

RELEVANT

Special Issue of the Magazine of Oesterreichische Kontrollbank Group

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at a
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How and
Where We Work



DEVELOPING THE PRIVATE SECTOR
Jobs to Fight Poverty

OeEB

Oesterreichische Entwicklungsbank AG

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Dear readers,

If there is one thing that a person living in poverty desires, it's a job. Ninety percent of these jobs are provided by private enterprises. The private sector therefore plays a crucial role in driving development.

OeEB is committed to stimulating the private sector in developing and emerging countries in order to create jobs and better living conditions for people. Acting complementarily to commercial banks, we are doing this by serving as a reliable partner for private companies seeking financing solutions for their investments.

Sustainability is a central concept of our work. Projects must not only be economically viable, but also developmentally sound and meet international environmental and social standards. OeEB primarily focuses on the energy sector and on fostering growth of small and medium-sized enterprises, utilising (and thereby also strengthening) the financial sector's role as intermediary.

In this way, OeEB contributes to sustainable growth that benefits many people. We believe in living by our mission statement: funding tomorrow's prosperity.

Andrea Hagmann
Member of the Executive Board

Michael Wancata
Member of the Executive Board

Developing worldwide

A visual profile of current OeEB projects around the world.

FINANCING SMALL ENTERPRISES. OeEB is involved in the "Shore Cap II" private equity fund. After an Advisory Programme project has laid the preparatory groundwork, this fund provides capital to the microfinance sector as well as to banks that specialise in financing micro, small and medium enterprises.
www.capplusexchange.org



**WORKING
TOGETHER FOR
MORE ENERGY:**
Development Banks
from all across Europe.



OeEB AND EDFI: COLLECTIVE STRENGTH

Combined know-how at the European level

Stronger together – this motto may be old, but it is still valid. This concept is embodied by the Association of European Development Finance Institutions (EDFI), an umbrella organisation of 15 banks and investment funds that seek to promote the private sector in developing countries.

What are the benefits of this association? “Most of the members are smaller institutions. For them, it is particularly important to find partners for larger projects, thereby sharing risk,” states OeEB’s executive board member Michael Wancata. According to Wancata, discussions with the EDFI partners – who are, from EU member states, Norway and Switzerland– also led completely new initiatives.

Another focus of EDFI is the harmonisation of certain standards to measure and report on development results in the private sector. This includes reporting requirements which must be fulfilled by customers or the content of standard loan agreements. Collaboration proves to be much easier when 15 different variations of the same concept can be avoided. In addition, task forces are created to jointly work on topics such as environmental or social standards.

Finally, EDFI has set a goal to increase public awareness of the activities of its members and to reach out to new actors.



**FUNDING FOR
MICRO-ENTERPRISES
IN AFRICA.** Through
its investment in the
REGMIFA investment fund,
OeEB provides funding for
micro-loans in sub-Saha-
ran Africa. Funds flow into
microfinance institutions
which then pass them on to
micro-entrepreneurs. More
than 20,000 entrepreneurs
have benefitted to date.
www.regmifa.com



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The Grassroots Business
Fund invests in businesses in
developing countries whose
entrepreneurial ideas help
many people escape from
poverty. OeEB’s support
improves entrepreneurial
know-how and helps to put the
entrepreneur’s business idea
on a sustainable footing.
www.gbfund.org



Jobs to Fight Poverty

DEVELOPING THE ECONOMY In recent years, promoting the private sector has become an important goal of development cooperation. Providing access to finance for entrepreneurs can generate significant positive impetus for an economic rebound.

Public-sector focussed development cooperation is important, but it is not a panacea: targeted support of the private sector in emerging and developing countries is now being attributed with a role that is just as important. “The basic idea is to increase people’s income, thereby indirectly improving the quality of life, health, education and nutrition,” says Professor Martin Brown of the University of St. Gallen.

Development finance institutions such as OeEB are working with the private sector. The most significant difference to classical development cooperation is that projects not only need to be sustainable and have positive development impact, they also need to be commercially viable for both, investors and recipients. Development finance institutions extend loans at near-market terms or invest equity – not with the aim of generating huge profits, but with the objective of achieving positive results, both in respect of development impact as well as financial return.

But if it is possible to do business successfully this way, then why are commercial banks not interested? “Commercial banks can’t carry certain risks,” Brown says, “but it’s important to understand that development banks aren’t the

only actors.” Funding also comes in part from the local private sector or from international banks, “In Eastern Europe, for example, foreign financial institutions are very active, including Austrian banks.”

Access to financial products is helping

Foreign banks are not active in all countries to the same extent, however, and lack of access to financing is still an issue in many countries and regions. Regional banks can assess risks locally, but they often lack funds for medium and long-term loans. Many international banks have the means, but lack the local experience – they can’t and won’t take the risk. On a recent visit in Georgia, Brown saw the situation on the ground, “There, it is not possible for a bank to obtain funds from savings deposits for more than two years, so it cannot extend any long-term loans, either.” It’s not just large projects like the construction of power plants that are barred by the inability to obtain financing with longer maturities, but also simple investments like the purchase of a tractor. “In many countries, agricultural lending does not exist, like the loans offered by our cooperative Raiffeisen banks,” says Brown. If a development bank offers appropriate products in cooperation with local banks, this can also be >

**DEVELOPMENT
FINANCE
INSTITUTIONS**
finance projects that
are not only sustain-
able, but also make
economic sense.

OeEB'S INSTRUMENTS

Effective Toolkit

OeEB uses several instruments to stimulate private sector development. The most important ones are direct financing of projects, loans to the financial sector, investments in funds and enterprises and Advisory Programmes.

Financing of individual projects

Individual projects that are developmentally sound and commercially viable can be financed directly with an OeEB loan. OeEB's executive board member Andrea Hagmann cites the example of a geothermal power plant in Nicaragua, "Financing with a tenor of 15 years is required for the construction of the plant. Local banks can only offer maturities of up to two or three years, however, and the risk was ultimately too great for international commercial banks to step in." Therefore, eight development banks joined forces to provide the necessary funds, "The risks were shared." Another example of direct financing is the expansion of a bulk port in Mexico (see page 8). The majority of directly financed projects involve capital-intensive infrastructure projects, with the loans often being provided in cooperation with other development banks.

Promotion of the financial sector

A large part of the OeEB portfolio consists of funds provided to the financial sector. These loans strengthen banks who can then provide medium and long-term loans to small and medium-sized enterprises – most of the loans are earmarked. Andrea Hagmann gives an example, "A Turkish bank obtained funding from us and subsequently on-lent these funds for energy efficiency measures. (see page 10). A company

will then be able to replace an old machine with a new, energy-saving one that pays for itself after a few years." At the same time, OeEB increases awareness of energy use, "Oftentimes, energy shortages are not caused by a lack of power plants, but by the inefficient use of electricity."

Investments in equity

OeEB is able to participate in private equity funds or to invest equity directly in companies, acting as trustee for the Austrian Ministry of Finance. "We quickly found out that, in addition to financing, equity investments would be a reasonable extension of our instruments," said executive board member Michael Wancata. "Private equity is often what is missing most in developing countries." Such private equity is an important tool for development, particularly in the least developed countries.

One example is OeEB's investment in the "Shore Cap II" fund, "This is a microfinance fund that invests in previously informal microfinance institutions in Africa and Asia to help them build professional banking structures." Fund management companies issuing such funds appeal primarily to development finance institutions since there are few private investors for such transactions. For Wancata, it is crucial to thoroughly analyse the expertise and experience of the fund manager – "because success depends on these factors."

OeEB's investments serve to facilitate projects initially, with the intention to sell them after a few years. The effects of our exit need to be considered in advance, says Wancata, "We want to enable projects, but we are not a strategic



investor and do not want to hold a stake in a hydroelectric power plant for decades.” Potential buyers include the local capital market (if existing), strategic investors or the other shareholders by trade sale.

Advisory Programmes

In addition to investing and financing, OeEB also supports the private sector in developing countries by providing know-how. In contrast to equity investments and loans that are to be repaid, this is non-refundable money provided by the Austrian Federal Ministry of Finance. The primary objective is to enhance the development impact of projects financed by OeEB. To that end, OeEB often makes an external consultant available who brings in the necessary know-how. “If bank employees are expected to grant loans for energy efficiency projects, we need to ensure that they are well versed in the process,” says Michael Wancata by way of example. Other advisory projects are intended to support the establishment of international standards in respect of environmental and social effects. Moreover, OeEB provides valuable information to companies with sector specific studies on emerging markets.

INDICATOR A
high share of SMEs is characteristic of a young, dynamic economy – but it also needs large companies.



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an indicator to foreign commercial banks that it is possible to do good business in that particular country.

Strengthening the financial sector has positive effects, not only on the corporate landscape, but also on private households. “We have evidence,” says Brown, “that access to financial services promotes the establishment of new companies and also helps households.” This allows households to better react to changes in income.

Another focus of development finance institutions is the financing of private sector infrastructure projects. A reliable energy and water supply and good transport links are the basis for a thriving economy. “If it is not possible – for example because of the political situation in a country – to improve the general conditions for enterprises, then all the other types of support usually make little sense,” says Professor Brown.

An indicator of good economic development is a high number of small and medium enterprises (SMEs) – Brown warns, however, against the fallacy that the economy will grow faster with more small businesses. “The context is different: in an economy that is growing, many new companies are created.” Although a growing economy is characterised by many small businesses, large companies in certain sectors are more efficient. The work of development finance institutions promoting the establishment of SMEs is by no means a bad thing, though, “What one wants to achieve is the formation of new enterprises– which would usually start as small enterprises.” ■

PROF. DR. MARTIN BROWN

is Professor of Banking at the University of St. Gallen, Switzerland. His research is focused on Financial Intermediation, Finance & Development and Experimental Economics. Prior to joining the university, he worked, among other things, as a consultant and project manager for financial sector development and small business promotion in Africa, Asia and Eastern Europe.



MEXIKO

Bulk Goods Port Opens Up New Opportunities for Exports

A crane from the Austrian Alps is helping to boost Mexico's imports and exports: OeEB is jointly financing a bulk goods port terminal on Mexico's Pacific coast with Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG). The terminal's crane is coming from the Austrian company Liebherr, who won the tender. Mineral bulk goods such as coal or iron ore will be shipped through the terminal at the port of Lázaro Cárdenas. The region around Lázaro Cárdenas in the Mexican state of Michoacán has significant iron ore deposits. Up to now, though, it has only been mined on a limited basis because the shipping and port capacity was insufficient for exporting the ore. The Lázaro Cárdenas port has long been considered the gateway to the Asian market, but the lack of financing prevented its expansion. Due to the financial crisis, commercial banks were unwilling

to grant long-term loans. As development banks, it was possible for OeEB and DEG to offer longer-term financing for the construction of a bulk goods terminal. The development banks provided USD 30 million of the total investment volume of USD 50 million. The new terminal increases turnover capacity to up to 2 million tonnes per year.

In this project example, OeEB and DEG are assuming the role of long-term investors of loan capital in a project of great importance to Mexico's infrastructure: new jobs are created, allowing the country to improve its trade balance and tax revenues while profiting from the transfer of technology. Furthermore, taking into account environmental effects and the situation of the local population, OeEB and DEG also linked the financing to the implementation of an environmental and social action plan.

Alliance for Climate Protection

FINANCING PLATFORM Since 2011, OeEB has been involved in the Interact Climate Change Facility (ICCF) in order to finance projects in the areas of climate protection, energy efficiency and renewable energy. One of these projects is Mongolia's first wind farm.

Eleven European development finance institutions, the European Investment Bank (EIB) and the Agence Française de Développement (AFD) joined forces to form the strategic ICCF financing platform. OeEB contributed EUR 5 million to the total financing volume of about EUR 300 million. ICCF's task is to specifically support selected private sector projects in developing countries in the areas of climate protection, energy efficiency and renewable energy.

In conjunction with Dutch development bank FMO and the European Bank for Reconstruction and Development (EBRD), ICCF financed the Salkhit wind farm in Mongolia. The 50 MW project is situated 70 km southeast of the capital city, Ulaanbaatar, and represents a true landmark; Salkhit is the country's first wind farm. The wind turbines will help to save 200,000 tonnes of CO₂ emissions annually. ■



THE STEPPES OF MONGOLIA
almost stretch to infinity and so does
their wind power potential.





Efficient Energy Production

TURKEY Şekerbank focuses on special loans for investments in energy efficiency and on raising awareness of customers and employees. OeEB is assisting in this undertaking.

In the era of global climate change and increasingly diminished supplies of fossil fuels, sustainable, environmentally friendly energy solutions are in high demand. The efficient use of energy plays an especially important role in quickly growing regions because energy demands and CO₂ emissions increase drastically with economic growth. Currently, Turkey can only cover about 26% of its energy needs with domestic sources, which makes the country strongly dependent on costly oil imports. To address this problem, the Turkish government has set out in its development plan a focus on securing energy sources, in particular the improved use of renewable energy.

Increase the low willingness to invest

Many banks, companies and private individuals are still hesitant when it comes to granting or applying for loans for improving energy efficiency. Causes are the lack of know-how for recognising and implementing energy saving measures as

well as the lack of available financing for energy efficiency projects. A credit line from OeEB and German KfW Entwicklungsbank is now providing support: with a joint commitment in the amount of EUR 20 million, the two national development banks are supporting Şekerbank, one of the leading Turkish banks in the energy efficiency and renewable energy sectors. Investments in energy efficiency will be made possible by providing access to special loans and by an expanded range of products offered by Şekerbank.

Focus on smaller projects

Investment programmes focussed on energy efficiency measures are already being implemented in the public sector for industry and large companies. There is still a gap, however, in respect of what is being offered for medium-sized and small companies as well as private households in Turkey. The support of Şekerbank is helping to close this gap. That is why OeEB's commit-

SUSTAINABLE ENERGY SOURCES:

There is still a gap in what is offered in terms of energy efficiency projects for medium-sized and small companies and private households in Turkey. The support of Şekerbank is helping to close this gap.

ment extends exclusively to financing smaller projects (in particular in the building renovation sector), which can only be taken advantage of by micro, small and medium-sized enterprises and households.

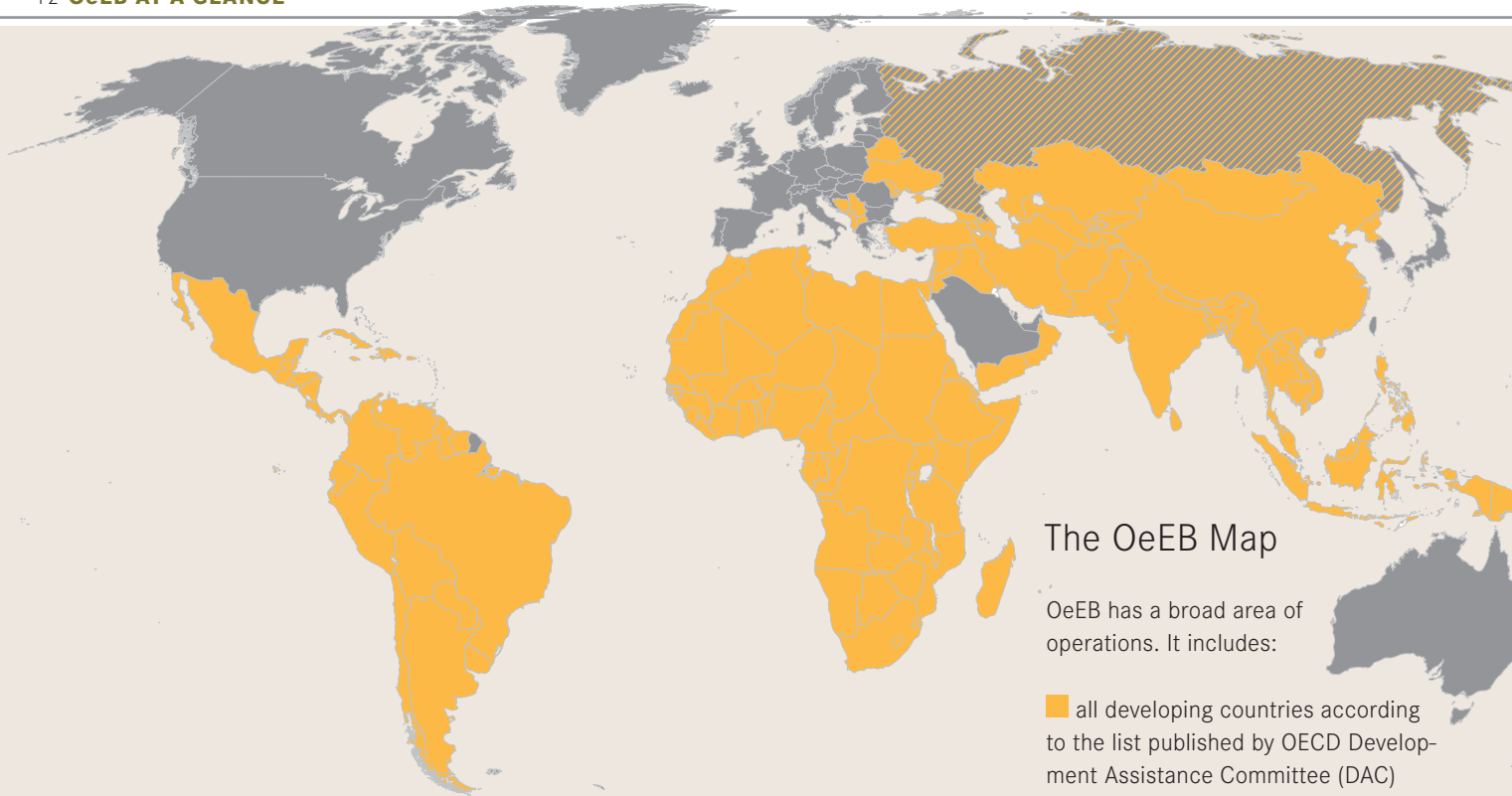
In order to establish these offerings for micro, small and medium-sized enterprises over the long term, technical assistance of the bank and its customers is necessary. OeEB is therefore also supporting the increase in capacity and the training and education of employees and customers via an Advisory Programme. “These measures are very important for introducing energy efficiency products to a market,” says project officer Marcel Spechtler of OeEB.

A convincing holistic approach

Şekerbank is the ideal partner for this project in Turkey since it already has experience with energy investments, a dense network of branches

OeEB’s involvement fills a gap in supply and thus provides a significant stimulus to the Turkish banking sector.

nationwide and a customer base that is particularly focused on micro, small and medium-sized enterprises. This ensures that OeEB’s financing is utilised in an efficient, goal-oriented and sustainable manner. Studies show that investments in energy efficiency create jobs: on the one hand, through the creation of new business opportunities and on the other hand, through the force multiplier effect generated by the money saved by the increased energy efficiency. “The holistic approach has convinced us not only to provide financing for energy efficiency projects, but also to reinforce it with additional support, such as counselling and training, in order to strengthen Şekerbank’s product portfolio in this regard,” said Spechtler. ■



The OeEB Map

OeEB has a broad area of operations. It includes:

- all developing countries according to the list published by OECD Development Assistance Committee (DAC)
- ▨ projects exclusively involving Austrian companies

OeEB at a glance

What is OeEB's mission?

OeEB finances private sector investment projects in developing countries and emerging markets. OeEB provides loans and invests equity in funds and companies. In addition, developmental effects are amplified with project-related measures. Thereby, OeEB contributes to sustainable economic development. For example, OeEB finances projects in the field of renewable energy and extends loans to local banks in target countries, enabling them to on-lend such funds to micro, small and medium-sized enterprises.

What differentiates OeEB from a commercial bank?

The support of the Austrian Federal Ministry of Finance enables OeEB to take on more risk and offer longer term loans. OeEB is active in developing countries and emerging markets exclusively. OeEB provides loans at near-market conditions (no soft loans, no interest rate support) and assesses the project's developmental impact in addition to the project's financial viability. OeEB also provides equity and increases the developmental impact of projects with technical assistance programs.

What does OeEB mean by "developmental impact"?

Developmental impacts are all those effects of a project that contribute to the sustainable economic development in the target country, such as the creation of jobs, the generation of tax revenue and the transfer of skills and expertise.