

# Oesterreichische Kontrollbank Aktiengesellschaft (OKB)

**Type of Engagement:** Annual Review

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## Introduction

In October 2019, Oesterreichische Kontrollbank Aktiengesellschaft (OKB) issued its inaugural sustainability bond aimed at refinancing social and green projects globally, including access to essential services, affordable basic infrastructure, promotion of employment creation and renewable energy. In April-May 2020, OKB engaged Sustainalytics to review the projects funded through the issued sustainability bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the OKB Sustainable Financing Framework.

## Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2019 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the OKB Sustainable Financing Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the OKB Sustainable Financing Framework.

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 lists the associated KPIs.

**Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs**

Use of Proceeds	Eligibility Criteria
<b>Eligible Green Project Categories</b>	
<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>• Construction or refurbishment of renewable sources generation facilities and infrastructure; and</li> <li>• the generation, development, or distribution of electricity from renewable sources such as solar, wind, geothermal, hydropower,<sup>1</sup> biomass/biofuel<sup>2</sup> and waste-to-energy<sup>3</sup> which are limited to 100g CO<sub>2</sub>/kWh.</li> </ul>
<b>Energy efficiency</b>	<ul style="list-style-type: none"> <li>• Development and implementation of products or technology that significantly reduces the energy consumption of the underlying asset, technology, product or system(s) by at least 20% and also lead to an increase of energy efficiency of at least 20%.<sup>4</sup></li> </ul>
<b>Pollution prevention and control</b>	<ul style="list-style-type: none"> <li>• Reduction of air emissions</li> <li>• Greenhouse gas control</li> <li>• Soil remediation</li> <li>• Waste prevention</li> <li>• Waste reduction</li> <li>• Waste recycling<sup>5</sup></li> </ul>

<sup>1</sup> Hydropower projects larger than 25MW in size will comply with the IFC Performance Standards.

<sup>2</sup> Biomass and biofuel projects will take into consideration the sustainability of the feedstock used and the carbon intensity of the project. OKB and OeKB will not include any projects where the feedstock competes with food sources or forestry materials.

<sup>3</sup> Waste to energy projects follow the waste hierarchy.

<sup>4</sup> Energy efficiency improvements which result in increased use of fossil fuels or projects that provide a fossil fuel lock-in in highly carbon intensive industries are excluded.

<sup>5</sup> Projects in the field of pollution prevention and control that are directly related to fossil fuel assets and high carbon intensive industries are excluded.

<b>Environmentally sustainable management of living natural resources<sup>6</sup> and land use</b>	<ul style="list-style-type: none"> <li>• Environmentally sustainable agriculture</li> <li>• Environmentally sustainable animal husbandry<sup>7</sup></li> <li>• Climate smart farm inputs such as biological crop protection</li> <li>• Environmentally sustainable fishery and aquaculture (ASC<sup>8</sup> and MSC certified)</li> <li>• Environmentally sustainable forestry, including afforestation or reforestation and the preservation or restoration of natural landscapes</li> </ul>
<b>Sustainable water management</b>	<ul style="list-style-type: none"> <li>• Wastewater treatment</li> <li>• Water efficiency projects, such as sustainable irrigation management systems like drip irrigation</li> <li>• Sustainable urban drainage systems and river training and other forms of flooding mitigation</li> </ul>
<b>Clean transportation</b>	<ul style="list-style-type: none"> <li>• Vehicles for public transport, such as buses, trains, underground trains or trams, cable cars, including retrofits and modernization limited to vehicles/modes with <math>\leq 50\text{g CO}_2/\text{km}/\text{passenger}</math></li> <li>• Electric freight and passenger vehicles such as fully electric cars or fully electric trucks, as well as directly associated investments, such as charging stations, except where they are used primarily for the transport of fossil fuels,</li> <li>• Construction of new metro and train lines and line extensions for public transport</li> </ul>
<b>Climate change adaptation</b>	<p>Projects that reduce the vulnerability of social or environmental systems to the effects of risks related to climate change by maintaining or increasing adaptive capacity, reducing sensitivity to climate change or increasing climate resilience, including:</p> <ul style="list-style-type: none"> <li>• Flood protection (flood defences, waterway management, pumping stations and drainage improvement)</li> <li>• Protection of ecosystem services e.g. reforestation and watershed management</li> <li>• Climate resiliency services (modernization of meteorological systems, catastrophe risk insurance)<sup>9</sup></li> </ul>
<b>Eligible Social Project Categories</b>	
<b>Promoting employment creation</b>	Including through the provision of access to financial services for MSMEs: funding to micro, small and medium sized enterprises. <sup>10,11</sup>
<b>Access to essential services</b>	<p>Loans dedicated to the purpose of enhancing affordable and accessible education, healthcare and emergency services to the public, including:</p> <ul style="list-style-type: none"> <li>• Expanding access to education through the provision of loans for educational equipment, construction and upgrading of educational facilities, provision of vocational training amongst others</li> </ul>

<sup>6</sup> To ensure major environmental and social risks are addressed only RSPO certified related palm oil activities are eligible for intermediaries.

<sup>7</sup> Financed activities are aligned with recognized certification schemes, such as FSC, MSC, Rainforest Alliance, ASC, or UTZ. All certification schemes are evaluated by OKB or OeEB according to its Environmental and Social Assessment Procedures.

<sup>8</sup> Certified without variance to the standard.

<sup>9</sup> For example, providing long term funding for agricultural SMEs - that do not use GMOs- to make them less vulnerable to climate change, e.g. by introducing irrigation systems.

<sup>10</sup> OKB uses the definition for SMEs provided by the European Union: [https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en)

OeEB uses IFC's definition for MSME:

[https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors)

<sup>11</sup> In so-called developed countries, like Austria, OKB considers only SMEs located in a region with an unemployment rate that is higher than the annual average national unemployment rate.

	<ul style="list-style-type: none"> <li>Expanding access to affordable and accessible health services through the construction or modernization of medical infrastructure</li> <li>Expanding access to emergency services (e.g. purchase of ambulances, fire services)</li> </ul>
<b>Basic infrastructure in developing countries as defined by the OECD<sup>12</sup></b>	<p>New construction, expansion or modernization of infrastructure including:</p> <ul style="list-style-type: none"> <li>Drinking water infrastructure to increase access to drinking water for households, increase water quality and decrease leakages</li> <li>Sewage and sanitation services</li> <li>Transport (e.g. roads, bridges) to increase the connectivity of communities restricted in their development</li> <li>Energy (including energy distribution)<sup>13</sup></li> <li>Telecommunications, such as radio masts that are set up in regions lacking this kind of infrastructure</li> </ul>
<b>Affordable housing</b>	<ul style="list-style-type: none"> <li>Construction or modernization of affordable housing, provision of mortgages for low income customers.<sup>14</sup></li> </ul>

**Table 2: Key Performance Indicators**

<b>Eligible Green Project Categories</b>	
<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>Renewable energy capacity added/rehabilitated (MW)</li> <li>Renewable energy produced (GWh)</li> <li>Annual GHG emissions reduced/avoided (in tons CO<sub>2</sub>)</li> </ul>
<b>Energy efficiency</b>	<ul style="list-style-type: none"> <li>Annual energy savings (MWh)</li> <li>Annual GHG emissions reduced/avoided (in tons CO<sub>2</sub>)</li> <li>Annual production input (resource/material) savings (in tons or kWh/ton)</li> </ul>
<b>Pollution prevention and control</b>	<ul style="list-style-type: none"> <li>Waste prevented, minimized, reused or recycled</li> <li>Annual reduction in waste to landfill</li> <li>Annual energy generation from non-recyclable waste in energy/emission-efficient waste to energy facilities in MWh/GWh (electricity) and GJ/TJ (other energy)</li> <li>Energy recovered from waste (minus any support fuel) in MWh/GWh/KJ of net energy generated p.a.</li> <li>Absolute or % reduction in local pollutants</li> </ul>
<b>Environmentally sustainable management of living natural resources and land use</b>	<ul style="list-style-type: none"> <li>Land under sustainable forestry certification (in hectares)</li> <li>Number of trees planted (in hectare equivalent)</li> <li>Estimated land area with biodiversity management (in hectares)</li> <li>Total leased and owned land area with conserved native vegetation (hectares)</li> <li>Estimated annual reduction in water consumption (m<sup>3</sup>)</li> <li>Estimated annual GHG emissions reduced, avoided or captured (tCO<sub>2</sub>e)</li> </ul>

<sup>12</sup> OECD Development Assistance Committee list of Official Development Assistance Recipients (current list can be downloaded here: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm>), country needs to be defined as developing country by the effective list at time of commitment.

<sup>13</sup> Projects financed under this category exclude energy distribution infrastructure expansion or upgrades that are designed to or are likely to result in the connection of new fossil-fuel-based power generation to the grid.

<sup>14</sup> Mortgages are provided through targeted bank facilities which include caps on loan size, ensuring that these mortgages are targeted towards low-income customers. OKB and OeKB define low-income case by case using the national definitions of the countries where the houses are placed or IFC definition for the respective country.

<b>Sustainable water management</b>	<ul style="list-style-type: none"> <li>• Annual reduction in water consumption</li> <li>• Measurable improvement in water quality</li> <li>• Project-specific targets and results</li> </ul>
<b>Clean transportation</b>	<ul style="list-style-type: none"> <li>• GHG emissions reduced through low emission transportation taking account of fuel production and electricity generation</li> <li>• Number of clean vehicles deployed (e.g. electric cars)</li> <li>• Estimated reduction in car/truck use in number of kilometers driven or as share of total transport ridership</li> </ul>
<b>Climate change adaptation</b>	<ul style="list-style-type: none"> <li>• Project-specific targets and results</li> </ul>
<b>Eligible Social Project Categories</b>	
<b>Promoting employment creation</b>	<ul style="list-style-type: none"> <li>• Number of micro enterprises and/or SMEs funded</li> <li>• Amount of financing provided to micro enterprises and/or SMEs</li> <li>• Number of SMEs funded that are located in a region with an unemployment rate that is higher than the annual national average (annual unemployment rate)</li> </ul>
<b>Access to essential services</b>	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> <li>• Number/Quantity of equipment provided</li> <li>• Project specific results</li> </ul>
<b>Basic infrastructure in developing countries as defined by the OECD</b>	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> <li>• Number/Quantity of equipment provided</li> <li>• Project specific results</li> </ul>
<b>Affordable housing</b>	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> </ul>

#### Issuing Entity's Responsibility

OKB is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

#### Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of OKB's Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from OKB employees and review of documentation to confirm the conformance with the OKB Sustainable Financing Framework.

Sustainalytics has relied on the information and the facts presented by OKB with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by OKB.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

### Conclusion

Based on the limited assurance procedures conducted,<sup>15</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of OKB's Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the OKB Sustainable Financing Framework.

### Detailed Findings

**Table 3: Detailed Findings**

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of 32 projects funded by the sustainability bond in 2019 to determine if projects aligned with the Use of Proceeds Criteria outlined in the OKB Sustainable Financing Framework and above in Table 1.	All 32 projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of 32 projects funded by the sustainability bond in 2019 to determine if impact of projects was reported in line with the KPIs outlined in the OKB Sustainable Financing Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 1.	All 32 projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

<sup>15</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: Impact Reporting<sup>16,17</sup> by Use of Proceeds Categories

Use of Proceeds Category	Environmental Impact Reported by Eligibility Criteria
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Construction and refurbishment of renewable energy generation facilities and infrastructure led to the installment of 142 MW of renewable energy sources, including:               <ul style="list-style-type: none"> <li>○ 13.5 MW of wind energy</li> <li>○ 109.5 MW of solar energy</li> <li>○ 19 MW of hydro energy</li> </ul> </li> </ul>
<b>Promoting employment creation</b>	<ul style="list-style-type: none"> <li>• Amount of financing provided to micro enterprises and/or SMEs:               <ul style="list-style-type: none"> <li>○ EUR 100 million to provide revolving working capital for SMEs in Austrian regions with an unemployment rate that is higher than the annual national average (annual unemployment rate)</li> </ul> </li> </ul>
<b>Access to essential services</b>	<p>Healthcare:</p> <ul style="list-style-type: none"> <li>• Number of beneficiaries<sup>18</sup> – 1.8 million</li> <li>• Number/Quantity of equipment provided:               <ul style="list-style-type: none"> <li>○ Beds new – 622</li> <li>○ Beds modernized – 5,110</li> <li>○ Ambulance cars – 100</li> </ul> </li> </ul> <p>Education:</p> <ul style="list-style-type: none"> <li>• Number of beneficiaries:               <ul style="list-style-type: none"> <li>○ Direct – 1,565</li> <li>○ Indirect – 14,500</li> </ul> </li> </ul>
<b>Basic infrastructure in developing countries as defined by the OECD</b>	<ul style="list-style-type: none"> <li>• Number of beneficiaries:<sup>18</sup> <ul style="list-style-type: none"> <li>○ Water system modernization – 54,000</li> </ul> </li> <li>• Number/Quantity of equipment provided:               <ul style="list-style-type: none"> <li>○ Photovoltaic street lamps – 1,200</li> </ul> </li> <li>• Project specific results:               <ul style="list-style-type: none"> <li>○ Water pipes construction/rehabilitation – 74 km</li> </ul> </li> </ul>

<sup>16</sup> OKB's impact reporting is measured according to the share of the net use of proceeds that are invested in projects.

<sup>17</sup> OKB's impact reporting is comprised of ex-ante impact data. Additionally, projects financed via OeEB have a yearly impact monitoring allowing also reporting on ex-post impact data. All projects are financed by the sustainability bond proceeds issued in 2019.

<sup>18</sup> The current data collection allows a statement to be made that this is a minimum number of beneficiaries that will be reached by the project.

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