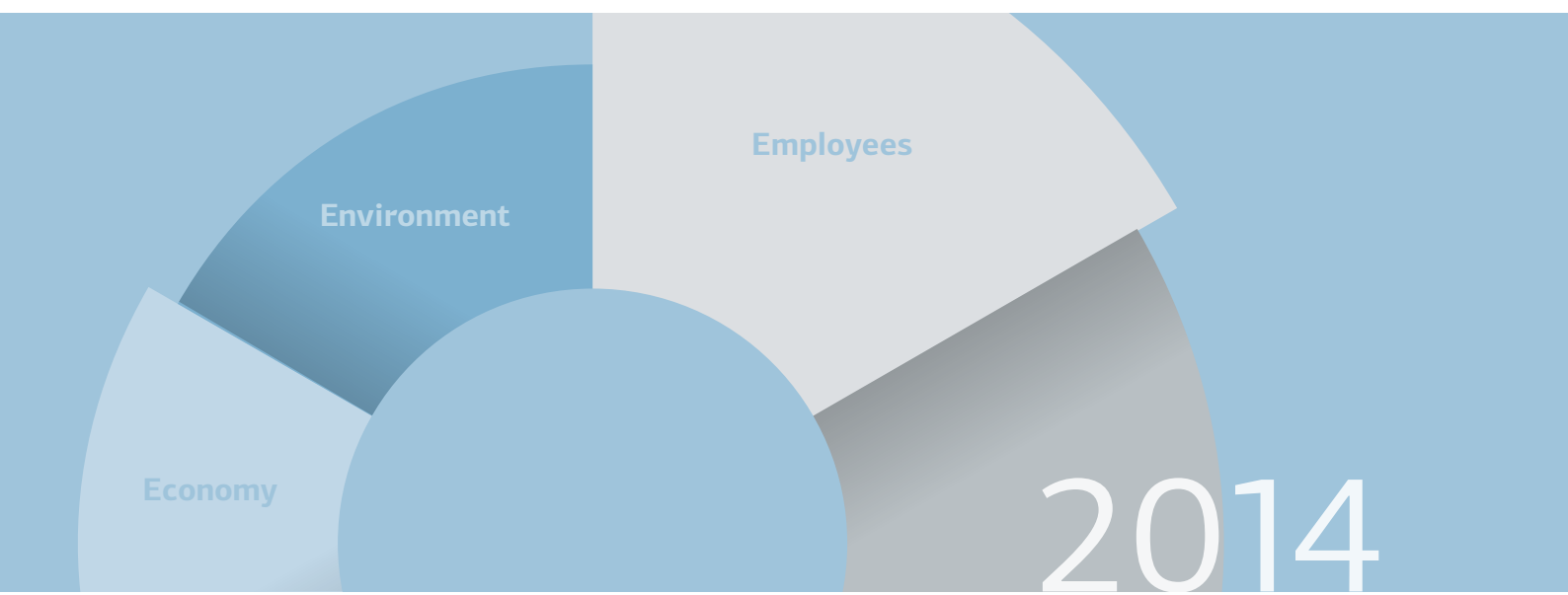


# »» Adding value through effective investments

Development effects of DEG commitments



# »» We shape development

DEG promotes entrepreneurial initiatives in developing and emerging-market countries through its financing operations. A decisive factor for our work is that the investments we co-finance have a sustained positive impact in these countries. We focus on companies and investments which are successful in the long-term, add value and create a positive impact.

Companies that retain a competitive edge in the market and comply with international environmental and social standards create sustainable and thus qualitative growth. In developing and emerging market countries the potential of many companies is untapped because there is a lack of long-term financing opportunities for investments. We promote promising companies either by way of direct financing or by making funds available to local banks or private equity funds. In addition, we offer our customers comprehensive advisory services that promote the sustainable development of companies and financial institutions.

## Shaping development: Stakeholders and action levels



In 2014 we financed a total of 113 investments in 49 countries amounting to EUR 1.47 billion, DEG's portfolio grew to EUR 7.8 billion with 760 commitments in 84 partner countries.

From a regional perspective, most of DEG's portfolio is in Asia with 32%, followed by Latin America with 26%, Africa at 25% and Europe/Caucasus with 15%. Viewed by business sector, the lion's share of the investments is in the financial sector at 32%, followed by the manufacturing industry with 26%, infrastructure at 25%, agribusiness with 11% and 5% in the services sector.

DEG invests in undertakings that contribute to sustainable development: We finance investments of enterprises which share our focus on long-term success rather than on short-term profit and operate accordingly.

To ensure that the transactions financed by DEG have a positive impact, all investments are reviewed in the decision-making phase to see how they can contribute to development. To this end, DEG uses its own corporate policy project rating (GPR) developed in 2002. The GPR records effects that can be directly attributed to the company – at the level of staff, consumers and the community. In addition, the GPR describes possible effects at the macro level with regard to the development of the state, economy and environment.

# »» Anticipated effects of DEG's new commitments in 2014



## Employees

Work creates income and provides people with new opportunities for a better life, beyond poverty. Moreover, work contributes to social acknowledgement and integration, and can play a key role in overcoming conflicts. Creating and securing formal employment and fair income is therefore one of DEG's key development objectives.

- Currently 158,000 employees, of which 46,000 are women, are working in companies and financial institutions which received financing from DEG in 2014. The companies are expected to hire 33,000 new employees over the next five years.
- Companies from the agricultural, industrial and service sector which DEG entered into new commitments with in 2014 pay an annual total of close to EUR 450 million in wages and salaries.
- All the companies financed in 2014 agreed to comply with the ILO core labour standards and the ILO basic terms and conditions, thereby improving working conditions for their staff. Implementing better working conditions is worthwhile in the long-term for companies because it also helps to increase their productivity.
- Sustainably successful companies also secure jobs downstream and upstream of the value chain. Around 500,000 smallholder farmers supply agricultural companies financed by DEG in 2014. One of the companies financed by DEG is part of the Competitive African Cotton Initiative (COMPACI). This company purchases the harvests of 250,000 farmers in Cameroon thus securing their income.

In many developing countries there is a skills gap – a gap between what workers can do and what companies need. It is therefore in the interest of a company, as well as its staff, if the company makes efforts in the area of education and training – with their own programmes or in cooperation with educational institutions. Almost all of the manufacturing companies and



### **The textile company DBL in Bangladesh demonstrates responsibility**

DBL is a family-run, vertically integrated garment manufacturer in Bangladesh with 16 production facilities for weaving, machine sewing, dyeing, washing, printing and packaging. A total of 16,000 staff produce and export 6.5 million garments monthly. In 2012 DEG provided the group with two long-term loans.

The group demonstrates that implementing a forward-looking environmental and social management is profitable, too. DBL was able to increase staff satisfaction through various measures and thereby boost productivity:

To improve occupational safety conditions, investments for building, fire and electrical safety were made, an active dialogue with staff was pursued and a "buddy programme" was launched for new employees. In addition, DBL set up a kindergarten and a cultural club for free time activities. DBL pays 6% higher wages than the sector average and sells food and medicines in the company's own fair price shop at low wholesale prices. Employees of DBL are covered by social security, are looked after in the company's own medical centre and trained in health and safety issues. The internal textile training centre offers vocational training.

Above and beyond this, the company is a pioneer in the area of resource-efficient production. In 2013 the DBL Group received the "Top Factory Award" of the Carbon Performance Improvement Initiative (CPI2) for its efforts.

banks financed by DEG offer some form of training for their staff, and close to a third operate their own apprenticeship workshops. Currently, DEG is conducting an evaluation to examine which private-sector measures are particularly successful at closing these gaps in education, in order to advise and support customers even better in the future.

## Consumers

As the private sector in developing countries grows, so do the range and quality of products and services. Frequently, this can lead to better value for money.

- A total of 58% of the companies we financed in 2014 in the manufacturing sector contribute to expanding the range of products, and over three quarters to improving product quality.
- Eight investments in the energy sector will contribute to improving the power supply for households and businesses and in future will provide approximately 5.5 million people with electricity.



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### **Solar company Mobisol offers clean off-grid energy**

The German start-up company Mobisol offers solar home systems, which generate enough power to light up several rooms, charge mobile telephones and operate electrical appliances. The technology does not cause any air or noise pollution, and makes Mobisol customers independent of the slow-moving efforts to expand power grids, and the rising costs of fossil fuels.

Mobisol systems combine environmentally friendly technology with an innovative payment system. Customers pay via mobile banking (M-Pesa) using text messages in low monthly instalments – that amount to just 30 cents per day for the smallest systems. After three years the ownership of the systems is transferred to the customers. The rental price includes training on how to install a system and maintenance by local partners.

DEG supported Mobisol in 2012 with funds from the German Federal Ministry for Economic Cooperation and Development's develoPPP programme, and in doing so has financed 2,000 systems. In the meantime, Mobisol has equipped over 21,000 households in Tanzania and Rwanda with off-grid solar power systems. There are plans to expand the company's activities into other countries. By providing financial and advisory services, DEG continues to support the growth of the company.



## Community

An increasing number of companies are adopting corporate social responsibility measures (CSR) on a large scale. It is not only the employees of companies and their families that benefit from this development, many people living in the surrounding communities benefit, too. Of the manufacturing companies that received financing from DEG in 2014, 23 % have or will set up kindergartens, schools or medical centres. These benefit not only the employees but also the local population. A total of 13% of the businesses also contribute to improving transportation routes in the region.

DEG supports its customers in carrying out corporate social responsibility, because CSR can yield significant impacts for local development in developing and emerging market countries. DEG offers its customers special advice regarding their CSR programmes to aid them in fostering local development.

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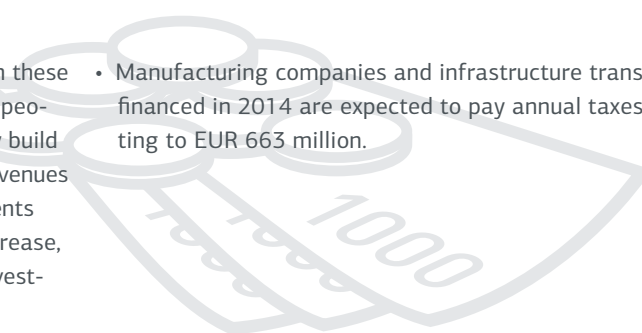
### **A toll road operator in India advances the water supply**

In accordance with a new law, companies in India are obliged to spend 2% of their profit on CSR. In developing its CSR programme, an Indian toll road operator in Gujarat financed by DEG has tailored its activities to closely fit the needs of the local community. The company is committed to expanding reservoirs typical of the region along the toll road it operates. This expansion extends access to water for over 25,000 people in the adjacent villages by almost two months per year. Agriculture and animal husbandry also benefit from the improved water supply. Moreover, the company is involved in further measures such as planting trees and education packages.

## Government

Governments need own funds for public investments. With these investments, they support the population, especially poor people, in accessing education and health care facilities; they build streets, railway networks and other infrastructure. The revenues for such investments consist to large extent of tax payments from private sector companies. When these payments increase, governments have more money to spend on important investments that help reduce poverty.

- Manufacturing companies and infrastructure transactions financed in 2014 are expected to pay annual taxes amounting to EUR 663 million.





## Economy

Internationally competitive companies generate foreign exchange earnings and make a significant contribution towards securing the solvency of their country and stabilising the exchange rate. Companies that sell their products to local markets also contribute to this by manufacturing a product in the country itself that was previously imported.

- The manufacturing companies financed in 2014 will either generate or – as the result of import substitution – save an estimated EUR 4.2 billion annually in foreign currency.

The value added of a company shows the national income that is generated by the relevant company – in the form of salaries, interest, rents and profits. A positive net value added means

that a company makes a contribution to developing its country's economy regarding the usage of its resources.

- The manufacturing companies financed in 2014 will add around EUR 1.2 billion per year to national income.

Strengthening regional and sectoral diversification is important for many developing countries. It helps to reduce local migration and to put the economy on a broader footing.

- Almost 50% of the commitments financed in 2014 for both manufacturing companies and financial institutions are destined for structurally weak regions.
- Over 50% of the financed manufacturing companies contribute to the sectoral diversification of their economies.

## Environment

DEG always seeks to promote environmentally sustainable development. Environmental protection is therefore a key criterion for our investments.

- All the companies and infrastructure transactions financed in 2014 agreed to comply with IFC performance standards.
- Almost 27% of the transactions are relevant to climate protection – they produce clean energy, are energy efficient, use renewable raw materials or produce environmental technologies.

- The energy supply projects directly financed by DEG in 2014 will, when commissioned, produce an annual total of around 4,000 GWh of electricity, of which 58% will be from wind power, 19% from hydropower, 15% from solar power and 5% from biomass. Once completed, these projects will reduce the emissions of carbon dioxide (CO<sub>2</sub>), the main greenhouse gas, by 1.5 million tonnes of CO<sub>2</sub> per annum.

# »» Effects realised by DEG portfolio customers 2014

The companies financed by us create qualified jobs and income, improve the range of goods and services offered, and invest in local infrastructure. They are committed to technology transfer and environmental protection and contribute to government revenues with their tax payments.

To assess whether the anticipated effects of new commitments are achieved, the actual development effects of DEG's portfolio are recorded and analysed every two years. This year's analysis showed that we have been able to uphold our high development quality. Particularly noteworthy is that the number of employees

in companies and financial institutions rose by almost 300,000 since the ex-ante survey. For instance, Ohorongo Cement (PTY) Ltd. – a Schwenk Zement KG company – created 331 permanent positions in its core business, and 24 jobs in the "Energy for Future" programme for developing alternative fuels in Namibia.



## Employees

- DEG's customers employ close to one million people. The number of staff in co-financed companies has risen by almost 300,000 since DEG entered into the respective commitments.

## Government

- DEG customers pay at least EUR 1.5 billion in taxes per year.



## Consumers

- DEG financing has facilitated 30 million additional connections for mobile telephone customers.



## Economy

- A total of 73 % of manufacturing companies are committed to innovative technology transfer.



## Community

- 47 % of the manufacturing companies invest in local infrastructure such as schools, kindergartens and roads.



## Environment

- The energy supply companies directly financed by DEG generate 8 TWh of electricity annually from renewable energy for around 9 million people.

# »» Monitoring and evaluation at DEG

DEG uses the input-output-outcome-impact method to assess the impact of the investments it co-finances. It asks what output has been achieved and what outcome this has facilitated. The impact for society is deduced from this.

DEG's monitoring and evaluation team checks at regular intervals whether the transactions DEG co-finances help to achieve sustainable development successes and points to ways of making further improvements for DEG and its customers. To this end, we use the GPR monitoring instrument as well as internal and external evaluations.

## Impact of DEG's financing operations

