



Financing  
our shared  
future.

A close-up photograph of a smiling woman with dark skin and curly hair, wearing a vibrant, multi-colored patterned top. In the background, other people are blurred, suggesting a meeting or office environment.

Strategy  
2019 - 2023

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## 1. Mission statement

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As part of the United Nations' 2030 Global Agenda, Austria promised in 2015 to (financially) support developing countries in their implementation of the sustainable development goals (**SDGs**). As the *official development bank* of the Republic of Austria, we consider ourselves to be one of the key institutions responsible for fulfilling this promise.

Our projects contribute to a vibrant economy, which creates better living conditions for people in developing countries. We are guided by the **vision** of a good life for 8.5 billion people in 2030, within the ecological limits of our planet.

As a development bank with the mandate or **mission** to finance sustainable investments in the **private sector of developing countries**, we are **one of a diverse range of actors** in Austrian development policy whose activities complement each other. We also take Austrian **foreign policy and foreign economic interests** into account in our work.

As part of the Paris Climate Conference, Austria promised to provide at least half a billion euros for **climate finance** between 2015 and 2020. We consider it one of our comparative strengths that we use our instruments in a particularly efficient and effective way to contribute to this climate finance objective and want to retain our position as one of the largest international climate financiers in Austria.

Financing development goals will only be successful if we cooperate with the private sector and mobilize funds **outside of the classic ODA (Official Development Assistance)**. Therefore, we will continue to develop **new instruments and innovations** to leverage private funds by using the limited public sector funds available.

Regarding the **migration debate**, this is also a key contribution to creating perspectives in the countries of origin.

- In the next five years, we will be guided by the following **principles** when implementing our projects:
- We consider **positive development policy impact to be the core “raison d’être”** of our projects and use clear criteria to assess whether our projects meet our expectations from a development policy point of view.
- Our projects are geared towards strengthening the **private sector** in the target countries. We have chosen certain **thematic focus areas** in the fields of renewable energy, micro-, small- and medium-sized enterprises (MSME)/financial inclusion and infrastructure.
- We can engage in projects located in any developing country on the OECD-DAC list, but would also like to expand our engagements in the poorest countries and in Africa.
- We acknowledge our responsibility towards the **Austrian economy** and aim to harness its comparative strengths to implement the SDGs in developing countries. When identifying and executing projects, we utilize our contacts to Austrian companies as well as their know-how.

- We pay attention to the environmental and social impact of our projects and use international **environmental-, social- and labor standards** as a framework for assessing projects. Questions of human rights are analyzed and taken into consideration when making a decision on the project.
- We work towards the objective of **gender equality**.
- We think and **act entrepreneurially**. Therefore, we aim to ensure the economic sustainability of both our projects and our own institution.
- As part of our work, we exploit the synergies with Oesterreichische Kontrollbank (OeKB) and act **complementarily and synergistically** to national and international commercial banks in our target regions.

... because development policy connects people all around the world and a future without a global partnership is

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## 2. OeEB's mandate

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The Development Bank of Austria (OeEB) was established as a special institution in **2008**. It is a wholly-owned **subsidiary** of the Austrian export credit agency Oesterreichische Kontrollbank (OeKB).

OeEB acts **on behalf of the Republic of Austria** as a **focus-driven** development bank. In implementing our **public mandate**,<sup>1</sup> we support sustainable investments in the private sector of developing countries by providing financing at near-market conditions and, acting as a trustee for the Republic of Austria, acquiring equity participations in companies and funds. In addition to this, we offer financial support for advisory services to prepare and supplement projects.

All our activities pursue the overarching objective of contributing to poverty reduction and implementing the SDGs in developing- and emerging countries by **strengthening the private sector**.

*Why do we work with the private sector?*

*The long-term elimination of poverty can only be achieved as part of inclusive growth, i.e. growth which disproportionately benefits the poor. The private sector makes a significant contribution to this.*

*Entrepreneurial activities help to create jobs, generate tax income and local added-value and also contribute to innovation.*

*Economic profitability and compliance with environmental- and social standards are the prerequisite to the sustainable existence of companies and the jobs they create, which in turn produce income for the population. Successful private sector development creates markets for both suppliers and consumers and integrates products and services in local, national and international value chains.*

*Implementing the SDGs demands high levels of investment in the infrastructure of the developing countries, which cannot be financed by the public purse alone. Partnerships with the private sector can help to fill this financing gap.*

As part of this, OeEB is committed to the aims and principles set out in the **Austrian Development Cooperation Act**<sup>2</sup>, as amended. As one of the key actors in Austrian development policy (besides the Federal Ministry for Europe, Integration and Foreign Affairs, the Federal Ministry of Finance, the Austrian Development Agency and others), OeEB also orients itself to the focus points laid down in the **Three-Year Program**<sup>3</sup> for Austrian development policy.

As a special institution with a banking license, we are mandated to **generate, but not to maximize profit** through our business activities. Profits are largely ploughed back into the business to finance technical assistance (TA funds) or new projects in developing countries.

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<sup>1</sup> § 9 Austrian Export Guarantees Act

<sup>2</sup> <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20001847>

<sup>3</sup> <https://www.entwicklung.at/mediathek/publikationen/strategische-dokumente/>

In the **international context**, OeEB counts among the development finance institutions that focus on the private sector. Besides the multilateral entities (IFC, EBRD, the private sector arms of regional banks), these mostly include bilateral European development banks which cooperate within the association “European Development Finance Institutions (EDFI)”. The close cooperation with these partners and the construction of strategic alliances helps to streamline the implementation of our mandate.

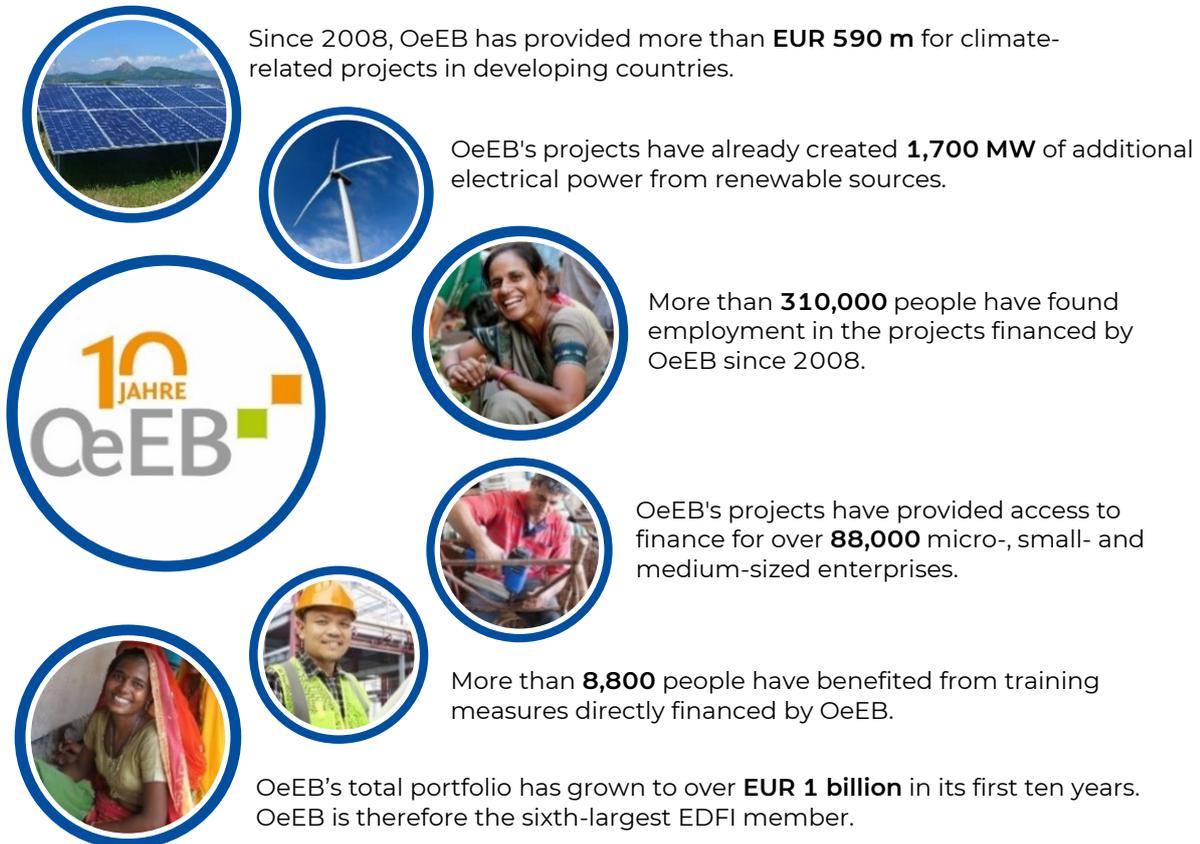
OeEB is the youngest of the **European Development Finance Institutions (EDFIs)**, but, in the last 10 years, has grown to be the sixth largest EDFI in terms of its portfolio. Besides our broad geographical mandate, which allows us to spread risk appropriately, we see the specific know-how which we have built up on how to structure complex projects in developing countries as an additional **comparative strength**. Furthermore, we can react to project-related changes in developing countries quicker and more flexibly. With our product range of investment financing, equity participations and business advisory programs (technical assistance), we have a comprehensive set of instruments at our disposal.

Because our financing projects are done based on a **guarantee from the Federal Ministry of Finance (BMF)**, we can offer long-term financing and can take on greater risk.

In all its financing projects, OeEB must ensure that it acts **complementarily and synergistically to national and foreign commercial banks** and that it in no way ousts private actors due to subsidies (principle of additionality). We distinguish between financial **additionality** (i.e. financing is provided which is not available on the market due to the longer terms which are required or the greater level of risk) and qualitative additionality (i.e. by linking the financing with the introduction of new or improved environmental and social standards, governance criteria, risk guidelines etc. at the client).

In our work, we also take account of **Austrian foreign trade and foreign policy interests**. On the one hand, this plays a role in the selection of thematic focus points for our work, where we wish to leverage the know-how of Austrian companies, for example in the renewable energy sector. However, it also covers our contribution to maintaining stability in Austria’s neighbouring countries or to mitigating climate change.

Box 1. OeEB's contribution to implementing the SDGs in the first 10 years (2008 to 2017)



### 3. Thematic focus areas

In the new strategic period 2019 to 2023, OeEB will mainly position itself as a **thematically focused** development bank with a broad geographic approach in order to spread our risk and to address the needs existing in our partner countries flexibly.

According to our mandate, all our projects aim to foster **private sector** development in developing countries and thus contribute to implementing the SDGs. We will focus on the following areas in the strategic cycle 2019 - 2023:

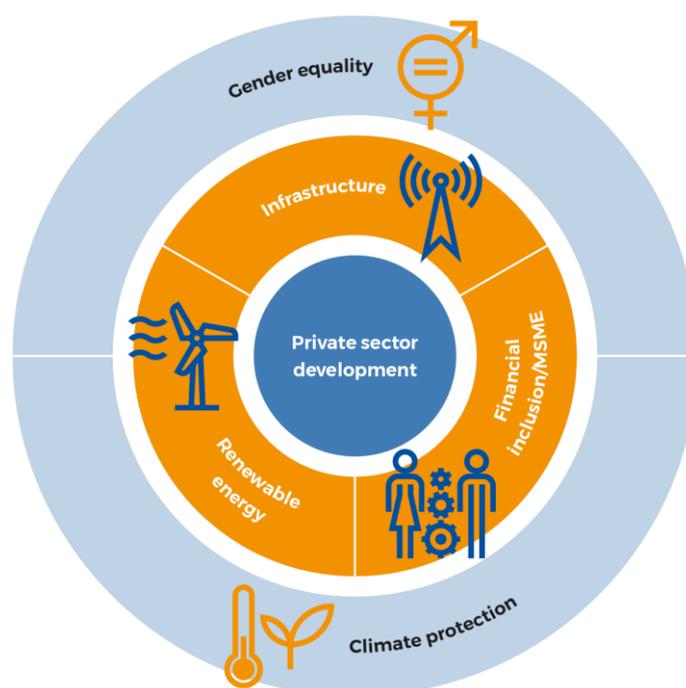
- Renewable energy
- Micro-, small- and medium-sized enterprises (MSME)/financial inclusion
- Infrastructure

We aim to conclude **80% of our new business** in the next five years in these three thematic focus areas.

We can also support projects which go beyond these thematic focus areas under the heading “**Other issues**”, if they have a high developmental impact or if there is a foreign trade interest which makes an important contribution to the development of the private sector. However, we aim to limit these projects to **20%** of new business.

In all the projects which we will support in the coming years, we want to particularly emphasize two cross-sector issues:

- Climate protection
- Gender



### 3.1 Thematic focus area: renewable energy

It is estimated that 1 billion people around the world are still living without electricity - the majority of whom live in Sub-Saharan Africa and Southern Asia. 87% of the people who do not have access to electricity live in rural areas where off-grid energy solutions are used in addition to on-grid energy supply. In addition to this, 3 billion people worldwide are still using fuels to cook which are damaging to the environment and to health. A lack of access to energy is one of the main obstacles to economic development.

Therefore, OeEB will continue to **focus** on the renewable energy sector, because a lack of access to affordable, reliable and environmentally-friendly energy services in many developing countries is hampering the growth of the private sector. In this sector, we can also help to achieve **climate financing goals** and leverage the know-how of **Austrian companies**. The overlap with **foreign trade interests** is particularly large here.

For us, renewable energy sources include **water, wind, sunlight, geothermal energy, biomass and waste recycling**. Austria's experience with extending biomass municipal heating facilities in combination with solar energy can form the basis for innovative solutions in partner countries.

Currently, only 18.2% of global energy demand is covered by renewable energy (2016). General Austrian energy policy demands that neither **nuclear energy** projects nor those involving coal power are supported. In the **hydro-electric power** sector, we aim to primarily get involved in financing small and medium-sized projects where OeEB can make a visible contribution to financing and fill a financing gap in the larger hydro-electric power projects financed by the multilateral development banks.

In many of our partner countries, we can observe a clear commitment to extending the renewable energy supply, especially against the backdrop of the climate disasters which occur ever more frequently around the world. We aim to support these plans with all the instruments we have at our disposal.

Because development banks already provide extensive funds for renewable energy projects, we have now moved into the **project development** side of this sector.

Our projects in the thematic focus area of "renewable energy" make a direct contribution to the following **SDGs**:



SDG 7 Affordable and clean energy



SDG 13 Climate action

## 3.2 Thematic focus area: MSMEs / financial inclusion

Of the 2 billion people who still do not have sufficient access to financial services, 1.1 billion are women. 80% of the population in Sub-Saharan Africa have to cope without access to formal financial services, because these countries do not have (sufficiently functioning) local finance- and capital markets.

According to the World Bank<sup>4</sup>, formal SMEs provide more than 60% of the total number of jobs and generate as much as 40% of gross domestic product in emerging countries. These figures would increase significantly if informal<sup>5</sup> SMEs were also taken into account. It is harder for formal SMEs to obtain financing than large companies, due to the underdeveloped local financial markets. Approx. half of the formal SMEs have no access to credit. If you take an overall view of micro-enterprises and SMEs, the World Bank estimates that approx. 70% of these enterprises do not have any access to formal financing. Overall, the World Bank currently assumes an overall financing gap in developing countries for formal SMEs of approx. USD 1.2 trillion (incl. informal SMEs: USD 2.6 trillion).

Therefore, in the next strategic period, OeEB will also set **a thematic focus on providing financing for MSMEs (micro-, small- and medium-sized enterprises).**

The **financial inclusion** of those who still do not have any access to formal financial services is a particular concern of ours. Therefore, we will continue our activities in the field of **microcredits**, because this is the most direct way of reaching the poorest in society. This corresponds to the goals set out in SDG 1: “All men and women, in particular the poor and the vulnerable, should have equal rights to economic resources, as well as access to basic services, such as financial services, including microfinance.”

The instruments we have at our disposal mean that it is not expedient for us to cooperate directly with small and medium-sized companies in developing countries: the transaction costs are too high. Instead, in terms of MSME financing, we rely on the **financial sector as an intermediary** and also invest in relevant funds. In this way, we are not only able to reach a large number of businesses, we also make an important contribution to **strengthening the local financial sector.**

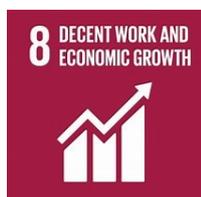
Accordingly, adequate partners will also obtain support in the form of consultation services as part of technical assistance **(TA) funds** to build up know-how. Improving structural and procedural organization, introducing and extending environmental and social management systems, corporate governance structures and the development of target-group-specific products are our main concerns. In the microfinance sector, and with respect to responsible client relations (“**responsible finance**”), we aim to achieve transparency and consumer protection based on internationally recognized standards such as the “Client Protection Principles”.

We have a particular interest in the qualitative development of our existing **customer base** as part of financial intermediation. Therefore, we conduct spot checks before providing follow-up financing to existing clients, to evaluate how successful the first phase has been and make any necessary adjustments together as part of “lessons learned”

<sup>4</sup> World Bank “Small and Medium Enterprises (SMEs) Finance” as at March 2019 <http://www.worldbank.org/en/topic/sme/finance>

<sup>5</sup> While the formally organized sector comprises medium-sized and large companies, the informal sector is mostly made up of small and micro enterprises. SMEs in the formal sector are mostly sole traders, cooperatives, joint stock corporations or limited liability companies. Informal micro- and small enterprises on the other hand are mostly family businesses and are subject to neither state control nor registration duties.

Our projects in the thematic focus area “MSME / financial inclusion” make a direct contribution to the following SDGs:



SDG 8 Decent work and economic growth



SDG 10 Reduced inequality in and among countries

### 3.3 Thematic focus area: infrastructure

Functioning and reliable infrastructure is an essential prerequisite to economic development. The World Bank<sup>6</sup> estimates that, in the period up to 2030, USD 1.3 trillion of investment will be needed per year in developing countries.

Although infrastructure outside of renewable energy has not been a focus of OeEB until now, we have received numerous queries about co-financing infrastructure projects due to the great need, the increasing significance of the private sector in this field and the necessity of distributing risk across the development banks as part of larger projects.

Therefore, OeEB will include “infrastructure” as a new business focus in the strategic cycle 2019 to 2023. However, we will restrict our activities in this area to financing **private, economic infrastructure** (as opposed to public, social infrastructure such as public schools, hospitals etc.). Specifically, we aim to offer financing for the following **types of infrastructure**:

- Sustainable transport infrastructure
- Information- and communication infrastructure
- Supply- and disposal infrastructure

When financing infrastructure projects, we pay special attention to sustainability, quality, climate protection and long-term planning for the entire lifecycle.

Austrian companies have a great deal of know-how in these fields. The private infrastructure projects we support can provide attractive opportunities for these firms to get involved on several levels.

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<sup>6</sup> World Bank letter “Infrastructure Finance” February 2, 2018, see: <http://www.worldbank.org/en/topic/financialsector/brief/infrastructure-finance>

Our projects in the focus sector “infrastructure” make a direct contribution to the following SDG:



SDG 9 Industry, innovation and infrastructure

### 3.4 Other issues

Projects which go beyond the three thematic focus areas can be given **limited** support (max. **20%** of new business), provided that they demonstrate a high developmental impact or serve Austrian foreign trade interests in developing countries. Over the next five years, this will enable OeEB to respond flexibly to new business opportunities and to support innovative approaches outside of the main focus areas.

A special case of this flexible approach under “Other issues” is **public sector** engagement. OeEB aims to restrict its activity in this area to just a few select projects of very limited scope (**max. 8% of new business**). These public projects must act as “**enablers**” for the private sector, and it must be shown that there is at least a medium-term perspective of a possible link to an OeEB financing project.

A classic example is an underdeveloped **public electricity grid**: a well-developed public grid is a crucial prerequisite to expanding privately operated power station projects in the renewable energy sector. In the last strategic period, this was frequently an obstacle to private investment, for example in hydro-electric power. We ensure that our financing projects are an addition to the instruments of **Oesterreichische Kontrollbank** (OeKB) (e.g. to the soft loan financings).

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## 4. Horizontal objectives – cross-sector issues:

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Within the scope of the thematic focus areas mentioned above, in the coming years, OeEB will pursue two further cross-sector issues/horizontal objectives:

- Climate protection
- Gender

### 4.1 Cross – sector issue: Climate protection

As part of the **UN Climate Conference in Paris** in 2015 (COP 21), Austria pledged to provide at least half a billion euros for international climate financing in the period 2015-2020.<sup>7</sup> This commitment is linked to the collective goal of all industrialized nations to mobilize USD 100 billion per year by 2020 for climate financing. As of 2020, the United Nations will discuss a new, more ambitious financing objective for the period after 2025.

We consider it one of our **comparative strengths** that we use our instruments in a particularly efficient and effective way to contribute to this climate finance objective and want to retain our position as one of the largest international climate financiers in Austria. Therefore, OeEB has set itself the goal of investing **at least an average of 40% of its new business** in climate-related projects **in the years 2019-2023**.

The **focus** of our engagements here will be on **reducing emissions**, for example through renewable energy projects. Projects which help developing countries to adjust to the consequences of climate change (e.g. in the agricultural sector) will be the exception. In this way, we will help to implement the business focus area “combating climate change and its consequences”, which is entrenched in the current Three-Year Program 2019-2021 as well as in the strategic guidelines<sup>8</sup> “Environment and Development”.

In contrast to official development assistance (ODA), the private investments which were mobilized by public financing in the field of climate financing can also be credited. Here, we see potential for deploying our instruments specifically to **mobilize private funds**.

Pursuant to Article 2.1.c of the Paris Climate Agreement, all future national and international financing flows must be consistent with the objective of limiting global warming to a maximum of 2/1.5°C and thus contribute to development with low emissions of greenhouse gases. OeEB is committed to this **mainstreaming of climate protection** and will also endeavor to support technologies which emit as little CO<sub>2</sub> as possible as part of projects which do not explicitly target climate protection.

We are aware of the possible **trade-offs** between the goal of contributing to economic growth and thus the creation of jobs in developing countries on the one hand and taking measures to combat climate change (SDG 13) on the other. Therefore, OeEB will specifically target financing projects in the field of renewable

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<sup>7</sup> See “Revision of Austria’s Strategy for International Climate Financing for the Years 2013 to 2020” dated April 2017.

<sup>8</sup> See: [https://www.entwicklung.at/fileadmin/user\\_upload/Dokumente/Publikationen/Strategien/Strat\\_Leitfaden\\_Umwelt\\_Sept2009\\_DE.pdf](https://www.entwicklung.at/fileadmin/user_upload/Dokumente/Publikationen/Strategien/Strat_Leitfaden_Umwelt_Sept2009_DE.pdf)

energies, so that the increased energy demand in developing countries, which will undoubtedly follow from population and economic growth, is covered in the most climate-friendly way possible.

In the future, when we **report** on our impact, we will state the number of tons of CO<sub>2</sub> which have been saved by projects under the thematic focus issue of “renewable energy”.

Our work as a development bank inherently involves taking a large number of flights. According to our focus on climate financing, we will balance out the CO<sub>2</sub> emissions this causes in the coming years by undertaking **compensation projects** in developing countries.

## 4.2 Cross – sector issue: Gender

Women are affected by **several aspects of poverty** (education, income, health etc.) **more** than men. Therefore, gender equality is entrenched as an important objective, not just in the SDGs (SDG 5), but also in the EU Gender Action Plan 2016-2020 (GAP II) and as part of the Austrian Development Cooperation.

GAP II especially forms the substantive framework for the objective of gender equality in EU international relations and applies to both the institutions of the EU and the EU member states. GAP II focuses on four areas<sup>9</sup>, one of which is the economic empowerment of women. Accordingly, equal access for women to financial services and productive resources has been set as an objective.

In the context of Austrian Development Cooperation<sup>10</sup>, this is entrenched in the **Gender Guidelines** and in the current Three-Year Program of Austrian development policy for 2019 to 2021. Besides health and education, the Three-Year Program also emphasizes the economic empowerment of women, especially by means of special subsidies for equal access to dignified work and social protection, economic resources and financial services as well as by creating incentives for equality measures in cooperation with the private sector.

OeEB is committed to these objectives but **has only just begun to systematically implement the issue of gender**. OeEB will anchor gender as a **cross-sector issue** in the current strategic cycle. We aim to structure all our business activities (debt- and equity financing, TA funds - projects, environmental and social audits, training etc.) in such a way as to avoid discrimination and specifically empower women.

As a **first step**, we will implement gender mainstreaming within the scope of the thematic focus area “**MSME/financial inclusion**” and integrate it into the social and environmental audit. With external assistance, OeEB will build up the internal capacity required for this, organize training for all employees and develop standardized tools for OeEB's clients.

The introduction of the Development Effectiveness Rating tool “DERa” has enhanced our ability to capture **gender-relevant data**. The number of jobs for women (including the sub-total of women in leadership positions), the resulting proportion of female staff as well as special measures and operative advantages for

<sup>9</sup> The EU Gender Action Plan II focuses on the following four areas: (1) ensuring the physical and psychological integrity of women and girls (2) promoting the social and economic empowerment of women and girls (3) strengthening co-determination rights of and participation by girls and women and (4) transforming the institutional culture in order to implement EU commitments more effectively (horizontal objective)

<sup>10</sup> OEZA: Österreichische Entwicklungszusammenarbeit (Austrian Development Cooperation)

female employees are recorded on the client level. On OeEB level, additionality can be enhanced by setting a special focus on gender when granting TA funds or setting the conditions for financing.

The aim is to sensitize both OeEB employees and OeEB clients to the issue of “gender” and to take appropriate measures to achieve gender equality. In this way, a contribution can be made towards qualitative additionality at OeEB.

## 5. OeEB's contribution to implementing the SDG's

OeEB's contribution to implementing the SDGs can be illustrated on two basic levels:

- a) As an **institution**: our mandate specifically mentions the objective of combating poverty by means of private sector development and our role as a provider of finance which complements the classic ODA. Therefore, all our projects contribute to the achievement of SDG 1 "No poverty" and SDG 17 "Partnerships for the goals".
- b) **The specific contributions** made by our projects: besides economic feasibility, our projects always have clear developmental goals which are geared towards the SDGs. The achievement of these project objectives is assessed annually and reported as a "**main contribution**" towards the respective SDG. Due to our activity in the private sector and the abovementioned thematic focus areas, these are mainly (but not exclusively):
  - I. SDG 7 "Affordable and clean energy" (focus sector renewable energy),
  - II. SDG 8 "Decent work and economic growth" (above all via focus sector MSME/ financial inclusion),
  - III. SDG 9 "Industry, innovation and infrastructure" (focus sector infrastructure) and
  - IV. SDG 13 "Climate action" (horizontal goal of climate financing).

Furthermore, our projects frequently realize outcomes beyond their core business area, which constitute added developmental value within the meaning of the SDGs. This is measured and reported as an "**additional material contribution**" (for example: promoting women employees, compliance with particularly high environmental and social standards etc.).



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## 6. Geographic focus

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Primarily, we consider ourselves to be a thematically focused development bank with a **broad geographic reach**. We can provide services in all developing countries on the OECD DAC list (OECD DAC List of ODA Recipients).

This regionally flexible approach enables us to respond flexibly to changes in the target countries and the resulting bottlenecks in private sector access to financing. Therefore, OeEB has not made any fixed list of target countries or regions for the next strategic period.

In terms of risk, we strive to achieve a broad, **geographically balanced spread** in our committed overall portfolio in order to avoid accumulations of risk in certain regions.

Based on our development mandate and the goals defined in SDG 10 and SDG 17 of “promoting finance flows to countries where the need is largest, especially in the least developed countries”, we have set ourselves two objectives:

- By 2023, we want to conclude an average of **25% of new business** in the least developed countries (LDCs) over the next 5 years
- By 2023, we aim to conclude an average of **20% of our new business in Africa** over the next 5 years

Both categories present many financing opportunities for us. At the beginning of the strategic cycle, 14.3% of the financing volume in OeEB’s portfolio is held in LDCs<sup>11</sup>; 15% is held in Africa. When we refer to our focus region of Africa, we mean the entire African continent. While we have a special focus on Sub-Saharan Africa, we would also like to expand our operations to the Maghreb countries and northern Africa generally.

OeEB will continue to implement most of its projects in the “**Lower & Upper Middle-Income Countries**” (LMICs & UMICs) of the OECD DAC list. On the one hand, due to better framework conditions, the private sector in these countries is better able to absorb the near-market financing provided by OeEB. On the other hand, this helps us to balance out the country risks. There is also more potential in LMICs and UMICs for mobilizing private investments and to involve Austrian companies.

LDCs and LICs will continue to need highly concessionary financing and grants in the coming years.

In the **UMICs** with a relatively high per capita income, which are about to graduate to the HIC group (High Income Countries) and which will therefore soon be eliminated from OECD DAC list, OeEB will only finance projects in the following three areas, **as part of a differentiated approach**:

- Financing of global assets (e.g. climate financing)
- Projects which target poorer and disadvantaged groups in society
- Projects with a link to foreign trade

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<sup>11</sup> Least Developed Countries (LDC) - see: [http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC\\_List\\_ODA\\_Recipients2018to2020\\_flows\\_En.pdf](http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2018to2020_flows_En.pdf)

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## 7. OeEB's instruments

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We continue to rely on three proven instruments for our business:

- Investment financing (especially loan facilities)
- Equity participations (equity capital)
- Business advisory services (TA funds)

In its first ten years, OeEB has managed to build up a portfolio with a value of approx. EUR 1.1 billion. Of this, the lion's share of almost EUR 1 billion has been put into investment financing.

OeEB has been offering equity participations since 2012. In the period until 2018, an equity participations portfolio of about EUR 123 million has been built up, with OeEB acting as the trustee of the Republic of Austria.

OeEB aims to continue its moderate growth trajectory over the next five years and aims to achieve an annual project volume of between EUR 250 million and EUR 300 million.

### 7.1 Investment finance

OeEB grants long-term loans to financial intermediaries, companies and project companies/SPVs ("special purpose vehicles") for the purpose of financing projects or public private partnerships (PPPs). The investment financing business is secured against political and economic risks with federal guarantees granted by the Austrian Ministry of Finance (BMF).

By using **cashflow-based project financing**, we offer our clients tailored financing solutions with congruent maturities for projects in the fields of renewable energy and private infrastructure in the transport-, information- and communication sectors as well as in the fields of supply and disposal.

**Structured finance solutions** with a long-term character for companies ("on balance sheet") are most frequently used in the field of resource efficiency as well as capital-intensive investment projects.

We reach **small companies** in developing countries **via local financial intermediaries (banks, microfinance institutes)**, which are themselves unable to obtain refinancing (or can only obtain short-term financing) from commercial players. Therefore, we grant specific purpose long-term loans (e.g. for energy efficiency projects, MSME assistance and facilities with a focus on gender) to local banks and other (micro-) finance intermediaries.

We aim to achieve a balance between smaller and larger projects.

#### Types of loans:

OeEB offers long term senior loan facilities, subordinated loan facilities, risk sub-participations and specific fund participations with project-appropriate terms. Interest is set at near-market rates (without interest relief) and can be variable (indicator linked) or fixed. Loans are granted in either EUR or USD. When evaluating

projects, we take care to avoid foreign currency risks, including at the ultimate borrowers. The transaction structure and the collateral are tailored to each individual case, according to the country- and project risk.

## 7.2 Equity participations

OeEB has been able to invest in equity participations since 2012. Previously, the funds for investing in the equity participations, which are held on trust for the Republic of Austria, have come almost exclusively from federal funds of the Austrian Ministry of Finance.

Depending, among other things, on the availability of funds in the national budget, OeEB is also planning to continually expand its equity participation portfolio in the next strategic period 2019 to 2023. In the coming years, we plan to make a gradual transition to a revolving system, under which the returns are used and reinvested. OeEB invests either in private equity funds or directly in companies. As a rule, it acts as a minority shareholder and does not invest in start-ups. As an anchor investor, OeEB provides urgently needed risk capital to enable growth to occur in our target countries.

The investment projects in Africa and LDC countries which OeEB focuses on can be reached especially well with risk capital. The reason for this is that the potential in the regions has not yet been exhausted, there are fewer actors on the market and therefore less competition. Relatively minor improvements (such as structured risk processes, preparing balance sheets according to IFRS standards, solid financial planning) can lead to significant outcomes which also make a positive economic impact. Companies with a solid own equity base have better access to finance (on better terms) and this is another driver of economic performance and healthy growth.

OeEB does not just act as a financial investor in the field of equity participations but has also entered into a joint venture with an Austrian company in 2017 to develop renewable energy projects together in South-Eastern Asia according to international standards. This project does not only combine technical know-how with financial expertise: it also supports an Austrian family-run business as it expands its operations into new business areas.

Some more of our plans:

- **The establishment of an SME investment fund for Africa**, on behalf of and using funds from, the Federal Ministry of Finance, which provides risk capital or financing similar to risk capital for investments by Austrian SMEs in Africa, thus combining foreign trade and development policy objectives.
- The continuation of **investments using OeEB's own funds**, combined with a guarantee from the Federal Ministry of Finance, in equity participation projects, according to the available income.

### 7.3 Business advisory services

As a supplement to the two other financing instruments (investment finance and equity participations), OeEB also provides TA funds in the form of lost grants as part of implementing its mandate. As a rule, these funds are granted to help prepare and to supplement projects.

Our experience over the past few years has shown that, while it is the poorest countries who most need investment, identifying “bankable” projects is a huge challenge.

We grant TA funds equal to at least 10% of the annual surplus to identify new projects as part of a **programmatic** approach and to make projects which have already been identified bankable **as part of project preparation**. At the same time, projects which are financed by OeEB will be given **supplementary support**, in particular to enhance their developmental impact.

As part of a **programmatic approach**, we will use TA funds in our strategic focus areas to evaluate potential markets and identify investment potential (for example by conducting studies and deploying experts). In this way, OeEB can position itself as a competent partner vis-a-vis potential clients and other development banks. OeEB's experience, but also that of other development banks, has shown that it can be difficult to identify specific projects using TA funds that go on to be implemented (e.g. by means of a study). Therefore, we will continue to develop innovative ways of working, but will still use most of our TA funds for measures to prepare and to supplement projects.

The direct use of funds **to prepare for a project** which has already been identified has the primary aim of making the project profitable but can also be used to integrate OeEB's developmental interests at the client. This can be done, for example, by assuming a part of the cost of studies which are needed (e.g. on environmental or social matters) or to develop action plans for environmental and social concerns. This results in a part of the project development risk being assumed and urgently needed external expertise contributed.

In the case of projects which are already being financed with OeEB funds, we deploy TA funds **to supplement the project**, build capacity and strengthen the know-how of our client. In this way, we ensure the sustainability of our financing projects (i.e. by providing assistance as part of the market rollout of new products), but we can also increase the developmental impact by way of additionality (e.g. by implementing measures to promote women in business or establishing environmental management systems). Such supplementary measures may also transcend the level of the project partner, for example by setting new standards in a specific branch as part of a sectoral initiative and achieving a broader impact (for example in the field of responsible finance for the banking industry).

We will use a small portion of TA funds for evaluations in order to continually improve the quality of future projects, but also to remain accountable to our stakeholders.

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## 8. Strategic principles and standards

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High environmental and social standards, a sensitive approach to the matter of offshore jurisdictions and tax havens and a responsible risk policy which is appropriate to our public mandate are the essential characteristics of a development bank.

### 8.1 Environmental and social standards

The protection of the environment and resources as well as the social sustainability of the projects financed by OeEB are fundamental principles of our activities, which aim to make long-lasting and deep changes to the lives of people in developing and emerging countries.

Besides the local environmental and social rules of the respective country, we also take care to comply with international environmental-, social- and human rights standards as part of finance projects. In doing this, we orient ourselves to the environmental and social standards agreed by the European development banks. These are set out in the **EDFI Principles for Responsible Finance** and contain the “Performance Standards on Social and Environmental Sustainability” of the International Finance Corporation (IFC), which have established themselves as the market standard, the “Environmental, Health and Safety Guidelines” of the World Bank Group, and also the international conventions of the ILO (International Labour Organization).

Based on these common principles, the EDFIs have also developed a joint **harmonized sector exclusion list**, which is a cornerstone of our work.

Therefore, we only participate in projects where we are convinced that our project partners will comply with these standards.

### 8.2 Human rights

Our projects can strengthen human rights, e.g. the right to work, health and an appropriate standard of life. Activities in the private sector carry a risk of adverse effects due to bad working conditions, discrimination or emissions damaging to health. Compliance with the **core principles of a human-rights oriented approach** is key, such as participation by and inclusion of stakeholders, equal rights and non-discrimination as well as transparency and responsibility.

OeEB also orients itself to the **EDFI Principles for Responsible Finance** in this context. Besides the core labor norms of the ILO, these also include the IFC’s Performance Standards on Social and Environmental Sustainability, which have referred to human rights as a cross-sector issue since 2012.

The application of these standards allows us to ensure that our projects meet minimum standards for the use of resources, land usage rights, the movement of people, effects on cultural goods, the status of indigenous groups and the involvement of those affected, without which no OeEB engagement can take place.

With this as starting point, we strive to **continually develop** our processes for taking account of environmental and social matters as well as human rights.

### 8.3 Offshore financial centers (OFC)

Regarding tax havens and offshore financial centers (OFCs), it is very important to us not to have any links to harmful practices such as tax evasion and money laundering. In close cooperation with our stakeholders and our European development bank partners (EDFI), we keep abreast of the international developments in this area. **We are constantly in dialogue with our stakeholders** as regards the question of whether certain jurisdictions are acceptable as a location for the registered office of investment vehicles.

We take account of the OFC policies of international financial institutions such as the **International Finance Corporation and the assessments by international fora such as the Global Forum on Transparency and Exchange of Information for Tax Purposes**. We also take the **EU list** of non-cooperative jurisdictions and regions for tax purposes into account when assessing projects and monitor them for any national implementation measures. We are convinced that this approach strikes an adequate balance between our determination not to support harmful practices and our efforts to act as a catalyst for financing in challenging markets.

Regarding **combating money laundering**, OeEB, as a credit institution, is subject to strict statutory and EU law rules. If a country is included on the EU regulation concerning high-risk third countries and/or both of the “Public Documents on High-Risk and Other Monitored Jurisdictions” (“grey list” and “black list”) of the **Financial Action Task Force (FATF)**, OeEB will respond in an appropriate manner, by, for example, applying enhanced due diligence measures pursuant to the Financial Markets Anti-Money Laundering Act<sup>12</sup>, as amended.

As a member of the group of European Development Finance Institutes (EDFI), we are guided by the “EDFI Principles for Responsible Tax in Developing Countries”.<sup>13</sup>

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<sup>12</sup> See: <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009769>

<sup>13</sup> See: [https://www.edfi.eu/wp/wp-content/uploads/2018/05/EDFI-Responsible-Tax-Principles\\_Final-180509.pdf](https://www.edfi.eu/wp/wp-content/uploads/2018/05/EDFI-Responsible-Tax-Principles_Final-180509.pdf)

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## 9. Measuring results and evaluations

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### 9.1 Development Effectiveness Rating (DERa tool)

Since its establishment in 2008, OeEB has used an adapted version of the *Geschäftspolitisches Rating* tool (GPR) developed by the German Development Bank (DEG) to measure the developmental and overall impact of its projects. After ten years, this will now be replaced. After a thorough analysis of the alternatives, we have again decided to work with a tool of the German Development Bank (DEG): the **“Development Effectiveness Rating” (DERa)©**.

DERa is based on a “theory of change” (a theoretical causal network): it records causal links between the activities of an OeEB client (input), its results (output) and one or more of the desired developmental effects (outcome) and impact.

In contrast to the GPR, DERa focuses solely on developmental effects and divides these into **five impact categories**:

- Decent jobs
- Local income
- Market and sector development
- Environmental stewardship
- Community benefits

In terms of its content, DERa is, on the one hand, a **logical continuation** of the developmental benchmark in the GPR, but it also captures current developments in impact assessment and uses innovative methods. Overall, the evaluation is more objective due to more quantitative indicators, the use of expert estimates for evaluating aspects of sustainability and economic models for market and sector impact.

As part of the evaluation, an **overall score** of up to **150 points** is calculated, and an assignment made to one of five qualitative categories, ranging from “Excellent” to “Insufficient”. The first three impact categories, as central outcomes of the private sector project, are weighted with 75% of the available points, the final two impact categories focus on the sustainable implementation of the project and make up 25% of the points which can be awarded.

As part of the project cycle, a baseline value and a five-year target is entered into DERa when the project is approved and assessed each year thereafter.

DERa was integrated into OeEB’s IT system in 2018 and the existing portfolio entered. New business will be evaluated using DERa from 2019. It will also deliver the developmental indicators for the results framework.

## 9.2 Evaluation

Until now, individual investment finance and business advisory service projects have been assessed objectively on an ad-hoc basis as part of independent evaluations and the results integrated into OeEB's work.

In the next five years, **we want to systematically embed and expand evaluations within the bank.** OeEB's evaluations serve the objective of being accountable to our stakeholders, but also the goal of being a "learning organization" which continually improves the effectiveness of future projects.

The introduction of the Development Effectiveness Rating tool (DERa) enables multidimensional measurements to be made of the developmental impact of investment finance and equity participation projects. The impact indicators of the technical assistance projects undertaken by Business Advisory Services are defined on a project-specific basis (management by results). This data forms the basis for evaluations.

To standardize instructions for evaluations, all the relevant actors in Austria (OeEB, the Federal Ministry for Europe, Integration and Foreign Affairs, the Austrian Development Agency, the Federal Ministry of Finance and the Federal Ministry for Sustainability and Tourism) have drafted a **common policy** based on the OECD DAC criteria (relevance, efficiency, effectiveness, impact and sustainability) which will also apply to OeEB. OeEB uses all forms of evaluation: (mid-term) review, external, internal and self-evaluations. Evaluations can be used for individual projects, but also for strategic matters. We plan to do two evaluations per year. In principle, evaluations are completed together with external experts.

As a learning organization, members of OeEB staff will accompany the consultants on visits to project sites. It is ensured that there is no interference in the objectivity and independence of the evaluation.

## OeEB results framework 2019 to 2023

OeEB will be guided by the following **strategic target indicators** when selecting its projects in the strategic period 2019 to 2023:

Category	Indicator	Target value
<b>Climate financing</b>	% of new business in the next 5 years, on average	≥ 40 %
<b>Expand engagements in the poorest countries (LDCs)</b>	% of new business in the next 5 years, on average	≥ 25 %
<b>Expand engagement in Africa</b>	% of new business in the next 5 years, on average	≥ 20 %
<b>Balanced ratio of real sector to financial sector</b>	The ratio of real sector to financial sector, measured by the volume of new business in the next 5 years, on average	≥ 50:50
<b>Emphasis on thematic focus areas</b>	% of new business in the three thematic focus areas over the next 5 years, on average	≥ 80 %
<b>Focus on the private sector</b>	% of new business in the public sector over the next 5 years, on average	≤ 8 %

In addition, we orient ourselves to the following **development policy target value**:

<b>Developmental policy effects</b>	Average DERa score in the portfolio	≥ 78 points
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After two years (i.e. the start of 2021), these target values will be evaluated and, if necessary, adjusted.



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