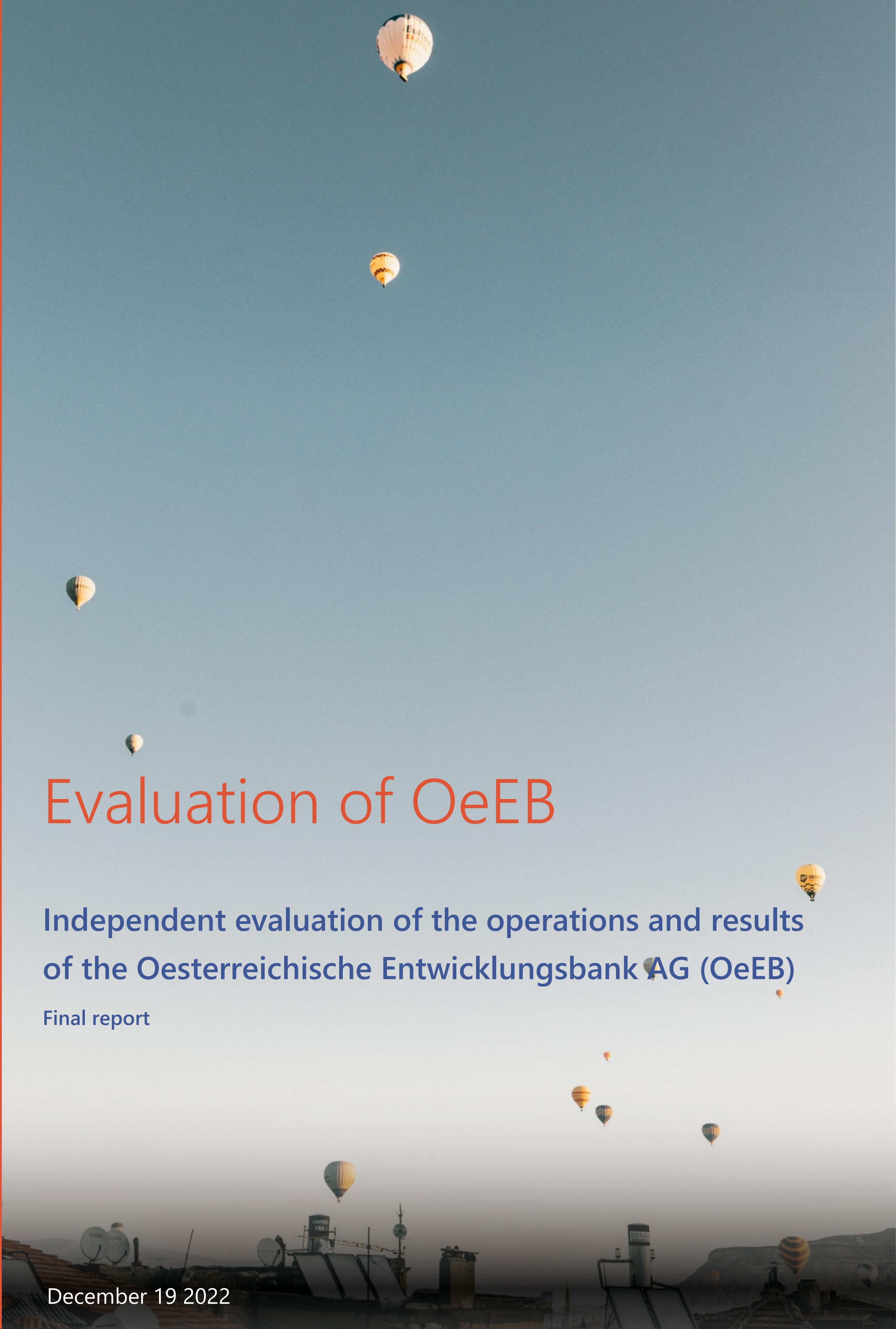

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Evaluation of OeEB

Independent evaluation of the operations and results of the Oesterreichische Entwicklungsbank AG (OeEB)

Final report

December 19 2022

Contents

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Steward Redqueen is responsible for all analysis, findings, and recommendations in this report. Views expressed here do not reflect official views of BMF, OeEB or any other involved stakeholder, and recommendations are formulated as considerations by the authors.

The report aims to contribute to a better understanding of the Bank's focus and positioning in the market, its coherence with other actors, its effectiveness and efficiency in operations and the results it has generated. We hope the insights and recommendations may lead to a further sharpening of the Bank's operations and overall performance, which will require efforts from the Bank as well as its shareholder and external stakeholders.

Acronyms and abbreviations

AAIF	African-Austrian SME Facility	IEA	International Energy Agency
ADA	Austrian Development Ministry	IF	Investment Finance
ADA	Austrian Development Agency	IFC (PS)	International Finance Corporation (Performance Standards)
AREF	Africa Renewable Energy Fund	IGT	Irrawaddy Green Towers Company Limited
AUM	Assets Under Management	ILO	International Labour Organization
BAS	Business Advisory Services	ITA	Irrawaddy Towers Assets Holding
BMEIA	Austrian Federal Ministry for European and International Affairs	JIM	Joint Impact Model
BMF	Austrian Ministry of Finance	KPI	Key Performance Indicator
BMK	Austrian Ministry of Climate Action and Energy	LDC	Least Developed Country
CEESSF	Central and Eastern European Special Situations Fund	M(SME)s	(Micro), Small and Medium Enterprises
CEFoF	Central Europe Fund of Funds	NDICI	Neighbourhood, Development, and International Cooperation Instrument – Global Europe
CEO	Chief Executive Officer	NGO	Non-Governmental Organisation
CRR	Capital Requirements Regulation	ODA	Official Development Assistance
DAC	Development Assistance Committee	OECD	Organisation for Economic Co-operation and Development
DEG	Deutsche Investitions- und Entwicklungsgesellschaft	OeEB	Oesterreichische Entwicklungsbank AG
DERa	Development Effectiveness Rating	OeKB	Oesterreichische Kontrollbank AG
DFI	Development Finance Institution	OOF	Other Official Flows
E&S	Environmental & Social	PCAF	Partnership for Carbon Accounting Financials
EBA	European Banking Authority	PE	Private Equity
EBAS	OeEB Software	PI	Partner institution
EBF	Eco.business Fund	PPP	Public Private Partnership
EDFI	European Development Finance Institution	SDG	Sustainable Development Goals
EFP	European Financing Partnership	SSA	Sub-Saharan Africa
EMAS	Eco-Management and Audit Scheme	TA	Technical Assistance
ESFD+	The European Fund for Sustainable Development Plus	TCFD	Taskforce on Climate-related Financial Disclosures
ESMS	Environmental & Social Management System	TIM	Triodos Investment Management BV
EU	European Union	TWh	Terawatt Hour
FI	Financial Institution	UN	United Nations
FIM	Finance in Motion	UNFCCC	United Nations Framework Convention on Climate Change
FTAP	Financial Action Task Force	WAM	WWB Asset Management LLC
GRI	Global Reporting Initiative	WKÖ	Austrian Federal Economic Chamber
GWh	Gigawatt Hour	WWB	Women's World Banking

Executive summary

Introduction

The Oesterreichische Entwicklungsbank AG (OeEB or the Bank) is the development bank of the Republic of Austria. It is a 100% subsidiary of the Oesterreichische Kontrollbank AG (OeKB), the main financial and information services provider for the export industry and capital markets of Austria.

OeEB provides long-term financing and business advisory services to sustainable investments in the private sector of emerging markets. The Bank has a specific focus on the areas of renewable energy, financial inclusion and infrastructure, while aiming to address the cross-sectoral topics of climate protection and gender equality in all its investments. OeEB is one of the key institutions responsible for delivering Austria's 2030 Global Agenda commitment to financially support developing countries in their implementation of the SDGs. OeEB operates in line with its current strategy '*Financing our Shared Future 2019-2023*' and the goals and principles of the Austrian Development Policy.

An independent evaluation of the Bank's activities was commissioned by the Bundesministerium für Finanzen (BMF). It is part of a regular external evaluation cycle. The main objective is to review the performance of the activities of OeEB according to the internationally recognised OECD-DAC criteria. The evaluation assesses the relevance, additionality, effectiveness, efficiency and developmental impact and sustainability of OeEB's activities. It also provides insights into how the profile and impact of the Bank can be strengthened organisationally and systematically to maximise outcomes and impact against strategic goals. The findings and recommendations serve as a basis for the next strategy period from 2024.

Methodology

The evaluation follows a mixed-methods approach. Four key sources were used to retrieve all quantitative and qualitative information on OeEB and its performance: a document review, analysis of performance data, an online survey with 18 senior Bank staff members and in-depth interviews with 42 key stakeholders. Interviewed stakeholders included the Bank's Executive Board, Supervisory Board, mid to senior-level staff members, and representatives from BMF, the Ministry of European and International Affairs (BMEIA), the Federal Chancellery and the Austrian Federal Economic Chamber (WKO), the Austrian Development Agency (ADA), the Austrian Parliament, as well as local NGOs and independent development finance experts. The four different types of sources allowed for robust analysis and triangulation of all data, opinions and findings. In addition to the core evaluation, five case studies of investments were also researched and written to help illustrate findings. Data for these was collected through interviews, a document review and data analysis.

Conclusions

The key findings and lessons on OeEB's performance are summarised below. The findings are structured along the lines of the evaluation criteria of the Development Assistance Committee (DAC) of the OECD: relevance, coherence, effectiveness, efficiency, impact and sustainability. Given the importance of additionality in the Bank's mandate, this was added as a seventh criterium.

Relevance

On the extent to which OeEB's set-up is responding to the mandate and needs in the market

1. **In just 14 years OeEB has grown to become the 7th largest European DFI.** DFIs play a critical role in directly financing investments needed for the realisation of the sustainable development goals in developing countries and leveraging resources from the private sector. They serve to implement their government's foreign development and cooperation policy. OeEB was founded as the Austrian development bank in 2008. By then it became and still remains the youngest European Development Finance Institution (EDFI). Despite its relatively short operational existence, it has grown its investment portfolio to approximately EUR 1.47 billion, becoming the 7th largest European DFI. With an average portfolio growth of approximately EUR 105 million per year it also is the 5th fastest growing EDFI, only being outpaced by the five largest EDFIs (British International Investment, KfW/DEG, Proparco, FMO and Norfund), who all command a significantly larger scale of operations. Combined with stable financial performance (see Effectiveness) and generated development effects (see Impact), this is an impressive joint achievement by OeEB's staff, shareholder, BMF and other external stakeholders involved with the Bank.

2. **OeEB's operations and ability to meet its mandate and needs in the market are strongly influenced by its business model and governance structure**. The Bank was established as a public-private partnership (PPP), with private capital from a sole owner, the Oesterreichische Kontrollbank (which is in turn owned by several major Austrian commercial banks), and a public mandate from the Ministry of Finance. This business model, with 100% private capital and a public mandate, is unique in the EDFI landscape. It is a very comprehensive and robust model that comes with specific advantages and disadvantages. There appears to be a consensus that while some of the disadvantages hold the Bank back in its potential, this PPP model and its corresponding governance structure is the (only) politically accepted model. At the same time, a survey among staff showed that 100% of staff perceives the business model and governance structure to be a challenge for the Bank (33% as a minor challenge and 67% as a major challenge). Because the Bank, its shareholder and key stakeholders do not appear to be primed for fundamental change at this stage, this evaluation has explored opportunities to further sharpen OeEB's operations and performance, but within the boundaries of this business model and governance framework.

3. **The Bank has a strategy with concrete, quantitative targets**. The Bank's mandate and core task is laid down in Section 9 of the Export Guarantees Act[1], which also outlines OeEB's commitment to the goals and principles of Austrian development policy. Building on this, the Bank formulates a more specific investment strategy every five years. As with other development financiers, OeEB has a strategy that prioritises investment themes that support development and address climate change. But unlike most others, the Bank has a set of 'hard' quantitative periodic strategic targets that guide its focus and investment selection. These targets are the result of a consultation process among the Bank and its stakeholders and are a strength of the Bank's framework approach, providing clear expectations for performance. These ambitions and targets have for example steered the Bank towards its current large and solid climate-focused portfolio and track record. However, in their practical application, the seven targets do include trade-offs and provide some room for interpretation (see Effectiveness).

Coherence

On how OeEB fits with other EDFIs and wider Austrian, European and international organisations

4. **The Bank has a unique and complementary role within Austrian foreign policy**. OeEB is one of the key actors in Austrian Development Policy, alongside actors such as BMEIA, BMF, ADA and WKO. The Bank

[1] *'The tasks of the development bank are in particular the long term financing of sustainable investments in developing countries and the handling of federal measures to support the preparation and the implementation of private-sector projects in developing countries'*

has a unique role, as it is the only entity that invests through loans, equity and guarantees in the private sector in developing countries. Where it concerns grant instruments through its technical assistance, it operates complementary to the grants of ADA, as ADA focuses on programs and initiatives that are not for profit with a major focus on themes OeEB does not explicitly target, such as peacebuilding or humanitarian aid. At the same time, there are some overlapping thematic focus areas between OeEB and ADA, such as private sector development, climate, and environmental protection. There is some cooperation, particularly with the private sector development unit, for example is ADA's funding for a gender inclusive fintech fund to leverage private money and meeting development targets. At the same time, an opportunity for more coordination and synergies remains.

5. **OeEB's strategy is aligned with the Austrian Development Cooperation Act and the current Three-Year Programme**. Policy coherence and the whole-of-government approach is a key concept, and the Bank is committed to and aligns with the goals and principles set out in the Austrian Development Cooperation Act. OeEB contributes to core objectives such as private sector development, reducing poverty, gender equality, preserving the environment, protecting natural resources, and mitigating climate change. Notably, the Bank has consistently been the largest contributor to Austria's international climate finance.[2] Austrian interests also play a role in the selection of its thematic focus areas, where the Bank aims to leverage the expertise of Austrian companies, for example in the renewable energy sector.

6. **Key Austrian stakeholders are involved in OeEB's strategy and investment selection**. OeEB is characterised by a high level of involvement of Austrian political and governmental stakeholders. The level of involvement by external actors is unique and unparalleled within the EDFI community. BMF, BMEIA, ADA and WKO are all involved in the Bank's strategy development process, which takes place every 5 years. In addition, representatives from BMF, BMEIA, ADA, the Austrian Federal Chancellery, the Federal Ministry for Digital and Economic Affairs, the Austrian Federal Economic Chamber and the Austrian Federal Chamber of Labour all have a voice in the investment selection process, as they jointly sit in the "Business and Development" committee that approves investments.

7. **OeEB is cooperating closely with other EDFIs.** Since its inception the Bank is part of the EDFI, a group of European bilateral DFIs. The EDFIs are working together strategically both at CEO and operational level. The Bank participates in many working groups around themes such as harmonisation, climate statements, exclusion list, human rights, E&S standards, impact standards, or approaches to mobilisation approach. Moreover, the Bank is cooperating closely in investments and other activities with other EDFIs, notably the larger actors such as the German DFI DEG, the Dutch FMO and the French Proparco. The Bank has a particularly close relationship with DEG which is of major value add, as partnering up with a much larger bank enabled use of an advanced impact measurement model (the DERa) and the commissioning of various in-depth thematic research studies that it could not have funded as a standalone organisation.

Additionality

On the extent to which OeEB is additional to other interventions in the market

8. **Being additional in the market is a key criterium for development financiers and thus for OeEB**. OeEB's operations must demonstrate additionality, which its formal mandate rather narrowly defines as

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[2] In the context of the USD 100 billion goal: in 2009 at COP 15 in Copenhagen, in decision 2/CP.15, in the context of meaningful mitigation actions and transparency on implementation, developed countries decided to commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. Parties decided that this funding would come from a wide variety of sources, public and private, bilateral and multilateral.

financing that is offering financing that typically is not offered at all or not offered at the same terms from commercial banks. Indeed, additionality as a factor in investment analysis and decision-making is integrated in the Bank's processes. For each project, OeEB must describe the additionality in the project application, and additionality is discussed during various steps of the investment decision-making process, notably in in the 'Koordinations-Meeting' but also and other approval bodies such as the 'Gremium'.

9. **In line with its mandate, the Bank is additional to other Austrian companies.** 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. OeEB is living up to this mandate, as it is not in competition with its parent company OeKB or other Austrian commercial banks. It is the only actor in Austria that can support investors in structuring complex, time-consuming projects in developing countries with a challenging business environment.

10. **However, the Bank's financial additionality in the market is limited due to its risk policy and process**. OeEB is financing long-term projects or projects where a higher risk tolerance is needed additional to commercial players. However, compared to other multilateral development banks (MDBs), DFIs or impact investors operating in its target markets, OeEB has a lower relative level of financial additionality. Three main factors contribute to this. The first is that the Bank's level of risk raking is influenced and curtailed by the risk appetite and risk analysis of the guarantee provider, who must approve all investments (see more under Effectiveness). The second is the Bank's competitive offering, which often comes short of peers as it must charge higher interest rates as a result of guarantee[3] and admin fees. A third is the limited capacity to source investments due to the limited staff size and lack of local presence. This means that the Bank sometimes struggles to invest in those markets where investments are most needed and as a result has missed out on more pioneering investments.

11. **This leads to Bank being perceived as having a relatively reactive stance in the market**. OeEB's organisation size, lack of local market presence, limited ticket size and competitive offering leads it to generally follow rather than lead in sourcing and executing transactions. Although the Bank has experienced individual staff members with a strong network in selected geographies (e.g., the Balkans, India) and is able to source investment opportunities, it is to a large extent reliant on a network of other DFIs, local banks or advisors to be introduced to deals. Although the Bank does not structurally track when it enters a deal, senior staff in the survey estimated that on average the Bank is (among the) first investors in only 10-30% of investments.

12. **The Bank's non-financial additionality is brought through advice on structuring but only to a limited extent through TA**. A core competence of OeEB is its expertise in structuring project financing on the debt side. It is recognised for its track record in financial structuring for renewable energy projects (e.g., on-grid and off-grid solar, wind farms, small hydropower projects) but also for other complex climate-related projects such as of waste to energy, water treatment or sewage treatment plants. On the other hand, the non-financial additionality through Technical Assistance (TA) is limited. The Bank is allocating 10% of its annual profits to TA, which results in a budget of approximately EUR 600,000. This represents 0,04% of its AUM, and means the Bank is on the lower end in absolute and relative terms among the EDFIs.

[3] The OeEB has a unique structure within the EDFI group as all financing transaction are backed by a comprehensive official state guarantee. It should be noted that BMF already applying reduced premiums when compared to the OECD's Arrangement on Officially Supported Export Credits.

Effectiveness

On the extent to which OeEB is achieving its objectives as set out in its strategy

13. **OeEB's financial performance has been consistently stable, to a large extent as a result of the guarantee system**. The Bank's profits have been steady, with an average of EUR 6 million annual profits across the 2014-2021 period. This is despite the market shocks experienced under the COVID-19 pandemic, to which the Bank's portfolio has remained resilient. The Bank managed to accumulate EUR 49.7 million in uncommitted reserves. This is thanks to the lion's share of yearly profits being allocated to reserves. The Bank's portfolio quality has bounced back after COVID-19, with the portfolios average S&P rating improving from a B+ to a BB- in 2021. The Russian invasion of Ukraine has put a small proportion of exposures at risk, which the Bank has continually monitored and is working with local partners on an ongoing basis.

14. **OeEB is behind on most of its strategic targets for the 2019-2023 strategic period**. While the Bank is on track to meet its strategic objective of allocating at least 20% of new commitments to African countries and is exceeding its DERa target, it is behind on its objectives to allocate at least 40% to climate projects, 25% of new commitments to Least Developed Countries (LDCs), 50% to the real sector (i.e., investments in non-financials) and 80% to the thematic priorities. The Bank is particularly far off on its LDC target, and unlikely to reach the objective in the current strategic period. This presents a continuation of the underperformance against this same target in the previous strategic period 2013-2017. It also is lower than peer DFIs that are close to OeEB's portfolio size (e.g., BIO has 33% of commitments in LDCs, Finnfund 22%). Reasons that contribute to the underperformance against targets include conflicting development and risk policies, a less competitive offering, insufficient use of the equity instrument and limited ability to pro-actively source and lead on higher impact investment opportunities.

15. **The Bank has conflicting development and risk policy goals which renders it near impossible to meet some strategic targets**. Whereas the Bank has strategic objectives for investing 25% of new business LDCs, 20% in Africa,[4] and 40% for climate finance, the Bank's risk appetite and required guarantee approvals drive a focus on lower and upper-middle income countries and sectoral diversification. For about 25% of LDCs and 15% of African countries there is no guarantee risk cover available, and the remaining ones have a limited risk cover with low country limits, strict eligibility criteria and a high level of scrutiny. This has contributed significantly to the structural inability for the Bank to meet two of its core strategic objectives.

16. **OeEB's pricing is often less competitive**. OeEB's interest rate offering to clients often is higher than other development financiers or even local commercial banks. This is mainly the result of several factors that are specific to OeEB's governance structure and business model, notably the mandatory guarantee premiums, administration fees to its parent company and the slightly below average ticket sizes compared to other DFIs (EUR 8.5m compared to an EDFI average of EUR 9.8m). In addition, the persistent low interest rates in international markets negatively affects OeEB's offering compared to commercial banks – which it also must avoid competing with so as not to crowd out commercial finance. This disadvantaged competitive position is particularly apparent in the Bank's strategic priority geographies (Africa and LDCs) and strategic investment themes (climate).

17. **Equity investments present an opportunity to take more risk and move towards strategic targets but are underleveraged**. Private equity funds are financed by a group of co-investors alongside OeEB and

[4] The targets for LDCs and Africa also seem oddly determined, as the investment risk in LDCs on average in higher than those in Africa.

can invest in a diversified group of companies. This inherently means that OeEB's euro can take on more risk and indirectly invest in companies that it otherwise might not have invested in, for instance in smaller local SMEs companies in LDCs, Africa and more pioneering or impactful busines models. It also means that OeEB's euro can have a wider exposure over crucial strategic priority sectors and themes. Indeed, the current exposure to LDCs of OeEB's equity portfolio is 31.4% (even 43.3% when excluding two funds that can be considered exceptions),[5] compared to 13% for investment finance. However, the instrument is significantly underleveraged, with just 8% of the Bank's AUM representing 'pure' equity investments through funds, and an additional 23% of equity stakes in debt-focused funds or quasi-equity (totaling approximately 31% in equity and quasi equity commitments). Among the EDFIs, OeEB has the very lowest propotion of 'pure' equity investments, and when factoring in debt-focused funds only Proparco has a lower use of the equity instrument.

18. **The Bank's expertise and capacity on investing in LDCs and climate investments beyond renewable energy could be strengthened**. OeEB's staff is relatively senior, has a high retention rate and is generally perceived by stakeholders and clients as having a high level of competence. This review confirms the good quality of staff. There still are strengths and weaknesses, and in the survey and interviews bank staff has shown to be self-aware of these. On the one hand, most staff consider the Bank's expertise and human capacity on financing MSMEs/financial inclusion, renewable energy and infrastructure sufficient. On the other hand, 88% of senior staff indicates that additional expertise and/or human capacity is needed on financing climate change adaptation, and 82% thinks the Bank's expertise and human capacity for investing in LDCs and Africa can be strengthened.

Efficiency

On the extent to which OeEB efficiently uses its expertise and capacity

19. **Compared to peers, OeEB is using its capacity efficiently**. Compared to other DFIs with a similar investment focus, OeEB is among the most efficiently operating organisations. Measured by both assets under management (AUM) as well as the annual commitments per staff member, only British International Investment (BII), Norfund and SIFEM staff handles more volumes of investments per person. However, as BII's and Norfund's average ticket sizes are much higher than OeEB's, and SIFEM has delegated business services management and portfolio management to two specialised partner companies, it could even be concluded that by this measure OeEB is the most efficiently operating European DFI.

20. **Despite the complex investment process, project approval times are on par with or quicker than other DFIs**. On paper, OeEB's investment process with its heavy involvement of a wide variety of external stakeholders appears complex. But in practice, the Bank has managed to keep project approval times limited. Although there is no data available on the exact average number of days, staff estimates most cases to take about 3-12 months. This is partly due to a high level of efficiency in internal analysis and approval. Key factors are an early integration of credit risk management, early feedback to the deal team in the quick check phase, and fast processing of internal approvals at both head of department and Executive Board level. The Bank and external stakeholders have jointly found a *modus operandi* to keep the comprehensive approval process with the three meetings with external stakeholders (i.e., Koordinations-Meeting, Gremium and Beirat) manageable. Any further major change in the process would require an amendment to the law, which requires the involvement of the legislator. Key issues that are negatively

[5] The Bank manages two Europe-focused funds as special projects on behalf of the Republic of Austria: The Central and Eastern Europe Special Situations Fund and Central European Fund of Funds.

affecting efficiency and may be enhanced is the sometimes challenging 'predictability' of views on investment opportunities (see Recommendations) and the planning of meetings.

21. **The successful implementation of the new core banking system will further enhance efficiency**. The Bank is currently in the process of implementing a new core banking system, the low-code Suite software of German company Fintus. The successful implementation is expected to further improve the internal approval process, to further facilitate reporting of OeEB to the Ministry of Finance and other stakeholders, and to support the relationship with customers, including through more efficient exchange of financial and impact data.

Impact

On the extent to which OeEB contributes to sustainable private sector development in developing countries

22. **Impact management practices are structurally integrated in the investment process**. As an impact investor, all of OeEB's investments are meant to generate measurable and sustainable development impact in developing and emerging countries. The Bank's impact management practices as part of the investment process are guided by and aligned with the IFC's Operating Principles for Impact Management (Impact Principles), of which OeEB is a founding signatory. The Bank published its first Disclosure Statement in 2022, which is a solid and detailed outline of how the Bank has integrated impact management throughout its investment process. This review confirms that elements of impact are assessed in strategy, in investment analysis and decision-making, in portfolio management and exits.

23. **The Bank's impact management system is advanced but could be better aligned with strategy.** The Development Effectiveness Rating (DERa) is one of the most advanced and detailed methodologies and practical tools to assess the (potential) development effects of investments. It is of added value as a standalone tool alongside development policy-related targets, because it assesses development effects of a company comprehensively, both for steering and reporting purposes. Over 80% of senior staff consider the DERa is useful to structure and better explain expected development effects of an investment in the investment process, and 94% consider the DERa suitable for communicating development effects externally. Most of the Bank's strategic objectives are somehow reflected in the DERa, either via its focus areas, indicators, and/or scoring methodologies (e.g., higher points for more challenging countries, for climate projects). However, more specificity and weight could be given to these elements of the DERa.

24. **The Bank (indirectly) contributes to just over one million jobs and supports almost 3,000 MW of renewable energy installed capacity**. The Bank publishes a publicly available annual impact report. As per 31 December 2021, nearly 300,000 MSMEs have been reached indirectly with OeEB financing through its credit lines with local banks and fund investments. This number is just below the total number of SMEs in Austria. The Bank estimates to have supported just over one million jobs, which is almost equal to the number of citizens of a small African capital city such as Kigali, Bujumbura or Freetown. Of this, an estimated 368,000 jobs are held by women, which represents 35% of all jobs supported. This can be considered a good performance, as the percentage is in line with one of the 2X criteria (i.e., 30-50% women in workforce[6]). On the climate side and access to electricity side, the portfolio contributed to the installation of 2,928 MW of power generation from renewable sources, which was roughly the installed capacity of Kenya's national electricity grid in 2021.[7] An estimated 1.189 million tonnes of CO_2 emissions were saved

[6] The 2X criteria has defined tailored thresholds per sector for women in the workforce.

[7] Kenya - Country Commercial Guide. https://www.trade.gov/country-commercial-guides/kenya-energy-electrical-power-systems

by the Bank's renewable energy projects. For comparison, the entire country of Rwanda emitted approximately 1.2 million tonnes of CO_2 in 2021.[8] It is important to emphasise that the Bank measures its *contribution* to impact achieved and is unable to *attribute* impact directly to the size of its investment or assistance. This is a sector-wide limitation that is not unique to the Bank.

Sustainability

On the extent to which OeEB contributes to sustaining long-term benefits

25. **OeEB strives to ensure its own and clients' economic sustainability in its operations**. Preserving economic sustainability is a core notion laid down in the Bank's mandate and a necessity from the status of a joint-stock company and a licensed bank. Based on this, it is a central part of the Bank's strategy. OeEB endeavours to take risk aspects into account appropriately, which is also necessary in view of the federal guarantees used for loan financing and the federal funds used for equity investments in the sense of careful handling of public funds. Indeed, the Bank has managed to grow its assets substantially while generating positive returns. On a client level, when assessing risk appetite, OeEB's mandate aims to finance projects that are economically sustainable in the long term and can thus continue to exist successfully even after loan repayment. This should ensure both the Bank's and its clients' financial and economic sustainability.

Table 1 SWOT analysis of OeEB

Strengths	Weaknesses
• Motivated and knowledgeable staff	• Conflicting expectations between private shareholder and public mandate
• Financial structuring expertise	• Strategy with overlapping themes and targets
• Flexibility and efficiency in operations	• Complex investment process with limited predictability
• Relatively large and diversified climate investment portfolio	• Less competitive offering compared to peers
• Resilience to financial shocks due to risk profile, sound risk management and guarantees	• No control over profits and ability to invest in capacity building
Threats	**Opportunities**
• Lack of political will for change	• Expand equity operations to revolving nature
• Lack of resources for necessary investments in capacity building	• Further cooperation with private investors
• Inability to live up to expectations	• Expand the Business Advisory Services (BAS)
• Declining staff morale	• Broaden the scope of climate finance and support

Recommendations

Based on the findings and the consultations with all stakeholders, several potential areas of improvement are identified by the evaluation team to further sharpen OeEB's strategy, organisation, operations, results and impact. They are formulated as potential actions that could be considered. Some may hold trade-offs, and most cannot be responded to and implemented by the Bank alone. That is why the recommendations concern OeEB, but also governance bodies (e.g., the Supervisory Board) and external stakeholders (e.g., BMF, BMEIA,

[8] World Data Atlas – Rwanda – CO2 emissions. https://knoema.com/atlas/Rwanda/CO2-emissions

ADA). In the formulation of recommendations, we took note of the recommendations of the Austrian Court of Auditors and have tried to build upon and be complementary to those.[9]

On strategy

Considerations for the formulation of objectives for the 2024-2028 strategic period

1. **Remain a thematically focused development bank that also has a strong focus on climate**. In the next strategic period (2024-2028), private sector development and addressing climate change comprehensively in developing countries should remain the main generic focus areas for the Bank. We encourage the Bank's stakeholders to articulate the expected focus more clearly on traditional development finance and climate finance mandate taking into account: (i) the differing interpretations of the core focus of the Bank; as well as (ii) the inherent trade-offs between promoting economic development and creating employment on the one hand and addressing climate change on the other hand. The current targeted 60/40 split (i.e., 40% specifically targeted for climate-relevant projects and 60% for development finance that contributes to specific themes and selected SDGs) seems appropriate.

2. **Strategically discuss, categorise and develop guidance on investments that present socio-economic development benefits but may have negative climate effects**. As the Bank is expected to introduce a Paris-alignment climate roadmap in the near future,[10] the 60% non-climate specific projects will also need to be influenced by climate considerations. The climate roadmap should outline the pathway to net zero and all the practical implications this will have for operational aspects such as investment selection, risk, business advisory services and reporting. For the 60% of investment projects that will not have a specific climate focus, investment opportunities that support clean growth investments should be pursued, such as clients with low carbon operations or climate resilient infrastructure. At the same time, investment opportunities remain in in economic activities that may have major contributions to socio-economic growth but also inherent higher CO2 emissions (e.g., cement production, heavy manufacturing, port infrastructure). Guidance will need to be developed on what to phase out and exclude categorically (e.g., coal-fired power plants, oil and gas exploration and refinery) and where conditions will need to be set (e.g., in heavy-emitting sectors or where gas-fired power plants are part of national transition plans). There also needs to be a concrete plan and financial resources on how the Bank can increase its support for clients transitioning to low-carbon operations or building up resilience to the effects of climate change.

3. **Either make key strategic target KPIs more realistic or create conditions where these can be met**. The strategic targets on investing in LDCs but also on climate finance have proven to be challenging to meet. On LDCs, this requires a concerted effort. The Bank's staff should focus more strongly on sourcing investment opportunities in LDCs, invest in market studies and capacity building (see Recommendation 14), and could consider piloting local office(s) (see Recommendation 15). On climate, the focus should be broadened (see Recommendation 5) and the KPI measurement adjusted (see Recommendation 6). In both

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[9] In the formulation of recommendations, we have left out several operational recommendations that were made by the Austrian Court of Auditors to which either BMF and/or OeEB agreed and committed to follow-up on. We did so in order not to replicate and keep the number of recommendations more manageable. Some of the recommendations build upon recommendations of the Court of Auditors and provide more concrete suggestions for implementation, while a selected few take another position than the Court of Auditors recommended.

[10] The OeEB is in the process of developing a Climate Change Roadmap document in which it commits to a comprehensive climate change roadmap including a net zero emission pathway. It currently has completed a draft version which is under internal review and planned review by external stakeholders. The current version of the commitment is aligned with the *Statement on Climate and Energy Finance* by the EDFI.

cases, but particularly on investment opportunities in LDCs, BMF is encouraged to be more flexible in their risk assessments and consider further discounts on the guarantee fees (see Recommendation 13).

4. **Sharpen focus between the strategic objectives.** The Bank's practice of setting 'hard' quantitative periodic strategic targets has proven to be helpful in charting its course – despite the absence of real consequences when targets were not met. This practice should be continued in the next strategy. However, given the relatively limited number of 20-25 transactions per year, the current seven quantitative strategic targets (i.e., climate, LDCs, Africa, real sector, thematic investments, private focus and DERa) can be considered too extensive, particularly when a eighth target (i.e., on gender) is considered. Moreover, some of these targets overlap and/or provide trade-offs with each other. In the survey among senior OeEB staff, around 90% indicated to be against adding additional targets, as this would further complicate investment selection and dilute the Bank's focus. In the Bank's new strategy there should be more focus in strategic objectives, with a suggested three key KPIs (or first-tier targets) to primarily steer on: climate, LDCs and Africa. Some of the other existing strategic objectives can remain part of an updated strategy but reformulated to operational targets (e.g., minimum DERa score, requirement for improvement against baseline on gender), limits (e.g., private sector focus) or more practical guidance (e.g., on thematic focus areas).

5. **Broaden the strategic climate finance objective beyond the renewable energy focus**. The strategic objective of climate finance should be expanded to cover not only renewable energy, but a broader mitigation finance focus and a significantly increased focus on finance for climate change adaptation. This broader focus would ensure the Bank's climate finance efforts are more in line with the Paris Agreement and the actual needs in the market. In mitigation, this means widening the scope beyond renewable energy to also include products such as energy efficiency credit lines, e-mobility, carbon sinks or preserving biodiversity. The Bank should also significantly strengthen its focus on investments in adaptation. Although the return generating investment opportunities in adaptation arguably are more limited, there are potential areas of focus for the Bank such as climate resilient agriculture, resilient infrastructure and built environment, waste and wastewater management, nature-based solutions or early warning systems.

6. **Adjust the methodology to track the strategic KPI for climate investments**. The current strategic KPI for climate finance of 40% of new business uses the OECD DAC's Rio Marker for Climate methodology. This methodology was elaborated by developed countries in order to track the mainstreaming of the Rio Convention's considerations into development cooperation practices. It is mainly used for reporting bilateral national contributions to climate finance to the United Nations Framework Convention on Climate Change (UNFCCC) rather than strategic steering. As such, it should remain as a tracking tool for reporting on OeEB's contribution to Austrian climate finance. However, as the methodology does not count climate finance to UNFCCC Annex I countries (e.g., Ukraine), where OeEB has climate-focused investments, it is less suitable to track the Bank's full focus on climate-focused finance.

7. **Evaluate progress against strategic target indicators during the 5-year strategic period**. The progress against targets indicators should be evaluated at least once during a strategic period, ideally just past the halfway point. This can be a short, focused evaluation that assesses the relevance of targets, the hurdles to meeting those targets and any change in external factors that may influence the targets (e.g., COVID-19 pandemic, war in Ukraine in the current strategic period).

On additionality

8. **Increase the ambition on the Bank's financial additionality.** Additionality should be central to the Bank's engagement alongside its focus on development impact. The definition of financial additionality should be broadened to (i) financing that would have otherwise not have been there as it is not available in the market from other (commercial) sources on reasonable terms and conditions (e.g. local currency financing, extended tenors, or grace period), (ii) the early timing of an investment which catalyses additional financing, or (iii) a leading role in structuring transactions. To increase the Bank's financial additionality, the Bank should increase the transactions where it provides a key financing gap, and where it is (among the) first investor(s). This also implies that transactions will need to be be identified and structured at an early stage.

9. **Increase the volume of the Bank's business advisory services and focus more on climate advisory**. The Bank's business advisory services (BAS) should be at least doubled to get closer to the at least 0,1% of AUM that most EDFIs allocate annually for technical assistance and advisory services. The additional amounts will also be required to live up to the commitments made in the climate statement to assist clients in their Paris alignment processes. The Bank is suggested to maintain a flexible part of BAS, but specifically increase its climate advisory services. Examples of advisory services may include portfolio screenings for FIs, target setting, analysing the resilience of companies regarding physical and transition risks related to climate change, implementing greenhouse gas accounting reporting systems, identifying transition and physical climate risks, or developing green financing products.

On resources

Considerations on how to facilitate the resources required to enhance the Bank's performance

10. **Further consider existing proposals on the allocation of the Bank's profits and reserves and reach an agreement**. OeEB should have the ability to utilise its profits and/or reserves for investments that will enable the Bank to enhance its performance – at least for a larger part of its profits. The Bank has a built up a relatively large pool of financial reserves. However, right now 90% of profits remain being added to the reserves (10% of profits are used for TA), while the Bank urgently requires internal investments to build organisational capacity and enhance systems. The implementation of the new banking system, the further sharpening of the DERa, and the implementation of the climate roadmap are examples of areas where funding is required. A part of the profits should also be used for increasing the TA. The Bank and its stakeholders could also explore using some of the profits for a co-funding model with BMF for further discounts on guarantee fees when it comes to investments in key strategic priorities.

On governance

Considerations on how to strengthen the balance in the governance structure and processes

11. **Set out a public and international search selection process for upcoming Executive Board members**. Within the near future, one of the two Executive Board members will retire. Having an Executive Board with two co-CEOs is not common among EDFIs or commercial banks but is institutionally accepted and worked relatively well for the Bank so far. For the selection of the upcoming and any further future Executive Board members, the Supervisory Board is recommended to set out an official, public and international search process.

12. **Strengthen the focus on the Bank's developmental role in the Supervisory Board**. The Supervisory Board currently has members with strong expertise on banking, compliance, risk, accounting and HR.

Among the four members, there is one independent member that has a background in development finance. Adding an expert with development policy and impact management expertise may help the Supervisory Board to even more effectively monitor the Bank and supports its management, particularly regarding decisions of fundamental importance. An option could be to add an additional member with siginificant expertise in development effectiveness and impact, and/or to allow BMF's observers to become voting members.

On investment processes

Considerations on how to enhance the efficiency of the investment process and quality of the investments

13. **Increase predictability by enhancing guidance on investable countries and development impact expectations**. The Bank's efficiency would benefit from some additional indicative guidance on countries that are eligible for investments, and expectations of investments projects for types of countries by external stakeholders, notably both departments of the Ministry of Finance. For LDCs, the Ministry's department issuing guarantees could even more clearly indicate which countries are considered too risky and provide early warnings when there is an expectation that dynamic country risk limits will be reached in the near future. For the higher middle-income countries, the Ministry's department overseeing development policy could indicate for which countries it expects a higher development impact thesis. This will enhance predictability for OeEB investment staff, increasing efficiency and preventing frustration.

14. **Provide reduced insurance premium amounts in key strategic focus areas**. Even though the insurance premiums the Bank must take are below the rates of the OECD Arrangement, the Bank still has to charge higher prices to clients compared to peers. This is perceived to be especially applicable to potential investments in key strategic focus areas, such as LDCs, Africa and some climate-relevant projects. In cases where there is a clear link with the Bank's current (or future) key strategic target indicators, BMF is encouraged to consider providing further discounts on the guarantee fees. Should an agreement be reached between the Bank and Supervisory Board on the allocation of profits (see recommendation under Resources above), then the discount can be co-shared between BMF and the Bank. Should an agreement not be reached, then BMF is encouraged to offer the discount. Furthermore, the Bank is to explore the opportunities for guarantees from the European Union, under its ESFD+ scheme.[11]

On organisation

Considerations on how to strengthen the organisation to be better able to meet targets and enhance performance

15. **Invest in capacity building around key (upcoming) strategic priorities**. The Bank should build capacity among staff around investing in LDCs and climate investments beyond renewable energy. To become more aware and focused on LDCs the Bank is encouraged to consider a special task force that could, potentially with external support, execute market studies on investment opportunities in selected LDCs. In order to be more aware of investment opportunities in climate change adaptation OeEB should join at a minimum join the DFI-led Adaptation & Resilience Investors Collaborative, but also build organisational capacity by attracting staff member(s) with adaptation expertise and/or organise training around this theme.

16. **Pilot local offices in selected key regions**. To a large extent the Bank depends on the network and regional expertise of individual Bank staff to source investments. This is recognised within the Bank, and

[11] The EFSD+ guarantee makes a budget of about EUR 14 billion available to European Development Finance Institutions. It is a multi-country and program budget, with the EU seeking a leverage effect that must be at least 2. This guarantee instrument is combined with a grant component available to prepare the projects or technical assistance activities of the beneficiaries.

93% of senior staff indicates that a lack of on-the-ground presence is a challenge for the Bank to source investment opportunities. To further stimulate the strengthening of the network of individuals, their understanding of targeted markets, but also to increase the overall visibility of the Bank it should consider piloting the placement of staff in key strategic hubs, taking into account the size of the OeEB portfolio in that region. This may in time strengthen the Bank's deal sourcing capacity and additionality in the market. There are opportunities to do this in efficient ways, either by joining the local offices of other EDFIs (e.g., the combined FMO/DEG office in Johannesburg), embassies or the local ADA offices. The pilots should last at least last one year, but ideally longer.

On instruments

Considerations on how to more use instruments more effectively to achieve strategic objectives and be additional

17. Increase the use of the equity instrument. Through an increased use of the equity instrument OeEB will be more likely to move towards its most important strategic objectives. Through equity investments OeEB can take more risk and allocate capital to its strategic targets of LDCs, Africa and climate. The Bank can also have a higher degree of engagement with and leverage over (indirect) investments and a more solid basis to actively add value. However, the use of the equity instrument at OeEB is the lowest among all EDFIs. The Bank is advised to increase the use of the equity instrument, and stakeholders are encouraged to help facilitate the Bank to do so. This can be done by:

- *Deciding on the on the reinvestment of returns from fiduciary holdings***:** BMF is encouraged to make a fundamental decision on the reinvestment of returns from fiduciary holdings and provide clarity on expected provision of funds for the Bank's equity operations. To support this decision, OeEB's Equity team should performance additional analysis and develop scenarios that BMF requires. In its expectations of this analysis, BMF is advised to be as realistic and pragmatic as possible and take into account limitations of the analysis (e.g., returns from exits cannot be exactly predicted given the factors influencing this such as company performance, macro-economics, availability of buyers).
- *Increasing the amount of funding from fiduciary holdings temporarily to enable equity operations to become revolving*: BMF is encouraged to consider (temporarily) increasing the volume of fiduciary holdings. According to calculations by OeEB, it would require a raise from the current EUR 6 million to EUR 20 million for the coming six years in order to become revolving.[12] There seems to be a high likelihood that this would enable the Bank to develop the necessary planning security for further expanding the equity operations, with the aim of reaching sustainable operations and a revolving nature within four to six years, although we could not fully confirm the underlying calculations. As in the previous point, we encourage the Bank's Equity team to provide a more elaborate calculation and argumentation of the modelled assumption for reaching a revolving nature. This should be developed taking into account specific needs for information BMF may require.
- *Providing a reliable and stable commitment on the volume of fiduciary holdings*: regardless of whether reinvestments can be utilised, or fiduciary holdings increased, there at least needs to be a stable,

[12] According to OeEB calculations, new trust funds of at least EUR 20 million per year are required for 6 years in order for the pool of equity investments to become revolving. With an allocation of EUR 20 million for the years 2022 to 2027, The Bank's Equity team expects no new budget funds will required from 2028 onrwards, and OeEB can finance the investment program by reinvesting from returns. With a total budget allocation of around EUR 240 million from 2012 to 2027 and an average effective fund term of around 12 years, OeEB would have around EUR 20 million per year available for new investments in the future. According to the model calculation, the invested capital would be relatively stable at around EUR 160 million. While this calculation seems plausible to the evaluation team, a full in-depth review was not within the evaluation's scope. The evaluation team does consider the explanations behind the calculations by the Bank to be rather succinct, and would merit from a more elaborate argumentation and calculation.

predictable commitment from BMF towards the Bank on the volume of fiduciary holdings that is made available to OeEB. This means that when preparing the federal budget, attention should be paid to the continuous provision of federal funds for the fiduciary holdings in order to provide the Bank with stable project planning and execution.

On environmental and social (E&S) management

Considerations on how to strengthen E&S performance

18. **Finalise and implement an internationally best practice grievance mechanism**. The Bank has an existing, publicly available grievance mechanism, which is currently under review to align with international best practice standards. A grievance mechanism should ensure the right to be heard for complainants who feel affected by an OeEB-financed operation in order to both enable resolution of disputes and assist OeEB in drawing lessons learned for current and future operations. The Bank should continue to enhance the mechanism to align with international standards and may also explore to what extent it would have the capacity to commit to the Independent Complaints Mechanism (ICM) that is jointly developed and implemented by DEG, FMO and Proparco.

On impact management

Considerations on how to strengthen impact management and measurement of development effects

19. **Adjust the DERa to better align with the Bank's strategic objectives**. More specificity and weight could be given to the climate and investment difficulty elements of the DERa in order to better align the DERa with the Bank's current and future strategy. As a licensee of the DERa, OeEB can only proceed on this with DEG. As DEG is implementing a new strategy that has a strong focus on climate and net impact, the DERa is likely to already be adjusted to align better with OeEB's strategic priorities. OeEB is recommended to remain closely involved with the DEG team working on the DERa revision process and consider how it can provide more weight to the LDCs and climate elements in scoring.

20. **Select an external expert consultant to perform the next OPIM independent verification**. As a signatory of the Operating Principles for Impact Management (OPIM), the Bank should commit to independent verification of its practices at regular intervals in line with Principle 9. The Bank has interpreted the regular interval as every five years, which seems reasonable. The conclusions of this verification report shall also be publicly disclosed and are subject to fiduciary and regulatory concerns. For the next verification process, which is scheduled for 2025, the Bank is advised to select an external expert consultant to execute this assignment, in order to live up to the expectation of an independent verification process and independent verification report.

21. **Explore options to add attributed results in results measurement**. Currently the Bank uses the *contribution approach* in assessment of the results according to the results framework and development effects of its investments according to the DERa. This means that it takes into account all development effects of an invested company, regardless of the instrument, loan volume or equity stake, and regardless of the role of co-investors. The *attribution approach* is a more precise form of assessment of development effects, as it focuses on the proportion of results attributable to the financial contribution of the Bank. Understanding this will allow the Bank to better record where it achieves most impact per invested euro, and thus most 'value for money' against the development mandate. However, it should be recognised that the attribution approach is complicated from a methodological point of view, and approaches are still under development, and the contribution approach still is common practice among EDFIs. When moving forward on this, it also is advisable to harmonise with the EDFIs, for reasons of comparability of data.

Nevertheless, the Bank should continue to be a part of methodology development efforts and explore options internally.

22. **Consider integrating development effects as a Bank-wide incentive**. The OeKB and BMF may explore integrating a development-focused element into variable remuneration, in order to help to further stimulate the focus on higher impact investment opportunities. The performance on development could for instance be measured by the performance against development-related (future) key strategic KPIs (e.g., LDCs, Africa, climate) and the DERa score. Given the varying departmental mandates (e.g., Africa-focused investment officers are likely to 'score' higher than Balkans-focused ones), an individual or department-wide incentive will not be feasible, yet determining a part of variable remuneration based a Bank-wide performance may in theory work. It should be noted that at present 83% of senior Bank staff indicates to be against variable remuneration linked to development impact. This shows the sceptical feelings among bank staff. Exploring options should thus be approached carefully to prevent perverse incentives or even frustration among staff.

Introduction

Background

The Federal Ministry of Finance (BMF) commissioned this independent evaluation of the Bank's activities. Evaluations of this nature are carried out every three to five years and the last evaluation was finalised in 2017. The findings of this evaluation will form the basis for the Bank's next strategy period beginning 2024.

Objectives

The main objective is to independently review the performance of the activities of OeEB, grounding itself in the Bank's strategy 2019-2023 and paying special attention to the recommendations that were included in the 2022 report by the Austrian Court of Auditors. In doing so, the evaluation aims to provide accountability and deliver insights into how the profile and impact of the Bank can be strengthened organisationally and systematically to maximise outcomes and impact against strategic goals.

Scope

The evaluation covers the entirety of OeEB's activities and will assess the further development of the relevance, effectiveness, efficiency, development impact and sustainability of OeEB's activities, specifically:

- within the framework of the 2019-2023 strategy;
- considering the report and recommendations from the Austrian Court of Auditors for OeEB and the recommendations from the last evaluation in 2017.

Methodology and resources

The evaluation follows a mixed-methods approach framed around the OECD DAC Evaluation Criteria (relevance, coherence, effectiveness, efficiency, impact and sustainability). Four key sources were used to retrieve all quantitative and qualitative information on OeEB. The four different types of resources allowed for robust analysis and triangulation of all data, opinions and findings. The main sources are:

1. *Documents:* desk research was performed on relevant OeEB documentation, as supplied by OeEB and BMF throughout the process. This included strategy documentation, processes, impact and performance reports, annual reports, methodologies and tools, and select project level investment proposals and associated documents.
2. *Performance and results data:* quantitative and qualitative portfolio analysis was performed on portfolio data provided by OeEB. The data on OeEB portfolio composition and performance is based on OeEB internal portfolio databases, monitoring documents and presentations as well the results framework. The evaluation also draws on external sources, such as organisational and performance data of the European Development Finance Institutions (EDFIs).
3. *Surveys:* an online survey was designed and executed among select OeEB employees. In total 18 employees participated, representing senior staff members across all key bank functions. The survey results quantify qualitative views and serve as illustrations and data-driven backing of findings and arguments used in the report.

4. *In-depth interviews:* to further collect qualitative insights and anecdotal evidence on OeEB's operations interviews were conducted with 42 key stakeholders. The interviewees include OeEB Executive Board, staff and Supervisory Board, the mother bank OeKB, representatives of BMF, the Ministry for European and International Affairs (BMEIA), the Austrian Federal Economic Chamber (WKO) and Austrian Development Agency (ADA); representatives of investee companies; representatives of civil society, as well as peers and experts. The interviews were conducted in person where possible during a visit to Vienna in August 2021, and otherwise online. Refer to Appendix B for a full list of interviewees.

Case studies

To help illustrate the findings of this evaluation within the investments of the Bank, five case studies were written. Data was collected through interviews with key staff involved in each project, supported by documents provided for review. The case studies were carefully selected in close collaboration with OeEB to showcase as representative a sample as possible of the work that the Bank carries out. This included the consideration of factors central to the Bank's strategy, namely: the instrument used (debt or equity), project type (real sector or not), geographic region, and alignment with strategic objectives (e.g., infrastructure, climate, gender, financial inclusion). The five case studies are as follows:

1. Irrawaddy Towers: Project finance to telecommunications firm, Irrawaddy Green Towers, for the development of cell towers in Myanmar. This was a significant real sector project in an LDC for the Bank.

2. Umka: Debt finance to Serbian recycled cardboard manufacturer, Umka d.o.o., to partially finance the company's expansion works programme. This project aligned with the Bank's climate and infrastructure goals, while also promoting Austria's foreign economic interests.

3. Africa Renewable Energy Fund: Equity investment in a private equity renewable energy fund focusing on Sub-Saharan Africa to support the construction of assets in six African countries. This equity investment aligns with the Bank's climate and geographic goals (LDCs and Africa).

4. Women's World Banking Capital Partners Fund: Equity investment in a pioneering global fund that improves access for low-income women to financial tools. This investment is unique for the Bank for its exclusive focus on gender.

5. Eco.Business Fund: Equity and debt finance to Eco.business Fund that invests through debt in financial institutions and businesses that promote biodiversity and sustainable practices in Latin America. The Fund is currently the Bank's largest client and aligns with the Bank's climate objectives.

Reporting structure

Beyond this introduction, the report is structured in five core sections. The first section analyses OeEB's mandate, rationale and strategy, and the coherence of the Bank with other actors. The second section assesses the adequacy, effectiveness and efficiency of the Bank's governance and organisation. The third section analyses the investment approach, including the investment selection and approval processes, portfolio composition and risk management practices. The fourth section analyses the financial performance of OeEB and discusses how these results compare against the Bank's strategy. The fifth section analyses OeEB's approach to impact measurement and management. In addition to these core sections, five case studies are presented to provide tangible and illustrative examples of some of the key arguments made throughout this report.

1 Mandate and strategy

The first section analyses OeEB's history, mandate and strategy. It also assesses the Bank's coherence with other actors inside and outside Austria.

1.1 Rationale for establishment

In the spring of 2007, Austria's Federal Ministry of Finance and Ministry for European and International Affairs instructed the OeKB to develop a concept for the establishment of the "Development Bank of Austria". On the basis of this concept, the Austrian federal government, in September 2007, decided to begin concrete preparations for launching the institution. OeEB was founded in March 2008 as the development bank of the Republic of Austria. It took just a year to transform an idea to a functioning institution.

OeEB was established for various reasons. Austria was one of the last major European economies not to have a national bilateral development bank, and its establishment was considered beneficial for both for the people in poorer countries and for Austria's international standing. OeEB's services were also expected to give Austrian investors a further incentive to invest and deploy activities in developing countries and emerging markets.

One of the prerequisites was the creation of the legal basis for the activities of OeEB. This was accomplished through an amendment to Austria's Export Guarantees Act that took effect in January 2008. In parallel with the creation of the legal framework, a banking licence was requested from the Austrian Financial Market Authority and received at the end of January 2008. OeEB thus began to operate informally as of 1 February 2008 and officially on 1 March 2008. The timing of the Bank's establishment was striking, as it took place in the build-up to and after the 2008 financial crisis and the subsequent recession.

1.2 Mandate

OeEB operates with a public mandate to work for better living conditions in developing countries. It provides loans and equity participations for developing countries to support economic growth with an important role in sustainability, social impact, and environmental standards. OeEB is a wholly owned subsidiary of Oesterreichische Kontrollbank (OeKB), making it a private stock company with a public mandate that provides financing at near-market conditions.

OeEB can take on more economic risk than commercial banks and invests in markets where companies have limited access to capital. This means that OeEB provides solutions not offered by commercial banks in the various developing countries, and thus has a supplementary role to that of commercial banks.

Project eligibility for OeEB support is not tied to Austrian goods and services, although the use of expertise and capacity available in Austria is intended and encouraged. In principle, any company from an industrialised or developing country can become an OeEB client.

The overarching objective of OeEB's financing is to contribute to strengthening the private sector in developing and emerging countries, so as to reduce poverty and support the implementation of the United Nations Sustainable Development Goals (SDGs).

1.3 Strategy

Building on its mandate and commitment to the goals and principles of Austrian development policy, the Bank formulates a more specific investment strategy every five years. OeEB commenced a new strategic period in

2019, positioning itself as a development bank thematically focused on private sector development and climate, with a loose geographic approach in order to spread its risk and to retain flexibility in addressing the needs in existing partner countries. All OeEB projects promote private sector development in developing countries and thus contribute in varying degrees to the SDGs.

1.3.1 Objectives

In the 2019-2023 strategic cycle, the Bank aims to conduct the vast majority of new business in three thematic focus areas: renewable energy, MSMEs/financial inclusion and infrastructure. It also stimulates investments in Least Developed Countries (LDCs) and Africa and wants to balance exposure to the financial sector and real economy. In addition, the Bank has two cross-sector objectives that investments should adhere to in climate protection and gender equality. These are both tracked with their own marker in the portfolio. It further sets an ambition level on the development effects of companies through its impact management tool, the DERa.

As with other development financiers, OeEB thus has a strategy that prioritises investment themes that support development and address climate change. But unlike most others, the Bank has a set of 'hard' quantitative periodic strategic targets that guide its focus and investment selection. The strategic KPI targets for the 2019-2023 period for new investments are set for LDCs (≥25%), Africa (≥20%), climate (≥40%), the real sector (≥50%), and the Private Sector (≤8%). The Bank also wants to reach a DERa score in the portfolio years between 2019 and 2023 of at least 78, representing a high development effectiveness rating. While gender does not have a specific target, the Bank integrated a gender analysis into their financial inclusion investment activities and their environmental and social risk management system. These targets are the result of a consultation process among the Bank and its stakeholders and are a strength of the Bank's framework approach, providing clear expectations for performance. For example, these ambitions and targets have resulted in a large climate-focused portfolio and track record.

However, in their practical application, the various targets do include trade-offs and provide some room for interpretation. Given the relatively limited number of 20-25 transactions per year, the current seven quantitative strategic targets can be considered quite extensive. Moreover, some of these targets overlap and/or provide trade-offs with each other. For example, the strategy outlines the climate protection goal as a cross-cutting theme, while also specifying renewable energy as a thematic focus. As these two interconnected objectives have prescriptive targets with equal weighting in the results framework, the outcome is that staff report feeling disincentivised to pursue climate relevant investments outside of renewable energy. Indeed, 90% of survey respondents agreed that sourcing investment opportunities that target more than one strategic objective was challenging or extremely challenging. This challenge not only relates to the design of the strategy but should also be clearly considered in the design of the results framework, the key reference instrument to steer and measure progress against strategic targets.

1.3.2 Alignment of strategy with Austrian foreign policy

Based on its strategic priorities, it can also be concluded that OeEB's strategy is aligned with the Austrian Development Cooperation Act and the current Three-Year Programme. Policy coherence and the whole-of-government approach is a key concept, and the Bank is committed to and aligns with the goals and principles set out in the Austrian Development Cooperation Act. OeEB contributes to core objectives such as private sector development, reducing poverty, gender equality, preserving the environment, protecting natural resources, keeping neighbouring countries stable and mitigating climate change. Austrian interests also play a role in the selection of its thematic focus areas, where the Bank aims to leverage the expertise of Austrian companies, for example in the renewable energy sector.

OeEB's Climate Change Roadmap

OeEB is in the process of developing a climate change roadmap document in which it commits to a comprehensive climate change roadmap including a net zero emission pathway. It has currently completed a draft version, which is under internal review and planned a review by external stakeholders. The current version of the commitment is aligned with the Statement on Climate and Energy Finance by the EDFIs.

In the draft document, the Bank presents a way forward for aligning its financial flows with the Paris Agreement. This initiative is in alignment with the EDFIs, who have adopted a harmonised Paris Agreement approach, including the adoption of the Joint Impact Model (JIM) and the Global GHG Accounting and Reporting Standard launched by the Partnership for Carbon Accounting Financials (PCAF).

The climate change roadmap identifies methods for achieving net zero emissions across the OeEB portfolio by 2040, such as estimating and measuring the Bank's emissions, establishing a baseline for GHG emissions by 2022 and setting intermediate and 2040 science-based targets. On top of this pathway, by 2024, OeEB will devise a complementary implementation strategy potentially including strategic measures such as the phasing out of high-emission legacy projects and engaging in targeted client selection.

Furthermore, the roadmap states that OeEB will present a risk framework by 2023 for continual improvement, which will identify high-risk projects in the current portfolio and provide a means to climate-proof new investments. In addition, the Bank commits to reporting annually on the implementation status of the climate change roadmap, as well as reporting on climate change risks and opportunities as set out under the TCFD and future disclosure under EU sustainable finance regulations.

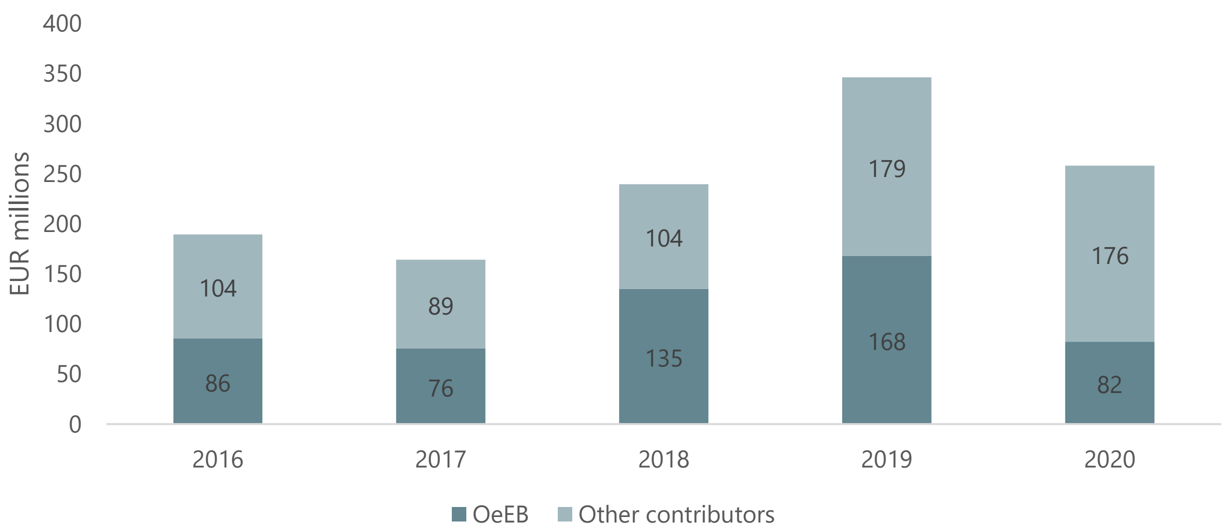

Figure 1: OeEB's contribution to Austria's climate finance targets in EUR millions[13]

[13] *Reports on International Climate Finance (2016 – 2020).* Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology. www.bundeskanzleramt.gv.at

1.3.3 Contribution to Austria's climate finance

Notably, the Bank has consistently been the largest contributor to Austria's international climate finance. Austria's climate finance commitments have grown significantly since the country joined the Paris Agreement in 2016. OeEB has played a large part in allowing Austria to pursue its climate goal of contributing, in collaboration with other wealthy countries, to the deployment of USD 100 billion in funds for climate protection by the year 2020. As depicted in Figure 1, OeEB has contributed on average 46% of Austria's total contribution to its climate finance target between the years of 2016 and 2019, with an average yearly contribution of EUR 109 million. The other actors who have contributed to this target are ADA, BMF, the Austrian Ministry of Climate Action and Energy (BMK), and the Austrian States and Communities.

1.4 Coherence

It is important for OeEB to have a unique role and be coherent with and complementary to other actors within its field. This includes stakeholders in the Austrian context, advancing Austrian foreign policy, as well as in the broader development finance community and cooperation with private financial institutions.

1.4.1 Coherence in Austria

OeEB is one of the key actors in Austrian Development Policy, alongside actors such as BMEIA, BMF, ADA, and WKO. The Bank has a unique role, as it is the only entity that invests through loans, equity and guarantees in the private sector in developing countries. Where it concerns grant instruments through its technical assistance, it operates complementary to the grants of ADA, as ADA focuses on programs and initiatives that are not for profit with a major focus on themes OeEB does not explicitly target, such as peacebuilding or humanitarian aid. At the same time, there are some overlapping thematic focus areas between OeEB and ADA, such as private sector development, climate, and environmental protection. There is some cooperation, particularly with the private sector development unit, for example is ADA's funding for a gender inclusive fintech fund to leverage private money and meeting development targets. There have been opportunities for more cooperation and jointly supporting companies and funds, but these have occasionally been hampered by technical or legal issues, for example legal constraints between the grant agreements of ADA and those of the Fund Advisor in the case of grant support to the SANAD Fund for MSME. Opportunities for more coordination and synergies thus remain.

OeEB is characterised by a high level of involvement of Austrian political and governmental stakeholders. The level of involvement by external actors is unique and unparalleled within the EDFI community. BMF, BMEIA, ADA and WKO are all involved in the Bank's strategy development process, which takes place every 5 years. In addition, representatives from BMF, BMEIA, ADA, the Austrian Federal Chancellery, the Federal Ministry for Digital and Economic Affairs, the Austrian Federal Economic Chamber and the Austrian Federal Chamber of Labour all have a voice in the investment selection process, as they jointly sit in the "Business and Development" committee that approves investments.

The African-Austrian SME Facility

The African-Austrian SME Facility (AAIF) was set up in December 2018 by BMF to support Austrian companies, mainly SMEs, who want to invest in Africa. OeEB was commissioned to implement this new instrument, which offers a maximum of EUR 1.5 million of debt or mezzanine capital by providing loans between EUR 500,000 to EUR 1.5 million at market conditions. A TA Facility of EUR 140,000 supports the AAIF, including an E&S workshop service for companies.

The facility was set up to run until the end of 2021, with a prospect of an extension and an increase in volume, thanks to high demand from Austrian SMEs and good performance of the project to date. The facility is very resource intensive as it has the same investment process as direct investment, with limited income through management fees that did not cover the costs of the initial EUR 10 million facility. A challenge for implementation comes from peers being able to offer better financing conditions, such as DEG's AfricaConnect.

Much like the rest of the Bank's equity financing, the AAIF is well primed to reach the most fragile geographies and generate high development impact through relatively small ticket sizes.

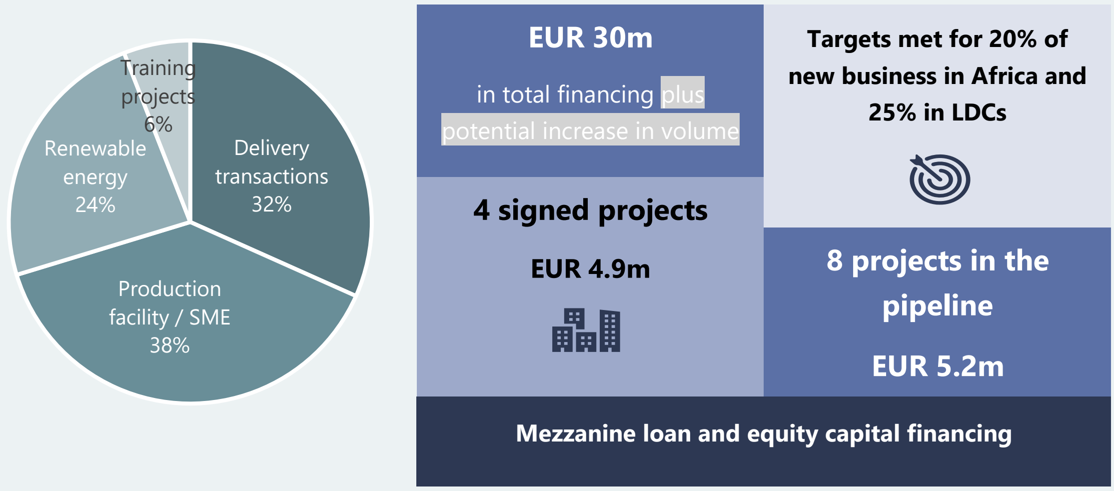

Figure 2– Breakdown of AAIF project proposals by financing volumes

1.4.2 Coherence with Vienna-based institutions

Synergies are in place with other Vienna based international organisations, such as the Vienna World Bank Office. Before the onset of the COVID-19 pandemic, there had been several get togethers organised with International Finance Corporation (IFC – the private sector arm of the World Bank) at OeEB as well as in the IFC office to increase exchanges between the investment officers and to promote collaboration. There are also ongoing exchanges with the OPEC fund in Vienna. Given the relatively limited overlap between the average investment amount as well as the geographic focus of OeEB and the focus of IFC's Vienna office (which is on Europe and Central Asia), practical cooperation and joint investments have been limited. However, the Bank has a joint project with IFC Vienna completed (Waste to Energy Belgrade) and OeEB's collaboration was welcomed by the IFC due to the Bank's good structuring know how.

1.4.3 Coherence with international development financiers

Development Finance Institutions (DFIs) are institutions with a certain degree of government background or support, which invest or offer financing in commercially viable private sector activities in emerging and developing countries. This commitment is characterised by a typically higher risk-taking (compared to conventional commercial banks) and a certain level of additionality. DFIs are organised either as multilateral, regional or bilateral organisations.

Since its inception, the Bank is part of the EDFIs, a group of European bilateral DFIs. The group of 15 EDFIs has joined together to form an association with the aim of promoting the exchange of information and cooperation between its members. OeEB is the youngest of the EDFIs but has grown to be the seventh largest EDFI in terms of its portfolio. The EDFIs are working together strategically both at CEO and operational level. The exchange of expertise, harmonisation, synergies and efficiency are important targets of the EDFI cooperation. The Bank participates in many working groups around themes such as harmonisation, climate statements, exclusion list, human rights, E&S standards, impact standards, or approaches to mobilisation approach. OeEB is also taking a leading role in some working groups. Cooperating within the EDFI framework also allows the Bank to participate in EDFI-wide training programmes and informal knowhow exchange.

OeEB is investing in EDFI-Co-Financing-Vehicles, such as the Interact Climate Change Facility (ICCF) and European Financing Partnership (EFP), where OeEB is also represented in the Board of Directors. Moreover, the Bank is cooperating closely in investments and other activities with other EDFIs, notably the larger actors such as KfW's Deutsche Investitions- und Entwicklungsgesellschaft (DEG), FMO and Proparco. The Bank holds a particularly close relationship with DEG, as it is sharing its development effectiveness model DERa and jointly commissioning research studies.

OeEB is also invested in the EDFI Management Company, in order to jointly access the EU guarantees under the ESFD+ scheme. The EFSD+ guarantee makes a budget of about EUR 14 billion available to European Development Finance Institutions. It is a multi-country and programme budget, with the EU seeking a leverage effect that must be at least two. This guarantee instrument is combined with a grant component available to prepare the projects or technical assistance activities of the beneficiaries. The EU Pillar Assessment of OeEB (a precondition to approach EU funding) document has been finalised and submitted, and is up for assessment now.

OeEB is considered to have specific advantages within the group. Besides the broad geographical mandate, the Bank is known for its complex project structuring know-how, which it considers a comparative strength. Furthermore, OeEB is able to react to project-related changes in developing countries quickly and flexibly.

Cooperation among the EDFIs is perceived as time consuming, with collaboration and coordination necessary at different working levels. However, it is also very important due to all the advantages that it brings. Jointly, EDFIs can present themselves as one block towards their customers, and also increasingly on strategic positioning and action on global development, such as the war in Ukraine.

1.4.4 Coherence with private financial institutions

There is cooperation between the development bank and Gutmann Privatbank in the form of the Gutmann OeEB Impact Fund. The Fund is the first joint project between OeEB and a private bank and opens new possibilities for private investors. The Gutmann OeEB Impact Fund aims to invest in around ten private equity funds focused om SMEs and financial inclusion. Institutional investors can benefit from OeEB's expertise, as the Bank is responsible for identifying and reviewing investment opportunities as well as for managing the investments made.

The final closing of the Gutmann OeEB Impact Fund took place at the end of March 2022. A total of EUR 72 million was mobilised by 48 private and institutional investors, despite difficult fundraising conditions during COVID-19 times. Through this project, capital is mobilised from professional and qualified private investors for projects in developing countries and used in accordance with the goals and principles of development cooperation. OeEB succeeded in increasing its visibility, strengthening the topic of impact investing in Austria and opening up an additional source of income for OeEB. The Bank is currently developing a second joint initiative focused on climate.

Key takeaways

- Founded in 2008, the Bank implements a public mandate with private capital to work for better living conditions in developing countries.
- The OeEB is also Austria's largest contributor to international climate finance in the context of the USD 100 billion goal.
- The Bank's strategy is unique for its hard quantitative thematic targets and loose investment geography.
- The Bank is a well-integrated, key and unique actor in Austria's development policy landscape, as it is the only entity that invests through loans, equity and guarantees in the private sector in developing countries.
- It is characterised by a high level of involvement from political and governmental stakeholders, which contributes to high coherence at the national level.
- OeEB is well integrated into the EDFI community, investing in co-financing vehicles and collaborating with larger DFIs, and shows some coherence with private financial institutions through cooperation with the Gutmann Privatbank.

2 Organisation and governance

This second Section assesses the adequacy, effectiveness and efficiency of the Bank's organisation and governance structure.

2.1 Organisation

2.1.1 Organisational structure

OeEB comprises approximately 70 employees and has grown steadily by approximately 20 staff members since 2017. Staff are responsible for developing new business and managing the existing portfolio of projects. This includes the functions of project acquisition, structuring, risk assessment, compliance, negotiation and conclusion of new contracts, and the processing of all transactions. Besides handling the banking and financing side of the transactions, employees also assess the development relevance of the projects and their environmental and social (E&S) impacts, compliance and legal aspects, and fulfil other support functions.

There are three core teams involved in the sourcing, structuring and management of OeEB's investments. The investment financing team (IF) of approximately 12 staff members is the Bank's largest team and manages the Bank's debt financing instrument from sourcing to structuring (see Figure 3). The team members divide their responsibilities based on geographies, with each geographic focus area being decided on the past experience, existing network and/or language knowledge of the individual. Once a deal is closed, it is then managed by the portfolio management team of approximately 10 individuals. This team is also engaged in deal sourcing activities with new clients to advise on the overall portfolio structure and whether the new client would be a good fit (especially in terms of country risk caps). The responsibilities of this team are not defined by geographic regions.

A separate team of approximately 6 staff members manages the Bank's equity investments. This comprises four instruments which include the use of funding from BMF, the AAIF, OeEB's own reserves and via the Impact Fund, which is a fund jointly created with Bank Gutmann that aims to improve the living conditions of people in emerging markets. The equity team also manages two special projects on behalf of the Republic of Austria: The Central and Eastern European Special Situations Fund (CEESSF) and the Central Europe Fund of Funds (CEFoF).

The business advisory services (BAS) team deliver the Bank's TA and is experienced in environmental and social management. In 2021, the team of approximately six employees delivered 12 TA projects, in addition to providing E&S analysis and input at each stage of investment decision-making. While the team's expertise in this field is highly valued, in the event that TA is expanded and increased innovation is desired, knowledge gaps may need to be filled.

Several back-office teams are crucial to the Bank's ability to deliver its strategy, some of which are outsourced to OeKB, offering the small bank some efficiency gains. The development policy team looks after development outcomes, strategy and impact. The digitisation and mid-office team is tasked with designing and implementing the bank's digital transformation, as well as managing data and reporting, the transaction interface and IT architecture. While the Bank has its own legal and risk management teams, aspects of these functions that are not connected to the Bank's core process are partly outsourced to the mother company, OeKB, for an agreed administration fee. The outsourced aspects of the legal matters include money laundering prevention and compliance. In addition, OeEB's human resources, treasury, internal audit, and IT service functions are fully outsourced to OeKB. This set up provides the Bank with efficiency gains, especially important in a such a relatively small organisation.

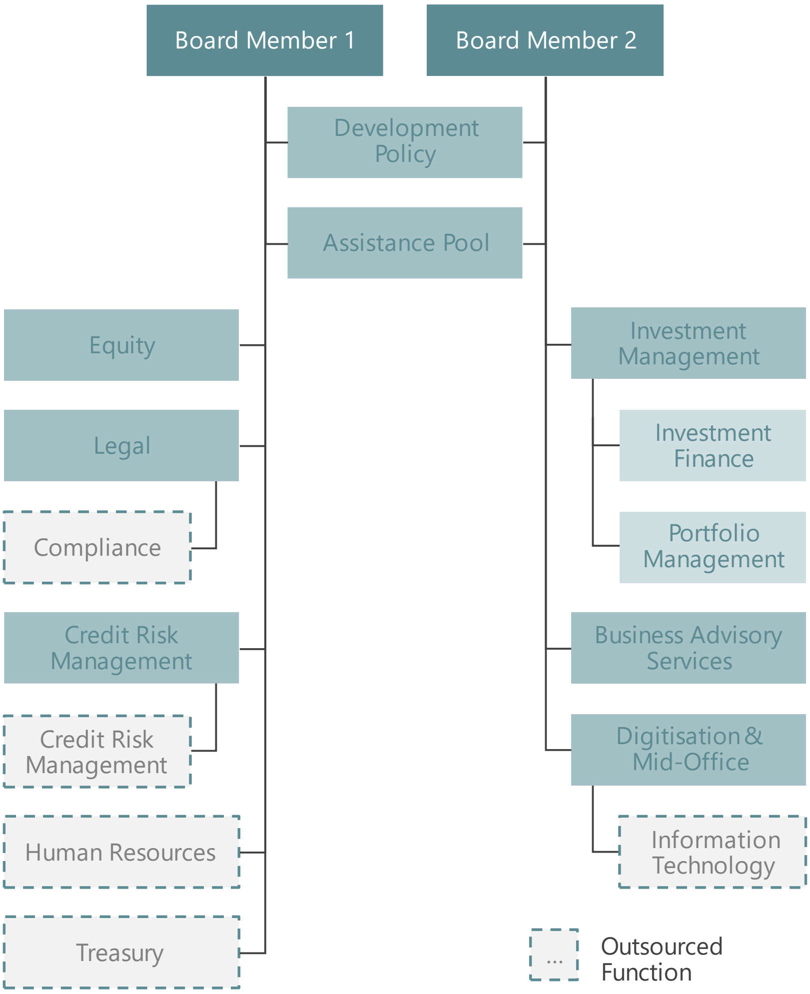

Figure 3: Organisational structure

2.1.2 Technical expertise and capacity

The Bank's employees are experienced and agile with broad technical knowledge gained in Austria and abroad. Overall, the Bank's staff is relatively senior and experienced. There are both strengths and weaknesses to this, and in the survey and throughout interviews bank employees showed awareness of this. Most staff consider the Bank's expertise and human capacity on financing MSMEs/financial inclusion, renewable energy and infrastructure sufficient (see Figure 4). Interviewed employees also referred to the Bank's deal structuring knowledge, which allows the Bank to structure and execute a high proportion of bilateral deals itself (in excess of 85% of deals in recent years according to OeEB estimates). In addition, this expertise allows the Bank to close innovative deals ahead of its EDFI peers. For example, the Bank was the first EDFI to finance a wastewater treatment plant in India. These sentiments were echoed during interviews with external stakeholders, who referred to the Bank's ability to deliver high quality output.

Nonetheless, knowledge gaps remain in relation to the Bank's strategic targets, and filling these could improve the Bank's ability to achieve them. 88% of survey respondents agreed that knowledge and expertise in relation to climate change adaptation needs to be strengthened. Improving the knowledge and capabilities in this field could open a broader cross-section of potential projects and strengthen OeEB's ability to rationalise its development goal with its green bank role. Similarly, most survey respondents thought expertise and knowledge about investing in LDCs and Africa needed to be improved (82% in each topic).

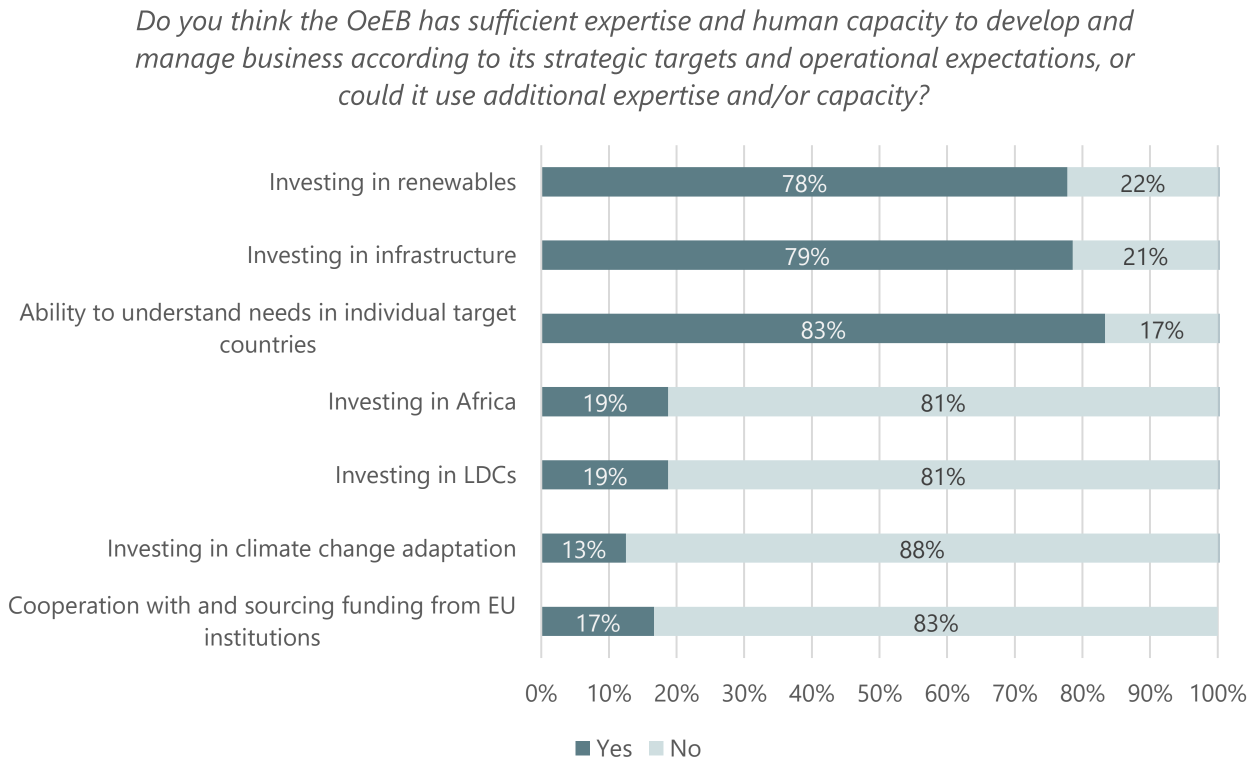

Figure 4: Staff views on the extent of OeEB's expertise and human capacity

Given the centrality of these themes to the Bank's agenda, coupled with the Bank's persistent challenges in meeting its LDC target, increasing the Bank's knowledge and capacity in these areas should be prioritised. To become more aware and focused on LDCs, the Bank is encouraged to consider a special task force that could, potentially with external support, conduct market studies on investment opportunities in selected LDCs. In order to be more aware of investment opportunities in climate change adaptation, OeEB should at a minimum join the DFI-led Adaptation & Resilience Investors Collaborative, but also build organisational capacity by attracting staff member(s) with adaptation expertise and/or organise training around this theme.

To a large extent the Bank depends on the network and regional expertise of individual Bank staff to source investments, but the lack of on-the-ground presence can be inhibitive. This is recognised within the Bank, and 93% of senior staff indicates that a lack of on-the-ground presence is a challenge for the Bank's investment operations. This is not a new topic for the Bank and was picked up during its previous evaluation. To further stimulate the strengthening of the network of individuals, their understanding of targeted markets, but also to increase the overall visibility of the Bank, it should pilot the placement of staff in key strategic hubs. Placement of local presence should also consider the size of the OeEB portfolio in the specific country or region. There are opportunities to do this in efficient ways, either by joining the local offices of other larger EDFIs (e.g., the combined FMO/DEG office in Johannesburg), embassies or the local ADA offices. The pilots should at least last one year, but ideally longer.

2.1.3 Organisational efficiency

Staff at the Bank operate at with a high level of efficiency, especially when compared to their EDFI peers. Analysis shows that OeEB is among the most efficient EDFIs (Figure 5). Measured by both assets under management (AUM), and annual commitments per staff member, it is among the most efficiently operating organisations. Only British International Investment (BII), Norfund and SIFEM staff handle higher volumes of investments per person. However, as BII and Norfund's average ticket sizes are much higher than OeEB's (Figure

5) and SIFEM has delegated business services management and portfolio management to two specialised partner companies, it could even be concluded that by this measure OeEB is the most efficiently operating European DFI.

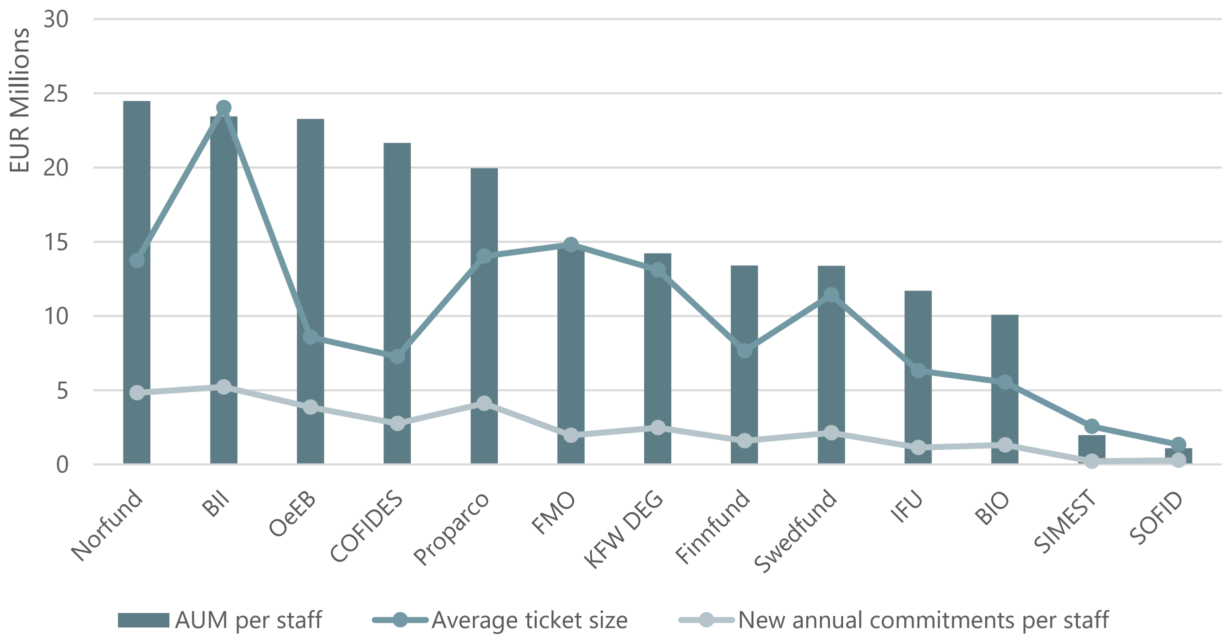

Figure 5: EDFI assets under management and new annual commitments (EUR) relative to the number of employed staff at end 2021[14]

On the other hand, the high efficiency level can also indicate a limited level of self-initiative and an overreliance on network partners in deal sourcing (see Section 3.1). The level of efficiency could also be indicative of structural overwork, about which some managers expressed concerns during interviews. At the same time, employee retention remains high: on average, staff are retained for 5.9 years and many core staff in mid to senior level management positions have been with the Bank since or within a few years of its establishment. With this, employees possess core institutional knowledge, extensive internal networks for deal sourcing and tight, collaborative internal networks, leading to an efficient chain of action in completing their objectives. However, if and when one key employee leaves the organisation, a link in the chain is removed, along with the institutional knowledge and networks of this person.

2.2 Business model and governance

The Bank was established as a public-private partnership (PPP), with private capital from a sole owner, the Oesterreichische Kontrollbank (which is in turn owned by several major Austrian commercial banks), and a public mandate from the Ministry of Finance. This model, with 100% private capital and a public mandate, is unique in the EDFI landscape.

It is a comprehensive and robust business model and governance structure that comes with specific advantages and disadvantages. For more in-depth analysis on how the business model works through in the investment

[14] *European Development Finance Institutions*. Edfi.eu

process and risk, see Sections 3.2 and 3.4. There appears to be a consensus that while some of the disadvantages hold the Bank back in its potential, this model is, at present, the (only) politically accepted model. At the same time, a survey among staff showed that 100% of staff perceive the governance structure to be a challenge for the Bank (33% as a minor challenge and 67% as a major challenge). While the Bank does not appear to be primed for fundamental change at this stage, this evaluation has explored opportunities to further sharpen OeEB’s operations and performance within this framework.

2.3 Governance bodies

The main governance bodies are the Executive Board and the Supervisory Board. OeEB's executive board manages the company under its own responsibility and consists of two members. Within the near future, one of the two Executive Board members will retire. Having an Executive Board with two co-CEOs is not common among EDFIs or commercial banks but is institutionally accepted and has worked relatively well for the Bank so far. For the selection of the upcoming and any further future Executive Board members, the Supervisory Board is recommended to set out an official, public, and international search process.

The Supervisory Board monitors the executive board and supports its management of the company, particularly regarding decisions of fundamental importance. The Supervisory Board currently has members with strong expertise on banking, compliance, risk, accounting, and HR. Among the four members, there is one independent member that has a background in development finance.

In this Board, the focus on the Bank’s developmental role could be strengthened. Adding an expert with development policy and impact management expertise may help the Supervisory Board in better managing the perceived conflicting mandates, and to even more effectively monitor the Bank and support its management, particularly regarding decisions of fundamental importance. The most logical option for strengthening the representation of focus on development policy in the Supervisory Board would be to allow BMF’s observer seat(s) to become voting members, and/or to add an additional independent member that has significant expertise in development effectiveness and impact.

Key takeaways

- Employees are technically experienced, agile and possess substantial institutional knowledge. They show a particular strength in structuring a broad range of transactions, allowing them to close innovative deals ahead of peers.
- Nevertheless, the lack of on the ground presence and limited expertise in relation to certain strategic targets (climate change adaptation, LDCs) can be inhibitive.
- Staff at the Bank operate with a high level of efficiency, especially when compared to their EDFI peers but caution should be taken to ensure this is not indicative of an overly reactive stance or even structural overwork.
- The Bank’s governance model is comprehensive and robust. While challenges remain, it is presently the only politically acceptable model.
- Better balancing the expertise on development policy and impact management within the Executive Board and Supervisory Board may enhance complementarity of members and help in better managing the perceived tensions between mandates.

3 Investment approach

This third Section analyses the investment approach, including the investment selection and approval processes, portfolio composition and risk management practices.

3.1 Project selection

OeEB selects projects that operate primarily in developing countries and are in line with the Bank's strategy. A guide for the geographic scope of its activities is the current list of Official Development Assistance (ODA) recipients published by the OECD Development Assistance Committee (DAC). The projects must meet development criteria, satisfy international environmental and social standards and conform with Austrian and international law. The Bank does not finance projects in any sector listed on the Harmonised EDFI Exclusion List.

Project and client sourcing is flexible and to some extent dependent on the network of staff. Generally, the Bank's staff has a relatively high level of seniority and expertise with international work experience, bringing an established personal network to deal sourcing. The network can be geographic, or among existing clients, advisors, other DFIs and impact investors, or local corporate banks. Strong networks are particularly noted in India and the Balkans, which coincides with the Bank's top investee countries.

The high dependency on the Bank's network is efficient but does lead to a high reliance on other DFIs, local banks or advisors to be introduced to deals, which also limits the Bank's financial additionality. Although the Bank does not structurally track when it enters a deal, senior staff in the survey estimated that on average the Bank is (among the) first investors in only 10-30% of investments. This underlines the limited financial additionality in terms of the timing of investments. This was echoed by interviewed and surveyed employees, with one noting *"… you're dependent on syndications with other big players (DFIs)"*. This has led to Bank being perceived as having a relatively reactive stance in the market, following rather than leading the sourcing of transactions.

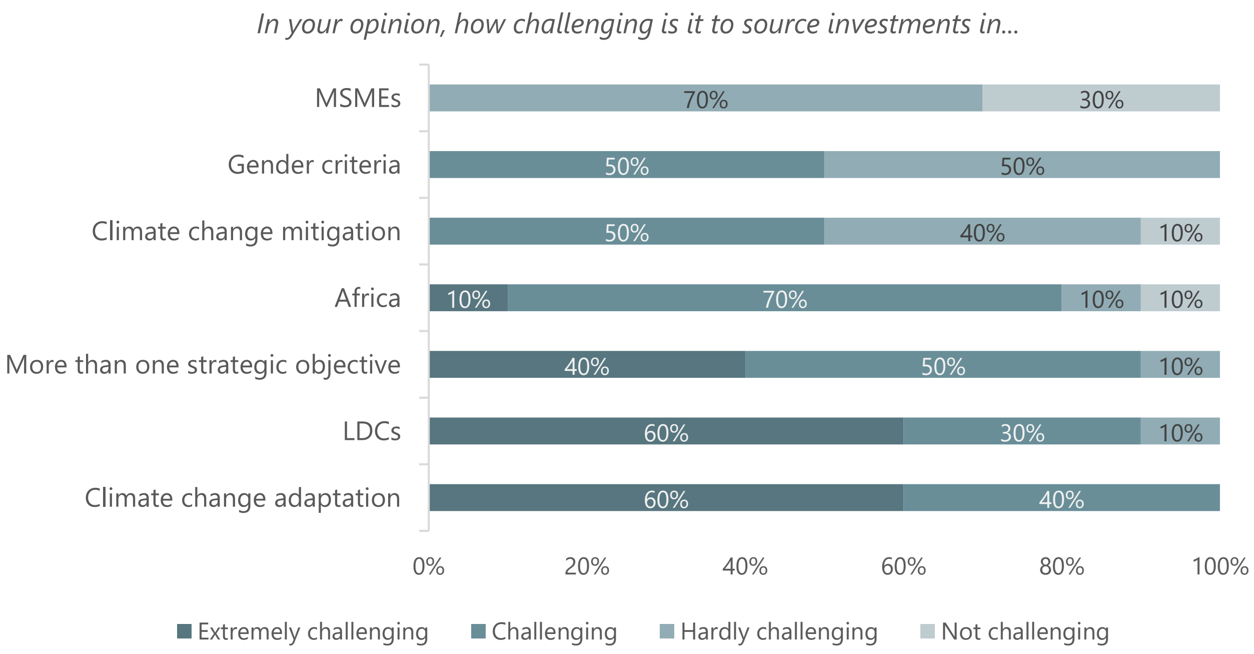

Figure 6: Staff perception of degree of difficulty in sourcing investments that target various topics

Challenges in sourcing investments suggest a need for investment in certain strategic themes and enhancing on the ground presence. Surveyed senior staff reported feeling most confident in sourcing projects that target MSMEs, with all respondents reporting this was either not challenging or hardly challenging (see Figure 6). Those areas which are perceived as the hardest to source are opportunities in climate change adaptation, LDCs and those that target more than one strategic objective.

With respect to the most pressing challenges for the Bank's investment operations, over 90% of staff responded that the lack of on the ground presence posed either a minor or major challenge and 64% noted team size as an issue (Figure 7). In sum, the limited capacity to source investments due to the limited staff size and lack of local presence means that the Bank sometimes struggles to invest in those markets where investments are most needed and has missed out on more pioneering investments.

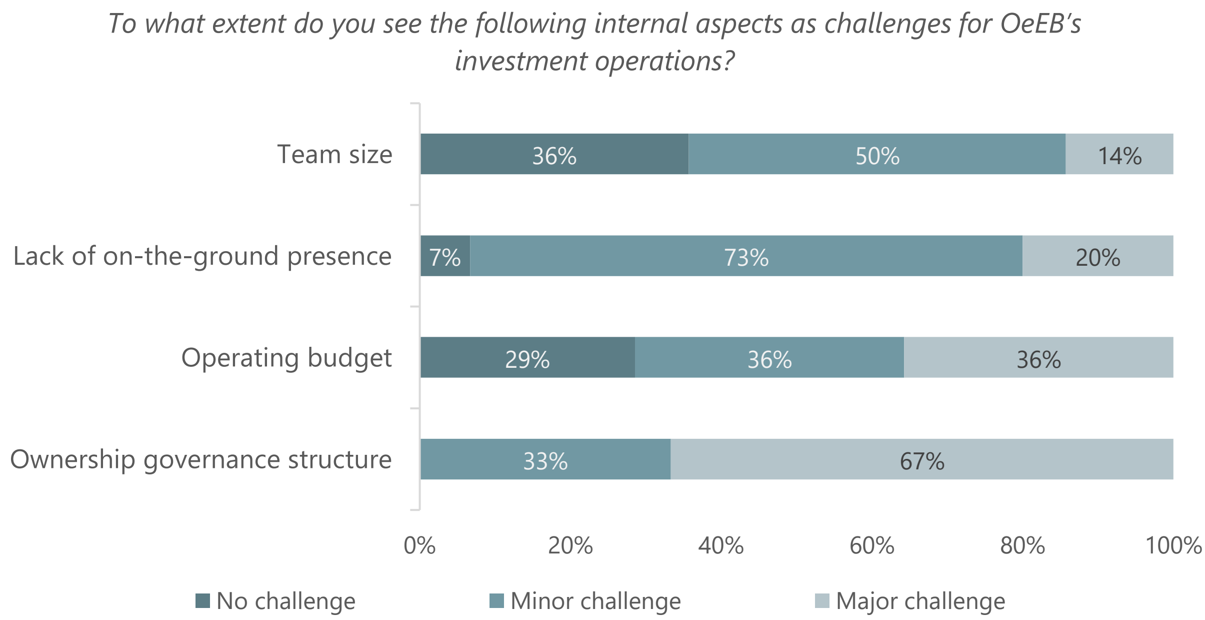

Figure 7: Staff perception of challenges in investment operations

The Bank should explore avenues to increase the transactions where the Bank provides a key financing gap, and where it is (among the) first investor(s), which in turn would increase financial additionality. This also implies that transactions will need to be be identified and structured at an early stage.

3.2 Investment process

The Bank's investment approval process is a multi-stage process, unique for its extensive input from both internal and external stakeholders, its ability to balance sometimes competing interests with efficiency in approval times, and its early consideration of key risks.

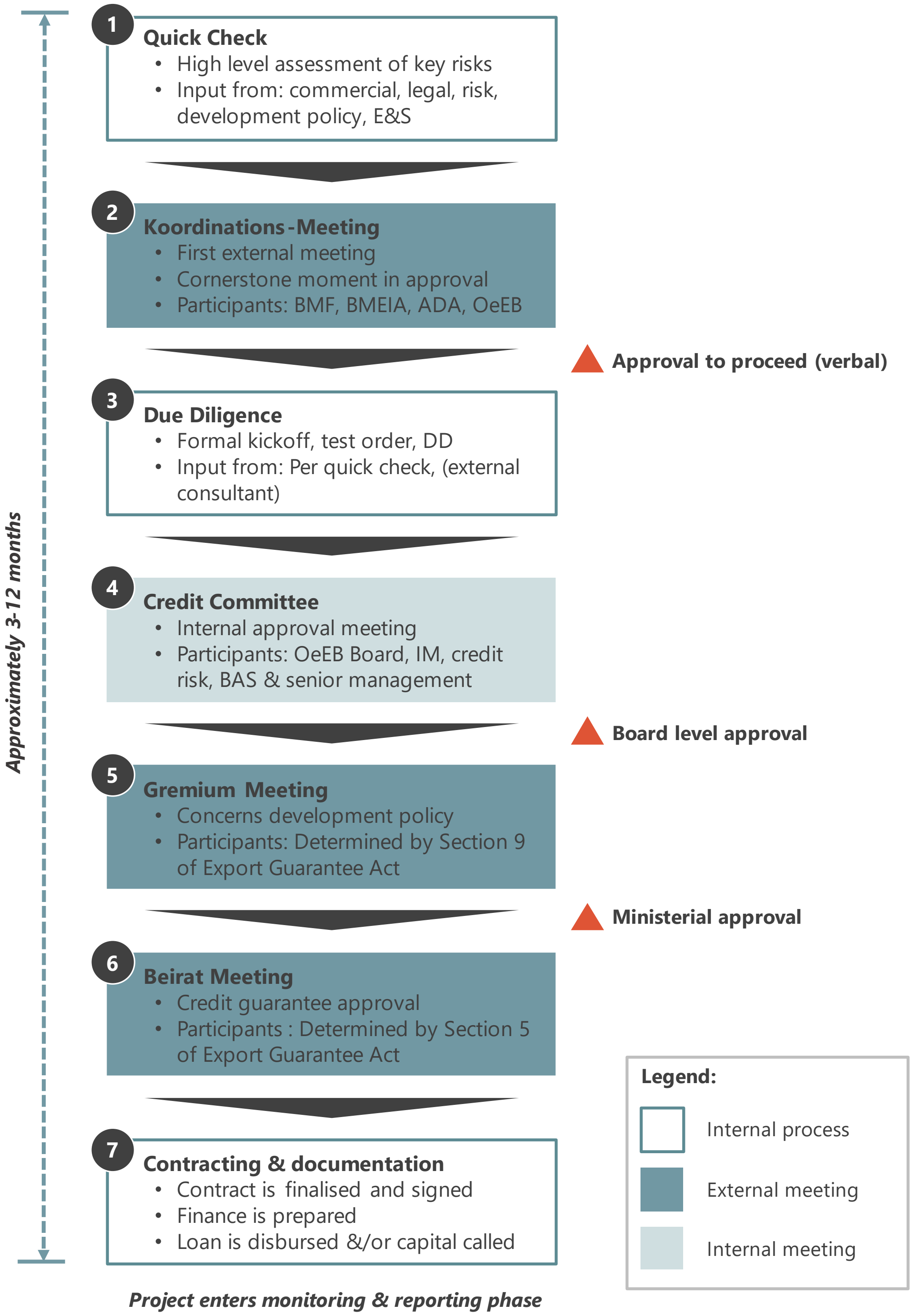

Figure 8: Schematic summary of the investment process

3.2.1 Process steps

There are currently seven key stages in this process. The process can be summarised follows:

1. Quick check: After an informal internal discussion within the investment management team, a quick check process is undertaken. This is a high-level assessment that involves the input of all major departments at

the bank (commercial, legal, risk, development impact, E&S). The Bank's anticipated additionality is outlined.

Koordinations-Meeting: The project is then placed on the agenda of the Koordinations-Meeting, where it is presented to a committee comprising BMF, BMEIA and ADA. This stage appears to be the largest filter for projects. Interviewed senior staff mentioned that once a project is approved here, it is unlikely that it will be rejected at subsequent stages, reducing wasted time and resources. Among other things, at this stage BMF assesses the project against its country risk limits to determine whether it can issue a guarantee. Given that there are various stakeholders with sometimes competing interests, this early-stage multi-stakeholder meeting is a cornerstone in investment approval, providing space for constructive dialogue to allow buy-in from all parties. Following approval, the Bank can continue with the due diligence process, which is partly shaped and scoped by the outcomes of this meeting.

As this is such a critical moment in the investment approval process, further analysis of project approval rates is warranted. Analysis shows that between 2019 and 2021, between 56 and 71% of projects presented at the meeting were granted approval at this Koordinations-Meeting stage, some with additional conditions (see Table 2). Over the entire 3-year period, the approval rate is 65%. Over the same period, only 8% of projects were outright rejected at this stage, and the rest were required to be resubmitted to the Koordinations-Meeting (27%). Of these, only 13% were later approved, leading to a higher effective rejection rate than 8%. Staff cited reasons for this lack of eventual approval as, *inter alia*, unfulfilled conditions, losses of projects due to timing delays, transactions lost due to pricing or due diligence findings that lead the Bank to not pursue the project further. Transactions may also be halted from the client side, for example due to cost increases or lack of permits.

The rejection rate in this period differs from the Court of Auditors report, where the authors found that over a period spanning 2015-2020, the rejection rate at the Koordinations-Meeting was just 3.5%. The notable discrepancy in rejection rates between the two periods may be explained by the methodology used and changes in record-keeping by the Bank. Although the methodology used by the Court of Auditors is not clear, it is likely that the authors calculated the outright rejection rate without adding nuance about projects that were resubmitted and later rejected. In addition, OeEB staff confirmed that based on recommendations of the Court of Auditors report, improvements were made to better track and record discussions and outcomes of this meeting, which in turn improved the quality and quantity of data available.

Table 2: Approval rates (with or without conditions) for projects presented at the Koordinations-Meeting (2019-2021)

Year	Projects presented (n)	% Granted approval (n)
2019	53	71,7% (38)
2020	39	56,4% (22)
2021	52	65,4% (34)

2. Kick-off and due diligence: An audit order is set out internally, which shapes the scope of the due diligence before it is carried out. The due diligence process involves all major departments (investment management, credit risk, legal, development policy, E&S). A site visit is carried out if appropriate. External (local) consultants can be engaged if the Bank does not possess the technical expertise needed (e.g., for specialised E&S risks) or to carry out site visits, which was common while travel was limited during the COVID-19 pandemic.

3. Credit Committee: An internal credit risk meeting for clearance is held with the Board, investment management team, senior management, credit risk and E&S specialists. A positive assessment is required from the Board to proceed.

4. *Gremium* Meeting: The Gremium Meeting is central to the approval of a project. Governed by Section 9(5) of the OeKB Export Guarantee Act (2017)[15], it concerns the anticipated development impact of the proposed project, as well as additionality. The Act stipulates decision-making by a committee of stakeholders representing BMF, BMEIA, ADA, WKO, the Austrian Federal Chancellery, the Federal Ministry for Digital and Economic Affairs, and the Austrian Federal Chamber of Labour, as well as OeEB without vote. This meeting has no fixed schedule, but usually takes place once a month.

5. *Beirat* Meeting: This meeting concerns commercial and financial matters regarding the export guarantee, with participants defined by Section 5(2) of the Export Guarantee Act[16]. This involves a wide variety of stakeholders, including representatives of the BMF, BMEIA, Austrian Federal Chancellery, Federal Ministry for Economy, Family and Youth, of the Federal Ministry of Agriculture and Forestry, Environment and Water Management, Federal Economic Chamber, Federal Chamber of Labour, Conference of the Presidents of the Austrian Chamber of Agriculture and of the Federation of Austrian Trade Unions, Oesterreichische Nationalbank and one member of the agent of the Federation without vote. This meeting has a fixed schedule.

6. Contracting and documentation: Once a project is approved, the contract is finalised and signed, and documentation is collated and stored. The loan is disbursed and/or the capital called, and the project enters the monitoring and reporting phase.

3.2.2 Efficiency and appropriateness of project approval

Despite the complex multi-stakeholder approval process, OeEB shows efficient project approval in terms of the time taken from inception to final approval. Key factors are an early integration of credit risk management, early feedback to the deal team in the quick check phase, and fast processing of internal approvals. Estimates say that this process usually takes 6-12 months but can be as quick as three months. This is largely in line with the investment process timelines of peers. In the survey, nearly 90% of OeEB staff perceived the Bank's investment process efficiency to be either equal to (33%) or better than its EDFI peers (56%). Similarly, when asked an open question in the survey about OeEB's unique selling points relative to other EDFIs, two thirds of staff referred to the Bank's quick decision-making process, tight communication lines and project approval efficiency, though one of these mentioned that this used to be the Bank's unique selling point but no longer is. Furthermore, the case study of Serbian cardboard manufacturer, Umka, shows that the Bank's efficiency in deal structuring and approval can enhance the Bank's additionality as it is able to deliver needed capital faster than its peers. The Bank and external stakeholders have jointly found a *modus operandi* to keep the comprehensive approval process with the three meetings with external stakeholders (i.e., Koordinations-Meeting, *Gremium* and *Beirat*) manageable.

However, the involvement of multiple stakeholders in decision-making does present operational challenges and streamlining it would further enhance efficiency. This has been a recurring theme, with external audits and

[15] *OeKB Export Guarantees Act*. www.OeKB.at

[16] Ibid.

evaluations over the last years making suggestions to restructure the process. As it is only the *Gremium* and Beirat meetings that are set in law, it is theoretically possible to make changes. However, the practicality of this should not be ignored. Despite persistent recommendations to streamline the process, measures have not been implemented. During interviews employees repeatedly mentioned discontentment but acknowledged that the project approval process is not malleable for political reasons.

Challenges and solutions

Therefore, in lieu of focusing on the investment process itself, this evaluation focused on specific obstacles within the process. A key obstacle is the (mis)alignment of expectations. By the time of the Koordinations-Meeting, a project's alignment with strategy has been confirmed and significant resources have been invested in gathering information and undertaking preliminary analysis. Although this meeting is key in the approval process and reduces wasted time and effort at final (later) approval stages, project approval data shows that a significant number of projects do not proceed beyond this point for which reasons are not always clear (Table 2). Several bank staff referred to there not being enough predictability about which strategy-aligned projects will be approved, indicating that this should be improved for efficiency. Among other things, this lack of predictability can result in using resources (time and financial) that could have been better applied elsewhere. As suggested by the Court of Auditors' report, insights on this matter could be honed by (further) improving data collected on the reasons for project approval and rejection.

BMF's country risk cover and country limits can drive the unpredictability of project approval. While the Bank has strategic objectives for investing 25% of new business LDCs, 20% in Africa and 40% for climate finance, its risk appetite and guarantee approvals by the Ministry of Finance drive a focus on lower and upper-middle income countries and sectoral diversification. Of the 46 LDCs, the Bank only has direct investments in five LDCs, with the remainder of direct investments in non-LDC ODA recipient countries. In addition, country risk limits can be reached, which prevents further investment in a country (LDC or other).

Another issue that that arose was the apparent misalignment of decision-makers with the strategic objectives. There are ample examples of project proposals presented at the Koordinations-Meeting that were aligned with strategy but still rejected on the grounds that they were not considered sufficiently developmental or innovative. This was particularly the case with potential investments in higher-middle income ODA countries.

Although it is understandable that higher expectations are set for investments in countries with a higher level of development and better business climate, it does send mixed signals when staff is not guided by these expectations. Therefore, enhancing formal or informal guidance could improve the predictability of project approvals, making some room to simplify the process, especially in relation to the provision of clearer guidance on countries that are eligible for investments. In relation to issuing guarantees for investments in LDCs, the BMF should indicate which countries are considered too risky and be more transparent about the dynamic country risk limits. For the higher middle-income countries, the Ministry's department overseeing development policy should indicate for which countries it expects a higher development impact thesis. This will enhance predictability for OeEB investment staff, increasing efficiency and employee satisfaction.

3.2.3 Influence of COVID-19 Pandemic

The broad investment geography and strategic objectives of the Bank have minimised the impact of the COVID-19 pandemic on investment selection and approval. Interviewed staff did not note any major concerns in light of the pandemic, drawing on the flexibility of the strategy to guide their investments. One interviewed senior stakeholder stated that *"the system appears to be diversified enough for this [COVID-19 and the war in Ukraine] to not be an issue"*. Other employees and stakeholders did not consistently mention the COVID-19 pandemic as an issue in their work, either when asked directly, or asked about challenges in the Bank via the interview or open response options in the survey.

3.3 Portfolio composition

Despite its relatively short operational existence, OeEB has grown its total portfolio to approximately EUR 1.47 billion, with EUR 1.35 billion in investment finance and another EUR 128 million in equity investments. Shown in Figure 9, the Bank has consistently grown its investments at an average of 28% or approximately EUR 105 million per year. Particularly since 2018, the Bank has made a significant leap. The Bank's steady growth can in part be attributed to the guarantee mechanism that underpins its investment operations, which has also steered the portfolio into a lower-risk profile for a development bank. Equity financing was introduced into the portfolio in 2012, since growing from EUR 33 million to EUR 128 million in 2021. OeEB business is now split between the three major segments of Investment Finance, Equity Investments and Business Advisory Services.

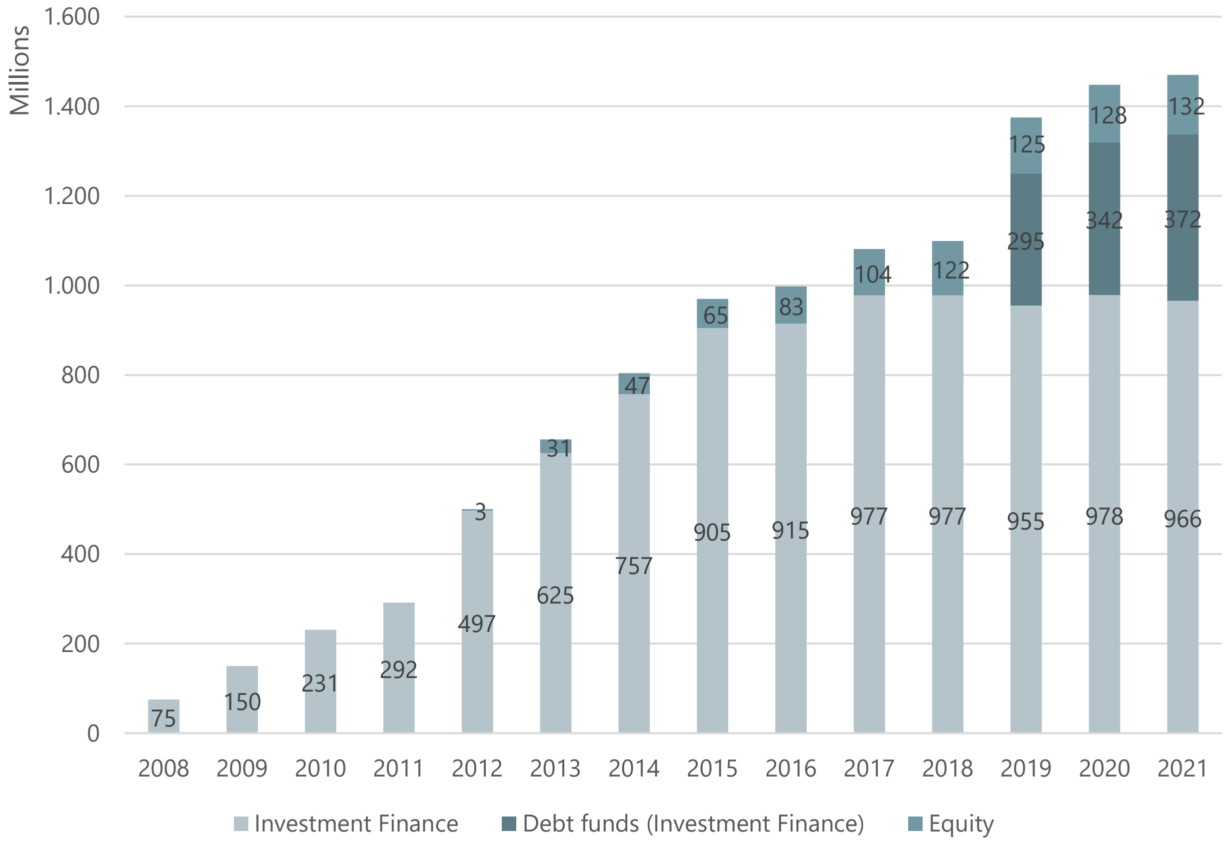

Figure 9: OeEB portfolio growth over time by investment finance and equity split in EUR millions

With this it has become the 7th largest European DFI and the 5th fastest growing EDFI, only being outpaced by the four traditional largest EDFIs (The UK's British International Investment, the German KfW/DEG, the French Proparco and Dutch FMO), who all command a significantly larger scale of operations. Norwegian DFI Norfund also is somewhat larger, and Spanish DFI COFIDES recently grew its portfolio significantly through the additional of new government funds.

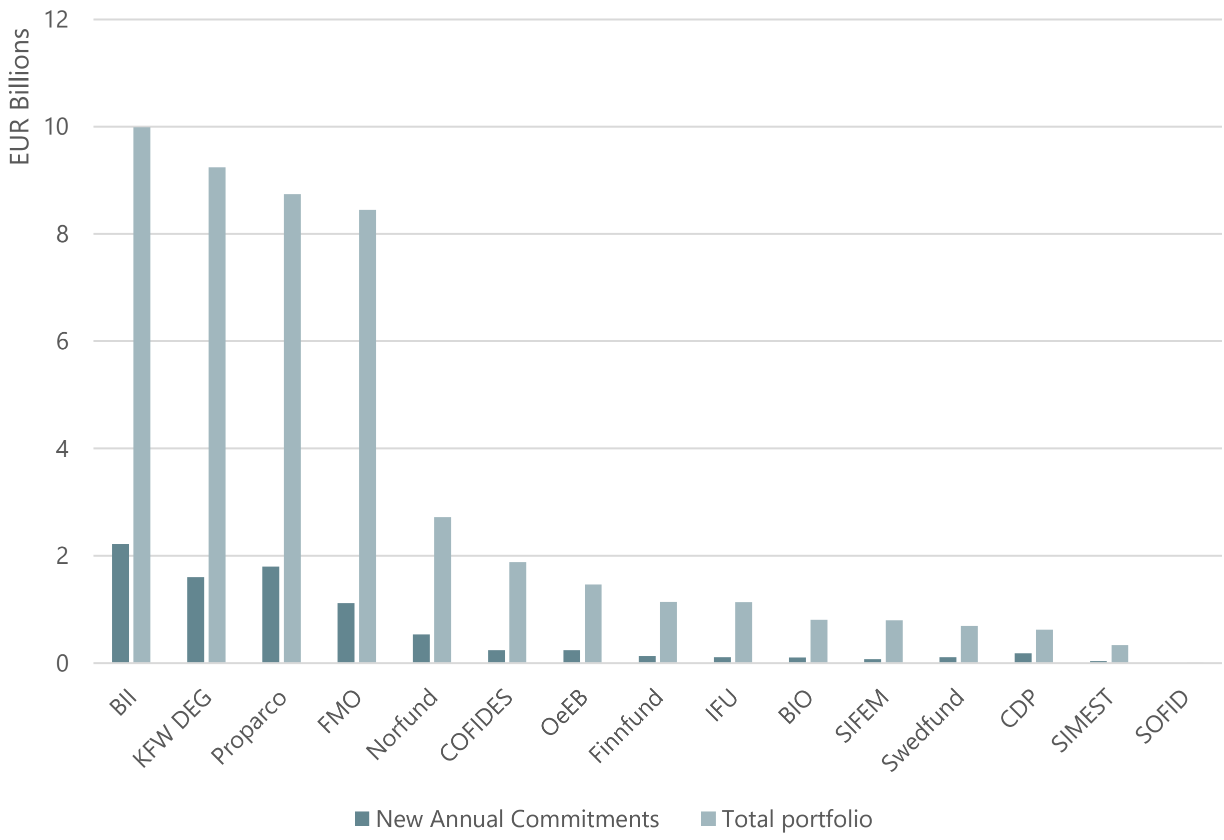

Figure 10: Comparison of EDFI's portfolio size in EUR billions

3.3.1 Investment finance segment

OeEB's investment finance (IF) portfolio makes up 92% of the Bank's assets under management and is almost fully focused on debt investments. The investments that are aligned with the Bank's three strategic priority themes account for a EUR 974.7 million or 73% of the Bank's portfolio (see Figure 11). With EUR 511 million invested the SMEs and Financial Inclusion theme is largest, followed by EUR 275 million for Renewable Energy, and EUR 188.6 million for Infrastructure.

The Bank's IF portfolio mainly targets financial institutions and funds: 53 investments accounting for EUR 542 million (41% of the portfolio) are to financial institutions, and another 36 investments accounting for EUR 371.9 (28% of the portfolio) are allocated to funds that are mainly debt focused. The Bank's investment finance segment contains some equity and quasi-equity investments in funds that use various financial instruments, such as the Eco.Business Fund and the Global Climate Partnership Fund. Of the non-financial portfolio 18 investments accounting for EUR 214.6 million (16% of the portfolio) are to companies, 38 investments accounting for EUR 176.7 million (13% of the portfolio) are to project finance, and 5 accounting for 23.9 million (2% of the portfolio) are to public institutions.

In terms of currencies, OeEB portfolio is split between USD (EUR 789.6 million 59%) and EUR (EUR 539.7 million 41%). The rates for OeEB lending are split between 14% at fixed rates, 9% at variable interest (with FZ option) and 75% at variable interest (without FZ option).

In terms of geography, OeEB has a relatively loose geographic mandate for a DFI. Investments are spread relatively evenly across Europe (20%), Asia (24%), Africa (12%), America (19%) and cross-regional projects (24%).

The Bank's portfolio has remained concentrated in Lower & Upper Middle-Income Countries, as these are not only more bankable for OeEB's risk profile but are better suited to the near-market financing conditions the Bank can offer. These countries also offer a greater opportunity to involve Austrian companies and catalyse private sector investment, while LDCs are still in need of more concessional financing such as investment grants and interest rate subsidies. In countries where projects are less risky, OeEB is also able to select more impactful investments. In the Upper Middle-Income Countries bracket, OeEB has committed to only finance projects that fall within the financing of global assets (e.g. climate finance), projects that target poorer and disadvantaged groups, or projects with a link to foreign trade.

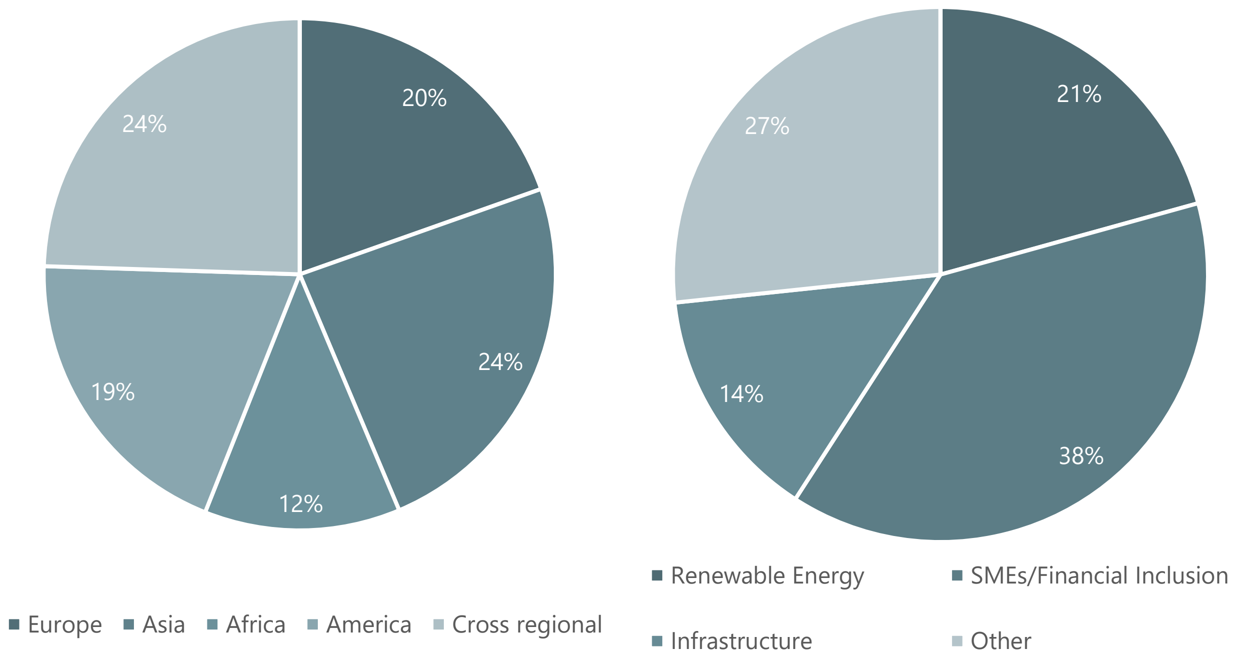

Figure 11: OeEB's portfolio split by target geography and thematic focus areas

OeEB has made good use of its geographical proximity to the Western Balkans, most notably Serbia, which holds 11.79% of the Bank's current investment finance portfolio. The rationale for investment in this region is strong, as there is a multitude of bankable projects, and the regional proximity of OeEB offers it an advantage. Overall, the Bank's relatively loose geographic mandate has facilitated its expansion in countries where it holds stronger partnerships and local expertise. After Serbia, India (8.12%) and Bangladesh (3.53%) are the most notable OECD DAC listed recipients of direct investments by OeEB.

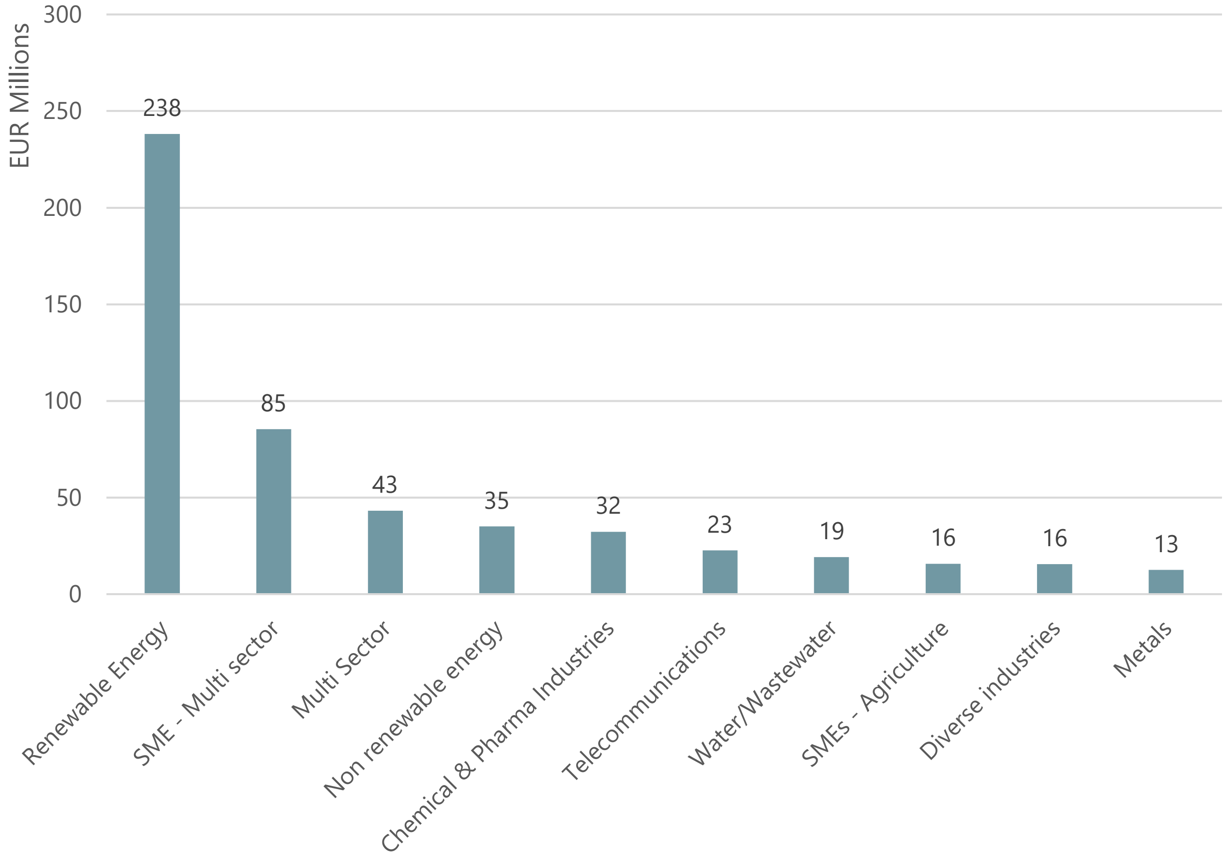

Figure 12: Top 10 sectors contributing to the climate marker in OeEB IF portfolio in EUR millions

Regarding climate finance, OeEB portfolio is particularly strong in its renewable energy commitments, which account for over 26% of the Bank's climate finance activities. Other areas where investments have frequent climate impacts are in SMEs, non-renewable energies, and multi-sector investments (see Figure 12). Examples of climate investments in sectors such as chemicals and metals include energy efficiency projects in a chemical plant, the refurbishment of molding machines to increase efficiency and the introduction of environmental measures in a steel mill.

3.3.2 Equity investments segment

OeEB's Equity Investments segment allows the Bank to act as a trustee for the Austrian Federal Ministry of Finance, carrying out equity investments through acquiring direct interests or purchasing fund shares. Between 2012 and 2021, OeEB committed EUR 138.27 million to 22 investment projects, of which EUR 9 million was own funds and EUR 129.27 million was trust funds. Between 2014 and 2021 there has been an average of 18% YoY growth in the equity portfolio, with a reduction in new funds committed in 2019 and 2020 at just EUR 3 million.

The Bank's equity investments present an opportunity to take more risk and move towards strategic targets. Private equity funds are financed by a group of co-investors alongside OeEB and can invest in a diversified group of companies. This inherently means that OeEB's euro can take on more risk and indirectly invest in companies that it otherwise might not have invested in, for instance in smaller local SMEs companies in LDCs (see Section 4.3.2 for map of the exposure of funds to LDCs), Africa and more pioneering or impactful busines models. It also means that OeEB's euro can have a wider exposure over crucial strategic priority sectors and

Advantages of private equity (PE) model to meet the Bank's strategic objectives

The private equity fund model has some specific characteristics that makes it suitable for the Bank to get closer to its strategic objectives. The key ones include:

- *Ability to (indirectly) take on more risk*: The funds are financed by a group of co-investors alongside OeEB and can invest in a diversified group of companies. This inherently means that OeEB's euro can take on more risk and indirectly invest in companies that it otherwise might not have invested in, for instance in smaller local SMEs companies in frontier markets. It also means that OeEB's euro can have a wider exposure over crucial strategic priority sectors and themes;
- *Ability to target companies in all sectors and sizes*: another characteristic is the flexibility of PE, which can target companies in all stages, from start-ups to mature companies, from SMEs to large corporates and from infrastructure to renewable energy;
- *Local teams*: the fund managers targeting developing countries that OeEB invests usually have their offices at key locations embedded in markets, and teams are usually to a large extent made up of experienced local investment experts with a strong local network. This enables them to source investment opportunities that would be hard for the OeEB team in Vienna to identify, and better assess a company's potential, risks and expected development impact;
- *Advisory role*: PE fund managers have a strong focus on improving invested company through active advisory. This focus on capacity building is key to the PE model, not least because it is a factor that may influence financial return for the manager. In other words, there is a strong incentive for the investor to partake in capacity building at its investee company. A fund manager can help challenge and sharpen decisions and improve standards, including ESG;
- *Co-investment opportunities*: As the fund managers execute the sourcing, due diligence and investment activities OeEB is in an ideal position to get to know and thoroughly assess the indirectly invested companies. Given that a PE portfolio may hold between 5 up to 25 companies, there is a large pool to pick from. When opportunities arise, OeEB can co-invest with significant less effort and risk than it would have had without the funds;
- *Source for market intelligence*: The fund managers all report to OeEB on a quarterly basis. In these reports, they not only provide updates on the status and performance of companies, but also provide market analysis and lessons learned on investments. As OeEB is invested over a wide variety of sectors and regions across themes and markets, it receives crucial market intelligence to in turn feed its own market analysis and direct investment activities.

themes. Indeed, the current exposure to LDCs of OeEB's equity portfolio is 31.4% (even 43.3% when excluding two funds that can be considered exceptions),[17] compared to 13% for investment finance.

When it comes to impact, the average DERa score of the PE portfolio was 88 (very good) at end 2021 compared to the entire Bank's 81 (good). The Bank's equity investment in the Africa Renewable Energy Fund (see Case: Africa Renewable Energy Fund) is an example of an equity investment with high impact, where the Bank is able to support the construction of vital climate energy infrastructure in Africa, notably in LDCs.

However, the instrument is significantly underleveraged, with just 8% of the Bank's AUM representing 'pure' equity investments through funds, and an additional 23% of equity stakes in debt-focused funds or quasi-equity (totaling approximately 31% in equity and quasi equity commitments). Among the EDFIs, OeEB has the lowest proportion of 'pure' equity investments. The low availability of equity financing can result in the Bank losing opportunities to invest in Funds with existing partners that meet strategic targets and are also economically reasonable, such as the Women's World Banking successor Fund II (see Case: Women's World Banking Capital Partners).

Challenges and solutions

The low exposure is a missed opportunity, and at present Bank's equity department is not able to plan funds for PE investments ahead of time, due to perpetual uncertainty about funding acquisition. This prevents the Bank from making commitments in reasonable time frames and appearing as a reliable partner to reputable investees.

According to OeEB calculations, new trust funds of at least EUR 20 million per year are required for 6 years in order for the pool of equity investments to become revolving. With an allocation of EUR 20 million for the years 2022 to 2027, The Bank's Equity team expects no new budget funds will required from 2028 onwards, and OeEB can finance the investment program by reinvesting from returns. With a total budget allocation of around EUR 240 million from 2012 to 2027 and an average effective fund term of around 12 years, OeEB would have around EUR 20 million per year available for new investments in the future. According to the model calculation, the invested capital would be relatively stable at around EUR 160 million. While this calculation seems plausible to the evaluation team, a full in-depth review was not within the evaluation's scope. The evaluation team does consider the explanations behind the calculations by the Bank to be rather succinct and would merit from a more elaborate argumentation and calculation.

Through an increased use of the equity instrument OeEB will be more likely to move towards its most important strategic objectives. The Bank is advised to increase the use of the equity instrument, and stakeholders are encouraged to help facilitate the Bank to do so. This can be done by:

- *Deciding on the on the reinvestment of returns from fiduciary holdings*: BMF is encouraged to make a fundamental decision on the reinvestment of returns from fiduciary holdings and provide clarity on expected provision of funds for the Bank's equity operations. To support this decision, OeEB's Equity team should perform additional analysis and develop scenarios that BMF requires. In its expectations of this analysis, BMF is advised to be as realistic and pragmatic as possible and consider limitations of the analysis (e.g., returns from exits cannot be exactly predicted given the factors influencing this such as company performance, macro-economics, availability of buyers).
- *Increasing the amount of funding from fiduciary holdings temporarily to enable equity operations to become revolving*: BMF is encouraged to consider (temporarily) increasing the volume of fiduciary holdings.

[17] The Bank manages two Europe-focused funds as special projects on behalf of the Republic of Austria: The Central and Eastern Europe Special Situations Fund and Central European Fund of Funds.

According to calculations by OeEB, it would require a raise from the current EUR 6 million to EUR 20 million for the coming six years in order to become revolving. There seems to be a high likelihood that this would enable the Bank to develop the necessary planning security for further expanding the equity operations, with the aim of reaching sustainable operations and a revolving nature within four to six years, although we could not fully confirm the underlying calculations. As in the previous point, we encourage the Bank's Equity team to provide a more elaborate calculation and argumentation of the modelled assumption for reaching a revolving nature. This should be developed taking into account specific needs for information BMF may require.

- *Providing a reliable and stable commitment on the volume of fiduciary holdings*: regardless of whether reinvestments can be utilised, or fiduciary holdings increased, there at least needs to be a stable, predictable commitment from BMF towards the Bank on the volume of fiduciary holdings that is made available to OeEB. This means that when preparing the federal budget, attention should be paid to the continuous provision of federal funds for the fiduciary holdings in order to provide the Bank with stable project planning and execution.

3.3.3 Business Advisory Services segment

OeEB's BAS segment allows the Bank to provide funding for technical assistance through the use of grants, with projects tailored to enhance the Bank's development effectiveness. Examples of BAS activities include studies, support for acquiring qualifications and standards, or fees to hire specialist contractors.

OeEB's current programmatic approach also allows it to deploy TA funds for strategic focus areas to evaluate potential markets and identify investment potential. This can be done through conducting studies and deploying experts. This approach can prove innovative in sourcing investments that meet the Bank's strategic objectives, but it is known to be challenging to identify specific projects that go on to be implemented. Therefore, the lion's share of BAS funding remains used for supporting project preparation for projects that have already been identified, with the most common aim of making the project profitable or otherwise implementing OeEB's development interests on the client side. Moreover, projects that already receive financing from OeEB funds can receive BAS support to supplement project capacity and strengthen know-how. This can be used to ensure that the projects are sustainable, meet specific standards, or increase developmental impact and additionality in light of broader sectoral initiatives.

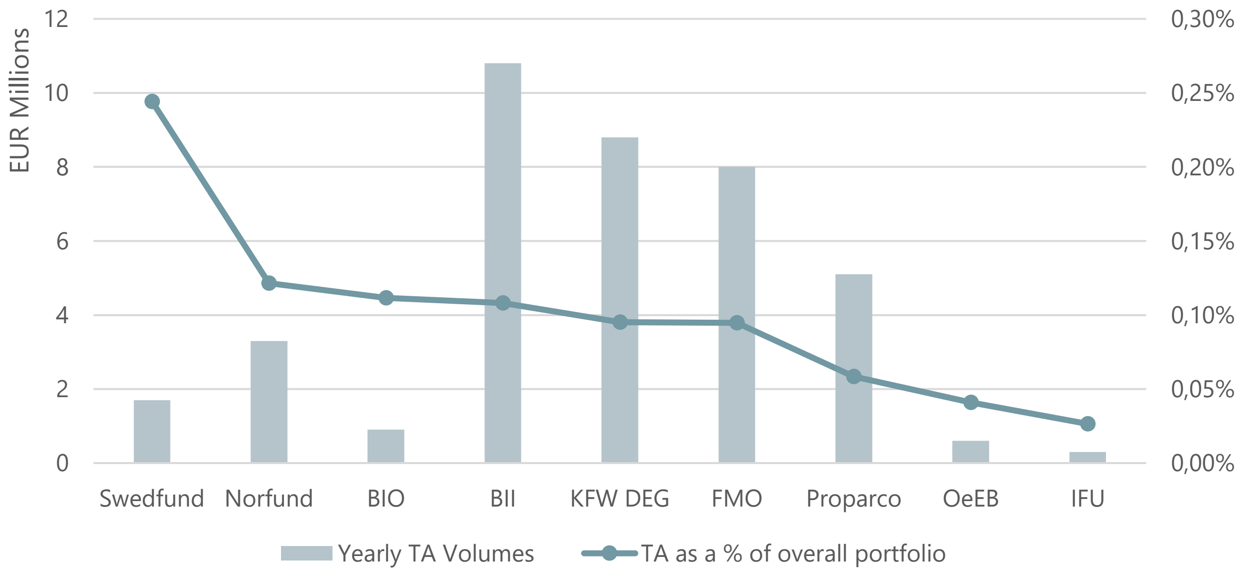

Figure 13: EDFI average ticket sizes and TA offering in EUR millions

Despite OeEB's broad TA offering, it falls short of its peers when it comes to its TA spending volumes, with the second lowest spending on TA as a proportion of total portfolio compared to other EDFIs (see Figure 13). The BAS service offering weighs heavily on delivering operational E&S projects. Although this is useful and worthwhile, expading the thematic areas in which the team could deliver projects (e.g., climate) could enhance the offering. This could give a competitive edge relative to some peers, and allow the Bank to add value through strategic avisory on smaller ticket sizes. Expanding the Bank's TA offering may also allow it to invest more in LDCs and other less bankable countries, where project preparation and implementation support may be necessary to de-risk and execute investments.

The broad mandate of the BAS services allows support for various types of projects, however future specialisation in one or two niche topics would allow the Bank to stand out with its TA offering in a sector where expertise and support on project preparation and implementation are in high demand. The Bank could look to expand its BAS segment and tailor it to climate advisory to provide an additional value offering to commercial partner institutions in emerging markets, to leverage green investments that meet the climate strategic marker. The rising demand for climate finance is necessitating higher levels of know-how and capacity building in emerging markets when it comes to project preparation and implementation of climate adaptation and mitigation supporting projects.

Moving forward, the Bank's business advisory services (BAS) should be at least doubled to get closer to the at least 0.1% of AUM that most EDFIs allocate annually for technical assistance and advisory services. The additional amounts will also be required to live up to the commitments made in the climate statement to assist clients in their Paris alignment processes. The Bank is suggested to have climate advisory services as its key focus area. Examples of advisory services may include portfolio screenings for FIs, target setting, analysing the resilience of companies regarding physical and transition risks related to climate change, implementing greenhouse gas accounting reporting systems, identifying transition and physical climate risks, or developing green financing products.

3.4 Risk management

OeEB is a specialised institution for the financing of commercially viable, developmentally effective private sector investment projects in developing and newly industrialised countries. Development transactions by their nature entail high project and country risks.

As a wholly-owned subsidiary of OeKB, OeEB follows a risk policy and strategy consistent with that of the OeKB Group. In addition to the Group-level risk assessment, OeEB's banking risks are also measured at the individual-institution level. Internal control systems under the Austrian Banking Act have been developed together for OeEB's major business processes (i.e. Investment Finance, Equity Investments, Business Advisory Services), problem loans and the management of existing projects. These systems of internal control are reviewed annually and enable risk management at the level of the OeKB Group. Before individual deals are presented for approval to the full Executive Board and to the panels specified for this purpose by law (as well as the Supervisory Board in exceptional cases), the project risk and country risk are carefully analysed.

To cover the very high project and country risks, OeEB receives a full guarantee from the Austrian government under the Export Guarantees Act for every credit financing deal. On these guarantees, BMF applies a reduced premium when compared to the OECD's Arrangement on Officially Supported Export Credits. Financing extended on behalf of the Austrian government represents the great majority of the bank's assets. For this portion of its total assets, OeEB, like its parent OeKB, is exempt from the provisions of relevant legislation such as the Capital Requirements Regulation (the CRR, or EU Regulation 575/2013). As a result of the backing by the Republic of Austria through government guarantees, OeEB's share capital of EUR 5 million represents and meets the minimum requirement under the Austrian Banking Act. The guarantees have also contributed significantly to the Bank's stable financial results (see Section 3.1).

Recently, the focus of risk management activities has increasingly been credit risks in OeEB's federally guaranteed portfolio in response to the continuing COVID-19 pandemic. Furthermore, OeEB began the classification of the portfolio according to sustainability risks, notably climate risks.

3.4.1 E&S risk management

In line with OeEB's mandate to contribute to sustainable development, projects in the business segments of Investment Finance and Equity Investments undergo an environmental and social (E&S) risk assessment by the Business Advisory Services department, sometimes with the support of external consultants. The E&S risks are comprehensively examined in accordance with national and international standards and the European Banking Authority (EBA) guidelines on loan origination and monitoring.

The companies and financial institutions financed by OeEB are contractually required[18] to comply not only with national regulations but also the EDFI Harmonized Environmental and Social Standards, which are to be applied as a minimum benchmark. These standards include environmental and social risk category defintions, minimum due diligence requirements, contractual requirements and an exlusion list, which help integrate robust E&S risk assessment throughout the investment lifecycle. These Harmonized Standards also incorporate the international best practice International Finance Corporation Performance Standards (IFC PS) and the core labour standards (the Fundamental Conventions) of the International Labour Organization (ILO).

The Bank has in place a grievance mechanism, which is available online. A grievance mechanism ensures the right to be heard for complainants who feel affected by an OeEB-financed operation in order to both enable resolution of disputes and assist OeEB in drawing lessons learned for current and future operations. The mechanism is currently under review as it was recognised that it should be enhanced to align with best practice international standards. At the time of writing, the procedure document for the mechanism had been drafted by a human rights specialist and was under legal review. Prior to formal approval and implementation, it will need to be fully integrated into the Bank's internal procedures. It is recommended that this process be finalised and implemented.

While a robust grievance mechanism is crucial, the Bank's strong engagement with stakeholders typically allows concerns to be raised with open dialogue before the grievance mechanism is triggered. For example, an annual meeting is held with the NGO community where concerns can be openly discussed, this view was supported both by OeEB staff and also representatives of the NGO community.

3.5 Sustainability reporting

Sustainability is also important for OeEB at the institutional level. OeEB's sustainability performance is presented as part of the OeKB Group's annual sustainability report, which is audited by a competent third party. The report is written in accordance with the Global Reporting Initiative (GRI) Standards and the EU Eco-Management and Audit Scheme (EMAS) Regulation. The scope of the report includes the Bank's Strauchgasse site. Due to the international nature of OeEB's activities, almost all of its employees' business travel is by air. OeEB offsets the CO_2 emissions from its air travel by supporting climate protection projects of Vienna's University of Natural Resources and Applied Life Sciences.

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[18] In the case of direct investments that are not co-financed with other EDFIs, this is not a requirement, but the Bank commits to this regardless.

Key takeaways

- Project selection largely relies on the networks of the Bank and its staff, leading to some sourcing challenges and a relatively reactive stance in the market.
- The investment process is complex, involving multiple stages and stakeholders, yet remains efficient largely due to quick decision-making processes and effective communication lines.
- Nevertheless, the misalignment of project approval with the Bank's strategic objectives presents a persistent challenge that could be improved with minor adjustments from key decision-makers.
- OeEB has grown its investment portfolio of debt and equity investments to be the 7th largest EDFI, despite being a relatively young institution.
- The portfolio comprises debt and equity investments. Debt investments are largely in financial institutions in upper-middle income countries, targeting the themes of real sector and climate.
- Compared to other EDFIs, the Bank's equity instrument is small relative to its debt instrument but performs especially well at achieving the Bank's ambitious strategic objectives.
- OeEB's technical assistance offering is limited relative to the size of its portfolio, with room for expansion and specialisation if extra funding is made available.

4 Financial and strategic performance

This Section analyses the financial performance of OeEB, its results monitoring and the Bank's performance against the current strategy.

4.1 Financial performance

OeEB's yearly profit margins have been steady with an average of EUR 6 million in yearly profits over the 2014-2021 period, including a slight dip in 2020-2021 due to the COVID-19 pandemic (see Figure 14). A large majority of the profits tend to be allocated to the Bank's reserves rather than being reinvested, with unallocated profits sitting at an average of just EUR 126.5 thousand per year over the 2014-2021 period. Thanks to this conservative spending behaviour on its profits, the Bank has accumulated just under EUR 50 million in reserves as of end 2021.

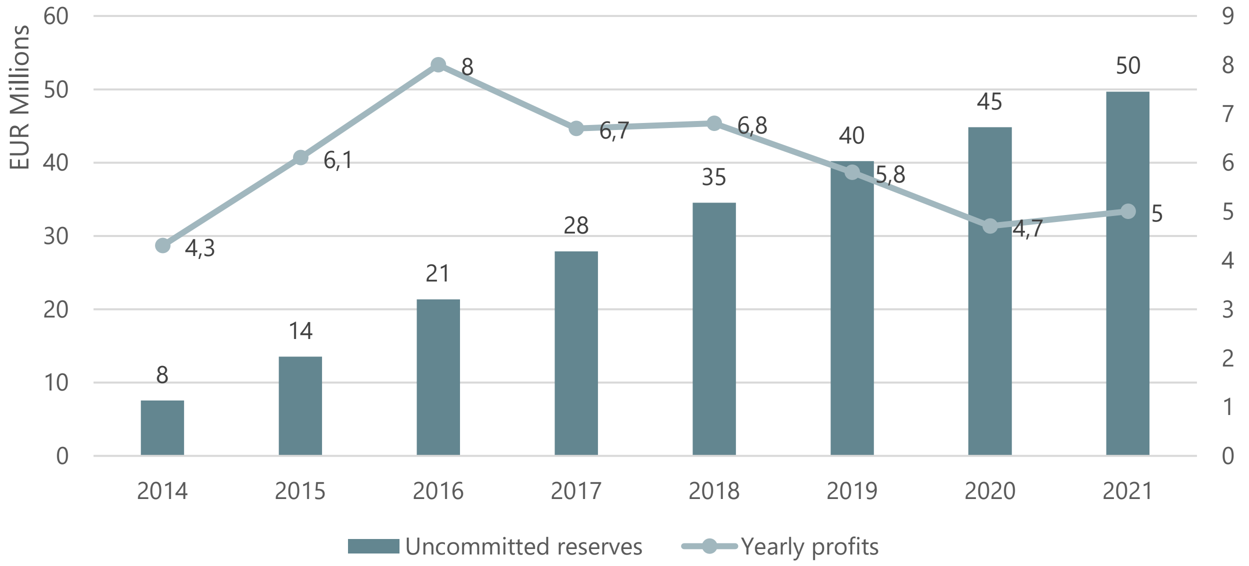

Figure 14: OeEB profits and total assets over time in EUR millions

Overall, the Bank has coped well with the shock of the COVID-19 pandemic, which can be attributable to OeEB's clients dealing well with challenges and the guarantee system. As a result, the portfolio's average S&P rating improved from a B+ to a BB- in 2021. Portfolio quality has been better than expected, with claims under the federal government guarantees not materialising as severely as predicted. A more recent challenge for portfolio quality comes from the Russian invasion of Ukraine, with exposures in Ukraine amount to EUR 9.5 million direct exposure and EUR 14.9 million indirect exposure and indirect exposures in Russia of EUR 6.1 million. On average in the 2016-2021 period, loss events took place with five clients per year triggering the MoF guarantee agreement, which the Ministry honoured and thus the Bank was not charged.

Going forward, the quality of the portfolio continues to be influenced by the COVID-19 pandemic, economic and military implications of the war in Ukraine, as well as political risks in other target countries such as Myanmar.

4.1.1 Retained earnings

The stable annual profits and accumulation of reserves means the Bank is in good financial shape. However, due to the shareholding structure, the Bank itself does not have control over how these profits are used nor can it decide what level of reserves is sufficient to hold (beyond allocating 10% of profits to BAS). Instead, control lies with the OeKB as the 100% shareholder, and the Supervisory Board, of which 75% are OeKB representatives. The OeKB has so far taken a financially prudent approach by using the profits to be added to the reserves. While this is to an extent understandable given the high-risk environment the Bank operates in, the current accumulated reserves can be considered a secure buffer. These reserves could even be further strengthened, but at a much lower pace.

Meanwhile, the Bank urgently requires internal investments to build capacity as an organisation to live up to its commitments, while becoming more additional and competitive. Concrete examples include the introduction of the new banking system, bolstering the Bank's TCFD reporting capabilities, further enhancement of the DERa, the introduction of climate risk assessments, implementation of the Joint Impact Model (JIM) to assess CO_2 emissions, and increasing the support on climate to clients, among other things.

Discussions on potential approaches to grant OeEB's executive management the ability to invest (part of) the profits have been ongoing for a few years. A concrete proposal was for 70% of profits to be made available to OeEB in coordination with BMF, and 30% to flow to the OeKB. This proposal got stuck as it was considered not politically acceptable that the parent company could make a return on projects in developing countries. However, given the urgency of the investments needed, and the potential performance enhancements for the Bank, a solution on this issue is of fundamental importance. BMF, OeKB and OeEB are strongly encouraged to re-initiate these discussions, further consider options, and come to an agreement.

When a solution is reached, a part of the profits should also be used for capacity building, such as for increasing the BAS (particularly on its climate advisory offering). In addition, the Bank and its stakeholders could also explore using some of the profits in a co-sharing model with BMF for further discounts on guarantee fees when it comes to investments in key strategic priorities.

4.2 Portfolio monitoring

At a portfolio level, the results framework is used to monitor performance, which is reported on an annual basis. The Bank's Strategy 2019-2023 sets out the results framework that aims to steer decision-making towards the achievement of the Bank's strategic objectives. This framework then forms the basis of an annual progress monitoring report that is led by the digitalisation and middle office team, using reporting indicators that extend beyond the strategic KPIs to provide a more holistic view of strategy achievement. For example, while the strategic objectives require progress measurement as a percentage of new business over the strategy period, the results framework reporting also tracks progress against the proportion of the entire portfolio, providing a more comprehensive view.

There is a strong culture of using the results framework to steer potential investments and guide decision-making. Interviewed employees, especially those involved in deal sourcing, appeared very engaged in using the framework as a guide to select potential investments, alongside ensuring the project meets appropriate financial parameters. The results framework is also a key feature of the investment decision-making process, being applied early on in investment selection, and acting as a lens to ensure each investment is steering towards the Bank's overall mandate.

4.3 Performance on strategic objectives

OeEB's strategic period 2012 to 2017 was focused explicitly on its overarching goal of contributing to poverty reduction by financing economically self-sufficient projects in the private sector and supporting these with business advisory services. A key goal at this point in time was to reduce the average project size of the Bank from EUR 11.3 million to below EUR 9 million per project, focusing on projects of maximum EUR 5 million. In terms of strategic targets, the Bank met most of its targets by 2017, except for its commitment to 20% of the portfolio being dedicated to LDCs.

4.3.1 Performance against 2019-2023 targets

In the current 2019-2023 strategic period, OeEB is behind on most of its strategic targets. Figure 15 shows the aggregated performance over 2019-2021 as well as annual figures. The Bank is on track to meet its strategic objective of allocating at least 20% of new commitments to African countries (albeit with varying annual figures) and is exceeding its DERa target. It has also made notable progress in several thematic areas and weathered a difficult period due to the COVID-19 pandemic with stable financial performance.

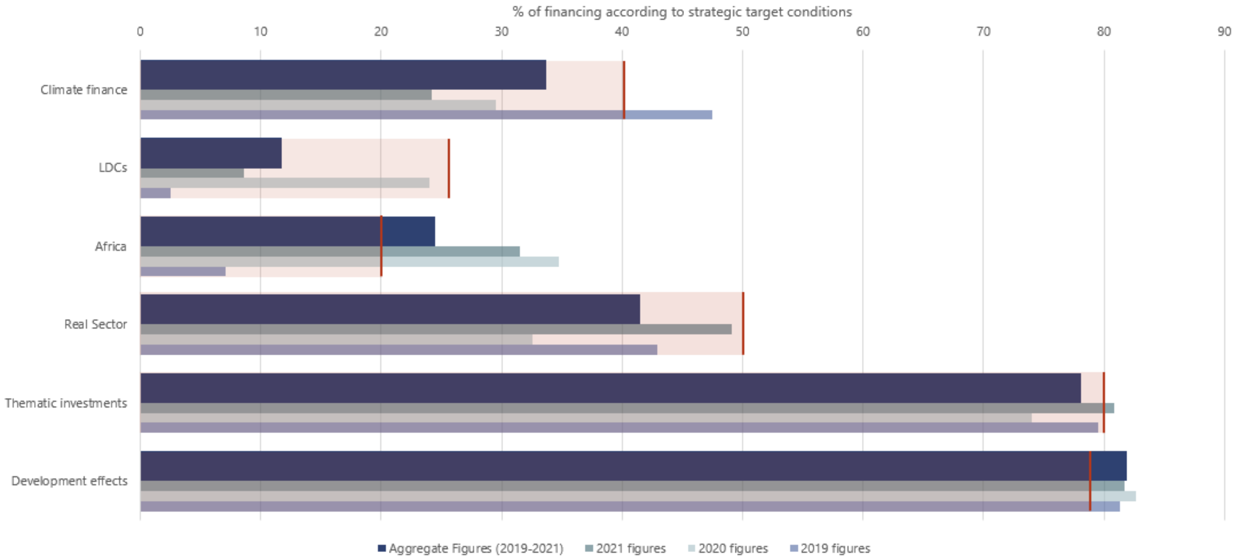

Figure 1: Overview of performance OeEB's Strategic Period Performance 2019 – 2021 in % of new business

However, the Bank is behind on its objectives to allocate at least 40% to climate projects, 25% of new commitments to Least Developed Countries (LDCs), 50% to the real sector (i.e., investments in non-financials) and 80% to the thematic priorities – although on the latter the Bank is nearly on target. The Bank is particularly far off on its LDC target, and unlikely to reach the objective in the current strategic period. This presents a continuation of the underperformance against this same target in the previous strategic period 2013-2017. It also is lower than peer DFIs that are close to OeEB's portfolio size (e.g., BIO has 33% of commitments in LDCs, Finnfund 22%). Thus, this is a specific point of attention.

While the Bank is not on track to meet its target of 40% of new investments in climate finance, it should be noted that this this target is ambitious compared to other DFIs, and its performance could be considered better than it now seems due to the measurement methodology on the targets. Some EDFIs that have set a concrete target for climate finance such as BII[19] (30%) and Finnfund[20] (105 million euros between 2019-2021 or about 26% of new commitments) do not reach 40%. Other EDFIs such as DEG[21] set overarching targets and a trajectory for transitioning the Bank to a net zero portfolio, similar to OeEB's draft Climate Roadmap, but do

[19] *BII accelerates climate finance commitments*, bii.co.uk
[20] *Finnfund's climate investments*, finnfund.fi
[21] *DEG Climate Impact Commitment*, deginvest.de

not have quantitative targets. This means that compared to other EDFI's, OeEB stands out as a DFI with an ambitious and defined climate target as well as relatively good performance.

The Bank tracks its performance on the climate target using an OECD methodology that is initially designed for reporting. Some of the Bank's climate-related investments cannot qualify for its climate marker due to the geographies they are in, such as Ukraine or Turkey. Moreover, for many investments only half of amounts are counted depending on whether they fall under Marker 1 or Marker 2 under OECD criteria (see Section 4.3.3 for more elaborate analysis on this).

4.3.2 Operational issues influencing strategic targets

Reasons that contribute to underperformance against targets include conflicting development and risk policies, a less competitive offering, insufficient use of the equity instrument and limited ability to proactively source and lead on higher impact investment opportunities.

The Bank has conflicting development and risk policy goals which renders it near impossible to meet some strategic targets. While the Bank has strategic objectives for investing 25% of new business in LDCs, 20% in Africa, and 40% for climate finance, the Bank's risk appetite and guarantee approvals by the Ministry of Finance drive a focus on lower and upper-middle income countries and sectoral diversification. For about 25% of LDCs and 15% of African countries there is no guarantee risk cover available, and the remaining ones have a limited risk cover with low country limits, strict eligibility criteria and a high level of scrutiny. This has contributed significantly to the structural inability for the Bank to meet two of its core strategic objectives. The maps below show the risk cover for LDCs, and the outreach of the Bank's direct investments compared to its fund investments in LDCs. As Figure 16b shows, LDCs can more easily be reached through indirectly invested companies as funds can generally take more risk than OeEB itself. Through direct investments (Figure 16a), the Bank reaches just 5 LDCs or 11% of the country group, whereas through funds it reaches 21 LDCs, or 46%, including 3 with no risk cover under the Bank's guarantee policy.

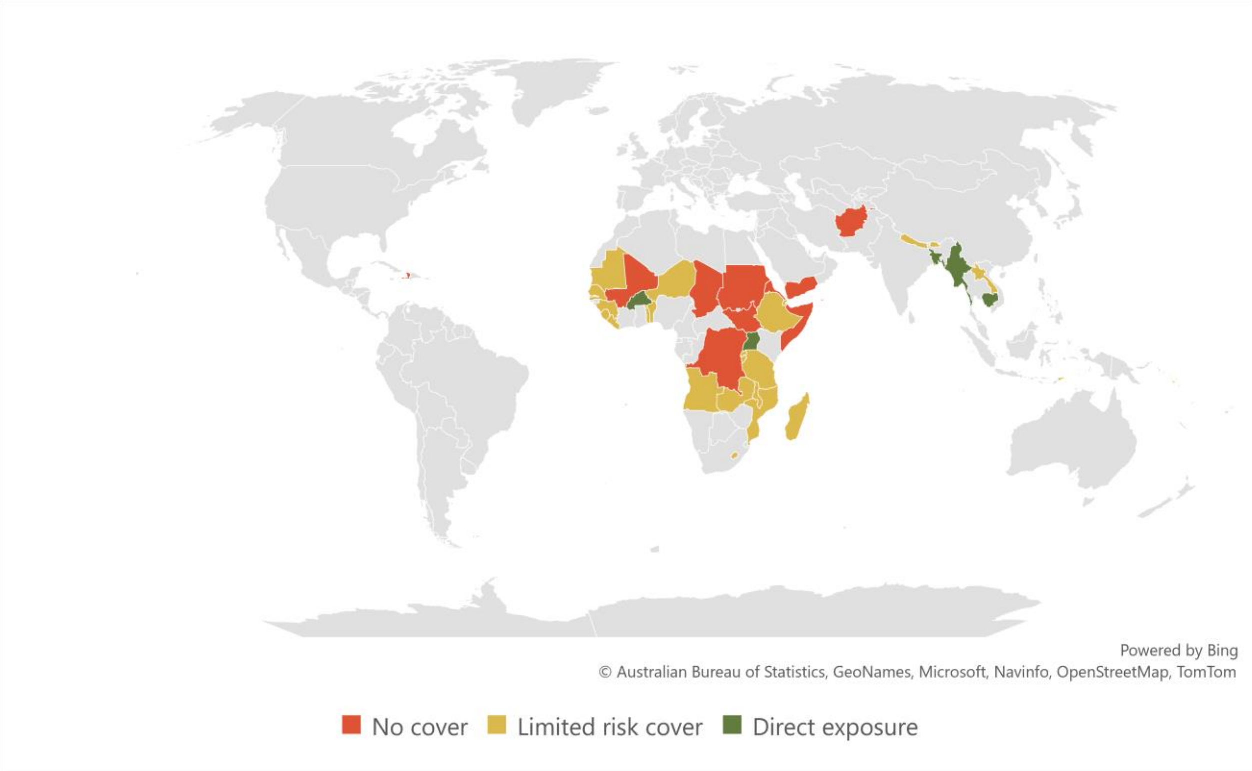

Figure 16a: Overview of OeEB Risk Cover and direct exposure in LDCs

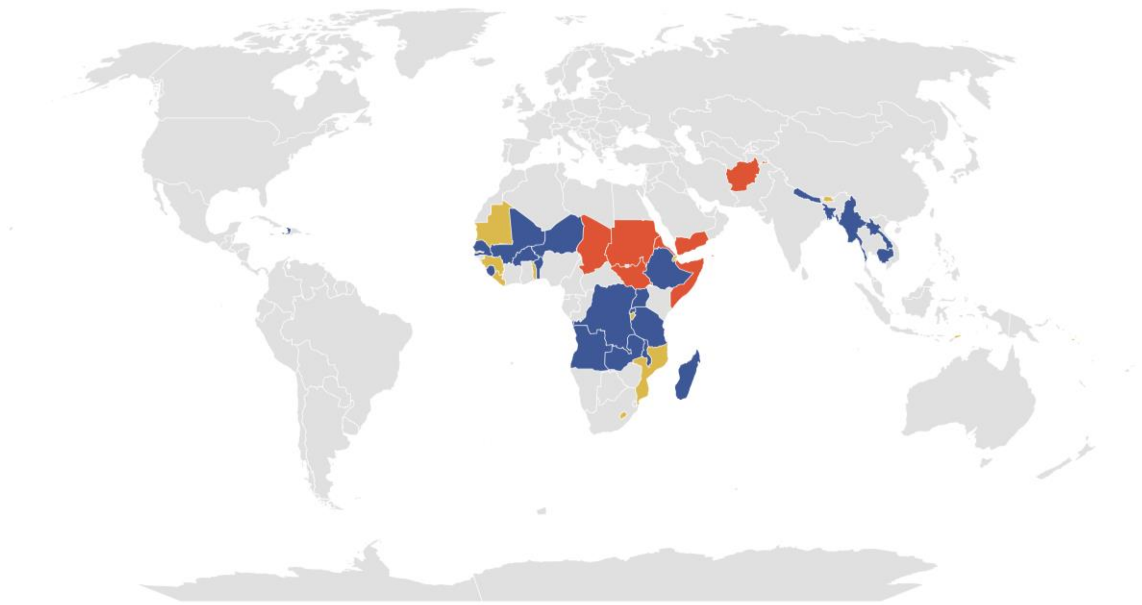

Figure 16b: Overview of OeEB Risk Cover and fund exposure in LDCs

OeEB's pricing is often also less competitive when compared to peers. OeEB's interest rate offering to clients often is higher than other development financiers or even local commercial banks. This is mainly the result of several factors that are specific to OeEB's governance structure and business model, notably the mandatory guarantee premiums, administration fees to its parent company and the slightly below average ticket sizes compared to other DFIs (EUR 8.5 million compared to an EDFI average of EUR 9.8 million). In addition, the persistently low interest rates in international markets negatively affect OeEB's offering compared to commercial banks – which it also must avoid competing with so as not to crowd out commercial finance. This disadvantaged competitive position is particularly apparent in the Bank's strategic priority geographies (Africa and LDCs) and strategic investment themes (climate investments), which makes it challenging for the Bank to meet its strategic objectives.

The flexible geographic approach for the Bank's investments has allowed it to remain agile in meeting development targets, rather than restricting the investment team to a particular geography. However, this flexibility can also make it difficult to achieve more ambitious geographic targets such as 25% of new investments in LDCs. Existing partners in less risky geographies such as Serbia or India may make repeat investments in these countries an attractive prospect.

The lack of on-site presence seems to be a minor but real disadvantage to the Bank in its fulfilment of its strategic objectives. The relatively small size of the Bank compared to its geographic mandate makes it difficult to recommend opening its own local offices. However, sharing offices in strategic hubs with other EDFI peers (such as the FMO/DEG office in Johannesburg), or with local embassies or ADA offices would give the Bank an edge in sourcing quality investments and building lasting partnerships in these regions. Notably, only Spain's COFIDES has a larger portfolio size of an EDFI than OeEB without having any offices abroad (see Figure 2), suggesting that the Bank is reaching a size where local resources would provide added value.

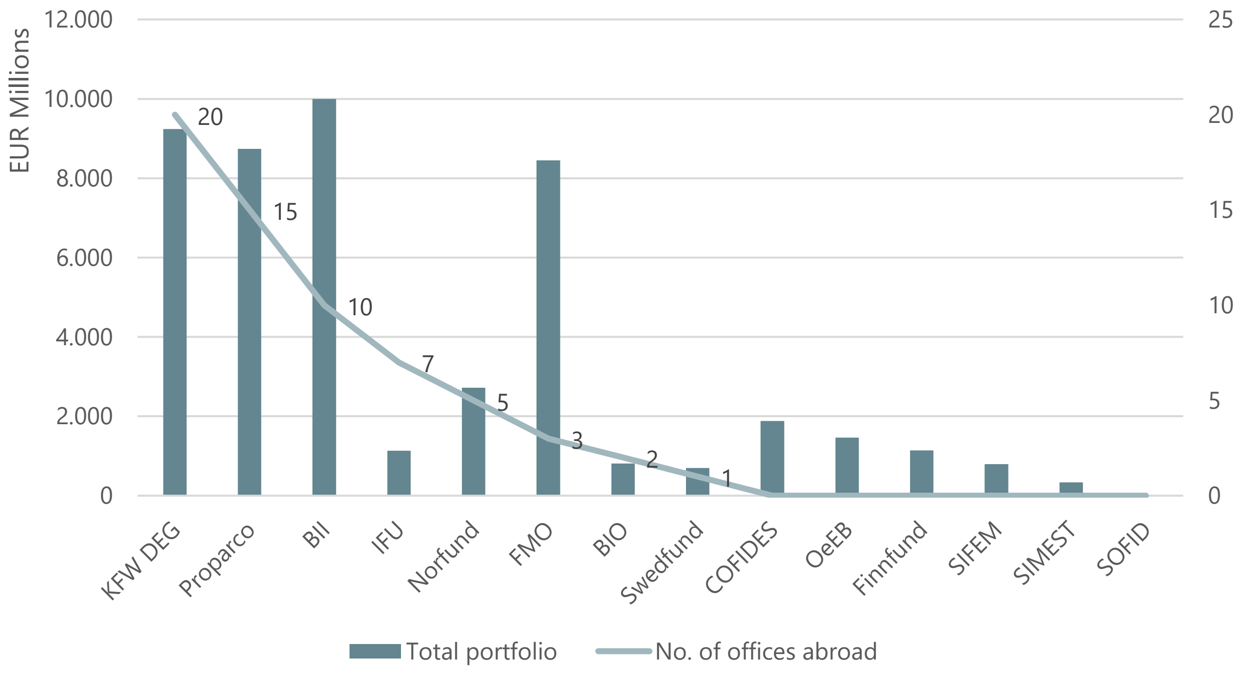

Figure 2: Overview of EDFI local offices compared to portfolio size

4.3.3 Methodological issues influencing strategic targets

In addition to operational challenges, staff also perceive methodological issues in the monitoring of the climate target, while the methodological approach to monitoring performance on gender is currently under review.

Climate

The metric to monitor the Bank's climate target is perceived to lead to the underestimation of the Bank's climate investments. The strategic KPI to invest 40% of its new business in climate finance aligns to the terms specified under the United Nations Framework Conventions for Climate Change (UNFCCC). The OECD DAC's Rio Markers for Climate methodology[22] serves as technical basis for the identification and validation of climate finance projects. This methodology is used to track the mainstreaming of the Rio Convention's considerations into development cooperation practices. It is used for identifying, reasoning, justifying and reporting bilateral national contributions to climate finance to the WP STAT at OECD. The UNFCCC Agenda is linked to the collective goal of all developed countries mobilising USD 100 billion per year by 2020 for climate financing in developing countries and serves as legal basis for the climate finance strategy of the Republic of Austria. As a key contributor to the Republic of Austria's climate goal, the Bank is obliged to report against this. While it is useful and necessary to track progress against Austria's climate commitments, this methodology can be considered less suited to capturing the full extent of the Bank's climate finance investments resulting in the impossibility of counting certain investments towards the overall target of the strategic KPI to invest 40% of its new business in climate finance.

The key challenge lies in the differences in eligible countries under the UNFCCC versus countries eligible for OeEB finance. In the context of the Bank's strategic climate KPI, the Bank's strategy 2019-2023 sets out a commitment to align climate finance accounting with that of the Republic of Austria (for reporting to the UN), which effectively prevents the counting of climate finance to UNFCCC Annex I countries that lists countries classified as industrialised countries (and therefore ineligible to be recipients). On the other hand, the Bank's

[22] *OECD DAC Rio Markers for Climate.* oecd.org

eligible investment geography is defined by the OECD DAC list of countries that can receive Official Development Assistance. As these lists are not fully aligned, OeEB is unable to count its climate-relevant investments in countries such as Ukraine and Turkey towards this KPI. This constraint therefore underestimates the Bank's progress against its climate KPI.

That said, this ongoing challenge is well known to the Bank and due to changes expected from 2024, it should no longer be an issue for the Bank's new strategy period. Reporting under the Paris Agreement (Art.13 (9)) no longer mentions that climate finance recipients must be Annex I listed countries, in turn allowing the counting of investments in non-Annex I countries, Austria and Turkey inclusive. It is understood that this approach is to be implemented from 2024 onwards.

A second and persistent challenge lies in operationalisation of the Rio Climate Marker methodology. The marker makes a distinction between investments where climate mitigation/adaptation is an element of a project (Marker 1) versus those where climate mitigation/adaptation is intrinsic to the project itself (Marker 2). The Bank implements this by counting 50% of the value of the investment towards the climate target if it is labelled with Marker 1 and 100% if it is labelled as Marker 2. This convention is specified in the Revision of the Klimafinanzierungsstrategie[23] by the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology, but there is currently no internationally agreed upon common reporting standard with respect to setting the percentages of Markers [24]. Marker 1-labelled investments could, at times, lead to the underestimation of the Bank's climate financing, while also creating a disincentive to finance projects that make an extensive but not intrinsic contribution to climate mitigation or adaptation (e.g., high-value energy efficiency packages in large scale manufacturing). However, in other cases, the reverse can also be true: projects with a relatively small climate element could be leading to an overestimation of real climate contributions. This was frequently perceived as an issue by staff members, who saw merit in reviewing the appropriateness of this approach and aligning with the EDFI community, but it is noted that this could be challenging as the methodology is defined at the national level.

Based on the above, two distinct reporting needs emerge, that cannot be captured with the existing methodology. While the Rio marker methodology must continue to be used as basis for reasoning the technical justification of climate finance projects OeEB can report and count towards Austria's climate finance contributions. Another approach is needed to accurately track the Bank's climate financing against its own strategy. This should therefore be revised, and an appropriate solution identified. This could be done in close collaboration with the EDFI community to maintain comparability and accountability and aligned with the current EDFI Paris alignment roadmap that is underway.

Gender

The Bank's cross-cutting strategic gender ambitions are in a process of expansion and consolidation. Introduced as a theme for the current strategic period in 2019, the Bank chose to track which projects contributed to gender issues but chose not to introduce a quantitative target. This was to allow time to define what the topic meant to the Bank and to develop a programme of works to embed gender theory and practice into the organisation, in order to minimise the risk of 'gender-washing' investments[25] by ensuring the topic was first well understood and structured before being prescribed. At present, recognising that the topic requires improved coherence and consolidation at the organisation and operational level, the Bank is taking appropriate steps as part of its Gender Action Plan.

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[23] *Revision der Strategie Österreichs zur Internationalen Klimafinanzierung für die Jahre 2013 – 2020.* www.bmk.gv.at

[24] *OECD DAC Rio Markers for Climate Handbook.* oecd.org

[25] Defined as conveying a false or exaggerated impression about how an investment positively contributes to gender equality.

Several methods and indicators are used throughout the investment lifecycle to track progress on gender, though these are likely to undergo change as part of the consolidation process. Currently, the Bank uses the OECD Gender Equality Policy Marker[26] , the 2X Challenge,[27] calculates its contribution to SDG5 (gender equality) and collects gender disaggregated employment data for annual results framework reporting.

The OECD Gender Equality Policy Marker[28] methodology is an *ex-ante* assessment that identifies the gender intentions of a project. It forms the basis of calculating OeEB's contribution to Austria's ODA / Other Official Flows (OOF) reporting requirements. This is recorded as part of the Bank's portfolio records but is not part of the annual results framework reporting. The methodology, which fixes the assessment throughout the project and does not allow for the tracking of progress, is considered rigid and while it will continue to be reported for ODA reporting requirements, it will play a lesser role in the portfolio monitoring of the Bank.

The Bank is in the process of implementing reporting against the 2X Challenge, which will form part of annual reporting and due diligence assessments. While it cannot be used for investment steering purposes, the 2X Challenge is more robust and better allows for the tracking of progress. Because of this, this methodology will become dominant at the Bank. To ease reporting, the tracking of progress against the 2X Challenge will be integrated into the Bank's planned upgrade of its impact monitoring system (see Section 5 on the DERa) and the governing organisations are in the process of harmonising the OECD methodology with the 2x Challenge.

The consolidation should result in a clear target in the results framework that meets the right balance of encouraging investment in gender while minimising the risk of gender-washing and adding yet more quantitative targets. The introduction of a target could therefore enhance the topic's consideration in investment selection and decision making. Although the need is identified, as argued in earlier sections, the number of prescriptive targets should be reduced rather than increased, a statement that is echoed by nearly 89% of survey respondents. It could be considered to set a baseline and make gender an area for improvement across the portfolio, without putting a hard commitment percentage target on it.

4.3.4 Staff views on strategic targets

The Bank's staff has mixed views on the ambition level of OeEB strategic targets. Survey results indicated that the overwhelming majority (94%) of participants agreed with the general strategic direction of OeEB and the themes of renewable energy, infrastructure, MSMEs, climate and gender. Even though it has been challenging to meet the climate target, all staff members consider the 40% target appropriate, and some even want a more ambitious target.

There are mixed views on the feasibility of the Africa, real sector, and thematic focus areas, but the majority still feels these are rightly set. However, employees overwhelmingly called into question the feasibility of the 25% target for LDCs, with 78% of respondents calling it not feasible.

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[26] *OECD DAC Gender Equality Marker*. oecd.org

[27] The 2X Challenge is an initiative that was created by DFIs of G7 countries to jointly mobilise a total of USD 3 billion by the end of 2020 for businesses that are owned or managed by women or that specifically empower women as employees and consumers.

[28] Ibid.

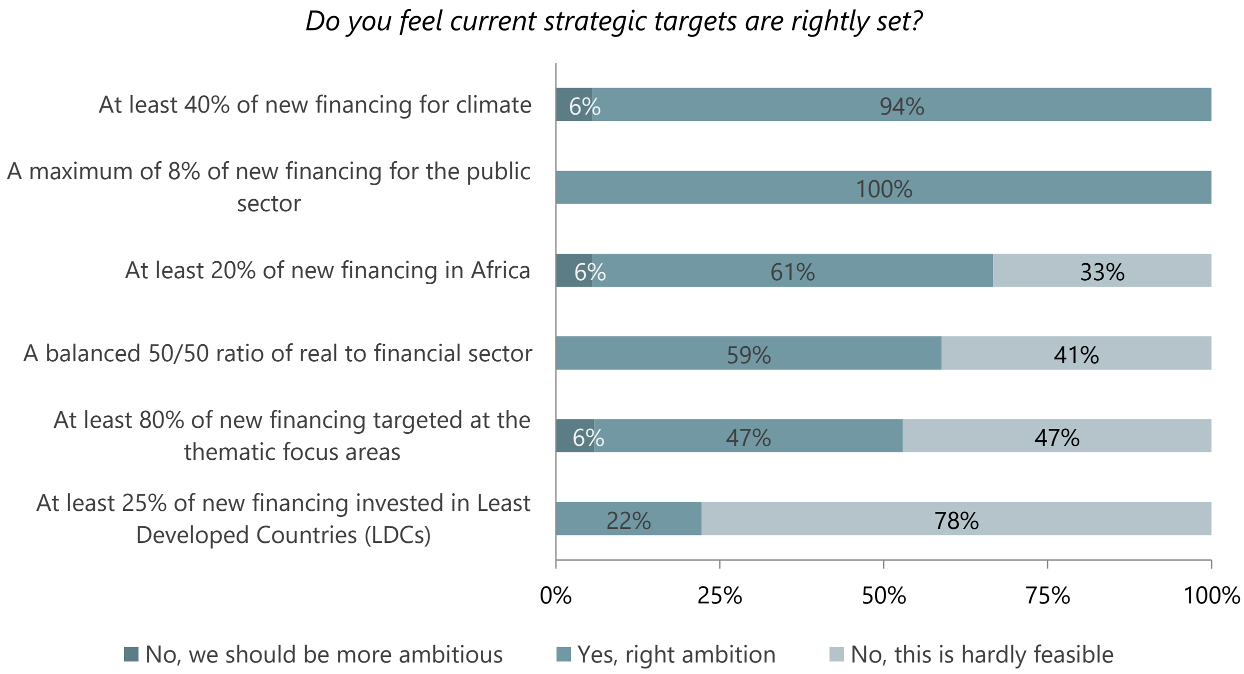

Figure 18: OeEB staff evaluating the ambition of OeEB Strategic Targets (2019-2023) in a survey

4.3.5 Considerations for new strategy

In 2023 the Bank and its stakeholders will start a consultation process to determine strategic priorities and target KPI. There are a few key considerations for both strategic formulation and the execution that the Bank as well as its core stakeholders could consider.

Firstly, key strategic target KPIs should either be made more realistic or be in conditions where they can be met. The strategic targets on investing in LDCs and climate finance have proven to be challenging to meet. On LDCs, this requires a concerted effort. The Bank's staff should focus more strongly on sourcing investment opportunities in LDCs, invest in market studies and capacity building, and pilot local office(s). On climate, the focus should be broadened and the KPI measurement adjusted. In both cases, but particularly on investment opportunities in LDCs, BMF should be more flexible in their risk assessments and consider discounts on the guarantee fees. Furthermore, the Bank is to explore the opportunities for guarantees from the European Union, under its ESFD+ scheme. At present, the Bank is finalising an EU Pillar Assessment, the successful completion of which would enable it to access EU guarantees, blending instruments (investment grants, interest rate subsidies) and TA funds funds under the EU's Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI).

Secondly, everybody may benefit from a sharpened focus between the strategic objectives. The current seven quantitative strategic targets can be considered too extensive, particularly when an eighth target (i.e., on gender) is considered. In the survey among senior OeEB staff, around 90% indicated to be against adding additional targets, as this would further complicate investment selection and dilute the Bank's focus. In the Bank's new strategy there should be more focus in strategic objectives, with a suggested three key KPIs (or first-tier targets) to primarily steer on: Climate, LDCs and Africa. Some of the other existing strategic objectives can remain part of an updated strategy but reformulated to operational (or second tier) targets such as a minimum DERa score, requirement for improvement against baseline on gender. Others can be defined as operational limits, such as the private sector focus. The thematic investment target can take the form of a more comprehensive practical guidance on thematic focus areas beyond the current three themes, where climate considerations are also embedded in (related to next point).

Thirdly, the Bank and its stakeholders should strategically discuss, categorise, and develop guidance on investment opportunities that may drive socio-economic growth but have inherently higher CO2 emissions. As the Bank will introduce a Paris-alignment climate roadmap in the near future, the 60% non-climate specific projects will also be influenced by climate considerations. The climate roadmap will outline the pathway to net zero and all the practical implications this will have for operational aspects such as investment selection, risk, business advisory services and reporting. For the 60% of investment projects that will not have a specific climate focus, investment opportunities that support clean growth investments should be pursued, such as clients with low carbon operations or climate resilient infrastructure. At the same time, investment opportunities may remain that may behave major contributions to socio-economic growth but in economic activities with inherent higher CO2 emissions (e.g., cement production, heavy manufacturing, port infrastructure). Guidance will need to be developed on what to phase out and exclude categorically (e.g., coal-fired power plants, oil and gas exploration and refinery), where conditions will need to be set (e.g., in heavy-emitting sectors or where gas-fired power plants are part of national transition plans). There also needs to be a concrete plan and financial resources on how the Bank can increase its support for clients transitioning to low-carbon operations or building up resilience to the effects of climate change.

Finally, the strategic climate finance objective should be broadened to cover not only renewable energy, but a broader mitigation finance focus and a significantly increased focus on finance for climate change adaptation. This broader focus would ensure the Bank's climate finance efforts are more in line with the Paris Agreement and the actual needs in the market. In mitigation, this means broadening the scope beyond renewable energy to also include products such as energy efficiency credit lines, e-mobility, carbon sinks or preserving biodiversity. The Bank should also significantly strengthen its focus on investments in adaptation. Although the return generating investment opportunities in adaptation arguably are more limited, there are potential areas of focus for the Bank such as climate resilient agriculture, resilient infrastructure and built environment, waste and wastewater management, nature-based solutions, or early warning systems.

Example of investment vehicle targeting strategic priorities such as Africa, LDCs and fragile states

In order to reach LDCs, fragile states and be more additional and catalytic, some other EDFIs have developed specific investment vehicles that are off the regular balance sheet. An example is FISEA+, a EUR 230m Africa-focused investment vehicle managed by French DFI Proparco that integrates specific investment objectives for LDCs, fragile countries, social and solidarity-based enterprises and SMEs that provide essential goods and services via digital innovation. FISEA has a major focus on investing through funds, and may invest a limited amount in funds with longer lifespans (15 years) and initiatives that can benefit from junior tranches in addition to senior tranches. These junior tranches aim to encourage established managers to develop in new strategies and geographical areas, while seeking to mobilise more capital in these new thematic areas. Through FISEA+, Proparco can pioneer and reach countries and social business that it otherwise would not invest in, while having higher level of additionality and catalytic effect.

Key takeaways

- OeEB's yearly profit margins have been steady with an average of EUR 6 million in yearly profits over the 2014-2021 period, which combined with its conservative profit management, has led to a substantial accumulation of reserves.
- The stable annual profits and accumulation of reserves means the Bank is in good financial shape, which could be used to enhance its performance and build much needed capacity. Nevertheless, it has limited control over the use of its retained earnings.
- At a portfolio level, the results framework is used to monitor performance, which is reported on an annual basis. The framework is comprehensive and well-integrated into the Bank.
- In the current 2019-2023 strategic period, the OeEB is behind on four of its seven strategic targets. Nevertheless, it should be noted that the targets are ambitious, and the Bank faces operational and methodological challenges.

5 Impact

This fifth section outlines and evaluates the Bank's approach to impact management and measurement.

5.1 Impact management

As an impact investor, all of OeEB's investments are to be made with the intent of generating measurable and sustainable development impact in developing and emerging countries. This implies that the consideration of (expected) impact should be embedded throughout all processes of the Bank, from strategy development to exits.

5.1.1 Impact management in the investment process

The Bank's consideration of the (expected) impact of investments has been a central element of its operations from the start. More recently, the Bank has further underlined and formalised its approach when it became a signatory to the Operating Principles for Impact Management (OPIM), covering both its debt and equity investments. The OPIM are a framework of nine principles to be used by investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. They do not prescribe specific tools or approaches, or specific impact measurement frameworks. The expectation is that industry participants will continue to learn from each other as they implement the principles.

The Bank also published its first OPIM Disclosure Statement in 2022, which gives a solid and detailed outline of how the Bank has integrated impact management throughout its investment process. This review confirms that elements of impact are assessed in strategy, in investment analysis and decision-making, and in portfolio management and exits.

The Bank's strategy specifies the activities it is to pursue to achieve its public mandate of focusing on the private sector development of emerging markets to reduce poverty (Section 1). The achievement of these strategic objectives at a portfolio level, is evaluated annually by way of the results framework (Section 4.2). The goals of the strategic cycle 2019 – 2023 are broken down to annual goals and then set 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.

Development impact also plays a central role at the project level, as it is systematically integrated into the investment decision-making process. The Bank's investment approach (see Section 3) integrates development policy considerations early into the investment approval process. Development policy is considered from the first quick check phase and by due diligence the (potential) developmental effects are assessed using an adapted version of the Development Effectiveness Rating (DERa), developed by DEG to measure impact. OeEB uses the DERa to measure impact across its entire portfolio (see Box). This includes understanding the DERa score at baseline, forecasting the project's future development impact and measuring annually during the life of the investment to understand the progress made. The anticipated development impact is the focus of the Gremium Meeting, which convenes to give a formal recommendation for ministerial approval.

As part of OPIM Principle 5, the Bank must assess, address, monitor and manage the negative impacts of each investment. In addition to using the DERa tool for this, the Bank operates sound environmental and social practices that are in line with the EDFI community standards. This is described in Section 3.4.1.

At investment exit, the Bank commits to considering the effect of maintaing development impact central to its exit decisions in its equity portfolio, in line with OPIM Principle 7. Impact progress is documents and evaluated periodicially (Principle 8).

The Development Effectiveness Rating (DERa) Tool

The OeEB measures and monitors the impact of its portfolio using the Development Effectiveness Rating (DERa) tool. The Bank adopted the tool in 2018, applying the system to the entirety of its new business from 2019. The tool, which replaced the Bank's previous EPOL and GPR systems, was developed by the German development bank DEG to measure how the private sector contributes to development. The OeEB adjusted the tool slightly to suit its own needs and with its adoption, the Bank aimed to decrease the subjectivity of its impact monitoring and assessment. An update to OeEB's version of DERa is currently in progress.

The DERa is one of the most methodologically advanced and practical tools to assess the (potential) development effects of investments. It is of added value as a standalone tool alongside development policy-related targets because it assesses (potential) development effects of a company comprehensively and holistically, both for steering and reporting purposes.

The DERa consists of indicators that are organised under five outcome-level dimensions that are indexed to give a final impact score on a scale of 0 to 150, with an expected average of about 75. The five dimensions are decent jobs, local income, market and sector development, environmental stewardship and community benefits. The tool is based on a so-called theory of change, a methodology that is used to explain the process to a desired impact by mapping causal links from the Bank's activities through outputs, outcomes and finally, impacts. The design was guided by the 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

The indicators in the tool are both qualitative and quantitative in nature and aim to robustly track development impact. Some indicators are more static while others are dynamic, which allows valuation of both absolute effects and growth processes. Regarding environmental and social aspects, indicators regarding the mitigation of risk ("do no harm"/compliance) are included as well as indicators capturing proactive development contributions ("do good"). In addition to this, the DERa user can track impact in narrative fields. This does not impact the score but allows the tracking of relevant information such as additional employee benefits.

5.1.2 The application of the DERa at OeEB

The DERa plays a fundamental role within both impact management and measurement. At OeEB, the DERa tool is well integrated into and used throughout the investment process to inform decision-making across and projects, companies, financial institutions and/or funds[29]. With each potential investment, a new DERa entry is created during the due diligence phase. Here, the 'actual' baseline of the project is compared to the future expected DERa score, which is based on a calculated 5-year forecast. The Bank factors in the issue that certain projects, such as greenfield projects or fund investments may not have a baseline. This first assessment forms a section in the investment paper that is used for final approval, where the actual and forecast scores are presented alongside a paragraph-length narrative of each of the 5 dimensions. Once an investment is made, the baseline and forecast values are frozen, while the actual progress of the project is monitored and updated on an annual basis. In the case of underperformance, the Bank will engage with a potential investee to explore

[29] The DERa is not applied to framework projects with EDFIs, or special projects on behalf of BMF.

improvement options. This approach allows the Bank to monitor the progress of its investments and respond appropriately in line with OPIM Principle 6.

This structure and methodology enable a consistent, clear, and quantifiable way of comparing investment opportunities and communicating impact. The DERa's unique ability to quantify impact that is indexed to give one final score, eases comparability both in terms of the change over time of a single investment, as well as across the various investments that the Bank makes. This, in turn, increases the useability of the output as staff that are typically accustomed to financial reporting for decision making can use a one figure to understand an otherwise abstract, complex, and often subjective concept. All surveyed senior staff agree that guidance received on how to use the DERa is clear and those interviewed generally spoke positively of it. Over 80% consider the DERa is useful to structure and better explain expected development effects of an investment in the investment process, and 94% consider the DERa suitable for communicating development effects externally. The clarity and ease of comparison appears to have played a role in raising development impact awareness: employees involved in impact management typically agree that this has led to a cultural shift insofar as awareness of development impact.

Nonetheless, the tool's alignment with the Bank's strategy could be improved. Developed by the DEG, the DERa is aligned with the DEG's development analysis and priorities, both in terms of the dimensions and indicators, as well as the relative contribution of these to the final indexed score (i.e., the weighting). This results in some strengths but also in the omission of elements core to OeEB's strategy or the under consideration of their importance. For example, the weighting is programmed in a way that investments in LDCs score better than those in more developed countries, showing significant alignment with the Bank's strategy. Moreover, only 35% of surveyed staff agree that the DERa focus areas and methodology fit the Bank's strategic mandate. In addition, an interviewed stakeholder expressed concern that the strong weighting of the environmental stewardship dimension can contribute enough to the DERa score for a potential investment to have an 'acceptable' score, even if the remaining four dimensions score very low, which can misrepresent the anticipated impact.

The Joint Impact Model (JIM)

The JIM is a model and practical tool that enables DFIs and other impact investors to quantify indirect jobs, value added, and greenhouse gas (GHG) emissions related to their investments. The initiative aims to harmonise key impact indicators across the financial industry, to improve accountability and comparability of impact. The development of the JIM was supported by numerous DFIs, including FMO, BII, BIO and OeEB. The model uses aggregate country and sector level datasets to estimate the impact of investments in emerging markets.

The use of the JIM will feed into OeEB's climate bank roadmap's commitment to estimate the use of the Bank's direct and indirect carbon emissions (Scope 1 and 2) and establish a baseline for the greenhouse gas emissions of its current portfolio by 2022 (for Scope 3). The JIM can be used to report on the estimated impact that is supported by the Bank's investments, giving stakeholders an idea of how the Bank's performance in this respect develops over time.

The Bank is also in the process of implementing the JIM, predominantly to help quantify its carbon emissions. This will be integrated into the new version of the DERa, further enhancing the granularity with which the Bank can measure and report on its impact.

5.1.3 Impact management relative to other EDFIs

DFIs and financial institutions alike have developed their own proprietary impact management and monitoring systems that are designed to suit their needs and prioritise their focus areas. While this makes comparison difficult, some insights for improvements to the DERa could be drawn by undertaking a deeper review into the strengths and challenges of each tool. The DERa is considered a leading impact measurement tool but could draw on insights from those used by EDFI peers in its planned upgrades.

A 2021 OECD review of DFI impact measurement tools found that, relative to its peers, the DERa can easily be applied throughout the project lifecycle and compared over time due to its baseline, forecast and continuous monitoring features[30]. Other tools that are also considered advanced, such as BII's Impact Score and the IFC's Anticipated Impact Measurement and Monitoring are also used across the project lifecycle but were designed for screening purposes and as a result lack a baseline and forecast. This feature allows OeEB to review its clients' development impact performance over time and also compare performance across projects in its portfolio or any other suitable categories, such as client or sector groups client groups, to gain insights.[30]

5.1.4 Considerations for further strengthening of impact management

Notwithstanding the good integration of impact considerations in the Bank's strategy and operations, especially for its size and capacity, there are opportunities for further strengthening impact management.

First and foremost, the DERa should be adjusted to better align with the Bank's strategic objectives. More specificity and weight could be given to the climate and investment difficulty elements of the DERa in order to better align the DERa with the Bank's current and future strategy. As a licensee of the DERa, OeEB can only proceed on this with DEG. As DEG is implementing a new strategy that has a strong focus on climate and net impact, the DERa is likely to already be adjusted to align better with OeEB's strategic priorities. OeEB is recommended to remain closely involved with the DEG team working on the DERa revision process and consider how it can provide more weight to the LDCs and climate elements in scoring.

Secondly, the focus on additionality could be enhanced. Principle 3 of the OPIM requires an analysis of the additionality of an investor and OeEB's operations must also demonstrate additionality by mandate. Indeed, additionality as a factor in investment analysis and decision-making is integrated in the Bank's processes. For each project, OeEB must describe additionality in the project application, and additionality is discussed during various steps of the investment decision-making process, notably in in the Koordinations-Meeting but also by other approval bodies such as the Gremium. However, at OeEB, this is defined as financing that is typically not offered at all or not offered at the same terms from commercial banks. This is a rather narrow definition. More analysis on the additionality of the Bank vis-à-vis other DFIs and impact investors may be more suitable. Also, the Bank could more actively highlight the timing of its investment, and what this means to a client.

Thirdly, the Bank should let its impact management practices be verified and challenged independently. As a signatory of the Operating Principles for Impact Management (OPIM), the Bank should commit to independent verification of its practices at regular intervals in line with Principle 9. The Bank has interpreted the regular interval as every five years, which seems reasonable. Indeed, the Bank undertook a first verification in 2020. This verification process and report was executed by the OeKB's sustainability manager, but the resulting document was labelled as an independent verification report, which seems inappropriate considering that the reviewing expert represents an entity with 100% ownership, and thus not in line with Principle 9. For the next verification process, which is scheduled for 2025, the Bank is advised to select an external expert consultant to

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[30] *Towards harmonised management and measurement of impact: The experience of development finance institutions*. oecd.org

execute this assignment, in order to live up to the expectation of an independent verification process and independent verification report.

Finally, the Bank, OeKB and BMF should explore how it could integrate development effects as a Bank-wide incentive. Integrating a development-focused element into variable remuneration may help to further stimulate the focus on higher impact investment opportunities. The performance on development could for instance be measured by the performance against development-related (future) key strategic KPIs (e.g., LDCs, Africa, climate) and the DERa score. Given the varying departmental mandates (e.g., Africa-focused investment officers are likely to 'score' higher than Balkans-focused ones), an individual or department-wide incentive will not be feasible, yet determining a part of variable remuneration based a Bank-wide performance may in theory work. It should be noted that at present 83% of senior Bank staff indicates to be against variable remuneration linked to development impact. This shows the sceptical feelings among bank staff. Exploring options should thus be approached carefully to prevent perverse incentives or even frustration among staff.

5.2 Impact measurement

In order to measure the progress on various goals the Bank defined as well as quantitative results on specific indicators, a Results Framework was established in 2011. The Results Framework includes specific indicators including targets and thus provides a framework for to gauge progress toward the achievement of results and to adjust relevant activities accordingly. In addition, the DERa monitors and tracks key indicators for each investment. Using data collected through the DERa and results framework, the Bank publishes an annual development impact report that is publically available.

The Bank publishes a publicly available annual impact report on the impact effects that the Bank contributes to. As of 31 December 2021, nearly 300,000 MSMEs have been reached indirectly with OeEB financing through its credit lines with local banks and fund investments. This number is just below the total number of SMEs in Austria, although the size of MSMEs supported by OeEB will probably be much lower. The Bank estimates to have contributed to supporting just over one million jobs, which is almost equal to the number of citizens of a small African capital city such as Kigali, Bujumbura or Freetown. Of this, an estimated 368,000 jobs are held by women, which represents 35% of all jobs supported. This can be considered a good performance, as the percentage is in line with one of the 2X criteria (i.e., 30-50% [31]women in workforce).

On the climate side and access to electricity side, the portfolio contributed to the installation of 2,928 MW of power generation from renewable sources, which was roughly the installed capacity of Kenya's national electricity grid in 2021.[32] An estimated 1.189 million tonnes of CO_2 emissions were saved by the Bank's renewable energy projects. For comparison, the entire country of Rwanda emitted approximately 1.2 million tonnes of CO_2 in 2021.[33]

Currently the Bank uses the *contribution approach* in assessment of the results according to the results framework and development effects of its investments according to the DERa. This means that it takes into account all development effects of an invested company, regardless of the instrument, loan volume or equity stake, and regardless of the role of co-investors. The *attribution approach* is a more precise form of assessment of development effects, as it focuses on the proportion of results attributable to the financial contribution of the Bank. This can increase the credibility of the OeEB's impact reporting as well as making it more comparable with other international development actors such as ADA, who carry out important work to create new jobs.

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31 The 2X criteria has defined tailored thresholds per sector for women in the workforce.

32 Kenya - Country Commercial Guide. https://www.trade.gov/country-commercial-guides/kenya-energy-electrical-power-systems

33 World Data Atlas – Rwanda – CO2 emissions. https://knoema.com/atlas/Rwanda/CO2-emissions

Understanding this will allow the Bank to better record where it achieves most impact per invested euro, and thus most 'value for money' against the development mandate. This has also been included in the recommendations of the Court of Auditors. However, it should be recognised that the attribution approach is complicated from a methodological point of view, and approaches are still under development, and the contribution approach still is common practice among EDFIs. The Joint Impact Model (JIM) has an option integrated to assess attributed impact, which can be applied to the indirect employments effects, value added and GHG emissions estimations that are provided by the JIM. When moving forward on this, it also is advisable to harmonise with the EDFIs, for reasons of comparability of data. The Bank should continue to be a part of methodology development efforts and explore options internally.

Contribution to the SDGs

When it comes to the UN Sustainable Development Goals (SDGs), OeEB's contribution comes foremost in its contribution to SDG 1 "No Poverty" and SDG 17 "Partnerships for the Goals", due to its mandate as an institution that combats poverty by means of private sector development. As a development bank, every project has a clear rationale for development impact alongside sufficient economic feasibility. The Bank reports on contributions to respective SDGs based on these project objectives and their annual assessment. OeEB's major contributions fall under the following SDGs: SDG 7 "Affordable and clean energy" (through the Bank's focus in renewable energy), SDG 8 "Decent work and economic growth" (through focusing on investments in MSME/ financial inclusion), SDG 9 "Industry, innovation and infrastructure" (through focusing on infrastructure investments) and SDG 13 "Climate action" (due to the Bank's horizontal goal of climate financing).

In the case study of Belgrade-based corporate Umka, significant improvements are evident in the company's DERa score over the life of the investment. However, this improvement is attributed to the company's full programme of works, and not specifically to the Bank's contribution. In another case study, that of the Eco.business Fund, attribution can be applied to some degree. The FI-focused debt fund is applying a first step of attribution by only tracking the results of end clients that are explicitly linked to the credit lines it has with local partner FIs. This calculation is a result of the fund's work, and not due to OeEB's actions but lessons could be learned from this.

Key takeaways

- As an OPIM signatory, impact management and measurement are integrated throughout the Bank's operations and investment lifecycle.
- The Bank's principal impact management and management tool, the DERa, is industry leading but should be further aligned with the Bank's strategy.
- The Bank measures its contribution to impact and does not possess the capability to attribute the proportion of results to its investment. This is currently common practice but using an attribution approach present better insights into impact value for money.

Investment case studies

To help illustrate the findings of this evaluation within the investments of the Bank, five case studies were written. Data was collected through interviews with key staff involved in each project, supported by documents provided for review. The case studies were carefully selected in close collaboration with OeEB to showcase as representative a sample as possible of the work that the Bank carries out. This included the consideration of factors central to the Bank's strategy, namely: the instrument used (debt or equity), project type (real sector or not), geographic region, and alignment with strategic objectives (e.g., infrastructure, climate, gender, financial inclusion).

The five case studies are as follows:

1. Irrawaddy Towers: Project finance to telecommunications firm, Irrawaddy Green Towers Company Limited, for the development of cell towers in Myanmar. This was a significant real sector project in an LDC for the Bank.

2. Umka: Debt finance to Serbian recycled cardboard manufacturer, Umka d.o.o., to partially finance the company's expansion works programme. This project aligned with the Bank's climate and infrastructure goals, while also promoting Austria's foreign economic interests.

3. Africa Renewable Energy Fund: Equity investment in a private equity renewable energy fund focusing on Sub-Saharan Africa to support the construction of assets in six African countries. This equity investment aligns with the Bank's climate and geographic goals (LDCs and Africa).

4. Women's World Banking Capital Partners Fund: Equity investment in a pioneering global fund that improves access for low-income women to financial tools. This investment is unique for the Bank for its exclusive focus on gender.

5. Eco.Business Fund: Equity and debt finance to Eco.business Fund that invests through debt in financial institutions and businesses that promote biodiversity and sustainable practices in Latin America. The Fund is currently the Bank's largest client and aligns with the Bank's climate objectives.

Case: Irrawaddy Towers

Background

Following an invitation by FMO, OeEB invested in 2015 in the form of a long-term credit facility in Irrawaddy Green Towers Company Limited (IGT), to finance the construction and operation of 2,000 cell towers in Myanmar. The construction and operation of the mobile towers was to be carried out by IGT, which is 99.9% owned by Irrawaddy Towers Assets Holding (ITA) in Singapore. The Singaporean holding was created due to complications arising from the legal structures in Myanmar. Aside from FMO, other development banks such as KfW DEG, BIO, BII and Proparco also participated in financing a total of USD 122 million out of the total project costs of USD 226.2 million.

Since the military coup in February of 2021, Myanmar has transformed into an increasingly challenging investment environment due to international sanctions. Myanmar has in October of 2022 been put on the list of countries subject to a call for action by the Financial Action Task Force (FTAF), which requested Myanmar to work on addressing its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) deficiencies. Environmental and Social monitoring has become an even greater challenge in the new political context, and compliance issues have escalated with the invesment since the coup. Plans for refinancing by foreign investors fell through in 2021 due to the coup, resulting in ongoing negotiations for OeEB's exit, following an impactful seven years of co-operation with Irrawady Green Towers.

Key facts

Recipient name:	Irrawaddy Green Towers Company Limited (IGT)
First investment:	2015
Country or region:	Myanmar
Instrument:	Loan (Long-term credit facility)
Investment amount:	USD 15.000.000
Key themes:	LDC, Fragile state, Real sector, Major development impact
Key conditions:	Loan term of 9 years, of which max. 3 years are repayment-free
Sector:	Telecommunications
Key results:	The construction of 2,000 cell towers and the improvement of the mobile penetration in one of the world's least connected countries when it comes to telecommunications

Financing needs

Following many years of military dictatorship in Myanmar, the country finds itself isolated and underdeveloped. This generates a particular need for the expansion of telecommunications infrastructure, which can serve to connect the country's most isolated regions with the rest of the country and the world. The World Bank has demonstrated a direct link between the spread of telecommunications and additional economic growth.[34] Myanmar's government has also identified the expansion of the telecom sector as a key priority, with a target of 75-80% coverage set for 2015/2016. In comparison to other LDCs in the region, Myanmar held one of the lowest mobile penetration rates at only 4% for mobile and 3% for fixed in 2012.

[34] Kahlil, Mohsen, Philippe Dongier and Christine Zhen-Wei Qiang. 2009. ―Overview‖ In Information and Communications for Development 2009: Extending Reach and Increasing Impact, 3–17. Washington, DC: World Bank

Therefore the government decided that 2,000 towers were to be set up, not only in the more populated but also rural areas. Following a win in tenders by Norwegian Telenor and Qatari Orredoo telecom companies, independent firms such as IGT were contracted to carry out the construction of the infrastructure.

Source: igt.com.mm

Investment rationale of OeEB

The investment in IGT met numerous OeEB criteria for a project with development additionality. Firstly, the project is in a Least Developed Country, which is also a fragile state. It is also a real sector investment, and major potential for developmental impact was recognised considering the exceptionally low mobile coverage in the state and the lack of market financing for infrastructure in the country.

The investment met several of OeEB's criteria for a project, given that it was in a Least Developed Country (LDC), a fragile state, it was a real sector investment, and there was potential for major development impact considering the exceptionally low mobile coverage in the state.

Prior to the investment, co-investor FMO employed a human rights expert to examine the project, mostly focusing on the impact of the land acquisition where the towers were to be built.

Additionality and role of OeEB

Through this investment, OeEB can contribute to improving vital infrastructure in Myanmar, an LDC with one of the lowest mobile penetration rates worldwide. Because of the political, regulatory and legal risks in Myanmar, loans of this kind with similar maturity were only granted by DFIs. Therefore, OeEB's additionality is derived from the long tenor of the loan provided, as well as the willingness to take on the legal and compliance-related risks of investing in this geography.

Performance and impact

The Irrawady Towers project was evaluated with KfW DEGs business policy rating tool (GPR) and yielded an overall rating of 1/6 (346 out of a maximum of 500 points) and a developmental rating of 2/6 (97 out of a maximum of 150 points). Financial performance of the project until early 2021 was satisfactory, with IGT meeting all covenants up to the point of the military coup. The investee only started to run into trouble due to the capital restrictions and currency shortages resulting from the coup, which complicated repayments. Therefore, debt reserve accounts were used for debt repayments at end 2021. OeEB guarantees have not yet been called to cover missed payments.

Source: igt.com.mm

Vital Infrastructure: OeEB's investment contributes to the provision of vital infrastructure and the breaking up of previous local monopoly provider MPT. Given that in Myanmar tower sharing is strongly encouraged by the Ministry of Telecommunications, users are able to save costs due to lower tariffs and lower costs on infrastructure investments. The cost of SIM cards has fallen from USD 2,000 around 2010, they were offered in 2010 for USD 1.50. As of 2019, mobile penetration rates are also up to over 90% in the country.

Environmental and social standards: IGT is in compliance with the applicable environmental standards. An E&S Action plan was set in motion following an audit by OeEB to address gaps such as stakeholder engagement and occupation safety at the subcontractors. The EDFIs are also in joint discussions to establish a nationwide training facility for the telecommunications industry to improve workers' understanding on occupational safety in Myanmar.

The E&S due diligence performed by FMO's E&S specialist was supported by a local human rights expert, and complied with the IFC performance standards, ILO Core Labour Standards and sector guidance around the UN Guiding Principles for Business and Human rights (with limited scope). In general, the 2014 review found that E&S management of the project was found to be good and mostly in line with the applicable standards.

Technology transfer: OeEB contributes to technology transfer by financing IGT's installation of highly efficient power supply solutions for the mobile phone base stations. Since power supply is not reliable throughout the country, IGT has employed battery solutions designed to reduce energy consumption, optimise battery performance and reduce CO2 emissions.

Case: Umka

Background

Belgrade based Umka was founded in 1939 and today is one of Southeast Europe's leading manufacturers and suppliers of cardboard, which is made from recycled wastepaper. The product is exported to much of south-eastern Europe to be used in the food, pharmaceutical, chemical, textile, and automotive industries. The company holds international best practice certifications, relating to environmental, social and health and safety matters (ISO14001, 9001, 45001 and FSC).

Key facts

Recipient name:	Umka d.o.o. (Umka)
First investment:	2020
Country or region:	Serbia
Instrument:	Debt (bilateral)
OeEB investment:	EUR 25 million + EUR 15 million + Technical Assistance (EUR 20,000)
Key themes:	Climate, Austrian connection, gender
Key conditions:	10-year loan with 2-year grace period (x2)
Sector:	Corporate (Cardboard manufacturing)
Key results:	Production expansion leading to improved efficiency, increased quantity and quality of cardboard production with wider economic impacts

Financing needs

With a total annual production capacity of 130,000 tonnes, in 2019, Umka was operating at capacity and required significant investment to fund its planned expansion works. The programme, planned to be carried out between 2020 and 2024, includes the modernisation and improvement of the existing production technology, and the installation of a new wastewater treatment plant (WWTP). Upon completion, annual production capacity is expected to increase to approximately 220,000 tonnes, while also improving cardboard quality, environmental outcomes, and the quality and number of local jobs.

Although there are overlaps, the expansion works include three broad phases:

- **Phase 1:** Production capacity increased to 160,000 tonnes per annum through expansion works, increase in product quality, introduction of a new product line (corrugated boards), construction of wastewater treatment plant.
- **Phase 2:** Production capacity increased to 180,000 tonnes per annum through the removal of stock preparation bottlenecks. As of 2022, this phase is ongoing.
- **Phase 3:** Production capacity increased to between 205,000 and 220,000 tonnes per annum.

Investment rationale of OeEB

Umka's expansion works programme provided OeEB with numerous compelling reasons for investment, including the following:

- **Macro-economic:** Serbia is an upper middle-income country that for historical reasons lags in international competitiveness, contributing to a negative trade balance. Investing in the expansion and efficiency of cardboard production will increase the product's pricing competitiveness, reduce barriers for export, and help Umka enter new markets or expand presence in existing ones. This in turn contributes to Serbia's overall export competitiveness and trade balance.
- **Financial performance:** The company showed strong financial performance. Umka's business plan was deemed to be economically feasible, with expansion works urgently needed thanks to strong business growth.

- **Labour:** It is estimated that over the life of the expansions works programme, 45 new direct jobs will be created, while retaining the existing 433 positions. In addition, indirect work will be supported in both the formal and informal economies in Serbia and neighbouring countries, who supply the paper used for production.
- **Environmental:** Serbia experiences a chronic shortage of wastewater treatment facilities, placing it far behind EU environmental standards that an EU candidate country must meet before ascending to the bloc. As of 2020, Serbia treated no more than 10% of its wastewater in 44 treatment plants across the country, six of which were fully functional, representing an estimated investment need of EUR 5 billion. Financing the construction of a wastewater treatment plant at Umka directly contributes to this need, while also improving environmental and health outcomes as the discharge of untreated water is reduced.
- **Environmental:** Expansion works require an increased amount of input wastepaper collected from the wider Balkan region, which reduces the amount of paper directed to landfill as countries in the region have limited, if any recycling facilities.
- **Climate mitigation:** Serbia's energy mix is heavily reliant on coal, relying on it for approximately half its energy needs (49% in 2018), which is more than double the EU28 average. In addition, significant inefficiencies exist, where it was estimated that the energy efficiency potential of the industrial sector was between 15 and 25%. Improving will lead to fewer greenhouse gas emissions per production unit.

Additionality and role of OeEB

To date, the Bank has made two investments in Umka. Its first engagement with the company was in 2020, when the bank issued Umka with a bilateral 10-year, EUR 25 million corporate finance loan, with a 2-year grace period. OeEB's finance was to be used during Phase 1 of the expansion works to finance the design, construction and commissioning of the WWTP, and contribute to the expansion pipeline. This was part of a wider 30 million EUR project, where Umka received additional finance from the EBRD and used own funds.

This first investment came during the COVID-19 pandemic when local banks were unable to provide the long-term financing needed for the planned programme of works. Due to its tight communication lines and high efficiency, the Bank approved and disbursed the loan in a shorter timeframe than what was considered possible by the Bank's multilateral peers. OeEB therefore showed good financial additionality, rapidly providing the long-term financing that was otherwise difficult to source.

Source: umka.rs

Enjoying an excellent relationship with Umka and observing outstanding financial performance, OeEB made a subsequent investment in September 2022 to finance Phase 2 of the works. This was a bilateral EUR 15 million 10-year corporate finance loan, which also has a 2-year grace period. The remainder of the works were financed from Umka's own funds. In addition, OeEB provided EUR 20,000 of TA to help Umka implement the SA8000 certification. This is the international best practice Social Accountability Standard (SAI), which aims to improve working conditions for all employees including salaried and unsalaried workers, contractors and suppliers.

Performance and impact

Umka is exceeding financial performance expectations. Although repayments for the first loan have just come through in September 2022, the company has shown strong financial performance and revenue generation with financial results above the regional average. This is expected to peak and stabilise due to a combination of factors that includes rising energy costs and reaching peak production following the completion of expansion works.

Source: umka.rs

The construction of the WWTP was postponed until the conclusion of the expansion works. The reason for this was that it was deemed most appropriate to construct the plant when maximum production capacity is reached, to ensure a suitable design. Although this altered the use of proceeds in the first loan agreement, OeEB engaged in dialogue with the company and ultimately accepted the company's justification. The whole programme of works, including the construction of the WWTP, is expected to be delayed slightly to 2025.

Overall, the work to date has contributed to opening new export markets and reducing Serbia's negative trade balance. Umka has delivered on planned expansion works, reaching 160,000 tonnes per annum production capacity as planned, and exporting 75% of its product. The work has not only increased capacity but has also resulted in the enhanced quality of the product, led to the successful introduction of a new product line, and reduced per unit pricing.

In terms of development impact, the company is making steady improvements. At the time of initial investment in 2020, Umka's DERa score was just 49, well below OeEB's aim of 78. Following the completion of the full programme of works in 2024, it is forecast that the score will increase to 82, largely because of significant improvements in two development dimensions: environmental stewardship and decent jobs. As of 2022, the company is well on its way to reaching this goal, with a rating of 77. That said, the progress is measured against the programme of works as a whole, meaning that the improvement in development impact can neither be fully attributed to the Bank in whole nor in part, as DERa's design does not allow the latter.

Case: Africa Renewable Energy Fund

Background

The Africa Renewable Energy Fund (AREF) is a private equity fund managed by Berkeley Energy that invests in small hydro, geothermal, solar, and biomass projects across Sub-Saharan Africa, excluding South Africa. AREF implements a policy to avoid (but not strictly exclude) high risk projects from an E&S point of view (category A projects) and is domiciled in Mauritius as a closed-end fund.

Berkeley Energy won a competitive tender for a cornerstone investment from the African Development Bank (AfDB), holding the first close of the fund in March of 2014. OeEB entered the fund in August of 2015. In addition to OeEB, other EDFI's like BII (formerly CDC), FMO, BIO, EIB and AfDB are investors in the fund alongside private stakeholders. OeEB holds an Observer Seat on the advisory Board and thus takes part in Advisory Board meetings. The Fund held its final close in September 2015 and was followed up by a successor fund in the Africa Renewable Energy Fund II (AREF II). OeEB has also invested in AREF II with EUR 8.5 million in 2021.

Key facts

Fund manager:	Berkeley Energy
Inception:	2015
Fund size:	USD 204.6m
Country or region:	Sub-Saharan Africa
Instrument:	Equity
OeEB investment:	USD 7.3m (3.6% of size)
Year of investment:	2015
Sector:	Renewable energy
Key themes:	Climate, Africa, LDCs
Key conditions:	Tenor of 10 (+ 2 years)
Key results:	Supporting the construction of renewable energy assets in 6 African countries

Fund investment strategy

In brief, the Fund supports the construction of renewable energy plants, which it then operationalises through entering Power Purchase Agreements (PPAs) with local providers. The electricity is then sold for an undefined period, after which the Fund intends to sell off the assets. The sale of Fund assets is projected to be straightforward, given the high demand for energy assets in line with European and international standards in the target region.

Investment rationale of OeEB

Sub-Saharan Africa (SSA) is a rapidly developing region home to 13% of the world's population, where high economic growth has spurred demand for energy. However, approximately 620 million people in SSA do not have access to electricity, and out of 47 countries 30 experience daily power outages due to inadequate electricity supply. SSA is the only region in the world where the number of people without access to electricity is on the rise. However, the region has immense potential for the use of renewable energy (RE), with the International Energy Agency (IEA) estimating the potential energy production from solar power as 9,300TWh, from wind power at 2,800TWh, from hydropower at 1,800TWh and biomass at 1,800TWh.

The objective of the fund is to mobilise the promising potential of renewable energy resources in the region, and to make important contribution to improving the energy supply situation in SSA.

Source: berkeley-energy.com

Source: berkeley-energy.com

AREF is one of the first pan-African private equity funds tailored to developing renewable energy infrastructure. The fund is reacting to the demand for ecologically sustainable methods of energy production, specifically seeking to collaborate with local project developers who fail to implement renewable energy projects due to regulatory hurdles and lack of sufficient experience. This approach helps foster local project development capacity in the long-term, multiplying any potential development effects.

OeEB's participation in AREF allows the fund to build up its renewable energy expertise in the region and allows the Bank to make a notable contribution to improve the regional energy supply situation in SSA. Through this investment, OeEB can provide companies in a priority region with urgently needed equity capital to help improve the regional energy supply situation. This investment also targets a key sector as defined in OeEB strategy, that of renewable energy. Moreover, the investment offers Austrian companies in the SSA region who are potential suppliers of power plant components, for example turbines, opportunities for economic investment. Finally, the investment contributes to one of OeEB's core strategic targets in stimulating investment throughout Least Developed Countries (LDCs). SSA is also one of the priority regions of the Bank, whose rapid population growth has necessitated a rapid solution to its energy supply shortage.

Portfolio

As of June 2021, AREF had a fund value of USD 220.3 million, with 15 investments in 6 countries. Of the 15 investments, 12 are in Hydro energy, 1 in Biomass, 1 in Solar and 1 in Geothermal energy. The six countries covered are Ethiopia, Uganda, Ghana, Cameroon, Madagascar and Angola.

USD 125.3 million of the fund is in allocated to hydro energy, with smaller amounts like USD 25 million in geothermal, USD 7.3 million in biomass and USD 3.6 million in solar energies. The breakdown of the Fund's Net Asset Value is USD 202.2 million is in drawdowns, USD 66.2 million is unrealised gain, USD 28.4 million in management fees and USD 5.3 million in fund expenses.

Additionality and role of OeEB

OeEB is a relatively small shareholder of the fund, with only 3.6% of total equity and an Observer Seat on the Advisory Board. OeEB came in towards the end of the fundraising period, namely one month before final close in August 2015. OeEB has not provided any technical assistance or business advisory services for this fund.

OeEB has been able to collaborate with other DFIs in the Board and E&S Committee to make its voice heard concerning the development, environmental and social angles of investments. OeEB's role can be viewed as a smaller contributor who supported the final close of the Fund with a timely investment, and as a DFI who can help give legitimacy to the project by association.

Performance

AREF has been operational for more than seven years and has currently completed 15 investments in 6 countries. The Fund's value in the FY 2020 rose to USD 213.8 million from USD 192.0 million on a year-on-year basis due to further investments in the direct shareholding in Africa Renewable Energy Holding Ltd. (AREHL) and the latter has used the funds for investments in the underlying projects.

The Fund has reached its second and final close with a total Fund size of USD 204.7 million. AREF has shown satisfactory development during its operations. AREF has now reached its disinvestment phase, which is set to end in 2026, with only minor return flows to the shareholders up until this point. The net asset value has thus far been valued below cost, with a multiple of 0.79 as of Q1 2022. Based on the development of the Fund, the rating of AREF remains stable at M14 (equivalent to an S&P rating of B+).

In terms of challenges experienced, the COVID-19 pandemic caused complications in the AREF portfolio, particularly for two construction phase developments of Kikigati and Achwa1 in Uganda which were forced to lock down for 42 days in mid-June 2020. Other projects such as the construction of Mahitsy in Madagascar also experienced interruptions due to the international travel restrictions preventing key personnel from accessing site.

As of June 2021, AREF is commencing exiting its hydro investments in Uganda, including Achwa 1 and 2, Kikagati and Bugoye. Three bidders active on the local energy market have been invited to provide offers.

Impact

The target development effects of AREF were to contribute to the priority themes of water, energy and climate protection. Regional needs for electricity production are very significant, with two thirds of the population in SSA without access to electricity, and average electricity consumption in the region too low to keep one 50-watt lightbulb lit.[35] The transfer of know-how remains a key aspect of the operation, with AREF supporting the project developers throughout the entire investment period, allowing developers to tap into the expertise of an experienced fund manager.

AREF also contributes to MDG 7 (ensure environmental sustainability) by reducing greenhouse gases in energy production and contributes to MDG 8 (building a global partnership for development). Moreover, the focus countries of the fund include 6 Least Developed Countries (LDCs) (Ethiopia; Rwanda, Zambia, Uganda, Senegal and Tanzania), contributing to the Bank's strategy to increase development impact in LDCs.

[35] *Africa Renewable Energy Fund*. www.bii.co.uk

Case: Women's World Banking Capital Partners Fund

Background

The Women's World Banking Capital Partners LP Fund is a private equity limited partnership promoted by Women's World Banking (WWB). Founded in 1976, Women's World Banking is a global non-profit organisation devoted to giving more low-income women access to the financial tools and resources they require to build security and prosperity. The Fund is managed jointly by New York-based WWB Asset Management LLC (WAM), a 100% subsidiary of Women's World Banking, and Triodos Investment Management BV (TIM), a subsidiary of Dutch ethical banking pioneer Triodos Bank. WAM invests in innovative inclusive finance companies in emerging markets, guiding them to capture the substantial market share of financially under-served women and the substantial talent pool of women staff and leaders. Although the Fund already operated informally since early 2010 (when it made a first investment), it was formally established in January 2012. The Fund had a first closing of USD 30.2 million in January 2012, a second closing of USD 13.6 million in December 2013 and a final closing of USD 6.9 million in June 2014. This brought the total fund size to USD 50.6 million, with commitments from 27 different investors.

Key facts

Fund manager:	WWB Asset Management
Inception:	2012
Fund size:	USD 50.643.000
Country or region:	Global
Instrument:	Equity
OeEB investment:	USD 5m (9.48% of size)
Year of investment:	2014
Sector:	Financial institutions
Key themes:	Microfinance, gender
Key conditions:	Tenor of 10 (+ 2 years)
Key results:	Increase of 83% women reached

Fund investment strategy

The Fund's strategy is to invest equity in in high-performing financial service providers that serve low-income women clients, expand gender diversity within their staff and management teams, and utilise innovative solutions to enhance customer reach and engagement. The Fund targeted predominantly private, for-profit, regulated microfinance institutions (MFIs) that were committed over the long-term to microfinance and to serving women as the majority of clients. Targeted institutions also had to be substantially in compliance with WWB's Network Member standards, which include various gender-focused performance indicators.

Investment rationale of OeEB

The Fund was one of the first private equity funds in the market that put an explicit focus on microfinance for women. It pioneered the concept of 'gender lens investing' globally before it became a theme in itself. Gender was not yet a formal cross-cutting strategic priority for OeEB at that time, but the Fund was well in line with the objectives of Austrian development cooperation, where gender issues and the advancement of women were defined as a cross-cutting priority issue. In addition, the further development of a stable financial system in developing countries by strengthening microfinance institutions was a key priority for OeEB in 2014. Finally, by focusing on financial products and services tailored to women the Fund contributed to Millennium Development Goal 3 (MDGs, predecessor of the Sustainable Development Goals), which focused on gender equality and empowering women.

Source: womensworldbanking.org

Portfolio

The Fund invested a total of USD 39 million in ten MFIs in India, Colombia, Bolivia, Tajikistan, Tanzania, Paraguay, Jordan and Tunisia. The Fund held minority stakes in the FIs and a Board seat in the vast majority of invested FIs. While the Fund provided investment capital, FIs could also leverage the Technical Assistance funds of the WWB foundation for new gender-focused product development, marketing or education.

Additionality and role of OeEB

In 2014, OeEB committed USD 5 million to the Fund, representing nearly 10% of the Fund's total investment capital. It was the fourth fund the Bank committed capital to, after OeEB started investing in private equity funds in 2012. The timing of the investment meant that the Bank was not among the cornerstone investors but did contribute significantly to the Fund reaching its final close at a targeted amount. With its investment, the Bank showed it was willing to take some risk to support an important topic, as it by invested in a pioneering investment thesis that was run by a first-time investment team. OeEB did have a seat on the Advisory Board and supported the fund manager informally with advice on governance issues, exits and reporting on the impact against the gender objectives.

OeEB also contributed with TA to the Fund. In 2015, OeEB and WWB delivered technical assistance to Ujjivan, one of the leading microfinance institutions in India, with (at that time) 441 branches in 20 states. Women's World Banking conducted an in-depth feasibility study to introduce a health microinsurance product at Ujjivan and identified the opportunities and challenges to launching this type of hospital cash product. Every year in India, nearly 4% of the marginally poor and vulnerable population falls below the poverty line due to out-of-pocket catastrophic payments. Because women typically bear primary responsibility for managing health and other life cycle needs, they list health care as one of the most common reasons why they are forced to liquidate their assets. The research contributed to a hospital cash product that is expected to resonate with the population served by Ujjivan. In addition, from 2019 to 2021 the Bank supported Sanadcom, a start-up SME financier in Jordan that was a spin-off of Microfund for Women. It targets companies that are neither served by microfinance institutions nor by commercial banks, with a focus on women-owned or led businesses. In the growth phase of the company, OeEB contributed to a TA project that included a gap analysis on operational elements such as credit policies in order to professionalise the company.

Despite the strong alignment with the Bank's strategic priorities (gender, MSMEs, Africa and LDCs) OeEB was not able to invest in the successor Fund II, as in 2018-2019 there was no funding for equity operations provided by the Ministry. This means the Bank missed out on an important opportunity to invest in a fund that meets several strategic targets.

Performance

The fund's investment period ended in June 2018 and has been in the divestment phase ever since. Based on the first exits and value of the remaining investments, the Fund is expecting to generate a 1.04x multiple on its investments. This a relatively small return, and less than the Fund's targeted return. At the same time, the fact that the Fund is likely to generate a positive return can be considered a small success, given the higher risk institutions invested in, its pioneering thematic focus and the fact that most of the exits are made during and will have to further made shortly after the COVID-19 pandemic. As WWB is purely a microfinance fund, the effects of the COVID-19 crisis also had a serious impact on portfolio company valuations. Company market values fluctuated across regions, with valuations falling most in Latin America and India. As per end 2021, the Fund has exited two investments, both in India. The first was a rather early but successful sale of its stake in the above-mentioned MFI Ujjivan. The Fund made a 2.4x MOIC on the sale, realising USD 16 million from an initial 6.5 million investment. The sale by the Fund also helped the bank, was necessary to enable it to go public the next year (see impact section). The second was a less successful exit of Indian MFI Ananya, in which WWB invested USD 1.49 million in 2013. The shares in the company were sold to the majority owner. The resulting proceeds amount to USD 0.89 million (OeEB share around USD 0.1 million). This corresponds to a MOIC of 0.5. The negative result was mostly due to the MFI's liquidity problems in recent years.

Source: womensworldbanking.org

Impact

Fund I was a pioneer of gender-focused impact investing in inclusive financial service providers. Due to active board seats in all portfolio companies, WWB has had an influence on strategic issues of the portfolio companies and can thus make a major contribution to gender equality. Contributed to significant increases in female borrowers, jobs and branches. At the end of 2021, the Fund had generated an increase of 83% women reached by its invested MFA, and the MFIs cumulatively served 10 million clients, of which 50% were women. Several of the Fund's FIs also had a good demonstration effect, showing that increasing the focus on women can go hand in hand with returns. A good example is Ujjivan, the company supported by OeEB's TA, which broke records on the last day of its IPO closing, when the issue was oversubscribed by over 41 times with received 675,000 retail bids for the IPO – one of the highest retail participations recorded for any IPO in India. Ever since, Ujjivan has grown over the years and matured as an organisation with 16,000+ employees and 575 bank branches across India. WWB not only raised awareness among the FIs on the opportunities for women but also among other investment fund managers. In cooperation with IFC and consulting firm Steward Redqueen it developed a gender-lens investment training programme that was delivered to dozens of emerging market private equity fund managers that were invested by IFC, creating awareness on how to integrate gender considerations into strategy and investment processes.

Case: eco.Business Fund Latin America & Caribbean

Background

The eco.Business Fund (EBF LAC or EBF) is an impact investment fund focused in Latin America and Caribbean (LAC)[36]. The Fund's impact objective is to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources and to mitigate climate change and adapt to its impacts, while also bringing about socio-economic improvements.

EBF was established in 2014 and is a Public Private Partnership (PPP) based in Luxembourg. It is managed by Finance in Motion (FIM), a Frankfurt-based development finance focused impact asset manager with regional offices in Colombia and El Salvador.

Key facts	
Fund manager:	Finance in Motion GmbH
Inception:	2014
Fund size:	USD 558 million
Country or region:	Latin America & Caribbean
Instrument:	Debt
OeEB investment:	USD 50 million + USD 200,000 (TA)
Year of investment:	2017 & 2019
Sector:	Financial institutions & businesses in sustainable agriculture, aquaculture, forestry & tourism
Key themes:	Biodiversity conservation
Key conditions:	10-year maturity
Key results:	Crowding in of commercial investors

Fund investment strategy

The Fund's strategy is to raise public and private capital to provide long-term financing to private sector partner institutions in LAC countries under the OECD DAC List of ODA[37]. The Fund focuses primarily on working with local financial institutions (FIs) that have the existing infrastructure and networks in place to on-lend to eligible end-borrowers. EBF also invests directly in select businesses (up to 15% of the portfolio). Collectively, eligible entities are called partner institutions (PIs).

The Fund has developed a robust set of criteria to identify eligible PIs whose operations contribute to its impact objective. To qualify, PIs must either hold an EBF-approved international sustainability certification (e.g., Fairtrade, Rainforest Alliance, ASC, FSC, MSC) or fall under EBF's so-called Green List. This is a list of pre-defined sustainable production practices (e.g., the installation of water saving irrigation systems) that end-borrowers must either have already implemented or use the proceeds for their implementation (determined on a case-by-case basis). This set up gives assurance that capital is channelled towards the Fund's impact objectives, especially in the case of investors such as OeEB, who have little to no on the ground presence. This approach also encourages uncertified PIs to improve their practices. Many of the Green List measures are needed for certification, which therefore allows PIs to slowly transform their practices to be certifiable.

Investment rationale of OeEB

The investment was borne out of the Bank's long-standing and excellent relationship with EBF's Advisor, Finance in Motion (FIM), whose European Fund for Southeast Europe (EFSE) was OeEB's first ever investment. The Bank decided to make its first investment when the Fund had developed to a point of matching the Bank's risk appetite. This was when EBF had reached breakeven and had begun to generate a net investment income (USD 0.2 million).

[36] The scope of this investment does not include the EBF Sub Saharan Africa (EBF SSA) fund.

[37] *OECD DAC Evaluation Criteria*. www.oecd.org/dac

Investments through the EFSE and FIM's other funds focused primarily on financial inclusion and job creation, so the biodiversity focus of EBF appealed to the Bank for its link to the Bank's strategic climate change objectives. In addition to its biodiversity focus, OeEB was drawn to the Fund's contribution to shared prosperity and poverty reduction: Investments contribute to providing employment opportunities in sustainable production in rural areas, where the incidence of poverty is typically higher than in urban environments.

Portfolio

Source: ecobusiness.fund

As of December 2021, the Fund had USD 558 million in assets under management with 31 partner institutions in ten countries in the LAC region, providing 4,570 sub-loans to end-borrowers. Most loan sizes to end-borrowers fall within the IFC definition of a small-medium enterprise (SME). As of January 2022, the largest share of the portfolio is invested in Ecuador (USD 106 million), Panama (USD 88.9 million), Mexico (USD 85 million) and Colombia (USD 81.9 million). Investments in the agriculture and agri-processing sector make up 75.2% of the portfolio with the remainder comprising aquaculture, forestry (6.4%) and eco-tourism (1%). With regard to the cultivation of products, the largest share is coffee (36%), sugar cane (13%) and farmed shrimp (12%).

In addition to investment finance, the Fund operates a Development Facility that offers industry-leading technical assistance to financial institutions, direct investees and end borrowers for product development, capacity building and awareness campaigns. The average project size is approximately USD 55,000 (as of March 2022), with 23 PIs and 2,550 direct beneficiaries.

Additionality and role of OeEB

EBF is currently the Bank's biggest client. As of February 2022, OeEB holds around 8% of the subscribed shares in the Fund, making it its sixth-largest investor. In 2017, OeEB made its first investment of USD 25 million, split equally between senior shares and subordinated notes for a term of 10 years. This is among the highest ticket sizes OeEB has offered. Following a successful first investment, the Bank made a subsequent investment in 2019, investing another USD 25 million on similar terms (senior shares with a term of up to 9 years and the subordinated notes with a term of up to 10 years). As a result of the continued good relationship and strong performance of the Fund, a third investment is currently being proposed, with the investment decision expected in November 2022. OeEB has also supported the Development Facility with a USD 200,000 investment.

OeEB sees its differentiating factor, and therefore additionality, through its ability to invest in higher risk shares, as opposed to some of its DFI peers who are only able to invest in junior shares, and through its ability to crowd in more risk averse private investors to invest in note classes. In the case of the ongoing negotiation for the third investment, soft commitments had been made by commercial investors but were unable to be finalised without OeEB's commitment to riskier share classes.

OeEB enjoys an excellent working relationship with EBF and can play an early-stage role in shaping the direction of its investments. Initially playing an observing role in the sustainability and Green List criteria, with time, the Bank has leveraged its strong relationship and growing knowledge of the eligibility approach to raise issues and discuss improvements with the Fund. EBF proactively engages in this dialogue and implements feedback.

For example, OeEB raised concerns with an aspect of the MSC certification following a public backlash, to which EBF responded quickly. Productive dialogue ensued, which resulted in an understanding that no change of approach was necessary. OeEB has also raised concerns about other aspects of the portfolio which the Bank believes has influenced the shape of the portfolio. For example, the overall share of palm oil investments has reduced.

Performance

Source: ecobusiness.fund

The continued strong financial performance of the Fund, in conjunction with its robust impact focus and smooth communication lines led OeEB to continue to top up its initial investment. Due to the good portfolio quality, the economic effects of the COVID-19 pandemic were hardly noticeable. In fact, in 2021, the Fund was able to increase its portfolio size by 33%. To date there have been no loan defaults.

The close relationship with EBF is partly driven by the Fund's best-in-class impact reporting, which is issued to investors on a quarterly basis and allow the Bank to feel closer to the Fund. The report includes key metrics such as greenhouse gas emissions and agrochemicals avoided. The Bank occasionally also receives additional ad hoc reports, which can for example be drone imagery from a PI to demonstrate end-borrower compliance with the (no) deforestation criteria.

The successful performance of this Fund has led OeEB to closely monitor the more recently developed EBF Sub-Saharan Africa (SSA) Fund, as it is more closely aligned with its own strategic geographic objectives but must wait until financial performance has matured before making an investment.

Impact

OeEB's capital has contributed to bringing about developmental effects. For example, in 2021, it contributed to preventing the use of 17,000 litres of agrochemicals (of a total of 134,000 litres prevented), or the equivalent of not using pesticides in 5,000 hectares of conventional banana production in a year. Through EBF's reporting methodology, the Bank's investments are attributed to CO_2 stored, water saved and jobs supported. OeEB's atributable impact is unique to its portfolio, where contribution is the norm, but this relies on EBF's market-leading reporting methodologies.

Investments in TA are primarily used for the improvement of partner FIs' environmental and social management systems (ESMS). This approach seeks to lay the robust groundwork needed for an FI to continue its sustainability journey. As the management of environmental and social matters matures, FIs can complete increasingly complex work. For example, one FI said that because of the technical assistance provided, it had the knowledge and capacity to develop its climate change strategy.

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