2020

Responsible business – adding value

How DEG customers contribute to the global Sustainable Development Goals

Promoting sustainable development

DEG in 2020: Key facts

DEG's portfolio is currently worth EUR 8.5 billion. The funds are used to finance investments made by 693 customers in 78 countries. In 2020 DEG made new commitments worth EUR 1.4 billion, with EUR 508 million earmarked for investments to promote climate and environmental protection. It made more than EUR 63 million available as part of promotional programmes. EUR 50 million was used to co-finance COVID-19 Response measures.

Due to the COVID-19 pandemic and resulting economic slumps in a large number of developing countries and emerging markets, overall conditions in the 2020 financial year were very challenging. DEG swiftly developed COVID-19 Response measures to support its portfolio customers in particular, allowing it to help secure livelihoods and jobs.

Both in its support for portfolio customers and in its new business, DEG once again focused on contributing to the achievement of the "2030 Agenda for Sustainable Development" and the 17 global Sustainable Development Goals (SDGs) in 2020. Implementing these goals requires various players to take an active role. While public funding remains necessary and essential for development cooperation, the private sector also has a significant role to play in promoting the achievement of the SDGs. This is especially true given the extent of the current challenges.

Through their financial success and responsible operations, the companies financed by DEG are promoting sustainable development in line with the 2030 Agenda. Financing private-sector investment not only fosters the further development of innovative approaches, but also helps to drive productivity and sustainable economic growth. In order to make its customers' investments more sustainable, DEG combines the financing services it provides with a broad range of advisory and support services, as well as promoting environmental, social and corporate governance standards.

DEG was one of the first signatories of the "Operating Principles for Impact Management", which were developed under the auspices of IFC and set standards for business strategy, acquisition, structuring, management and development impact measurement for private investments. Find out more

In 2020, DEG's impact management was verified and confirmed by an independent external institute (BlueMark) for the first time.

DEG uses its Development Effectiveness Rating (DERa) to measure how the private sector contributes to development and to identify how these impacts can be increased. Quantitative and qualitative indicators to measure the development impact of each customer are collected annually and grouped into the five key aspects of private-sector development: decent jobs, local income, market and sector development, environmental stewardship and community benefits.

By directly linking selected indicators, DERa is able to determine significant contributions made by companies to the SDGs. DEG's customers make a particular contribution to the following sustainability goals:

No poverty: 76% of customers have shown successful financial development and are helping to fight poverty through higher local incomes.

Decent work and economic growth: 87% of DEG's customers create additional local income or new, fair jobs.

Industry, innovation and infrastructure: 66% of the companies and project financiers financed by DEG are innovative or are financial institutions that provide targeted support to SMEs.

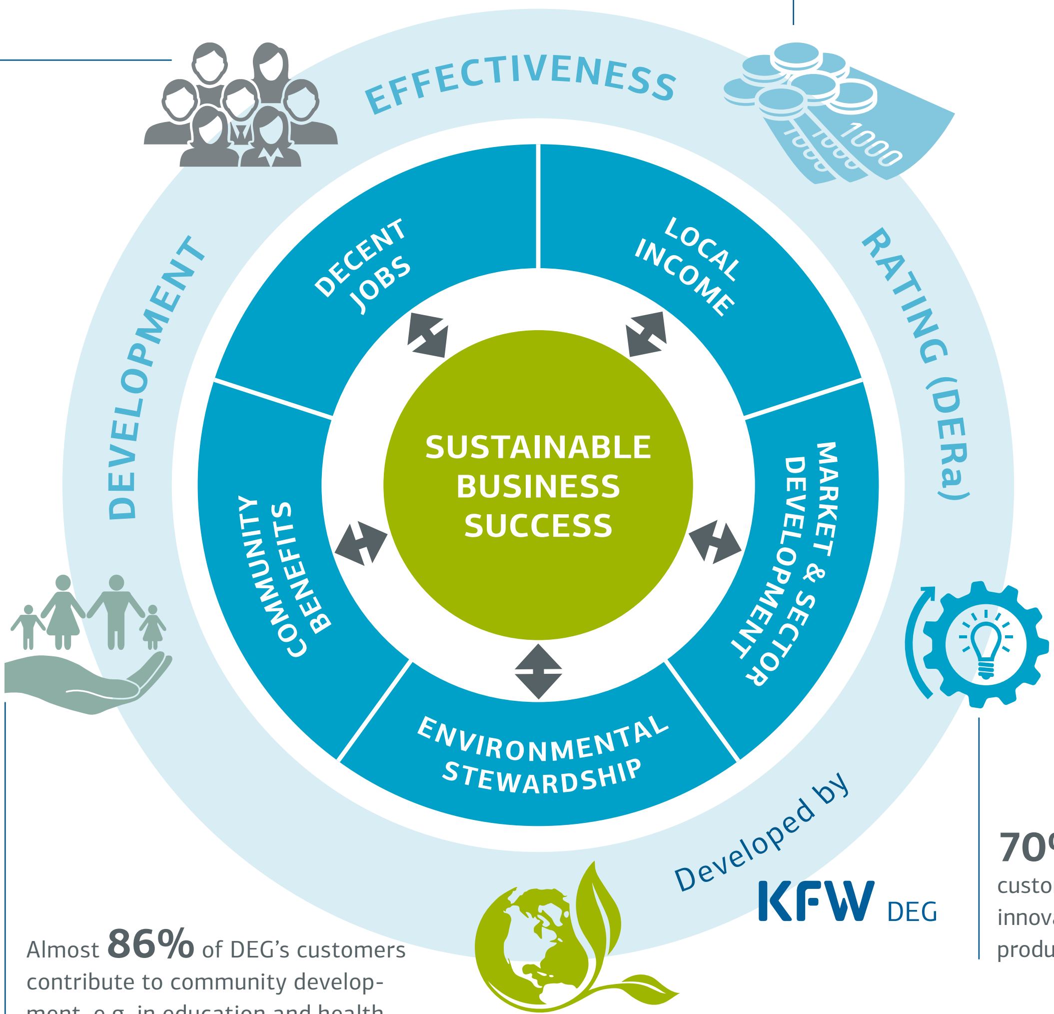
Climate action: 26% of DEG's customers generate renewable energies or use particularly resource-friendly production methods.

Development effects 2020

In the DERa, the development effects of DEG's portfolio 2020 are presented along five dimensions: decent jobs, local income, market and sector development, environmental stewardship and community benefits.

DEG's portfolio companies employ **2.3m** people. The number of employees at these customers has risen by almost 614,000 since DEG invested in them.

Local income of EUR **120.4bn** was generated during the last reporting year alone (i.a. salaries, procurement, taxes).



70% of DEG's customers invest in innovative technologies, products or processes.

Almost **86%** of DEG's customers contribute to community development, e.g. in education and healthcare, spending a total of EUR 277m.

74% of portfolio companies have introduced a grievance mechanism so that residents can contact companies directly if questions arise.

Generation of **44 TWh** of green electricity for 36m people saves almost **14m t** of CO_2 annually.

COVID-19 pandemic poses threat to progress in developing countries

Due to the very large number of infections and deaths and the considerable pressure put on healthcare systems, the COVID-19 pandemic has created a state of emergency for many countries across the globe. The World Health Organisation (WHO) declared the pandemic a "public health emergency of international concern." 2020 provided a clear example of just how much of an impact a highly transmissible disease can have on people, societies and economies in an interconnected and globalised world. The economic and social implications of the pandemic also pose a particular threat to progress in developing countries.

Hefty blow to the economy

The lockdown measures hit the economy hard, triggering a collapse in consumption, the closure of production facilities and a slump in global trade. At –3.5%, global growth was in negative territory for the first time since the financial crisis of 2009.

The COVID-19 pandemic hit developing countries and emerging markets particularly hard, to varying degrees and with varying causes. While dwindling consumer spending and investment slowed economic growth in India, for example (gross domestic product [GDP] in 2020: –8%), the drop in remittances from people working abroad to their home countries left a particular mark in other developing countries: the economy in the Philippines, for example, shrank by 9.6%. In Mexico, slumps in industrial production sent GDP tumbling by 8.5%. Countries that rely on tourism faced major setbacks as a result of the global travel restrictions. Commodity exporters were hit by low prices and weak demand, with GDP in Nigeria, for example, falling by 3.2%. In some of the poorest countries, the risk of a debt crisis is also looming due to falling government revenues and mounting expenses associated with moves to combat the pandemic.

The swift development of vaccines provides hope that economic activities can be resumed soon. Availability of, and access to, vaccines in developing countries, however, is much worse than in the world's developed nations. There are also major differences within the group of developing and emerging countries in terms of the infrastructure, logistics and specialist staff required for the vaccination processes. This means that there will be a delay in a whole number of developing countries before an economic recovery can emerge.

Poverty and inequality exacerbated by the pandemic

The world's developing countries had made significant strides in reducing poverty from the 1990s onwards. The proportion of the world's population living in extreme poverty (i.e. on income of less than USD 1.90/day) fell from 36.2% to 9.2% between 1990 and 2017. The COVID-19 pandemic has stopped this positive trend in its tracks. The World Bank Poverty Report predicts that global levels of extreme poverty will rise moderately again for the first time in over 20 years – to as much as 9.4% in 2021.

The COVID-19 pandemic will also increase social inequalities between the poor and the rich, men and women, young and older workers, and workers in the formal and informal sectors. At the beginning of 2021, 93% of the world's working population was living in countries affected by lockdown measures. The International Labour Organization estimates that around 255 million full-time jobs were lost in 2020 due to company closures and lockdowns, four times more than the number of jobs lost during the 2009 financial crisis. Global earned income fell by 8.3% in 2020, which is equivalent to USD 3.7 trillion or 4.4% of the global GDP figure for 2019.

Low-skilled workers who cannot switch to working from home are particularly hard hit. Women have been hit harder than men because they are more likely to work in service industries. Global job losses for women are 5% higher than for men, with job losses for young workers 8.7% higher than for their older counterparts. 60% of workers across the globe are employed in informal sectors. This group is particularly vulnerable when it comes to income losses and poverty, because they tend not to have a social security system as a safety net and do not benefit from public measures that help to cushion the blow of income losses.

In terms of the sectors affected by the pandemic, there are winners and losers. While tourism, culture and retail have generally been hit hard by the lockdown measures and are reporting job losses, the healthcare industry, information technology and digital communications providers, for example, are booming. From a regional perspective, job losses are particularly pronounced in Latin America, South Asia and southern Europe.

Impact on climate change only temporary

Climate scientists have found that 2020 saw an "unprecedented decline in CO_2 emissions" of 7%. The widespread use of working from home, changes in consumer behaviour and restrictions on travel resulted in a considerable reduction in CO_2 emissions from transport. (Temporary) company closures led to lower energy consumption and a further reduction in CO_2 emissions.

But the effect is only short-term. As soon as lockdown measures are lifted, CO_2 emissions rise considerably. In the fight against climate change, the reduction in emissions as a result of the pandemic only have an insignificant and temporary effect. Structural changes in the global economy are needed in order to make a sustainable contribution to climate protection.

COVID-19 Response

DEG's COVID-19 Response measures

It is especially in such challenging times that DEG, in its role as an international development finance institution, is a reliable partner for its customers and business partners around the globe. It developed and launched a variety of COVID-19 Response measures to specifically support its portfolio customers with funding and advisory services. As the pandemic and its consequences have not yet been dealt with in many countries, this exchange will be continued in 2021.

Since 2020, companies that already receive financing from DEG have been able to use DEG's Business Support Services (BSS) to help them fund coronavirus-related measures. DEG made almost EUR 31 million available in 2020 through BSS and develoPPP.de for companies' coronavirus-related measures.

Measures by companies to significantly alleviate the pandemic's local impact can also be co-funded via develoPPP.de. This programme, funded by Germany's Federal Ministry for Economic Cooperation and Development (BMZ), is open to German and European companies as well as companies in emerging and developing countries with a long-term interest in these countries.
Find out more

“Times of crisis call for resilience and clout across the board”

Interview with Joachim Schumacher, Head of Credit Management and Analysis and Head of the DEG COVID-19 Task Force that was established in 2020, on the impact that the pandemic is having on DEG’s business

How has the COVID-19 crisis affected DEG’s customers and portfolio?

The impact that the crisis is having on our customers varies considerably. There are different economic factors at play depending on the customer group – companies, financial institutions, funds or project developers.

In our infrastructure portfolio, lockdown measures are resulting in construction delays and low volumes of traffic, for example for airports. Similarly, the behaviour shown by public-sector buyers, such as moves to suspend or renegotiate tariff payments, can create liquidity bottlenecks for companies in this segment and result in them having to defer their debt repayments. Among our corporate customers, some were hit very quickly by the simultaneous demand and supply shocks, which had a direct impact on capital requirements and liquidity. In the financial sector portfolio, on the other hand, effects are coming to the fore with a certain time lag, as the supervisory authorities have taken numerous regulatory relief measures that will not be phased out until sometime in the course of 2021 or 2022. In the fund portfolio, the sector focus of the investment guidelines and exchange rate developments in the target countries are key factors influencing performance.

All in all, I am very impressed with the resilience of our customers and the portfolio. After a year dominated by such a major crisis, only a small part of the portfolio is exposed to “high risks”.

How did DEG support its customers during the crisis?

DEG’s priority is to support its portfolio customers as a reliable partner in times of crisis. Since the start of the crisis, we have deferred repayment instalments of around EUR 100 million and also provided short-term liquidity support. We developed additional Business Support Services to analyse companies’ stability and to provide support with employee healthcare. We made funding worth around EUR 31 million available last year via a total of 114 COVID-19 Response measures and more than 50 remote consultations. This is an unprecedented show of clout in a challenging environment and gives us a truly unique position in the banking landscape.

For our German customers, we have expanded the scope of the AfricaConnect programme together with the German Federal Ministry for Economic Cooperation and Development (BMZ), making more than EUR 21 million available for COVID-19 aid measures. What is more, DEG joined forces with the European Investment Bank and ten other EDFIs to launch the “European Financing Partners COVID Window” programme, contributing EUR 30 million to the total volume of EUR 282 million.

Resilience and stability in the face of a crisis have become key issues during the COVID-19 crisis. What does resilience look like and how can you become more resilient as a company?

Resilience describes the ability to adapt flexibly to evolving challenges, making them easier to master as a result. In my experience, this ability is influenced by two factors in particular: skills and resources. We can see from DEG’s restructuring portfolio, for example, that the quality of management and corporate governance makes a key difference to crisis management. It is also the case that companies benefit from strong resources, such as a certain unique position in the market, a conservative financing structure or a shareholder with a good credit rating. This allows companies to survive difficult times, possibly even to benefit from the crisis and to emerge from it stronger.

Examples of COVID-19 Response measures

COVID-19 Response in Ghana: Liquidity funding for a fashion company

The fashion enterprise Do The Right Thing (DTRT) Apparel was founded in 2013 by a German entrepreneur and today is West Africa's largest clothing manufacturer with a strong commitment to high environmental and social standards within the company. Around 2,600 staff are currently employed in Accra. Roughly 65% are women, many of whom were previously unemployed and, thanks to DTRT, now have an opportunity to make a living for themselves and their families.

Earnings are above the national minimum wage, and in addition DTRT supports its employees with above-average social benefits. Its employees and their families have access to healthcare services and can benefit from good education and training. DTRT also focuses on an ecologically sustainable production chain. For instance, it developed a method of textile processing that provides water savings of up to 80%.

As a consequence of the COVID-19 pandemic, DTRT had to halt production for several weeks in 2020. Thanks to rapid liquidity funding from the AfricaConnect programme for coronavirus-related measures, DTRT was able to continue paying wages as well as rents and maintenance costs. This played a major role in the company being able to retain all jobs, despite its decline in sales and production stoppage. Furthermore, DTRT used part of this funding to produce simple face masks for the local market. DTRT is currently planning to purchase more machines so that they can produce the technically more challenging medical N95 masks.

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COVID-19 support for Steiff in Tunisia

Time-honoured German company Steiff, which is known for its soft toy animals and high-quality children's clothing, has its own production site in Tunisia in addition to its manufacturing facility in Giengen. During the COVID-19 crisis, DEG is supporting Steiff's North African factory with funding from the BMZ through the AfricaConnect programme. The loan will help to strengthen a major employer in an industrially underdeveloped region of Tunisia, thereby safeguarding jobs throughout the pandemic. Steiff employs some 800 people in its factory in Sidi Bouzid. The funds will also enable the company to obtain Global Organic Textile Standard (GOTS) certification in the future.

Africa Connect

In 2019, DEG launched AfricaConnect, a new programme for European companies looking to invest in Africa. Investment loans from EUR 750,000 to EUR 5 million are available via AfricaConnect. In 2020 the scope of the programme was expanded such that AfricaConnect funding is also available to implement business measures related to the coronavirus pandemic. That way European companies successfully operating in Africa that are facing particular challenges due to the coronavirus crisis can obtain fast and unbureaucratic liquidity.

AfricaConnect is part of the Development Investment Fund for reform-oriented "Compact with Africa" partner countries. Funding is provided by the German Federal Ministry for Economic Cooperation and Development (BMZ). In 2020 DEG used these funds to finance measures with a total volume of EUR 21 million.
Find out more

New business models for the post-COVID-19 era

DEG is already working on developing new solutions for its customers for the post-COVID-19 era. These efforts focus on key drivers of the future that affect companies across the globe and have moved even further into the spotlight as a result of the pandemic. They include, for example, digitalisation and measures to respond to climate change.

Promoting climate-neutral development

As a result, the process of transformation towards a climate-neutral economy is both a huge challenge and an opportunity at the same time. From an economic perspective, financing entrepreneurial investments that provide targeted support for investments aimed at ensuring low greenhouse gas emissions is an important starting point. In the course of its strategic realignment, DEG is aiming to focus even more on green investments and on supporting its customers as they transition to climate neutrality.

The development of green financial products also has the potential to steer investments in a sustainable direction. Because climate-related risks can lead to financial risks, banks and supervisory authorities are also being called upon to include climate risks in their risk assessments and to define standards for “green finance”. The International Monetary Fund (IMF), for example, has declared that it will be incorporating climate indicators into its macroeconomic data collection and evaluation. The Paris Climate Agreement also calls on the financial sector to bring its credit and investment portfolios into line with climate objectives.

New technological developments that have helped to push prices for renewable energy down considerably over the last ten years also present opportunities. In many countries, clean energy is now not only affordable, but also competitive compared with fossil fuels. This provides a favourable framework for financing investments in green energy technologies, especially in the private sector.

Shaping digitalisation and changes in the working world

Digital business models are currently in the midst of a boom. After all, everything that can be organised “remotely” in the business world has the potential to help companies and their customers. The pandemic has provided a further boost not only for digitalisation, but also for automation and the use of artificial intelligence. In addition to the potential for boosting productivity, digital technologies are also ushering in profound changes for the labour market.

According to a World Economic Forum study, digitalisation could render 85 million jobs obsolete by 2025, primarily in the low-income and low-skilled segments. At the same time, 97 million new jobs that are better adapted to the digital world are expected to be created. If training measures can be used to allow employees to develop new skills, digitalisation will open up new employment opportunities for this segment, too.

Promoting sustainable supply and value chains

During the pandemic, many companies have experienced production difficulties because their supply chain has been interrupted due to lockdown measures in other production locations. If companies continue to expand local value and supply chains, this could reduce these risks further in the future. Shorter supply chains are less susceptible to supply problems originating from other locations and help to create more resilient production structures. Regional relocation or local production not only creates jobs. Shorter delivery routes also contribute to climate protection. The further expansion of local value chains also delivers fresh economic impetus for developing and emerging countries, for example through increased regional cooperation with neighbouring countries, investments in local infrastructure (production facilities/logistics/education) or the development of domestic markets.

The COVID-19 pandemic and its implications are having a significant negative impact on the economic situation in a large number of developing countries. This makes it all the more important to continue to support sustainable economic development in these markets and to take advantage of emerging opportunities now and in the future. Development finance institutions like DEG, which finance and advise private companies, have a particular responsibility in times like these. They work in dialogue with their customers and partners to find short-, medium- and long-term solutions for the individual situations and challenges they are facing.

Decent jobs

The promotion of local corporate financing is an important driving force in creating skilled jobs, income and prospects on the ground. The safeguarding and further development of qualified jobs is of utmost importance, as vocational training and employment, in particular, pave the way out of poverty. Jobs not only provide monetary income. They are the cornerstone of development by boosting living standards, raising productivity, and fostering social cohesion. This is also recognised in SDG 8 (Decent work).

- In 2020, DEG's portfolio companies employed 2.3 million employees. The number of employees at these customers has risen by almost 614,000 since DEG invested in them.

- More than half of all employees, over 1.4 million people, are employed in one of the approximately 800 companies that DEG finances via funds; 345,000 of these jobs are newly created.

When it comes to creating jobs, it is not just the number of jobs that counts. Ensuring that they meet certain standards is equally important. For this reason, DEG requires its customers to comply with the ILO's core labour standards and basic terms and conditions as well as the IFC Performance Standards and to implement good HR and occupational health and safety management systems. Commitment to fair working conditions pays off for companies, as better conditions increase motivation and productivity and reduce staff turnover and absenteeism.

- 78% of DEG's customers offer decent jobs. The remaining customers are working to improve their conditions of employment with the support of DEG. In addition, DEG is committed to promoting employee training among its customers. This is a key factor in companies' further development, as they are often unable to find qualified staff to fill these vacancies.

- 65% of companies invest in the further training of their employees, meaning that they contribute to lifelong learning in line with Sustainable Development Goal 4 (Quality education).

DEG supports its customers by offering promotional programmes – financed using both funds made available by the German Federal Ministry for Economic Cooperation and Development (BMZ) and DEG's own funds – in areas such as further development of labour standards, training programmes or improvement of HR management.

DEG is committed to promoting gender equality and greater participation of women and is a founding member of the 2X Challenge – an initiative launched by the G7 development finance institutions (Sustainable Development Goal 5, Gender equality). Its goal is to mobilise capital for companies that are owned or managed by women or that specifically empower women as employees and customers.

- Almost 790,000 women were employed by DEG's portfolio customers in 2020. 21% of portfolio customers employ more women or have more female managers than the industry average.

- Between 2018 and 2020 DEG itself provided more than USD 638 million to the 2X Challenge initiative. Its initial target of mobilising USD 3 billion in capital by the end of 2020 was already exceeded in June 2020.

Zambia: Financing and advice for female entrepreneurs

Zambian women face high barriers to full economic participation, despite the potential of the female economy to unlock sustainable economic growth. Zanaco Bank Plc. (Zanaco), a Zambian commercial bank, recognised the growing importance of the female economy. It therefore performed a Gender Smart Opportunity Assessment within the framework of DEG's Business Support Services (BSS) to benchmark its gender performance against peer institutions and to identify best practices and potential opportunities. Based on these recommendations, Zanaco delivered training to over 700 employees and implemented specific programmes to better serve female entrepreneurs.

The gender smart approaches not only helped Zanaco increase its market share and achieve higher returns, but also helped female entrepreneurs start and improve their business, thereby generating more quality jobs and creating new prospects.

Increasing local income

Increasing local income also increases prosperity for people in developing countries. The private sector plays a particular role in generating local income, and the more the business model is rooted in the local context, the greater the contribution it makes. This means that companies employ more local employees, pay local taxes and source goods from local suppliers. The 2030 Agenda stresses the crucial importance of mobilising and using domestic resources efficiently to achieve the Sustainable Development Goals, in particular SDG 8 (Economic growth), SDG 10 (Reduced inequalities) and SDG 17 (Mobilising local resources).

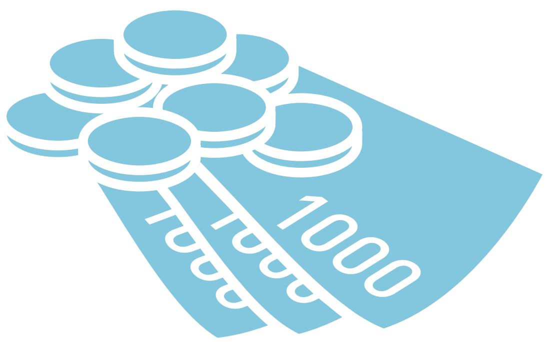
In 2020, DEG's portfolio companies generated local income of EUR 120.4 billion:

- In the reporting year, DEG's portfolio companies paid EUR 16 billion in local wages and salaries as well as EUR 4.7 billion in taxes.
- Two thirds of necessary supplies and half of capital goods were sourced locally, generating EUR 78 billion in income for local suppliers.
- Interest payments to local capital lenders, local licence fees and profits after taxes of local businesses created further annual income of EUR 21 billion.

Tax payments increase local resources

Companies make a significant contribution to increasing local income through tax payments, thus contributing to SDG 17, which is aiming, among other things, to strengthen the mobilisation of domestic resources.

A study by DEG on corporate revenues and government income shows that the total contributions of the private sector to government income are significantly underestimated, as many publications focus primarily on corporate income tax. The tax contribution of DEG's customers triples when taking into account some of the additional revenue sources, such as VAT and income tax.



Bangladesh: Supply chain management for the aquaculture industry

Black tiger shrimps from Bangladesh are among the highest-quality cultured shrimps in the world. However, shrimp often cannot fetch the price that it merits at farm gate due to poorly managed supply chains with lacking traceability.

The German frozen food trader LENK Seafood Services GmbH (LENK) seeks to build a transparent, efficient supply chain to connect small farmers in Bangladesh with processing facilities. To this end, LENK provides technical support, supplies farmers with high-quality shrimp post larvae through a nursery system and has put in place a harvest and collection system, supported by a transparent, digital contract management system.

In the long-term, LENK is aiming to introduce a higher share of black tiger shrimp from Bangladesh into high-end markets. At the same time, it wants to help the sector raise social and ecological standards, thereby contributing to improving yields and income for the shrimp farmers. DEG co-financed the investment with develoPPP.de programme funds from the German Federal Ministry for Economic Cooperation and Development (BMZ).

Impact of local sourcing

Local sourcing offers a whole number of advantages for companies and the social environment. Among other things, it simplifies the logistics process, thereby enabling more resilience in production, is more environmentally friendly and boosts local income, which in turn can be invested in, for example, local infrastructure, education and health, and increases general welfare. To find out more, have a look at the DEG study "Unlocking the benefits of local sourcing for companies and society".

DEG uses a range of different programmes to provide advice and support to its customers in order to secure their financial success and allow them to generate sustainable local income as a result. By co-financing feasibility studies, DEG supports companies as they enter markets. Promotional programmes can also be used to enhance companies' financial and management structures, as well as their supply chains, and to reduce project risks.

Market and sector development

The business activities of companies can result in varying development outcomes, depending on the investment needs of the country and of the sector. In the DERa, DEG evaluates by means of country and sector indicators of the World Bank whether investment is being made where it is most urgently needed. DEG finances customers in developing and emerging countries around the world. Over 60% of its customers operate in low-income countries or countries where business conditions are difficult.

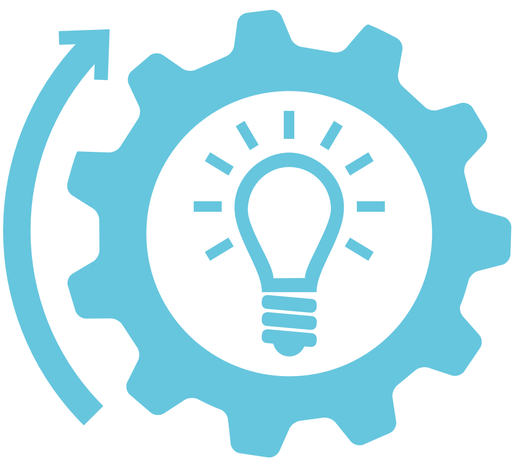
- Almost 50% of DEG customers contribute, by means of their investments, to reducing country-specific bottlenecks in energy, transport, IT and communication technology or to creating access to financing. In doing so they improve the business environment of a country and foster further growth in the private sector.

The importance of innovation to market development is also reflected in SDG 9 (Industry, innovation and infrastructure): for industry to become more sustainable, more efficient technologies and industrial processes are needed. In order to make the economy more inclusive, small and medium-sized companies also need to gain access to affordable financing.

- 70% of DEG customers contribute to innovation by introducing new technologies, developing new products or implementing new processes.

- The financial institutions financed by DEG facilitate access to finance for almost 2 million small and medium-sized enterprises (SMEs).

As part of its promotional programmes, DEG also supports investments of small and medium-sized enterprises which want to expand innovative business models in a development effective way. The programme aims at making start-ups competitive and creating new jobs.



Argentina: Promotion of agricultural cooperatives

Asociación de Cooperativas Argentinas (ACA) brings together 150 agricultural cooperatives with a total of over 50,000 farmers. Its core business is to provide services to its member cooperatives, such as trading and brokerage of agricultural commodities, port and logistics services, procurement of farm inputs and financial services, as well as training and support.

In cooperation with Fundación Nodos, a non-profit organisation, ACA developed a comprehensive programme to identify best-practice cooperative management models and transfer these to the ACA members. During the COVID-19 pandemic, Fundación Nodos substantially expanded its online training courses, particularly with respect to skills and structures required for the remote management of organisations. These measures contribute to sustaining the livelihood and improve the income of 50,000 farmers. In addition, they strengthen the cooperative system in Argentina and cooperatives in other Latin American countries, which are interconnected.

Since 2008 DEG has made several long-term loans available to its long-time customer ACA. DEG financed the current measures using funds from the BMZ through its “COVID-19 Response” BSS programme.

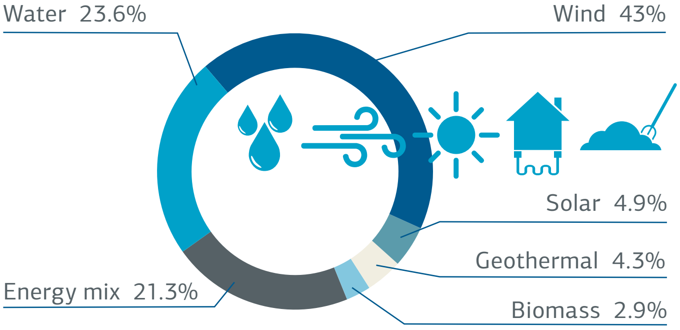
Environmental stewardship

Through the SDGs, the international community of states aims to substantially advance global environmental, climate and resource protection. These issues are also of key importance for DEG's customers. More than ever, companies are being required to operate in a manner that is as sustainable and efficient as possible. Large parts of the global private sector rely on natural resources either as part of their core business or in their supply chains. Companies that want to do business the right way in the future, too, must conserve existing resources, avoid harmful emissions into the environment and develop innovative solutions. This makes an entrepreneurial commitment to global environmental and climate protection and resource efficiency a crucial aspect of sustainable development.

All manufacturing companies and infrastructure projects in DEG's portfolio commit to introducing international environmental and social standards. During due diligence, the current status is recorded and, where necessary, an action plan is drawn up. DEG expects banks and funds to implement their own environmental and social management systems and to appropriately manage potential environmental and social risks with their customers. This enables risks to be mitigated and investment opportunities to be identified, and enhances their reputation. By complying with international environmental standards and implementing initiatives for more sustainable business activities, DEG's portfolio customers make their businesses more sustainable and bring them into line with Sustainable Development Goal 12 (Responsible production).

Energy providers that generate renewable energy are playing a major role in achieving the goal set by the Paris Agreement on Climate Change to keep global warming to below two degrees Celsius. This is the only way that also Sustainable Development Goals 7 (Affordable and clean energy) and SDG 13 (Climate action) can be achieved. Energy utilities that are co-financed directly by DEG and indirectly via funds make their own contribution to these SDGs. Each year they produce around 44 TWh of electricity from renewable energy and can currently supply more than 36 million people. This reduces emissions of carbon dioxide (CO_2), the main greenhouse gas, by more than 14 million tonnes per year. The CO_2 savings have been calculated using data supplied by independent consultants or our own calculations based on the amount of electricity generated and the average CO_2 footprint of the power grid concerned (grid emission factor).

Renewable energy in the DEG portfolio



Businesses have a vital role to play in moving towards a low-carbon society. DEG is taking steps to mobilise private-sector companies as actors for climate protection in developing and emerging market countries. Its Resource and Energy Efficiency Advisory service, for example, helps companies to identify potential for increasing energy and resource productivity and reducing associated costs. The service is aimed especially at agribusinesses and companies from the industrial and service sector with high energy costs and high emissions of climate-damaging gases.

Across sectors and regions, DEG also advises its customers on developing and implementing environmental and social management systems and supports them with regard to certification according to international standards. In 2020, a total of 71 projects with a funding volume of over EUR 15 million were carried out for this purpose within the framework of DEG's promotional programmes. DEG provided a total of EUR 508 million in 2020 for investments that promote climate and environmental protection.

Community benefits

Entrepreneurs are active citizens who play an important role in society. As part of its environmental and social standards, DEG expects its customers to implement sound community, health and safety management for neighbouring communities. Active interaction with local communities produces a win-win situation for all involved: companies encourage local social acceptance and support for their activities, while communities benefit from an increase in amenities and opportunities that would not otherwise exist.

- Three quarters of the manufacturing companies and infrastructure projects in DEG's portfolio have implemented community, health and safety management in line with DEG's environmental and social standards. In addition, around 86% of DEG's portfolio companies engage in community development activities. During the last reporting year, each company made an average amount equivalent to around EUR 733,000 available for community development. The most common areas for investment were education and healthcare.

Where necessary, DEG advises its customers on how they can organise their community engagement, taking into account the needs of local communities. DEG supports companies by offering promotional programmes in areas such as setting up comprehensive stakeholder management and in developing projects with surrounding communities that promote sustainable structures on the ground, e.g. through know-how transfer or the development of small local economic sectors.

For local communities, it is important that residents can contact companies directly and express their concerns. This enables any potential problems to be brought to the attention of the company so that it can take remedial action. Implementation of such a grievance mechanism is part of the requirements of the international environmental and social standards to which DEG is committed.

- 74% of DEG's portfolio companies have set up a grievance management mechanism.

Paraguay: Infrastructure for waste paper recycling

Waste separation is not yet very widespread in Paraguay and the recycling rate is very low. (Waste paper) recycling is mainly carried out by informal waste collectors, who usually have to separate recyclable waste paper from other waste before reselling it.

The aim of the project of Yaguarete Reciclaje (Yaguarete), a subsidiary of the German WEIG Group, based in Rhineland-Palatinate, is to increase the recycling rate for waste paper. To this end Yaguarete has placed around 40 waste paper collection containers in the greater Asunción and Ciudad del Este areas and launched publicity campaigns for schools, private households and shop owners explaining the benefits of waste separation and prevention. Furthermore, additional collection points for local informal waste collectors have been set up to facilitate collection and sale of waste paper. Yaguarete provided the waste collectors with health and safety training, protective clothing and equipment, and is currently developing an app to improve recycling logistics.

The project promotes the recycling culture in Paraguay, thus contributing to conservation of resources. Thanks to the new collection points, local waste collectors can improve their income because they can sell more waste paper as a result of waste separation. DEG is co-financing the project from funds from the develoPPP.de programme of the BMZ. It provided additional funds through its BSS programme "COVID-19 Response", which Yaguarete used to supply local workers, suppliers, waste paper collectors and other needy people with food and hygiene packages.

Impact of DEG's fund investments

Investments in private equity funds form a key part of DEG's portfolio. These investments provide capital to private enterprises in developing countries. DEG has currently invested EUR 1.2 billion in more than 130 PE funds, providing a total of EUR 12.1 billion in capital to the companies they co-finance (investees) in developing countries and emerging markets.

As an anchor investor, DEG strengthens the capital base of the funds it finances, also helping to mobilise further investors. It also contributes market and structuring expertise, extensive knowledge of individual countries and regions, as well as its large network. Additional added value is provided by DEG's advisory services, especially in environmental and social matters.

DEG supports funds and their investees with a comprehensive range of Business Support Services. It made more than EUR 1.8 million available last year alone to support 15 funds and investees in areas including environmental and social management, occupational health and safety, and management professionalisation.

DEG's fund investments have a high development impact, as the following evaluation of the portfolio in 2020 shows:

Decent jobs
- More than 1.4 million jobs secured – 61% of all jobs secured by DEG's customers
- 345,000 new jobs since the start of the fund investments – 24% employment growth

Local income
- More than EUR 61 billion in local income
- Average revenue growth of 53% a year

Market and sector development
- 306 investees in IDA/post-conflict countries

Environmental stewardship
- 15.4 TWh of renewable energy – more than 35% of DEG's share of renewable energy

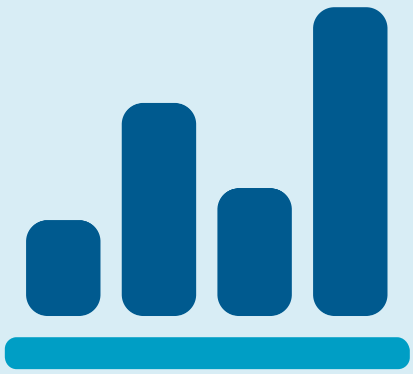
Community benefits
- EUR 66.7 million for local communities – a large number of funds are recording the local commitments made by their investees for the first time

The Development Effectiveness Rating (DERa) is one of the first systems in the world to look at the development impact of the fund at investee level. A "Business Impact Profile" gives fund customers qualified feedback on the impact of their investments – as a basis for the continuous development of their commitment.

Africa: Capital for growth sectors

The Africa Development Partners II Fund (ADP) is a private equity fund which focuses on investments in service providers. Since its launch in 2013, the fund has made 13 investments in eight African countries, including in less developed countries such as the Democratic Republic of Congo or Niger. ADP's portfolio companies employ 37,500 staff in total and generated local income amounting to around EUR 567 million during the last reporting year. Its fund management is committed to gender balance in line with the 2X Challenge initiative: 33% of its partners and 45% of its staff are made up of women. ADP has an ESG and impact management system in place, thus providing a framework for its investees for responsible investments.

Significant development impact can also be observed among the investees themselves. One example is International Facilities Services (IFS), a company providing specialist facility management services to clients in, for example, DR Congo, Mozambique, Zimbabwe and Zambia. IFS recorded 25% employment growth in the last reporting year, rising from 2,146 to 2,683 employees, 644 of which are women (24%). Also revenue grew by more than 25% on a 3-year average. In the past year alone, IFS contributed EUR 36.5 million to local income and spent 4% of its profit on corporate social responsibility activities and on supporting local communities.



Managing development impact

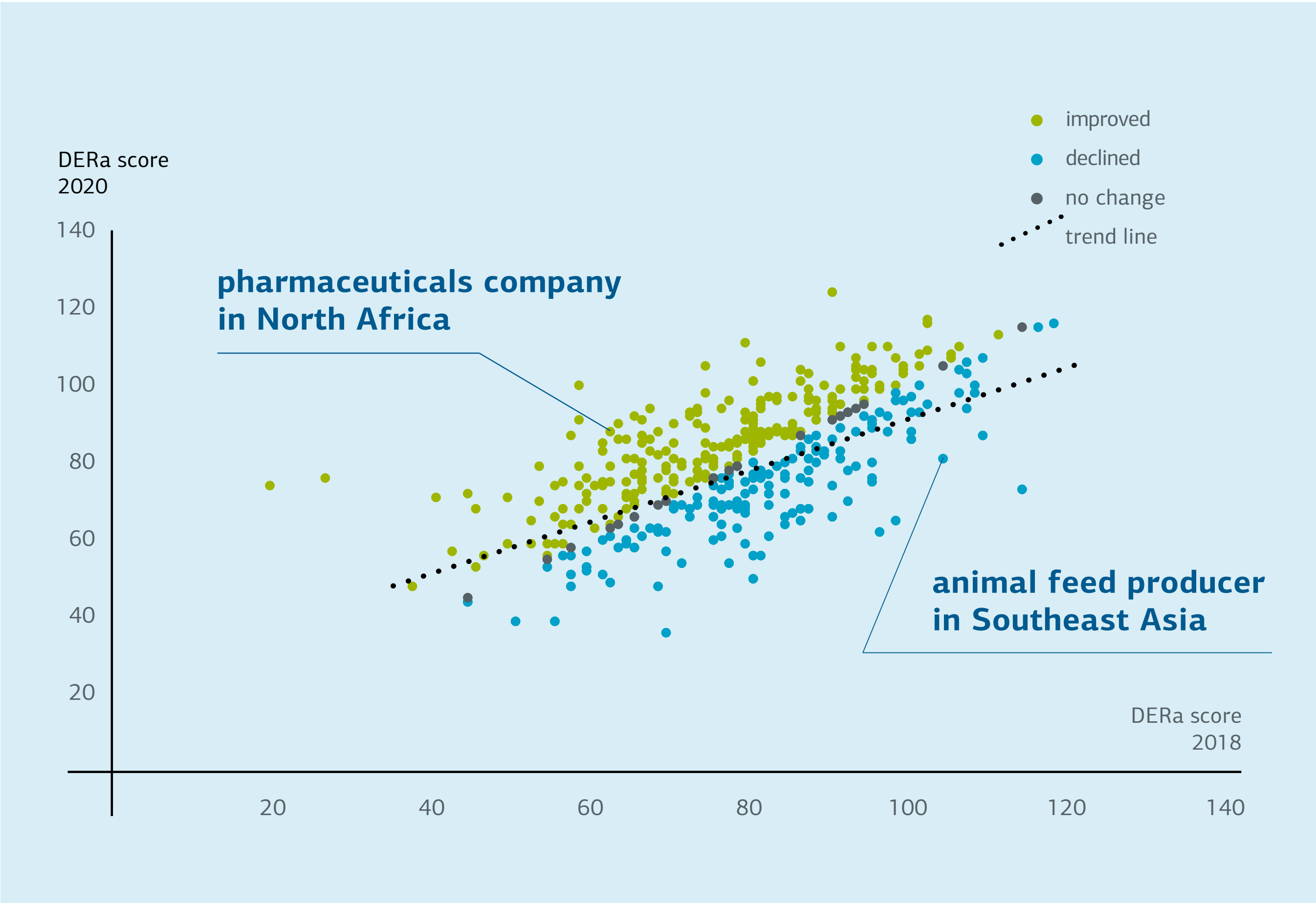
The DERa enables the development impact of each customer to be measured at the start of the investment and subsequently each year in the portfolio. This means that DEG maintains an overview of each individual customer's contribution to the SDGs at all times and can work with them towards improvement in a targeted manner. It also allows overarching developments to be tracked at the same time.

A comparison of the portfolio evaluations for 2018 and 2020 shows that the development impact of companies financed by DEG increased significantly. Around 56% of DEG's customers improved their DERa score during this period.

A comparison was made between the development impact of all DEG customers in the project financing, financial institutions and corporates customer cluster (401 customers) already in the portfolio in 2018 and their 2020 results. This indicates the following:

- An improvement of the average DERa score from 79 to 81 points. The number of employees of DEG's customers increased from 1.4 million in 2018 to 1.8 million in 2020. The share of DEG customers that demonstrably contributed to community development increased slightly from 86% in 2018 to 87% in 2020.

Around 60% of DEG customers improved their development impact during 2018 and 2020



DEG customers from the project finance, financial institutions and corporates customer clusters. Customers with a particularly high deviation (more than 20 points) were not included.

- 56% of customers are achieving a higher DERa score. One example of a high performer is a pharmaceuticals company from North Africa whose DERa score improved from 65 in 2018 to 86 in 2020. The biggest effect was achieved by a significant improvement in creating decent and fair working conditions. In addition, the customer was able to generate more local income than in previous years thanks to its positive economic development, allowing it to contribute to sustainable local development.

- The fact that the positive trend is anything but a foregone conclusion is shown by the example of a producer of feed for farmed animals in Southeast Asia. The rampant spread of African swine flu in 2019 resulted in up to 70% of pig herds having to be culled in a large number of countries. As the pig feed industry is one of the company's biggest customers, this dealt a hefty blow to DEG's customer in financial terms. Significantly less local income was generated, jobs and training for staff had to be reduced and municipal subsidies were cut. Nevertheless, the customer achieved a DERa score of 81 (105 in 2018), slightly above the average score.

- From 2021 onwards the three-year trend for all customer clusters will be analysed in detail.

The impact of the COVID-19 pandemic is not yet reflected in the DERa scores for 2020. DEG expects to see a significant decline in the development policy impact over the coming years.

develoPPP.de promotional programme: 2020 development impact

During the past year, DEG committed to 139 develoPPP.de projects amounting to a total (including company contributions) of EUR 37.7 million. Through this programme, DEG co-finances development-effective measures by companies, providing up to EUR 2 million. The company receives a maximum of 50% of the project costs and has to make a substantial financial contribution of its own. develoPPP.de projects tend to run for two to three years.

67 projects were or are being implemented in the Africa target region, and 50 of which are in collaboration with German companies.

The current evaluation shows that the funds made available by the German Federal Ministry for Economic Cooperation and Development (BMZ) contribute to companies' implementation of measures with a development impact:

- improvement to working conditions of 30,000 people
- creation of 7,600 new jobs
- income increase of at least 10% for 92,000 people
- 664 million litres of water saved or treated
- 103,000 people qualified through training courses
- 20,227 t of CO_2 saved
- 3,700 local players (including ministries, educational institutions, businesses, NGOs, associations) benefit from the cooperation

Through the measures co-financed by develoPPP.de, companies that are active in developing countries are also supported in market development, with employee training and in implementing programmes on responsible corporate

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Would you like to learn more?
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