Theory of Change (ToC)

2024-2028

In most low- and middle-income countries, enterprises and, in particular, small- and medium-sized enterprises (SMEs) struggle to access **patient and reliable funding.** This lack of capital represents one of the main barriers for businesses to establish themselves and grow. As the Belgian Development Finance Institution, BIO's mission is to support private sector operations in underserved geographies, towards inclusive and sustainable economic growth.

By setting out the logic of BIO's interventions and outlining the linkages between inputs and impact, this **Theory of Change** provides a comprehensive illustration of why and how BIO's investment activities contribute to the Sustainable Development Goals (SDGs) that are at the heart of the UN 2030 Agenda. The document provides stakeholders with a better understanding of BIO's mission and how its activities foster development impact through private sector operations.

In addition to the Theory of Change, BIO's impact management approach is described in the yearly Disclosure Statement about BIO's alignment with the Operating Principles for Impact Management, to which BIO is a signatory. Every year, BIO also reports on the development effectiveness of its interventions, through a Development and Sustainability Report.

BIO
Investing
in a Sustainable Future

BIO's ownership and governance

BIO is fully owned by the **Belgian State** and its activities are aligned with the objectives and principles of Belgium's development cooperation, as defined in the BIO law. It makes investments using investment capital from the Federal Government. Within the framework of the strategic orientations and requirements provided for in a Management Contract with the Belgian State, BIO enjoys decisional and operational independence, which provides the autonomy and flexibility it needs to conduct investment projects. Various control levels, governance bodies and processes ensure the efficient and correct use of its investment resources and the smooth implementation of its mission.

BIO is a member of the Association of Bilateral **European Development Finance Institutions** (EDFI), representing 15 specialized development finance organizations mostly active in low- and middle-income countries.

Inclusive and sustainable economic growth

1 NO POVERTY

PRIVATE SECTOR MOBILIZATION AND STAKEHOLDER ENGAGEMENT

17 PARTNERSHIPS FOR THE GOALS

IMPACT

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

13 CLIMATE ACTION

OUTCOMES

2 ZERO HUNGER | 3 GOOD HEALTH AND WELL-BEING | 4 QUALITY EDUCATION | 5 GENDER EQUALITY | 6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 11 SUSTAINABLE CITIES AND COMMUNITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 14 LIFE BELOW WATER | 15 LIFE ON LAND | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Business growth | Building capacities | Improving E&S practices

OUTPUTS

SIT-10 BUSINESS DEVELOPMENT SUPPORT

SIT-3 MICROFINANCE
SIT-2 SME FINANCE
SIT-1 JOB CREATION

SIT-6 GENDER EQUALITY
SIT-5 INCLUSIVE BUSINESS
SIT-4 LDC/FCAS

SIT-9 ECOLOGICAL SUSTAINABILITY
SIT-8 CLIMATE ADAPTATION
SIT-7 CLIMATE FINANCE

DIRECT AND INDIRECT INVESTMENTS CONTRIBUTING TO 10 STRATEGIC IMPACT TARGETS (SIT)

ACTIVITIES

Decent work | Gender equality | Climate action

TRANSVERSAL COMMITMENTS WITH A SPECIFIC STRATEGY AND APPROACH

Human Rights due diligence and E&S risk management

Impact assessment, monitoring and evaluation

Technical assistance, feasibility studies and investment support

LONG-TERM DEBT AND EQUITY FINANCING

INPUTS

Investment capital | Development finance expertise | Development Cooperation

BIO
Investing in a Sustainable Future

INPUTS

Resources that are deployed in service of a certain set of activities

ACTIVITIES

Actions or interventions that are performed in support of specific impact objectives

OUTPUTS

Tangible, immediate practices and services that result from the activities that are undertaken

Sphere of control

OUTCOMES

Changes or effects on individuals or the environment that follow from the delivery of services

IMPACT

Societal and/ or environmental changes or effects that follow from outcomes that have been achieved

Sphere of influence

Theory of Change Narrative

BIO's approach revolves around **three key inputs**: (i) investment capital, (ii) development finance expertise, and (iii) development cooperation.

These inputs generate outputs through investments in (sub)debt and equity financing (i.e., **activities**). These investments are accompanied by (i) the integration of environmental and social (E&S) risk management and governance standards, (ii) thorough development assessments, monitoring and evaluations, and (iii) business development support. Additionally, and across all investments, BIO also commits to use its investments, expertise and technical assistance capabilities to specifically support decent work, gender equality and the fight against climate change, from mitigating risk to maximizing impact.

The **outputs** of these activities consist of both direct and indirect investments in Micro, Small, and Medium Enterprises (MSMEs) and infrastructure projects, supporting the creation of decent jobs in underserved geographies, inclusive business models, as well as gender and climate finance. These outputs are tied to 10 Strategic Impact Targets (SITs), which outline specific, measurable goals for investments over the 2024-2028 period.

Outcomes emerge from these outputs through tangible project-level advancements, such as improved E&S practices, decent and inclusive job growth, and sector-specific development effects. These include enhanced economic productivity, local value creation, greater access to essential services, empowerment of women, adoption of sustainable practices, and increased resource efficiency and renewable energy use. Further outcomes include capacity building and enhanced business ecosystems.

The link between outcomes and **impacts** is established through their alignment with key Sustainable Development Goals (SDGs), particularly those where private sector initiatives can make the greatest difference. BIO's investments most directly contribute to SDG8 (Decent Work and Economic Growth), SDG10 (Reduced Inequalities), and SDG13 (Climate Action), which are transversal to all its operations, even if several other SDGs are also pursued through BIO's activities in specific sectors. BIO ultimately pursues SDG1 (No Poverty), recognizing that long-term improvements in poverty reduction are interconnected with broader economic and environmental progress.

Aligned with SDG17 (Partnerships for the Goals), BIO strengthens its impact by using technical assistance to support projects, partnering with other European DFIs and collaborating with global development actors such as the Belgian Development Agency Enabel and Civil Society Organizations. Additionally, it mobilizes private sector funding, e.g.: through the SDG Frontier Fund, to further amplify its contributions towards sustainable development.

INPUTS

Investment Capital

The Belgian State grants BIO three main types of funding sources: investment capital (Code 8), capital subsidies (Code 5) and grants (Code 3).

Investment capital constitutes BIO's core funding and represents the vast majority of total Assets Under Management – about EUR 1.1 billion at the end of 2023.

Investments financed with **capital subsidies** need to have a significant expected development impact and a strong potential for financial sustainability while being insufficiently profitable or too risky to comply with standard return objectives.

Grants are provided by the Business Development Support Fund to current and prospective portfolio companies and investment funds.

BIO endeavours to find the right balance between the intervention's development relevance and its financial return.

Development finance expertise

Operations are centralized in **Brussels** with ca. 80 professionals organized in several operational departments and units involved in the investment cycle. Two regional offices in **Nairobi** and **Abidjan** ensure local presence, improve project sourcing and strengthen the relationship with local stakeholders.

Key expertise and tasks for BIO staff consist of project **sourcing** and origination, evaluation of their alignment with overall investment strategy, preliminary checks ("Know Your Customer" procedure), **due diligence processes** addressing governance, commercial, legal and financial aspects, as well as environmental and social risks and opportunities and the development impact potential. For each projects, in-house expertise ensures (i) financial and non-financial additionality, (ii) support of business performances and (iii) maximum development effectiveness.

After final approval, the focus is on **negotiating** and drafting contracts, disbursements, and financial, E&S and development effectiveness **monitoring and evaluation.** When acquiring equity participation, or through Board of Directors/Advisory Committee seats in private equity funds, priorities include ensuring business management supervision, promotion of best practices, **value creation** and maximum development impact.

Development Cooperation

As one of the official Belgian Development Cooperation instruments, BIO's interventions must be in line with the general **objectives of the Belgian Development Cooperation.**

BIO is also an **ODA-eligible** Private Sector Instrument (PSI). It therefore operates under strict requirements to ensure its investments contribute to development in **DAC-listed countries** while being development, financial and/or value **additional** to market forces. This entails a robust impact management system with systematic ex-ante assessments, annual monitoring, and evaluations of development outcomes, ensuring that all activities perform well on **OECD DAC criteria** of relevance, coherence, effectiveness, efficiency, impact and sustainability.

Furthermore, BIO should actively seek **complementarities and synergies** across the Belgian development cooperation, including the DGD, Enabel and NGOs, while coordinating with public, non-profit and private investors to maximize development impact through both investment and grant support activities.

As a member of the **Association of European Development Finance Institutions** (EDFI), BIO also works towards and aligns with harmonized standards and practices.

Long-term Debt and Equity financing

BIO invests **directly and indirectly** using several instruments among which **equity, debt, guarantees or quasi-equity** – such as mezzanine capital, subordinated loans or convertible loans, according to the specific financial needs and context, minding additionality and complementarity towards private initiatives. Recently, BIO has gained access to some guarantees that partially de-risk investments in specific segments or sectors (e.g., European MSME, JEFFREI, TGVC EFSD+ guarantee programs).

Loans

BIO's main investment instruments are **direct long-term senior loans** at fixed and variable rates. BIO also uses subordinated debt with a higher risk/return profile. Loan terms usually vary between 4 (for microfinance institutions) to 20 years (for infrastructure projects), as required by the structure of the underlying investments. BIO systematically examines whether **local currency** financing can be sustainably proposed to its clients.

Capital Participations

BIO also purchases shares and takes partial ownership of companies, thus acquiring capital participations. Equity investments are mostly indirect through **Private Equity Funds** (PEF) that invest in equity participation in private companies. To a minor extent, BIO invests in **direct equity participation** and as a direct shareholder, takes part in the company's governance and can contribute to strengthening the company's performance and impact.

17 PARTNERSHIPS FOR THE GOALS

Private Sector Mobilization

Mobilizing additional private capital is essential to achieve the SDGs. To support the private sector, BIO also seeks to mobilize financing from other private investors, in line with SDG 17 (Partnership for the goals). BIO and other DFIs are usually perceived as **solid anchor investors**, helping to mitigate real and perceived risks associated with projects with high development potential. In some projects, **direct resource mobilization** is achieved by **co-investing** alongside more traditional private investors. BIO also seeks to leverage its expertise by administering third party funds (e.g.: SDG Frontier Fund) and by using public blending or guarantee instruments (e.g., ESFD+ Guarantee).

Financial Additionality

BIO must be financially additional by providing financing services that go **beyond what is made available by the private sector**, not replacing the market but supplementing it. In other terms, BIO invests in projects that the local market would otherwise not have financed or not on an adequate scale or reasonable terms. While providing tangible evidence for financial additionality is often challenging, BIO always motivates, documents and reports where its additionality lies.

As per the Management Contract, financial additionality is proven when at least one of the following conditions has been complied with: (i) **lack of private investors**; (ii) **insufficient** private investors' interventions to meet the needs of the target companies; (iii) available financing has modalities that are **not adapted** to the target companies' needs; (iv) the characteristics of BIO's interventions make that BIO fulfils a **specific role**, such as a catalytic role to mobilize supplementary financing.

ACTIVITIES

Do No Harm

Human Rights due diligence and E&S risk management

The E&S strategy and the Human Rights policy describe how in each project BIO seeks to assess, mitigate and manage Human Rights and Environmental and Social risks. In addition to not financing activities mentioned in the EDFI **Exclusion List**, BIO targets compliance with local regulations and **E&S international standards**, through an ambitious, realistic and gradual approach.
Where the opportunity arises, BIO engages with project managers to go **beyond compliance** and to leverage positive environmental and social impact.
Furthermore, BIO has a grievance mechanism allowing third parties to easily submit grievances on any project.

Do Good

Impact assessment, monitoring and evaluation

The assessment, monitoring and evaluation (AME) framework is a set of tools to manage and evaluate development effectiveness, both at project and portfolio level. This includes a systematic **ex-ante assessment** of projects' alignment with BIO's Strategic Impact Targets (SITs) and expected outcomes, target setting and related **monitoring** of development KPIs, economic modelling of **induced effects** (cfr. Joint Impact Model) and **evaluating** processes and outcomes at various stages of the investment process.
The AME framework is **aligned with BIO's Theory of Change** and was designed to provide an **adequate evidence-based support** to the development effectiveness of BIO's activities.

Do More

Technical assistance, feasibility studies and investment support

Through the Business Development Support Fund (BDSF), BIO allows current and prospective portfolio projects to increase their business performance and **improve sustainable business development practices** by offering grant support and co-financing in the form of three instruments:

- Technical Assistance (TA), to improve business practices, expertise and standards compliance;
- Feasibility Studies (FS), to analyze the technical viability and profitability of an investment project;
- Investment Support for innovative projects, to co-finance fixed assets or operational expenses associated with innovative and impactful business models.

From minimizing Environmental & Social risks to maximizing development impact

Non-Financial Additionality

BIO's non-financial additionality is the **additional development objective** or achievements that the presence of BIO helps to realize, which the private investment otherwise may not bring to the transaction. It refers to **requirements or services beyond financial ones**, including the provision of specialized advice or the mobilization of technical expertise, requirements to improve ESG standards, or the use of grant funding to support the development of training programs or systems in key areas.

ACTIVITIES

- Specific strategy
- Systematic assessment
- Awareness raising
- Risk management and mitigation
- Identification of actions
- Technical assistance

TRANSFORMATIVE ROLE

DECENT WORK

SDG8 aims to promote sustainable and inclusive economic growth, full and productive employment, and decent work for all. Many low- and middle-income countries face challenges such as high unemployment rates, vulnerable employment, informal labour and unsafe working conditions.

- AMBITION – Supporting and creating quality jobs and promoting decent work conditions
- MAIN REFERENCE – ILO Convention and IFC PS2
- OBJECTIVE – Decent Work policy / SIT-1-Job creation

GENDER EQUALITY

SDG5 focuses on achieving gender equality and empowering all women and girls, as part of a broader effort towards reduced inequalities. Gender inequality remains a significant barrier to economic and social well-being, particularly in regions where women face discrimination and limited access to resources.

- AMBITION – Supporting women-led businesses and promoting gender-responsive business practices
- MAIN REFERENCE – 2X Challenge
- OBJECTIVE – Gender strategy / SIT-6-Gender equality

CLIMATE ACTION

SDG13 calls for urgent action to combat climate change and its impacts. The Majority World countries are particularly vulnerable to climate change, which threatens livelihoods, infrastructure, and economic stability.

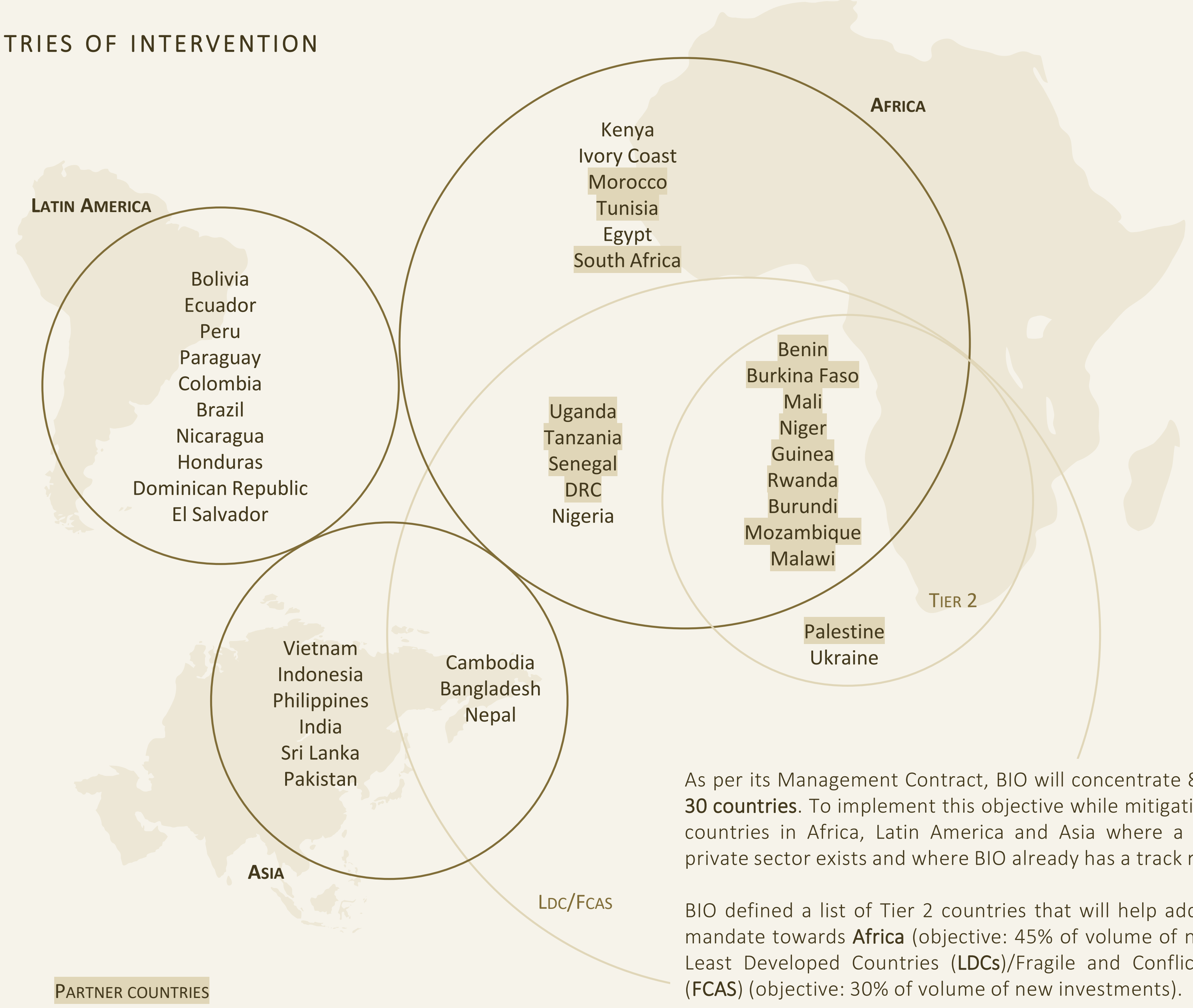
- AMBITION – Encouraging climate and ecological sustainability towards climate mitigation, climate resilience and sustainable management of natural resources.
- MAIN REFERENCE – Common principles for Climate Mitigation Finance and OECD Rio Markers
- OBJECTIVE – Climate and Ecological Sustainability strategy / SIT-7-Climate Finance, SIT-8-Climate adaptation, SIT-9-Ecological sustainability

8 DECENT WORK AND ECONOMIC GROWTH

5 GENDER EQUALITY

13 CLIMATE ACTION

Key countries of intervention



As per its Management Contract, BIO will concentrate 85% of its portfolio in **30 countries**. To implement this objective while mitigating risks, BIO selected countries in Africa, Latin America and Asia where a diversified and deep private sector exists and where BIO already has a track record.

BIO defined a list of Tier 2 countries that will help address the best-efforts mandate towards **Africa** (objective: 45% of volume of new investments) and Least Developed Countries (**LDCs**)/Fragile and Conflict-Affected Situations (**FCAS**) (objective: 30% of volume of new investments).

DIRECT AND INDIRECT INVESTMENTS CONTRIBUTING TO 10 STRATEGIC IMPACT TARGETS (SIT)

OUTPUTS

Economic Pillar

SIT-1-JOBS: **60%** of 2024-2028 new commitments targeting **+15% within 3 years in jobs or activity** (agri-value chain)
SIT-2-SME: **50%** of 2024-2028 new commitments **in SME finance**
SIT-3-MICRO: **25%** of 2024-2028 new commitments in **microfinance and/or retail banking**

Social Pillar

SIT-4-LDC: **50% code 5 and 15% code 8** of 2024-2028 new commitments **in LDCs, LICs or FCAS**
SIT-5-IB: **50% code 5 and 25% code 8** of 2024-2028 new commitments **in inclusive businesses**
SIT-6-2X: **40%** of 2024-2028 new commitments **2X eligible**

Environment Pillar

SIT-7-CF: **20%** of 2024-2028 new commitments qualifying as **climate mitigation and/or adaptation finance**
SIT-8-ADAPT: **20%** of 2024-2028 new commitments **including climate change adaptation action**
SIT-9-ES: **10%** of 2024-2028 new commitments **including biodiversity conservation** and **sustainable management of natural resources action**

Partnership

SIT-10-BDSF: **30%** of 2024-2028 new projects **supported with BDSF**

The Strategic Impact Targets (SIT) are ex-ante and sector-specific impact objectives that orient BIO's prospection work and support the decision-making towards the achievement of tangible outputs, thus ensuring the direction of funding towards the most striking development gaps. The SITs are compatible with a lean data approach, tracked at commitment level and attained when reached cumulatively over the 5 years covered by the Management Contract.

Investment Channels

Direct investments

BIO invests **directly** through debt and equity **in a limited number of small and medium enterprises** active in the agricultural value chain, the provision of basic goods and services, as well as energy or ICT infrastructure projects. Direct investments allow BIO to **maximize its value added** and to tailor it to the specific needs of the investee company, that is: work more closely with them to improve E&S performance, raise awareness and build capacity, improve governance and enhance overall operational performance. This direct relationship allows BIO to provide hands-on technical assistance and mentoring. Direct investments also allow BIO to encourage innovation and entrepreneurship, push for improvements towards sustainability and, through the demonstration effect, crowd-in the private investment sector.

Financial intermediaries

Financial institutions are at the core of BIO's mandate, they allow for a **much wider outreach** and provide the necessary market knowledge, distribution channels, products and support to meet specific financial needs of Micro, Small, and Medium Enterprises (MSMEs). Through its investments in the financial sector, BIO can also contribute to a more resilient and inclusive financial sector which is the foundation to develop local economies and ensure **financial inclusion.** Furthermore, BIO plays an active role **in steering financial institutions towards sustainable practices**. As economies worldwide undergo decarbonization and grapple with the consequences of climate change, BIO´s support to the financial sector can also assist in **addressing climate risks and opportunities**.

Investment funds are crucial instruments for BIO and co-investors (usually including other DFIs) to scale their investments more quickly and with greater flexibility, thereby **reaching a larger number of investees** i.e., SMEs and other investment projects in specific geographies and enabling sectors (agriculture, financial sector, energy infrastructure, digital, etc.) that are facing unmet financial needs in risky and costly environments. **Private Equity Funds (PEF)** allow to provide them with crucially needed **long-term risk capital** and to further **support investees towards better corporate governance, stronger business and financial practices, and higher ESG standards**, thanks to fund managers' local presence and hands-on approach. By pooling resources from multiple sources and spreading investments across multiple projects, investment funds allow to attract additional private sector capital and reduce overall risks for DFIs and other investors.

SCALING UP OUTREACH

OUTCOMES

OUTPUTS

ACTIVITIES

KEY SECTORS OF INTERVENTION*

	WHAT	WHO	HOW MUCH	CONTRIBUTION	RISK
SME finance	Enhancing access to credit and other basic financial services to SMEs, thereby supporting job creation and local economic development.	SMEs, including specific underserved segments i.e. informal or unbanked SMEs, rural SMEs, women-led SMEs etc.	Hundreds of thousand of SMEs – mostly indirectly, with large enabling effects in terms of job creation – millions of direct and indirect jobs – and local economic growth.	E&S risk management; Gender equality; Climate risk management; Digitalization; Innovative products and services.	Insufficient E&S risk management; Market risks, credit defaults and systemic economic crises.
Microfinance	Improving access to and use of responsible financial services to microenterprises and individuals, to foster financial inclusion.	Microentrepreneurs and individuals, with a specific focus on underserved groups e.g. individuals in remote areas, women and other low-income groups.	Reaching millions of individuals and microentrepreneurs with access to credit and other basic financial services (saving, insurance, etc.).	High client protection standards; Innovative models and digital services; Gender equality; Non-financial services.	Over-saturation; Over-indebtedness; Unequal access between genders; Lack of technical and financial literacy.
Energy infrastructure	Increasing availability and access to clean and affordable energy to address both climate and electrification challenges, with strong enabling effects e.g,. jobs, GDP growth, etc.	Improved national energy systems by integrating renewable energy; SMEs; Rural, isolated or off-grid communities; Low-income individuals with no access to electricity.	Reaching thousands of SMEs and millions of individuals indirectly through large-scale and small-scale on-grid and off-grid solutions – including mini-grid and Solar Home Systems.	Human Rights based approach; E&S risk management, including focus on decent work; Community engagement; Climate resilience and bio-diversity conservation.	Human Rights violation (e.g., solar panel, GBVH risks, decent work); Environmental impact; Community health, safety and security; Pricing pressures.
Agricultural Value Chain	Raising farmers' and rural workers' incomes, and/or local or regional food availability, thereby enhancing local food security.	Small-scale farmers (SSFs) and rural communities; Rural workers in SMEs, cooperatives and social enterprises, with a specific attention to women and youth.	Hundreds of thousands of SSFs and thousands of workers in rural areas, both directly and indirectly.	Human Rights based approach; Sustainable supply chain; Community engagement; Gender equality; Sustainable agricultural practices and certifications.	Deforestation and biodiversity loss; Child labour, other human rights violation; E&S risks (land acquisition, community health and safety); Extreme weather; Market risks.

*Key sectors of intervention are strategic focus areas towards which most of BIO's resources will be invested. In addition, and in line with its mandate, BIO's investment strategy provides other relevant areas or sectors in which BIO could invest i.e., manufacturing SMEs, basic goods and services provision, digital infrastructure, etc.

SME FINANCE

Investing to improve the supply of finance to SMEs in developing and emerging countries is essential, as better paid work is the single largest contributor to poverty reduction and most people living in poverty either work for themselves, for microenterprises, or for small and medium-sized enterprises (SMEs). In sub-Saharan Africa, SMEs contribute significantly to local economies and job creation - accounting for up to 90% of total employment, but they face a large financing gap estimated at $242 billion. While there are several constraints holding SMEs back, access to finance is one of their most pressing problems. Addressing the specific needs of SMEs and improving their access to finance – including through innovative solutions to underserved market segments – is critical to unlock the SME potential that is reaching higher production, job creation, and productivity gains, while also empowering them to address pressing societal issues such as gender inequality, youth unemployment, and sustainable development.

OUTCOMES

OUTPUTS

ACTIVITIES

DEVELOPMENT GAPS

- Substantial financing gap
- Lack of adequate financial services, incl. risk capital
- Limited access to financial services
- Underserved segments (rural SMEs, women, etc.)
- Weak E&S risk management
- Limited use of technology to expand outreach

INVESTMENT FOCUS

BIO will support SME finance by investing directly (i) in banks with a good track record on SME financing or a credible strategy to develop its SME outreach (ii) Non-Banking Financial Institutions such as leasing, factoring, dedicated SME fintech and other specialized SME lenders, as well as indirectly through investment funds, both thematic and generalist funds with a strong SME focus. To a lesser extent, BIO will also invest directly in SMEs with a focus on agricultural value chain – see AVC sub-ToC.

OUTPUTS

- SIT-1 Job creation
- SIT-2 SME finance
- SIT-4 LDC/FCAS
- SIT-6 Gender equality
- SIT-7 Climate finance
- SIT-8 Climate adaptation
- SIT-9 Ecological Sustainability

IMMEDIATE OUTCOMES

- Increased range and quality of financial products and services
- Higher SME financing
  No. and value of SMEs loans outstanding
- Expanded outreach to underserved SMEs
  No. and value of women-led/rural SMEs loans outstanding
- Increased access to non-financial services
  SMEs offered with non-financial services
- Strengthened E&S risk management
- Offering of innovative products e.g., Green loans
  No. and value of green loans outstanding

FINAL OUTCOMES

PROJECT

- Improved SME access to finance, incl. for underserved segment
- Better financial products and services for SMEs
- Job creation and growth at SME-level
  Indirect jobs ; value added
- Adoption of sustainable finance standards

MARKET

- Higher SME finance market depth
- Innovative SME financing models and products
- Improved economic resilience

IMPACT

- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION

KEY D&S CHALLENGES Formal labor and decent wages – Equal opportunities between genders – Technological integration – Promotion of responsible business practices – Climate impact and vulnerability – Regulatory and administrative compliance

POTENTIAL FOR VALUE ADDING ROLE

MICROFINANCE

Investing in microfinance and expanding access to financial services for underserved populations are essential for promoting financial inclusion, fostering inclusive economic growth and reducing poverty. Today, 76% of adults globally have access to a financial account, a significant achievement in the drive toward universal financial inclusion. However, deep regional disparities remain and in 45 countries, less than half of the adult population has access to financial services, limiting their economic opportunities. This gap is particularly concerning in climate-vulnerable countries, where 80% of the world's unbanked adults reside. In these regions, underdeveloped financial markets and limited access to essential financial services leave vulnerable populations further marginalized, intensifying both economic and climate-related challenges. By empowering individuals and small businesses with access to microloans, savings accounts, and insurance, microfinance unlocks fundamental pathways out of poverty and to reduced inequalities.

OUTCOMES

OUTPUTS

ACTIVITIES

Development gaps → **Investment focus** → **Outputs** → **Immediate outcomes** → **Final outcomes** → **Impact**

Development gaps

- Substantial availability gaps
- High cost of microfinance services
- Limited access to microfinance services
- Underserved segments (rural indiv., women, etc.)
- Limited use of technology to expand outreach
- Weak regulatory framework
- Low level of financial literacy
- Limited provision of non-financial services

Investment focus

BIO will support microfinance by directly financing (i) Specialized microfinance institutions, (ii) Other financial institutions with a robust microfinance strategy, (iii) Specialized microfinance non-bank financial institutions (e.g., FinTech, micro leasing and microinsurance), with special attention to fund (a) un(der)served segments and/or (b) products and services facilitating access to basic goods and services. In addition, BIO will invest indirectly through thematic funds supporting microfinance providers (MFIs, FinTech's, etc.).

Outputs

- SIT-1 Job creation
- SIT-3 Microfinance
- SIT-5 Inclusive Business
- SIT-4 LDC/FCAS
- SIT-6 Gender equality
- SIT-7 Climate finance
- SIT-8 Climate adaptation

Immediate outcomes

- Increased range of products/services — *No. and value of voluntary savings accounts/insurance premiums*
- Higher micro-finance — *No. and value of microentrepreneur loans outstanding*
- Expand outreach to underserved segments — *No. of women/rural clients* (potential for value adding role)
- Increased access to non-financial services — No. of clients offered support in financial literacy (potential for value adding role)
- Strengthened Client Protection — *Client Protection Pathway* (potential for value adding role)
- Offering of innovative products e.g., Green loans — *No. and value of green loans outstanding*
- Facilitating access to basic good and services — *No. and value of health/edu/other loans outstanding*

Final outcomes

Project:

- Improved access to financial services
- Enhanced financial literacy and capability
- Improved economic opportunities for vulnerable groups
- Increased income for households
- Increased access to basic goods and services

Market:

- Higher microfinance market depth
- Higher level of financial inclusion
- Innovative and inclusive financing models and products
- Improved economic resilience

Impact

Key D&S challenges Over-indebtedness – Client protection – Equal opportunities between genders – Digitalization, data security and privacy – Financial literacy

Potential for value adding role

BIO Investing in a Sustainable Future

ENERGY INFRASTRUCTURE

Investing in essential infrastructure, particularly in energy, is crucial for low- and middle-income countries where financing and supply shortfalls are substantial. In Sub-Saharan Africa alone, an estimated $70-90 billion a year is needed for power sector investments to meet the rapidly growing demand and extend electricity access to underserved populations. About 759 million people lack access to electricity 75% are located in sub-Saharan Africa. Beyond universal access, energy infrastructures have the potential to drive large-scale job creation and economic development by unlocking economic activities that depend on reliable power. Moreover, it can contribute to closing the the huger climate finance gap that developing countries face, which is pivotal to support a green and resilient energy transition. These investments not only address immediate power needs but also improve the efficiency, reliability, and sustainability of infrastructure systems.

OUTCOMES

OUTPUTS

ACTIVITIES

Development gaps

- Limited availability of energy
- High energy costs
- Low access to energy
- Poor quality of energy supply and services
- High carbon-intensity of power systems
- Vulnerable to climate change
- Power market inefficiency
- Limited project development capacity

Investment focus

BIO will invest directly in energy infrastructure that addresses both climate change and electrification, with the following objectives (i) increasing access (ii) improving quality (iii) transitioning to green, sustainable and more resilient infrastructure. This includes financing on-grid hydro, solar, geothermal and wind projects (standard Independent Power Producers – public Power Purchase Agreements-based projects - project finance), as well as decentralized or off-grid renewable energy instruments and micro-grid, mini-grid, and Solar Home Systems mostly indirectly through (debt) funds.

Outputs

- SIT-2 SME finance
- SIT-7 Climate finance
- SIT-4 LDC/FCAS
- SIT-5 Inclusive Business
- SIT-8 Climate adaptation
- SIT-9 Ecological Sustainability

Immediate outcomes

- Higher capacity and energy generation
  New capacity installed
  Energy generated
- Diminished cost of energy
- Higher reliability and fewer power outages
- Reduction in GHG emissions
  Renewable energy generated
  GHG emissions avoided
- Expand access to underserved end-users
  Individuals/Households provided with access to energy
- Community engagement
- Increased capacity and sustainability of local project developers

Final outcomes

Project

- Increased access to energy
- Large power enabling effects
  No. Indirect jobs/Value added
- Climate change mitigation
- Greater sector resilience
- Improved energy mix and reduced climate impact
- More sustainable infrastructure
- Enhanced energy independence

Market

- Development of inclusive business model

Impact

- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION

Key D&S Challenges Supply chain HR/E&S risks (e.g., solar panels value-chain) – Decent work, with a focus on safeguarding (including Gender-Based Violence and Harassment), low-paid unskilled workers and Occupational Health and Safety – Land acquisition/governance – Community health, safety and security, and engagement - Pollution prevention, biodiversity conservation and climate adaptation

Potential for value adding role

BIO Investing in a Sustainable Future

AGRICULTURAL VALUE CHAIN

With 733 million people undernourished and 80% of the extreme poor residing in rural areas, growth in the agriculture sector is at least twice as effective in reducing poverty compared to other sectors. Smallholder farmers (SHFs), who are predominantly women, produce most of the world's food, making them vital to food security. As the global population and urbanization continue to rise, food availability will need to increase by 60% by 2050 to meet demand, particularly for more resource-intensive diets. However, this must be achieved amidst the challenges of climate change, loss of biodiversity, and degradation of natural resources, underscoring the urgent need for innovation, modernization, and up-skilling along the entire value chain. This, in turn, requires a substantial increase in access to finance and investment capital.

OUTCOMES

OUTPUTS

ACTIVITIES

Development gaps

- Limited modernization and innovation
- Low productivity and profitability
- Poor employment opportunities
- Low value addition
- Limited sustainability of crop production
- Vulnerability to climate change
- Insufficient availability of food products
- Local food insecurity

Investment focus

SMEs at various stages (input, production, storage, processing and packaging, transport and wholesaling, marketing and/or retailing), pursuing: i) the Agricultural Value Chain growth and development (increasing local value-added); ii) inclusive agricultural growth (benefitting rural populations); iii) sustainable agriculture (fighting climate change and biodiversity loss); with a specific attention to engage with SSFs.

Outputs

- SIT-1 Job creation
- SIT-2 SME finance
- SIT-9 Ecological Sustainability
- SIT-4 LDC/FCAS
- SIT-5 Inclusive Business
- SIT-6 Gender equality
- SIT-7 Climate finance
- SIT-8 Climate adaptation

Immediate outcomes

- Improved market access for farmers
  No. of small-scale farmers reached
  Volumes purchased certified
- Rural/community employment
  No. of rural full-time equivalent workers
- Increased women engagement
  % of female employees
  No. and % of female clients
- Sustainable and modern farming practices
  Land under sustainable management ; % certified
- Production, productivity and quality upgrade
  Volume sold ; Revenues
- Increased innovation and export revenues
  Export sales revenues
- Local food provision
  Domestic sales revenues

Final outcomes

Project
- Increased productivity and sustainability
- Higher income for farmers and rural workers
- Increased value added and improved trade balance
- Expand access to affordable and nutritious food
- Better integrate and increase sustainability of value chain
- Expand opportunities for low-income population
- Promote sustainable agricultural production

Market
- Improved market resilience to shocks and stresses

Impact

- 2 ZERO HUNGER
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 15 LIFE ON LAND

Key D&S Challenges Zero deforestation – Fair relationship with SSFs – Formal labor and decent wages – Equal opportunities between genders – Climate impact and vulnerability – Access to land – Communities engagement – Contribution to local food security

Potential for value adding role

*Annex A: Impact management

Strategic Intent

1. Define strategic impact objectives
- BIO's core mission
- Investment strategy
- Theory of change
- 10 Strategic Impact Targets

2. Manage strategic impact on a portfolio basis
- Assessment, monitoring and evaluation framework
- Development scorecard (summarizing each project's expected contribution to SITs and related development goals)
- Economic modelling to assess indirect effects of financed projects, through the Joint Impact Model
- Annual Development & Sustainability report, describing expected and actual contribution of portfolio projects to SDGs

Origination & Structuring

3. Establish contribution to impact
- Financial and non-financial additionality systematic assessment (establishing and evidencing contribution)
- Business Development Support Fund (BDSF)

4. Assessment of the expected impact
- Ex-ante Development Assessment (qualitative and quantitative evidence)
- Set of standardized cross-sector, sector-specific, investment-specific indicators
- Specific policies and approaches on Decent Work, Gender and climate to assess risk, initial impact performance and related opportunities

5. Assess, address, monitor and manage potential negative impacts
- Human Rights and Decent Work policies
- Integrated E&S risk management
- E&S due diligence
- E&S action plan (ESAP)

Portfolio Management

6. Monitor progress against expectations
- Annual development effectiveness monitoring and reporting
- Annual E&S risk management monitoring
- Regular project review report and monitoring visits
- Selected in-depth case study evaluations

Impact at Exit

7. Conduct exits considering effect on sustained impact
- Analysis of effects on sustaining development impact prior to direct equity exits

8. Review, document, improve decisions and processes
- Evaluation plan and evaluation instruments
- Evaluation governance bodies - internal evaluation committee and evaluation steering committee
- Project completion reports
- Lessons learnt management

Independent Verification

9. Disclose alignment with impact principles and provide regular independent verification
- Annual OPIM disclosure
- Internal auditing
- Independent verification (first in 2021, next expected in 2026)

Operating Principles for Impact Management

*Annex B: Portfolio Monitoring Indicators

	Key Performance Indicators	Other Performance Indicators	SDG targets
SIT-1 Job creation	Number of direct/indirect jobs supported	No. of (female) full-time equivalent workers – No. of construction workers – No. of occupational fatalities – No. of occupational injuries – % of employees covered by Collective Bargaining Agreements – No. of Labour related incidents – Permanent employee ratio – Lowest wage – Employee turnover rate	SDG 8: 8.1, 8.2, 8.3, 8.5, 8.6, 8.7, 8.8, 8.10 SDG 9: 9.1, 9.2, 9.3, 9.B, 9.C
SIT-2 SME finance	Number of SMEs provided with access to financial services	No. of commercial branches– No. and value of SME loans outstanding – % of SME loans outstanding to women-owned SMEs – Average loan size disbursed – No. of SMEs offered support in non-financial services (business development, etc.) – Contribution to GDP	
SIT-3 Microfinance	Number of microenterprises and individuals provided with access to financial services	No. of clients – No. and value of microentrepreneur loans outstanding – No. and value of voluntary savings accounts – No. of clients offered support in financial literacy – No. and value of (gross) written premium – Access to digital payment services - Client Protection Pathway	
SIT-4 LDC/FCAS	Share of outstanding investments in LDC and/or FCAS	No. and percentage of key (and other) performance indicators in LDCs and/or FCAS	SDG 1: 1.1, 1.4, 1.5 SDG 2: 2.1, 2.3, 2.4, 2.A SDG 3: 3.B SDG 5: 5.1, 5.5, 5.A, 5.B SDG 10: 10.2, 10.3, 10.4, 10.B
SIT-5 Inclusive Business	Number of underserved individuals reached (e.g. low-income, rural, smallholder farmers, youth, etc.)	No. of (female) small-scale farmers (SSF) reached – No. of rural full-time equivalent workers – No. of supplier cooperatives/individuals – Volume purchased certified – Payments to local supplier cooperatives and individuals – No. and value of SSF loans outstanding – No. of rural clients	
SIT-6 Gender equality	Share of women jobs/clients supported/reached	No. of companies funded by women – % of women ownership – % of female C-level managers – % of female employees – No. of companies with products specifically benefitting women – No. and % of female clients – % of loans outstanding to women	
SIT-7 Climate finance	Share of outstanding investments classifying as climate finance	Energy capacity installed – Renewable energy generated – No. and value of green loans outstanding – GHG emissions avoided – GHG emissions sequestered – GHG emissions (Scope1-3)	SDG 6: 6.3, 6.4 SDG 7: 7.1, 7.2, 7.B SDG 12: 12.2, 12.4, 12.5, 12.6 SDG 13: 13.1, 13.A SDG 15: 15.2
SIT-8 Climate adaptation	Share of outstanding investments contributing to mainstream climate adaptation	Water consumption – Wastewater management – No. of insurance policies covering climate risks – No. of climate-resilient infrastructure projects	
SIT-9 Ecological sustainability	Share of outstanding investments contributing to mainstream biodiversity conservation and ecological sustainability	Ha of land under sustainable management practices – Product/service certifications (organic equivalent) – Volume purchased certified – Ha of forests restored – Ha of forests protected – Liters of biofertilizers used	
SIT-10 BDSF	Total commitments to BDSF projects	No. and value of BDSF projects across topics (decent work, gender, climate, digitalization, E&S, business development, etc.) – Private sector mobilization – Payments to government – Export revenue	SDG 17: 17.1, 17.3, 17.11, 17.16, 17.17