to, including potential non-compliance with applicable requirements.

Applicable requirements & contracting

BIO contractually requires its investees to comply with local environmental and social laws and conventions ratified by the country, including ILO Core Conventions. Additional requirements are defined according to investment risk category and type. BIO may for example require the client to apply certain standards, such as the IFC Performance Standards, to develop an Environmental and Social Management System (ESMS) and/or to report on E&S performance and incidents.

BIO only finances investment activities that are expected to meet applicable requirements within a reasonable timeframe within the investment period. If the investment proceeds, E&S improvements identified and agreed during the due diligence will be documented in the investment contract. This may include a detailed Environmental and Social Action Plan (ESAP).

Higher risk direct investments must comply with all applicable IFC Performance Standards and WB EHS Guidelines over the course of BIO's investment. For lower and medium risk projects, in particular for direct investments in Small and Medium Enterprises (SMEs), BIO follows a pragmatic and supportive approach. Commensurate to BIO's clients' activities and internal capacities, BIO requires that the client realise improvements in line with related IFC Performance Standards for key E&S risks or opportunities.

Financial Institutions (FI) and Private Equity Funds (PEF) are required to apply BIO exclusion list to their own investments and to develop an Environmental and Social Management System (ESMS) that is

[3] E.g. projects triggering IFC PS 5 – 8 : economic displacement or resettlement, impact on high value biodiversity, indigenous peoples, sensitive cultural heritage.

commensurate to their size and portfolio characteristics[4]. Compliance with relevant local social environmental, health & safety and labour laws and regulations, including ILO Core Conventions ratified by the country is required for their non-retail clients. PEF and higher risk FIs must also require compliance with applicable IFC Performance Standards & EHS Guidelines as a minimum for their own Category A projects. For medium-high and medium risk projects IFC Performance Standards should be the benchmark and applied in a manner commensurate to the investment risk and size.

Whenever possible and desirable, BIO supports its clients when they seek to go beyond minimum E&S compliance and to maximise positive environmental and development impacts, e.g. by providing Technical Assistance grants to that end. Possible improvement measures identified during the due diligence or the monitoring phase are contractually agreed as relevant.

Monitoring our portfolio

Over the course of the investment period, BIO's portfolio and E&S teams will monitor compliance by the investees with contractually agreed E&S requirements, action plans and reporting undertakings. To the extent feasible, support will be provided to investees to help them improve their E&S performance.

In this context, BIO has developed a monitoring framework and a tool that defines the applicable level of monitoring to be applied determined based on the investment risk, E&S performance, ESAP completion, and the occurrence of possible incidents. Projects with significant E&S and reputational risks or with a track record of E&S incidents or non-compliance with contractually agreed E&S requirements are given special attention and are closely monitored by dedicated teams.

Compliance and support

BIO maintains an ongoing relationship with its clients to monitor their E&S compliance and require corrective actions as necessary to cure defaults, but also to support improvements. BIO supports the improvement of its investees' E&S performance and takes action to correct non-compliance when such occurs through various means, that can include the following:

(i) soft communication, including through site visits and expert advice by E&S staff in support of client E&S awareness raising and in view of agreeing on necessary E&S improvements;
(ii) grants to finance technical assistance programs to improve E&S performance; and/or;
(iii) by applying measures and enforcing legal remedies as contractually agreed.

BIO will always seek to prioritize supportive and constructive interactions with its clients. However, in last resort, legal remedies may be actioned as agreed in the financing contracts. These remedies include for example delaying a disbursement if relevant E&S conditions precedent are not satisfied or in the event of a non-compliance, terminating BIO's financial commitment, or demanding immediate repayment of a loan in the event of a serious breach of a borrower's E&S obligations if other attempts to address the situation have failed or other remedies are not available or are inadequate.

Working with Partner Institutions

BIO is committed to a collaborative and constructive relationship with other Development Finance Institutions (DFI). This includes information and knowledge sharing on E&S management and best practices. BIO is a member of the European Development Finance Institution (EDFI) association and has framework agreements with other EDFIs.

For investments where BIO is involved with other DFIs, BIO may partially rely on the investor lead to undertake the E&S due diligence and monitoring. However BIO will always review the scope and results of the due diligence and monitoring activities to ensure it complies with its E&S Policy

[4] Microfinance institutions and small financial institutions with low risk portfolio may be exempted if deemed non appropriate from the requirement to develop an ESMS

APPENDIX 1- Harmonized EDFI Exclusion List – BIO Exclusion List

*According to The European Development Finance Institution (EDFI) "Principles for Responsible Financing", EDFI members have mutually agreed on the following Harmonized EDFI Exclusion List. Exclusions 1 to 8 are applicable for all EDFI co-financed projects, exclusions 9-17 are considered as a minimum common requirement by all EDFI members for all new direct financing (debt or equity), for indirect equity through new commitments to investment funds, and new dedicated lending*1 *via financial institutions. The Belgian Investment Company for Developing Countries (BIO) has decided to adopt exclusions 1 to 8 for all its investments and 9 to 17 for all new direct financing (debt or equity), for indirect equity or debt through new commitments to investment funds, and new dedicated lending via financial institutions.*

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EDFI Members will not finance any activity, production, use, distribution, business or trade involving:

1. Forced labor[2] or child labor[3]
2. Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
   - ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
   - wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
   - Unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length).
3. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
4. Destruction[4] of High Conservation Value areas[5]
5. Radioactive materials[6]and unbounded asbestos fibers.
6. Pornography and/or prostitution
7. Racist and/or anti-democratic media
8. In the event that any of the following products form a substantial part of a project's primary financed business activities[7]:

   a) Alcoholic Beverages (except beer and wine);
   b) Tobacco;

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[1] "Dedicated lending" is defined for these purposes as loans conditioned by a use of funds clause specifying that such financing will be used for one or more of the purposes described.

[2] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

[3] Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

[4] Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

[5] High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).

[6] This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.

[7] For companies, "substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes

c) Weapons and munitions; or
d) Gambling, casinos and equivalent enterprises.

9. Coal prospection, exploration, mining or processing
10. Oil exploration or production
11. Standalone fossil gas exploration and/or production[8]
12. Transport and related infrastructure primarily[9] used for coal for power generation
13. Crude Oil Pipelines
14. Oil Refineries
15. Construction of new or refurbishment of any existing coal-fired power plant (including dual)
16. Construction of new or refurbishment of any existing HFO-only or diesel-only power plant[10] producing energy for the public grid and leading to an increase of absolute CO_2 emissions[11]
17. Any business with planned expansion of captive coal used for power and/or heat generation[12]

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[8] Gas extraction from limnically active lakes is excepted from this exclusion.

[9] "Primarily" means more than 50% of the infrastructure's handled tonnage.

[10] For indirect equity through investment funds, investments (up to a maximum of 20% of the fund) innew or existing HFO-only or diesel-only power plants are allowed in countries that face challenges in terms of access to energy and under the condition that there is no economically and technically viable gas or renewable energy alternative.

[11] i.e. where energy efficiency measures do not compensate any capacity or load factor increase.

[12] This does not apply to coal used to initiate chemical reactions (e.g. metallurgical coal mixed with iron ore to produce iron and steel) or as an ingredient mixed with other materials, given the lack of feasible and commercially viable alternatives.