Doing business to fight poverty?

An evaluation of the Belgian Investment Company for Developing Countries (BIO).
## Contents

- List of abbreviations 2
- Glossarium 3
- Preface 4
- Summary 5

1. Private actors for public goods?
   Development Finance Institutions (DFIs) and development 7

2. ‘The rise and rise’ of the Belgian Investment Company for Developing Countries 9
   2.1. A new actor in Belgian development cooperation? 9
   2.2. How does BIO achieve its objectives? 13
   2.3. BIO and good governance? 18

3. The indirect way: BIO and ‘intermediary funds’ 21
   3.1. How do ‘intermediary funds’ work? 21
   3.2. BIO and intermediary funds 22
   3.3. Intermediary funds: the baby and the bathwater 27

4. Financing finance: BIO and financial intermediaries 28
   4.1. Microfinance: Matthew revisited? 28
   4.2. Financial service providers: creative with money 30
   4.3. BIO and the banking sector 31

5. Financing business: direct support for companies 32
   5.1. How does BIO invest directly in companies? 32
   5.2. SMEs: How large is small? 33
   5.3. Stronger together? 36

6. Financing the climate: BIO and renewable energy 37
   6.1. Is BIO’s ‘renewable energy’ also ‘clean energy’? 37
   6.2. Biofuels in Peru 39
   6.3. Neither renewable nor clean 39

Conclusions and recommendations 41

Further reading 43

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List of abbreviations

ADB: Asian Development Bank
BIO: Belgian Investment Company for Developing Countries
BMI: Belgian Corporation for International Investment
CABEI: Central American Bank for Economic Integration
COFIDES: Compañía Española de Financiación del Desarrollo
DFI: Development Finance Institution
DEG: Deutsche Entwicklungs- und Investititionsgesellschaft
EIB: European Investment Bank
EDFI: European Development Finance Institution
EFP: European Financing Partner
FMO: Netherlands Development Finance Company
FINNFUND: Finnish Fund for Industrial Cooperation
GPR: Geschäftspolitisches Projektresing
IFC: International Finance Corporation
IFU: Industrialisation Fund for Developing Countries
MFI: Microfinance Institution
Norfund: Norwegian Investment Fund for Developing Countries
OeEB: Oestreichische Entwicklungsbank
PROPARCO: Société de Promotion et de Participation pour la Coopération Economique
SIFEM: Swiss Investment Fund for Emerging Markets
SIMEST: Società Italiana per le Imprese all’Estero
SME: Small and Medium-sized Enterprise
SOFID: Sociedade para o Financiamento do Desenvolvimento
SPV: Special Purpose Vehicle
DFI

Development Finance Institutions (DFIs) are financial institutions, usually established by a donor government and sometimes supported by a private partner. DFIs support donor countries’ private sector policy in developing countries. DFIs issue loans or participate in companies in developing countries. Their interventions should be ‘additional’ which means they should provide financing currently unavailable on the local financial markets. Meanwhile most European countries have a DFI of their own. The largest DFI is the International Finance Corporation of the World Bank.

Debt finance

‘Debt finance’ is another term for ‘loan’. It is an important way for companies to attract additional capital. In developing countries long term loans are particularly expensive or unavailable. DFIs offer long term loans (often more than 10 years) and grant flexible installments (for example with a ‘grace period’, during which no installments have to be paid for a certain period of time).

Equity

‘Equity’ is synonym for ‘capital’. In addition to loans, enterprises can raise capital by issuing shares. DFIs often buy shares of enterprises they wish to support, becoming co-owner of the company and sharing the risk of the entrepreneur. ‘Equity finance’ holds higher risk than ‘debt finance’.

Financial intermediary (FI)

A ‘financial intermediary’ is nothing more than a ‘go-between’ bringing supply and demand of financial products together. FIs are usually banks, but other financial institutions like investment funds, insurance companies, etc. may act as an intermediary. DFIs channel large quantities of their resources to financial intermediaries because they believe that they are better at reaching the neediest companies. Therefore DFIs invest their resources mainly through commercial banks, microfinance institutions, specialized service providers and so-called ‘private equity funds’.

Intermediary fund

An ‘intermediary fund’ or ‘private equity fund’ is an investment fund. Private equity funds bring together capital of DFIs and other private investors, in order to invest in companies in developing countries. The investors appoint a fund manager who looks for particular companies. Private equity funds offer important advantages for investors: risk sharing, economies of scale and more efficiency. From the DFI’s perspective intermediary funds bring some problematic issues: limited transparency and control, problem of offshore domicile.

Special Purpose Vehicle (SPV)

A ‘special purpose vehicle’ (SPV) is a firm that is set up for one specific transaction. SPVs allow investors to isolate the risk of that transaction and surpass certain legal obligations of the parent company. SPVs usually are established in so-called tax havens to allow for ‘tax neutral’ business transactions. After the transaction an SPV is dissolved. Tax havens are especially fit to accommodate SPVs through trust offices that take on the management of SPVs.

Quasi-equity/Quasi-capital

Quasi-capital is a complex form of business finance, which combines elements of ‘equity’ and ‘debt’. Examples are loans in which share options at a fixed price are given as collateral or ‘subordinated loans’ in which the issuer has last priority in case of bankruptcy of the borrower.
The private sector is playing an increasingly important role in development cooperation. Many people feel somewhat uneasy about that. They assume corporations are only in the game for profit, at the expense of poverty reduction and sustainable development. On the other hand enterprises and companies contribute to development. Healthy companies provide people with jobs and stable incomes and authorities with additional tax revenues. The private sector is so diverse, in developing countries as well as in donor countries, that its value for sustainable development depends largely on the nature of the business, the sector, the market, etc.

ODA is increasingly spent on the private sector in developing countries. In 2010 the European ‘Development Finance Institutions’ had over EUR 21 billion in portfolio and were growing by 10% annually. Over 10 years ago Belgium, following most other European countries, established a separate institution to invest in the private sector in the South: the Belgian Investment Company for Developing Countries (BIO). The tenth birthday of BIO was an opportunity for 11.11.11 to make a critical evaluation. One question guides this evaluation: Do BIO’s investments really contribute to poverty reduction and sustainable development?

11.11.11 and BIO have a different vision on development and the role of the private sector. In the view of 11.11.11 economic growth as such is not a synonym for development. Economic growth must be sustainable, pro-poor and inclusive. From this angle, our assessment is not an altogether positive story. If you look at BIO with the idea that growth as such is enough, you will draw different conclusions. In this evaluation we focus on the failures of BIO, but that does not mean that we do not believe in the instrument as such. Investing in the private sector may on certain conditions be a good track for development. In our view however, development should be the measure of all things and not financial outputs. This report aims to inspire BIO and decision makers, that things can and should be done in a different and better way.

11.11.11 has evaluated BIO’s activities and instruments in a completely independent way. BIO granted access to documents and staff. Unfortunately because of ‘confidentiality’ we were denied access to various documents. Since its publication in Dutch (February 2012) BIO has released several management responses at different occasions. Some of BIO’s remarks and additions have been included in this version. Based on our findings and recommendations we have set up a dialogue with different stakeholders including our political decision makers. Ultimately, they hold responsibility for reforming BIO into an institution that is fully living up to its mission. BIO is just as good as its shareholders (the Belgian state and hence we all) want it to be.

Bogdan Vanden Berghe
In 2001 the Belgian Investment Company for Developing Countries (BIO) was established as ‘development finance institution’ (DFI) following the example of the other European countries. This institution provides finance for private companies in developing countries. The starting capital of EUR 5 million – raised by the Belgian state and the Belgian Corporation for International Investments (BMI) – was extended over the next ten years with more than half a billion Euros from ODA. With that money BIO participates in companies and issues loans at market conditions, both indirectly through funds and financial intermediaries and directly in enterprises in the South. The state expects BIO to yield a return of approximately 5%. BIO must orient its investments and technical assistance to SMEs and microfinance institutions to promote a ‘strong private sector that is the basis of sustainable development and prosperity’. BIO is active in the least developed countries, low-income countries and lower middle-income countries, with a special (but not exclusive) focus on the partner countries of the Belgian bilateral cooperation.

After more than ten years 11.11.11 considered it was about time to evaluate BIO’s instruments and activities. The report of the Special Evaluator for Development Cooperation of 2008 already gave some useful recommendations for improving BIO’s operation. 11.11.11 wanted to set against this an evaluation of its own from the perspective of the Flemish North South movement’s vision on development. 11.11.11 focused on all aspects of BIO’s operation: the legal framework and the political expectations, the instruments, the geographical and sector focus, BIO’s management and the concrete investment policy in the various sectors (financial intermediaries, SMEs and infrastructure projects). To conclude we propose some clear expectations and recommendations for the government and BIO itself.

The data for this report come from a broad variety of sources. First of all we used the portfolio data provided by BIO itself, annual reports, annual accounts filed with the National Bank and the ODA statement of DGD. We also conducted several interviews with BIO’s staff and board members and specialists on microfinance, intermediary funds, private sector, etc. Finally we gathered information with our people and partners in the field.

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**BIO in figures**

- EUR 581.5 million available resources, nearly exclusively public money
- 50% property of the Belgian state and 50% of BMI
- EUR 331 million net commitments
- EUR 179 million outstanding investments (disbursements minus repayments)
- 85 projects running, over 130 projects until now
- Average return between 2007 and 2010 of 1.1%
- 36 staff members in 2010
- 3,000 additional jobs created in the South in 2010. Cost: EUR 35,000 per job.
- EUR 4 million profit in 2010
- Over EUR 5 million proceeds from savings in 2010

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1 At the end of 2010 BIO was apportioned EUR 478 million additional resources and the adjusted budget 2011 stated EUR 125.5 million additional resources.
Financial return at the expense of development return?

DFI’s importance in development cooperation is on the rise, in Belgium as in other donor countries. DFIs provide a double advantage for the donor as development catalysts generating a financial return. This evaluation of BIO clearly indicates that financial outputs too often take precedence over development outcomes. BIO is not able to sufficiently respect the legally established basic principles it should keep in mind upon performing its core task. 11.11.11 has found sufficient indications that the principles of additionality (provide finance where the market does not), sustainable development and local added value are not always guaranteed.

According to 11.11.11 BIO should unambiguously and as a priority aim at development relevant investments. The financial return should not prevent BIO to make relevant investments with a risk that is proper to development cooperation. Our analysis demonstrates that an expected financial return of 5% is probably too high. For the time being 11.11.11 does not want to put a figure on the desirable financial output, but we do want a fundamental debate on this issue. Investments with high relevance for development and high risk should be BIO’s core business.

BIO likes to express its ‘development output’ in terms of additional jobs. We have calculated that BIO is investing EUR 35,000 to create one additional job. That return should be questioned.

With regard to the instrument BIO uses to measure development effects, 11.11.11 demands a stronger emphasis on development outputs and the qualitative dimensions of sustainable development.

Moreover 11.11.11 observes that the notion of ‘sustainable development’ is severely undermined by BIO’s investments in unsustainable projects in sectors such as the agro-industry, fossil fuels, petrochemical industry, etc. 11.11.11 therefore asks additional exclusion criteria based on a coherent interpretation of ‘sustainability’.

‘Good governance’ and transparency?

‘Good governance’ and transparency remain important working points for BIO. As appears from our evaluation, BIO can do better with regard to efficiency. BIO must be able to actually spend resources more quickly and to collaborate more coherently with the other actors of the Belgian development cooperation, particularly in view of local embedment and visibility. Regarding transparency 11.11.11 demands full disclosure on all beneficiaries of BIO’s investments and specific development effects. The structural use of tax havens for investments through intermediary funds is particularly problematic. 11.11.11 demands that BIO and the Belgian government denounce this practice that is particularly damaging for developing countries. Together with the other European DFIs BIO can think about alternative indirect investment channels and if necessary it must reduce the share of this instrument. The Belgian government must aim at a new international regime for fighting the pernicious practice of tax evasion through tax havens.
A prosperous private sector in the South irrefutably contributes to development and requires the support of the public sector. The private sector needs strong authorities that provide an enabling legal and physical infrastructure. Furthermore, a sound healthcare system and good education will ensure healthy and skilled workers. Additionally, governments provide long-term financing at predictable conditions, which is often not available on private capital markets. Historically this has been the role of public development banks that are additional to private financers. Public development banks mainly provide funding for strategic sectors in the framework of national development plans (infrastructure, healthcare, education, etc.) – sectors that are sometimes overlooked when only market forces operate. Since a number of years such public development banks no longer meet the expectations of the corporate world in the South leading to an increasing tendency to mix public financial support and private capital (‘blending’). The rise of so-called ‘Development Finance Institutions’ (DFIs) is a clear symptom of that tendency.

DFIs are often created by donor governments to invest in the private sector in developing countries, both directly in enterprises and indirectly through large investment funds. Moreover, DFIs promote investments in developing countries through other investors (pension funds, insurance companies, etc.). When doing so, they favour sectors which they believe to offer both a financial and developmental added value, such as the financial sector, infrastructure, SMEs, etc. DFIs are clearly on the rise. Since 2001, the portfolio of the European Development Finance Institutions (EDFIs), the European association of DFIs, has seen an average annual growth of 10% representing EUR 21.7 billion today.

The comparative table of European DFIs (EDFIs) reveals that BIO is a middle-ranking player by size. Fairly unique however, is the share of government injections that BIO has benefited from over the past few years. BIO received 132% of its portfolio from the government, which indicates that BIO still has substantial unspent resources. In the same period, Swedfund (Sweden) and Norfund (Norway) also benefited from large amounts of government funding. Strikingly, BIO’s return was the lowest of all EDFIs until 2009. BIO’s explanation that this is due to the immature character of the institution makes sense, but our analysis will demonstrate that BIO also lacks efficiency.

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<td>7</td>
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2 The financing efforts of these multilateral institutions to the private sector have multiplied by ten since 1990 and now amount to over 40 billion USD annually. (Action Aid/Bretton Woods Project/Christian Aid/Eurodad/CRBM/TWN, Bottom Lines, better lives? Rethinking multilateral financing to the private sector in developing countries; March 2010, p.4.)

3 http://www.edfi.be/
Financial return versus development return?

National governments often channel ODA through DFIs because they expect DFIs to intervene in those sectors and regions where the market is absent (the so-called ‘additionality’). Furthermore, DFIs aim to obtain both a financial and a development return. They believe there is no necessary trade-off and that DFIs can make considerable profits by investing in risky enterprises that are difficult to reach, such as ‘small and medium sized enterprises’ (SMEs) in the least developed countries.

11.11.11 questions the way in which BIO fulfils that assumption. This research focuses only on BIO (and not on other EDFIs) and reveals how BIO favours the financial return which prevents it to make risky investments with high development relevance (see below). Although BIO’s actual return is limited, it aims at a return of over 5%. 11.11.11 believes that BIO should adjust its expectations. According to 11.11.11, only BIO’s development outcomes can be a reference in assessing its relevance.
2. ‘The rise and rise’ of the Belgian Investment Company for Developing Countries

2.1. A new actor in Belgian development cooperation?

BIO’s mission

“The mission of the Belgian Investment Company for Developing Countries (BIO) is to support a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development with the aim to achieve the Millennium Development Goals.”

The origins of BIO

The Belgian Investment Company for Developing Countries, BIO in Dutch, was founded in 2001 and reflected the political commitment of the Verhofstadt I-government to invest in the private sector in the South. The government wanted to enable a number of existing institutions – such as the Belgian Corporation for International Investments (BMI) and the National Delcredere Agency (ONDD) – “to provide the necessary risk capital for (smaller) private investments through public and private capital expansions in non-OECD countries”. Apart from job and income creation the support for that sector was an indispensable condition for ‘sustainable poverty reduction’. On 12 July 2001, Louis Michel (MR), Rik Daems (VLD) and Eddy Boutmans (Agalev), responsible for Foreign Affairs, Public Undertakings and Development Cooperation respectively, submitted a bill for the creation of BIO. The government explicitly referred to similar institutions within the European Union and the OECD – more specifically the Dutch FMO and the Danish IFU – and believed that it was important to have a similar tool in Belgium. The creation of BIO was, in other words, very politically motivated.

Due to its ‘extensive and demonstrable’ experience with foreign investments the Belgian government partnered up with BMI. The state and BMI raised the registered capital of EUR 5 million – each with a 50% share. Since BMI is a semi-public corporation with the state as its main shareholder (63%) this implies that the state owns BIO for more than 80% share. The government was to allocate resources from the budget for development cooperation to BIO at a regular basis.

4 BMI-SBI is a Plc (63% owned by the Belgian state and 37% by private investors such as BNP Paribas - Fortis, ING and Electrabel) which offers medium or long-term co-financing to business ventures made by Belgian private companies abroad. BMI-SBI is not to be considered an actor of the Belgian development cooperation because it gives priority to the interests of Belgium’s corporate life, i.e. to strengthen the exports and foreign expansion of Belgian enterprises. See: http://www.bmi-sbi.be/en/

5 ONDD is the Belgian Export Credit Agency that insures companies and banks against the political and commercial risks of investments in developing countries. See: http://www.ondd.be/webondd/website.nsf/HomepageNl%28Visitor%29


8 Belgian Chamber of Representatives, Bill for the creation of the Belgian Investment Company for Developing Countries, Explanatory Memorandum, 12 July 2001, Doc. 50 1349/001.
The legal framework for BIO

A first and important element is the Act for the creation of BIO that dates back to 3 November 2001. This Act determines the social mission, the instruments, the geographical focus and the political responsibility for BIO (see box). What is also important is the condition that BIO’s investment decisions have to meet the criteria that are stated in the 1999 Act on Belgian International Cooperation.

The explanatory memorandum to the ‘BIO Act’ contains a number of additional basic principles that BIO is to adhere to when performing its core mission:

- **Additionality:** BIO is only allowed to provide financing where the market is not or insufficiently. Moreover, investments made by BIO must never disrupt the market.
- **Catalyst action:** BIO should act as a lever to mobilise additional capital.
- **Local added value:** interventions by BIO may not favour foreign corporate life over local corporate life.
- **Good governance:** BIO has to adhere to the principles of good governance.
- **Sustainable development:** BIO cannot only aim for economic profitability, but is to attach equal importance to social and environmental profitability.
- **Transparency:** BIO should be a model for transparent corporate governance and uphold the highest environmental and social standards.

11.11.11 feels that these principles (as well as BIO’s mission) are crucial if BIO is to be a tool for development. Nevertheless, 11.11.11 has noticed a huge contrast between the theory and practice of these principles (see below).

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**The main provisions in the Act for the creation of BIO**

- **BIO’s social mission:** BIO needs to invest in the growth of companies in developing countries in order to promote the economic and social progress in those countries. The interventions should directly or indirectly lead to sustainable productive employment while taking into account the basic social rights as defined in the fundamental conventions of the International Labour Organisation (freedom of association, elimination of forced and compulsory labour, equality, abolition of child labour).

- **BIO’s instruments:** BIO can take participations in development and investment funds aimed exclusively at developing countries, provided that the mission of said funds corresponds with BIO’s social mission. To that end, BIO will be able to acquire capital participations in companies and provide loans at market-oriented conditions, as well as related types of corporate financing. BIO has the authority to: (i) help found foreign corporations; (ii) participate directly in foreign corporations; (iii) issue subordinated loans; (iv) issue medium and long-term loans.

- **Geographical focus:** BIO can only address enterprises in the least developed countries and low- and lower middle-income countries, as determined by OECD-DAC.

- **Political responsibility:** BIO is supervised by the (Assistant) Secretaries for Development Cooperation and the Budget. “These members of government can reject any decision that is incompatible with the legislation, decisions, articles of association and the public interest.”

- **Development relevance:** the investment decisions made by BIO need to meet the criteria established in the Act of 25 May 1999 on Belgian International Cooperation (improve the institutional capacity and management skills, economic and social impact, technical and financial viability, efficiency, gender equality, environment). The final responsibility lies with the ministers involved.

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10 Belgian Chamber of Representatives, Bill for the creation of the Belgian Investment Company for Developing Countries, Explanatory memorandum, 12 July 2001, Doc. 50 1349/001, p. 5.
The political expectations regarding BIO

The policy document written by the then Secretary for Development Cooperation Marc Verwilghen (VLD) – “Entrepreneurship against poverty and for development” – contained the basic principles for the “development of the private sector in the fight against poverty.” The idea was as follows: poverty can only be eradicated through economic growth, which can best be achieved by the private sector. The policy document stated a number of objectives and expectations towards BIO:

- Given its relative small scale and limited capacity BIO should continue to focus on financing through intermediary structures.
- BIO can use three new tools: a Capacity Building Fund (for technical assistance, feasibility studies, training, etc.), the Support Fund Private Sector Development (subordinated loans to local enterprises between EUR 45,000 and EUR 700,000 for a period of 3 to 12 years) and a Local Currency Fund. The relevance would be assessed ‘with the help of indicators’ by the attachés for development cooperation.
- The focus is on SMEs in priority partner countries and a number of additional countries (Burkina Faso, Mauritania, Tunisia, Egypt, Thailand, Cambodia, China and India, Cuba and the Dominican Republic).
- A working group that was supposed to include members from the corporate world, NGOs, DGD, BTC and BIO was going to assess the ‘private sector policy’. In reality that working group was never convened.

The strategic document on agriculture and food security, drafted by Charles Michel (MR) in 2010, voiced the following expectations:

- BIO would invest 50% of the government’s resources in the agribusiness, with a focus on agriculture and food crops.
- Through the so-called Athena facility, a cooperation between BIO and the Centre for the Development of Enterprise (COB), BIO would issue loans to ‘very small businesses’ and SMEs in ACP countries. In 2010, an amount of EUR 300,000 was provided to that end.

Off-limits to BIO

BIO is banned from intervening in a number of countries and sectors. First of all, BIO cannot invest in activities and institutions that go against the legal provisions or ‘good morality’ in Belgium or in the country involved or that are in breach of international treaties and agreements. BIO also has to avoid countries that are involved in an international or domestic conflict. Just like the other DFIs BIO has adopted the IFC Exclusion List, that excludes certain sectors and activities based on legal or ethical considerations: production of and trade in weapons and ammunition, alcoholic beverages, tobacco, gambling industry, trade in wildlife, radioactive materials, non-fixed asbestos fibres, tropical timber, pharmaceuticals that are banned or subject to international moratoriums and drift net fishing using nets in excess of 2.5 km in length.

**BIO’s investment charter**

The government’s expectations towards BIO are listed in a 7-page document: the Investment Charter. This contains the main provisions from the BIO Act and the various policy documents and management agreements with the government. The document describes BIO’s core mission and investment criteria as stated in the BIO Act, the code of conduct and basic principles approved by the Cabinet on 6 December 2000 and the explanatory memorandum to the BIO Act, the principles of ethical and sustainable entrepreneurship that BIO adheres to in its cooperation with the other European DFIs and a number of guidelines with regard to the promotion of ‘good governance’.

The relationship with BTC as the executive agency of the Belgian development policy

The government has intentionally chosen to separate BIO from BTC (the executive agency of Belgian bilateral cooperation) because the capacities demanded from both institutions supposedly lie far apart. BTC needs technological know-how, whereas BIO requires managerial and financial expertise. However, that division is artificial and detrimental to the cohesion of development policy. When BIO was created the Council of State also questioned that distinction. The Council demanded that BIO be able to appeal to BTC when ‘technical assistance and knowledge transfer to support investment decisions are needed’. In practice the implementation of that principle has always been ‘minimalistic’ and any contact between BIO and BTC was limited and accidental.

11.11.11 wants BIO and BTC to cooperate more closely and in a more structured manner in order to ensure the coherence between the investment policy in the private sector and the execution of bilateral cooperation.

In Denmark, for instance, there is a clear structural cooperation between IFU and the executing agency Danida. Within the framework of a ‘Programme of action for Denmark’s support of business development in the developing countries’ the different programmes are coordinated by IFU and Danida.14

“Strictly speaking not a tool of the Belgian development cooperation”?

Despite the framework that several policy makers have drafted for BIO, it does not consider itself as a tool for development cooperation. BIO has mainly developed into a financial institution, although the legal framework offers possibilities for BIO to play its part as an actor in development cooperation. Nevertheless, BIO has not yet fully explored that potential. If BIO wants to live up to its mission it will have to develop into a tool of the Belgian development cooperation.

BIO’s spectacular growth

Since its creation BIO has received over EUR 478 million in additional resources from the government. Those resources were all labelled as ODA for the OECD’s Development Assistance Committee. Between 2001 and 2007, BIO’s growth was even and continuous (graph 1). However, government contributions rose sharply as of 2008. In 2009, BIO was given 8% of the overall budget for development. The revised budget for 2011 contained an additional allowance of EUR 125.5 million, while the budget for 2012 shows a decrease of over EUR 24 million compared to 2011.


In 2011, the government was forced to seek the advice of the National Accounts Institute (INR) because Europe had expressed its doubts whether the resources for BIO were an investment by the Belgian government or an expense. In order to answer that question the INR looked at the past achievements of BIO as well as at future expectations. BIO’s return on investment has to exceed the return for long-term government bonds (approximately 5%). Given the past achievements the advice was unequivocal: with a return below 2% BIO could not be regarded as an investment. However, the financial plan for BIO for the time frame 2011-2017 shows an expected return of 4.2 to 5.8%, which prompted the INR to conclude that the government can record its expenses for BIO as investments in accordance with European regulation. That also implies that BIO will have to achieve that return during the next few years. This is feasible as returns on previous investments are now becoming clear. Nevertheless we fear that BIO will be even less willing to take risks through investments with high development outcomes.

That spectacular growth was caused by BIO’s ambiguous identity: as a tool for development cooperation (recipient of ODA resources) it is not really a tool for development cooperation (or so it claims). According to the government BIO did not make expenses, only investments. Money that passed through BIO also generated a return and therefore did not burden the budget. And so the government won twice: the budget for development cooperation was expanded drastically without causing any shortages in the budget.

2.2. How does BIO achieve its objectives?

The instruments

BIO uses essentially two instruments: equity and debt. Equity are the capital participations in companies or investment funds. That means that BIO, as a shareholder, becomes a co-owner and thus bears part of the risks. Debt refers to a participation in the form of a loan. BIO primarily aims at granting long-term loans at market conditions. The additionality refers mainly to the duration of the loan (10 to 12 years) and a possible ‘grace period’ during which repayment can be suspended. BIO also intervenes through so-called quasi-equities, i.e. all possible complicated financing mechanisms that show features of both equity and debt (mezzanine financing, for instance, which is a loan where shares at an agreed price are given as collateral).

The ratio between equity and debt is the first way for BIO to try to spread its risks. The more equity investments, the bigger the risk. In that respect, BIO is completely in line with the other EDFIs. Since recently BIO can also grant guarantees which allow companies to obtain additional resources from creditors on local capital markets as the fulfilment of certain obligations is guaranteed. Although this is a very useful and relevant instrument, its share in BIO’s portfolio is only marginal until today.

Investment instruments BIO

11.11.11 urges the government to adjust its expectations for the financial return. BIO must above all generate a development return, as described in its mission and core task. BIO cannot be used to artificially ‘inflate’ the budget for development cooperation. On the contrary, it should invest wisely in development. 11.11.11 believes that that may come as a cost.

Doing business to fight poverty? 13

‘The rise and rise’ of BIO
BIO manages various funds, for which it receives allowances from the government. Both parties then agree on how those resources will be spent:

<table>
<thead>
<tr>
<th>Tool (fund)</th>
<th>Investment</th>
<th>Target group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Fund (OF)</td>
<td>from EUR 0.7 to EUR 10 million</td>
<td>Both directly and indirectly in SMEs, microfinance, infrastructure projects</td>
</tr>
<tr>
<td>SME Fund (KMOF)</td>
<td>&lt;EUR 3 million</td>
<td>Subordinated loans for SMEs, direct</td>
</tr>
<tr>
<td>Local Currency Fund (LMF)</td>
<td>N/A</td>
<td>Finance facility (equity and debt) in local currency</td>
</tr>
<tr>
<td>Study Fund (SF)</td>
<td>Max. 50% of the cost</td>
<td>Requested by SMEs and promoters, not linked to investments by BIO</td>
</tr>
<tr>
<td>Technical Assistance Fund (TAF)</td>
<td>Case by case</td>
<td>Capacity reinforcement for companies that BIO has invested in</td>
</tr>
</tbody>
</table>

* In 2008, the Special Evaluator was very critical of the KMO Fund. It was the result of a policy decision made by Secretary Verwilghen, but did not distinguish itself from the development fund, apart from the artificial threshold of EUR 0.7 million. Our figures show that investments below EUR 0.7 million are quite rare and have not occurred since 2009. In the agreement with the government that was signed on 18 November 2008 the maximum investment amount was raised to 1 million Euros. On 4 February 2010, the limit was extended to EUR 3 million.

BIO’s different funds support the various sectors and end beneficiaries according to a complicated interaction:

The development fund is by far the most important tool, representing over 75% of the overall portfolio (graph 3). The importance of the KMOF has grown significantly, but is still relatively limited (12% in 2010). The LMF’s position is clearly weakening, while the share of technical assistance and the study and capacity building fund remains practically unchanged. In the overall portfolio they remain marginal. In 2008, the SF and TAF were merged into BIO’s ‘Capacity Building Fund’ (EF).

It is clear that BIO has several tools at its disposal that allow it to fulfil its mission. However, 11.11.11 disagrees with the importance that is now attributed to the different instruments and demands a clear policy for the various instruments that goes beyond the mere determination of a minimum and maximum amount. From the perspective of development relevance 11.11.11 suggests a stronger focus on financing in local currency (through a reformed Local Currency Fund), a reinforcement of the Technical Assistance Fund aimed at the needs of less developed companies, a reinforcement of the Capacity Building Fund in BIO’s toolkit, etc.
The geographical focus

BIO has to invest in the least developed countries (LDCs) and low- and lower middle-income countries. At least 35% should be destined towards LDCs, with a special focus on the partner countries of the Belgian international cooperation. Countries engaged in an international or domestic armed conflict are excluded. Countries that are under reconstruction after a conflict can be given ‘privileged attention’. Apart from that general geographical focus there are a number of specific obligations of best intent per fund:

- Development Fund: Since 2007, BIO is required to invest at least 50% of the additional resources in the partner countries of the Belgian development cooperation. 10% of the additional resources need to be invested in Central Africa (DRC, Rwanda and Burundi) and a minimum of 35% in the least developed countries (LDCs).
- SME Fund: Since 2008, 70% of the additional resources have to be spent in Africa with a minimum of 25% in Central Africa.\(^{15}\)

In 2010, the obligations of best intent for the Development Fund were far from met. No more than 32% of the more than EUR 166 million in unspent resources of the OF and LMF were invested in the partner countries of the Belgian development cooperation and a mere 4% was invested in Central Africa. The least developed countries received only 19% of the resources. The main beneficiaries were the lower middle-income countries (59%), while 9% of the investments were even aimed towards higher middle-income countries, where BIO has no mandate to operate. For the (relatively limited) SME Fund the results were slightly better. 79% of the outstanding portfolio was spent in the partner countries and over 80% of the investments were realised in Africa. Only in Central Africa the objectives were not met, with 21% of the outstanding portfolio.\(^{16}\)

If we assess BIO’s overall portfolio (net commitments or the signed projects minus the repayments plus the projects approved by the Board of Directors) we find that the focus on ‘richer’ countries stands out even more. Especially in DR Congo and the LDC’s we see that BIO is lacking behind. The share of the least developed countries and low income countries dropped from 26 to 13% between 2009 and 2010, while that of lower middle-income countries rose slightly. If we take BIO’s ‘regional investments’ into account that share will be higher. According to BIO investments in LDC and LIC amounted to 35% of BIO’s effectively paid disbursements in 2010. Nevertheless we have seen that many regional funds in which BIO invests have a bias towards stronger, middle-income countries. We feel that the underinvestment by BIO in the least developed countries reflects its risk-avoiding and conservative investment policy.

\(^{11.11.11}\) urges BIO to make extra efforts in LDCs, which will imply higher risks and a lower return due to higher transaction and management costs.

![Geographical distribution of BIO’s portfolio based on income (OECD-DAC)](source: Own calculations, based on Annual Accounts by BIO plc. Countries were divided by categories of DAC List of ODA Recipients, Effective for Reporting on 2009 and 2010 flows.)

\(^{15}\) Investment Charter Belgian Investment Company for Development Countries plc.

The sectoral focus

BIO’s investment charter requires that at least 70% of its resources be invested indirectly. Indirect investments can be divided into participations in ‘intermediary funds’ (private equity funds) and through ‘financial intermediaries’ such as microfinance institutions, leasing companies, factoring and banks. Before 2010, BIO invested nearly 90% indirectly. However, that share dropped in 2010 due to the relative peak in infrastructure projects. Still, the direct support to companies is limited to less than 10% of the overall commitments, which means that BIO adheres to the guidelines.

BIO can invest in agriculture, fisheries, agribusiness, mining, industry and the services sector, including the public utilities sector, Insurance and finance. That is a very broad mandate, but in practice the financial sector stands out, together with SMEs that focus on new technologies. The graph below reveals the distribution of the portfolio by the end beneficiaries of the investments. We notice a sharp shift from microfinance institutions to SMEs. Since 2010, the importance of SMEs has declined due to project financing in infrastructure. Such investments allow BIO to spend relatively large amounts on one case, which increases efficiency (thanks to the relatively lower administrative costs).

BIO’s pipeline

BIO’s search for projects is not structured nor based on concrete procedures. Possible ‘clients’ just seem to pop up and somehow find their way towards BIO. Recently we have noticed an improvement in the microfinance sector. BIO actively participates in meetings of MFIs and has established partnerships with specialised organisations such as Acción, Access, etc.

11.11.11 asks BIO to adopt a structured selection policy.

The decision-making process for an investment goes through various stages: (i) a screening of the eligibility based on an extensive business plan (containing a description of products, clients, competitors, suppliers, management, growth and yield in the medium and long term), (ii) an initial internal assessment, (iii) a sound analysis of the legal and financial credibility with ‘due diligence’ in accordance with ‘international best practices’, (iv) final decision by the Board of Directors based on the file. BIO works with two categories: Category A investments are below a financial threshold (today EUR 1 to 1.5 million). In that case the decision is made by the Investment Committee and confirmed by the Board of Directors. The Investment Committee is composed of the chairman, the government commissioners and five additional members of the Board of Directors. The committee is appointed by the Board. Category B investments exceed that threshold and are the competence of the Board of Directors, (v) once the project has been approved the funds are frozen, (vi) the negotiations with the parties involved are initiated and the final contract is signed.

That process can last up to three years. More efficiency is therefore needed to shorten that pipeline.

1 BIO plc, Standing Rules of the Board of Directors, p. 9.
How does BIO assess its effect on development?

Since 2006, BIO is using the GPR-tool to assess the development effects of its interventions. The Geschäftspolitisches Projektrating or Corporate Policy Project Rating (GPR) is developed by DEG, the German DFI. The GPR analysis is performed ex-ante, before an investment is approved, and reveals the development effects that can be expected from the intervention. A controller will use the tool to monitor his portfolio ex post. BIO has adapted the instrument to its own expectations and looks only at the development effects of the project and BIO’s strategic role. The strategic indicators assess whether the investment meets the requirements for BIO’s geographical or sector focus.19 Depending on the sector – SMEs, infrastructure, financial sector and investment funds – the effects are predicted through a number of parameters or ‘development impact criteria’, such as job creation, income generation, access to education, market expansion, protection of the environment and gender. Based on the scores for development effects the project will be allocated to one of six groups.20 Projects in groups 5 (between 100 and 80 points) and 6 (<80 points) will not be executed.

Although development effects are taken into account for 60% by BIO’s modified use of the GPR-tool, our evaluation demonstrates that it is essentially hard to fail. This is clearly exemplified by some projects that we will highlight later in this report. They make clear that the tool is insufficient in taking actual outcomes on the field into account. Furthermore, the tool focuses too much on financial outputs and quantitative aspects, to the detriment of quality (‘incremental job creation’, quality of employment and transfer effects, impact on inequality, contextualized taxation effects, transparency, good governance

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19 Specific indicators: LDC/LIC or not, investment in (Central) Africa or not, partner country of the Belgian development cooperation or not, respect for human rights, direct or indirect investment, country’s risk profile (based on information provided by ONDD), type of financing, BIO’s role in management, mobilising of capital by (a) third party/parties. See: Response BIO for 11.11.11, 2012-02-06.

20 > 100 points: group 1 (“very good”), >80 points: group 2 (“good”), > 60 points: group 3 (“satisfactory”), >40 points: group 4 (“just sufficient”), > 20 points: group 5 (“poor”), < 20 points: group 6 (“insufficient”).
etc.). 11.11.11 believes additional exclusion criteria should be defined, referring to certain sectors (extractive industries and mining, fossil fuels, biofuels, leisure, etc.) and financial structures (through tax havens). 11.11.11 advocates an adjustment of the existing GPR tool to those criteria. The report written by Bracking and Ganho (2011) from the University of Manchester might be a source of inspiration for BIO.\(^21\)

### 2.3. BIO and good governance?

BIO has to play a ‘catalyst role’ in promoting the principles of corporate governance.\(^22\) Quite recently that commitment was confirmed by the launch of a Corporate Governance Development Framework with 24 other DFIs.\(^23\) The DFIs in that framework commit to more transparency, accountability and good governance.

#### Operational efficiency

BIO should aim to be efficient in its operations. Efficiency can be assessed by calculating the investment volume per staff member. Compared to several other DFIs that ratio is relatively low for BIO. The Danish IFU manages a portfolio that is nearly twice the size of BIO’s portfolio with more or less the same number of people. Norfund performs even better: a portfolio of three times the size with similar staffing. The ratio between new projects and full-time equivalents has barely increased to 1 (0.89 to be exact) since 2006. That is not much compared to other EDFIs. 11.11.11 wants BIO to develop a policy to boast the efficiency towards the levels of some benchmark DFIs such as Norfund, IFU, etc.

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<table>
<thead>
<tr>
<th>Number of staff</th>
<th>Number of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>8</td>
</tr>
<tr>
<td>2003</td>
<td>8</td>
</tr>
<tr>
<td>2004</td>
<td>15</td>
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<tr>
<td>2005</td>
<td>11</td>
</tr>
<tr>
<td>2006</td>
<td>14</td>
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<tr>
<td>2007</td>
<td>8</td>
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<td>2008</td>
<td>8</td>
</tr>
<tr>
<td>2009</td>
<td>27</td>
</tr>
<tr>
<td>2010</td>
<td>27</td>
</tr>
</tbody>
</table>
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Source: Annual Reports BIO, 2002-2010; Annual Accounts BIO plc, 2002-2010.

#### An efficient Board of Directors

Normally speaking, the Board of Directors for an organisation such as BIO would delegate certain powers to a Governing Board. The Board of Directors is expected to develop the overall strategy and to monitor the policy, while operational decisions are supposed to be made by a Governing Board, which does not have to be composed of directors, but rather of experts and managers. BIO does have a Management Committee with executive staff that manage current affairs and that formulate recommendations for the Board of Directors. Apart from that there is only an Investment Committee that cannot make any decisions without the support of the Board of Directors.\(^24\) In other words, no tasks are delegated, although that is standard procedure in the other EDFIs. Furthermore, BIO’s Board of Directors has 14 members. Given the size of its

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22 Investment charter Belgian Investment Company for Developing Countries plc.
24 BIO, Standing Rules of the Board of Directors.
activities that is quite a lot, compared to the other EDFIs. The Dutch FMO (with a portfolio nearly 20 times bigger), the French Proparco (nearly 10 times bigger) and the Norwegian Norfund and Finnish Finnfund, both similar in size, all have a ‘slim’ Board of Directors, with only six members. On the other hand, an extended Board of Directors may have the advantage of a better representation of the different stakeholders. Nevertheless, such a board can only be successful when there are sound and balanced agreements concerning the distribution of tasks between Board of Directors, Governing Board and any other managing bodies.

11.11.11 would like the situation to be adjusted to that international standard. BIO’s shareholders should appoint the number of directors and members through a transparent procedure based on a balance between all stakeholders in development cooperation (government, corporate world and civil society) and the necessary expertise, not only in the field of financial management but also in development and international cooperation.

A conservative risk management policy?

BIO manages risks by freezing credits as soon as a contract has been signed, even though the actual payment can take a long time (sometimes years). All that time the funds are ‘parked’ in a bank account and remain unused. The graph below reveals that deposits and liquid assets (funds that have not been spent and that are still in the savings account) constantly represent over 40% of BIO’s overall balance. And remember: that balance rose from little over EUR 130 million in 2005 to over EUR 377 million in 2010. In 2010, BIO had more than EUR 170 million in its bank account.

BIO needs to dynamize at least part of those funds; by investing them in projects or by using them as leverage for additional capital. In order to do so, BIO should first increase the efficiency of its investment process and shorten the pipeline.

That conservative ‘treasury policy’ also affects returns. The balance sheets show that BIO needs the interest on ‘deposits and liquid assets’ to pay its expenses. This has improved recently, since the investment volume has grown and the main return is obtained through exits (reselling participations in a company or fund). In 2006, BIO decided to remit a dividend (EUR 1.38 million) to its shareholders (the state). We disagree with this pocket-to-pocket operation. Why does the state accept a dividend when it simultaneously allocates new means to BIO? It would be better to use BIO’s return for relevant investments with a specific risk. The operation was also heavily criticised by the Special Evaluator. Since then BIO has not paid any dividends.

11.11.11 urges BIO to productively reinvest its added value in development relevant projects that can be risky, innovative and experimental and will thus give space to BIO’s additionality.

25 BIO’s Board of Directors established the following guidelines: 100% of the allocated amount is to be frozen when the contract is signed, 100% of the allocated amount for contracts that have officially been approved by the Board of Directors but which have not yet been signed, 66% of projects that are under investigation.
A ‘market-oriented’ wage policy?

In the financial world it is customary for investment officers to have an individual incentive plan. This implies that apart from their salaries they receive additional bonuses that are directly linked to the return of their portfolio. The negative consequences of such a system were revealed by the recent financial crisis. Investment officers are in fact encouraged to focus on their personal short-term benefits instead of the organisation’s long-term objectives. ‘At this moment’ BIO does not adopt an individual incentive policy, but it does allow employees to participate in the result through a collective participation plan. That plan is in accordance with the Act of 22 May 2002, the so-called Colruyt Act. Since 2006, over EUR 350,000 in bonuses were paid to staff members.

11.11.11 strongly disagrees with such a remuneration system, since it encourages staff members to make decisions that are aimed at financial return and not at BIO’s development mandate. That is why 11.11.11 is in favour of a wage policy that fits BIO’s character as an actor of development cooperation, rather than a financial institution. BIO could for instance consider a variable remuneration system with additional incentives that are determined by the investments’ development return.

The CEO’s remuneration is another cause for concern. Hugo Bosmans has stated that it is similar to that for other leading positions in the Belgian development cooperation. He specifically refers to the managing directors of BTC (EUR 123,000 gross per annum) and DGD (EUR 130,000 gross per annum). However, the difference is that Mr. Bosmans charges BIO for his services through a management firm. And since BIO is his only client, Mr. Bosmans is in fact pseudo self-employed, which is illegal. Moreover, the amounts paid are substantially higher than what is customary in the Belgian development cooperation. According to various sources Mr. Bosmans made out invoices for his consultancy contract through his management firm for a total amount of more than EUR 300,000 in 2010. Additionally, he received a bonus, an extra amount for the lease of a company car (the BMW 730d BLUE), ‘meal fees’ and attendance fees for the meetings of the Board of Directors and the Investment Committee, which he attended as part of his job. The accumulated amount is nearly EUR 340,000 gross per annum. In other words, BIO pays a lot more to its manager than other actors in the Belgian development cooperation. 11.11.11 finds this unacceptable.

That is why 11.11.11 was pleased to learn that the Board of Directors recently assumed its responsibility and put an end to the structure with the management firm.
3. The indirect way: BIO and ‘intermediary funds’

In essence BIO wants to channel money from capital markets in the donor countries, where there is a surplus, to companies in developing countries, where there is a deficit. This is not easy for an institution such as BIO: it has only limited information about the local business community, it has little insight in the specific reality of enterprises on the spot, the transaction costs for selection, ‘due diligence’ and monitoring are too high, it has no people on site who keep in touch with the enterprises, etc. The solution to that problem are the so-called intermediary investment funds. Moreover DFIs like BIO believe that investing in intermediary funds strengthens their ‘leverage capacity’. Their presence will also tempt private investors, like ‘private equity funds’ and pension funds, into participating in a specific investment.

3.1. How do ‘intermediary funds’ work?

First, one or several DFI’s or large regional development bank decides to raise a fund with a specific purpose, for example to support starting businesses in the sector of renewable energy. Subsequently the management of that fund is left to a ‘reliable’ and ‘experienced’ management firm – the fund manager – which starts looking for companies that meet the conditions and the objectives of the fund. DFI’s believe that fund managers do this much better and for less money. The fund manager receives a ‘management fee’ of about 2 to 3% of the fund’s total. Sometimes the fund is combined with a facility for technical assistance, which SMEs can appeal to. In many cases that facility is focused on the ‘pipeline’ of projects. In that case technical assistance is synonymous with the fund manager’s ‘due diligence’, i.e. checking the accuracy of the information presented by the SMEs and mapping risks and opportunities. The fund manager is paid for through the management fee, so this constitutes an unjustified subsidy.

If a company meets all the fund’s conditions, it is eligible for support by means of a direct participation in shares (equity) or a loan (debt). The DFIs’ commitment confers the fund a certain degree of credibility, so that commercial private investors find it attractive as well. Moreover the threshold for private investors is lowered even more since DFIs will mainly absorb the risks of the investments (by complex financing mechanisms such as subordinated shares26, mezzanine financing27 and guarantees28).

The figure below is a simplified reproduction of a ‘typical’ structure of such an intermediary fund.

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26 Subordinated shares have lower priority when it comes to paying dividends than regular shares. They also have lower priority for payment after a possible settlement of the business.

27 A mezzanine loan is a subordinated loan for which the creditor in case of settlement gets the lowest priority. Such loans run a considerable risk. In principle the interest rates for such loans are nearly three times as high as normal. The lender then requests a security in the form of a package of shares at a price determined in advance.

28 A DFI can guarantee the solvency of a company and thus considerably increase the opportunities of that company on the capital market.
3.2. BIO and intermediary funds

Intermediary funds are a very important channel for BIO. Until now BIO has invested EUR 130.6 million of the total investments through intermediary funds, divided among funds directed at microfinance (MF), SMEs and since recently infrastructure.

The specific funds for which BIO has made commitments since 2002 are listed in the table below. The table states the name and target group (microfinance or SME) of the specific fund, the year in which the contract has been signed or confirmed, the total volume of the fund\(^{29}\), the share of BIO within the fund, the domicile of the fund, the fund manager and the nature of the representation of BIO within the management structure of the fund.

\[
\begin{array}{|l|c|c|c|c|c|c|}
\hline
\text{Fund} & \text{Total volume (x10^3 $)} & \text{BIO (x10^3 $)} & \text{Type} & \text{Domicile}\(^*\) & \text{Fund manager} & \text{Representation}\(^*\) \\
\hline
\text{Mekong Enterprise Fund I (SME, 2002)} & 18.5 & 2.5 & \text{Equity} & \text{Caiman Islands}\(^*\) & \text{Mekong Capital} & \text{BoD and IC} \\
\text{Mekong Enterprise Fund II (SME, 2006)} & 50 & 3.5 & \text{Equity} & \text{Mauritius} & \text{Mekong Capital} & \text{BoD} \\
\text{TransAndean (SME, 2002)} & 12.6 & 5 & \text{Equity} & \text{Delaware}\(^*\) & \text{SEAF} & \text{AB & IC} \\
\text{Shorecap International (MF, 2003)} & 28.3 & 1.5 & \text{Equity} & \text{Caiman Islands}\(^*\) & \text{Shorecap Exchange} & \text{BoD} \\
\text{Accion Investments (MF, 2003, 2007)} & 49.5 & 3.6 & \text{Equity} & \text{Caiman Islands} & \text{Accion International} & \text{AB} \\
\text{Africinvest I (KMO, 2004)} & 32 & 5 & \text{Equity} & \text{Mauritius}\(^*\) & \text{Africinvest Capital Partners} & \text{AB} \\
\text{Africinvest II (KMO, 2008)} & 142.9 & 6 & \text{Equity} & \text{Mauritius}\(^*\) & \text{Africinvest Capital Partners} & \text{AB} \\
\text{Global Microfinance Facility (MF, 2004)} & 134 & 8 & \text{Equity} & \text{Caiman Islands}\(^*\) & \text{Cyrano Management} & \text{AB} \\
\text{Grofin East Africa Fund (SME, 2006)} & 24.9 & 3 & \text{Equity} & \text{Mauritius}\(^*\) & \text{Grofin Group} & \text{AB} \\
\hline
\text{Capital North Africa Venture (SME, 2006)} & 35.6 & 3 & \text{Equity} & \text{Morocco} & \text{Capital Invest} & \text{IC} \\
\text{BTS Private Equity Fund (SME, 2006)} & 73.5 & 5 & \text{Equity} & \text{Mauritius}\(^*\) & \text{BTS Advisors} & \text{AB} \\
\text{Casself Corporation II (SME, 2006)} & 29 & 5 & \text{Equity} & \text{Bahamas}\(^*\) & \text{Lafayette Investment Management} & \text{AB} \\
\text{Maghreb Private Equity Fund II (SME, 2006)} & 124.2 & 6 & \text{Equity} & \text{Cyprus}\(^*\) & \text{Maghreb Advisors} & \text{AC} \\
\text{Maghreb Private Equity Fund III (SME, 2011)} & 96.5 & 6 & \text{Equity} & \text{Mauritius}\(^*\) & \text{Maghreb Advisors} & \text{AC} \\
\text{CAREC (SME, 2006)} & 17 & 2 & \text{Equity} & \text{Costa Rica}\(^*\) & \text{E+Co Capital} & \text{AB & IC} \\
\text{Rural Impulse Fund I (MF, 2007)} & 37 & 3.5 & \text{Equity + Debt} & \text{Luxembourg}\(^*\) & \text{Incofin Management} & \text{AB} \\
\text{Loctfund (MF, 2007)} & 30 & 2 & \text{Equity/debt} & \text{Delaware (US)}\(^*\) & \text{Investment Management Limited (Bolivia)} & \text{AB} \\
\text{Regnita (MF, 2010)} & 174.4 & 5 & \text{Debt} & \text{Luxembourg}\(^*\) & \text{Symbiosics Asset Management} & \text{N/A} \\
\text{Rural Impulse Fund II (MF, 2010)} & 93 & 5 & \text{Debt} & \text{Luxembourg}\(^*\) & \text{Incofin Management} & \text{N/A} \\
\text{Mekong Brahamaputra CDF (HE, 2010)} & 40.7 & 5 & \text{Equity} & \text{Guernsey}\(^*\) & \text{Dragon Capital} & \text{AB} \\
\text{Cauris Croissance II (SME, 2010)} & 45.2 & 5 & \text{Equity} & \text{Mauritius}\(^*\) & \text{Cauris Management} & \text{AC} \\
\text{SACEF (SME, 2010)} & 92.8 & 5 & \text{Equity} & \text{Caiman Islands} & \text{GEF Management} & \text{AC} \\
\text{EFP (SME, 2002, 2006, 2009, 2010)} & \text{N/A} & \text{N/A} & \text{Debt} & \text{Luxembourg}\(^*\) & \text{EFP/EDFI} & \text{IC & AB} \\
\text{Interact Climate Change Facility (HE/SME, 2010)} & \text{N/A} & \text{N/A} & \text{Debt} & \text{Luxembourg}\(^*\) & \text{Interact} & \text{BoD} \\
\text{Renewable Energy Asia Fund (HE/SME, 2009)} & 87.4 & 6 & \text{Equity} & \text{United Kingdom}\(^*\) & \text{Berkeley Energy} & \text{AB} \\
\text{VenturEast (SME, 2008)} & 90 & 5 & \text{Equity} & \text{Mauritius}\(^*\) & \text{APIDC VenturEast} & \text{AB} \\
\text{Latam Growth Fund (SME, 2008)} & 17 & 5 & \text{Equity} & \text{Caiman Islands}\(^*\) & \text{SEAF} & \text{AB} \\
\text{Argan Infrastructure Fund (infrastructure, 2011)} & 70.1 & 6 & \text{Equity} & \text{Mauritius} & \text{Argan Infra} & \text{SB} \\
\text{Aures South-East Asia (SME, 2011)} & 92.2 & 8 & \text{Equity} & \text{Ontario} & \text{Aures} & \text{AB} \\
\text{Catalyst Fund II (SME, 2011)} & 98 & 5 & \text{Equity} & \text{Mauritius}\(^*\) & \text{Catalyst Principal Partners} & \text{AB} \\
\hline
\end{array}
\]

\(^1\) The locations marked with * are ‘secrecy jurisdictions’ as defined by the Tax Justice Network (http://www.financialsecrecyindex.com/)

\(^2\) Board of Directors (BD), Advisory Board (AB), Investment Committee (IC), Advisory Committee (AC), Supervisory Board (SB)

\(^{29}\) Total volume of the fund is based upon the expectations of the fund managers upon launching the fund. In many cases these expectations are not completely fulfilled and the payments into the fund are considerably delayed. The real volume of such funds therefore is often substantially smaller.

Source: Own calculations, based on BIO Annual Accounts, 2006-2010.
Matthew effect

We observe a clear Matthew effect in the way intermediary funds work: the strongest players are receiving most resources. Intermediary funds mainly invest in sectors and countries in which a ‘sound return’ is guaranteed and avoid the risks of innovative, vulnerable sectors in ‘difficult’, often low-income countries. Although the funds BIO is investing in are strongly focused on Africa (43% of total resources since 2002, or EUR 85 million, against 31% in Asia, 15% in Latin America and 9% in Maghreb countries), we have to put those figures in perspective. As a matter of fact it often concerns regional funds that in practice mainly focus on the ‘stronger’ countries in the area. The ‘Asian’ venture capital fund VentureEast for example, which brings together capital from IFC, Norfund, BIO and a number of Indian nationalized insurance companies and banks and even the Saoudi royal family (through SEDCO), exclusively makes investments in India and more particularly in the state of Andhra Pradesh, the third ‘richest’ of the Indian union. The ‘Latin American’ Latam Growth Fund, a fund of relatively small DFIs like BIO, Sifem (Switzerland) and Finnfund (Finland), only invests in Peru and Colombia, respectively the fourth and sixth largest economies of the continent. European Financing Partners (EFP), a ‘syndicate’ of all EDFIs focusing on the ACP countries, appears to be mainly active in Nigeria (24%), Kenya (24%) and Tanzania (15%), respectively number 3, 10 and 14 in the ranking of African economies.

The intermediary funds are not only relatively limited from a geographical point of view, there is also strong sector concentration. The financial sector is well represented everywhere, as well as high-tech, capital-intensive sectors such as telecom, energy and the pharmaceutical industry. Considerable amounts of money are invested in particularly problematic sectors from a sustainable development point of view, such as petrochemistry and mining, even though in most cases it is not possible to know the exact volume because of ‘confidentiality’. Some examples:

- Mekong Enterprise Fund invested in chemical companies, a building contractor for villas and luxury apartments, the Vietnamese-Australian international school, IT and telecom companies and the textile and toy industry in Vietnam.
- Cauris Croissance, focusing on West Africa, only takes minority participations in enterprises with a strong growth potential and ‘proven cost-effectiveness’ in the banking and insurance sector, logistics, tourism, telecommunication, pharmaceutical corporations and even the petro industry. Cauris Croissance invests on average EUR 3 million per enterprise.
- AfricInvest II focuses on ‘regional upscaling’ and ‘operational deepening’ of ‘established’ SMEs (with an annual turnover of EUR 50 million) in microfinance, insurances, the pharmaceutical industry, telecommunication, consumer credits and mining. Average investment per company: approximately EUR 6 million.

As a ‘syndication vehicle’ EFP is not a real investment fund but rather a separate partnership in which arrangements are made about the financing of concrete projects. The EDFI members act as ‘promoting partners’ and bring in concrete investment projects. EFP is allowed to take on up to 75% of the overall proposed investment with a maximum of EUR 25 million, the remaining 25% is paid by the ‘promoting partner’.

Bodytech Club Médico Deportivo

Since 2007 BIO has been investing through the Latam Growth Fund in Inverdesa, the main operator of ‘health clubs’ in Colombia. Inverdesa opened 14 new clubs all over Colombia with the trendy name ‘Bodytech Club Médico Deportivo’. One of them is located within the American embassy in Bogotá. With this support the company managed to grow ‘in times of crisis, when nonessential personal services like fitness are increasingly under pressure’. BIO does not see anything wrong in such funding with development resources, because ‘a fitness centre does not do any harm to anybody and creates jobs’. 11.11.11 is also convinced that a sound body may contribute to a sound mind, but we just do not see the development relevance. 11.11.11 believes that development cooperation should have more ambition than just achieving things that ‘will not do any harm’.

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30 As a ‘syndication vehicle’ EFP is not a real investment fund but rather a separate partnership in which arrangements are made about the financing of concrete projects. The EDFI members act as ‘promoting partners’ and bring in concrete investment projects. EFP is allowed to take on up to 75% of the overall proposed investment with a maximum of EUR 25 million, the remaining 25% is paid by the ‘promoting partner’.

31 http://www.mekongcapital.com/in_overview.htm
32 http://www.caurismanagement.com/cauris_croissance2.html

Latam Growth Fund invests in ‘sustainable agriculture’, renewable energy, but at the same time also in the petro industry. And apparently fitness centres are also part of the fund’s target group (see text box).

EFP focuses on ‘large industrial corporations’ in the financial sector (24%), telecom (23%), energy (18%), petrochemical industry (10%), aviation (5%), etc. The average investment is EUR 14 million.

In our view intermediary funds too often choose the easy way out. They invest mainly in relatively ‘safe’, ‘easy’ regions and sectors that are interesting for private investors from a commercial point of view. Moreover intermediary funds mainly focus on enabling growth of large, industrial enterprises that are already firmly consolidated. A study of the International Finance Corporation (IFC) of the World Bank showed that only 60% of the companies financed by IFC comply with the World Bank’s SME definition. This suggests that intermediary funds strengthen the concentration of capital in large, industrial companies, pushing aside the aspect of financial additionality.

There is no such thing as a free lunch: the pressure to produce return

The first and main objective of an investment fund is to generate profits to guarantee its durability. An investment fund expects to have a standard return of 15 to 20% on its equity investments on a five to ten year term. In order to operate in line with the prevailing market demands, as stated in its mission, BIO should thus fulfill such return expectations. From its shares in intermediary funds, BIO expects to have a return between 10 and 15% at the moment that the fund is concluded, ‘but more is not forbidden’. 10% is an absolute minimum for BIO. BIO imposes a demanding profitability prospect. This is confirmed by the fact that some private investors, like Incofin, go for less. For its Impulse Fund Incofin expects a return of 10 to 13% on a term of 10 years.

There is a genuine concern that such ‘market conform’ return prospects will result in lower development outcomes:

In order to achieve that return, it is apparently necessary to invest in fitness clubs, the petrochemical industry and mining. From a perspective of sustainable development, which is also a guideline for BIO, such choices are hard to defend.

All power to the fund manager?

Fund managers link the investors in the North to the companies in the South. In essence they are the intermediaries who help investors like BIO to get in touch with the individual SMEs. Although they are attracted because of their ‘local embedment’ and ‘knowledge of the sector’, they are only seldom really based in the country or region the fund is focusing on. Due to this a considerable part of the employment and capacity building is created outside the target countries.

Fund managers receive 2 to 3% of the overall volume of the fund as a ‘management fee’ for their services. The fund managers often shroud themselves in ‘confidentiality’, so that it is

36 An SME has less than 300 employees and has annual revenue of maximum EUR 12 million. http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SPI_DP26577
38 The management fees BIO is paying amount to 2 to 2.5% of the overall fund volume. This is in line with the usual fees on the market. In the case of Incofin Investment Management, the received ‘fees’ vary strongly between investments in equity and in debt. For equity investments the commission is 2.5% of the actually invested money and for debt funding it is 1.5% annually on the overall volume of the loan.
difficult for external observers to find out where the resources are ending up, let alone the financial additionality or the development relevance of the investments. BIO disposes of all relevant information on the companies that benefit from the various funds, but does not want to disclose it because of ‘commercial sensitivity’. The agreements BIO concludes with the fund managers do not differ from conventional agreements between private parties. BIO claims that, together with other EDFIs, it wants to act as a pioneer by introducing more stringent criteria and standards. They do so by using the ILPA Standards\(^{39}\), but these only refer to the financial and accounting aspects.

- **We certainly welcome such efforts, but 11.11.11 asks a clear commitment to more transparency for all stakeholders. BIO has a clear development mandate and operates nearly exclusively with public funds aimed at development. Therefore it should communicate clearly and unequivocally about the beneficiaries of the funds and their development relevance.**

Another problem is that relatively small players, like BIO, only play a very limited role within intermediary funds. BIO has little authority and control on the daily management and individual beneficiaries of these funds. Usually BIO only has a seat in the ‘Advisory Committee’, a body with little decisive power. BIO collaborates with other shareholders who are represented at the Board or Investment Committee level. BIO then mainly reckons on the fact that the involvement of other, large EDFIs within the management structure guarantees a certain degree of indirect control. But for 11.11.11 this is not enough.

### ‘Tax neutral investments’?

Table 2 suggests that tax havens are an integral part of the structure of intermediary funds.

- **We calculated that over 111 million of the EUR 116 million of BIO’s resources invested in intermediary funds are passing through tax havens.\(^{40}\)**

If we just look at the Annual Accounts 2010, we see that BIO holds shares of the Mekong Enterprise Fund and Latam Growth Fund on the Caiman Islands, Africinvest and Grofin East Africa Fund in Mauritius, Caseif Corporation in the Bahamas, the Mekong Brahmaputra Clean Development Fund in Guernsey and the Rural Impulse Fund II in Luxemburg. BIO still holds fund shares in its portfolio that were bought as early as 2002 with domicile in the Caiman Islands (Mekong Enterprise Fund) and Mauritius (Africinvest).

According to BIO there are good reasons to pass through ‘tax neutral’ locations. Tax havens or ‘offshore financial centres’ (OFCs) have the ‘legal infrastructure’ that meets the requirements of private investors, OFCs can house a broad range of ‘financial structures’, OFCs facilitate ‘tax neutral’ and ‘efficient’ capital pooling, ‘special purpose vehicles’ (SPVs) in tax havens can facilitate the access of developing countries to international capital markets, OFCs are a ‘catalyst’ for additional capital, etc.\(^{41}\) The EDFI Guidelines for Offshore Financial Centres, which BIO subscribes to, come to the conclusion that “for the sake of developing countries” investments are best structured in tax havens.\(^{42}\)

Research commissioned by a number of international NGOs shows that the legislation in a number of developing countries is indeed not suitable for housing funds with capital collected from various origins.\(^{43}\) But often this is precisely a clear choice of the country concerned. Countries precisely choose to stimulate direct foreign investments, rather than indirect investments.

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\(^{39}\) The International Limited Partners Association is an association of private equity investors. It develops a number of standardized templates to report on investments.

\(^{40}\) Own calculations, based upon the Annual Accounts 2002-2010.

\(^{41}\) These arguments appear from the report of the Norwegian ‘Commission on capital flight from developing countries’ based upon data from the Norwegian DFI Norfund: Tax Havens and Developing Countries: Status, analyses and measures, Report from the Government Commission on Capital Flight from Poor Countries, 2009-06-18, http://www.financialtaskforce.org/wp-content/uploads/2009/06/norway_tax_report.pdf?9d7bd4. From our conversations it appears that the arguments of BIO are in the same line.

\(^{42}\) EDFI Guidelines for Offshore Financial Centres, 2011-04-01.

through all kinds of tricky constructions, because they want to increase the tax revenues allowing for investments in development. The Paris Declaration, an essential policy framework for all forms of development cooperation, exactly requires that BIO would respect such policy decisions in the context of ‘ownership’.

Tax havens are detrimental for development because of the potential loss of tax revenues for the developing countries and because they encourage (illicit) capital flight from developing countries.

It is difficult to calculate the amount of missed out tax revenues due to the use of tax havens, because such funds run over a fairly long period of time and only generate profit after at least three years. BIO states that both BIO itself and the beneficiary companies pay taxes in their own jurisdictions. 11.11.11 does not question this statement, but the problem is that the fund companies domiciled in OFC’s do not pay (or very little) taxes, neither do the private partners that are domiciled in OFC’s as well. In this sense BIO and other DFI are in a way accessory to supporting and granting legitimacy to the pernicious role of tax havens. The financing mechanism using OFC’s therefore strongly runs counter to the claim that BIO enhances the fiscal possibilities of the beneficiary countries. Structuring investments through OFC’s does not contribute to a strengthening of the indigenous financial and fiscal institutions in supporting the private sector. Furthermore the argument to not pay taxes to a ‘third party’ is not valid because most so-called regional funds with domicile in Mauritius only invest in India or Vietnam. Would it then not be logical to establish those funds in those countries and to make them pay taxes there as well?

BIO hides behind the relevant OECD policy. Within the OECD the ministerial ‘Financial Action Task Force’ (FATF) has formulated a set of recommendations concerning the fight against money laundering practices and the financing of terrorism. The follow-up of those recommendations lead to the establishment of a ‘black list’ of so-called ‘Non-Cooperative Countries and Territories’ (NCCT). In its policy note with regard to OFC’s BIO commits itself not to spend investment resources through jurisdictions on that ‘black list’. It is however striking that the list is empty since the last NCCT review. According to the OECD there are no more tax havens, which is of course ridiculous. Moreover the FATF criteria are formulated quite vaguely without clear ‘benchmarks’ and they are exclusively focused on ‘details’ such as transparency, exchange of information, due diligence and the rigidity of the banking secrecy.

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3.3. Intermediary funds: the baby and the bathwater

11.11.11 believes that intermediary funds can be a useful tool for investments in the local corporate world in the South. Today BIO is not sufficiently able to focus exclusively on small-scale economic initiatives in the South. Intermediary funds may provide a solution to this. Hence this investment channel should not be closed off, but BIO must find an answer to the lack of control on the destination of the resources and the lack of development relevance of the actual investments.

11.11.11 emphasizes the importance of a coherent development policy. BIO should not undermine the objectives of the Belgian development policy by reducing the taxable income of developing countries and strengthening OFCs. As a public investment company BIO has to set an example. 11.11.11 holds the opinion that no resources for development can be invested through tax havens. We understand that this has important consequences for the choice of the tool of intermediary funds, because as a minority shareholder BIO has no influence on the choice of a fund’s domicile. Still there are various possibilities:

- BIO can reduce the share of intermediary funds and focus on a larger participation in smaller funds prove ethical considerations and development relevance are compatible with intermediary funds.
- BIO can put maximum efforts into strengthening international endeavours, together with countries that are much more advanced in this context (Norway, Sweden, etc.), in order to avoid the use of tax havens.

This is also a challenge for the politicians. 11.11.11 asks them to make more efforts for new international regulations with regard to tax havens. Preferably efforts should be made for binding guidelines at the European level, although lack of progress on this level should not be an excuse not to proceed unilaterally. Recent proposals in Parliament to amend the BIO Act can be used as a source of inspiration. 46

Apart from the intermediary funds there are also other ‘financial intermediaries’ such as microcredit institutions, banks, factoring and leasing companies, etc. BIO focuses strongly on such financial institutions, because it thinks that the lack of appropriate forms of financing in developing countries and the limited access to international capital markets are the most important obstacles for the local business life. That is the reason why the financial sector is essential. But the financial crisis caused a rupture: the share of ‘financial intermediaries’ in the BIO portfolio decreased (from 59% between 2004 and 2007 to 44% in 2010) and microfinance clearly became less important.

**4.1. Microfinance: Matthew revisited?**

Although microfinance has lost some importance since the financial crisis, it still is a spearhead. BIO invests in microfinance in two ways: directly via ‘microfinance institutions’ (MFIs) and through intermediary funds (MF Funds). Between 2004 and 2010, BIO has invested EUR 68.5 million in the sector: EUR 46.6 million (68%) directly in MFIs and EUR 21.9 million (32%) through investment funds. During the crisis of the sector BIO only invested directly in MFIs. 47

**What kind of MFIs does BIO provide support to?**

BIO selects MFIs on the basis of the quality of the portfolio (maximum 5% ‘non-performing loans’ that are not paid back), the total volume (<EUR 200 million), proven profitability on the long term, social objectives and customer protection. The table below contains a list of the most important MFIs in which BIO has invested (sometimes even several times) in recent years.

In 2004 BIO considered to invest in “smaller and less established MFIs with the capacities and the skills to become ‘first rank MFIs’”. 48 Still the beneficiary MFIs hold an average portfolio of over USD 160 million since then and in their respective countries they belong to the largest in the market. 49 Usually those MFIs are regulated banks offering products with little development relevance such as consumer credits, mortgage loans, transfer facilities for remittances from the Diaspora, etc.

The investment funds, which often have been established by the DFIs themselves with the objective to look for small, weak MFIs constituting a larger risk, are not successful either. A fund like the Regional MSME Fund for Africa (Regmifa), mainly sponsored by IFC and the German KfW,

47 Own calculations, based upon annual accounts BIO plc, 2004-2010.
48 BIO, Highlights 2004, Brussels, BIO.
49 An MFI is called a ‘large MFI’ if the overall portfolio is larger than USD 30 million.
was explicitly established to issue loans to small, weakly developed MFIs in Sub-Saharan Africa. Because Regmifa was in for a difficult task, a facility for technical assistance was provided of no less than USD 5 million. In practice Regmifa mainly lent money to large MFIs that were already the market leader in their respective countries. Moreover research showed that the resources for technical assistance had been used to get the loans sold to MFIs that actually wanted to borrow on private markets. Even the Rural Impulse Fund (RIF II) of Incofin mainly invests in well-developed MFIs in saturated markets like Peru, Bolivia and India.

Crowding out development?

A study by MicroRate, an MFI rating agency, clearly indicates that DFIs like BIO do not reach their objective in the sector. DFIs have the ambition to be complementary with the microfinance market and to concentrate on the most risky, least accessible segments of the market. According to the study (and also to our experience) DFIs however aim at the ‘low hanging fruit’ on that market and thus push away private investors. According to MicroRate this is due to the working method of DFIs, which are mainly interested to spend the apportioned public budgets relatively quickly. Therefore the large, strong MFIs provide a fast, easy, risk-free and profitable way to move large budgets in one go. As a matter of fact, this is not a new process. It has existed since BIO started investing in microfinance.

Not only private actors are pushed out of the market, but development as such is crowded out as well. In recent years it has become clear what the competition between private investors and DFIs can lead to: overcharged markets and debt crisis in microfinance, pushing many small borrowers in the South into poverty. In some countries like Nicaragua and Peru, but also Bosnia-Herzego dovina, a real ‘bubble’ was created in the microfinance sector. MFIs acted very aggressively to lure clients so that people often contracted various loans at the same time. Finally the bubble did burst. Various IOB studies state that BIO and the other DFIs have largely contributed to that crisis. BIO has to consider revising its policy within the microfinance sector. 11.11.11 welcomes the reduction of investments in the sector. If BIO remains active in the sector, it must look for the most development relevant initiatives and actors who offer innovative, risky financing for least accessible groups, such as small agricultural cooperatives, producer associations, microentrepreneurs, etc.

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Source: BIO portfolio, online database of Mix (Microfinance Information Exchange), see: www.mixmarket.org

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<table>
<thead>
<tr>
<th>MFI</th>
<th>Country</th>
<th>Portfolio (10³ USD)</th>
<th>Avg. credit (USD)</th>
<th>Statute</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>BancoSol (2009)</td>
<td>Bolivia</td>
<td>439.8</td>
<td>3,020</td>
<td>bank</td>
<td>Credit (consumption, mortgage, …), saving deposits, insurance, services for migrants, transfer,…</td>
</tr>
<tr>
<td>ProCredit Congo (2007, 2009, 2010)</td>
<td>DR Congo</td>
<td>40.8</td>
<td>5,275</td>
<td>bank</td>
<td>Loans for entrepreneurs and private persons, saving deposits, banking services</td>
</tr>
<tr>
<td>Bancoveo (2007, 2010)</td>
<td>Honduras</td>
<td>44.4</td>
<td>3,053</td>
<td>bank</td>
<td>Loans, saving deposits, transfer</td>
</tr>
<tr>
<td>Sathapana (2010)</td>
<td>Cambodia</td>
<td>57.8</td>
<td>1,326</td>
<td>NBFI</td>
<td>Loans, saving deposits, transfer</td>
</tr>
<tr>
<td>Edyficar (2006)</td>
<td>Peru</td>
<td>356.1</td>
<td>1,246</td>
<td>‘Financiera’</td>
<td>Loans, consumer credit</td>
</tr>
<tr>
<td>Padme (2006)</td>
<td>Benin</td>
<td>37.7</td>
<td>758</td>
<td>ngo</td>
<td>Loans (local currency and USD), donations, guarantees, equity</td>
</tr>
<tr>
<td>Novovanco (2006)</td>
<td>Mozambique</td>
<td>32.7</td>
<td>2,056</td>
<td>bank</td>
<td>Loans (mortgage loan), saving deposits, transfer, exchange</td>
</tr>
<tr>
<td>Confianza (2006)</td>
<td>Peru</td>
<td>134.4</td>
<td>1,772</td>
<td>‘financiera’</td>
<td>Loans, insurances and transfer</td>
</tr>
<tr>
<td>Banco Los Andes</td>
<td>Bolivia</td>
<td>391.2</td>
<td>5,820</td>
<td>bank</td>
<td>Credits, consumer credit, …</td>
</tr>
</tbody>
</table>

Source: BIO portfolio, online database of Mix (Microfinance Information Exchange), see: www.mixmarket.org

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The programme for customer protection – the Smart Campaign and Client Protection Principles\(^{53}\) – is a good initiative, but such voluntary codes of conduct based on ‘do no harm’ principles are not enough as a guarantee for development relevance.

### 4.2. Financial service providers: creative with money

Meanwhile BIO has invested EUR 62 million in so-called ‘non-banking financial institutions’ or financial service providers, more than half of this amount in the past two years. This means that financial service providers are becoming ever more important. The services involved are mainly complex and specialized financial services like ‘leasing’, ‘factoring’ or derivatives such as ‘currency swaps’. In case of leasing, which is actually a form of rental, a ‘lessor’ buys business equipment (machines, computers, etc.) and puts them at the disposal of a company, the lessee, for a fixed fee. The lessee commits himself to buy the good after termination of the contract at the residual value. In the case of factoring the debtors’ portfolio of a business is outsourced to the factor. The factor takes care of dealing with the debtors and usually receives a percentage of the turnover. ‘Currency swaps’ can protect investors against cross-currency exchange risks which lowers the burden for DFI’s to provide loans in local currency. On the other hand such derivatives make it possible for companies to get hold of cheap foreign currency without having to contract debts. This mechanism may lead to abuses because it makes companies look sounder than they actually are.

These services are mostly tailored towards market requirements in ‘emerging countries’.

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Investment (10³ euro)</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Srei</td>
<td>India</td>
<td>7,450</td>
<td>Leasing in infrastructure works, partner of BNP Paribas in India</td>
</tr>
<tr>
<td>Lanka Orix</td>
<td>Sri Lanka</td>
<td>3,000</td>
<td>Leasing of farming vehicles, financial services for large-scale agriculture</td>
</tr>
</tbody>
</table>

\(^{53}\) The Smart Campaign and Client Protection Principles is a code of conduct to ‘restore confidence between clients and MFIs, like ‘do no harm’, prevent excessive debts, improve clients’ screening, transparency, sensible prices, fair and respectful treatment of customers, respect for privacy and the creation of a customer mechanism. See: http://www.smartcampaign.org/

* Based upon conversations with Johan Bastiaensen, IOB, Antwerp.

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**Banex’ bottomless pit**

The Banco del Exito (Banex) or the ‘bank of success’ originated as Findesa, an NGO providing microfinance. First Findesa became a ‘regulated financial institution’ under the supervision of the Nicaraguan National Bank in 2002. In 2008 the change of name into Banex sealed the metamorphosis into a regular, commercial bank. This process was ‘accompanied’ by repeated capitalizations by various DFIs. As a consequence of this overfinancing there was an excessive and very aggressive competition between MFIs. A true ‘bubble’ arose in Nicaragua due to easy and ample refinancing of customers who where indebted up to their neck. In particular rich stockbreeders could get a lot of easy and cheap money. From 2009 Banex started suffering hardship. Because of the collapse of livestock prices, amongst other things due to the American credit crunch and the vast price increase of maize (ethanol production), the stockbreeders were no longer able to pay back their debts. Banex and the other ‘commercial’ microfinance banks’ like Procredit (also a client of BIO’s) suffered huge losses and balanced on the verge of bankruptcy. Once again DFIs stepped into the breach with additional money. Ironically the ‘traditional’, nonprofit MFIs appeared to be better able to resist the crisis because there were far less arrears for the agricultural portfolio of poorer, rural clients and group credits for poor traders in the cities. Due to its generous and unconditional support for the ill-performing MFIs, DFI’s such as BIO contributed to the deep microfinance crisis in Nicaragua.

* Based upon conversations with Johan Bastiaensen, IOB, Antwerp.
4.3 BIO and the banking sector

Between 2002 and 2011 BIO invested nearly EUR 40 million in commercial banks, particularly in Africa. These investments concern strategic participations helping BIO to meet its obligation to perform to the best of its abilities vis-à-vis the government. Therefore BIO made a bid to participate in a number of banks. Below you will find an overview of the investments in commercial banks between 2002 and 2011:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Land/Region</th>
<th>Investment (x 10³ €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOA Group</td>
<td>Africa</td>
<td>9,714</td>
</tr>
<tr>
<td>Access Bank</td>
<td>Nigeria</td>
<td>2,232</td>
</tr>
<tr>
<td>BOA Tanzania</td>
<td>Tanzania</td>
<td>1,669</td>
</tr>
<tr>
<td>Banque Crédit Bujumbura</td>
<td>Burundi</td>
<td>1,276</td>
</tr>
<tr>
<td>Cogebanque</td>
<td>Rwanda</td>
<td>1,265</td>
</tr>
<tr>
<td>Bancentre</td>
<td>Nicaragua</td>
<td>3,865</td>
</tr>
<tr>
<td>Banco Nacional de Bolivia</td>
<td>Bolivia</td>
<td>3,591</td>
</tr>
<tr>
<td>BOA RDC</td>
<td>DR Congo</td>
<td>1,466</td>
</tr>
<tr>
<td>Banque Crédit Bujumbura (capital increase)</td>
<td>Burundi</td>
<td>832</td>
</tr>
<tr>
<td>Banco Financiero del Peru</td>
<td>Peru</td>
<td>3,594</td>
</tr>
<tr>
<td>Sacombank</td>
<td>Vietnam</td>
<td>10,416</td>
</tr>
</tbody>
</table>

Source: BIO portfolio

Belgolaise and the ‘Belgian embedment in Africa’

In 2005 the participations of the Fortis subsidiary Belgolaise (today BNP Paribas-Fortis) in three Central African banks – Banque Commerciale du Congo (25%), Banque Crédit de Bujumbura (48.9%) and Banque de Kigali (49.9%) – were put up for sale. Bank Degroof and the regional Bank of Africa presented themselves as interested buyers. At the time the Flemish newspaper De Standaard wrote that the government saw an opportunity to have a foot in the door of that ‘strategically important’ sector and ‘to safeguard the Belgian embedment in Africa’. The then minister for Development Cooperation Armand De Decker (MR) proposed that BIO would make a bid for the Belgolaise shares. Yet the proposal came up against critical questions in Parliament. Although there was little enthusiasm within the government about the deal, BIO did make a bid for the Banque de Kigali and the Banque Crédit de Bujumbura. In the first case the winning bid was that of the Rwandan government of Paul Kagame. In the second case BIO gained 20.25% of the ownership of the Banque Crédit de Bujumbura, part of the regional network of the Bank of Africa.

2 Questions and Answers in the Senate, 2006-09-05, Question n° 3-4958 by M Mahoux on 25 April 2006.
5. Financing business: direct support for companies

5.1. How does BIO invest directly in companies?

Since 2002 BIO has invested EUR 27.6 million (of a total of EUR 317.6 million) or 8% of its resources directly in SMEs. The maximum amount of investment per case has been gradually increased, from EUR 700,000 to EUR 10 million recently. On average BIO invests EUR 1.32 million per case today, whereas in 2010 this still was EUR 730,000. In many cases a limited amount for technical assistance (capacity building) is linked to the investment.

11.11.11 welcomes BIO’s efforts with regard to capacity building, but wonders whether these are actually increasing. Capacity building is an essential role of development cooperation and should get absolute priority. This is a clear added value for a DFI like BIO. BIO should try and look as much as possible for investments that match capacity building with the needs of the company and BIO’s own expertise (or of other Belgian development actors).

The principle of ‘local ownership’ should be at the core of direct investment. Today BIO ‘preferably’ applies that principle. In practice however we observe that beneficial ownership of beneficiary companies is often located in rich OECD- donor countries. From the top 10 direct investments made by BIO between 2006 and 2011, only 4 show beneficial ownership in the targeted country. Companies that receive loans or equity investments are often subsidiaries of transnational companies or ‘special purpose vehicles’ specifically created to implement a particular project. These findings seem to undermine BIO’s claim for financial and development additionality even further.

### Beneficial ownership of top 10 direct investments by BIO, 2006-2011

<table>
<thead>
<tr>
<th>Project</th>
<th>Country of ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sacombank</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Jakarta Tank Terminal</td>
<td>The Netherlands &amp; Indonesia</td>
</tr>
<tr>
<td>Maple Ethanol</td>
<td>UK &amp; Peru</td>
</tr>
<tr>
<td>Amayo</td>
<td>Panama &amp; US</td>
</tr>
<tr>
<td>Polaris</td>
<td>US</td>
</tr>
<tr>
<td>Banco Financiera del Peru</td>
<td>Peru &amp; Ecuador</td>
</tr>
<tr>
<td>Holhot Cokes</td>
<td>China</td>
</tr>
<tr>
<td>BOA Group</td>
<td>Luxemburg &amp; Mali</td>
</tr>
<tr>
<td>Banco Nacional de Bolivia</td>
<td>Bolivia</td>
</tr>
<tr>
<td>Bancentro</td>
<td>US &amp; Nicaragua</td>
</tr>
</tbody>
</table>

In order to fulfill its additionality, BIO needs to be investing in companies in developing countries that would otherwise not be able to access other private capital markets. Those companies are mostly small-scale local firms, strongly embedded in the socio-economic fabric of developing countries. Local ownership is one of the key principles of effective aid and is also applicable to private sector development. Just because a project is situated in a developing country, does not mean that it is owned or operated by companies in the target countries of the investment.
The core of the direct activities is very clearly in the agribusiness sector (44% of total investments). The regular industrial sector – with wood processing, printing, but also mining, coke production and petrochemical companies – accounts for 23% of the investments.

![Sectors of direct investments in SMEs, 2002-2010](image)

Source: BIO portfolio

Geographically speaking, Africa is clearly the most important region (64%), before Asia. Central Africa (DR Congo and Rwanda) account for 11.4% of the direct support to SMEs. If we consider Cameroun as part of Central Africa, the figure amounts to 20%. BIO partly tries to compensate the bias of its intermediary channels for ‘easy’ countries through direct investments in SMEs.

![Geographical distribution of direct investments in SMEs, 2002-2010](image)

Source: BIO portfolio

### 5.2. SMEs: How large is small?

BIO follows the internationally agreed definition of an SME as an enterprise with less than 250 employees, a maximum annual turnover of EUR 40 million and maximum EUR 27 million assets. The ‘ideal business case’ for BIO is a profitable, export-oriented company that has been growing for at least five years and is looking for financing in Euros or USD. Moreover those companies should be able to absorb an amount of EUR 1 to 3 million. 11.11.11 wonders whether those SMEs actually are the right ‘customer base’ of BIO, because they are able to get the necessary financing via private capital markets or intermediary funds. From various studies it appears that mainly local microenterprises, with maximum ten employees and a maximum annual turnover of EUR 2 million, have difficulties to get the necessary funding. According to another study by social investor Root Capital, quoted by FAO, the ‘missing middle’ in Africa and Latin America is largely crowded by companies active in agriculture in want of financial support between USD 10,000 and 1 million. 54 In particular those ‘SMEs’ play a crucial role in economic development, because

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they often constitute the first step in the transition from an informal, ‘black’ economy to a formal, ‘white’ economy. Particularly in agriculture there is indeed a so-called ‘missing middle’ between family farming and large, industrial corporations. BIO and the other DFIs keep away from that ‘missing middle’ where risks are too high and growth too slow. 11.11.11 acknowledges that the current set of instruments of BIO is not sufficient to reach those actors. Therefore we ask that BIO would set up a study into the conditions under which it can indeed play that role.

Below we give an overview of the direct investments in SMEs, with the sector, country, invested amount, year and concrete activity:

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Country</th>
<th>Amount (x10³ €)</th>
<th>Year</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zenufa</td>
<td>Health</td>
<td>Tanzania</td>
<td>2,113</td>
<td>2005</td>
<td>Pharma</td>
</tr>
<tr>
<td>Emprede</td>
<td>Agribusiness</td>
<td>Ecuador</td>
<td>500</td>
<td>2006</td>
<td>Fish processing</td>
</tr>
<tr>
<td>Parmelcan</td>
<td>Industry</td>
<td>Cameroon</td>
<td>350</td>
<td>2006</td>
<td>Wood processing</td>
</tr>
<tr>
<td>CEB La Meublérie</td>
<td>Industry</td>
<td>Cameroon</td>
<td>300</td>
<td>2006</td>
<td>Wood processing</td>
</tr>
<tr>
<td>Mulbiou</td>
<td>Agribusiness</td>
<td>Burkina Faso</td>
<td>700</td>
<td>2007</td>
<td>Chicken eggs</td>
</tr>
<tr>
<td>CTIA</td>
<td>Agribusiness</td>
<td>Tunisia</td>
<td>400</td>
<td>2007</td>
<td>Tomato processing</td>
</tr>
<tr>
<td>Grand Place Vietnam</td>
<td>Agribusiness</td>
<td>Vietnam</td>
<td>650</td>
<td>2007</td>
<td>Chocolate processing</td>
</tr>
<tr>
<td>Avittarm</td>
<td>Agribusiness</td>
<td>Mali</td>
<td>400</td>
<td>2007</td>
<td>Chicken eggs</td>
</tr>
<tr>
<td>Société de Cultures Légumières</td>
<td>Agribusiness</td>
<td>Senegal</td>
<td>1,000</td>
<td>2007</td>
<td>Sweet corn</td>
</tr>
<tr>
<td>Laiterie du Berger</td>
<td>Agribusiness</td>
<td>Senegal</td>
<td>380</td>
<td>2007</td>
<td>Milk</td>
</tr>
<tr>
<td>Zenufa FOI</td>
<td>Health</td>
<td>Tanzania</td>
<td>705</td>
<td>2007</td>
<td>Pharma</td>
</tr>
<tr>
<td>Rwanda Mountain Tea</td>
<td>Agribusiness</td>
<td>Rwanda</td>
<td>737</td>
<td>2008</td>
<td>Tea</td>
</tr>
<tr>
<td>SCADF</td>
<td>Agribusiness</td>
<td>Mali</td>
<td>700</td>
<td>2008</td>
<td>Pasta</td>
</tr>
<tr>
<td>Sedima</td>
<td>Agribusiness</td>
<td>Senegal</td>
<td>700</td>
<td>2008</td>
<td>Poultry</td>
</tr>
<tr>
<td>SKH Solutions</td>
<td>ICT</td>
<td>Mali</td>
<td>300</td>
<td>2008</td>
<td>IT Services</td>
</tr>
<tr>
<td>Global Broadband Solutions</td>
<td>ICT</td>
<td>Congo, DR</td>
<td>700</td>
<td>2008</td>
<td>Telecom</td>
</tr>
<tr>
<td>AGB-Technoprint</td>
<td>Industry</td>
<td>Congo, DR</td>
<td>696</td>
<td>2008</td>
<td>Printing</td>
</tr>
<tr>
<td>SITA</td>
<td>Agribusiness</td>
<td>Ivory Coast</td>
<td>700</td>
<td>2009</td>
<td>Cashew nuts</td>
</tr>
<tr>
<td>Grands Domaines du Katanga</td>
<td>Agribusiness</td>
<td>Congo, DR</td>
<td>1,005</td>
<td>2009</td>
<td>Maize</td>
</tr>
<tr>
<td>PKL</td>
<td>Agribusiness</td>
<td>Ivory Coast</td>
<td>700</td>
<td>2009</td>
<td>Cereals</td>
</tr>
<tr>
<td>LOOP</td>
<td>Health</td>
<td>Cameroon</td>
<td>600</td>
<td>2009</td>
<td>Lenses</td>
</tr>
<tr>
<td>Camed</td>
<td>Health</td>
<td>Mali</td>
<td>400</td>
<td>2009</td>
<td>Pharma</td>
</tr>
<tr>
<td>Hoihot</td>
<td>Industry</td>
<td>China</td>
<td>3,484</td>
<td>2009</td>
<td>Coke production</td>
</tr>
<tr>
<td>DSM Corridor Group</td>
<td>Industry</td>
<td>Tanzania</td>
<td>837</td>
<td>2009</td>
<td>Harbour logistics</td>
</tr>
<tr>
<td>LBDA</td>
<td>Industry</td>
<td>Ivory Coast</td>
<td>640</td>
<td>2009</td>
<td>Laboratory techniques</td>
</tr>
<tr>
<td>Fundo Fangelica</td>
<td>Agribusiness</td>
<td>Peru</td>
<td>1,161</td>
<td>2010</td>
<td>Cultivation of asparagus</td>
</tr>
<tr>
<td>Clean Food</td>
<td>Agribusiness</td>
<td>Cameroon</td>
<td>1,000</td>
<td>2010</td>
<td>Palm oil</td>
</tr>
<tr>
<td>Laiterie du Berger FOI</td>
<td>Agribusiness</td>
<td>Senegal</td>
<td>1,000</td>
<td>2010</td>
<td>Milk</td>
</tr>
<tr>
<td>Jakarta Tank Terminal</td>
<td>Transport</td>
<td>Indonesia</td>
<td>3,866</td>
<td>2010</td>
<td>Petroleum storage</td>
</tr>
<tr>
<td>Niche Cocoa Industry</td>
<td>Agribusiness</td>
<td>Ghana</td>
<td>449</td>
<td>2011</td>
<td>Processing of cocoa</td>
</tr>
<tr>
<td>Saphar</td>
<td>Health</td>
<td>Niger</td>
<td>460</td>
<td>2011</td>
<td>Pharma</td>
</tr>
</tbody>
</table>

Source: Bio portfolio

**Agribusiness: a sustainable sector?**

BIO assumes that the export-oriented agribusiness sector has a large potential for employment in rural areas, not only in agriculture but also in other activities such as processing, packaging, transport, marketing, etc. The agri-industry supposedly has a large impact on economic development and poverty reduction. That assumption does not correspond with the reality in the field.

11.11.11 has discovered that the development of the agri-industry often involves large environmental and social costs and in some cases does not appear to be a sustainable option.

Let’s have a look at two of BIO’s projects for illustration.

11.11.11 thinks such projects are not in line with a sustainable investment strategy in the agricultural sector. Yet there are other examples showing that BIO is indeed able to identify and support relevant businesses. Thus BIO invested EUR 1 million in the ‘Laiterie du Berger’ in 2012,
According to the Peruvian NGO IPROGA pressure on the available water in the area. This exerts a serious need for drop irrigation with water from subterranean sources. The Dutch FMO Fundo Fangelica invested among other things in a high-tech system in the arid coastal area of Peru (Ica). For the support to a Belgian producer of palm oil in Sao Tomé and Príncipe the advice comes from Luanda in Angola, several thousands of kilometres away.

**BIO on the spot?**

For direct investments in SMEs and feasibility studies BIO is obliged to ask the advice of the attaché for Development Cooperation (or of the embassy) with regard to the development impact and the promoter’s reputation. This advice is part of the investment analysis that is submitted to the Board of Directors. From documents 11.11.11 could have a look at, it appears that there was no definite structure for such advice on the basis of objective and well-considered criteria at the time we concluded this research. Therefore such advices are difficult to compare and strongly dependent on the personal interpretation of the attaché. Moreover there is no diplomatic representation in every country where BIO makes investments. For investments in Ghana, the advice must come from the Ivory Coast. For the support to a Belgian producer of palm oil in Sao Tomé and Príncipe the advice comes from Luanda in Angola, several thousands of kilometres away.

**Société de Cultures Légumières:**

In 2007 BIO issued a loan of EUR 1 million to the Société de Cultures Légumières (SCL) in the North of Senegal. SCL produces sweet corn for the British market. The Senegalese government has strongly promoted foreign investments (amongst other things with tax exemptions, ‘softening’ of labour laws, etc.) in companies like SCL. That policy is under heavy criticism because it contributes to a stronger concentration of communal farmland in the hands of large-scale, private agribusinesses. In fact SCL is subsidized to compete with the local producers. The company employs about one hundred contractual workers, next to 200 to 500 day labourers. SCL contributes to the development of the Senegalese economy, while the local population mainly has to bear the burden.

In 2010 BIO invested over EUR 1 million in Fundo Fangelica, a producer of green asparagus in the bone-dry coastal area in the South of Peru. With a production of 288,000 tons of asparagus per year, Peru is the largest producer of asparagus in the world. But the production of green asparagus on an industrial scale is absolutely not sustainable. Fundo Fangelica is located in the arid coastal area of Peru (Ica). For growing one hectare of asparagus, more than 22,000 m³ of water is needed. That is ten times more than the quantity of water available per person per year in the coastal areas. With resources from BIO and the Dutch FMO Fundo Fangelica invested among other things in a high-tech system for drop irrigation with water from subterranean water supplies. This exerts a serious pressure on the available water in the area. According to the Peruvian NGO IPROGA the Ica subterranean water reserves will run dry by 2013.

Various studies also point out the precarious working conditions in the asparagus sector, which lives on various forms of ‘seasonal labour’. The Peruvian state grants the sector tax deductions, an extraordinary reduction of the minimum wage, discount for health insurance contributions, etc. The situation is particularly precarious for women due to low wages, temporary work, long working days, inappropriate working conditions, etc. BIO however guarantees that the working conditions at Fundo Fangelica ‘comply with local legislation’ and that the wages ‘on average are higher than in other companies in the sector’.

1 Based upon research in the field by Freya Rondelez (11.11.11) in Peru, November-December 2011.

2 Bayer, D., Cambios en cultivos, uso y control del agua el valle de Ica, 2007-2010, Octubre 2011.

The local embedment of BIO itself actually does not exist. Only in the preparatory stage of an investment file ‘investment officers’ come on site for a ‘due diligence’ study. There is only very limited collaboration with actors who do have a local embedment, like the BTC experts, even though that collaboration is legally provided for.\(^5\) In many cases BIO bases its judgment on information provided by the promoters themselves, which is obviously not the best guarantee for objective information and might entail conflicts of interest.

5.3. Stronger together?

BIO also grants subordinated loans to enterprises in developing countries without intermediary links (through the SME Fund). The interest rates are ‘in line with the prevailing market’, but the conditions do make the financing additional (the ‘grace period’ in which no repayment is needed, the long term). BIO does not take a direct participation in the company and therefore has no say in the management. The direct channel does ensure closer monitoring of the development relevance of the enterprises.

- But today BIO is not sufficiently equipped to focus much more on that channel. 11.11.11 asks for a better development of direct investments, but also asks that BIO would first increase its proper capacity for that. To this end BIO can follow various paths:
  - Structure and streamline the collaboration with actors who are already strongly embedded locally like DGD, BTC and even NGOs.
  - In collaboration with other EDFIs, develop a network of country offices itself. A number of EDFIs have advanced more on this and can be a source of inspiration.
  - From this point of view we appreciate the recruitment of a ‘representative’ in the DRCongo. But the practical problems for the further elaboration show that BIO has to invest more in a broader and coherent policy with regard to ‘local presence’.

\(^5\) Act of 3 November 2001 for the creation of the Belgian Investment Company for Developing Countries and for the revision of the Act of 21 December 1998 for the creation of the ‘Belgian Technical Cooperation’ in the form of a corporation by public law, art. 3, § 3.
6. Financing the climate: BIO and renewable energy

6.1. Is BIO’s ‘renewable energy’ also ‘clean energy’?

In 2010 the minister of Development Cooperation, Olivier Chastel, stated that ‘clean energy’ would be a clear priority for BIO in the coming years.\(^{58}\) Since 2009 BIO had been active in the sector of renewable energy: by investments in specific SME funds oriented towards renewable energy production, project funding of infrastructure projects and direct support to companies willing to innovate in the field of ‘renewable energy’. The table below gives an overview of the efforts in this regard. Overall, BIO invested EUR 38.9 million in renewable energy. The key question for 11.11.11 however is whether the focus on ‘renewable energy’ always leads to investments in ‘clean energy’.

<table>
<thead>
<tr>
<th>Project</th>
<th>Country</th>
<th>Year</th>
<th>€ (x10³)</th>
<th>Info</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polaris Energy (project)</td>
<td>Nicaragua</td>
<td>2010</td>
<td>8,342</td>
<td>Geothermal energy</td>
</tr>
<tr>
<td>Amayo II (project)</td>
<td>Nicaragua</td>
<td>2010</td>
<td>6,686</td>
<td>Wind energy</td>
</tr>
<tr>
<td>Maple Ethanol (project)</td>
<td>Peru</td>
<td>2010</td>
<td>6,497</td>
<td>Ethanol production from sugarcane for biofuels</td>
</tr>
<tr>
<td>Jakarta Tank Terminal (direct)</td>
<td>Indonesia</td>
<td>2010</td>
<td>3,856</td>
<td>Petroleum storage facility</td>
</tr>
<tr>
<td>Interact Climate Change Facility (project/syndication vehicle)</td>
<td>ACP countries</td>
<td>2010</td>
<td>10,000</td>
<td>Project financing in ‘clean technology’ of EIB</td>
</tr>
<tr>
<td>Hohhot (direct)</td>
<td>China</td>
<td>2009</td>
<td>3,484</td>
<td>Coke production in Inner Mongolia</td>
</tr>
</tbody>
</table>

### The Nicaraguan paradox

Nicaragua presents a paradox. It has a gigantic potential for clean energy – from geothermal and wind power – but at the same time three quarters of the electricity production depends on fossil fuels (against 43% in Central America).\(^{59}\) The Nicaraguan government wants to change this. By 2017 90% of the power must be produced from renewable sources.\(^{60}\) Therefore the country aims at geothermal energy and wind power.\(^{61}\) The Nicaraguan government mainly tries to attract foreign public and private investors for the huge investments that are needed. BIO can indeed play a complementary role within that development strategy of the Nicaraguan government. Meanwhile BIO has invested in Nicaragua in a large-scale project for geothermal energy (San Jacinto-Tizate via Polaris Energy Nicaragua, a subsidiary of the American Ram Power) and additional capacity for a wind power plant at Lake Nicaragua (Amayo).

11.11.11 observes that the conditions on which BIO participates in such projects are not always as ‘clean’ as the energy that is generated and this raises questions about the coherence of BIO with regard to good governance, democratic ownership and transparency.

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The ‘dirty’ windmills of Amayo

In 2010 BIO issued a loan of EUR 6.7 million for the expansion of the Amayo wind park at Lake Nicaragua. The promoter is the Consorcio Eólico Amayo, a ‘special purpose vehicle’ with domicile in Panama, owned by the American energy giant AEI and the Guatemalan Centrans Energy Services. The Nicaraguan government has no shares in the Amayo II-project. Besides BIO some other ‘development financers’ like CABEI, FMO, etc. are involved as well. The Dutch government is participating through the ‘Access to Energy Fund’ that allows FMO to make more risky investments.1

For the distribution of the energy a contract was concluded with the local distributors Dissur and Disnorte, which are fully owned by the Spanish multinational Gas Natural/Union Fenosa. Union Fenosa had become a large player on the Latin American market by buying public companies at bargain prices through private contracts with the local oligarchs. In 2007 Union Fenosa was sued with the Permanent People’s Tribunal – a citizens’ initiative for special proceedings that has the support of influential intellectuals and academics – for violation of human and environmental rights in Colombia, Guatemala, Mexico and Nicaragua. It appeared that Union Fenosa did not care very much about concession contracts and workers’ rights, let the electricity net degenerate on purpose, consciously discriminated at the distribution and applied an irresponsible tariffing policy.2

The ‘regional partner’ in the project, Centrans Energy Services, is not altogether reliable either. The company played a key role in the wild privatizations in the Guatemalan energy sector during the government of President Jorge Serrano Elias. With financial support of IFC and the British CDC the American energy giant Enron succeeded in taking over an important part of the energy production and distribution in Guatemala. Centrans was the vehicle for diverting bribes to accounts of Serrano.3 This appeared from the criminal investigation of the US Senate after the fraudulent bankruptcy of Enron in 2001, which clearly showed how Enron had paid bribes through shadowy companies with political ties, like Centrans Energy Services.4

In the view of 11.11.11 the working method through such ‘special purpose vehicles’ (SPVs) runs counter to the principles of development.

SPVs are often phantom companies that are only established for one specific transaction. The ‘due diligence’ only applies to the SPV and not to its shareholders. Of course, the SPV is ‘spotless’ because it has just been established. 11.11.11 expects BIO, together with the other EDFIs, to pursue a more selective policy in its project financing, so that the other objectives of development cooperation are not undermined. Due diligence should be applied to all parties involved – also to the shareholders.

1 In collaboration with the Dutch government FMO has set up a number of funds that can absorb larger risks (because of state guarantees). In theory these funds can make more development-oriented investments. It concerns the Access to Energy Fund that is oriented at private sector projects promoting sustainable access to energy services, the MASSIF Fund that provides financing in local currency to financial institutions for the development of microenterprises and SMEs in developing countries and the Infrastructure Development Fund that provides long-term financing for infrastructure projects in low-income countries. Zie: http://www.fmo.nl/idf
2 Union Fenosa and Guatemalan businessmen (likewise), COPAE, 2010-02-01, http://resistance-mining.org/english/?q=node/163
6.2. Biofuels in Peru

Peru strongly invests in biofuels production. Thanks to a series of special incentive measures, promulgated under the ‘Ley de Biocombustibles’ (Biofuels Act), companies that invest in biofuels can get a tax reduction. BIO supports this policy by investing in Maple Etanol, a large-scale project of ethanol production from sugarcane in Piura, traditionally a productive agricultural area. Various studies have shown that the production of ethanol from sugarcane is not sustainable option. According to the Instituto Nacional de Recursos Naturales the planned projects will seriously exceed the capacity of the rio Chira and curtail the growth opportunities of the local farmers. Moreover the prices obtained for the licenses are not sufficient for sustainable water management. Agricultural authorities like the FAO and the IICA furthermore observe that the production of ethanol threatens Peru’s food security and leads to a decrease in biodiversity and depletion of the natural resources. They therefore propose to reduce water intensive crops in the area by means of a substitution policy. The Maple ethanol project is in direct opposition to those recommendations. Meanwhile various conflicts have arisen in the area following the purchase of large land concessions and irrigation licenses by large corporations in the sector.

11.11.11 feels that BIO must thoroughly review its presence in the biofuel sector. In many cases the projects are not about ‘clean’ energy and the possible advantages do not outweigh the environmental and social costs: threat to food security, replacement of the local agricultural sector, environmental pressure on resources and disruptive conflicts.

6.3. Neither renewable nor clean

In spite of its clear political choice for ‘renewable energy’ BIO also invests in fossil fuels. BIO thus has a fairly incoherent vision on the energy question. BIO sees conventional energy as an inevitable step in the development process of countries that have fossil fuels at their disposal. In the view of BIO it is then essential to provide the financial resources and technology that can ensure that this stage produces as little impact as possible on the natural environment. 11.11.11 holds another vision: copying the western development model, which is based on burning fossil fuels, cannot bring a sustainable future. It would be detrimental for the climate, since we are already requiring more than the earth can bear. Developing countries can skip the polluting stage of carbon intensive development based upon fossil fuels and immediately follow a sustainable development path (the so-called ‘leapfrogging’).

11.11.11 finds it totally inacceptable that BIO undermines the efforts for renewable energy by simultaneously investing in fossil fuels. This is contrary to the coherence of the development policy. 11.11.11 holds the opinion that BIO must not invest in such companies any longer and that fossil fuels should be added to the exclusion criteria.

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63 Instituto Interamericano de Cooperación para la Agricultura.
Ramschackle oil storage in Indonesia: Jakarta Tank Terminal

In 2009 BIO invested nearly EUR 4 million in the Indonesian oil concern AKR for the construction of a petroleum storage facility in the port of Jakarta. The ‘Jakarta Tank Terminal’, which has been operational since April 2010, was built by the Rotterdam constructor Royal Vopak, market leader in the construction of harbour infrastructure. 17 tanks were built, with a storage capacity of over 250,000 barrels of oil. Apart from the fact that this concerns an investment in the petro-industry, not complying with any sustainability criterion at all, one can also ask serious questions about the financial additionality of the project. Companies like AKR and Royal Vopak, both market leaders in their sectors, can hardly be suspected of having difficulties to access the international capital markets. According to BIO itself it was actually only due to the financial crisis that the financing could not be arranged through conventional market players. Together with the EDFIs, BIO decided to close the gap, in particular to avoid that it would become ‘shoddy workmanship’, which is so typical in the Indonesian ports.

Hohhot Coke

In 2009 BIO lent EUR 3.5 million to the Chinese gas producer ‘China Gas’ for the construction a new plant for producing coke in the autonomous Chinese region Inner Mongolia. The new coke plant should replace a similar factory in the capital Hohhot. Furthermore BIO provides for a budget of technical assistance for cleaning up the original site in the city centre. Coke is a commodity for the steel industry that remains after the gasification of coal. The production process is very polluting. Not only does it release large quantities of CO₂ into the atmosphere, but it also produces other harmful pollutants such as aromatic hydrocarbons, tar, benzene, toluene, ethylene, xylene, cyanides, heavy metals and fine dust. The decisive argument to invest in the construction of the new plant was “that it is less polluting than before”. In this case the government bears a considerable responsibility too. At the request of minister Verwilghen BIO had to develop activities in China, but together with the other EDFIs BIO did not manage to find ‘better’ projects.

1 http://www.vopak.nl/nl/azie/vopak-terminal-jakarta.html
The establishment of BIO in 2001 was financed on a 50/50 base by the Belgian state and by the Belgian Corporation for International Investment. On 15 January 2012 BIO had EUR 581 million at its disposal, almost exclusively government resources. With that money BIO takes participations in enterprises and issues loans at market conditions, both indirectly through funds and financial intermediaries and directly. Today BIO manages 85 current investment projects distributed over financial intermediaries, SMEs and infrastructure projects. BIO has net commitments for an amount of EUR 331 million (projects signed minus repayments and plus the projects approved by the Board of Directors) and EUR 179 million outstanding investments (disbursement less repayments).

On the basis of this report 11.11.11 draws the following conclusions:

- BIO puts too much emphasis on financial returns. Development relevance is not sufficiently acknowledged as a reference for the investment policy, whereas the resources that BIO receives from the government are reported as ‘official development assistance’ at OECD-DAC. The evaluation of the investment projects puts too much emphasis on quantitative indicators at expense of qualitative ones.

- The efficiency of BIO is currently too low. The project pipeline, between identification and disbursement, is too long. BIOs management structure is not in accordance with the practices at other European DFIs that are used as benchmarks. Moreover BIO is too much an island and does not structurally cooperate with other actors of the Belgian development cooperation.

- BIO realizes 36% of its total portfolio (EUR 116 million) through intermediary channels. Although these channels may produce economies of scale and efficiency gains, there are many questions about the consequences: lacking transparency and insufficient checks on investment decisions, too strong a focus on enterprises with a low development return and the structural use of tax havens, of which the pernicious role for development has been sufficiently proven.

- BIO takes little risks with the attributed development cooperation resources. BIO mainly invests in enterprises with a high return and proven growth. The strongest companies are the ones that can most easily find additional money. The underinvestment of BIO in the least developed countries in our view also indicates the risk-averse and conservative investment policy.

- BIO invests too often in enterprises and sectors (mining, petrochemical industry, biofuels, export-oriented agri-industry, large microfinance institutions and commercial banks) that have insufficiently proven development returns. 11.11.11 observes that investments in the agri-industry often involve considerable environmental and social costs. In the financial sector we have doubts about the additionality and the development relevance of investments in microfinance, commercial banks and other service providers. BIO increasingly focuses on renewable energy in the fight against climate change. That is a good choice, but the ‘renewable’ energy in which BIO invests is not always ‘clean’ energy. BIO undermines its ambitions by investing in fossil fuels and highly controversial projects in the biofuel sector.

11.11.11 endorses BIO’s guiding principles (additionality, local added value, sustainable development, transparency and good governance) for its role as development actor. However, we observe a strong contrast between theory and practice with regard to these principles.
11.11.11 can only conclude that BIO needs to be reformed. 11.11.11 requests a new framework that guarantees the mission and objectives as determined in the current Act of 3 November 2001 for the creation of BIO (BIO Act). That framework must include a binding commitment for development to replace the repeated agreements on the occasion of additional investment resources. This survey by 11.11.11 provides a number of suggestions that might inspire the legislator in determining that framework:

- 11.11.11 asks BIO’s shareholders (the Belgian state) to adjust their financial output expectations (today about 5%). The resources apportioned to BIO must particularly achieve a development return. High development returns may incur costs. The state’s expectations must be adapted to the risk that is inherent to investments with sufficient development return. Belgium should also commit itself to a clear framework within the OECD-DAC regarding the conditions according to which contributions to DFIs can be considered as official aid. Development relevance should be the reference for this.

- In order to increase BIO’s development return it might be good to consider a more structural collaboration between BIO and the other actors of the Belgian bilateral cooperation (DGD, BTC), in particular to efficiently ensure BIO’s local embedment.

- The obligation of best intent to spend 70% of the resources through ‘financial intermediaries’ (microfinance, banks, intermediary funds, etc.) must be reviewed. 11.11.11 thinks that investments through intermediary funds are only acceptable on the condition that BIO can guarantee control on the destination and follow-up of the resources and does not make use of tax havens in the investment process. 11.11.11 asks a commitment from BIO and the government to reinforce the capacity for direct investments in enterprises, together with the other actors of the Belgian development cooperation.

- The obligation of best intent to spend 50% of the resources in agribusiness must be reviewed. 11.11.11 asks that BIO would focus more on enterprises that are part of the so-called ‘missing middle’, between microenterprises and the export-oriented, industrial companies BIO is focusing on today.

- In the sector of renewable energy 11.11.11 asks for a coherent policy. It is unacceptable that investments in ‘clean energy’ are undermined by investments in fossil fuels and non-sustainable biofuels.

Within the current framework BIO can take some measures to make its operation more efficient and to create more development relevance:

- BIO already has various instruments at its disposal allowing fulfilling its mission. From the development relevance perspective, 11.11.11 proposes to make more use of payments in local currency, to strengthen the Capacity Building Fund focusing on the needs of lesser developed countries and to harmonize the Study Fund/Capacity Building Fund with the other instruments of BIO.

- Development relevance should be at the centre of BIO’s evaluation system (GPR). 11.11.11 therefore advocates an adjustment of the existing tool, so that qualitative aspects with regard to development would take precedence over quantitative aspects with regard to financial return.

- 11.11.11 asks BIO to develop a policy to increase the efficiency in accordance with the level of the mentioned benchmarks (Norfund, IFU, etc.). BIO must also consider a management in accordance with its own development mission: a longer term policy, an adapted risk policy, variable pay depending on the development relevance and reinvestment of profits in high-risk development relevant investments.

- 11.11.11 asks for a clear and unambiguous commitment for more transparency by all stakeholders. BIO has a clear development mandate and works exclusively with government development resources and therefore should be bound to transparent management.
Further reading


Dickinson, T., Development Finance Institutions: Profitability Promoting Development?, OECD, s.d.

Evaluatie van BIO, Belgische Investeringsmaatschappij voor Ontwikkelingslanden, FOD Buitenlandse Zaken, Buitenlandse Handel en Ontwikkelingsaanwerking, Dienst Bijzondere Evaluatie Ontwikkelingsaanwerking, Nr. 2/2008.


Tax Havens and Developing Countries: Status, analyses and measures, Report from the Government Commission on Capital Flight from Poor Countries, June 2009.


191 landen ondertekenden een akkoord om tegen 2015 de armoede in de wereld te halveren.
Voer samen met de Vlaamse Noord-Zuidbeweging actie om de politici aan hun belofte te herinneren én de lat hoger te leggen. Armoede moet de wereld uit!

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