



## **Environmental & Social Strategy and Policy**

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# I. Purpose of the E&S Strategy and 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 emerging countries, to enable them to gain access to growth and sustainable development aligned with the Sustainable Development Goal (SDG) 1 - No Poverty. To pursue this mission, BIO is committed to use its investments, grant support as well as expertise in supporting SDG8 (decent work and economic growth), SDG9 (industry, innovation and infrastructure) for private sector growth and innovation, SDG5 (gender), SDG10 (reduced inequalities) for social inclusiveness, SDG7 (affordable and clean energy) and SDG12 (responsible production and consumption) for good environmental practices. These SDGs are highlighted as they cover the priority sectors of BIO and are transversal to most of BIO's operations.

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 investment 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 document presents BIO's environmental and social (E&S) commitments, the principles we apply, and how they are translated into our investment process and operational activities.

This Policy is part of a broader development & sustainability universe at BIO. Indeed, BIO also acts on achieving sustainable development through a set of other mechanisms, mainly: contribution to SDGs, impact measurement, good governance and responsible tax principles, the grievance mechanism, technical assistance as well as climate change mitigation and adaptation. This E&S Strategy & Policy should therefore be considered in conjunction with BIO's internal procedures, position statements, investment strategy and Theory of Change.

## II. E&S Strategy: a progressive approach to E&S standards

In developing countries, whether in the public or in the private sector, implementation of international environmental and social standards is often lacking to a varying extent. Public regulation, enforcement mechanisms and engrained practices might not have adopted the necessary E&S standards we hold in high esteem, for various reasons: inadequate resources to achieve such full adoption, a lack of awareness or conviction of their need, lack of priority and often a strong interlinkage with culture. As a result, BIO sees itself confronted with a number of incompliances with E&S standards when it contemplates an investment. International standards are aspirational principles and guidelines that define best practices, which not all our clients have necessarily achieved yet. However, these international standards ought to be the guiding principles from the start of our engagement.

Of course, these are not reasons to lower standards or excuse breaches. In fact, it is part of BIO's mission to operate in these developing countries and we see it as one of our key roles – part of our “non-financial additionality”, in our jargon – to encourage and work with (prospective) clients to progress towards these international standards and best practices over

time. Together with its clients, BIO actively identifies opportunities for improvement throughout the investment life cycle, and clients can call on BIO's Business Development Support Fund<sup>1</sup> to co-finance E&S-related studies, evaluations, trainings, and third-party expertise on E&S-related matters.

However, the development context and its challenges do imply the need for a progressive approach to E&S standards instead of a full-compliance approach. For every project, we select a few key aspects that are important in the context of the investment and on which concrete improvements can be realistically achieved in the investment period. Focusing on a few key measures ensures that our clients can deliver on what we agreed upon and can create sustainable impact for the communities and stakeholders around.

A number of E&S standards are so fundamental and universal that we expect our clients to comply with them at all times during our investment period. Examples include no child nor forced labour, no significant environmental pollution, no net deforestation, etc. Our strategic intent is to avoid these major E&S risks – for all the people involved directly and indirectly in an investment, for the communities around the client's operations, and for the planet - while achieving tangible E&S improvements on key aspects. In this sense, our approach is both risk and outcome-based.

This E&S strategy implies that at the time of investment, there may and probably will be a number of E&S areas in which a client is not (fully) compliant with international standards (yet), and that for some it may still be the case at investment end. This is inherent to working in a development environment and context. However, a few key areas will be selected for every project, for which we expect the client to have made significant progress over the lifetime of the investment. Our focus is not so much on what (still) does not live up to our E&S standards, but on the achievements made thanks to BIO's investment. Beyond the concrete, significant and lasting improvements in people's working and living conditions, their impact is often broader, on other companies in the economic branch or in the region, on local regulations, etc. Enabling these changes is ambitious and will require significant efforts from both BIO and the clients.

### III. E&S Policy: Principles and standards

As a member of EDFI, BIO adopted the EDFI Principles for Responsible Financing<sup>2</sup> which set the high level principles that all European DFI members of EDFI have committed to, as well as the EDFI Harmonized E&S Standards which set different levels of environmental and social requirements, due diligence, and monitoring measures for investment. As a general approach, BIO always assesses applicable environmental, social, labour and human rights laws, and does not finance activities in breach of [the Harmonised EDFI Exclusion List](#).

Across our operations, the [IFC Performance Standards](#)<sup>3</sup> are the key reference applied by BIO to assess clients' environmental and social performances, through a risk and outcomes-based approach. The IFC PS are numbered from 1 to 8 and cover a comprehensive array of environmental, social and human rights topics: Assessment and Management of Environmental and Social Risks and Impacts (PS1), Labour and Working Conditions (PS2), Resource Efficiency

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1 <https://www.bio-invest.be/en/bdsf>

2 [Policy | EDFI](#)

3 The IFC Performance Standards fully integrate the eight ILO Core Conventions

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).

Each IFC PS describes the desired outcomes and the specific requirements to help clients achieve them 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. They also allow to identify new opportunities that may help clients to increase the overall sustainability of their operations, expand their business and improve their competitive advantage in the market.

## Applicability

- For direct investments in SMEs and infrastructure projects, we refer to the IFC PS applicable in the project context, following a pragmatic and supportive approach. When relevant, we also include [the World Bank Group Environmental Health and Safety Guidelines \(WB EHS\)](#) as part of our assessment.
- Financial institutions and funds on the other hand usually do not have a large direct E&S footprint. However, their clients and investees could. That is why BIO encourages financial institutions and funds to develop and implement an Environmental and Social Management System that is commensurate to their size and portfolio characteristics, as described in IFC Performance Standard 1. This system allows the Financial Institution to enforce our E&S Standards at the level of end-clients.
- For institutions that lend to micro-businesses or low-income families, we focus on [Client Protection](#) and [Social performance](#), to ensure appropriate lending practices and avoid over-indebtedness issues.

## Human rights

Businesses must respect human rights, as defined by the [International Bill of Human Rights](#) and the [United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#). The IFC Performance Standards are broadly convergent with the UNGPs and each standard has elements related to human rights dimensions. Due diligence by BIO and E&S assessments by clients against these Performance Standards aim at assessing the main relevant human rights issues in projects and provide a clear framework on how to apply appropriate remedy measures. In certain high-risk contexts that require a focused human rights due diligence effort, BIO will give special attention to human rights and adopt specific measures in connection with the E&S assessment and monitoring of such investment<sup>4</sup>. In addition, higher risk clients are required to have a grievance mechanism that can facilitate early indication and a prompt remediation of project related grievances. BIO also has its own grievance mechanism that allows third parties to submit online grievances<sup>5</sup>.

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4 This may result in an 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.).

5 <http://www.bio-invest.be/contact/grievance-mechanism.html>



## IV. Integration of E&S considerations in the investment cycle

To operationalize the Strategy and the Policy referred to above, BIO has integrated E&S management into its organizational structure and investment process. BIO adopts the EDFI harmonized environmental and social standards<sup>6</sup> that detail the minimum requirements EDFI members should follow and request their clients to respect as part of the investment process. The entire investment cycle includes environmental and social considerations, as detailed in BIO's internal E&S Manual.

Since 2015, BIO has a dedicated team of E&S specialists that 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 investment's life cycle, adding value to BIO's operations, clients' businesses, workers and stakeholders.

### 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 classified in the exclusion list, the investment does not proceed, e.g. use of child labour, forced labour, destruction of High Conservation Value areas.

### Screening

The next step of the investment process is the screening. At screening, projects are categorized according to their environmental and social risks. The categories A, B+, B or C respectively represent projects with a high, medium-high, medium and low potential impact. For direct investments, risk categorisation is based on the client's activity 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<sup>7</sup>, due diligence and monitoring measures are applied.

During this stage, BIO also performs a reputational check of the company by investigating information in the public domain, as well as a contextual risk assessment and high-level evaluation of E&S risks linked to the project. At the same time, key opportunities are identified to improve E&S performance and clients' interest in working on these opportunities is gauged.

### Due diligence

During E&S due diligence, BIO reviews the E&S performance of the potential client in depth. Beyond the review of readily available public information, technical documentation, and environmental and social studies, this due diligence may include - depending on the E&S risk category and information gaps - an independent E&S assessment and/or a site visit by one of BIO's E&S experts. The depth of review is always proportional to the size and risk of the project.

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<sup>6</sup> [Policy | EDFI](#)

<sup>7</sup> For example, high and medium-risk financial institutions are required to develop an E&S management system, while a low-risk financial institution (e.g. focusing on microfinance) is not required to do so as the E&S impact of its clients' activities are low. For direct investment, a stricter implementation of the IFC is applied for a high-risk investment than for a low-risk investment.

The aim of the due diligence is to identify (i) the main E&S risks a client is exposed to, including potential non-compliance with applicable requirements, (ii) opportunities for improvements on a client's E&S performance over the lifetime of a project, aiming at creating positive impact at the level of the company, its workers and the stakeholders. As part of the due diligence, when relevant<sup>8</sup>, we may consult local communities, employees, trade unions, local and Belgian NGOs, civil society organisations and other stakeholders.

## Environmental and Social Action Plan

Depending on the specific risks identified during the E&S due diligence process, BIO develops an Environmental and Social Action Plan (ESAP) together with the client. The plan is an instrument that lists the improvement areas and requirements, and is tailor-made for each client. The aim of the ESAP is to agree with the company to progress towards best practice, to reduce or avoid risks, and to create positive impact at the level of the company and its stakeholders. ESAP actions are specific, measurable, achievable, realistic and timely. To ensure the client focuses on the key areas of improvement, the ESAP actions are prioritised as follows:

**High:** High priority actions are areas for improvement that BIO considers key for that particular client and context, and where substantial improvements are crucial. Flagging these actions as high-priority clearly articulates their importance and clarifies to our clients what to focus on.

Defining high priority actions is always done on a case-by-case basis, and cannot be standard and universal across all investments. However, there are some E&S issues that can generally be considered high priority. Certain decent work issues are by default excluded such as child and forced labour. Besides that, BIO will focus on other key risks to make sure they are mitigated:

- Decent work: lack of an HR Policy, no written contracts, extremely low wages or wages below the legal minimum wage, unacceptable long working hours, discrimination of any sort, serious health & safety hazards;
- Inadequate waste management leading to pollution, use of forbidden or extremely hazardous pesticides;
- Practices that endanger the communities living around the project<sup>9</sup>;
- Land acquisition causing physical or economic displacement, affecting the local communities;
- Destruction of critical habitat<sup>10</sup>;
- Practices adversely impacting indigenous people or cultural heritage;
- Lack of Client Protection Principles for microfinance institutions;
- Non-compliance with local law & the 8 ILO core conventions.

Occurrence of these key high risks will always be flagged to BIO's investment

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<sup>8</sup> For direct investments, we always consult employees, trade unions and local communities. NGOs are consulted in high-risk sectors or fragile contexts, or on specific topics where deemed useful. For more details, see BIO Decent Work Policy.

<sup>9</sup> Examples may include risks of explosion, collapsing of constructions, pollution of groundwater or rivers that are used by communities, transport of hazardous materials through the village, certain animal diseases that can spread to communities, etc.

<sup>10</sup> Critical habitats are areas with high biodiversity value, including (i) habitat of significant importance to Critically Endangered and/or Endangered species; (ii) habitat of significant importance to endemic and/or restricted-range species; (iii) habitat supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.

committee, together with the expected timeline of resolution.

We will seek to mitigate and resolve the key risks as soon as realistically possible. Depending on their severity, certain items will need to be mitigated before BIO's (initial) disbursement or even before contract signature.

**Medium:** Medium priority actions are areas of improvement that are not as crucial as high-priority items but could significantly increase the positive impact of the project and overall sustainability of the operations. These items remain obligatory, but can be achieved over the course of the investment. In consultation with the client, we determine which items can be reasonably achievable, based on the size of the company, the country context, sector, reputational risk, etc. We agree on concrete targets and measures – offering technical assistance subsidies for implementation as pertinent. Examples include transparency of HR policies towards employees, international certifications (like ISO or HACCP), climate adaptation measures, etc.

**Low:** Low priority actions are less significant but would bring the client to full best practice and international standards. Low priority actions are entirely voluntary and aim to bring the client to the highest level of E&S performance. An example could be switching packaging material to more climate friendly alternatives, setting-up shared benefits systems for employees, green electricity, etc. Based on the nature and scope of these actions, they can either be included in the ESAP or alternatively agreed less formally with the client.

In other words, rather than an exhaustive inventory of all E&S shortcomings and measures needed to address these, the ESAP will focus on achieving a smaller number of targeted substantial and lasting improvements on a few key areas, always making sure the key risks are mitigated.

Defining prioritization levels will be context and project specific, subject to expert judgement by E&S Officers but also in full dialogue with the client, the investment officer and relevant stakeholders (e.g. DGD, Belgian embassies, when relevant Belgian and local NGOs, civil society organizations, Belgian decent work platform, etc.).

In line with BIO's investment strategy and the priority themes, BIO's focus areas will remain:

- Gender: improved gender equality and promoting economic opportunities & capacity building for women, as defined in BIO's Gender Policy<sup>11</sup>.
- Climate: reducing GHG emissions, increasing resource efficiency, and supporting appropriate climate mitigation or adaptation measures. BIO's commitments are set out in the EDFI climate and Energy Statement<sup>12</sup>.
- Decent work, including living wage/income and social protection. These themes are promoted with clients and specific attention is paid to these topics when proposing value adding opportunities and technical assistance. You can find BIO's approach to Decent Work on our website: Decent Work Policy<sup>13</sup>.

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<sup>11</sup> [Gender | BIO \(bio-invest.be\)](https://bio-invest.be)

<sup>12</sup> [EDFI Joint Ambitions for Climate Action | BIO \(bio-invest.be\)](https://bio-invest.be)

<sup>13</sup> [Decent work | BIO \(bio-invest.be\)](https://bio-invest.be)



The ESAP is drafted in collaboration with the client and BIO will seek client buy-in and commitment, to ensure that our clients deliver on what we agreed upon, and create sustainable impact for our client and the communities and stakeholders around.

## **Contracting**

BIO contractually requires its investees to comply with local environmental and social laws and conventions ratified by the country.

E&S improvements identified and agreed during due diligence will be documented in the investment contract, as detailed in the ESAP. BIO only finances investment activities that are expected to -at least- meet the high priority actions of the ESAP.

Whenever possible, BIO supports its clients to go beyond minimum E&S compliance and to maximise positive environmental, social and development impacts, e.g. by providing Technical Assistance grants<sup>14</sup>.

## **Monitoring our portfolio**

Over the course of the investment period, BIO keeps a close relationship with the client and, to the extent BIO's resources allow, provides support, advice and training to investees to help them improve their E&S performance.

BIO's portfolio and E&S teams will monitor the investees' compliance with the contractually agreed E&S requirements. The prioritisation of the ESAP allows BIO to focus on a limited number of key topics and offer increased support to clients, ensuring lasting impact.

In addition, all clients are required to report annually on their E&S performance and immediately in case of any significant environmental, social, labour or health & safety incident. When new significant E&S risks emerge or existing risks change significantly over the course of the investment, BIO will liaise with its client to address and mitigate such risk.

BIO enables further change by organizing awareness workshops on specific E&S topics (decent work, health & safety, client protection, gender, climate, supply chains improvements, etc.). These workshops are organized with BDSF support and allow the community of our clients to learn, discuss and engage with external experts, BIO's E&S team and each other. BIO also seeks to involve Belgian and international stakeholders in the organization and participation of these workshops. Clients are not contractually obligated to participate in these workshops and their follow-up. Rather, with these workshops we seek to discuss important E&S areas and issues with clients, and to encourage and support them to devise and implement ways to improve their performance.

To ensure efficient monitoring, BIO has developed a monitoring framework and a tool that defines the applicable level of monitoring to be applied based on the E&S 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 a dedicated E&S Watchlist Committee.

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<sup>14</sup> See our Business Development Support Fund activities here: <https://www.bio-invest.be/en/bdsf>

It is important to note that the client is the only and final responsible for implementing the E&S action plan and ensuring E&S compliance. BIO has a supporting role and maintains an ongoing relationship with its clients to monitor their E&S compliance and require corrective actions as necessary to cure defaults. BIO supports the improvement of its investees' E&S performance 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) measures and legal remedies as contractually agreed.

Our leverage depends on how each transaction is structured. For example, in an equity investment BIO can nominate a Board member with understanding of E&S issues, which provides an opportunity to improve the company's E&S performance. At the same time, equity investments are often minority stakes, which can limit the leverage. Direct or indirect lending also influences the leverage we have. When BIO invests in private equity funds of financial institutions for on-lending, the relationship with the final beneficiary is indirect and BIO's influence remains at the level of the intermediary vehicle.

BIO will always seek to prioritize supportive and constructive interactions with its clients. In the 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.

## **Exit**

At the end of the investment period, a Project Completion Report is drafted for each project BIO exits. The report includes an E&S summary, detailing how the company has developed and improved its E&S performance throughout the investment period, and any lessons learned. The Project Completion report will also identify further opportunities that the investee company can act on prior to the sale, to further enhance ESG performance and company valuation that will attract prospective buyers for whom good ESG performance is a priority.

## **Working with Partner Institutions**

In case of co-investments with other DFIs or mission-driven investors, BIO coordinates and shares information to supplement its E&S due diligence and monitoring process. DFIs' E&S approach is highly aligned, as all European DFIs implement the EDFI harmonised environmental and social standards. In addition, the E&S specialists of the different DFIs come together twice a year to discuss and share knowledge and information. Working with other DFIs allows efficiency gains, but also creates stronger leverage towards the client and increased E&S capacity to assess and monitor E&S improvements. From an accountability perspective, BIO always remains responsible for the use of its funds and for the application of E&S standards.

## V. APPENDIX 1- Harmonized EDFI Exclusion List – BIO Exclusion List

*According to the association of bilateral European Development Finance Institutions' (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<sup>15</sup> 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.*

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

1. Forced labour<sup>16</sup> or child labour<sup>17</sup>.
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, PCBs (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<sup>18</sup> of High Conservation Value areas<sup>19</sup>.
5. Radioactive materials<sup>20</sup> and unbound asbestos fibres.
6. Pornography and/or prostitution.
7. Racist and/or anti-democratic media.

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15 "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.

16 Forced labour 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.

17 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.

18 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.

19 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>).

20 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.

8. In the event any of the following products form a substantial part of a project's primary financed business activities<sup>21</sup>:
- alcoholic beverages (except beer and wine);
  - tobacco;
  - weapons and munitions; or
  - 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<sup>22</sup>.
12. Transport and related infrastructure primarily<sup>23</sup> 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 plants (including dual).
16. Construction of new or refurbishment of any existing HFO-only or diesel-only power plants<sup>24</sup> producing energy for the public grid and leading to an increase of absolute CO<sub>2</sub> emissions<sup>25</sup>.
17. Any business with planned expansion of captive coal used for power and/or heat generation<sup>26</sup>.

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21 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.

22 Gas extraction from limnically active lakes is excepted from this exclusion.

23 "Primarily" means more than 50% of the infrastructure's handled tonnage.

24 For indirect equity through investment funds, investments (up to a maximum of 20% of the fund) in new 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.

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

26 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.



**West-Africa**

Regus XL, A l'angle de la rue Dr  
Crozet et du Boulevard de la  
République  
Abidjan, Ivory Coast

[abidjan@bio-invest.be](mailto:abidjan@bio-invest.be)

**BIO  
Belgian Investment Company  
for Developing Countries**

Bischoffsheimlaan 15  
1000 Brussel, België

[info@bio-invest.be](mailto:info@bio-invest.be)

[www.bio-invest.be](http://www.bio-invest.be)

**East-Africa**

The Address, Muthangari Drive,  
Off Waiyaki Way

Nairobi, Kenya

[nairobi@bio-invest.be](mailto:nairobi@bio-invest.be)