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INVESTMENT STRATEGY 2015 – 2018

SUMMARY OF THE STRATEGY

So as to apply BIO's **intervention principles** as defined in its Management Contract with the Belgian State:

- BIO is in the process of revising the method of measuring its impact on development, in order to comply with the evaluation criteria in the Management Contract, and in view of using this method throughout the investment process.
- In 2014 BIO drafted a manual for the assessment of the environmental and social (E&S) aspects of its investments.
- BIO promotes the principles of good governance in its portfolio companies, and will adopt a more formal and systematic approach on this issue as of 2015.
- In terms of respect for market conditions, BIO will develop a pricing policy based on the assessment of risks related to countries and projects and of comparable transactions.
- Concerning additionality, BIO will for each investment demonstrate its financial role in comparison with private investors. BIO will pay special attention to opportunities for providing non-financial additionality to its clients, in terms of improvement in environmental and social risk management, improvement in governance or a client's technical capacity, etc.
- Maintain its approach of interventions untied to Belgian private interests.
- Ensure a minimum return, in line with the profitability imperative associated with "code 8". This includes setting average rate-of-return targets for the portfolio, strengthening BIO's efficiency, and portfolio risk management.

Concerning BIO'S exit from investments through offshore jurisdictions excluded by the Law, it is noted that BIO'S net commitments through these jurisdictions total 70.5 million € at 31/12/2013. Taking into consideration our current contractual commitments, we will target exiting from these investments by the end of 2017. This time frame should enable us to pursue a proactive exit strategy while taking into account BIO's proprietary interests.

BIO's Management Contract with the Belgian State defines BIO's **priority sectorial strategic axes** as follows:

- **The financial sector**

This sector is addressed in the Management Contract under the subject areas of "financial inclusion of local populations" and "support for eligible enterprises".

There is a strong link between financial inclusion (defined as access to financial services, including savings, insurance, credit, transfer facilities, etc.) and overcoming poverty. The development of microfinance has played an important role in making financial services accessible for the poor but may also have resulted in excessive debt levels. This has led to the promotion of Customer Protection Principles (CPP) and has prompted many governments to better control the granting of credit.

BIO, historically active in this sector, will continue its efforts for improved financial inclusion with the objective of selecting projects that adequately meet local needs, increasing our clients' implementation of the CPPs and, regarding our equity investments and technical assistance programmes, seeking to promote access to financial services for the most 'underbanked' clients. In addition, BIO will seek to adopt a leading position relative to other Development Finance Institutions (DFIs) on the issue of financial inclusion in Africa and in underbanked areas in Asia.

Micro-, Small- and Medium Enterprise or MSME financing is a major issue for the economic development of countries as, according to the International Finance Corporation (IFC), around 400 million SMEs in developing countries are unable to obtain financing from the mainstream financial system. BIO wishes to position itself as a reference for the support for financial institutions targeting small enterprises (defined as requiring loans under €1M) in the regions in which we operate. Financial institutions may include banks that deal with small enterprises, leasing companies, factoring firms, insurance companies, non-bank financial companies, etc. BIO will adopt a proactive equity investment strategy in financial institutions active in the SME sector. Moreover, we wish to use our technical assistance resources to increase our clients' expertise in terms of approaching this customer base.

Furthermore, BIO will support the development, and even the creation of, financial institutions active in supporting the agricultural sector.
BIO will also further explore the insurance sector and the role it could play in strengthening MSMEs.

Lastly, BIO proposes, by means of investment funds, to provide equity to Eligible Enterprises including medium-size enterprises, enterprises in the agricultural sector, and infrastructure projects with a particular focus on renewable energy. These funds can play a major role in the proper structuring of sectors and in the emergence of a formal private sector respectful of environmental, social and governance standards. This focus will go hand in hand with the search for more leverage to ensure the optimal development impact of these funds.

- **The agricultural sector**

The Management Contract specifies that BIO will give priority financing to enterprises developing activities in the agricultural sector which contribute, directly or indirectly, to strengthening food security in the countries in question.

Taking into account this priority, BIO will approach the agricultural sector from the perspective of improving access to market and of supporting inclusive rural development, while minimizing ecological impact and therefore developing sustainable agriculture. Our action will be aligned with the Belgian Development Cooperation's strategic orientations and acknowledge the specific constraints to agricultural sector development (lack of infrastructure, training, inputs, regional markets, etc.).

BIO will centre its activities in the agricultural sector on:

(i) Productivity improvement in the sector through investment in the entire agricultural chain including upstream (inputs, infrastructure, irrigation, etc.) and downstream (processing, storage, packaging, distribution, etc.).

(ii) Support for agricultural operators that play a structuring role in the agricultural chain and that take a proactive stance in including rural populations in the development of their project. Regarding direct investment, we will work with agricultural operators of critical size able to meet the E&S standards required by BIO. The supported projects may target either the export or the domestic market, or enable increased internal demand. BIO will maintain its moratorium on agricultural projects dedicated to biofuels.

(iii) Agricultural processing that enables part of the added value drawn from agricultural commodities to be retained in the developing country.

(iv) Development of rural activities through improved access to financing for small entrepreneurs in agricultural areas.

- **Energy**

We will remain open to all energy generation sources (renewable, conventional, hybrid, alternative) with the exception of biofuel and coal. Energy efficiency and electricity transmission projects will also be considered. Given the scale of energy projects, we will remain a follower on large projects, but will develop our own in-house management expertise for small projects, in particular for renewable energy or biomass projects.

- **Infrastructure of direct relevance for the development of MSMEs**

As a priority on this strategic axis BIO will propose irrigation, telecommunications or transport projects. We will essentially remain a follower on these projects given their scale.

- **Basic services to the population**

Within this sector, BIO will focus on access to basic financial services. Other investment areas (health care, education, production/distribution, water treatment, housing) will be considered in a more opportunity-based way. Our interventions in these areas must be consistent with and complementary to public action.

In terms of <u>channels</u>, we will invest
- indirectly in micro and small enterprises,
- directly and indirectly (through funds) in medium-size enterprises, and
- in infrastructure projects.

In our <u>direct work with medium-size enterprises</u>, we will try to centre our action on the creation of or support for enterprises that have the potential to become leaders and play a structuring role in their market. These should also be enterprises prepared to implement high quality standards and high environmental, social and governance standards. The accent would be on investments between 1 and

5 million euro. Given the considerable risks taken on this line of activity, we will adopt a cautious attitude vis-à-vis start-ups and inexperienced promoters.
Investments of less than 1 million euro can be organized and followed up more effectively by investors that are geographically close to the clients, and will there be done through locally-based intermediaries such as investment funds, banks and leasing companies. To this end, beyond our existing partners, additional partnerships could be envisaged.

In terms of **portfolio balance**, as part of its strategy BIO proposes minimal levels of activity to be reached depending on the types of Eligible Enterprises. At sector level, as well as a minimum 75% to be committed in the priority sectors, BIO will endeavour over 5 years to reach 15% net commitments in the agricultural and rural sector (compared to less than 10% in 2013) and 20% in the energy sector (compared to 11% in 2013).

BIO defines the areas in which it will seek to make a mark and adopt a proactive approach in terms of additionality compared with other development players as follows:

- ⇨ Improve financial inclusion and SME financing in 'underbanked' regions in the form of equity funding (BIO / shareholder) or medium term financing
- ⇨ Play a structuring role for medium-size enterprises in the process of formalization
- ⇨ Support development of a number of specific agricultural produce chains
- ⇨ Develop small / medium scale energy projects in regions with low access to energy
- ⇨ Develop a healthy private sector in Central Africa (DRC, Rwanda, Burundi)

In terms of **instruments,** we will aim for a greater weighting of equity investment with a targeted debt-to-equity investment ratio of 60 / 40 (versus 75 / 25 currently). This shift will result in a more important investment role (role in governance, riskier class of assets).
