DEG's Disclosure Statement for the
Operating Principles for Impact Management

Federal Ministry
for Economic Cooperation
and Development

Partners in
Transformation
ImpactConnect

KFW DEG

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June 2024

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Disclosure Statement
Operating Principles for Impact Management

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
April 2024

DEG – Deutsche Investitions- and Entwicklungsgesellschaft mbH (DEG) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles").[1]

This Disclosure Statement applies to the following assets or business lines (the "Covered Assets"):

I. DEG Core Business: The total Covered Assets in alignment with the Impact Principles is US$ 11.4 billion[2] as of December 31, 2023 portfolio under management in alignment with the Impact Principles.[3]
II. ImpactConnect: DEG Advisory Services: The total Covered Assets under management in alignment with the Impact Principles is US$ 236.2 million as of December 31, 2023.

Please find detailed information on the Impact Principles on its webpage: www.impactprinciples.org

On our website you also find the 2024 verifier statement by BlueMark.

Roland Siller
DEG Chief Executive Officer
June 2024

Introduction

The Operating Principles for Impact Management are a milestone, bringing together DFIs, asset managers, and asset owners on a robust framework to foster greater discipline, transparency, and

[1] The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network ("the GIIN") or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

[2] EUR 10.3 billon; Oanda: EUR/USD = 1,10364 as per 31.12.2023.

[3] Investment Finance: EUR 6.5 billion and Equity Participation: EUR 3.9 billion as of December 31, 2023.

accountability in impact investing. The Impact Principles continue to grow as a global standard among impact investors and their evolving regulatory environments.

DEG became a signatory in 2019 and went through an initial verification of the alignment of its Core Business with the impact management practices with the Operating Principles for Impact Management in 2021. This year's verification includes not only DEG's Core Business but also DEG's advisory service to the program ImpactConnect and its special-purpose alternative investment fund Connect.

While DEG's core business and ImpactConnect share impact core values, their respective impact management approaches differ with respect to the Impact Principles. Therefore, this disclosure statement is divided into two sections:

I. DEG Core Business
II. ImpactConnect: DEG Advisory Service

The joint verification has been performed by BlueMark, the leading independent provider of impact verification services. The next verification will take place in 2025.

DEG Core Business

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, is charged with a development policy mandate to promote the expansion of the private sector in developing and emerging market countries. As an institution with public-benefit status, its sole purpose is to promote private sector business in developing and emerging market countries.

DEG finances economically and developmentally sustainable, socially and environmentally sound projects by private sector enterprises. Its financing services encompass loans, loans with equity features and participating interests, together with targeted advisory services. These services are aimed primarily at medium-sized businesses. DEG's objective is to contribute to its customers' lasting success by providing reliable long-term finance and advice, as only consistently successful enterprises will create permanent jobs and generate sustainable development impact.

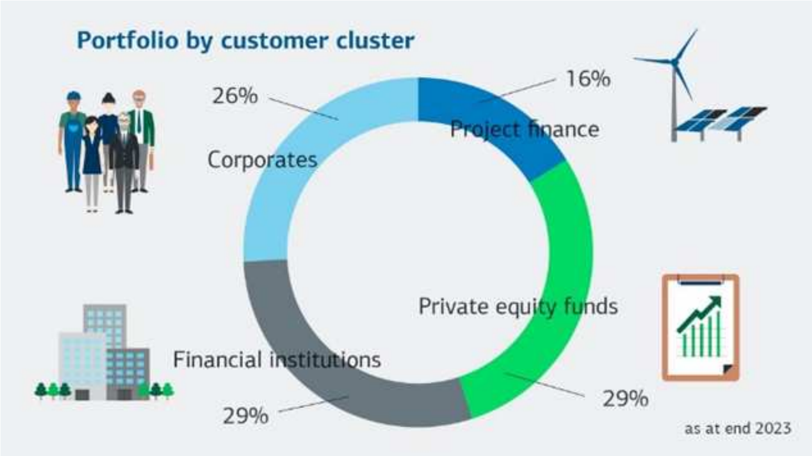
As part of KfW Group and on the basis of its development policy mandate, DEG operates on the subsidiarity principle. It provides finance where the market fails to offer financing to enterprises at an adequate level, or indeed at all. DEG reaches enterprises in developing and emerging market countries both directly and indirectly. It finances businesses directly, as well as making capital available to local banks and other financiers to offer bespoke financing and advice, particularly to small and medium-sized enterprises (SMEs) in developing countries.

Within the scope of its activities, DEG thinks and acts like an entrepreneur. That includes generating risk-appropriate earnings. Any surpluses DEG generates are used to expand its equity base and strengthen its risk-bearing capacity. This forms the necessary foundation for DEG to pursue and expand its activities by drawing on its own resources.

In the context of its Impact.Climate.Returns strategy, DEG focuses on climate-friendly financing with a strong impact. It specifically champions the financing of projects that make a significant contribution to the Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda. There is a particular focus on reducing poverty (SDG 1), decent work and economic growth (SDG 8), affordable and clean energy (SDG 7), industry, innovation and infrastructure (SDG 9) and selected climate action measures (SDG 13). DEG has set itself the objective of pursuing an investment policy in keeping with the 1.5 degree Celsius target of the 2015 Paris Agreement, with the aim of achieving climate neutrality by 2040.

DEG currently finances and advises around 700 companies in developing and emerging market countries with approximately EUR 10.3 billion. The regional distribution can be found in figure 1.

Figure 1: Regional distribution of the DEG portfolio



DEG promotes the expansion of the private sector in developing and emerging market countries directly by investing in corporates and project finance, as well as indirectly through the investments in financial institutions and funds. Figure 2 shows the portfolio distribution per customer cluster.

Figure 2: Portfolio by customer cluster

Verification results

BlueMark, the leading independent provider of impact verification services, initially verified DEG's Core Business alignment with the Operating Principles for Impact Management in 2021 and re-verified DEG's Core Business in 2024.

Their findings show an improvement in performance on Principle 8 and consistent ratings for all other principles. The detailed verifier statement is available online[4].

In terms of performance, DEG continues to lead on Managing strategic impact on a portfolio basis (Principle 2) and Assess, address, monitor, and manage potential negative impacts of each investment (Principle 5).

The verification identified potential for improvement especially for managing exits (Principle 7) to documenting and strategically managing the different channels through which DEG supports its clients (Principle 3).

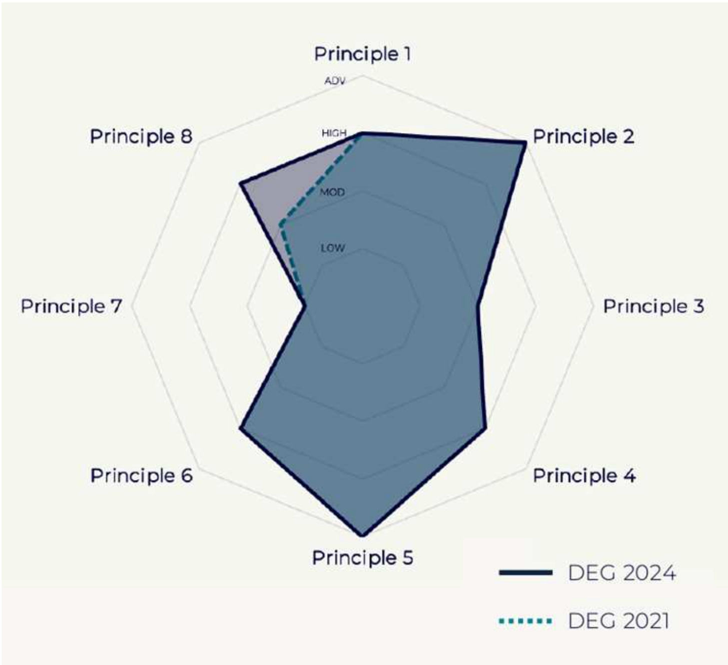


Figure 3: Improvement in performance 2024 vs. 2021

[4] https://www.deginvest.de/DEG-Documents-in-English/About-us/Responsibility/DEG-BlueMark_Verifier-statement_2024.pdf

Principle	Alignment
1. Define strategic impact objective(s), consistent with the investment strategy	HIGH
2. Manage strategic impact on a portfolio basis	ADVANCED
3. Establish the Manager's contribution to the achievement of impact	MODERATE
4. Assess the expected impact of each investment, based on a systematic approach	HIGH
5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	HIGH
7. Conduct exits considering the effect on sustained impact	LOW
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	HIGH

Figure 4: Verification results DEG core business

DEG plans to conduct an independent verification alignment with the Operating Principles for Impact Management annually for both DEG's core business and ImpactConnect: DEG Advisory Services. The Disclosure Statement will be updated yearly once the verifier outcomes have been received.

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- DEG, a wholly-owned subsidiary of KfW, was founded in 1962 to promote the private sector in developing and emerging markets, thereby contributing to sustainable local development.

- In order to realize the ambitious “2030 Agenda for Sustainable Development” and to achieve the 17 global Sustainable Development Goals (SDGs), the private sector plays a crucial role. DEG’s clients accelerate sustainable development in line with the 2030 Agenda through their entrepreneurial success and their environmental and social responsibility. DEG supports its clients to enhance their sustainability and impact performance by combining long-term financing with a broad range of Business Support Services through its subsidiary DEG Impulse and a clear focus on promoting international environmental, social and corporate governance standards.

- In 2022, DEG’s strategy *Impact.Climate.Returns.* came into effect, whereby the impact of DEG’s portfolio investments is considered equally important as the financial return. As part of this strategy, DEG committed to
    1. Increasing our clients’ positive impact on society and the environment, and thus strengthening their contribution to the Sustainable Development Goals (SDGs). There is a particular focus on reducing poverty (SDG 1), decent work and economic growth (SDG 8), affordable and clean energy (SDG 7), industry, innovation and infrastructure (SDG 9) and selected climate action measures (SDG 13). In line with this strategy DEG finances clients who already have strong net-positive impacts in line with the SDGs, where the new investment will result in such impacts or the clients are willing to transform towards them. The impact target is measured through DEG’s Development Effectiveness Rating (DERa) on client level and steered on portfolio level.
    2. Combating climate change by entering a reduction pathway in alignment with the Paris Agreement’s 1,5’» C targets from 2025 onwards, achieving a net-zero portfolio in 2040. DEG’s measures are guided by a hierarchy of (1) avoiding GHG emissions, (2) reducing GHG emissions and adapting to climate change by implementing transformation pathways with its clients, and (3) neutralising remaining GHG emissions.
    3. Supporting clients on their own transformative journeys towards positive impact and more climate resilience. This way, DEG is able to achieve its impact and climate goals together with its clients.

- DEG’s impact and climate commitment is available online[5] and updated statements can be found in DEG’s development report[6].

[5] https://www.deginvest.de/DEG-Documents-in-English/About-us/Responsibility/DEG-Impact-Climate-Commitment-2022.pdf

[6] The latest version of the report can be found on the following website: https://www.deginvest.de/Our-impact/

Principle 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- DEG applies its Development Effectiveness Rating (DERa)[7] in order to measure the development effectiveness of its individual clients and their contributions to the SDGs. With regard to funds, it also measures development effectiveness at investee level. The DERa rating tool is subject to DEG's model validation processes.
- The DERa is based on a so-called theory of change, a methodology used to explain the process towards desired change by mapping causal linkages from initial activities of DEG's clients through their outputs towards one or multiple targeted outcomes and finally impacts. In a separate step, the theory of change includes the role of DEG.
- The DERa is applied throughout the project cycle of each transaction. Prior to approval of a transaction, the first DERa is filled in. It consists of a baseline with actual values prior to investment and an ex-ante estimate of the expected effects of the investment with a time horizon of five years (forecast). After commitment, the DERa is updated yearly with actual values. This allows DEG to track impact performance over the lifetime of the investment up until exit/divestment. Thus the DERa offers a consistent framework to systematically consider impact throughout the investment process from due diligence, through portfolio management until exit/divestment.
- DERa is an integral tool for DEG to pursue this portfolio approach with a focus on impact. DEG's impact target is defined as the average actual DERa score. The overall average DERa score is audited by an external Auditor on an annual basis.
- Management and staff incentives are directly related to the level of achievement of the two strategic goals – impact and financial return. By linking the annual bonus of DEG to the achievement of a portfolio-level DERa target, the staff incentive system is connected to impact. Further, DERa targets offer an informal performance and discussion mechanism within investment teams.

Principle 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[1] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

[1] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

[7] For more information on the DERa, please refer to https://www.deginvest.de/Our-impact/Wir-messen-Wirksamkeit/

- DEG offers a range of financial and non-financial products and services aimed at contributing to the achievement of impact. In addition to long-term finance at market-oriented terms and risk capital that is needed in emerging markets, DEG offers a variety of advisory services.

- From the structuring of the deal (defining specific use of funds for instance for gender or green loans, improved corporate governance and transparency or improved project design) the DEG investment team works with the client to improve its economic and impact performance. By sharing, benchmarking and discussing the results of the yearly DERa with the client through the Business Impact Profile, DEG creates an incentive to achieve more impact.

- As part of the new strategy, DEG has set up a subsidiary that is focused exclusively on providing companies with advisory solutions for their investments in developing and emerging countries: DEG Impulse[8]. Through different channels, DEG provides financial and advisory services to support clients on their transformative journey. Support can be provided on social, environmental or economic issues. DEG Impulse tracks the status of the activity as well as the intention, interim results, success level and related results via an extensive documentation, supported by key data managed in SAP.

- This result is then incorporated as part of the value additionality assessment in the DERa. In addition, DERa also includes metrics to assess financial additionality.

- DEG Impulse tracks the status of the activity as well as the intention, interim results, success level and related results via an extensive documentation, supported by key data managed in SAP."

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[2] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[3] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[4] and follow best practice.[5]

[2] Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

[3] Adapted from the Impact Management Project (www.impactmanagementproject.com)

[4] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others

[5] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

[8] https://www.deginvest.de/%C3%9Cber-uns/DEG-Impulse/index-2.html

- Guided by the Sustainable Development Goals (SDGs), DERa uses five impact categories: decent jobs, local income, market and sector development; environmental stewardship, and community benefits. Based on the various indicators included in the DERa, a cumulative score is created, which rates each transaction from “exceptional” to “unsatisfactory”.

- DERa reflects country and sector context in an individual category (providing a higher score for less developed countries and sectors which are a bottleneck for development) as well as the contribution of the investment project to market and sector development (e.g. if the investment is changing market structures, promoting innovation such as new technology and enhancing competition). This allows DEG to consider the relative size of the challenge being addressed by each investment.

- DERa is applied over the entire project duration of each DEG investment. An initial DERa is created during due diligence before a project is approved. This consists of a baseline with current values prior to the DEG investment and an ex-ante estimate of the expected effects of the investment with a time horizon of five years (forecast). After commitment, DERa is updated annually by recording current values.

- DEG internally provides all colleagues with a DERa Manual which provides metric definitions and guidance as well as specifies data collection frequency and responsibilities across the team.

- DERa is fully aligned to HIPSO and the Joint Impact Indicators and partially to IRIS+. In case these frameworks do not cover relevant indicators, other standard frameworks are used. The alignment to a standard is documented for each indicator of the DERa.

- Comparisons between baseline, forecast and actual score for individual clients, but also for portfolio clusters and the overall clusters over years provide useful trends and lessons.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[6] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[7] As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

[6] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

[7] Examples of good international industry practice include: IFC’s Performance Standards (www.ifc.org/performancestandards); IFC’s Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

- DEG’s operations are guided by its Guideline for Environmental and Social Sustainability.[9]

[9] https://www.deginvest.de/Impact-climate-focus/A-guide-to-our-standards/DEG-Guideline-for-environmental-and-social-sustainability/

- DEG requires and promotes compliance with international environmental and social standards as well as environmentally relevant safety, health and technical standards in production and products. A dedicated sustainability team is in charge of the environmental and social management from due diligence to monitoring. In addition, corporate governance risks are addressed during structuring of the investment and in portfolio management by the investment managers themselves, assisted by a central focal point.

- DEG manages the ESG risks of its investments in line with the IFC Performance Standards (IFC PS). The companies that DEG finances contractually agree to comply with the Exclusion List, national regulations, the IFC Performance Standards, as well as the core labour standards and Fundamental Principles of the International Labour Organization (ILO). In case of current deviations from these standards, DEG contractually agrees on an Environmental and Social Action Plan with its clients, which is regularly monitored. If necessary, DEG assists its clients in implementing adequate measures to meet these standards through tailored advisory services.

- DEG regularly monitors the Environmental and Social (ES) risks of each investment as well as the agreed Action Plans and documents them in its Environmental and Social Indicator System (EaSI) in a systematic manner.

- DEG publishes investment-related information on the investments financed using DEG funds on the website https://deginvest-investments.de/. This includes information on the environmental and social category (A, B+, B, C) and, in case of in the case of land-related investments, a link to the company's website providing a summary of the environmental and social action plan.

- For investments in financial institutions (FI) and funds, DEG's E&S due diligence comprises a review of the existing portfolio and portfolio forecast of the FI or fund to identify ESG risks at sub-borrower or sub-investee level. DEG requires all FI and fund clients to develop, implement and maintain an E&S Risk management system adequate to their respective potential risk levels. DEG's subsidiary DEG Impulse offers Business Support Services to support its clients in developing and implementing such a system.

- DEG's Corporate Governance (CG) assessment tool considers a company's commitment to corporate governance, the structure and functioning of its board, its internal and external controls, treatment of minority shareholders as well as transparency and disclosure. As part of its Business Support Services, DEG offers a Corporate Governance Assessment to its clients, which results in a benchmarking against national standards and international best practice as well as specific recommendations, which clients can implement themselves or with further support from DEG.

- To ensure individuals, groups, communities or other parties who believe to be adversely affected by a project financed or planned by DEG the right to be heard and the right to complain, DEG has established an Independent Complaints Mechanism. An Independent Expert Panel, consisting of a group of three persons with environmental, social, legal and financial expertise, decides whether a complaint is admissible, responds to the complainant, is responsible for a dispute resolution or a compliance review and reports on individual complaints. Information as regards the complaint mechanism and individual complaints are available on DEG's website[10].

- DEG's Development Effectiveness Rating (DERa) further includes a objective annually updated view on the clients performance. This shows negative effects, e.g. decreasing quantities of jobs

[10] https://www.deginvest.de/%C3%9Cber-uns/Verantwortung/Beschwerdemanagement/index-2.html

or local incomes as well as issues in qualitative aspects such as job quality or the management of environmental and social risks. The operations level such as fatalities or other matters with high response urgency are not covered by DERa as the E&S department and market colleagues have a rapid notification and response system in place to deal with this issues in a much faster manner. This notification is contractually agreed with DEG clients.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[8] The Manager shall also seek to use the results framework to capture investment outcomes.[9]

[8] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance

[9] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (http://www.oecd.org/dac/).

- DEG requires its clients to regularly report data on environmental and social management and performance as well as on impact and climate, in addition to annual reports and other relevant information.
- After commitment, DERa is updated annually by recording current values. DEG internally provides all colleagues with a DERa Manual which provides metric definitions and guidance as well as specifies data collection frequency and responsibilities across the team. For each client, the forecast figures are displayed next to the actual figures to see the level of alignment with expectations. This information is accessible to all investment related colleagues.
- DEG internally provides all colleagues with a DERa Dashboard that allows aggregated and disaggregated views of a single client's development effectiveness performance as well as views on departments, client cluster, countries, regions etc. This information is updated once a year based on fully checked official data.
- Regular feedback to the clients includes ESG and impact performance. On impact performance, DEG created the "Business Impact Profile" that shows clients their contribution to development and SDGs based on the DERa assessment. It provides a comparison to peers and shows potential for improvement.
- DEG has set up a subsidiary DEG Impulse that is focused exclusively on providing private sector companies with advisory and funding solutions for their investments in developing and emerging countries. A key focus on this subsidiary is to support DEG's clients in improving their ESG and impact performance.

Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit,[10] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

[10] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

- DEG Environmental and Social Due Diligence, as well as the corporate governance screening in the structuring phase and the negotiation of action plans sets in a very early phase the ambition level DEG wants to achieve with its clients during the investment period. If followed up and implemented properly the planned and contractually agreed measures will help to improve the respective risk management practices of the clients and facilitates exploring impact opportunities. The structuring and portfolio management of DEG with its clients is an active contribution for a responsible exit at a much later stage.

- DEG's long-term debt investment horizon allows for impactful change to materialize while DEG is a financing partner. Good practices and Environmental and Social Risk Management Systems incorporated into policies and processes of our clients are very likely to be sustained beyond the term of DEG's investment. By financing only financially sustainable businesses, it is ensured that they last beyond DEG's financing.

- In order to sustain clients' impact in times of financial distress, DEG has a special policy for debt restructuring in place.

- DEG considers the effect on maintaining impact when making exit decisions in its equity portfolio. This can affect the timing, structure, and choice of who to sell to.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- The Annual Review documents of DEG investments include the risk side on ESG and climate as well as the more opportunity focused development effectiveness aspects along the five DERa categories. The implementation of any climate and ESG transformation agreed upon with clients is also monitored.

- Based on DERa results, DEG publishes an impact report annually.[11] DEG also contributes to KfW's Sustainability Report[12] every year.

- A DEG-internal dashboard provides transparent and easy access to all impact data allowing feedback to different departments, comparisons between different sectors, regions etc.

- Informed by DERa monitoring for each investment and DERa trends on portfolio level, DEG conducts an annual strategic review to continuously refine DEG's strategy leading to the adoption of the updated business strategy by its supervisory board. Learnings and takeaways from annual strategy review processes are consistently documented.

- DEG also undertakes evaluation studies of selected topics including case studies of individual investments and conducts periodic internal impact learning sessions on key impact topics. In addition lessons from the special operations departments with clients in difficult situations, are discussed with responsible departments and management.

- The DERa rating tool is subject to DEG's model validation processes and underwent external validation. Learnings from the validation are used to improve the rating tool.

[11] https://www.deginvest.de/International-financing/DEG/Download-Center/Jahresberichte/

[12] https://www.kfw.de/microsites/Microsite/nachhaltigkeitsbericht.kfw.de/en.html

ImpactConnect: DEG Advisory Service

In 2019, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) DEG established and implemented the program AfricaConnect, aimed at promoting German and European investments in Africa through an investment fund. The financing vehicle is the special-purpose alternative investment fund "Connect GmbH & Co. geschlossene Invest KG" and is considered a financial product in accordance with Art. 8 of the Sustainable Finance Disclosure Regulation (SFDR)[13]. It is managed by CREDION Kapitalverwaltungsgesellschaft mbH and funded by the BMZ. The promotional program ImpactConnect is part of BMZ's private sector network "Partners in Transformation".

Initially, the program focused on investments in Africa. Since 2024, it has expanded its scope to include BMZ partner countries (excluding China) and operates under the new name "ImpactConnect". ImpactConnect aims to close the financing gap in developing and emerging markets by offering small-ticket financing of EUR 0.75 million to EUR 5 million at attractive terms. The investment projects of ImpactConnect place a strong emphasis on development impact, particularly in terms of creating fair and sustainable employment opportunities. Other impact objectives include market development, innovation and technology transfer, and the mobilization of private finance in less developed markets.

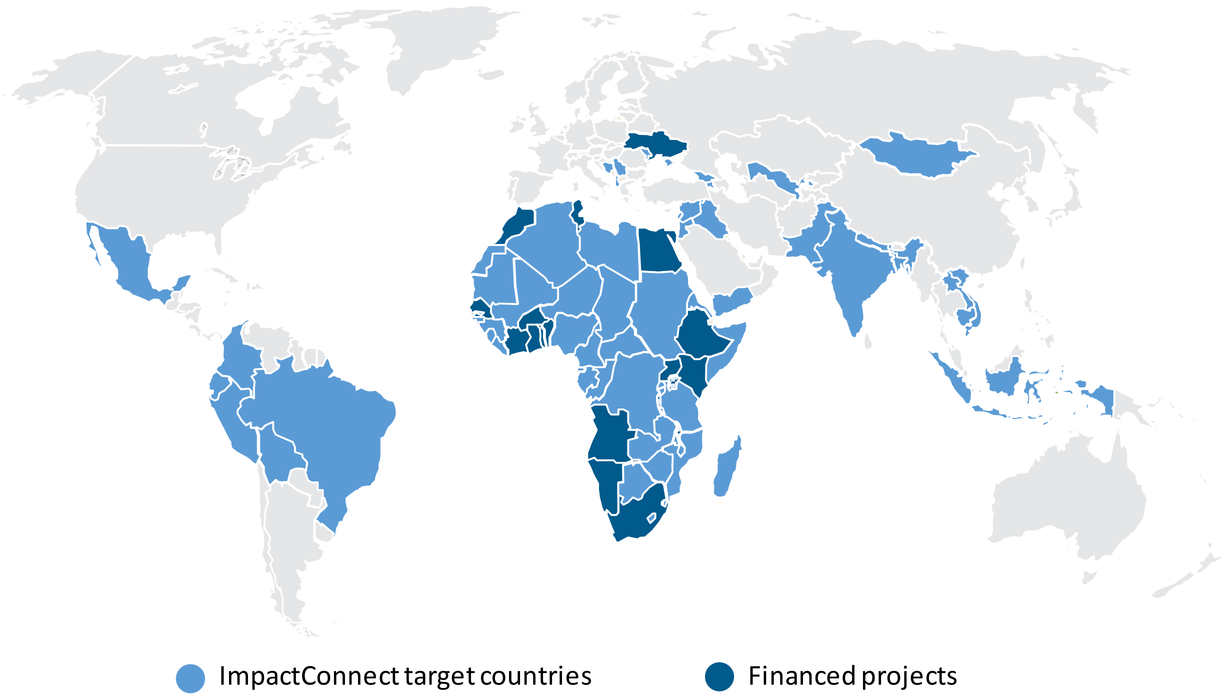


Figure 5: Target and financed countries of ImpactConnect, Status: December 31, 2023

In 2023, ImpactConnect introduced a new Impact & Transformation strategy. Companies that exceed country and industry standards in at least one of the four impact categories (Better Jobs, Female Empowerment, Fair and Sustainable Supply Chains and Reduction of the Carbon Footprint) and successfully implement defined impact targets can receive interest rate reduction[14]. In addition, ImpactConnect supports its clients in the structuring the financing as well as in the implementation of ESG measures e.g. with technical assistance funds to enhance the potential impact.

[13] https://www.bmz.de/de/laender

[14] https://www.deginvest.de/Unsere-L%C3%B6sungen/ImpactConnect/index-2.html

Verification results

With the program's first verification of alignment with the Operating Principles for Impact Management in 2024, BlueMark identified several best practices, as well as areas for improvement. ImpactConnect demonstrated particular strength in defining impact objectives (Principle 1), evaluating expected impact (Principle 4), and managing Environmental, Social, and Governance risks (Principle 5).

However, there is potential for enhancement in processes related to addressing underperformance in impact (Principle 6) and managing exit strategies (Principle 7). The detailed verifier statement is available online[15].

Principle	Alignment
1. Define strategic impact objective(s), consistent with the investment strategy	ADVANCED
2. Manage strategic impact on a portfolio basis	HIGH
3. Establish the Manager's contribution to the achievement of impact	HIGH
4. Assess the expected impact of each investment, based on a systematic approach	ADVANCED
5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	MODERATE
7. Conduct exits considering the effect on sustained impact	MODERATE
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	HIGH

Figure 6: Verification results ImpactConnect.

Together with the DEG Core Business, ImpactConnect will conduct a verification of its alignment with the Operating Principles for Impact Management on an annual base with the next verification taking place in 2025.

[15] https://www.deginvest.de/DEG-Documents-in-English/About-us/Responsibility/ImpactConnect-BlueMark_Verifier-statement_2024.pdf

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- In 2019, the program ImpactConnect was launched with the aim to promote investments by EU-based companies in developing and emerging countries with a strong focus on Africa. The program cooperates closely with the BMZ which provides momentum for developing a comprehensive impact strategy that reflects the priorities of German development cooperation.

- ImpactConnect has established a comprehensive impact objective that revolves around the core aim of generating sustainable employment opportunities in developing and emerging markets. The enhancement of positive impact in target countries is an essential aspect of the financing offered. Therefore, ImpactConnect launched a new strategy in 2023 focussing on Impact & Transformation. It identified four Impact & Transformation categories: Better Jobs, Female Empowerment, Fair and Sustainable Supply Chains and CO_2 Reduction. Companies that exceed country and industry standards in these areas and successfully archieve impact goals can receive interest rate reductions. This approach serves as an incentive for companies to generate significant additional impact.

- The program is commited to make a contribution to the social-ecological transformation of an economy and to contribute to the achievement of the 17 Sustainability Development Goals (SDGs) as shown in ImpactConnect's theory of change. The theory of change has been developed in collaboration with an external consultant establishing a logical and evidence based connection between the fund's financing activities to the desired outcomes. It also aligns the organization's efforts with the SDGs. In particular, the program contributes to SDG 5, SDG 8, SDG 9, SDG 12, SDG 13 and SDG 17 with the impacts achieved at the private sector clients.

- As part of the impact strategy, the potential impact is a crucial aspect throughout the term of the loan. ImpactConnect implemented various processes and measures in order to ensure the achievement of the impact objectives. These measures include:
  - The selection of companies that already demonstrate solid impact potential and willingness to work towards a sustainable transformation
  - The support of clients to achieve higher impact effects or to remain at a high level of impact implementation, e.g. with technical assistance support
  - The requirement to apply risk adequate environmental and social standards to ensure good insustry practices and fair employment opportunities
  - Each project is assessed based on the potential impact that forms part of the investment decision. ImpactConnect tracks the achieved impact throughout the term of the loan
  - Impact indicators that are measured on the portfolio level and reported to the BMZ as the main stakeholder regularely

Principle 2: Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- In order to evaluate the impact achieved by each project, ImpactConnect has developed a comprehensive scoring system. This scoring system is closely linked to the projects' contribution towards the SDGs. The score forms part of the investment decision and allows for comparability between financings and enables effective comparison between different projects. At a portfolio level, the majority of all funded projects are required to surpass a predetermined score threshold. This benchmarking process ensures that a substantial number of financings make a significant contribution towards the attainment of relevant SDGs. The score is updated on an annual base. Hence, the impact is monitored throughout the term of the loan ensuring that the impact at portfolio level remains at a high level. The portfolio's achievement of the score is subject to external audit review.

- ImpactConnect diligently monitors a range of supplementary impact indicators throughout the project cycle, commencing with the careful selection of companies that possess substantial potential for generating impact. These indicators are regularly updated on an annual basis. They constitute an integral component of the reporting process to the BMZ, both on a monthly and yearly basis, at a portfolio level. The BMZ and ImpactConnect have mutually agreed upon impact goals that must be attained by ImpactConnect. Consequently, the reporting mechanism provides consistent updates on the portfolio's impact performance.

- To meet the program's company profiling and impact screening criteria, every potential transaction must align with specific charecteristics. Consequently, team members are motivated to source investments that have a significant positive impact. Currently, there is no formal staff incentive system is in place. However, this will be considered once there are best practices in place.

- These various processes described above are documented in the Impact Guidance Note of ImpactConnect that is intented to provide guidance to ensure the comprehensive management of impact on portfolio basis throughout the investment cycle.

Principle 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[1] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

[1] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

- The program aims to support high-risk activities in developing and emerging markets by providing attractive financing solutions to EU-based companies. Additionally, the Impact & Transformation strategy further supports the impact achieved in these markets using the margin reduction as an incentive.

- The program also offers technical assistance funds as grants to portfolio companies, which can be used to improve their capacity, structure, or any activity that has a significant developmental or sustainability impact.The ImpactConnect team shares its market and sector experience as part of the DEG network. This support helps companies implement appropriate and recognized sustainable industry practices, leading to high impact for each project.

- Each financing is evaluated based on its potential impact. A scoring system is used to assess the impact potential of each project and forms part of the investment decision. The scoring system also reflects the progam's activitiies such as offering affordable credit and offering technical assistance.

- An external evaluation was conducted to assess ImpactConnect's achievement of investor contribution objectives. This evaluation considered quantitative and qualitative data from various stakeholders. The outcome of the evaluation showed that the program aligns with the investors' strategic goals of promoting investments in developing and emerging countries. Feedback from investees has also been incorporated into the investment cycle to further improve the program.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[2] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[3] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[4] and follow best practice.[5]

[2] Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

[3] Adapted from the Impact Management Project (www.impactmanagementproject.com)

[4] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others

[5] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

- Given the importance of impact within the program, the selection process and investment decisions take into account the potential impact of each project. To evaluate this potential impact, ImpactConnect follows a well-defined and structured approach.

- ImpactConnect assesses in the beginning of each transaction the potential with a strong focus on the achievement of the Impact & Transformation categories Better Jobs, Female Empowerment, Fair and Sustainable Supply Chains and CO_2 Reduction. The fulfilment is linked to impact-linked variable marigins for the companies increasing the likelihood of impact realization and strengthening the impact target setting for the clients. As part of the scoring system, the Impact & Transformation categories are linked to the contribution to the core SDGs.

- In addition to these impact categories, other indicators such as the number of jobs created or innovation and market access are being assessed and taken into account when evaluating potential new projects. The significance as well as likelihood of achieving these indicators are crucial aspects considered during the due diligence and investement decision-making process. To enhance comparability, the contribution is quantified, giving higher scores to projects with a greater number of new jobs or projects in less developed countries.

- In the beginning of each transaction ImpactConnect assesses associated potential negative impact related to affected communities. During the Due Diligence, ImpactConnect places significant emphasis on assessing stakeholder participation risk including evaluating whether and how companies have engaged with end-customers to inform their business strategies.

- To measure impact, ImpactConnect introduced impact KPIs at the beginning of the investment as a baseline and tracks them throughout the loan term with annual updates. The indicators encompass the type of intended impact ("What"), the target group of the impact diaggregated to the largest extend possible ("Who") and estimate the effect of the impact ("How Much"). These KPIs align with the agreed-upon impact objectives, making the impact measurable.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[6] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[7] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

[6] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

[7] Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

- ImpactConnect has implemented and established a systematic approach to managing environmental and social (E&S) risks for all projects. This approach is based on the DEG Guideline for Environmental and Social Sustainability, ensuring that investments align with international environmental and social standards such as the IFC Performance Standards or ILO Core Labour Standards. A dedicated team within ImpactConnect is responsible for applying this E&S risk approach.

- ImpactConnect requires all projects to refrain from engaging in activities listed on the Exclusion List. The ESG due diligence process involves a screening procedure that aims to identify significant ESG risks, such as reputational risk, country/sector-specific ESG risks, or biodiversity risks. These risks are then assessed and categorized accordingly.

- Furthermore, ImpactConnect conducts a comprehensive desk-top E&S due diligence (ESDD) process. This involves gathering comprehensive information about the project's ESG aspects through questionnaires, interviews, and site visits. Broader risks related to the project, such as supply chain risks, may also be identified. In cases where projects involve higher and more complex ESG risks, ImpactConnect may seek external E&S due diligence support. Usually, this support is financed by the program. In case gaps to the required E&S standards have been identified, ImpactConnect contractually agrees on an Environmental and Social Action Plan with its clients. As a complementary tool, ImpactConnect can offer technical assistance funds in order to improve the E&S performance of clients and assisst clients to introduce adequate measures in order to meet the required standards.

- The findings of the ESDD process are documented and play a crucial role in the investment decision-making process. Only through effective risk management can sustainable impact be achieved in the long term.

- To ensure ongoing monitoring of ESG risks, ImpactConnect requires clients to submit annual E&S monitoring reports based on their respective category. This enables continuous assessment and management of ESG risks. Additionally, all stakeholders of ImpactConnect's projects have access to the DEG Independent Complaints Mechanism in case of an adverse effect.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[8] The Manager shall also seek to use the results framework to capture investment outcomes.[9]

[8] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance

[9] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (http://www.oecd.org/dac/).

- ImpactConnect diligently collects impact performance data from its portfolio companies on an annual basis. This data is utilized to measure the actual impact achieved over time at both the project level and portfolio level.

- At the project level, the impact score is updated annually, allowing for the tracking of impact realization over time. ImpactConnect follows for the creation and update of the score a defined methodolgy as stipulated in the fund's sustainability strategy[16]. A decreasing score may indicate unsatisfactory impact performance. Additionally, each company is required to estimate the expected job creation at the beginning of each transaction. The monitoring data will display the actual number of jobs created.

- As an active investor, ImpactConnect proactively engages with its clients on an ad-hoc basis if the collected impact performance data deviates from expectations. This allows for timely discussions and potential corrective actions to be taken. Furthermore, whenever feasible, ImpactConnect supplements its monitoring processes by conducting site visits to gain firsthand insights and validate the impact achieved.

- On the portfolio level, the information is used for different reporting and reviewing of the impact achieved. On a monthly basis, ImpactConnect conducts a portfolio overview of impact performance, considering various impact indicators and geographical locations, as part of a dashboard. On an annual basis, ImpactConnect provides more detailed reports to the BMZ regarding the impact achieved. Here, certain impact goals need to be achieved as part of the agreement with the Ministery.

[16] See also https://www.credion-ag.de/storage/downloads/esg_offenlegung_ac/Connect_Website-Disclosures_v3.0-240327.pdf

Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit,[10] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

[10] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

- ImpactConnect maintains a robust and ongoing engagement with its portfolio companies, ensuring regular interactions and active communication. The channels may include conducting an annual call with each company to discuss their progress and performance.

- These interactions provide an opportunity for ImpactConnect to stay updated on the company's developments, address any concerns or challenges, and assess the overall progress which shall ensure long-term positive impact of the investment.

- As the investment term nears its end, ImpactConnect arranges a meeting with the company to discuss the investment in detail and will provide the company with an Exit Questionnaire. This questionnaire serves to gather general feedback on the ImpactConnect financing experience. It also includes queries related to standard impact KPIs, potential long-term effects of the loan, and the company's future impact planning.

- Generally, ImpactConnect's aim and approach are designed to create long-term positive impact effects for all projects. Every investment takes into consideration the three dimensions of sustainability, enabling impact beyond the term of the loan.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- ImpactConnect diligently reviews the impact performance of each investment at various levels to ensure effective monitoring and continuous improvement. This enables the comparison of expectations, baseline performance, and performance over the loan term, both over time and across projects. Additionally, the progress made in terms of impact is included in the shareholder reporting.

- Recognizing the importance of external evaluation, ImpactConnect has made a commitment to undergo periodic assessments. The most recent evaluation took place in 2023 with plans for subsequent evaluations every three years. These evaluations provide valuable insights and learning objectives, enhancing transparency, accountability, and evidence-based decision-making. They also contribute to knowledge management and learning at the program and portfolio levels.

- ImpactConnect actively seeks feedback from its clients. This feedback serves as valuable input for improving the program's investment approach and decision-making processes.

- Furthermore, the program conducts an annual internal review, which serves as a platform to reflect on lessons learned and operational changes implemented as a result of the review process taking into account the annual monitoring of each investment individually as well as on the portfolio level. This allows ImpactConnect to continuously refine its impact strategy and ensure alignment with its goals.

Verification

Starting 2024, DEG will conduct an independent verification alignment with the Operating Principles for Impact Management annually for both DEG's core business and ImpactConnect: DEG Advisory Services. The Disclosure Statement will be updated yearly once the verifier outcomes have been received.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

[11] The independent verification may be conducted in different ways, i.e. as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

- In February 2024, Bluemark, a Tideline Company, verified the alignment of DEG's core business and ImpactConnect: DEG Advisory Services with the Operating Principles for Impact Management.

- The total Covered Assets in alignment with the Impact Principles for the year ending December 2023 totalled
  - US$ 11.4 billion for DEG's core business
  - US$ 236.2 million for ImpactConnect: DEG Advisory Services.

- The Verifier Statements identified both areas of strength and areas for improvement.
  - DEG's core business
  - ImpactConnect: DEG Advisory Services.

  About BlueMark: BlueMark is a leading provider of impact verification services for investors and companies. Founded in 2020, BlueMark's mission is to "strengthen trust in impact investing." BlueMark's verification methodologies draw on a range of industry standards, frameworks, and regulations, including the Impact Management Project, the Operating Principles for Impact Management, the Principles for Responsible Investment, SDG Impact, and the Sustainable Finance Disclosure Regulation, among others. Learn more about BlueMark at www.bluemarktideline.com. BlueMark, PBC, a Delaware registered public benefit corporation having its principal place of business at 154 W 14th Street, 2nd Floor, New York, NY 10011, USA

  About the Assessment Methodology and Scope: BlueMark's full assessment methodology, based on its professional judgment, consisted of:
  1. Assessment of the IM system in relation to the Impact Principles, using BlueMark's proprietary rubric, and examining processes and policies against the following criteria:
     - *Compliance* of the IM system with a threshold level of practice;
     - *Quality* of the IM system's design in terms of its consistency and robustness;
     - *Depth* of sub-components of the system, focused on completeness
  2. Interviews with DEG staff responsible for defining and implementing the IM system;
  3. Testing of selected DEG transactions to check the application of the IM system; and

4. Delivery of detailed assessment findings to DEG, outlining areas of strong alignment and recommended improvement, as well as BlueMark's proprietary benchmark ratings on the extent of alignment to each of the Impact Principles.