

2021

»»» Responsible business – adding value

How DEG customers contribute to the global Sustainable Development Goals

»»» Promoting sustainable development



DEG in 2021: Key facts

DEG's portfolio is currently worth EUR 9.2 billion, financing investments made by 705 customers in 82 countries. In 2021, DEG made new commitments totalling around EUR 1.5 billion, with around EUR 409 million earmarked for investments to promote climate and environmental protection. More than EUR 62 million was made available as part of promotional programmes.

The continuing COVID-19 pandemic and resulting economic slumps in numerous developing countries and emerging markets meant that the overall conditions in the 2021 financial year remained challenging. However, through its COVID-19 Response offerings, DEG has been able to support its customers to protect livelihoods and jobs since 2020. DEG investments have been successful not just financially, but also in terms of impact. With their investments most DEG customers also managed in 2021 to make further contributions to maintaining and improving the effectiveness of development policy. The development impact achieved exceeded expectations – which initially were lower due to the pandemic.

Both in its support of existing customers and in its new financing agreements, 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 2021. 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 applies, in particular, to overcoming 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.

The principle of sustainable development is embedded in DEG's business strategy, applying to dealings with customers and partners as well as the way we run our own business. DEG's new impact and climate strategy places even greater emphasis on sustainable management that will make a measurable contribution to UN Sustainable Development Goals while being compatible with the climate protection targets set forth in the Paris Agreement.

In doing so, DEG has three principal goals: 1. Further enhancing the positive development impact of its customers on society and the environment; 2. Reducing greenhouse gas emissions in line with the Paris Agreement's 1.5 °C goal in order to make DEG's portfolio climate neutral by 2040; 3. Actively supporting customers with their transformation in order to build their resilience and achieve greater development impact.

DEG uses its [Development Effectiveness Rating \(DERa\)](#) to measure how the private sector contributes to developing impact and climate 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 assessed across the five dimensions for development effectiveness of private-sector investments: decent jobs, local income, market and sector development, environmental stewardship and community benefits.

The DERa records the main contributions to the SDGs by means of direct links with selected indicators. DEG's customers make a particular contribution to the following sustainability goals:



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



8 DECENT WORK AND ECONOMIC GROWTH
Decent work and economic growth: 90% of DEG's customers create additional local income or new, fair jobs.



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Industry, innovation and infrastructure: 67% of the companies and project financiers financed by DEG are innovative or are financial institutions that provide targeted support to small and medium-sized enterprises (SMEs).



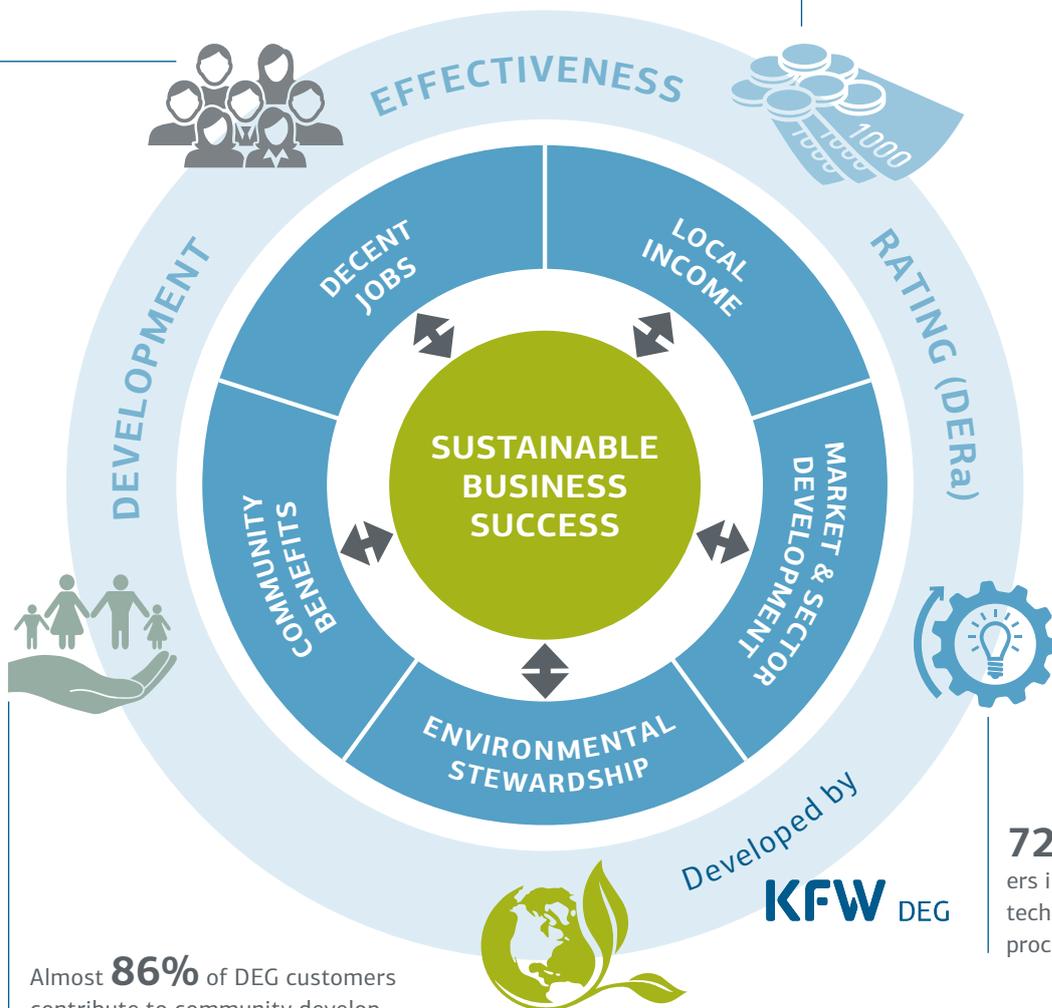
13 CLIMATE ACTION
Climate action: 20% of DEG's customers generate renewable energies or use particularly resource-friendly production methods.

Development effects 2021

In the DERA, the development effects of DEG's portfolio 2021 are presented along five dimensions: decent jobs, local income, market and sector development, environmental stewardship and community benefits.

DEG's portfolio companies employ **2.8m** people. The number of employees at these customers has risen by some 653,000 since DEG invested in them.

Local income of EUR **147bn** was generated during the last reporting year alone (i.a. salaries, procurement, taxes).



Almost **86%** of DEG customers contribute to community development, e.g. in education and health-care, spending a total of EUR 440m.

78% of portfolio companies have introduced a grievance mechanism so that residents can contact companies directly if questions arise.

Generation of **42 TWh** of green electricity for almost 38m people saves almost **16 mt** of CO₂ annually.

72% of DEG customers invest in innovative technologies, products or processes.

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 Sustainable Development Goal 8 (Decent Work).

- In 2021, DEG's portfolio companies employed around 2.8 million people. The number of employees at these customers has risen by almost 653,000 since DEG invested in them.
- More than half of all employees, over 1.4 million people, are employed in one of the approximately 900 companies that DEG finances via funds; 302,000 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 International Labour Organization's (ILO) core labour standards and basic terms and conditions as well as the International Finance Corporation (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.
- Some 84% of all 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.
- A total of 77% 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 the 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, Gen-

der Equality) to promote gender-lens investing. This means mobilising capital for companies that are owned by women, are managed by women or specifically promote women as employees and customers. In a study conducted jointly with the Austrian Development Bank (Österreichische Entwicklungsbank, OeEB), DEG assessed the “transformative impact of gender-lens investing”. Based on customer case studies, it concluded that for gender-lens investing to be successful, creating role models and incentives is just as important as providing support services and developing networks.

- More than 926,000 women were employed by DEG's portfolio customers in 2021. Some 18% of portfolio customers employ more women or have more female managers than the industry average.



Costa Rica: Dairy company secures around 11,000 jobs

“Cooperativa de Productores de Leche Dos Pinos R.L.” (Dos Pinos) is Costa Rica's largest dairy cooperative. It processes and distributes fresh milk, long-life milk and other dairy products. Dos Pinos obtains its raw milk from over 1,300 milk suppliers, mostly medium-sized local farmers with an average of twenty hectares of land and milk production of less than 10,000 litres per month. The cooperative employs approx. 5,000 people, with 6,000 additional indirect jobs being secured at the local milk suppliers. Its members receive a significant share of the annual profits. In addition, Dos Pinos provides its farmers and employees with agricultural inputs and services and supports the transfer of know-how. The cooperative is committed to local communities in the areas of education, healthcare and sustainable waste management.

DEG is providing a long-term loan totalling USD 30 million to Dos Pinos. The loan will be used to modernise and expand two production facilities and to improve its infrastructure in Costa Rica. DEG's Business Support Services also contributed to increasing resource efficiency in many production processes.

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 2021, DEG's portfolio companies generated local income of EUR 146.6 billion:

- In the reporting year, DEG's portfolio companies paid EUR 16.2 billion in local wages and salaries as well as EUR 6.6 billion in taxes.
- Some 69% of necessary supplies and almost half of capital goods were sourced locally, generating EUR 99.3 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 24.5 billion.

Tax payments increase local resources

Companies make a significant contribution to increasing local income through tax payments, thus contributing to SDG 17, which aims, 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.

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".

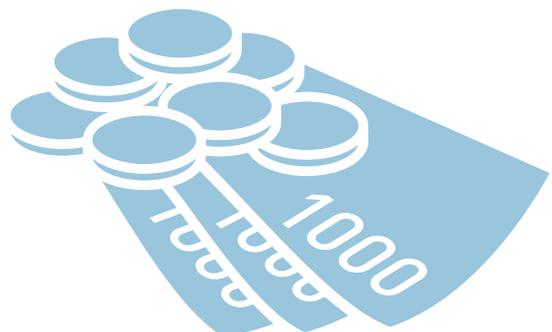
DEG uses a range of different programmes to provide advice and support to its customers in order to secure their financial success and allow them to generate sustainable local income as a result. By co-financing feasibility studies, DEG supports companies as they enter markets. Promotional programmes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



Kenya: Fairly produced nuts and oils

LIMBUA, a German-Kenyan company, has been selling organic macadamia nuts and oil, avocado oil, dried fruits and macadamia seedlings since 2006. Using decentralised structures, it aims to keep the entire value chain from cultivation to processing in the countryside around Mount Kenya. LIMBUA purchases its macadamia nuts from more than 7,000 small-scale farmers, paying fair prices and thereby encouraging the development of local businesses and creating nut-processing jobs. The company is establishing two new lines of business with the production of avocado oil and dried mango (starting in 2022). It purchases the avocados and mangos from the same producers as the macadamia nuts. All three products are grown on mixed, certified organic farms, which has a positive impact on biodiversity and boosts the company's resilience in the face of climate change.

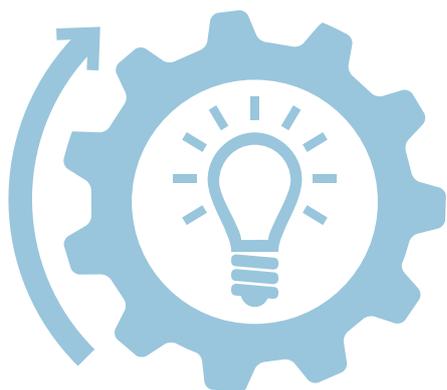
DEG has been providing funds from the AfricaConnect programme to help set up production facilities in Kenya since 2020. AfricaConnect is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ).



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 investments are being made where they are 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 enterprises (SMEs) also need to gain access to affordable financing.
- Some 72% 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 3.4 million SMEs.
- As part of its Up-Scaling programme DEG also supports investments of SMEs that want to expand innovative business models in a developmentally effective way. The programme aims to make start-ups competitive, thereby creating new jobs. Two Kenyan start-ups, financed by DEG through the Up-Scaling programme, are among the [“TIME 100 Most Influential Companies of 2022”](#), thanks to their innovative business model.



East Africa: Combination of e-commerce and traditional retail

Until now, 750 million low- and middle-income people in Africa have had limited access to quality affordable goods for their everyday needs – or they travel long distances and pay high prices to get them. DEG’s customer Copia, an e-commerce company, relies on a mix of local infrastructure and mobile technologies to reach the African market.

Thousands of local micro-enterprises such as small shopkeepers or hairdressers, mostly women, serve as order and delivery points for Copia’s customers. This enables these customers to participate in e-commerce, even if they are unbanked or have no Internet or delivery addresses. In 2018, DEG had provided Copia with funds under its Up-Scaling programme, enabling the company to build its last-mile delivery system and technology infrastructure.

The importance of digital commerce was demonstrated during the COVID-19 pandemic, when Copia significantly increased its customer base and turnover. The company currently supplies more than a million people with inexpensive everyday items, such as household products, medicines, electronic goods or simple tools. In 2021, DEG provided equity capital of USD 7.5 million to the company, to further develop its core business and include integrated FinTech services that strengthen participation in the e-commerce ecosystem by lowering transaction friction.

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 and its customers. Since 2022, DEG has been focusing its work even more purposefully on reducing greenhouse gas emissions in line with the Paris Agreement's 1.5 °C goal in order to make DEG's portfolio climate neutral by 2040. More than ever, the companies it finances 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. This makes an entrepreneurial commitment and also makes innovative solutions for 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 ([more information on DEG 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 initiatives for more sustainable business activities, DEG's customers bring their businesses into line with SDG 12 (Responsible Production).

Energy utilities that are co-financed directly by DEG and indirectly via funds make a contribution to SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action). Each year, around 42 TWh of electricity are produced from renewable energy sources, currently supplying nearly 38 million people. Wind energy and hydroelectric power account for just under 60% of electricity from renewable sources. This reduces emissions of carbon dioxide (CO₂), the main greenhouse gas, by more than 16 million tonnes per year.

DEG also advises its customers across industries and regions on developing and implementing environmental and social management systems and supports them to obtain certification in accordance with international standards. DEG provided a total of EUR 409 million in 2021 for investments that promote climate and environmental protection.



Pakistan: Biodiversity management for wind farms

Thanks to its windy climate, the Jhampir region of south-east Pakistan is a driving force in the country's wind farm development. At the same time, given its proximity to protected wetlands and key bird migration routes, targeted measures to protect biodiversity are required there. With several wind farms, each with different operators, the task is to develop a joint framework and promote long-term cooperation between wind farm operators, neighbours and other stakeholders.

Together with International Finance Corporation (IFC) and the Dutch entrepreneurial development bank (FMO), DEG has provided long-term loans to four operators since 2021. In addition, the development finance providers have initiated and financed a joint technical assistance project to monitor and handle environmental and social risks – with DEG using funds from its Business Support Services (BSS) programme. As part of the project, birdwatching and data collection methods were improved and thresholds set for monitoring and assessing further measures.



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 1.16 million 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 a 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.

- Some 78% of portfolio companies have set up a grievance management mechanism.



Bangladesh: Commercial bank launches CSR programme

Eastern Bank Limited (EBL) is a major commercial bank in Bangladesh and has been a customer and partner of DEG since 2012. As a universal bank, it offers banking services for corporate and retail clients and is focusing increasingly on the SME and green finance sectors. In addition, EBL is pioneering innovations in Bangladesh's finance sector because it provides its corporate clients with services of an international standard while being a local bank.

Together with FMO, DEG provides EBL with funds for investment in small companies which otherwise have scarce access to financing and for projects in the environmental and commerce sectors. It thereby helps strengthen the local economy, create jobs for the rapidly growing population and combat climate change. With a portion of its profit, the bank has established a CSR programme which it uses to support projects promoting health and education as well as sport, art and culture. The impact of climate change, for example worsening conditions for agriculture, is fuelling an enormous influx of the rural population into the towns and cities, whose infrastructure cannot cope with these new arrivals. To mitigate this rural exodus and improve the infrastructure in neighbouring communities, EBL is involved in setting up and expanding local disaster relief, such as emergency and fire services.

Impact of DEG's fund investments

Investments in private equity funds (PE funds) form a key part of DEG's portfolio. These investments provide capital to private enterprises in developing countries, which they need to develop further. DEG has currently invested EUR 1.4 billion in more than 130 PE funds, providing a total of EUR 12.8 billion in capital to the enterprises they co-finance (investees) in developing countries and emerging markets. The PE funds co-financed by DEG invest in a total of almost 900 investees, with each fully invested fund typically consisting of between eight and ten such investees.

As an anchor investor, DEG strengthens the capital base of the PE 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 1.2 million available last year alone to support 16 funds and investees in areas including environmental and social management, occupational health and safety, and management professionalisation. DEG's fund investments lead to high development impacts, as the following evaluation of the 2021 portfolio shows:

Decent jobs

- More than 1.4 million jobs secured – 52% of all jobs secured by DEG's customers
- 302,000 new jobs since the start of the fund investments – 22% employment growth

Local income

- More than EUR 70 billion in local income
- Average revenue growth of 53% a year

Market and sector development

- 300 investees in IDA/post-conflict countries

Environmental stewardship

- 13.6 TWh of renewable energy – more than 32% of DEG's share of renewable energy

Community benefits

- EUR 163 million for local communities – a large number of funds are recording the local commitments made by their investees for the first time

The 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.



Carbon credit fund: Green business in rural communities

As part of the "CO₂-Senken" (carbon sink) initiative, which was launched in 2020, DEG is financing forestry and other nature-based solutions for carbon sequestration, capturing CO₂ from the atmosphere and storing it for a long time.

In 2021, it invested in a pure carbon credit fund, the Livelihoods Carbon Fund 3 (LCF3), for the first time. Livelihood Venture's funds support rural communities in their effort to preserve or restore natural ecosystems and improve their livelihoods through sustainable farming practices. In a previous project in Senegal, for example, 10,000 hectares of mangroves were restored, which relied on exceptional social mobilisation, recreated a rich biodiversity ecosystem and provided rural communities with new sources of income.

Livelihoods Venture develop the projects together with local non-governmental organisations (NGOs) and carbon project developers. LCF3 provides the financing and receives carbon credits in the amount of the carbon sequestered or avoided in return. In this manner, the fund not only promotes environmentally friendly business practices and climate action (SDG 13) but also boosts jobs and income in the local communities.

With its focus on the long-term benefits for the local community, LCF3 aligns with DEG's [Climate and Impact Strategy](#). In addition, DEG gains insights into the voluntary carbon market – an important step on the way to making the DEG portfolio climate neutral.

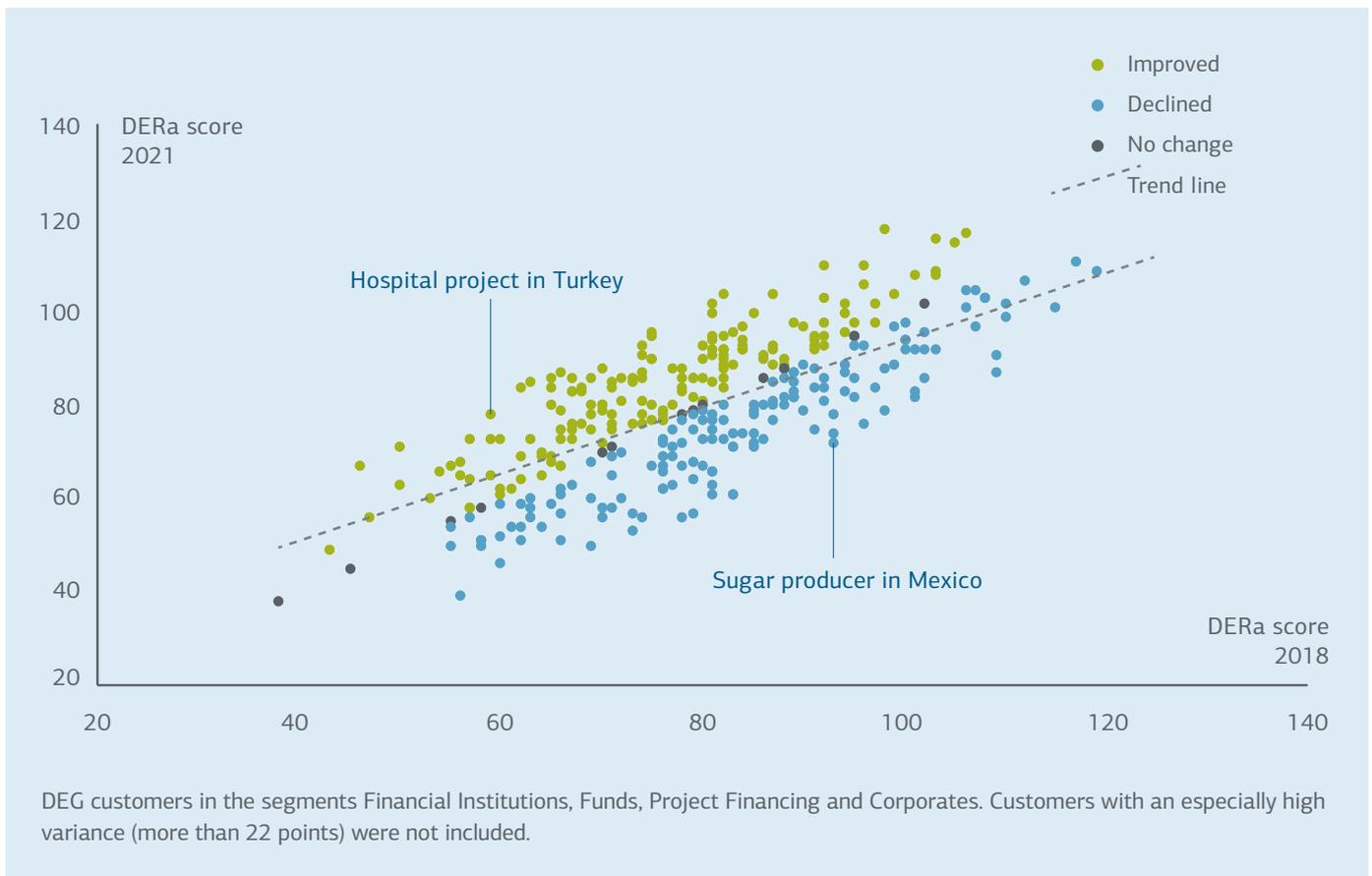
Managing development impact

The Developmental Effectiveness Rating (DERa) makes it possible to measure the development impact of each customer 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 on improvements in a targeted manner. It also allows overarching developments to be tracked at the same time.

A comparison of portfolio assessments from 2018 to 2021 shows that the development effectiveness of companies funded by DEG increased from 79 to 81 DERa points by 2020, and also reached a solid level of 78 for 2021 despite the challenges of the COVID-19 pandemic. Around 54% of DEG's customers managed to improve or maintain their DERa score despite the pandemic. A comparison was made between the development impact of all DEG customers in the Project Financing, Financial Institutions and Corporates customer clusters (358 customers) already in the portfolio in 2018 and their 2021 results. This indicates the following:

- After increasing to 81 prior to the pandemic, the average DERa score of 79 for 2021 is back at the 2018 level.
- The number of employees of DEG's customers has increased from 1.3 million in 2018 to 1.9 million in 2021. The proportion of DEG's customers that can prove their commitment to community engagement increased slightly from 84% in 2018 to 86% in 2021.
- Some 49% of customers received a higher DERa score and 5% remained at the same level. One of the customers whose development impact has improved significantly since 2018 is a hospital project in Turkey. As a greenfield project, its DERa score was rather low during the construction phase. Once it began operating, it created jobs and generated economic growth. Its DERa score improved from 59 in 2018 to 78 in 2021. Since completing and commissioning the healthcare campus, the customer has become a major employer in the region – especially for women. It offers fair working conditions in line with international standards and also contributes to better healthcare.

Around 54% of all DEG customers improved or maintained their development effectiveness from 2018 to 2021



- Such a positive trend is by no means automatic, as the example of a sugar producer in Mexico demonstrates. Years of drought and poor harvests had caused its productivity to drop. Good harvests have now resumed and production has increased, yet the company has been unable to increase revenues, because the price of sugar on the world market is low. The company has not been forced to cut jobs, but it generated significantly less local income and its DERA score dropped from 93 to 72.
- Overall, the effects of the COVID-19 pandemic on the DERA score for DEG's portfolio in 2021 have been less dramatic than expected. DEG reported a slightly lower DERA score for its portfolio, which was primarily attributable to lower customer growth. There are also some customers which were hit hard by the effects of the pandemic. DEG is supporting them to maintain business operations in order to preserve jobs and to minimise loss of income. Nevertheless, the negative effects of the coronavirus pandemic are also reflected in companies' DERA scores.

DEG was one of the first signatories of the "[Operating Principles for Impact Management](#)", which set standards for the business strategy, business development, structuring, management and assessment of developmental effectiveness for private investments. Under these standards, DEG's impact management is verified and affirmed by an independent outside institution.

Promotional programmes

DEG offers its customers [promotional programmes](#) that allow it to advise and support them in a targeted manner.

DEG's Business Support Services (BSS) support companies to further improve their performance and growth and the development impact of their investments. BSS operate in the fields of corporate governance, staff and supplier training, risk management, environmental and social governance, and efficient resource and energy management. German and local SMEs with an innovative business model that are willing to invest in developing countries receive the necessary funding for their development in a targeted manner via its Up-Scaling programme. Through AfricaConnect, DEG provides long-term loans to European companies for expansion into Africa.

With the develoPPP programme run by the German Federal Ministry for Economic Cooperation and Development (BMZ), DEG promotes private-sector projects in areas where entrepreneurial opportunities and development-policy potential coincide. During the past year, DEG committed to 82 develoPPP projects amounting to a total (including company contributions) of

EUR 99 million. Through this programme, DEG co-finances measures with development impact by companies with up to EUR 2 million – generally for a term of between two and three years.

A total of 44 projects were or are being implemented in the target region Africa, and 32 projects in collaboration with German companies.



Africa: Seed capital and networks for young companies

One example from the develoPPP programme is the project with the Tony Elumelu Foundation (TEF), founded by Tony Elumelu, chairman of the United Bank for Africa (UBA), to which DEG committed a USD 50 million credit facility in 2021, supporting lending to SMEs and family businesses in Nigeria.

The develoPPP project with TEF is co-financed by using funds of EUR 1.5 million from the German Federal Ministry for Economic Cooperation and Development (BMZ). It finances 200 young African entrepreneurs and supplements the existing TEF Entrepreneurship Programme. The funds are also being used to expand TEF's digital networking platform, TEFConnect.com, in order to give a further 500,000 SMEs access to the platform. Development of a structured impact assessment system for the foundation and the bank is also in the pipeline.

The Tony Elumelu Foundation's Entrepreneurship Programme was launched in 2015 to empower up to 10,000 entrepreneurs over ten years. Successful applicants receive business training, mentoring, non-repayable seed capital of USD 5,000 and access to the global network. The programme is open to entrepreneurs from all African countries and is aimed at start-ups and established young companies from any sector. Some 16,000 entrepreneurs from all 54 African countries have already been funded.

The develoPPP project serves to increase SMEs' chances of success, create jobs and income, stimulate economic growth and generate local added value in Africa. It thus contributes to SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

»»» Focus on impact and climate

The principle of sustainable development is embedded in DEG's business strategy, applying to dealings with customers and partners as well as the way it runs its own business. With its commitment, and together with its international network, DEG supports improvements in people's standard of living and protection of the planet. Through its investments, it intends to promote measures that fight the increase in global warming while helping to combat inequities around the world.

As described in the Paris Agreement, there is an urgent need to act in order to achieve a rapid transition to climate neutrality and to reinforce companies' resilience. At the same time, the climate crisis is further exacerbating existing economic, environmental and social challenges.

DEG regards its cooperation with the private sector and with international partners as an opportunity to tackle these global challenges together, thereby contributing to a more sustainable future. Based on this conviction, it supports its customers in creating decent jobs, inclusive economic growth and the sustainable socio-ecological transformation of value chains.

Future-oriented management (the future of business) uses the necessary resources in a deliberate, sustainable way (3Rs = reduce, reuse, recycle), ensures fair working conditions in the company and in the supply chain, is increasingly inclusive, both with regard to employees and to clients, and allows adjoining communities to take part in the company's success.

More and more companies regard this as a business case, for example the textile firm JMS in Bangladesh. Another important aspect is being able to detect and deal with climate risks in the business model at an early stage.

DEG actively supports its customers' transformation with its financing and advisory offerings, thereby contributing to their business success while simultaneously achieving even more of its own impact and climate goals.

In its new business strategy, DEG therefore establishes a clear focus on impact and climate with three main points:

1.

Commitment to impact

Further increasing the positive development impact of customers on society and the environment, thereby increasing their contribution to the Sustainable Development Goals (SDGs).

2.

Commitment to the battle against climate change

Recording, avoiding, reducing and neutralising greenhouse gas emissions in line with the 1.5 °C target in the Paris Agreement in order to achieve a climate-neutral portfolio by 2040.

3.

Commitment to transformation

Reaching goals together: Actively supporting customers with their transformation in order to strengthen their climate resilience and achieve even greater development impact.

More information about DEG's [Impact Climate Commitment 2022](#).

Climate-neutral portfolio: Three approaches

DEG will rely on three approaches to achieve its goal of a climate-neutral portfolio by 2040:

1. Avoidance of CO₂: On the one hand, DEG is increasingly investing in climate-friendly business models, applying the sectoral guidelines of KfW Group in the process. On the other hand, in canvassing for new customers, DEG increasingly considers the medium-term and long-term effects on its own carbon footprint.

2. Reduction and transformation: DEG promotes renewable energy sources and alternative, lower fossil fuel production. In addition, it provides targeted advisory services to help its customers modernise production and processing procedures and to focus on compliance with the Paris Agreement.

3. Neutralising emissions: By financing reforestation and carbon sequestration projects, DEG is increasingly offsetting unavoidable emissions.

The challenge of the approach DEG is pursuing (as described above) to reduce greenhouse gases in order to comply with the Paris Agreement starts with recording the portfolio's CO₂ emissions. If no emissions data, or only direct emissions data, are available, DEG uses the Joint Impact Model (JIM), which models its customers' emissions data based on macroeconomic data sets. This analysis makes it possible to quantify DEG's CO₂ footprint for its portfolio and to plan for relevant measures to further reduce that footprint.

Active collaboration: Transformation

In order to achieve its impact and climate targets, DEG relies, on the one hand, on investments in high-impact, climate-friendly industries and companies. On the other hand, it supports the transformation processes of its customers in developing countries and emerging markets in order to increase the impact and positive climate effects of their business activities. The purpose of DEG's advisory and financing models is to enable its customers to transform their companies in a sustainable way,

thereby turning joint ecological, social and economic goals into reality. Here, internal processes, supply chains and the environment in which DEG's customers operate are at the forefront of every solution.

For DEG, this means working with its customers to find bespoke solutions compatible with the business model and recognising opportunities for optimisation that offer both (economic) added value for the customer as well as for a more sustainable society.

To achieve this, DEG offers its customers various combinations of financing and advisory services. Indeed, switching to more sustainable business models requires more than financing alone. In order to address individual customers' specific needs, DEG offers Business Support Services (BSS) to support its customers, among other things. This programme promotes management consulting to improve their performance and to achieve sustainable growth and development-policy impact. With a focus on making the organisation, processes and supply chains more resilient to climate change while delivering higher impact, DEG works with its customers to define specific transformational goals, supports them along the way and documents their progress.

It takes a holistic approach to transformation and supports its customers in transforming products, processes and service offerings, in order to combine their business success with greater development impact while ensuring that they are successful over the long term. For example, in Mexico it is committed to social transformation in the financial industry in order to achieve greater gender equity (example: Mega). In Nicaragua, DEG supports production processes that conserve resources in the agricultural sector for climate transformation (example: Corporación Agrícola S.A.).

Example of climate transformation

Nicaragua: Resource-efficient production processes in agriculture



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Reimagining manifold production processes has become an important economic factor as rising energy and commodity prices are endangering the economic efficiency of production in many companies. Resource-efficient production processes also contribute to maintaining the environment's ability to regenerate. DEG's customer Corporación Agrícola S.A. (Agri-Corp) has established more sustainable production processes in the rice milling sector, thus cutting costs and saving resources.

The rice processing company Agri-Corp was founded in 2000 and is the market leader and a major employer in Nicaragua with several mills and production facilities, including at its main sites in Chinandega and Tipitapa. Four mills process around 185,000 tonnes of rice a year, representing around 60% of its revenue. The company also sells regional food brands as well as salt and eggs from its own farms and from other suppliers.

Rice mill with circular system potential

Agri-Corp buys paddy rice from national producers and international suppliers and processes it into rice of different qualities. The company uses by-products such as broken grains to produce rice flour, which is enriched with nutrients and vitamins and then added to other end products. In addition, the rice bran is used to manufacture cooking oil and brewers rice is sold as a raw material for beer.

In all processes, the company relies on modern technologies, energy efficiency and tapping the potential offered by circular production. These measures enhance the company's competitive position because they help reduce operating costs. At the same time, they facilitate the sustainable use of natural resources in a very energy- and water-intensive industry.

Green electricity from “waste”

Agri-Corp also uses the “waste product” of rice husks as a biomass fuel for power generation. At full capacity, the company’s own Organic Rankine Cycle (ORC) plant at its site in Chinandega can produce more energy than the site needs, thus helping to ensure the cheap supply of power independently of Nicaragua’s grid with its price fluctuations, while at the same time reducing greenhouse gas emissions.

DEG has been working with Agri-Corp since 2019, financing modern production facilities with a long-term loan of USD 22 million and the construction of the ORC power plant for (renewable) power generation. A Resource and Energy Efficiency Check (REC) carried out with DEG funds in 2021 identified further cost-saving potential. For example, the measures implemented in Chinandega could be replicated at the rice processing facility in Tipitapa and certain production processes could be relocated in order to close gaps in the circular economy and use the full potential of the ORC plant.

How business and society benefit

In addition to the technology investments mentioned above, which contribute to innovating the sector, the collaboration is having further development impacts: Agri-Corp makes an important contribution to local livelihoods with 740 direct jobs, particularly in rural areas, plus additional jobs at suppliers, and is also committed to improving local transport and the health system.



Resource and Energy Efficiency Check

Businesses have a vital role to play in the move towards a low-carbon society. DEG is committed to mobilising private companies as an additional actor for climate protection in developing countries and emerging markets. Its “Resource and Energy Efficiency Advisory Service” (REEAS), for example, advises companies to identify potentials for energy and resource productivity and to reduce costs. The service is aimed especially at agribusinesses and companies from the industrial and service sector with high energy costs and accompanying high greenhouse gas emissions. The first phase is the Resource and Energy Efficiency Check (REC), during which a technical consultant conducts an on-site inspection to analyse the customer’s current status, itemising potential efficiency gains and drawing up a cost-benefit assessment. Based on these, the customer can decide which measures should be pursued and DEG provides support for implementing them. DEG has now completed 28 REC projects worldwide. The measures co-financed through developPPP provide support for companies operating in developing countries, including for tapping new markets, upgrading employees’ skills and implementing programmes designed to ensure the company acts responsibly.

Example of social transformation

Mexico: Financing and leasing models for women



Small and medium-sized enterprises (SMEs) constitute the largest share of companies in Mexico and their access to financing is often poor. This applies in particular to female entrepreneurs. In addition, there is a very high gender pay gap, also in comparison with other OECD countries, with low levels of employment and poor working conditions for women. These dynamics were exacerbated considerably by the COVID-19 pandemic.

Operadora de Servicios Mega (Mega), founded in 2003, is aiming to close the gender gap. It offers leasing and financing solutions for means of production for SMEs that have had no – or only limited – access to financial services to date. Mega's core service is leasing. As a leasing company, Mega is particularly attractive for women, who typically have less access to assets than men, because, unlike for loans, the leasing financing is

not dependent on assets for collateral. Mega's management saw the business value and the moral imperative of supporting women in business through SMEs and reaching more female customers, however women only made up a fraction of its portfolio. Mega's management spotted the potential and stepped up its efforts to support women-owned SMEs and the female economy and reach more female customers.

With its Gender Smart Opportunity Assessment in connection with financing provided to the company, DEG offered Mega pinpointed advisory support to develop products and services tailored to the particular needs of the female target group.

Bonus payments create incentives

Based on insight gained from the Gender Smart Opportunity Assessment and its own analyses, Mega laid the foundations for growing its finance offerings further. It now systematically records which customers meet the 2X Challenge criteria.

In order to enhance the business model's gender-transformative approach further, DEG, together with Mega, tests the Outcome-based Funding (OBF) instrument, under which the company can receive bonuses funded by DEG if impact targets are met within a defined period. In this case, Mega undertakes to boost the share of business that meet the 2X Challenge criteria. To achieve this target, Mega is adapting its business strategy, establishing new ways of acquiring customers and training staff in gender awareness and green finance.

How business and society benefit

Collaborating with DEG allows Mega to transform its business model more rapidly and add new customer groups. Activities in gender-relevant sectors are stepped up and expanded to previously under-represented sectors (e.g. transport and industry) in order to offer more women access to tailored leasing products. By doing so, Mega already now belongs to DEG's portfolio companies that have qualified for the 2X Challenge.

Through advisory services and funding, DEG supported the creation of more finance offerings for women-led businesses and companies with a high proportion of female employees. They are given better access to leasing products, empowering their entrepreneurship with a positive impact on jobs, income and business growth.



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