



Development Bank of Austria

Disclosure Statement

Operating Principles for Impact Management

Development Bank of Austria / Oesterreichische Entwicklungsbank AG (OeEB)
February 15th, 2020

The Development Bank of Austria / Oesterreichische Entwicklungsbank AG (OeEB) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Principles”).¹

This Disclosure Statement applies to the following assets (the “Covered Assets”): Investment Finance and Equity Participation.

The total assets under management in alignment with the Principles is EUR 1,372.8 million as of December 31, 2019.²

Sabine Gaber
Member of the Executive Board
February 15th, 2020

Michael Wancata
Member of the Executive Board
February 15th, 2020

¹ The information contained in this Disclosure Statement has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

² USD 1,542.2 million according to www.oenb.at. Investment Finance: EUR 1,250.3 million and Equity Participation: EUR 122.5 million as of December 31, 2019.

Principle 1 – Define strategic impact objective(s), consistent with the investment strategy:

The Manager shall define strategic impact objectives³ for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- OeEB – a wholly-owned subsidiary of Oesterreichische Kontrollbank (OeKB)⁴ – is the official Development Bank of the Republic of Austria with a mandate from the federal government. OeEB is focused on the private sector and finances and supports projects in developing countries and emerging markets that are economically sustainable and have positive impacts on development.
- According to our public mandate, OeEB supports sustainable investments in developing countries by providing financing and, acting as a trustee for the Republic of Austria, acquiring equity participations in companies and funds. In addition, we offer financial funds for business advisory services to support our investment 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.
- During the strategic cycle 2019 – 2023, OeEB’s focus areas are defined as (i) renewable energy, (ii) infrastructure and (iii) financial inclusion / micro, small and medium-sized enterprises. In addition, gender and climate protection act as cross-cutting themes.⁵
- In order to measure the various goals defined in our strategy, a results framework including specific indicators and targets was established. This allows to gauge progress toward the achievement of results and to adjust relevant activities accordingly.
- Throughout the investment decision-making process, the delivery of development impact is a key factor in OeEB’s project selection. In order to assess the developmental effects of OeEB's portfolio, our investments are evaluated with an adapted version of the Development Effectiveness Rating (DERa), developed by KfW DEG to measure impact and link results to the SDGs.⁶

³ Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).

⁴ Further information on Oesterreichische Kontrollbank (OeKB) can be found [here](#).

⁵ The OeEB Strategy 2019 – 2023 can be found [here](#).

⁶ A detailed description of the Development Effectiveness Rating (DERa) can be found [here](#).

Principle 2 – Manage strategic impact on a portfolio basis: The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- OeEB pursues a “portfolio approach” that guides project selection and design. The DERA, which is applied to the entire portfolio and new commitments of OeEB since beginning of 2019, is an integral tool to pursue the portfolio approach. Based on the DERA assessments, OeEB can build its impact reporting and steer the overall development quality of its portfolio.
- Guided by the Sustainable Development Goals (SDGs), DERA uses five outcome categories to assess the development contributions of each client: decent jobs / local income / market and sector development / environmental stewardship / community benefits.
- Based on the various indicators included in the DERA, a cumulative score is created, which rates each transaction from “exceptional” to “unsatisfactory”.
- The strategic impact and performance of OeEB is managed and monitored by a results framework, which includes specific indicators and targets for new transactions during the strategical cycle 2019 – 2023. OeEB’s impact performance is measured annually by average DERA scores with a quantitative target (of 78 points) for the entire portfolio.
- The goals of the strategic cycle 2019 – 2023 are broken down to annual goals and then concretized in annual goals for all departments. Additional individual employee targets for heads of department are set by the Board of Management and for employees by the responsible heads of department.

Principle 3 – Establish the Manager’s contribution to the achievement of impact: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.⁷ The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- OeEB’s operations must demonstrate additionality, which means that the financing from OeEB is typically not offered at all or not offered at the same terms from commercial banks. This additionality may take financial and/or non-financial forms and is reviewed by our stakeholders in the course of the approval process.

⁷ For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, assisting with further resource mobilization, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

- Due to a state guarantee from the Austrian Federal Ministry of Finance, which assumes liability for our loans, OeEB can take more risks than commercial banks and offer longer terms. In contrast to commercial banks, OeEB only offers financing for projects in developing countries and emerging markets, outside of the EU.
- Moreover, OeEB provides business advisory services (BAS) funds in order to strengthen clients during project preparation and project implementation. These financial resources are provided from OeEB's own funds and can be used e.g. for detailed studies, on-site work by local experts or training measures for OeEB clients. These BAS projects are documented in project applications and an annual report for our stakeholders and most of them are presented on our website.

Principle 4 – *Assess the expected impact of each investment, based on a systematic approach:* For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact⁸ potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?⁹ The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards¹⁰ and follow best practice.¹¹

- Since the beginning of 2019, OeEB has been using the Development Effectiveness Rating Tool (DERa), developed by KfW DEG to measure impact and link results to the SDGs.
- Based on the Agenda 2030 for Sustainable Development, the Sustainable Development Goals (SDGs) and on international best practice approaches, DERa assesses the development contribution made by each OeEB client and shows changes that have occurred since OeEB made its investment. DERa thus enables OeEB to report on the developmental impact of its financing, to manage the overall developmental quality of its portfolio and to provide impulses for improvement.

⁸ Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

⁹ Adapted from the Impact Management Project (www.impactmanagementproject.com).

¹⁰ Industry indicator standards include HIPSO (indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (b-analytics.net/giirsfunds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.

¹¹ International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

- DERA is applied over the entire project duration of each OeEB investment. An initial DERA is created before a project is approved. This consists of a) a baseline with current values prior to the OeEB investment and b) an ex-ante estimate of the expected effects of the investment with a time horizon of five years (forecast). After commitment, DERA is updated annually by recording current values. This allows OeEB to record and analyse changes in clients' development contributions since the investment.
- DERA evaluates the developmental contributions of each client on the basis of the following five impact categories: decent jobs / local income / market and sector development / environmental stewardship / community benefits. The first three categories are central development effects ("What was achieved") while the other two categories relate to the way in which entrepreneurial action was taken ("How were the effects achieved").
- This approach enables OeEB to select projects with the greatest potential for development impact and financial sustainability, and optimize project design.

Principle 5 – Assess, address, monitor, and manage potential negative impacts of each investment: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)¹² risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.¹³ As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- OeEB's approach to environmentally and socially sustainable development is an important component in the effort to achieve positive development outcomes in OeEB's investment activities. As a member of the European Development Finance Institutions (EDFIs) OeEB adheres to the EDFI Principles for Responsible Financing of Sustainable Development¹⁴.

¹² The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

¹³ Examples of good international industry practice include: IFC's Performance Standards (<https://www.ifc.org/performancestandards>); IFC's Corporate Governance Methodology (<http://www.ifc.org/cgmethodology>), the United Nations Guiding Principles for Business and Human Rights (<https://www.unglobalcompact.org/library/2>); and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).

¹⁴ EDFI Principles for Responsible Financing of Sustainable Development (https://www.edfi.eu/wp/wp-content/uploads/2017/09/EDFI-Responsible-Financing-SDG_Principles_final_190515-1.pdf)

- The EDFI Principles for Responsible Financing of Sustainable Development refer to Harmonised EDFI Environmental and Social Standards that encompass (a) Environmental and Social Category Definitions, (b) Requirements for Environmental and Social Due Diligence, Environmental and Social Contractual Requirements and Monitoring and (c) an Exclusion List¹⁵, all of which are reviewed regularly.¹⁶
- OeEB undertakes environmental and social (E&S) due diligence on all its investments, assessing the client's ability and commitment to achieve E&S outcomes consistent with the harmonized EDFI requirements over a reasonable period.
- OeEB uses a categorization system with the categories A, B+, B, C for direct investments in projects or companies and FI-A, FI-B, FI-C for financial institutions including investment funds to reflect the potential magnitude of E&S risks of its investments and to allocate resources and approval levels commensurate to the identified risk. E&S project due diligence is subject to multiple elements of quality control including committees comprised of external stakeholder representatives.
- For financial institution (FI) investments, due diligence requires the review of the existing portfolio and prospective business activities of its FI clients to identify those that could entail serious E&S risks and defines requirements for managing them. OeEB reviews the implementation capacity of FI clients as well as their E&S management system.
- The results of OeEB's E&S due diligence at project appraisal are documented in the form of an E&S Review Summary (ESRS). Where relevant, environmental & social action plans (ESAP) to address the gaps between the client's plans and OeEB E&S requirements are also included in the ESRS. The ESAP is included in the credit agreement and its adequate and timely implementation by the client is monitored by OeEB.
- OeEB's Corporate Governance (CG) methodology stems from the Corporate Governance Development Framework¹⁷ signed in 2011, where concerns are identified and action items might be agreed with the client. CG screening and assessment is done by the investment team leading the transaction. In case of higher CG risk projects additional CG expertise might be involved.

¹⁵ EDFI Exclusion List (https://www.edfi.eu/wp/wp-content/uploads/2017/09/EDFI-Exclusion-List_-September-2011.pdf)

¹⁶ Benchmarks for the EDFI members are the UN Declaration of Human Rights, the United Nations Guiding Principles for Business and Human Rights (<https://www.unglobalcompact.org/library/2>), the ILO Core Conventions (<https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang-en/index.htm>), the IFC Performance Standards on Economic and Social Sustainability (<https://www.ifc.org/performancestandards>) and associated Environmental and Health & Safety Guidelines of the World Bank Group (https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines).

¹⁷ Corporate Governance Development Framework (<http://cgdevelopmentframework.com>)

Principle 6 – *Monitor the progress of each investment in achieving impact against expectations and respond appropriately:* The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- On a project level, OeEB uses the DERA tool in order to monitor on an annual basis progress toward the achievement of positive impacts in comparison to the expected impact for each investment. DERA thus enables OeEB to report consistently on most relevant reporting data e.g. number of jobs, contributions to the SDGs, etc. – from a single client focus to aggregates of the whole portfolio.
- DERA is designed along five outcome categories. Each category consists of a set of indicators that capture a client’s contribution to each category. These indicators are mostly quantitative in nature or are qualitative expert judgements. Some indicators are more static while others are dynamic, which allows the valuation of absolute, realized effects and growth processes. These indicators likewise differentiate between mitigating risk and proactive development contributions.
- Indicators that assess whether a client contributes to one or more of the 17 SDGs and whether the financed transaction was additional from a financial and/or a value perspective are also included in DERA for reporting purposes.
- OeEB outlines data collection, methodologies, and responsibilities prior to the beginning of each investment and requires clients to report on key monitoring indicators each year. This is necessary in order to monitor the outcomes of our investments in the DERA and for OeEB’s own impact reporting for stakeholders and the wider public.
- Changes in DERA ratings inform investment managers of progress in development outcomes against claimed effects. Portfolio officers are monitoring the development outcomes with the DERA and work, if needed, with clients in order to pursue appropriate action if intended impacts are not achieved.

Principle 7 – Conduct exits considering the effect on sustained impact: When conducting an exit¹⁸, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- OeEB considers the effect on maintaining development impact when making exit decisions in its equity portfolio. This can affect the timing, structure, and choice of who to sell to.
- In case OeEB exits direct investments, it documents these equity exit decisions through sales memoranda, which provide rationales for exits.

Principle 8 – Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- The expected and actual impact as well as other positive and negative impacts of each investment are reviewed and documented in the DERA. The DERA thus enables OeEB to consider lessons learned in its processes and daily work and to improve operational and strategic investment decisions accordingly.
- Based on the results and impacts of each investment, which are reviewed and documented in the DERA, OeEB is also able to publish an annual Development Report, which shows how our projects contribute to economic development in developing countries and emerging markets.¹⁹
- OeEB also conducts regular evaluations of its investment finance and equity projects. These evaluations are implemented by independent experts and assess the developmental impact of a project ex post.
- Evaluation is the systematic and objective assessment of an ongoing or completed project, whereby all phases of a project - planning, design, implementation and monitoring - are included.
- The objective of an evaluation is to establish whether the relevance, efficiency, effectiveness, impact and sustainability of a project have been achieved.²⁰ The results of the evaluation are fed back into the decision-making process, thus ensuring institutional learning, and published on our website.
- The purpose of an evaluation is therefore (i) an overall assessment of the project, (ii) the improvement of future project planning by considering the "lessons learned" and (iii) the provision of information to our stakeholders and the public in an accountable manner.²¹

¹⁸ This may include debt or equity sales, and excludes self-liquidating or maturing instruments.

¹⁹ Further information on the Development Report of OeEB can be found [here](#).

²⁰ DAC Principles for the Evaluation of Development Assistance (<https://www.oecd.org/dac/evaluation/49756382.pdf>)

²¹ Further information about evaluations at OeEB can be found [here](#). Evaluations at OeEB are performed according to the evaluation policy of the Austrian Development Cooperation, which can be found [here](#).

Principle 9 – *Publicly disclose alignment with the Principles and provide regular independent verification of the alignment:* The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Note re-affirms the alignment of OeEB’s procedures with the Principles and will be updated annually.
- The independent assurance report on the alignment of OeEB with the Operating Principles for Impact Management is available [here](#). The verification will be replicated every 5 years.
- Information on the current independent verifier is as follows:

Name and Address:

Service Centre Sustainability Management of Oesterreichische Kontrollbank AG (OeKB)
 Strauchgasse 3
 1011 Vienna
 Austria

Qualifications: The Service Centre Sustainability Management is located in the department Organization, Construction, Environmental Issues and Security (OBUS) and reports directly to the Executive Board of Oesterreichische Kontrollbank AG (OeKB). As such, the Service Centre Sustainability Management is separate and independent from the operational units of OeEB.

Description: Sustainability affects all segments and units of the OeKB bank group and is an integral part of the strategic orientation of OeKB Group. The main activities include (i) elaborating the sustainability strategy, objectives and measures, (ii) monitoring the progress of the implementation of the sustainability management activities on a regular basis and (iii) conducting a management assessment according to the EMAS requirements once per year. For more information about the Service Centre Sustainability Management of Oesterreichische Kontrollbank AG (OeKB), please visit www.oekb.at.

Verification Process: In order to start the verification process, terms of reference were established in January 2020 and shared with the Service Centre Sustainability Management. Based on the terms of reference, the various activities (scope of work) were performed during March 2020. The assurance / verification statement and further recommendations (deliverables) were finalized in March 2020 and published at the beginning of April 2020.

Most Recent Review: March 30th, 2020

Next Planned Review: March 2025