

Summary of the most important results of the evaluation regarding Corporate Social Responsibility (CSR) of DEG financing projects

0. Introduction / Summary

Do companies receiving DEG financing live up to the expectations of Corporate Social Responsibility (CSR)? This was one of several questions which DEG had reviewed in summer 2008 by means of an external independent expert team in 14 countries.

Under consideration of developmental, ecological, social and business criteria, the results of the evaluation of altogether 16 DEG portfolio companies are generally good. Particularly the activities of the companies in the field of CSR are remarkable. While the majority of the evaluated companies do demonstrate a high corporate social responsibility, there is nonetheless room for improvement with regard to certain aspects in some companies.

It was the first time that private companies in developing countries had been evaluated on the basis of the future CSR guideline "ISO 26000" of the International Organization for Standardization.¹ The CSR rating tool, an inhouse development of DEG for this evaluation, has stood the general test for ex-post evaluation purposes and identified a number of good-practice examples.

1. Background: Selection of the evaluated DEG portfolio companies

In early 2008, DEG had selected a total of 16 DEG portfolio companies from Africa, Asia, Latin America and Eastern Europe for evaluation with a view to identifying case studies for a CSR conference.² The eligibility criteria were based on the ex-post evaluation of the DEG-internal Corporate-Policy Project Rating (GPR)³ of the DEG portfolio with 445 project companies and included compliance with the DEG environmental and social standards,⁴ provision of comprehensive corporate social benefits and solidity of business. The companies evaluated on site by a team of external independent experts between May and August 2008 are therefore a preliminary selection of potential CSR case studies from the DEG portfolio.

1 For further information on the ISO 26000 guideline, please see the ISO website:
http://isotc.iso.org/livelink/livelink/fetch/2000/2122/830949/3934883/3935837/WD_4.2_ISO_26000_Guidance_on_Social_Responsibility?nodeid=7364403&vernum=0

2 For further information on the CSR conference (30-10-2008), please see our website:
http://www.deginvest.de/EN_Home/About_DEG/Our_Current_Work/index.jsp

3 For more information on GPR, please see our website:
http://www.deginvest.de/EN_Home/About_DEG/Our_Mandate/Development_Policy_Mandate/Corporate-Policy_Project_Rating_.jsp

4 For further information on the DEG environmental and social standards, please see our website:
http://www.deginvest.de/EN_Home/About_DEG/Our_Mandate/Environmental_and_Social_Compatibility/Environmental_and_Social_Standards.jsp

Within the scope of the evaluation the experts assessed the projects on the basis of (i) the GPR, (ii) the five criteria of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD),⁵ (iii) DEG's own "Environmental and Social Risk Indicator" (EaSI) and (iv) a CSR Rating recently developed by DEG.

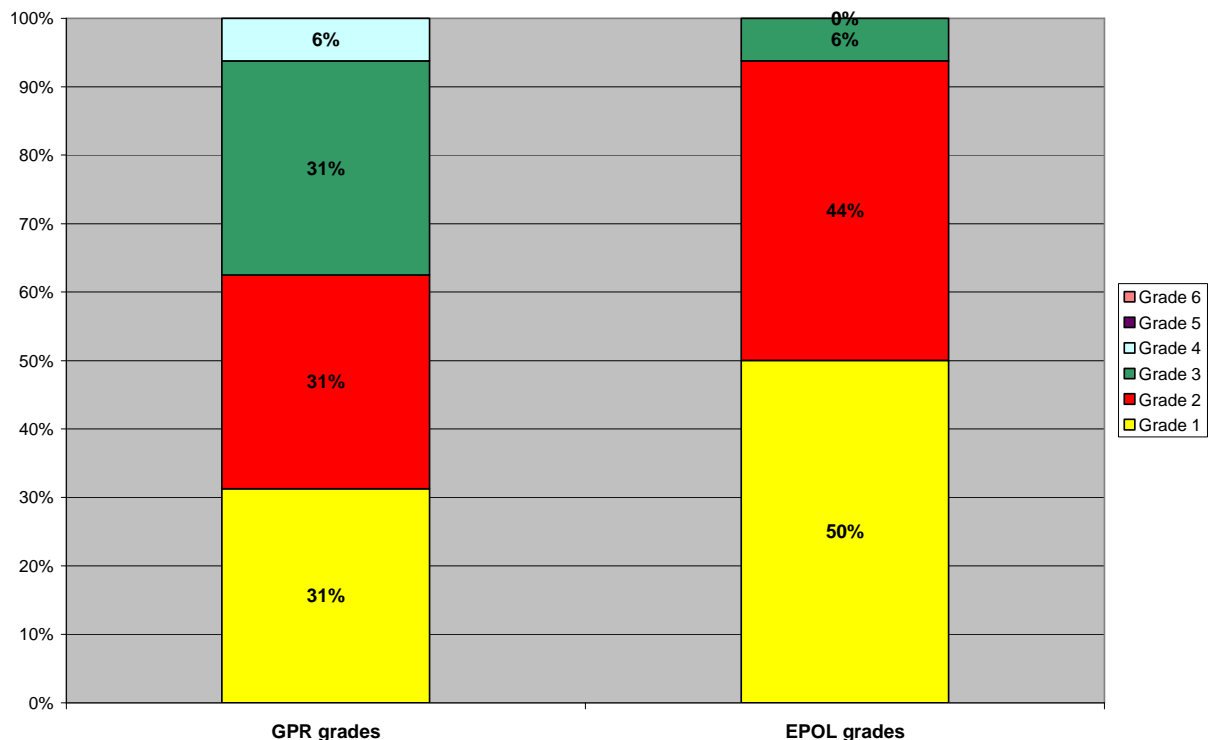
2. Results of the evaluation

2.1 GPR results

GPR assesses each project by means of the following four benchmarks: (i) long-term profitability of the project, (ii) developmental impacts / sustainability, (iii) specific strategic role of DEG (in terms of additionality) and (iv) return on equity of DEG.

The overall result of the four GPR benchmarks identified 15 out of 16 projects as "successful without restriction". Five projects were assessed as "very good" (GPR grade 1), 5 as "good" (GPR grade 2), 5 as "fully satisfactory" (GPR grade 3) and one project as "still satisfactory" (GPR grade 4; see Fig. 1).⁶

Figure 1:
Distribution of GPR and EPOL grades of the 16 evaluated project companies



⁵ For further information on the five DAC criteria - relevance, effectiveness, efficiency, developmental impact and sustainability - please see the OECD website:

http://www.oecd.org/document/22/0,3343,en_2649_34435_2086550_1_1_1_1,00.html

For an evaluation example reflecting the application of the DAC criteria for private investments, please see our website:

http://www.deginvest.de/EN_Home/About_DEG/Our_Mandate/Development_Policy_Mandate/GPR_Reports/Ex_post_evaluation_flower_sector_east_africa.pdf

⁶ Definition of grades of GPR and EPOL groups (corporate-policy and developmental quality): Grade 1 = "very good", grade 2 = "good", grade 3 = "fully satisfactory", grade 4 = "still satisfactory", grade 5 = "unsatisfactory, needs specific justification", grade 6 = "obviously insufficient". Grades 1 to 3 are considered "successful without restrictions".

In terms of developmental effects, all 16 projects are "successful without restriction". Eight projects are assessed as "very good"(EPOL grade 1), 7 as "good" (EPOL grade 2) and one project as "fully satisfactory" (EPOL grade 3).

The developmental quality is thus generally better than the corporate-policy quality. This can, among others, be explained by the business limitations observed at the time of evaluation or an ex-post lower return on equity of DEG in individual projects and can be considered as an indicator of the pronounced role of DEG as a risk bearer.

The EPOL assessments updated as part of the external evaluation generally confirm the most recent internal EPOL ratings of the DEG Portfolio Management. In general, the experts assess the internal self-evaluation (by DEG's Portfolio Management) based on the four-eye principle as adequate (released by the independent department "Economics/Development policy").

2.2 DAC results

The assessment was made on the basis of the five DAC criteria relevance, effectiveness, efficiency, developmental impact and sustainability. Since the DAC criteria largely refer to an evaluation of the governmental development cooperation, the experts interpreted these criteria with regard to the private-sector oriented DEG projects.

In the overall developmental evaluation according to the DAC criteria, 2 projects obtained a "very good" result (grade 1), 11 projects scored "good" (grade 2) and three projects "satisfactory" (grade 3).⁷

2.3 DEG environmental and social standards (EaSi)

The DEG environmental and social standards, which are partly very challenging for the project companies, are fully complied with by 6 projects. This means that particularly the strict environmental and social standards of the World Bank Group⁸ and the Core Labour Standards of the International Labour Organisation (ILO)⁹ are fully complied with. There are minor deviations for five projects. The remaining five projects, however, showed clear deviations from the DEG environmental and social standards with agreed environmental and social action plans not being fully implemented and with need for action on the part of DEG (see point 4).

3. CSR Rating results

3.1 Summary of CSR Rating results

Within the scope of the evaluation CSR was interpreted according to the ISO 26000 guideline. The guideline focuses on the seven core issues of CSR: (i) corporate governance, (ii) human rights, (iii) good labour practices, (iv) environment, (v) fair operating practices, e. g. fight against corruption, (vi) consumer issues and (vii) social and economic development of the community.

7 Definition of the grades of the DAC quality groups: Grade 1 = "very good", grade 2 = "good", grade 3 = "satisfactory", grade 4 = "not satisfactory", grade 5 = "obviously insufficient", grade 6 = "useless".

8 For further information on the environmental and social standards of the World Bank Group, please see the website of the World Bank member IFC:

[http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/pol_PerformanceStandards2006_full/\\$FILE/IFC+Performance+Standards.pdf](http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/pol_PerformanceStandards2006_full/$FILE/IFC+Performance+Standards.pdf)

9 For further information on ILO core labour standards, please see ILO website:

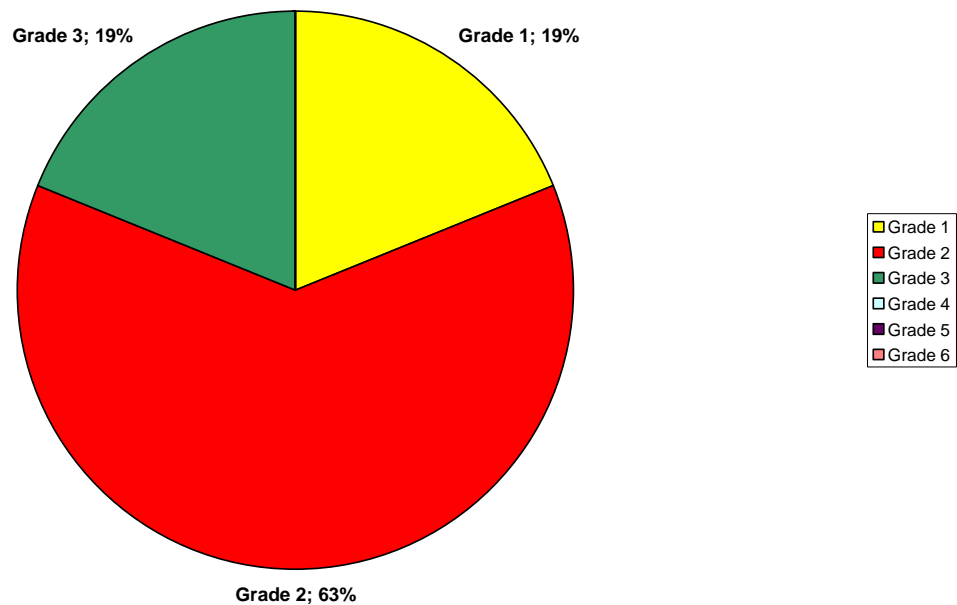
http://www.ilo.org/global/What_we_do/InternationalLabourStandards/lang--en/index.htm

The evaluation paid special attention to the latter CSR activities related to the social and economic development of the community, particularly on the voluntary corporate social benefits for employees and the neighbouring communities.

For the present evaluation, DEG developed a standardised CSR Rating (see [Annex 1](#)), which summarises the 35 CSR sub-issues of ISO 26000 in a transparent manner and evenly balanced by means of a school grade systems (grades 1 to 6), summarising them as a total score.

The CSR of three projects is considered as “best practice“ (grade 1; ”CSR issue exceeded“), 10 projects passed as “good practice“ (grade 2; ”CSR issue fulfilled“) and 3 projects as “acceptable practice“ (grade 3; ”CSR issue mostly fulfilled“; see Fig. 2).¹⁰

Figure 2:
Distribution of CSR grades of the 16 evaluated project companies



However, in 7 projects the experts see a certain need for improvement concerning at least one of the 35 sub-issues of the CSR Rating (grade 4; "CSR need for improvement") with certain recommendations for DEG (see point 4).

The CSR overall results must generally be interpreted with caution, particularly as a comparison is only useful in the presence of similar project characteristics (country, industry, size of company). Furthermore, the experts' assessments remain subjective – as with all qualitative evaluation methods – even if they were designed as inter-subjective in the team.

In conclusion, the experts consider the CSR Rating as a novel method aimed at a holistic appraisal of corporate social responsibility of DEG project companies. The strengths are the systematic compilation in three steps (questionnaire, onsite visit and rating), the transparency,

¹⁰ Definition of grades of CSR rating: Grade 1 = "CSR issue exceeded (best practice)", grade 2 = "CSR issue fulfilled (good practice)", grade 3 = "CSR issue mostly fulfilled (acceptable practice)", grade 4 = "CSR need of improvement", grade 5 = "CSR issue largely missed", grade 6 = "CSR issue missed in full".

the standardised appraisal and a “strengths and weaknesses” analysis of the CSR of the evaluated companies.

DEG departments “Economics/Development policy” and “Environment/Sustainable development” are going to check whether and in how far and at what expense parts of the CSR Rating might be integrated into the existing DEG management systems. Currently, the 7 CSR core issues of the ISO concept are assessed in the GPR and the EaSI.

3.2 Infrastructure effects observed and corporate social benefits

The contributions which the evaluated companies make to community development are considerable. The spectrum ranges from corporate social benefits for employees clearly above the local average to improvements of the economic and social infrastructure for the neighbouring population.

- Companies have, for instance, invested into public roads of energy supply.
- Besides the economic infrastructure, the social infrastructure of the neighbouring communities has been improved. The evaluated companies have, for examples, built elementary and secondary schools, dispensaries, orphanages, churches and mosques and improved local water supply and waste-water disposal.
- The majority of companies pays – partly considerably – higher wages than the legal minimum wages. Furthermore, bonus payments, holiday and housing allowances, subsistence and qualification allowances, separation and inflation compensation and support for school fees are granted in a number of cases.
- Further major corporate social benefits include social and health insurances, accident and life insurances, sick pay, fuel subsidies, free housing or loans for housing, free of subsidised meals at canteens or free-of-charge transport to work. Moreover, extensive HIV/AIDS prevention measures are realised – partly supported by the Public-Private Partnership (PPP) Programme of the German Federal Ministry for Economic Cooperation and Development.
- The tax payments of the private companies eventually enable the local communities to cope with their public duties to set up the infrastructure (partial aspect of core issue 7 of the CSR concept).

3.3 CSR motifs

CSR activities (especially corporate social benefits) can boost employees’ motivation and reduce fluctuation. The experts show the following four essential motifs for CSR, which lead to individual motif constellations for the 16 project companies:

- Corporate strategy (CSR corporate philosophy of parent companies)
- Commitment of local sponsor (personal motifs of the sponsors)
- Commitment of German sponsor (requests made by German parent company)
- Social licence to operate or precondition to operate (CSR as a negotiating issue with governmental decision makers or an investment condition owing to insufficient governmental infrastructure)

4. Recommendations

In cooperation with department "Environment/Sustainable development", the responsible DEG project managers are to discuss with the customers the identified need for improvement as regards compliance with DEG environmental and social standards in the individual projects and possibly support their implementation by means of financing funds for complementary measures. Examples for the identified need for improvement (made anonymous in this summary) include:

- the implementation of an agreed resettlement plan,
- the management of a smallholder programme and agricultural sub-contractors, and
- still incomplete certifications according to OHSAS 18001 (labour protection) and SA 8000 (social standards).

5. Acknowledgements

DEG would like to thank the 16 customers for their support and cooperation during the evaluation. The German banker's confidentiality does not permit DEG to publish the name of all customers and further project details.

Annex 1: Description of the CSR Rating Matrix

October 2008:

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Annex 1: Description of the CSR Rating Matrix

The CSR rating matrix developed within the scope of the evaluation (see Figure A-1) is based on the ISO 26000 guideline of the International Organization for Standardization. Since 2004, ISO has been working on this guideline, which is meant to be a voluntarily applied “ethic standard”. The guideline is intended to be published in 2010.

The guideline focuses on the seven CSR core issues (with a total of 35 sub-issues), which have the following importance in the DEG business: (i) Corporate governance, e. g. accounting standards according to international standards and annual financial statements reviewed by auditors, (ii) human right, e. g. ban on child labour, (iii) good labour practices, e. g. compliance with ILO core labour standards, (iv) environment and climate protection, especially compliance with World Bank environmental standards, (v) fair operating practices, e. g. by means of anticorruption clauses or, in the area of mining projects, adherence of the “Extractive Industries Transparency Initiative (EITI)”, (vi) consumer issues and (vii) social and economic development of the communities, e. g. creation of long-term jobs, tax payments, qualification, technology transfer or social contributions via community development funds.

Ever since the introduction of GPR and EaSi in 2002 and 2008, respectively, both tools have been looking into a great many of the core issues or sub-issues, including the following subjects: tax payments, job effects, gender issues, qualification and advanced training, technology and know-how transfer, infrastructure effects and social benefits, environmental standards and effects.

The standardised CSR rating matrix summarises the 35 CSR sub-issues of ISO 26000 as one total score in a transparent way and equally balanced, following a school grade system (grades 1 to 6). The grades of the CSR rating matrix are defined as follows: Grade 1 = “CSR issue exceeded (best practice)”, grade 2 = “CSR issue fulfilled (good practice)”, grade 3 = “CSR issue mostly fulfilled (acceptable practice)”, grade 4 = “CSR need of improvement”, grade 5 = “CSR issue largely missed”, grade 6 = “CSR issue missed in full”.

The strengths of the CSR matrix are as follows:

- transparent assessment of CSR according to ISO 26000 indicating potential need for improvement (“strengths and weaknesses” analysis),
- standardised rating with school grades, and
- systematic compilation in three steps (customer questionnaire, onsite visit, rating).

Nevertheless should the CSR overall results be interpreted with caution, particularly as a comparison is only useful in the presence of similar project characteristics (country, industry, size of company).

These are the open questions on the methodology of the CSR rating matrix: Should the 7 core issues possibly not be “equally” balanced? Does the arithmetic mean produce an undesired balancing of strengths and weaknesses? Should critical minimum values for individual core issues or sub-issues be included?

All in all, the CSR Rating is a novel method for the holistic appraisal of corporate social responsibility of DEG project companies, which has been used for the first time by a European development finance institution.

