Theory of Change

BIO

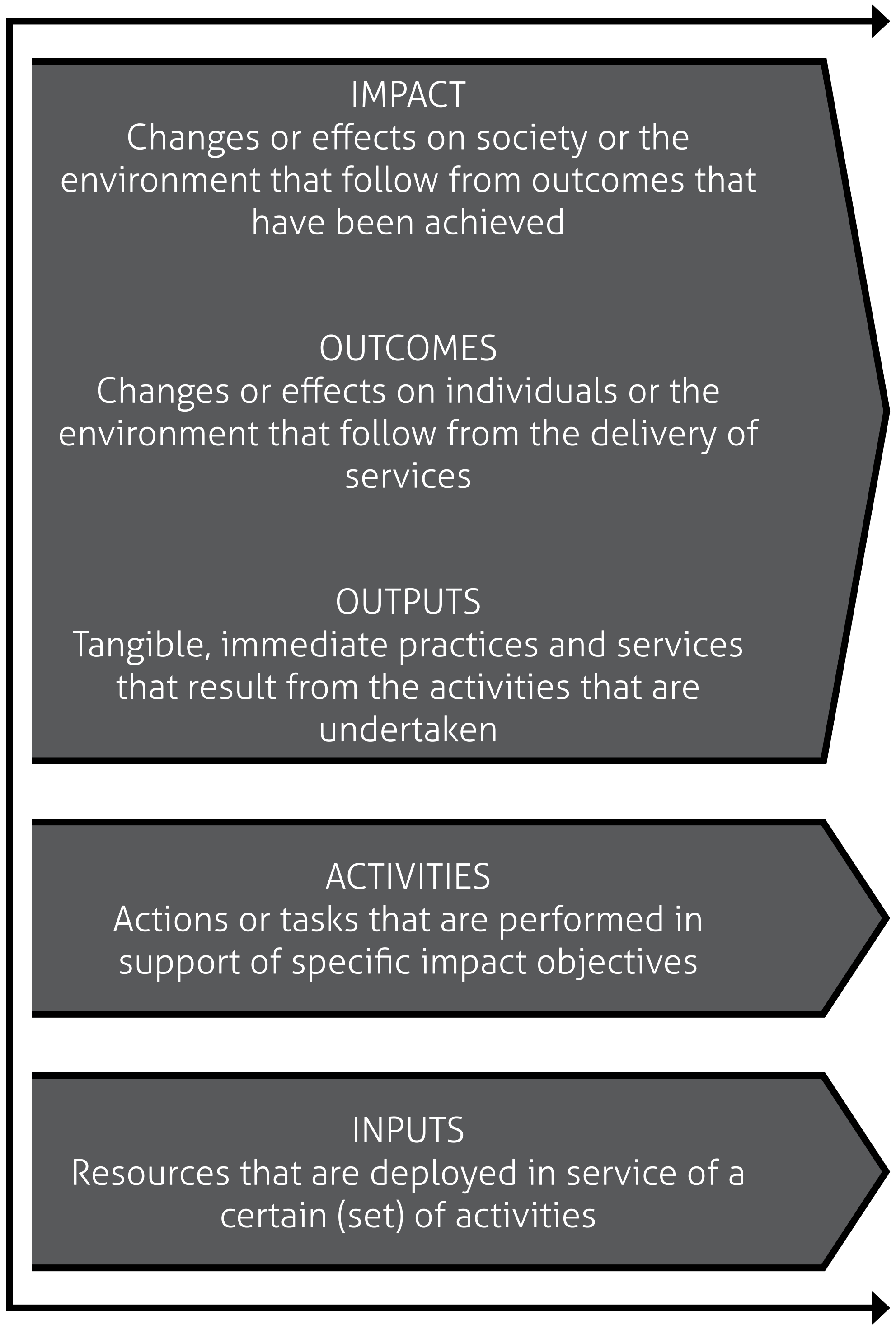
Investing in a Sustainable Future

Introduction

Private investment and innovation make a major contribution to productivity improvements, inclusive and sustainable economic growth and jobs creation. These are important drivers of poverty and inequality reduction - including gender inequality – and are recognized as key channels for achieving the Sustainable Development Goals (SDGs) by 2030. As the Belgian Development Finance Institution, BIO's mandate is precisely to support such a transformative and responsible private sector which stimulates decent jobs, fosters innovation and pays taxes that enable governments to deliver essential public services.

The Theory of Change (ToC) has a purpose to provide a comprehensive description of BIO's contribution to the 2030 agenda. BIO's ToC has been completely revised to integrate the SDGs and sets out the logic of BIO interventions, by outlining linkages between inputs, outputs, outcomes and finally (expected) development impacts, i.e. inclusive and sustainable economic growth, in line with SDG1.

The primary purpose of this ToC is to provide external stakeholders with a better understanding of BIO's activities and contribution to the SDGs. As most components of BIO's ToC are referring to detailed internal processes, the opportunity will be taken to serve BIO internally to enhance coordination activities towards maximum development effectiveness of BIO's interventions. For this purpose, the document includes a brief description of the ToC diagram and a set of more in-depth narratives for all its core components.



7. How is BIO contributing to SDGs?
6. What is BIO assessing?

5. What is BIO achieving?
5.1. Financial Intermediaries
5.2. Health & education
5.3. Agriculture value chain
5.4. Energy infrastructure

3. What is BIO doing?
4. What is BIO promoting?

2. What is BIO?

1. Theory of Change Diagramme

BIO's ToC overview

To pursue its mission, the inputs, classified under three broad categories are BIO's: (i) investment capital, (ii) development finance expertise (iii) development effectiveness framework.

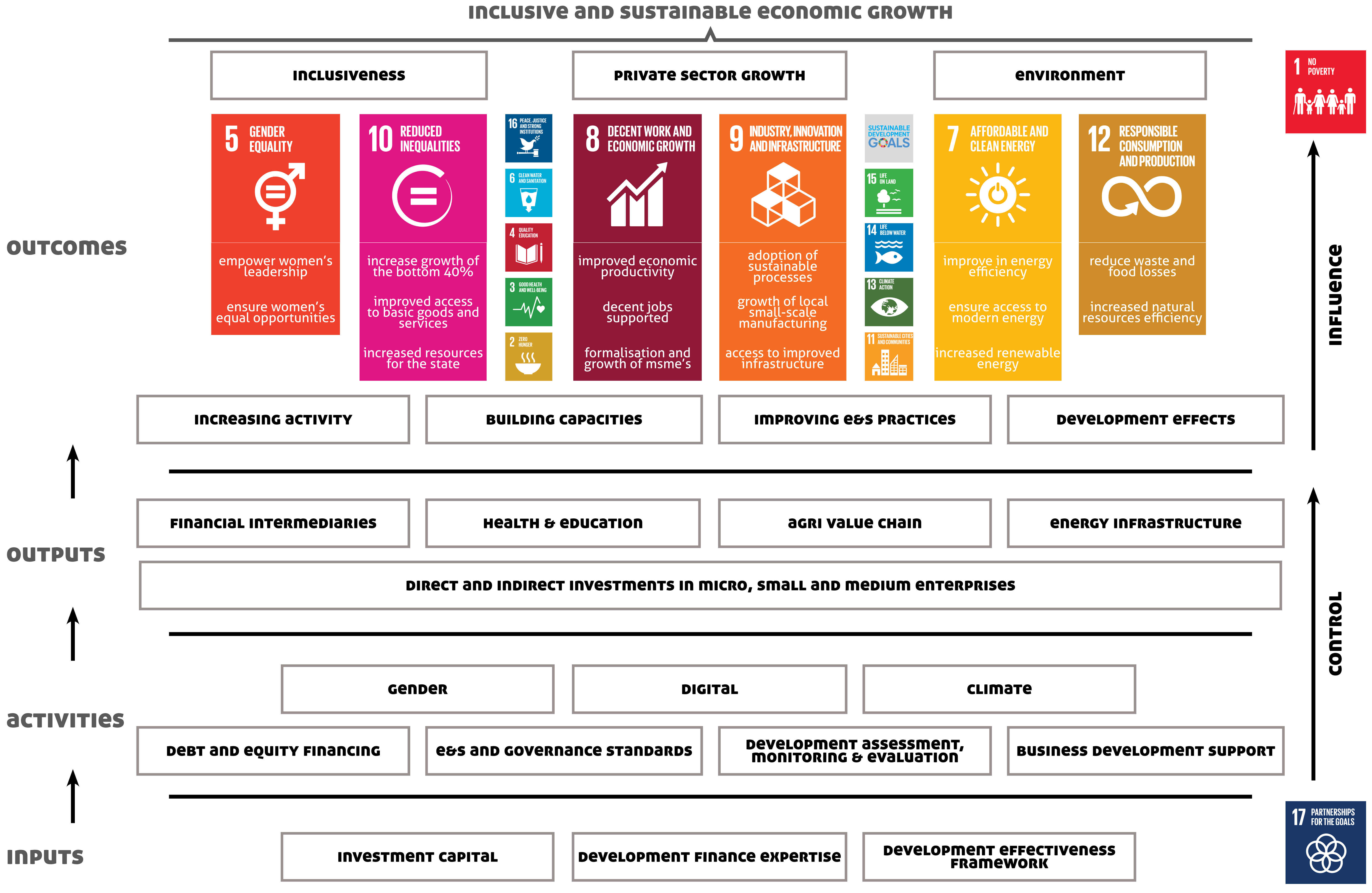
The outputs are the direct and indirect investments in MSMEs in various sectors, 4 of which are strategic priorities for BIO: financial intermediaries, health & education, agriculture value chain and energy infrastructure. BIO's related activities to realize these outputs are: (i) Debt and equity financing, (ii) Environmental and Social (E&S) and Governance standards, (iii) Development Assessment, Monitoring and Evaluation (AME), and (iv) Business Development Support. BIO is also committed to use its investments, grant support as well as expertise in supporting SDG5 (gender equality) SDG 9 (industry, innovation and infrastructure) and SDG13 (climate change mitigation), as transversal targets for BIO's interventions.

The outcomes of BIO interventions are private sector growth and innovation - the cornerstone of BIO's achievements, strengthened social inclusiveness and good environmental practices. At the level of these outcomes, the ToC makes reference to a limited set of SDGs - with a particular focus on: 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 SGD12 (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 BIO's operations. BIO's AME framework implies a systematic assessment, monitoring and evaluation of development effects. This is achieved using a set of key performance metrics that provide quantitative evidence of BIO's contribution to the SDGs.

In line with SDG17 (partnerships for the goals), BIO is working with many other actors to achieve its mission, including with other European DFIs, MDBs, private (impact) investors and Belgian and international development actors.

1. Theory of Change Diagramme



2. What is BIO?

Belgian Development Finance Institution

Investment Capital

BIO is fully owned and funded by the Ministry for Development Cooperation and its activities are in line with the objectives and principles of Belgium's development cooperation policy. BIO is also member of the Association of European Development Finance Institutions ("EDFIs"), a group of 15 publicly-backed institutions that provide financing and advice to private sector enterprises in emerging and frontier markets.

As defined by BIO law (last modified by the law of November 20, 2018) and specified in the current management contract with the Belgian State, BIO's mission is to contribute to sustainable human development in low- and middle-income countries by supporting the private sector through direct and indirect investment in Micro, Small and Medium Enterprises (MSME), as well as enterprises in the social economy. Priority sectors for BIO's activities are financial intermediaries that contribute to financial inclusion, agriculture sectors, enterprises involved in energy generation and energy efficiency as well as contributing to the fight against climate change, the digital economy and enterprises that provide basic services to the population.

BIO seeks to find the right balance between the development relevance of the intervention and its financial return. Various control levels and processes ensure the efficiency and correct use of its investment resources and the smooth implementation of its mission. The Board of Directors sets the investment strategy, carries out a rigorous internal control based on regular reporting and oversees the implementation of BIO's mandate.

Development Finance Expertise

BIO's operations are centralized in Brussels, with several operational departments and unit involved in the investment cycle - such as the Investment Department, the Legal Department and the Development & Sustainability Unit. The recent opening of two local offices in Nairobi and Abidjan has been a strategic decision to further improve the sourcing of projects. They also help strengthening the relationships with other actors of the Belgian Development Cooperation.

BIO's employees provide the organization with the required expertise and operational capacity to carry out its development finance activities.

For all potential projects, the basic tasks are the sourcing and origination of projects, the evaluation of projects alignment with the overall investment strategy and compliance with basic investment conditions, preliminary checks on the position of the sponsor as part of a "Know Your Customer" procedure, and a due diligence process addressing governance, commercial and financial aspects of the project, environmental and social risks and opportunities, as well as the development potential of the project.

For approved projects, it further includes negotiating and drafting contracts, disbursements, financials, E&S and development monitoring and evaluation. When acquiring equity participation, or through Advisory Committee seats of Private Equity Funds, BIO ensures business management oversight, best practices, value creation and maximum development impacts.

Development Effectiveness Framework

Environmental and social experts, development and gender specialists, as well as experienced technical assistance staff, provide in-house expertise to ensure: (i) compliance to promote non-financial value; (ii) support business performances and (iii) enhance the development effectiveness of projects. The objective of these activities is to add value to projects and set example for other investors (i.e. demonstration effects).

More generally, the Development and Sustainability Unit ensures together with colleagues from other departments that projects commit to the principles of development finance and impact management as defined in BIO Management Contract.

For each project, BIO assesses the project development expected effects and ensures some monitoring, evaluation and reporting of these effects. BIO also verifies: (i) the compliance with the relevant legal and regulatory environmental and social requirements (ii) the commitment to high standards of business integrity and corporate governance (including anti-corruption and responsible tax practices), (iii) the respect of local market conditions, (iv) the profitability of the project and (v) the non-financial additionality of BIO intervention. In addition, it should be high-lighted that BIO's interventions are untied to Belgian interests.

BIO's activities are focused on 52 countries from Sub-Saharan Africa, MENA, Latin America and South Asia. The list includes all partner countries of Belgian Development Cooperation and BIO pays particular attention to potential complementarity and synergies with other development actors like the DGD, NGOs or Enabel, for both project financing and grant support.

3. What is BIO doing?

Direct and indirect investments

Financial additionality

BIO must be financially additional by providing financing services that go beyond what is available on the market and that do not crowd out private investment. 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.

Private sector mobilisation

BIO's support to private sector 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 risk 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 (i.e.. SDG Frontier Fund) and by using public blending or guaranty instruments.

Non-financial additionality

BIO 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.

Debt & equity financing

BIO invests directly and indirectly by using a series of financial instruments designed to expand already existing interventions or to help projects to set up their business. According to the financial needs and the local situation, BIO invests in equity, debt, guarantees or quasi-equity – such as mezzanine capital, subordinated loans or convertible loans.

Equity participation

As most BIO projects take place in high-risk profile contexts, BIO invests in equity participation mostly indirectly through Private Equity Funds (PEF) as a way to optimize risk diversification and to rely on local and experimented management teams. To a lesser extent, BIO invests in direct equity participation in financial institutions targeting Micro, Small and Medium size enterprises as well as directly in enterprises when close monitoring of their activities can be managed. In this latter case, BIO usually takes a minority stake - generally tied to a seat on the Board of Directors - which is then best used to promote business and ESG best practices.

Loan

BIO main investment instruments are direct long-term (senior) loans at both fixed and variable rates. BIO also uses subordinated debt with a higher risk/return profile. Loans term can vary between 4 years (for microfinance institutions in particular) and 20 years (for project finance only), as required by the structure of the underlying investments.

E&S and governance standards

For each project, BIO seeks to assess, mitigate and manage Environmental, Social and Governance (ESG) risks, but also to identify ESG opportunities.

Environmental & social compliance

E&S risks include deviations from decent and safe working conditions, respect of human rights and comprehensive environmental practices. Based on BIO's E&S policy, in-house experts ensure a sound E&S risk management in each project by applying a recognized set of international standards (i.e. IFC Performance Standard, ILO core conventions, etc.).
Possible projects are first assigned a risk category to define the E&S requirements applicable. For more risky projects, a site visit by an internal or external expert is part of the due diligence process. Once potential gaps have been identified, BIO engages with project managers to seek its commitment to take actions and includes a binding action plan in the final contract. In addition, BIO also contractually requires the respect of all relevant local and international regulations and conventions.
BIO seeks compliance with E&S international standards that are always proportional to the size and risk of the project. Where the opportunity arises, BIO engages with project managers to go beyond compliance and to leverage positive environmental and social impact. In contexts that involves high human rights risks, BIO may also require extra commitments and actions as part of its E&S requirements. Furthermore, BIO has a grievance mechanism allowing third parties to submit grievances on any project through an online platform.

High governance standards

Throughout the duration of its interventions, BIO promotes the principles of good governance in accordance with national and international standards, and requires portfolio companies to comply with current accounting and tax legislation. Governance is part of the analysis of all relevant investment files. BIO is also a signatory to the Corporate Governance Development Framework.

Development assessment, monitoring & evaluation

BIO's development Assessment, Monitoring and Evaluation (AME) framework maps out how the project is expected to contribute to BIO's development objectives. The Framework also defines a yearly monitoring of development effects for all portfolio projects, and sets out procedures for measuring the achievements at the end of each project. In addition to this three-step framework, BIO has a sample of ongoing or exited investments assessed by external evaluators every year. This AME framework relies on 9 strategic development objectives – the so-called BIO's Development Goals (BDGs) – and a list of key performance metrics. More details are provided in section "6 – How is BIO assessing" for a detailed description of this framework.

Business development 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 by co-financing Technical Assistance (TA), Feasibility Studies (FS), and Investment Support for innovative projects.
Technical Assistance seeks to improves business performance, skills and standards important to improve the overall performance and development impacts of the projects.
With Feasibility Studies, BIO supports the analysis of key pre-conditions for establishing or further developing a company and the technical viability and profitability of investment projects.
BIO also provides investment support to projects that are involved in the development of particularly innovative goods or services with a strong development impact potential. It mainly consists in co-financing fixed assets or operational expenses.

4. What is BIO promoting?

Transversal development approach

Gender

Gender equality is one of the BIO's Development Goals and some of BIO's activities directly contribute to the engagements of the Belgian Development Cooperation to speed up progress in this domain. To further increase this contribution, BIO has recently adopted a Gender Strategy that defines a set of necessary actions to create and promote economic opportunities and capacity building for women.

BIO applies a gender scan to each project in order to examine the challenges women face in their different roles and the potential impact of activities on gender equality. After assessing the gender integration of the projects, BIO proposes actions to mitigate risks and steers for improvements. Where opportunities are identified, BIO directly seeks to support this transformation through technical assistance.

BIO invests in projects where gender is at the core of the project (i.e. when gender is an integral component of the business model and/or led by women entrepreneurs). Target sectors directly benefiting women are also prioritized.

BIO signed up to the "2X Challenge", an ambitious target that calls on DFIs to mobilize funds that will help advance women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation. BIO is tracking progress of the projects through quantitative and qualitative indicators.

Digital

In line with the Management Contract, BIO invests in projects that have "digital" as core business, or that include a digital or digitalization component in their activities. In addition, BIO's aim is to accelerate the digitalization of projects by supporting innovative activities with digital solutions.

BIO's investees with 'digital' as their core business are often still in their start-up or early development stage. Therefore, BIO mostly invests indirectly through Venture Capital funds. These funds usually focus on fintech, healthtech, edtech or agritech projects, that develop or deliver technology-enabled products and services with the aim of improving efficiency, quality and/or access.

Early-stage projects require business incubation, development support, grants and occasionally concessional funding. In this respect, the D4D-program ("We hub-it") of Enabel and BIO, is especially relevant as it offers exactly the type of support needed.

Regarding the integration or acceleration of digitalization in "non-digital" projects, BIO systematically assesses the current use of and need for digital technologies, and offers an adequate grant support where digitalization may foster project performance and sustainability.

As digital products and services also involve risks and in particular consumer risks, BIO is working at better identifying and managing these risks.

Climate

In line with BIO's management contract, BIO is investing in projects that involves energy generation and energy efficiency as well as contributing to the fight against climate change. BIO finances projects aimed at combatting climate change but also steers other projects towards reducing GHG emissions, increasing resource efficiency, and supporting appropriate climate mitigation or adaptation measures.

Clean energy is one of the priority sectors for BIO, with a focus on renewable energy projects. BIO also invests in sustainable forestry projects (including reforestation and sustainable forest management) that capture and avoid the release of carbon emissions, and in climate smart technology that improves the use of natural resources.

BIO seeks to help projects going beyond environmental standards compliance and identify solutions for increased efficiency in the use of natural resources. In this perspective, BIO is developing its assessment of climate-related risk and opportunities of projects. Technical assistance plays a key role to help projects transiting towards lower GHG emissions or climate change resilience. When relevant, BIO also supports the development of green products.

5. What is BIO achieving?

Private sector development

Financial intermediaries

Financial inclusion is a key driver of economic growth and poverty alleviation, as access to finance supports job creation. Small and Medium Enterprises (SMEs) represent more than 90% of businesses and 50 % of formal jobs (WB dataset, 2018(1)) in Low- and Middle-Income Countries (LMICs). They also promote innovation and help deliver basic goods and services.

Yet despite this potential, SMEs are undeserved by Financial Intermediaries (FI) in these countries. It is estimated that more than one-third of Micro, Small and Medium Enterprises (MSMEs) face unmet financing needs and that the proportion increases for smaller firms or when informal enterprises are considered. They fail to access the long-term capital that is crucially needed to develop their activities.

Banks and microfinance institutions appear as the main relevant channels to serve this MSME segment, including through microloans to low-income individuals or entrepreneurs. They provide the necessary market knowledge, distribution channels, products and support to meet their specific financial needs.

In parallel, Private Equity Funds may offer SMEs the long-term risk finance and the necessary support to strengthen their management and operational capacity.

Given the huge financial needs, as well as the risky and costly environment, there is a clear role in supporting the financial intermediaries that are strongly active in financial inclusion.

Health & education

Access to health and education (H&E) is a fundamental human right, but also a key driver of economic growth and a major solution to reduce inequalities.

Despite that Low- and Middle-Income Countries (LMICs) experience substantial progress in H&E over the last decades, they still face important challenges in terms of access, quality and relevance. Population growth, the emergence of middle classes and the growing awareness of their importance, mean that the demand for basic H&E services far exceeds the existing public capacity.

As government resources is largely insufficient, the private sector is increasingly called upon to supplement public services. In LMICs, out-of-pocket payments account for as much as 49% percent of total health expenditures (2016). A similar situation is observed for K12 education with almost one-fourth of students enrolled in private schools (2018). In addition, the central role of the private sector is more and more acknowledged in national strategies as a key driver to increase access, widen the range of services and products available, and improve the quality of services.

BIO seeks to ensure that private solutions to H&E needs are aligned and/or complemented to national policies, with a clear focus on providing affordable access and high-quality services that do no create competition with the local public H&E provision.

Agri value chain

Agriculture and agro-industry are key sectors for growth and poverty reduction in low-income countries (LICs). The agricultural sector still represents 25% of their national value added and accounts for 60% of jobs (2019). It also disproportionately benefits poorest populations who live in rural areas and work in agriculture.

In addition to fostering its pro-poor growth potential, the development of the agri-business sector is needed to expand productive capacities. In particular, the increase in agriculture activities is specifically important for low-income countries as it is often associated with economic growth of rural areas, export revenues as well as jobs maintenance and creation. In some cases, it increases the local availability of transformed food products, allowing these countries to face a growing local food demand and reduce their increasing dependency on imported food products.

To address these challenges and help the agricultural sector reaching its full potential, it is key to also support an innovative private sector with the capacity to develop and adopt more efficient process and new technologies.

There is a strong need to support economically viable and sustainable agriculture production and transformation. Where possible, BIO also seeks to promote fair risk and cost/benefit sharing across the value chain and inclusive deals for smallholders, i.e. through outgrower schemes and contract farming.

Energy infrastructure

The development of the energy sector in terms of installed capacity, access and decarbonization can boost economic growth and job creation while mitigating climate change. In LICs, almost two-third of the population do still not have access to electricity and 60 % of firms face electricity shortages, 12 per month on average (2018).

Given the growing demand, and the potential for energy investments to support power access and reliability, there is a strong need for private investments in power generation. While progress has recently been made, LICs account for less than 15% of energy investment in 2018 despite containing well over 40% of the world's population.

While most investments are currently directed towards grid expansion, decentralized solutions are now considered as the most cost-effective option in cases of remote areas, low population density, institutional regulations, or high investment and maintenance costs. Besides on-grid energy projects, off-grid solutions, either via solar mini-grids or solar home systems, appear as a new opportunity to meet the electrification challenge.

Power generation accounts for a large part of the world's CO2 emissions and hence, decarbonization of the sector is of critical importance. This requires substantially investing in renewable energy projects as well as in energy efficiency, especially in LMICs where fossil fuel energy consumption represents about 90% of total energy consumption in 2015.

(1) All the statistical figures reported have been computed from latest publicly available World Bank data.

OUTCOMES

5. What is BIO achieving?

5.1. Financial intermediaries

Inclusive and sustainable finance

FINANCIAL INCLUSION | DIGITAL TECHNOLOGY | PRODUCTIVITY IMPROVEMENTS | BUSINESS DEVELOPMENT | EMPLOYMENT | STRENGHTENED CAPACITIES | E&S STEWARDSHIP

END-USER

SPECIFIC OUTREACH

MFIs that target rural populations or more disadvantaged groups by offering specific microloans, savings or micro-insurance products, assist them to be better positioned to increase their incomes, consumption or to manage their risks. In particular, self-employed women are more capable to seize and obtain better economic opportunities and reach a greater control over their finances. Digital services can further deepen financial inclusion and its positive influence on economic empowerment. In addition, the provision of health, education or other specific consumer loans directly contributes to an improved access to basic goods and services for these populations.

BIO actively supports projects aimed at deepening financial inclusion. The digitalization of financial services is essential for improving outreach, social outcomes and operations efficiency. The development of specific financial products may also help better address specific populations or needs – such as rural areas, gender equality and education. BIO also supports green financing through FIs as well as digital technology solutions through venture capital funds focusing on fintech, healthtech, edtech or agritech start-/scale-ups.

- GREEN LOANS
- FEMALE MICRO-CREDIT CLIENTS
- DIGITALISATION OF PRODUCTS AND SERVICES

ACCESS TO FINANCIAL SERVICES

Access to services such as savings, insurance, payments and credit allow people to manage their lives, plan and pay expenses, grow their businesses and improve their overall welfare. Thanks to adequate funding, MSMEs will also invest, innovate and improve their market and competition position, and reach higher productivity and profitability. This is further supported by the activity of PEFs that provide better access to equity financing, a key driver of entrepreneurship and business performance. This increased activity will require more inputs in the form of direct labor or intermediary goods and services, what will result in economy-wise growth and employment effects.

BIO's funds contribute to the growth of FIs or fund's financing activities. For FIs, the main objectives are to build healthy financial institutions and to increase the outstanding loan portfolio as well as the other financial services offered to MSMEs or households. In some cases, the increase in operations will be associated with the opening of new branches and the hiring of additional workers, generating some direct effects on the local economic activity. Through PEF investments, BIO channels risky capital to undeserved geographies, sectors and segments, and contributes to mobilize other investors in high risk environments.

- SAVINGS ACCOUNTS
- OUTSTANDING LOAN PORTFOLIO TO MSMES

CAPACITY DEVELOPMENT

The provision of business advice, financial trainings or capacity-related services to end-clients - in complement to financial services - supports financed MSMEs in formalizing and expanding their activities. In particular, PEFs plays an active role in promoting and facilitating the transfer of knowledge and skills to their investees, including through the grant support program. Both FIs and funds rely on their ESMS to improve the sustainability of end-client's operations. Overall, this non-financial support allows to build more capable, productive and sustainable MSMEs.

BIO provides non-financial advice and support but also set requirements to improve FIs and PEF systems, capacity and performance. Special attention is paid to strengthening governance and management practices, and to putting in place an adequate Environmental and Social Management System (ESMS). For MFIs, the adoption of Clients Protection Principles (i.e. US, Smart Campaign) guarantees price transparency, ensures a sustainable relationship with the client and reduce the risk of over-indebtedness.

- CLIENTS PROVIDED WITH TRAININGS
- SMARTCAMPAIGN CERTFICATION
- E&S PERFORMANCE

(M)FI OR PEF

OUTPUTS

MICROFINANCE INSTITUTIONS | FINANCIAL INSTITUTIONS | PRIVATE EQUITY FUNDS

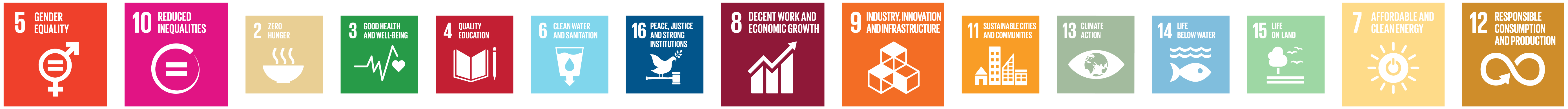
BIO investments in Financial Institutions (FIs) mostly concerns banks that are active in the Micro, Small and Medium Enterprises (MSMEs) segment, leasing institutions and medium to large Microfinance Institutions (MFIs), including financial Non-Governmental Organizations (NGOs). Investments can take the form of credit lines explicitly directed towards MSMEs or financial inclusion, but can also be equity participation, tier 2 financing and other subordinated debt aimed at strengthening their capital basis. In the latter case, the resulting increase in capital adequacy allows FIs to further access other funding sources. BIO also invests in Private Equity Funds (PEFs) in order to provide equity financing. Investments in private equity funds serve channeling long-term patient capital to enterprises to ensure simultaneously close and active participation in the governance and strategic management of the enterprises.

ACTIVITIES

5. What is BIO achieving?

5.2. Health & education

ACCESS QUALITY HEALTH & EDUCATION



IMPROVED ACCESS | DIGITAL SOLUTIONS | SKILLED WORKFORCE | INCREASED AVAILABILITY | QUALITY UPGRADE | STRENGTHENED CAPACITIES | E&S STEWARDSHIP

SUFFICIENT ACCESS

Financed projects in the H&E sector, support projects active in undeserved contexts and with demonstratable responsible pricing practices. While most of these projects are aimed at the local middle-class, BIO focuses on projects that charge affordable prices according to local standards. Some of the financed health facilities also serve or offer health benefits schemes, allowing workers and their families to get preferential access to their services. For education projects, a more inclusive access is reached through projects offering grants to students who otherwise would not be able to afford quality private education, with a strong focus on gender equality. In addition, BIO facilitates the development of innovative digital solutions through venture capital investing in healthtech and edtech start/scale-ups. Some of these innovations are necessary to better reach remote populations (e.g. telemedicine services) or specific disadvantaged groups (e.g. women). Overall access to H&E can also be improved through BIO's investments in MFIs offering dedicated loans, savings or insurance products that should help households finance or better manage their H&E expenses.

FEMALE STUDENTS ENROLLED

USERS PROVIDED WITH PREFERENTIAL ACCESS

GOODS & SERVICES PROVISION

BIO's investment in the H&E sector contributes to increase the provision of basic H&E goods and services through the construction or upgrading of health facilities and schools, the financing of startup costs, the acquisition of new medical devices or the investment diagnostic and prevention. This results in more patients served, more students enrolled and an increase in the local availability of pharmaceutical products, complementing public initiatives and participating to the expansion of the overall H&E offer. By raising H&E attainments, investments in these sectors could ultimately result in higher employment and growth, as health and education are both key determinants of worker's productivity capacities. In addition, BIO contributes more directly to raise the skills of workers by ensuring that appropriate vocational, technical and professional trainings are available. A more skilled workforce will also be better prepared to take advantage of technical and technological improvements, but also to further promote entrepreneurship and innovation.

STUDENTS ENROLLED

PATIENTS SERVED

QUALITY STANDARD

Ensuring satisfactory levels of quality, safety and effectiveness are other key priorities for BIO's investments in H&E sectors. Part of BIO's pre-conditions for investing in these sectors are to invest in projects with high quality standards or to invest in the improvement in the quality of the services provided, acting as a role model. As the quality of services is of high importance, specific quality standard certifications or staff training programs are required. Most projects are also required to adopt action plans aimed at improving Environmental and Social practices. The main critical points are patients or student's safety, waste management and complaint mechanism. In H&E sectors, BIO also actively encourages the use of grant support beyond financing to meet project needs regarding financial, managerial, and administrative capabilities, as well as operational efficiencies. Therefore, investments are expected to improve the overall quality of services, either directly or through demonstration effects.

STAFFS PROVIDED WITH TRAININGS

QUALITY STANDARD CERTIFICATION

E&S PERFORMANCE

OUTPUTS

MICROFINANCE INSTITUTIONS | PRIVATE EQUITY FUNDS | SMALL & MEDIUM PROJECTS

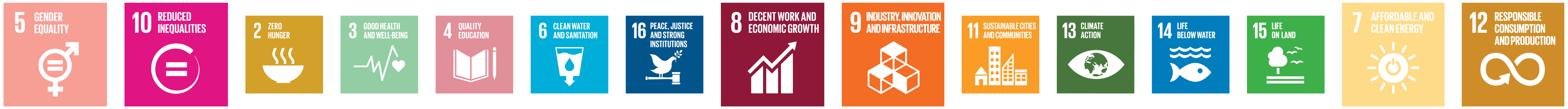
BIO' support to Health and Education (H&E) sectors is achieved by investing directly in healthcare and education operators that provide direct access to these basic goods and services, including pharmaceutical products. This is done also indirectly through Financial and Microfinance Institutions (MFIs) as well as Private Equity Funds (PEFs), which in turn provide financing to Small and Medium Enterprises or to private entities active in these sectors. In such sensitive sectors, BIO carefully selects projects for ensuring that their approach is as inclusive as possible - allowing access to a large share of the population, consistent with the policy of local authorities and beneficial to other players of the sector such as NGOs, CSOs, etc. In particular, BIO endeavors to create strong links with public operators and for all projects to collaborate with public authorities as regulator, supervisor and policymaker.

ACTIVITIES

5. What is BIO achieving?

5.3. Agri-value chain

Inclusive and sustainable agribusiness sector



Local food availablity | **Rural development** | **Productivity improvement** | **Export revenues** | **(Rural) employment** | **Value chain upgrade** | **E&S stewardship**

cooperatives & smallholder farmers ↔ agri-businesses

Access to financing

Through MFIs and agricultural cooperatives, BIO supports better access to capital and financial services (including insurance and specific savings products) for rural populations that are characterized by limited financial inclusion, especially women. These services can help smallholder farmers and rural micro-entrepreneurs sustain their operations, increase their production and/or expand their activities.

Capacity development

BIO also supports directly or indirectly capacity building initiatives with the aim of helping farmers to improve their productivity and adopt more sustainable agricultural techniques. These includes professional trainings on entrepreneurship or best agricultural practices, as well as the promotion of sustainability certification.

Market opportunities

BIO investments in agri-business projects provides new economic opportunities for rural populations, with a focus on women. As suppliers of agricultural commodities are processed, smallholder farmers are benefitting from an improved access to output markets, e.g. via an outgrower scheme. Special attention is paid to ensure that farmers get fair and sustainable term conditions, including through the promotion of an adequate sustainability scheme.

Productive capacities

The increase in productive capacities resulting from BIO's investments often implies that more workers are needed in the factory and that additional value added is generated. These often involve economic activities in rural areas, where there is a crucial lack of job opportunities. In addition, the modernization of processing activities usually contributes to making businesses more productive and competitive. Projects can also be export-oriented and increase export revenues.

Food production

Local food processing has some potential in terms of reducing post-harvest lost, substituting imported goods and in providing affordable quality food for the local population with limited purchasing power. When not exclusively oriented towards exports, financed projects contribute to increase the local availability and quality of food products.

Innovative solutions

BIO focuses on innovative projects aimed at upgrading within the value chain or at supporting value chain integration. These can result in productivity improvements but also in quality upgrade or diversification, boosting the local value-added creation. Through specific funds, BIO also invests in venture capital and agritech projects that develops digital technology with the aim of improving agricultural yields, efficiency and productivity.

Sustainable processes

BIO requires activities to be conformed with national and international E&S standards. Requirements do not only apply to project activities but also to the direct supply chain, for guaranteeing the maximum of fairness and sustainability in the value chain. It usually results in the adoption of an E&S Action Plan (ESAP) or the certification of their activities. BIO may also support processes to reach a more efficient use of natural resources and improve waste management.

Access to financing	Capacity development	Market opportunities	Productive capacities	Food production	Innovative solutions	Sustainable processes
Rural branches	Sustainable certification	Farmers reached	Export sales			E&S performance
Agricultural loans	Farmers trained	Farmers with market access	Direct (rural) employment	Local food produced	Business innovation	Grant support

Microfinance institutions | **Financial institutions** | **Private equity funds** | **Small & medium enterprises**

BIO finances the agricultural sector either through direct investments into agri-businesses or indirectly through Financial Institutions (FIs), MSME Private Equity Funds (PEFs) or Microfinance Institutions (MFIs) that in turn invest in agricultural projects. Direct investments mainly correspond to capital investments (e.g. the extension of existing processing plants or the purchase of new machinery) in food and agri-business projects that are involved in the processing, packaging, and distribution of agricultural products. BIO also finances projects that combine primary production with one or more upper value chain activities as well as agricultural service providers targeting smallholder farmers. Through indirect investments, BIO increases the funds available at (M)FI or fund-level for financing agricultural cooperatives or end-client projects. MFI and cooperatives will in turn provide (working) capital to smallholder farmers in support of their primary production activities.

5. What is BIO achieving?

5.4. Energy infrastructure

OUTCOMES

Access to affordable and clean energy

Reliable energy	Lower energy costs	Increased power generation	Business development	Employment	Cleaner energy mix	E&S stewardship

Accessible energy

Financed energy projects enhance the access to electricity for households, businesses and communities. Recent installations are generally associated with lower power generation costs. While competitive and less subject to price fluctuations, renewable off-grid projects are also easier to set up. In addition, decentralized off-grid facility helps connecting to electricity places where on-grid solutions are not an option. Access to more reliable energy supply also means less reliance on costly emergency fuel-based generators. Overall, this should result into an increase in connectivity and a lower end-user effective price paid.

Power supply

BIO's investments in the energy sector contributes to the expansion of the electricity generation capacity. In addition to supporting direct jobs during construction and operation phase, this additional installed capacity results in more electricity produced and in lowering the energy shortage that often compromises economic development. As a result, BIO's investments can have a strong enabling effect, allowing for business expansion and creation as well as some productivity improvements.

Renewable energy

BIO's support to the energy sector is targeted towards renewable or clean energy technology. By offering a low carbon alternative to the use of fossil fuel, the generation of power from renewable sources helps to diversify the energy mix with strong benefits for the global environment. This transition to cleaner forms of energy is a necessary and efficient way of reducing GHG emissions. GHG emissions avoidance through renewables is how BIO mainly participates to fight climate change.

Sustainable practices

BIO's E&S requirements ensure that financed power projects are in compliance with national and international standards. This includes requiring actions for ensuring best practices during construction and operation phases (e.g. state of the art E&S impact assessment, local dedicated staff for health and safety management and for community liaison, etc.). For off-grid projects providing individual electricity connections, BIO requires the adoption of sector-specific consumer protection principles (i.e.. Gogla for the off-grid solar energy industry) in order to guarantee responsible pricing and sales, good consumer service and good quality products.

Accessible energy	Power supply	Renewable energy	Sustainable practices
			E&S performance
Household provided with electricity			Grant support
Installed capacity	Power production	Renewable energy projects	Consumer protection code

OUTPUTS

Financial institutions	Private equity funds	Small & medium projects

BIO finances the energy sector with a focus on renewable energy projects. This includes hydroelectric, geothermal, wind and solar energy projects, but also hybrid projects (for instance solar with diesel backup), biomass projects, waste to energy as well as energy storage facilities. When especially relevant in terms of availability or access and aligned with host country's climate policy, gas projects may also be considered. Moreover, BIO invests equity in energy projects through energy-focused private equity funds. BIO's funding typically serves the development of additional power generation capacities. Most financed projects are decentralized energy solutions that can take several forms, from independent power producers selling electricity on-grid to off-grid or mini-grid offering direct electricity connections. It can also be captive power projects for commercial and industrial off-takers including mines, other types of factories or hospitals.

ACTIVITIES

6. What is BIO assessing?

Development assessment, monitoring and evaluation framework

Ex-ante assessment

During the investment appraisal, BIO uses an ex-ante development tool to structure and document the development rationale of a given investment by indicating how it is expected to contribute to BIO's 9 Development Goals (BDGs):

1. Local economic growth
2. Private sector consolidation/innovation
3. Financial inclusion
4. Food security and rural development
5. Access to basic services and goods
6. Fight against climate change
7. Preservation of natural resources
8. Promotion of ESG best practices
9. Gender

The tool allows for each project to assess the expected contribution to each BDGs as being primary, secondary, or not relevant. The tool also evaluates BIO's financial and non-financial additionality, with a similar scoring methodology.

The results for the different dimensions as well as explanatory comments are included in the investment analysis note. The project approval decision is based on this systematic narrative of the project expected development contribution.

Monitoring & evaluation

BIO monitors on a yearly basis the development effectiveness of ongoing projects, based on a limited set of indicators that best capture the development objectives of the intervention.

Following the development assessment, standardized cross-sector as well as investment-specific indicators with baseline and projection figures are set.

Tracked during the whole investment period, BIO uses this information to monitor progress towards the achievement of development effects in comparison to ex-ante expectations, and to analyze the development performance at portfolio level.

In addition, BIO conducts an independent in-depth evaluation of a sample of ongoing or exited projects each year. These evaluations focus on a specific theme, sector or region and further investigate the development effects of BIO's interventions.

They usually involve survey and interviews with BIO staff and other key stakeholders as well as field visits to investees. BIO development experts organize and coordinate this evaluation exercise, but the analysis itself is performed by external evaluators and supervised by a steering committee with representatives of the Ministry of Development Cooperation and its Special Evaluation Service.

Completion report

At the end of each project, a completion assessment is conducted to review and sum-up the project main achievements.

The assessment covers business, financial, development and Environmental & Social (E&S) outcomes, and is based on monitoring data and any other available information.

The main objective of this assignment is to document and distil lessons learned. Findings and lessons are then used to improve operational and strategic investment decisions, as well as management processes.

EDFI Harmonisation Initiative

DFIs and IFIs use many different systems to track development outcomes, such as the HIPSO initiative which was successful in harmonizing the definition of 38 indicators for the private sector in 2014. Standardized indicators enable a more efficient, consistent and timely analysis of project development effects. They also enhance the sharing of best practices and lessons learned among institutions and improve the assessment and coordination of their development efforts. To further align their approaches, European DFIs (EDFI) have set up a dedicated task force and several working groups in 2019 on gender (SDG5), direct and indirect jobs (SDG8), inequality (SDG10), climate (SDG13) and private sector mobilization (SDG17), as well as cross-cutting measurement issues and ESG. BIO is actively participating on this harmonization effort.

Joint Impact Model (JIM)

BIO, in coordination with other development finance institutions, including CDC, FMO, Proparco, AfDB, and FinDev Canada, and with the support of Steward Redqueen, an impact measurement and sustainability consultancy, has developed a web-based tool to calculate the economy-wide effects of financed projects. Using an input-output modelling approach, the model allows estimating the gross direct and indirect economic and environmental impact of a portfolio of projects in a single year, and to track changes in effects over time. As results are calculated using economic modelling, they do not represent actual figures, rather, they are estimates. From 2020, BIO uses the tool to measure indirect effects associated with financed projects and to include the results in its development reporting.

7. How is BIO contributing to SDGs

6 KPIs, 40 client-reported metrics & 30 secondary indicators[1]

5 Gender equality

Gender equality

2X challenge eligible projects[2]

DEV
- % of business founded by a woman (2X)
- % of women ownership (2X)
- % of women in Board of Directors (2X)
- % of women in senior management (2X)
- % of women in workforce (2X)
- % of projects with products or services that disproportionately benefit women
- % of female micro-credit clients
- # of female patients served
- # of girl students enrolled

E&S
- % of projects with one quality employment indicator beyond compliance (2X)

TA
- % grant support for gender equality improvements
- # of women directly reached through grant support

8 Decent work and economic growth

Decent work & economic growth

Number of direct jobs

DEV
- Model estimates of total # of jobs supported3
- Model estimates of total value added supported3
- # of employees
- Personnel expenses
- Total sales
- Export revenuesDomestic purchases of inputs
- #/Outstanding MSME loan portfolio
- # of saving accounts
- # of insurance clients

E&S
- % of projects for which actions regarding labor conditions (IFC PS2) are required

TA
- % grant support for labor conditions improvements
- # of workers directly reached through grant support

7 Affordable and clean energy

Affordable & clean energy

Power production

DEV
- Installed capacity
- Power production
- % energy projects in renewable energy
- Estimated CO_2 emissions avoided
- Equivalent # of households provided with electricity

E&S
- % projects that endorsed consumer protection code

TA
- % grant support for resource-use efficiency

10 Reduced inequalities

Reduced inequalities

Projects in Least Developed Countries

DEV
- Amount of payments to government
- # of employees in rural areas
- #/Outstanding agricultural loan portfolio
- # branches in rural areas
- # of clients offered financial literacy training
- # of patients served/students enrolled
- # of patients/students provided with preferential access
- # of famers reached
- # of farmers with improved access to inputs/outputs
- # of farmers provided with capacity development

E&S
- % of projects for which actions regarding community aspects (IFC PS4, 5, 7 and 8) are required
- % MFIs that are SmartCampaign certified

TA
- % grant support for social inclusiveness improvements
- # of farmers directly reached through grant support

9 Industry, innovation and infrastructure

Industry, innovation & infrastructure

Value added in manufacturing sector

DEV
- % of projects with a strong digital component
- # of projects supported through Private Equity Funds
- Invested capital through Private Equity Funds
- # of Tech projects supported through Venture Capital Funds
- # of clients provided with business development services

E&S
- % of projects for which actions regarding the Environmental & Social Management System (IFC PS1) are required

TA
- % grant support for digitalization
- % grant support for business development
- % grant support for ESMS improvements

12 Responsible consumption and production

Responsible consumption & production

Projects with international sustainability certifications

DEV
- Model estimates of total CO_2 emissions generated per unit of value added(3)
- #/Outstanding green loan portfolio
- Estimated CO_2 sequestration

E&S
- % of projects for which actions regarding environmental aspects (IFC PS3 and 6) are required
- # of farmers reached with international sustainability certification

TA
- % grant support for waste reduction or management
- % grant support for international sustainability certification

(1) Most indicators are performance indicators that different international finance institutions from around the world use to measure their social, environmental, and financial performance. They are split into 3 categories of development and sustainability activities: the Development effectiveness monitoring (DEV), the Environmental & Social risk management (E&S) and the grant support through the Business and Development Support Fund (BDSF). Some are cross-sectors portfolio indicators whereas others are sector-specific. (2) The 2X Challenge (see www.2XChallenge.org) is an ambitious target that calls on DFIs to mobilize their own funds, as well as private capital, to unlock resources that will help advance women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation. (3) This indicator is calculated using the Joint Impact Model, a web-based tool for impact oriented investors developed by CDC, FMO, BIO, Proparco, AfDB, and FinDev Canada with the support of Steward Redqueen. The results are calculated using economic modelling and do not represent actual figures, rather, they are estimates and should be interpreted as such.