BIO's Policy on Offshore Financial Centres (OFCs)

BIO's mission is to contribute to strengthening the private sector in its 52 intervention countries with a view to improve the social and economic development of these countries by providing financing to local enterprises that are adapted to their needs.

BIO supports local enterprises by investing in them directly or in local financial institutions such as banks, leasing companies or microfinance institutions that provide adequate forms of financing to those enterprises.

BIO also invests in a local enterprise through an intermediate structure such as a holding company or an investment fund when this is more efficient, when it is necessary to protect its investment or when this otherwise helps BIO to further its developmental mandate. This is for example the case:

- when BIO teams up with other like-minded investors and/or operators to fund investment projects BIO is not equipped to fund directly, such as equity investments in small and medium-sized enterprises. Investments in pooled investment vehicles such as investments funds are crucial to support this underserved segment. The fund managers BIO partners with have local teams, experience and networks that BIO itself lacks;
- when BIO invests in holding companies of microfinance and banking groups that own subsidiaries in different countries, thereby achieving a regional outreach through its investment;
- when intermediary vehicles are used for various legal and regulatory reasons, for example when this is necessary to protect BIO's limited liability or when otherwise required under local laws.

Often intermediary vehicles are established in so-called offshore financial centres ("**OFCs**") such as London, Mauritius or Luxemburg rather than in the intervention countries themselves, for different reasons:

- in pooled investment vehicles investors come from very different geographical horizons and OFCs are typically neutral jurisdictions that do not favour a particular investor;
- OFCs are politically stable, allowing investors to minimize their political risk and offering adequate investment protection where the local investees are often located in different jurisdictions with challenging legal and political environments;
- they have well established and adapted legal and regulatory frameworks and a reliable and functioning judiciary, ensuring legal certainty and the enforceability of complex contractual arrangements;
- in respect of tax, these jurisdictions offer tax neutrality to mitigate against the unnecessary incidence of taxation stemming from having to use an intermediate jurisdiction, as compared to investing directly in the local enterprise, which would result in the investment being inefficient or not economically viable. The purpose is therefore not to artificially shift taxable income away from the intervention countries, where local enterprises are taxed in accordance with applicable tax laws.

BIO has strict rules and guidelines regarding the use of intermediate structures established in OFCs:

- it does not invest in or through states that the Belgian legislator deems to have no or low taxes, the list of which is set by Royal Decree;
- it does not invest through OFCs that are deemed not to have implemented the OECD standard in respect of tax transparency and the exchange of tax information, as determined by the Global Forum on Transparency and Exchange of Information for Tax Purposes;
- when it invests through an intermediary vehicle, it needs to ensure that the OFC is used for legitimate reasons, that are not merely fiscal in nature.

BIO further performs enhanced scrutiny when considering an investment that is not itself located in a prohibited jurisdiction as referred to above, but when the potential investee has a significant shareholder established in such a jurisdiction to ensure the legitimacy and legality of the concerned structures and the fact that they are not involved in harmful tax practices. The admissibility of such investment is subject to a specific clearance.