

# Theory of Change

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## Driving impact as a transformative partner to the private sector

### DEG vision & mission: fostering transformation for sustainable growth

The current global landscape is shaped by widening social and economic disparities<sup>1</sup>. These disparities include the accelerating threats of climate change, environmental degradation and biodiversity loss that challenge planetary boundaries, as well as the persistence of poverty and unequal access to economic opportunities and pervasive social exclusion and structural discrimination, such as gender inequalities. Many emerging markets additionally face economic volatility and limited access to finance, constraining the development of a resilient and responsible private sector. These conditions create significant operational, financial, and strategic challenges for businesses. Climate-related risks increasingly disrupt supply chains, damage infrastructure, and raise operating and financing costs, undermining investment and continuity<sup>2</sup>. Limited access to long-term, affordable finance further restricts private investment in resilience and innovation. Moreover, structural inequalities, including skills and talent shortages, gender disparities, and weak institutional frameworks, reduce productivity and inclusion, limiting the private sector's capacity to drive sustainable and inclusive growth.

To address these challenges, contribute to Germany's global agenda and define its sustainable business model DEG developed its strategy: Impact.Climate>Returns. As a development finance institution, DEG's sole purpose is to promote private sector business in developing and emerging market countries to make a development impact within the meaning of the Sustainable Development Goals (SDGs). In doing so, DEG also specifically supports and promotes German companies investing in developing and emerging market countries. DEG partners with private sector enterprises to build financially successful and responsible businesses, that serve as engines for local development by sustaining employment, contributing with tax payments, human capital formation and investments to economic development, all while respecting planetary boundaries and generating tangible benefits for local communities. DEG wants to be a partner in transformation by guiding and supporting its customers on their own transformation in order to achieve positive impact and better climate resilience together.

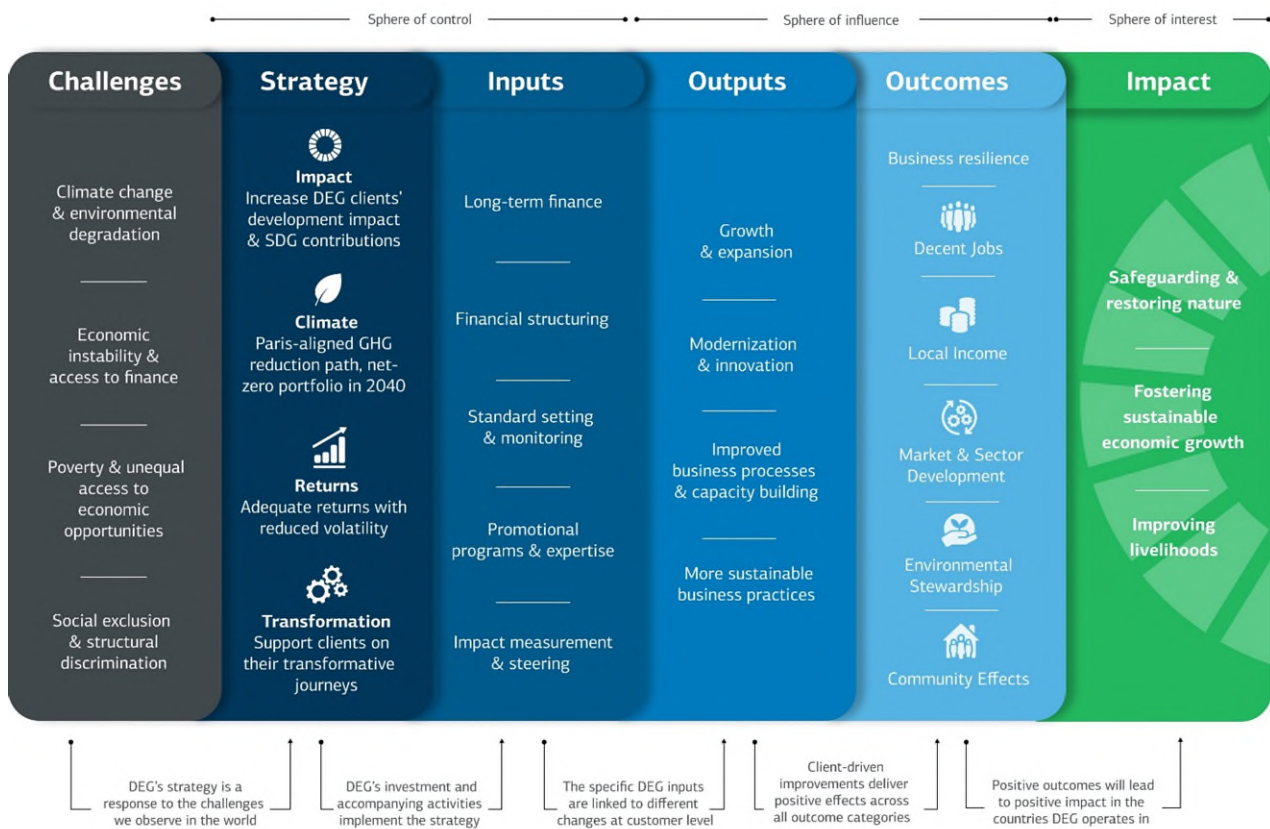
DEG's dedicated Sustainability Commitments are describing its commitment to the United Nations' Sustainable Development Goals, adopting good E&S practice in line with international standards and the pathway to a net-zero portfolio in 2040. Every investment DEG makes is designed to be a direct and measurable contribution to this global agenda, channeling private capital towards creating a more equitable and sustainable world.

The DEG Theory of Change operationalizes this vision, outlining the clear and logical pathway through which its contributions translate into lasting development impact.

<sup>1</sup> Rozenberg, Julie; Farole, Thomas. 2026. Scaling up Climate Adaptation Finance in Europe and Central Asia. ©World Bank, <http://hdl.handle.net/10986/44859>

<sup>2</sup> OECD (2025), OECD Supply Chain Resilience Review: Navigating Risks, OECD Publishing, Paris, <https://doi.org/10.1787/94e3a8ea-en>.

## The theory of change: from DEG's contribution to development impact



### Inputs & activities: DEG's catalytic role

#### Inputs

DEG's contribution to development impact starts with a set of deliberate inputs and activities, through which DEG engages most directly with its customers and where it exercises its strongest and most direct influence (*"sphere of control"*). By combining long-term capital with financial structuring expertise, standards and advisory support, DEG targets key constraints that limit private sector development in developing and emerging economies. These inputs are intentionally designed to unlock investment, reduce risks, strengthen capabilities, and initiate transformation processes at company level. Together, they constitute the primary levers through which DEG enables its customers to pursue sustainable growth, build resilience, and generate broader development outcomes over time.

- **Long-term finance:** DEG provides reliable, long-term finance that is unavailable from other sources, by assuming higher risks, offering longer tenors, and financing projects in underserved markets. This includes direct financing of companies and projects through long-term loans, loans with equity features and equity participations. DEG also invests in funds and collaborates with financial institutions, leveraging their reach to mobilize substantially more capital and to serve a larger number of smaller clients with risk capital. Mobilizing additional financial resources as indirect inputs, e.g. by leveraging private investments, is furthermore vital for achieving the scale necessary for long-term goals, which is why DEG has set ambitious mobilization targets.
- **Financial structuring:** DEG uses financial structuring to support sustainable growth and resilience at customer level. Financing is typically linked to clearly defined requirements or jointly agreed commitments that customers integrate into their operations. These range from project design features that strengthen development impact, to improvements in accounting, transparency and corporate governance. By aligning financing conditions with such commitments, DEG creates incentives for customers to strengthen their business practices and build more resilient, future-proof business models.
- **Standard setting & monitoring:** DEG requires and actively promotes the adoption of international best practices, particularly in Environmental and Social standards and corporate governance, in line with its Environmental and Social Management System (ESMS), which is applied throughout the entire investment cycle. By embedding such requirements into financing relationships and ongoing monitoring processes, DEG incentivizes its customers not only follow a "do no significant harm" approach regarding people and the environment but also work actively to improve the conditions of employees, local communities, and the natural environment. By accompanying customers to meet these standards, DEG helps de-risk their operations and improve their long-term viability and resilience.

- **Promotional programs & expertise:** The subsidiary DEG Impulse provides tailored programs and targeted advisory services like Business Support Services (BSS), develoPPP or the Helpdesk for Human Rights. They enhance the customers' operational capacity, sustainability practices, and overall performance, focus on mitigating potential risks and increasing impact outcomes through targeted measures, e.g. by establishing climate commitments with customers that go beyond minimum requirements. By accompanying customers on these tailored transformation paths, DEG contributes to strengthening their capacity to build future-proof, resilient business models and fully realize their long-term developmental potential.
- **Impact measurement & steering:** DEG utilizes the Development Effectiveness Rating (DERa), a multidimensional rating system, to transparently measure and track the developmental contributions of its customers and to systematically measure and manage the transformative contribution from DEG's own engagement. Establishing a robust baseline and impact forecast during the due diligence phase provides a clear reference point for annual monitoring. This process enables DEG to track progress along the five identified outcome categories, identify gaps, and steer engagements toward greater effectiveness.

## Outputs

### Outputs: enhancing customer performance

DEG's financial inputs and non-financial activities contribute to improving the operational capacity and development potential of its customers, reflecting the area where DEG's engagement exerts influence but is no longer directly controlled ("*sphere of influence*"). Even though the resulting outputs are actively shaped and supported by DEG's involvement, they depend on the customers' own decisions, implementation efforts and the broader market context:

- **Growth & expansion:** Customers leverage DEG financing to expand operations, increase production capacity, enter new markets or segments, and invest in related assets such as water treatment facilities or biomass plants. Through investments in funds and FIs expanding their loan portfolios with a focus on green finance, MSMEs, and gender-inclusive investments, DEG can reach a broader range of smaller customers and projects in specific geographies or thematic areas.
- **Modernization & innovation:** Customers strengthen and innovate their business operations. This can include upgrading IT systems to enhance efficiency and data security or adopting advanced production technologies that boost competitiveness. Modernization is especially relevant for the infrastructure sector as a critical enabler of economic development: the private sector depends on reliable infrastructure and competitive energy prices to grow, while improved infrastructure assets also benefit the wider population.
- **Improved business processes & capacity building:** Customers strengthen their corporate governance by establishing e.g. clearer decision-making structures, more robust internal controls, and greater transparency in reporting. At the same time, companies often use the financing to invest in staff development to build a more skilled, capable, and future ready workforce.
- **More sustainable business practices:** As part of DEG's investment requirements to align with ILO Core Labour Standards and Basic Terms and Conditions of Employment as well as the IFC Performance Standards, customers may e.g. introduce improved waste management or water treatment systems, hire dedicated staff or publish a sustainability report.

Together, these steps demonstrate how companies evolve into more efficient and future oriented businesses: an essential output of DEG's support and a foundation for stronger long-term development outcomes and business resilience.

## Outcomes

### Outcomes: development effects of DEG customers

As a result of the outputs on customer level, measurable development outcomes and real-world effects are generated on a wider scale, which ripple through local economies and communities. The effects remain within DEG's "*sphere of influence*" but are no longer directly controlled by DEG. These contributions result in six core outcome categories:

- **Business resilience:** DEG's contribution at the organizational level, combined with its role in enabling and accompanying transformation, contributes to enhanced business resilience as a cross-cutting outcome. As customers strengthen their operational, financial and governance capacities, they become better equipped to anticipate and adapt to economic, social and ecological changes and thus enhance their competitiveness. This resilience allows them to safeguard their business viability while, at the same time, sustaining their ability to deliver long-term developmental contributions.
- **Decent work:** The creation of quality jobs is one of the most direct pathways out of poverty. DEG focuses on ensuring that jobs created adhere to the ILO Core Labour Standards and Basic Terms and Conditions of Employment, as well as to the IFC Performance Standards, provide fair and safe working conditions, and offer opportunities for advancement. By improving job quality, customers not only enhance the well-being of their employees but also boost their own economic success through increased motivation and lower staff turnover.

- **Local income:** A thriving private sector is the primary source of local income generation. Customers deliver direct contributions to GDP by paying local wages, profits and taxes, and indirect contributions to GDP by sourcing goods from local suppliers and commissioning local service providers. This increase in local income empowers individuals and institutions, fostering self-determined growth.
- **Market and sector development:** DEG aims to strengthen market and sector ecosystems by investing where capital is most needed and can achieve the greatest impact. This includes investments in crucial sectors like renewable energy and financial inclusion or in low-income countries (LICs), where private capital is scarce, markets are shallow and perceived risks remain high. In such contexts, successful private sector investments can play a catalytic role by establishing new market segments, strengthening local value chains and building confidence among other investors. In addition, our customers contribute to market development by introducing innovative business models, scaling or modernizing their businesses and thus enhancing competitiveness.
- **Environmental stewardship:** For development to be sustainable, economic activity must operate within ecological limits. DEG guides its customers to design their operations to minimize their environmental footprint. Measures can include e.g. an improved waste system, water treatment, a more efficient resource management, reducing greenhouse gas (GHG) emissions, and/or mitigating negative impacts on biodiversity, aligning their growth with global climate goals.
- **Community effects:** Sustainable businesses must be good neighbors. DEG works with portfolio customers to move beyond "do no significant harm" by actively managing their engagement with local communities. By mitigating negative impacts and proactively creating positive contributions, such as local infrastructure or community programs, DEG customers strengthen their social "licence to operate" while delivering direct benefits to local populations.

DEG recognizes that these observed changes extend beyond the organization: by adopting higher standards and integrating social and environmental considerations, customers avoid, reduce and mitigate negative impacts and enhance their ability to generate positive effects across their operations and supply chains. These improvements translate into wider indirect effects, such as employment generation beyond the customer level, increased local income, and strengthened market standards. These ripple effects make improved business processes a strategic lever for systemic development impact.

## Impact

### Impact: contributing to the Sustainable Development Goals (SDGs)

As outlined before, DEG's ability to address market gaps by providing financing and expertise where commercial finance is insufficient or unavailable is enabling investments that would otherwise not materialize. The outcome is then generated through the transformation of client companies towards more sustainable, resilient and responsible business models, which contribute to sustained, systemic changes in economic, social, and environmental systems that extend beyond individual clients and investments. These transformative changes represent DEG's highest-level impact ambition consistent with the 2030 Agenda:

- **Safeguarding and restoring nature** through contributions to protecting natural ecosystems and promoting the sustainable use of resources. This includes reducing greenhouse gas emissions, strengthening climate resilience, improving resource efficiency, and preventing biodiversity loss. By aligning business practices with environmental standards, customers help to protect natural capital as a foundation for long-term economic and social development.
- **Fostering sustainable economic growth** by enabling higher productivity, innovation, and resilient markets. This includes strengthening private sector activity, supporting infrastructure development, and catalyzing investment in underserved markets. Sustainable growth is understood as economic expansion that creates jobs and prosperity while decoupling growth from environmental degradation and ensuring long-term viability.
- **Improving livelihoods** through access to decent employment, stable incomes, essential goods and services, and economic opportunities. By supporting job creation, income generation, and inclusive business practices, DEG contributes to reducing poverty and strengthening people's ability to lead self-determined lives.

At this level, impacts extend beyond areas DEG can actively influence. They emerge over longer time horizons and reflect broader societal and environmental dynamics that are only indirectly linked to DEG's engagement. These effects are shaped by the combined contributions of multiple actors, including private sector enterprises, governments and development partners, but nevertheless remain within DEG's broader sphere of interest.

Within DERA, DEG created an SDG mapping to provide transparency and illustrate how the combined outcomes on customer level are expected to contribute to its overarching objective: advancing the achievement of the SDGs. This mapping links measurable improvements, such as enhanced job quality, increased local income, stronger environmental performance and market development, to internationally recognized development objectives.

## Understanding impact boundaries: contribution, context and learning

DEG acknowledges the inherent limitations of applying a standardized Theory of Change and rating framework across a diverse portfolio. Development outcomes and long-term impacts are shaped by complex, context-specific dynamics that go beyond what can be fully captured at the customer level.

DEG's Theory of Change and the DERA framework are designed to assess DEG's contribution to development outcomes rather than to claim direct attribution of impact. While DEG's financing, standards and advisory services play a catalytic role, results ultimately depend on customer decisions and on external economic, social and regulatory conditions. The framework therefore focuses on plausibly linking DEG's engagement to observed outcomes without overstating causality.

The translation of customer-level outcomes into broader development impact depends heavily on local contexts, including market maturity, institutional capacity and policy environments. As a result, similar interventions may lead to different outcomes across countries, sectors or regions. Standardized indicators cannot fully capture these contextual and systemic factors.

Many development impacts materialize over long time horizons and often extend beyond DEG's investment or monitoring cycles. While DERA tracks outcomes that are plausibly linked to long-term impact, the full realization of development impact may only become visible years later.

By transparently acknowledging these limitations, DEG strengthens the credibility of its impact approach. The Theory of Change and DERA therefore serve as learning and steering instruments, complemented by qualitative assessments and portfolio-level analyses to deepen DEG's understanding of how private sector investments contribute to sustainable development in different contexts.

## Conclusion: A commitment to measurable impact

DEG's Theory of Change, systematically implemented through the DERA framework, provides a robust, evidence-based, and transparent approach to development finance. By integrating this framework into its investment processes, DEG is translating its strategic vision for development finance into practice. DEG is committed to using DERA to guide portfolio decisions, draw insights from its engagements, and continuously enhance its effectiveness. Through this approach, DEG will strengthen its ability to contribute to a more sustainable, resilient, and inclusive global economy.

### Further reading

- [Sustainability commitments](#)
- [DERa 2.0 Brief description](#)
- [DEG Website: „We measure impact“.](#)
- [SDG mapping methodology](#)
- [DEG Impact Report](#)
- [KfW Sustainability Report \(CSRD\)](#)
- [OPIM Disclosure statement](#)

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