DEG’s Disclosure Statement for the Operating Principles for Impact Management
This disclosure statement was prepared by DEG, Elleke Maliepaard.

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April 2023
IN A NUTSHELL: DEG’s alignment to the Operating Principles for Impact Management

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

At the beginning of 2021, BlueMark, the leading independent provider of impact verification services, verified DEG’s alignment with the Operating Principles for Impact Management. Their verifier statement is available online\(^1\). Their findings showed that we are leading in Environmental, Social Risk and Corporate Governance Management (Principle 5). Our Development Effectiveness Rating (DERa) and impact target as part of our strategic objectives and incentive system brings us to the top of peers (Principle 2). At the same time, the verification also identified potential for improvement, from managing exits and implementing learning loops (Principle 7 and 8) to documenting and strategically managing the different channels through which DEG supports its clients (Principle 3).

The recommendations were timely, as DEG was in the process of developing a new strategy for the period 2022 onwards. In 2022, DEG’s new strategy\(^2\) came into effect, whereby the impact of DEG’s portfolio investments is considered equally important as the financial return. DEG is committed to increase its clients’ contributions to economic, social, and environmental objectives as indicated by the Sustainable Development Goals (SDGs) continuously. In addition, DEG will enter a CO\(_2\)-reduction pathway in alignment with the Paris Agreement’s 1,5° C target from 2025 onwards, achieving a net-zero portfolio by 2040. Simultaneously, DEG commits to supporting its clients on their transformative journeys towards positive impact and more climate resilience through its new subsidiary DEG Impulse.

The next verification of DEG’s alignment to the Impact Principles is planned for the first quarter of 2024.


\(^{2}\) [DEG-Impact-Climate-Commitment_2022](deginvest.de)
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
April 2022

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

This Disclosure Statement applies to the following assets or business lines (the “Covered Assets”): Investment Finance and Equity Participation.4

The total Covered Assets in alignment with the Impact Principles is US$ 10.5 billion5 as of December 31, 2022 portfolio under management in alignment with the Impact Principles.

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

On our website you also find the 2021 verifier statement by BlueMark.

Roland Siller
DEG Chief Executive Officer
April 2023

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3 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.


**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 2022, DEG’s new strategy came into effect, whereby the impact of DEG’s portfolio investments is considered equally important as the financial return. In addition, DEG will enter a CO$_2$-reduction pathway in alignment with the Paris Agreement’s 1.5° C target from 2025 onwards, achieving a net-zero portfolio by 2040. Simultaneously, DEG commits to supporting its clients on their transformative journeys towards positive impact and more climate resilience.

- 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 and a clear focus on promoting international environmental, social and corporate governance standards.

- As part of the new strategy, DEG commits to increasing its clients’ contributions to economic, social, and environmental objectives as indicated by the Sustainable Development Goals (SDGs), thereby improving the positive impacts of its investments continuously. This is to be achieved by a variety of measures that are in the process of being implemented:
  - Adaptation of DEG’s origination strategy to finance clients who already have strong net-positive impact in line with the SDGs and/or clients who are willing to transform towards higher impact.
  - Updating the internationally recognised Development Effectiveness Rating (DERa) to address both positive and negative impacts.
  - Continue to promote the implementation of international environmental and social standards in our investments as a precondition for sustainable business development.
  - Continuously improving internal impact management in line with the Impact Principles.

- DEG’s impact and climate commitment is available online\(^6\).

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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) 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 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 during portfolio management.

- DERa is an integral tool for DEG to pursue this portfolio approach with a focus on impact. DEG’s impact is measured as a 3-year-average portfolio DERa score based on an annual DERa score for every single portfolio client. The overall average DERa score is audited by an external Auditor on an annual basis. The DERa offers a consistent framework to systematically consider impact throughout the investment process through clearance in principle, due diligence, and portfolio management until exit/divestment.

- Management and staff incentives are linked to 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.

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

- 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.

- As part of the new strategy, DEG has set up a subsidiary that is focused exclusively on providing companies with advisory and funding solutions for their investments in developing and emerging countries: DEG Impulse. Through different channels, DEG Impulse enables companies to implement these investments efficiently and effectively, thereby promoting social and ecological transition in the private sector while supporting development policy goals as defined by the Sustainable Development Goals.

- DEG’s assess both its financial as well as value additionality. DEG tracks its Business Support Services via an extensive, SAP based documentation. The status of the activity is reported as well as the intention, interim results, success level and related results. 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.

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¹ https://www.deginvest.de/%C3%9Cber-uns/DEG-Impulse/index-2.html
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 impact2 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? 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 standards4 and follow best practice.5

Guided by the Sustainable Development Goals (SDGs), DERa uses five impact categories: decent jobs, local income, market and sector development (“What are the contributions”); environmental stewardship, and community benefits (“How are they achieved”). 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).

- 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.

- 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.

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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.thegin.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.
**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) 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. 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/library2), 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.

- 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 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 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 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

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levels. DEG 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\(^\text{10}\).

- 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 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.

\(^{10}\) [https://www.deginvest.de/%C3%9Cber-uns/Verantwortung/Beschwerdemanagement/index-2.html](https://www.deginvest.de/%C3%9Cber-uns/Verantwortung/Beschwerdemanagement/index-2.html)
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. The Manager shall also seek to use the results framework to capture investment outcomes.8

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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/).

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- DEG requires its clients to regularly report data on environmental and social management and performance as well as on impact, in addition to annual reports and other relevant information.

- After commitment, DERa is updated annually by recording current values. 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, 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.

- 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 as well as the more opportunity focused development effectiveness aspects along the five DERa categories.

- 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.

- DEG also undertakes evaluation studies of selected topics and investments. Further department internal learning, such as lessons from the special operations departments with clients in difficult situations, are discussed with responsible departments and management.

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\(^{11}\) [https://www.deginvest.de/International-financing/DEG/Download-Center/Jahresberichte/](https://www.deginvest.de/International-financing/DEG/Download-Center/Jahresberichte/)

\(^{12}\) [https://www.kfw.de/microsites/Microsite/nachhaltigkeitsbericht.kfw.de/en.html](https://www.kfw.de/microsites/Microsite/nachhaltigkeitsbericht.kfw.de/en.html)
**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 2021, DEG’s alignment with the Operating Principles for Impact Management was verified by Bluemark, a Tideline Company. The Covered Assets reviewed totalled €8.5 billion for the year ending December 2020. The Verifier Statement\(^\text{13}\) identified both areas of strength and areas for improvement.

**About BlueMark:** Bluemark, a Tideline company, is a leading provider of impact verification services in the impact investing market. Bluemark was founded with a mission to “strengthen trust in impact investing” and to help bring more accountability to the impact investment process. Bluemark is a wholly owned subsidiary of Tideline Advisors, LLC. and headquartered at 915 Battery St, San Francisco, CA 94111, USA. For more information, please visit [www.bluemarktideline.com](http://www.bluemarktideline.com).

**About BlueMark Qualifications:** Bluemark has conducted this verification with an independent and unconflicted team experienced in relevant impact measurement and management issues. Bluemark has implemented a Standard of Conduct requiring employees to adhere to the highest standards of professional integrity, ethics, and objectivity in their conduct of business activities.

**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.

- DEG plans regular external verification to support further learning, in a 3 year verification cycle. In future DEG plans to align this to other official validation cycles, which DEG implements for DERa and other management tools and systems. The next verification is planned for Q1 2024 covering the year ending December 2023.