

“Knowing what to measure and how to measure it
makes a complicated world less so.”
Levitt and Dubner in Freakonomics, 2006

GPR Ex-ante analysis of BIO commitments 2006

Summary report for BIO

- final report -

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1 Executive summary

Main message: Based on a GPR's ex-ante assessment, BIO's 16¹ new commitments in 2006 have a **"good" development quality** (average ex-ante grade for development effects: 2.6)².

The most important development effects of the new commitments in **productive companies/SMEs** are: (1) Training effects, (2) Employment effects and (3) Social effects/CSR.

The most important development effects of **financial institutes/private equity funds** are: (1) Diversification of credit allocation, (2) Institution Building and (3) Training effects.

All BIO projects make a contribution (directly or indirectly via financial institutions) to the financing of **small and medium sized enterprises (SME)** – a very good level compared to other bi- and multilateral DFIs.

The assessment of **BIO's strategic role** in the projects especially shows: **Additionality is proved in all projects and all projects provide long term finance in developing countries** which would not be available on comparable terms and conditions elsewhere.

The **majority of BIO's new projects is located in Africa** (56% of new commitments) and in **Least Developed or Low Income Countries** (63% of new commitments).

The present analysis includes 11 ex-ante GPRs for (i) Productive companies/SME (1 GPR), (ii) Financial institutions (6 GPRs) and (iii) Private Equity Funds (4 GPRs), adding up to a total of around **EUR 29 million in new commitments**. Together with the project sponsors, other investors and local banks, BIO's finance is expected to contribute to the following macroeconomic effects:

- **Contribution to government revenues:** Net government revenues of about **0.7 Million EUR p. a.**
- **Net Foreign Currency effects:** Net effects of **4,1 million EUR p.a.**
- **Employment effects:** A total of approximately **33,000 jobs**. In the project companies, about 2,900 people are directly employed. Through indirect jobs created by productive companies through supplier linkages, by financial institutions at sub-borrower-level and by private equity funds at investee company level, roughly 29,600 people are expected to be employed indirectly.

The GPR © rating tool and software were licensed by DEG to BIO under a separate service agreement.

2 Corporate-policy quality of new commitments 2006

2.1 GPR structure of new commitments 2006

The corporate-policy quality of the new commitments 2006 – based on the two benchmarks (i) development effects measured by GPR and (ii) Strategic role of BIO - is at an **average grade of 2.6³ (=“good” quality)**.

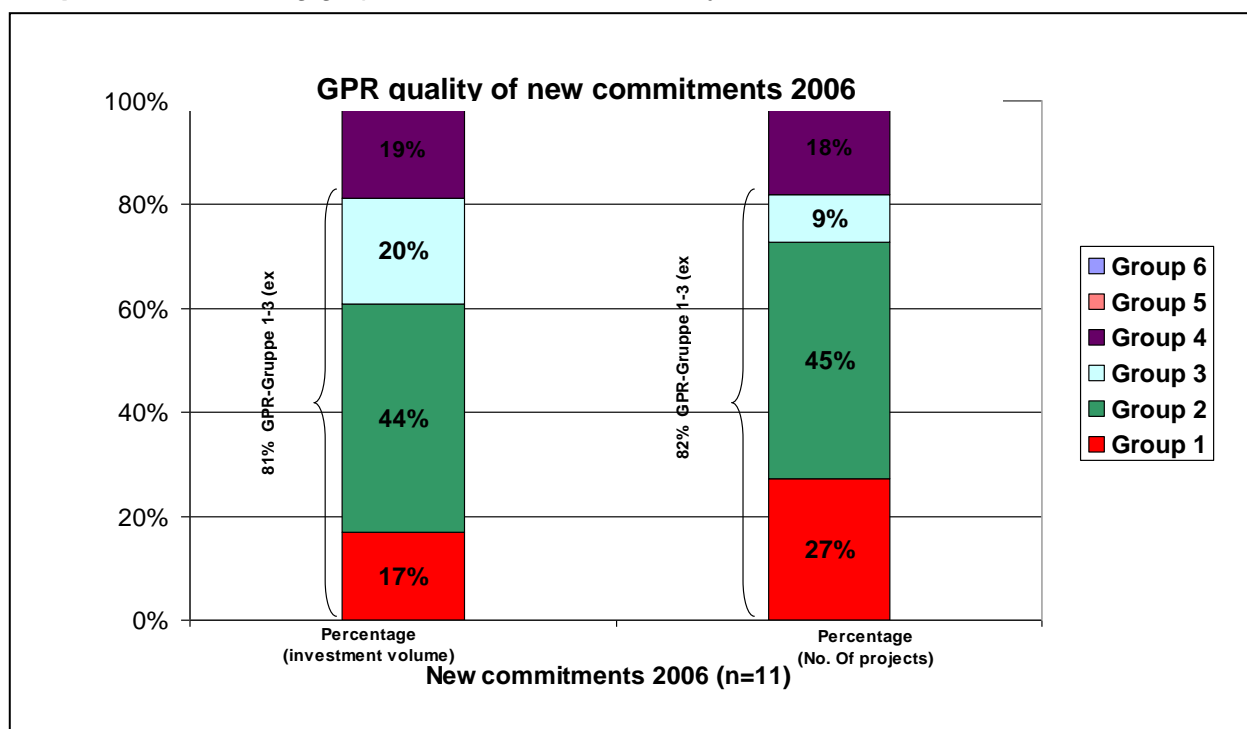
¹ For the year 2006, there are 16 new commitments/projects but the analysis is based on 11 GPRs. Explanation: It was agreed that the 6 SME commitments should - due to their relatively small financing volume – be rated as a single project in order to allow for better comparability with other projects.

² GPR and development quality group definition of grades: Grade 1 = “very good”, 2 = “good”, 3 = “fully satisfactory”, 4 = “still satisfactory”, 5 = “unsatisfactory”, needs specific justification; 6 = “obviously insufficient”.

³ This is the arithmetic mean value; the statistic median value is 2.0 based on following scale: grade 1 > 160 points, grade 2 > 140 points, grade 3 > 120 points, grade 4 > 100 points, grade 5 > 80 points and grade 6 < 80 points). Please note that this interpretation of corporate policy quality is based on two instead of four benchmarks: i) development effects and ii) strategic role of BIO. The profitability/creditworthiness of the project company and BIO's return on equity are not included in the rating.

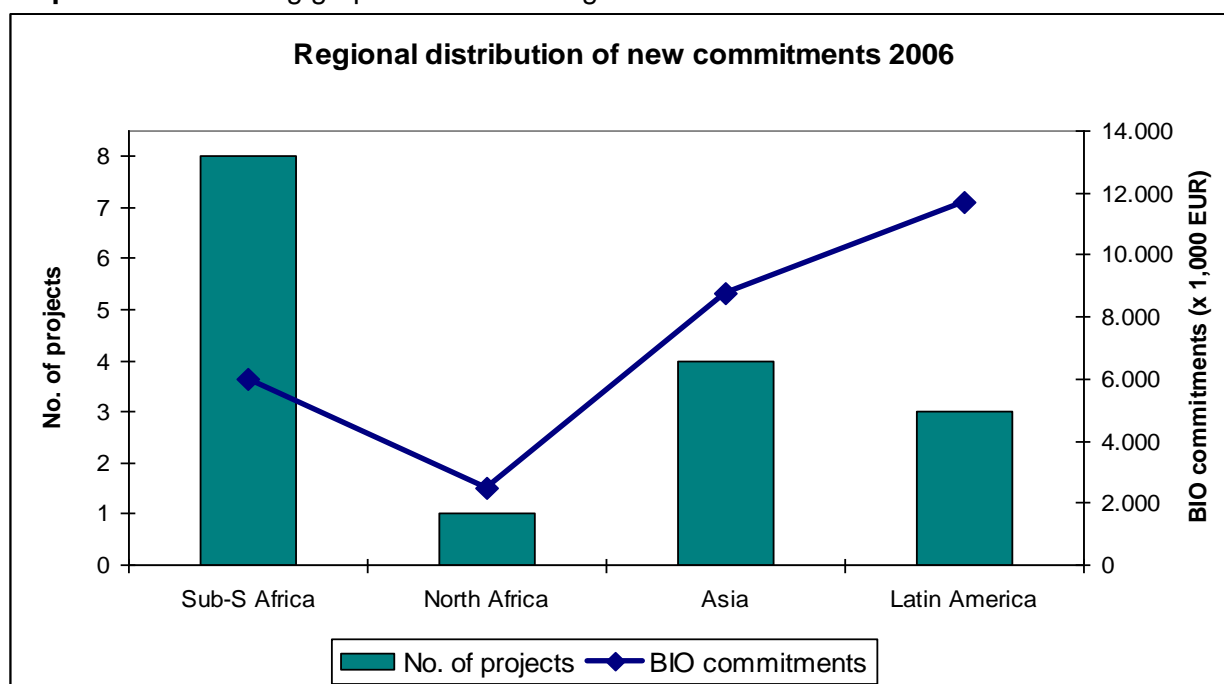
82% of the new commitments were categorized in GPR groups 1 to 3 (“very good/good/fully satisfactory” projects) while 18% were categorized in GPR group 4 (“still satisfactory”)⁴.

Graph 1: The following graphic shows the GPR-quality of BIO’s new commitments 2006



Out of the 16 projects evaluated, 50% account for Sub Sahara Africa (8 of 16 new projects), 25% for Asia (4 projects), 19% for Latin America (3 projects), and 6% for North Africa (1 new project). However, the highest commitment volume was achieved in Latin America (11.7 million EUR = 40% of total commitments), followed by Asia (30%), Sub-Saharan Africa (21%) and North Africa (9%).

Graph 2: The following graphic shows the regional distribution of BIO’s new commitments 2006



⁴ Percentage figures refer to the number of projects if not stated otherwise.

2.2 LIC/LDC-Financing and Financing in Sub Sahara Africa

Financing projects in Low Income Countries (LIC)/Least Developed Countries (LDC) and/or projects in Africa is a banking challenge for development finance institutions. However, from a development point of view, these countries are of special importance to fight poverty. BIO's financing is expected to result in an increase of investors' confidence in the economies of LICs/LDCs, which would help them attract further investment (signaling function for the capital markets).

The volume of new **commitments in LICs/LDCs** amounted to **around EUR 14 million**, equivalent to **49% of BIO's total commitment volume in 2006**. Out of the sixteen new commitments, ten (63%) are located in LIC/LDCs in Africa (Burkina Faso, Burundi, Democratic Republic of Congo, Mali, Nigeria, Senegal) and Asia (Cambodia, India, Vietnam).

EUR 6 million or **21 % of the commitment volume** of BIO in 2006 is in **Sub Sahara Africa** (8 projects out of 16 = 50%).

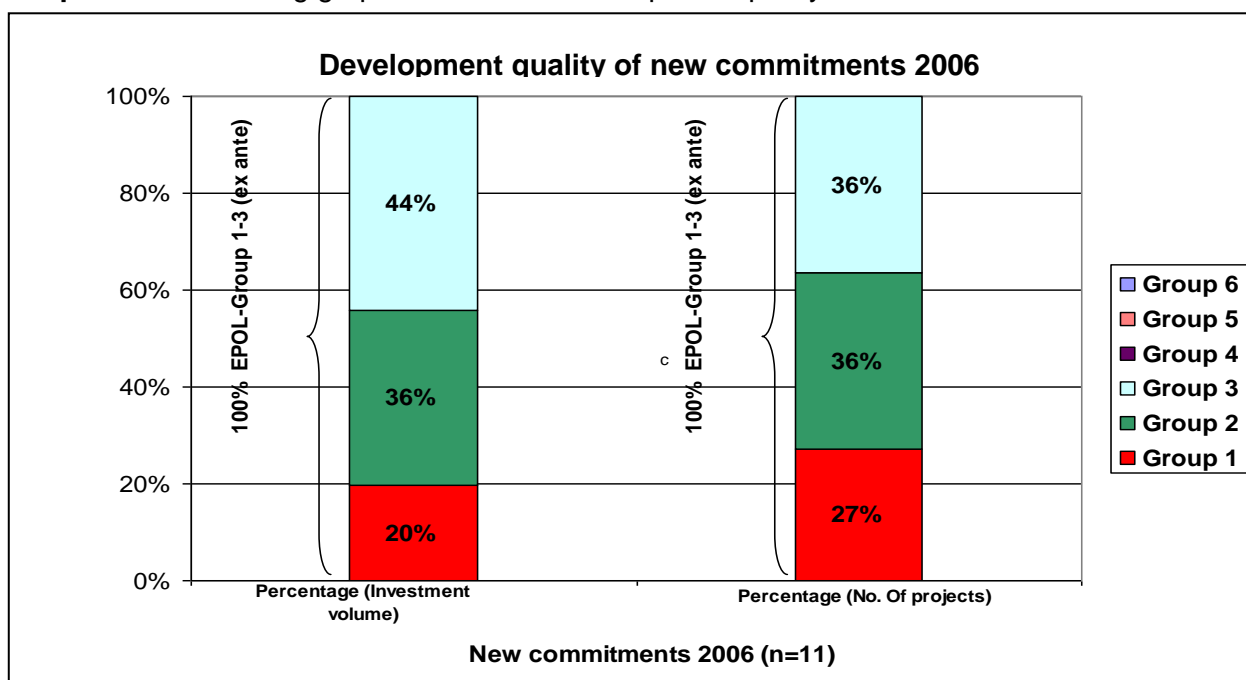
2.3 SME financing

SME financing is of importance to enhance competition and entrepreneurship, to create jobs and to transfer know-how. Altogether, SME financing ⁵ (direct and indirect) is provided by **100% of all new BIO commitments in 2006 – a very high percentage compared to the DFI peer group**. The 6 productive companies financed by BIO are SMEs themselves, while the 6 financial institutions and 4 private equity funds indirectly contribute to SME development by providing financial services and support to SMEs.

3 Development quality of the portfolio projects

Overall, BIO's new commitments display a **“good” development quality**. Three (3) projects have been rated in the highest development group 1 (EPOL-Group 1 = “very good”), four (4) projects have been classified in development group 2 (EPOL-2 = “good”) and three (3) projects in development group 3 (EPOL-3 = “fully satisfactory”) ⁶. The average EPOL-score for all 11 projects is 87 points⁷ (grade: 2.6; EPOL-2 = “good”).

Graph 3: The following graphic shows the development quality of BIO's new commitments 2006



⁵ SME definition: Project companies according to local SME definition or IFC definition (300 employees, turnover ≤ USD 15 million, fixed assets ≤ USD 15 million, 2 out of 3 criteria met).

⁶ The GPR rating system for development effects rates projects according to six groups from EPOL-1 („very good“) to EPOL-6 („obviously insufficient“).

⁷ The maximum GPR-score for development effects is 150.

3.1. Employment effects

Employment effects are relevant from the development point of view as the income effects associated with them tend to contribute to direct poverty reduction. Worldwide, around 980 million people are living below the poverty line – therefore the creation of jobs is a priority of private sector investment promotion. Together with the project sponsors, other investors and local banks, BIO's financing activities in 2006 are expected to contribute to the following employment effects:

- In the project companies **about 2,900 people** are directly employed.
- Through indirect jobs created by productive companies through supplier linkages, by financial institutions at sub-borrower-level and by private equity funds at investee company level, **roughly 29,600 people are expected to be employed indirectly**.

3.2. Gender effects

The review of the Millennium Development Goals and the progress made since the Fourth World Conference on Women in Beijing have shown that gender equality (MDG No. 3) continues to be a major challenge. 70% of those living in poverty worldwide are women and girls. Women mainly work in the informal sector, which is safe neither from a legal nor from a social point of view. This is why women empowerment and gender equality can be assessed as positive from a development point of view.

Three of BIO's projects seem to have **positive effects on gender equality within the respective sector**. Concrete effects are defined by means of result chains and are part of the monitoring.

3.3. Training effects

Companies are eventually as good as their staff, i. e. as the human resources they stand for. Basic and advanced training services offered to employees in the project company result in the creation of "human capital" - one of the most important factors for economic success. Training measures tend to increase workers' productivity as well as the employees' individual income, thereby directly contributing to poverty reduction. In conclusion, training effects are considered as paramount from both a development and an economic point of view. On the company level, training for employees is mostly provided through "training on the job" in company-owned training facilities. Partly, training services are offered by external specialists (e. g. training by suppliers of systems or installations).

94% of BIO's projects offer basic training services ("best practice"-standards) for its employees or management. **63% of BIO's projects offer basic and advanced training measures** including e. g. seminars for external personnel, cooperation with local universities, etc.

3.4. Specific development effects of Productive companies/SMEs

3.4.1 Contribution to Government revenues

Profitable enterprises generate income for a country, which can be invested in education, health or critical infrastructure. Thus, insuring portfolio companies' contribution to government revenue through taxes is an important issue for DFI's financing activities.

BIO's 6 new commitments in the SME sector will create **net government revenues of around 0.7 million EUR p. a.**, which is positive from a development point of view, considering that most of its SME investments are in countries with a negative budget balance (Burkina Faso -4,5% of GDP; Mali -5,9% of GDP; Senegal -4,7% of GDP; and Vietnam -2,1% of GDP).

3.4.2 Net Foreign Currency effects

In many developing countries large deficits of trade and current accounts create difficulties for the country's foreign currency reserves, debt service capacity as well as devaluation risks for the local currency. Thus, positive net currency effects are relevant from a development perspective because they render a contribution towards both securing the partner country's ability to meet its financial obligations and stabilising the exchange rate.

In this regard, BIO's new commitments will create **over 4.1 million EUR p. a. in net foreign currency**, both through project companies' export revenues and through the substitution of imports. Again, this is a significant contribution from a development point of view, as all the countries the SME fund invests in have a negative current account balance (Burkina Faso -10,4% of GDP; Cameroon -1,3% of GDP; Mali -7,5% of GDP; Senegal -8,0% of GDP; and Vietnam -1,7% of GDP).

3.4.3 Technology Transfer

UNCTAD's LDC Report 2007 "Knowledge, Technological Learning and Innovation for Development" stresses the crucial importance of technology transfer for a country's development process and poverty reduction. Typically, technology and know-how transfer occur if a modern company from an industrialised country establishes a project company/joint-venture in a developing or if a local company acquires state-of-the-art technology and trains its local employees on modern machinery (technical know-how transfer).⁸ A corresponding know-how transfer may occur at different levels of the organisation, e. g. by introducing an efficient accounting system or an innovative marketing instrument. In the end, technology is the basis of improved productivity, which in turn contributes to sustainable poverty reduction by means of growth.

In this respect, **all of BIO's new commitments in the SME sector (6 of 6) will contribute to a transfer of technology** in the area of (i) Management, (ii) Corporate organization, (iii) Marketing, (iv) Production technology or (v) Other areas (e. g. R&D activities).

3.4.4 Market/structural effects

Market and structural effects of a productive company can result from the introduction of new products, from the improvement of product quality, as well as from sectoral and regional diversification. From the development point of view, market and structural effects are significant because they create a modern and – through effects of diversification – a less crisis-prone economy.

83% of BIO's new commitments will create positive structural/market effects through (i) the introduction of new products, (ii) improvement in the product quality, (iii) strengthening of competition, (iv) strengthening of the export sector, (v) contribution to regional or sectoral diversification or (vi) by creating local business linkages (backward/forward), which tend to foster the integration of local companies into the global value chain.

3.4.5 Infrastructure effects

In almost all developing countries, deficits in the country's economic infrastructure (e. g. roads, energy, water supply, waste disposal, etc.) and social infrastructure (e. g. nursery schools, schools, medical facilities, hospitals) may pose a serious impediment to private-sector development. This is why the establishment of new companies often requires investments into new infrastructure as well. These activities are sometimes realised by the state. At times, the respective companies themselves realise infrastructure investments. Such infrastructure improvements – provided that they are open and accessible to the public – create positive development effects in the company's environment.

One of BIO's new commitments in the SME sector is making a notable contribution to local infrastructure by building roads and providing electricity, which is also benefiting the local community.

3.4.6 Social effects

The long-term success of a company cannot be ensured without considering the social dimension of its business activities. Enterprises have a social responsibility for their employees, e. g. by complying with international core labour standards, payment of adequate wages and securing health and safety at work. In developing countries, those issues are of particular importance as adverse general conditions can prevent employees from achieving their best possible professional performance (housing conditions, non-availability of public transport to get

⁸ The term "technology transfer" has expanded over the past few years because of increasingly occurring South-South cooperations, where modern companies from developing countries implement state-of-the-art technologies in other developing countries.

to work, lack of working clothes, etc.). To remedy such difficulties, companies in developing countries frequently grant their employees voluntary social benefits which go way beyond legal requirements, i. e. they assume a Corporate Social Responsibility (CSR).

83% of BIO's new commitments (i.e. 5 of 6 SME projects) offer CSR activities/social benefits to their staff:

- (i) 50% of BIO's new commitments (3 of 6 SMEs) comply with ILO core labour standards
- (ii) 67% of BIO's new commitments (4 of 6 SMEs) pay higher wages than customary in the region
- (iii) 83% of BIO's new commitments (5 of 6 SMEs) comply with international standards on health & safety at work

3.4.7 Environmental standards

In developing and emerging market countries, economic growth is often paralleled by environmental degradation and disregard for issues such as biodiversity protection and pollution prevention. For this reason, fostering project companies' adherence to high environmental standards is an important issue for development finance institutions.

For the BIO's 2006 commitments in the SME sector, **one of them complies with World Bank/IFC environmental standards**; another one complies with standards "below World Bank/IFC standards but above local standards" and the other 4 commitments comply with local standards. It should be noted that compliance with international standards is a particular challenge in the SME sector since some measures, e. g. the introduction of an environmental and social management system (ESMS) are costly and time-consuming to implement for a small or medium-sized business.

3.5. Specific development effects of financial institutions (FS)/Private equity funds (PEF)

3.5.1 Mobilisation of savings / investment capital

70% of BIO's FS/PEF projects contribute to the development of local capital markets by mobilisation of savings and investment capital in the respective countries. Seven out of ten projects are actively mobilising funding and investments by local investors. This is important from the development point of view because local savings are a precondition for locally financed investments (i. e. no foreign debt required). Investments, in turn, are the basis for further growth, employment and poverty reduction.

3.5.2 Diversification of the financial sector

70% of BIO's FS/PEF projects (75% of the private equity funds) contribute to the diversification of the financial sector in the country/region because of the unavailability of sufficiently developed comparable institutes to date (broadening of the financial sector). From a development point of view, the diversification of the financial sector is important because the existence of a modern/efficient financial sector strongly correlates with a country's economic growth. In this regard, **one project finances a novel type of institute** while six projects provide new and innovative financial products in their respective country/region.

3.5.3 Diversification of credit/capital allocation

100% of BIO's FS/PEF projects contribute to the diversification of capital allocation and thereby to the deepening of the financial sector. The projects provide finance to business segments which have so far not or only insufficiently been serviced by the existing finance institutes (e. g. because the segment has so far been categorised as "unbankable", because of unclear collateral, lot size too small, etc.). **All of the finance institutes/private equity funds transfer the BIO funds to SMEs**, and four of them transfer funds as well to micro-enterprises and start ups.

3.5.4 Contribution to Institution Building

BIO's long term finance has a signaling effect within the financial sector in all projects, i. e. showing that the finance institutes/private equity funds adhere to "prudent banking" principles. All projects are given access to needed long-term finance. In 40% of the projects the capacity of equity finance is increased, together with a reinforcement of organization and management. **In**

80% of the projects BIO contributes to an implementation of an Environmental and Social Management System (ESMS) at the finance institutes-/fund-management-level.

3.5.5 Contribution to local company development

All finance institutes/private equity funds financed by BIO contribute to local company development. They give consultancy and technical advice resulting in: **(i) an upgrading of companies (40% of projects), (ii) improvement of corporate governance (40% of projects), (iii) an introduction of environmental and social standards (90% of projects) and (iv) an improvement of accounting & reporting standards** within the end-borrower- and investee companies (all private equity funds).

4 Strategic role of BIO in the projects

4.1 Attainment of shareholders' strategic goals

LIC/LDC: The volume of new **commitments in LICs/LDCs** amounted to **around EUR 14 million**, equivalent to **49% of BIO's total commitment volume in 2006** (for more details see chapter 2.2).

Partner country: **56% of BIO's commitments** in 2006 (9 of 16 projects) are situated in partner countries of the Belgian Development Cooperation. Among them are seven African partner countries (Algeria, Burundi, Congo DRC, Mali, Morocco, Senegal and Tunisia), two Latin American partner countries (Ecuador and Peru) and one Asian partner country (Vietnam).

Respect of human rights: **38% of BIO's commitments** in 2006 (6 of 16 projects) are situated in countries which obtain an acceptable human rights rating (index value from 1-4).⁹ Those are: Mali, Senegal, Nigeria, Belize, Dom. Rep, Ecuador, Panama, Peru and India.

Environmental performance: **56% of BIO's commitments** in 2006 (9 of 16 projects) are situated in countries which obtain an acceptable environmental performance rating (index value above 51.6). Those are: Algeria, Burundi, Cameroon (2x), Morocco, Tunisia, Belize, Dom. Rep, Ecuador, Panama, Peru and Vietnam (2x).

Indirect investment: In 10 of 16 projects, BIO acts as an indirect investor via financial institutions (i. e. all finance institutes/private equity funds).

4.2 Subsidiarity/Additionality of BIO in the project

In all of the 2006 commitments (16 of 16), **BIO's financing is expected to be "additional"** to the product offered by the local banking sector. In all projects BIO provides **long term finance in developing countries** that is not available in comparable terms and conditions elsewhere in the country. In one project BIO offers **local currency finance**.

4.3 Consulting by BIO

In **62%** of the 2006 commitments (10 of 16), **BIO delivers valuable consultancy work** to the project company. In 60% of the financial sector/private equity projects, BIO assumes **an active part on the board of directors** and thereby contributes "added value" to those institutions and its investee companies.

4.4 Mobilisation of third-party capital by BIO

In one new commitment **BIO's finance generates additional leverage effects** through an active mobilisation of third-party capital of another private investor.

⁹ Human Rights Index ranging from 1 (= best rating) to 7 (= worst rating).