

2018

## »»» Responsible business – adding value

How DEG customers contribute to the global Sustainable Development Goals

# »»» Promoting sustainable development



## DEG 2018: Key facts

DEG's portfolio is currently worth EUR 8.4 billion. These funds are used to finance investments made by around 600 customers in 82 countries. In 2018 DEG provided funding amounting to some EUR 1.9 billion. DEG awarded funds totalling around EUR 28 million as part of promotional programmes aimed at the development of new markets, training measures and the introduction of international environmental and social standards, for example.

In order to realise the ambitious "2030 Agenda for Sustainable Development" and achieve the 17 global Sustainable Development Goals (SDGs), the private sector is called upon to play an active role. After all, private enterprises that act responsibly and are successful over the long term make an important contribution to achieving these goals. Through their financial success and responsible operations, the companies financed by DEG are accelerating sustainable development in line with the 2030 Agenda. DEG helps to make its customers' investments more sustainable: it combines the financing it provides with a broad range of advisory and support services, as well as promoting environmental, social and corporate governance standards.

DEG uses its Development Effectiveness Rating (DERa) in order to measure how the private sector contributes to development and to identify how these impacts can be increased. The DERa combines quantitative and qualitative indicators to measure development for each customer on an annual basis. These are summarised in five central dimensions for private sector development, which are: decent jobs, local income, market and sector development, environmental stewardship and community benefits.

The DERa is one of the first international systems to look at the development impact of funds also at investee level. The funds that DEG invests in reach 632 companies, 186 of which are small and medium-sized enterprises (SMEs: companies with fewer than 300 employees and sales below USD 15 million).

The DERa evaluations included in this report show that responsible companies have a measurable impact and make a significant contribution to the SDGs. The DERa determines this contribution based on selected indicators. DEG's customers make a contribution to the following sustainability goals:



86% of customers have shown successful financial development and are helping to fight poverty through higher local incomes.



95% of DEG's customers create additional local income or new, decent jobs.



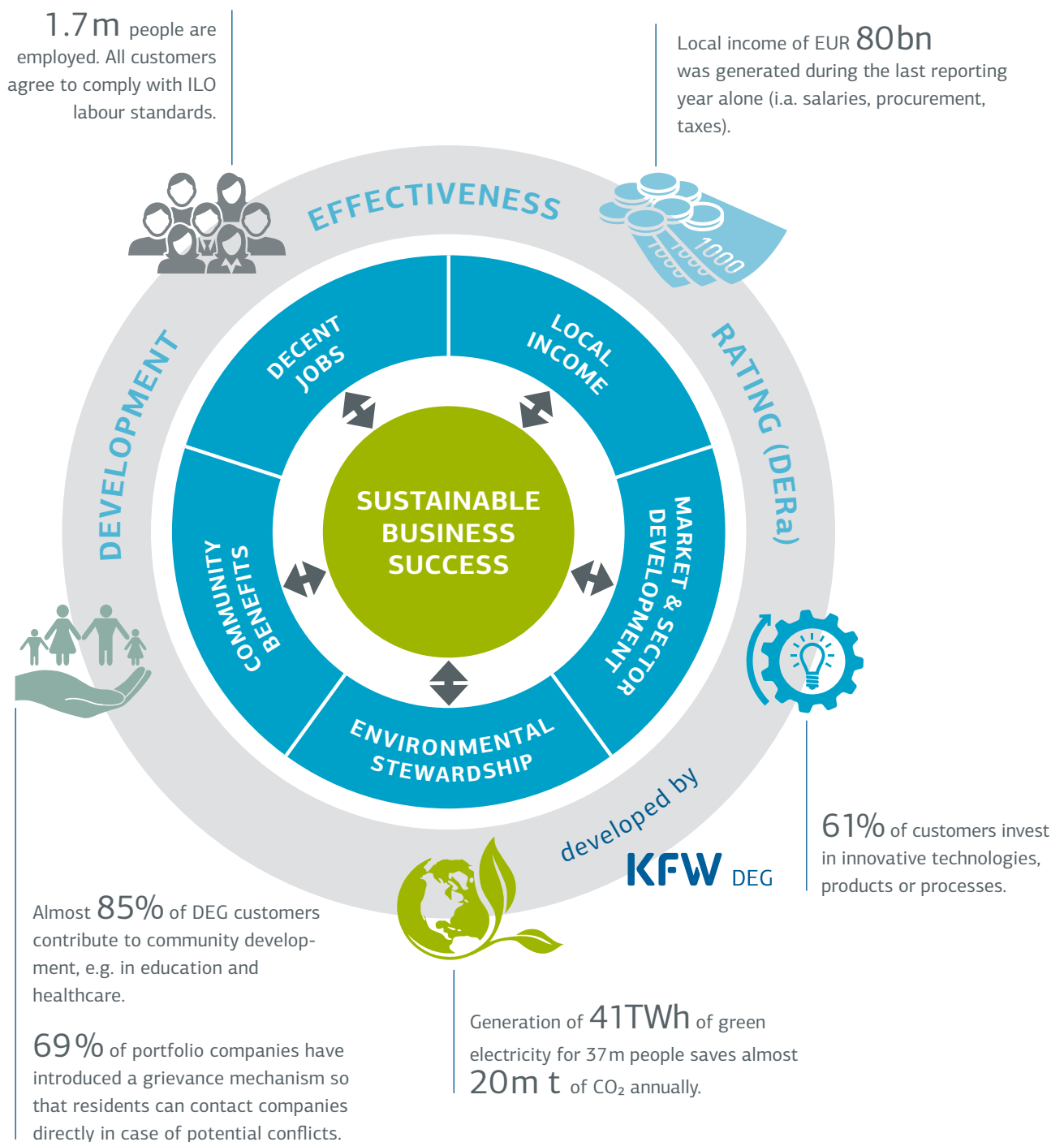
62% of the companies and project financiers (energy and infrastructure) financed by DEG are innovative or are financial institutions that provide targeted support to SMEs.



Almost 25% of DEG's customers generate renewable energies or are particularly resource-efficient in the way they operate.

# Development effects 2018

In the DERa, the development effects of DEG's portfolio 2018 are presented along five dimensions: decent jobs, local income, market and sector development, environmental stewardship and community benefits.





## Decent jobs

The promotion of local corporate financing is an important driving force in creating skilled jobs, income and prospects on the ground. Safeguarding and further developing qualified jobs are of utmost importance, as vocational training and employment in particular pave the way out of poverty. Jobs provide more than 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).

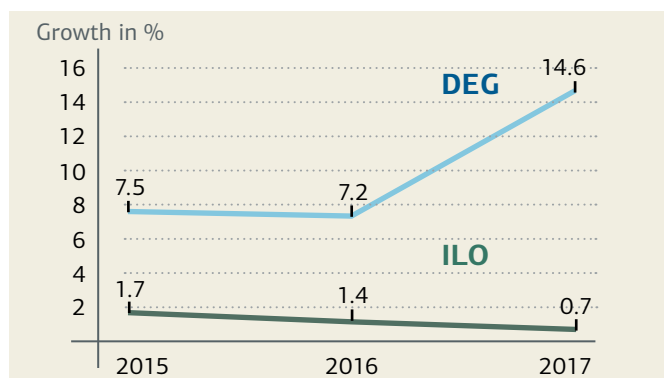
- DEG's customers (excluding funds) employed more than 794,000 people in 2018. The number of employees working for these customers has risen by almost 290,000 since DEG invested in them.
- In addition, the 632 companies that DEG finances via funds offer employment to 937,000 people. 200,000 of these jobs are newly created.

In DEG's investment countries, the number of new jobs increased by 159,000 in the last reporting year due to the investments of DEG's customers – determined by using the „Löwenstein model“ (for the customer segments corporates and project finance).

According to estimates by the International Labour Organization (ILO), the number of people in formal employment in countries where DEG is active rose by 0.7% to 1,455 million in 2017, compared to 1,444 million in the year before. By comparison, formal employment with DEG customers rose by 14.6% and showed a much stronger increase.

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. As a result, DEG expects its customers to

### Growth of formal employment in developing countries in 2015–2017: ILO/DEG in comparison



commit themselves to working towards compliance with the ILO's core labour standards and basic terms and conditions as well as to implementing good HR and occupational health and safety management systems. Implementing better working conditions pays off for companies, as better conditions increase motivation and productivity and reduce staff turnover and absenteeism.

- 75% of DEG's customers already 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 unable to find qualified staff to fill a large number of vacancies.

- Almost three-quarters 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 labour standards, training programmes or improvement of HR management.

As far as decent jobs are concerned, women do not yet have the same opportunities on the labour market or in management positions as men do. This is why DEG is committed to promoting greater participation of women in developing countries.

- Almost 575,000 of the 1.7 million people employed by DEG's existing customers are women. 18% of existing customers actively contribute to Sustainable Development Goal 5 (Gender equality) because they employ more women or have more female managers than the industry average.

DEG supports the "2x Challenge" – an initiative launched by the G7 Development Finance Institutions ([www.2xchallenge.org](http://www.2xchallenge.org)). They aim to jointly mobilise a total of USD 3 billion by 2020 for women's employment and entrepreneurship in developing countries.

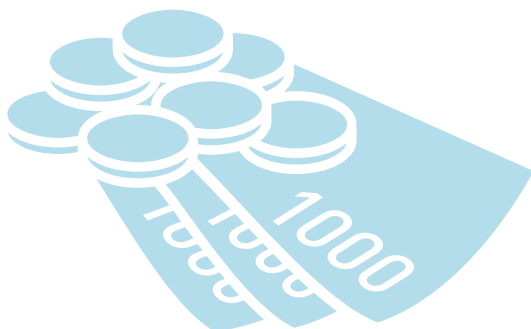
In addition, DEG promotes financial institutions in developing countries and emerging markets that want to improve the financial services they offer women. To this end, DEG is carrying out a "Gender Smart Opportunity Assessment" with the aim of tailoring financial products and services to better suit the needs of women.

## Increasing local income

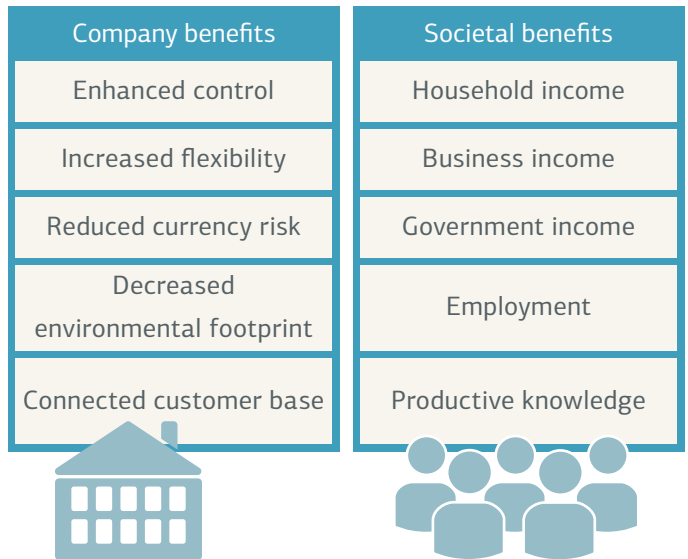
Increasing local income also increases opportunities for people in developing countries. The private sector plays a particular role in generating local income and the more the business model is rooted in the local context, the greater the contribution it makes. This means that companies employ more local 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).

- Each year the portfolio companies of DEG pay around EUR 11 billion in local wages and salaries as well as EUR 4 billion in taxes.
- More than three-quarters of necessary supplies and almost half of capital goods are sourced locally, generating EUR 46 billion in income for local suppliers.
- Interest payments to local capital lenders and profits after taxes of local businesses create further annual income of EUR 19 billion.
- In 2018 alone, DEG's portfolio companies generated local income of EUR 80 billion.

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.



### Impact of local sourcing



Local sourcing offers a whole range of advantages for companies and the social environment. Among other things, it simplifies the logistics process, is more environmentally friendly and boosts local income. But many companies in developing countries only purchase some of their goods and services locally. This can be due to a lack of availability, low quality at excessive prices and inefficient delivery.

The DEG study "Unlocking the benefits of local sourcing for companies and society" ([www.deginvest.de](http://www.deginvest.de)) shows what companies and governments can do to increase local value creation. Companies could, for example, attach more weight to a supplier's country of origin in their selection criteria or explore local alternatives to replace imported products. Possible solutions at national level include the development of business platforms to match supply with demand, improved access to capital and measures to actively promote local value chains.

# »»» Takura Fund II: Capital and advice for success of SMEs in Zimbabwe

The UN estimates that by 2030 over 2 billion people will be living in the world's least developed countries. Unless we find ways to stabilise these "fragile" states it will not be possible to achieve the Sustainable Development Goals. What is needed are sustainable reform processes and investments in the areas of the economy, the environment, politics, security and society. This includes the promotion of a private sector that is sustainable and economically successful.

Private equity funds are important bridgeheads in shaping the development of the private sector to ensure it is sustainable and successful also in fragile states. One example of this is the private equity fund "Takura Fund II" (Takura), which was set up in 2011 and invests predominantly in Zimbabwe (ranked 159th out of 190 in the "Ease of Doing Business" ranking). According to a recent study by DEG, based on 2017 data, it has made a substantial contribution to development, with investees offering decent working conditions for over 5,700 employees, increasing local incomes, implementing new technologies and supporting local communities.

Takura has provided 14 businesses with risk capital in the range of EUR 2.5 million to EUR 6.3 million per business. Its portfolio includes companies from the food processing, transport and logistics, financial services, retail, healthcare, education, and information and communication technology sectors. Takura is not only providing capital that is in short supply, but is also offering regional and sector expertise as well as detailed management advice. Thereby it is enabling small and medium-sized enterprises (SMEs) to develop their growth potential.



As the anchor investors of Takura, the European Development Finance Institutions CDC, DEG and FMO have provided 59% of the total funding volume of EUR 63 million. Their involvement has strengthened the fund's capital base and mobilised other investors, who have contributed an additional EUR 26 million.

As is the case in all least developed countries, so-called "first movers", whether financiers or investees, need to overcome numerous obstacles; the impact that they have and the precedent that they set for "followers", who will then encounter better conditions, should be highly valued. DEG's Development Effectiveness Rating (DERa) records the contributions that Takura's investees have made to development in terms of decent jobs, local income, market and sector development, environmental stewardship and community benefits.

## 5,700 employees – 1,500 new jobs

Takura's investees employ over 5,700 staff in total in a country where 95% of the population works in the informal sector and more than 20% of the population live on an income of less than USD 1.90 per day. 32% of permanent employees are women. The number of employees has increased by around 35% since the fund's investment, with the creation of about 1,500 new jobs. In addition to these direct effects, Takura's investees are also creating new jobs at their suppliers.

Companies in which Takura has invested comply with ILO core labour standards and observe international standards on occupational health and safety and human resource management. They pay the respective minimum wage and overtime and provide social security systems. Depending on the company, their employees also receive additional benefits such as healthcare offers, canteens, subsidised transport and provision of free food.

# Sustainable development

## Local income totalling EUR 111 million

The Takura companies pay salaries to their employees on site, purchase raw materials and services from local suppliers and pay taxes and licence fees to local authorities and the state. With this spending they generated local income totalling EUR 111 million in 2017, of which EUR 101 million are related to salaries including pension contributions and expenses for suppliers of goods and services. The Takura companies paid a total of EUR 10 million in taxes and other government fees.

## Opening up of new markets

By providing capital, Takura is helping its investees to develop new products, introduce best practice and new production technology and implement effective logistics solutions. Management systems and certification processes set up by Takura in accordance with international standards also promote the companies' market development and create competitive advantages for them in opening up new regional markets.

## Active fund management for more sustainability

The environmental, social and governance management system (ESGMS) developed by Takura at fund level improves the companies' sustainable development. MC Meats, for example, has improved its occupational health and safety (OHS) management and no longer uses harmful pesticides. The food companies Cairns and Lobels have integrated practices and technologies into their production processes that promote energy efficiency, ensure sustainable use of resources and reduce greenhouse gases. The trading company Talwant Trading (Food Lover's Market) has improved its waste management practices, and plastic and paper waste is collected separately and recycled.

## Effective cooperation with local communities

Through their involvement in the community the Takura companies help to improve local living conditions. For example they support young people in their education by donating money to schools and financing scholarships, donate food to those in need (orphanages, help centres, disabled people, elderly people) and train smallholders in farming best practices.

As part of their environmental and social management, the Takura companies carry out a social and environmental assessment for each new production site or expansion.



## Higher income for local smallholders

The food company Cairns not only generates earnings for its around 1,700 employees, but also contributes to local income, for example by purchasing local products worth around EUR 3 million from local farmers. Cairns also supports around 8,600 local farmers as part of a contractual scheme relating to cultivation of Michigan pea Beans. As Cairns provides agronomic support and guarantees that produce will be purchased, smallholders who participate in the scheme also obtain better access to financing, from local micro-finance businesses. By sourcing locally, Cairns secures the jobs of smallholders and supports the livelihoods of their roughly 25,000 dependents.

This allows the identification of the project's potential effects and risks for the local community and mitigation of any negative impact of project-related activities.

## Takura in the DERA

While DEG's portfolio customers attained an average of 79 DERA points, Takura achieved 86 points. Investing in a challenging market, a significant contribution to local incomes and environmentally responsible practices were among the main reasons for this very good result.

More information about the study "Takura Fund contributes to sustainable SME development in Zimbabwe" is available at [www.deginvest.de](http://www.deginvest.de)

## 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. Through the DERA, DEG evaluates by means of the 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 DEG customers operate in less developed markets, i.e. low-income countries or countries where business conditions are difficult.
- More than 45% 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 enable 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.

- 61% 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 1.9 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, thereby strengthening the SME sector and creating new jobs.

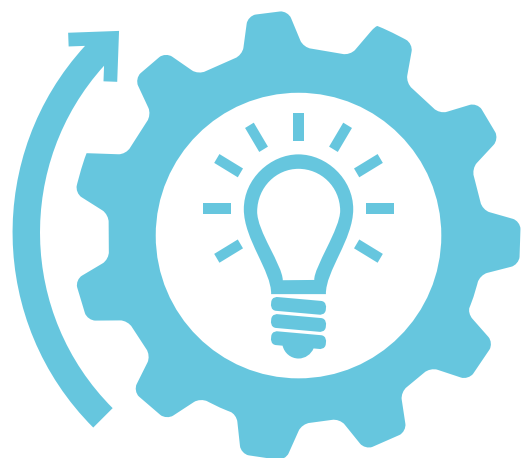


### DEG promotes mobility in Myanmar

Mobility is an important requirement for the economic development of a country, especially for rural regions. In Myanmar, for example, two thirds of the population live in the countryside.

Rent2Own, financed by DEG, is the first company in the country to offer motorcycle rentals on a flexible basis. The company has 400 employees. Its services are intended to address primarily the rural population. Rent2Own has already enabled around 70,000 customers to rent a motorbike, one fifth of them women. More than 90% of its customers are able to buy the motorcycle at the end of the rental contract, using the income generated through renting it.

Philippe Lenain, CEO of Rent2Own, explains what this means for the local population: "Almost all of our clients use their bike to generate income, there's no doubt about this. But our internal surveys also show that 'taking children to school' comes in second place. So we're committed to expanding our coverage in Myanmar." An innovative solution thus helps to improve the general conditions for further growth in Myanmar, i.e. through shorter transport routes and education of the next generation.







## 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 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. This enables risks to be mitigated and investment opportunities to be identified, and enhances their reputations. At the same time, DEG's portfolio customers make their businesses more sustainable this way and bring them into line with Sustainable Development Goal 12 (Responsible production).

By generating renewable energy without CO<sub>2</sub> emissions, energy providers are playing a major role in achieving the goal to keep global warming to below two degrees Celsius. The international community has set itself the target of doubling the share of renewable energy in overall energy consumption to 36% by 2030. This is the only way that SDG 7 (Affordable and clean energy) and SDG 13 (Climate action) can be achieved.

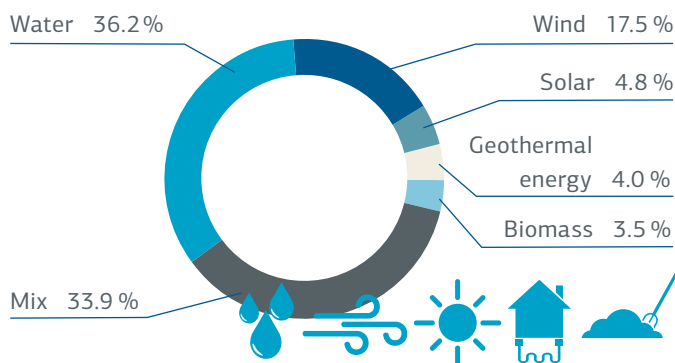
On an annual basis, energy utilities co-financed directly by DEG and indirectly via funds produce 41 TWh of electricity from renewable energy and can currently supply more than 37 million people. This reduces emissions of carbon dioxide (CO<sub>2</sub>), the main greenhouse gas, by almost 20 million tonnes of CO<sub>2</sub> per year. The CO<sub>2</sub> 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<sub>2</sub> footprint of the power grid concerned (grid emission factor).

Businesses have a vital role to play in moving towards a low-carbon society. Mobilising the private sector as an additional actor for climate protection (Sustainable Development Goal 13) in developing and emerging countries is a key objective of DEG.

Its "Resource and Energy Efficiency Advisory" service, for example, helps companies to employ resources and energy more efficiently and reduce associated costs. The service is aimed especially at agribusinesses and companies from the industrial and service sector with high energy consumption.

Together with the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, DEG is running the programme "Climate partnerships with the private sector". The focus of the programme is on supporting companies in setting up business segments in the field of renewable energy and energy efficiency in emerging markets and developing countries.

### Renewable energy in the DEG portfolio



## Community benefits

Entrepreneurs are active citizens who play an important role in society. As part of its environmental and social standards, DEG calls for good community, health and safety management for neighbouring communities. In addition, increasing importance is being placed on active interaction with local communities. It 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.
- Around 80% of DEG's portfolio companies engage in community development activities. During the last reporting year, each company made an average amount equivalent to almost EUR 400,000 available for community development. The most common areas for investment were education and healthcare.

Where required, 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. 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 international best practice.

- 69% of portfolio companies have set up a grievance management mechanism.



### Improved financial inclusion in Costa Rica

In Costa Rica, large sections of the population have no access to financial services. This, however, is not only due to a lack of services from banks, but also related to low levels of financial literacy of many customers. Individuals and small businesses often find it difficult to choose the product that is best suited to their needs. In particular, financial services that are designed as a safety net, such as pensions or insurance policies, are often not properly understood or customers are not aware of them.

DEG's customer Cooperativa Nacional de Educadores RL (Coopenae), one of the largest savings and lending cooperatives in Costa Rica, offers members and non-members financial training on budget planning and selecting financial products. The aim is to enable the participants to manage their income better so that they can avoid racking up excessive debt. With support provided by DEG's promotional programmes, Coopenae has been able to expand the programme and also reach out to people in rural areas.

The initiative has trained around 17,000 people, many of whom are from socially disadvantaged families. They attended workshops to learn how to prepare, analyse and manage their budget and to pinpoint how high their debt risk is. They were also trained on how to compare the real prices of financial products, enabling them to select the best product to suit their individual financial circumstances. This knowledge will allow the participants to plan investments or expenses such as school fees, healthcare costs or insurance better and to pass their knowledge on to others in order to improve living conditions in the long term.



# Managing development impact

## DEG signs new “Operating Principles for Impact Management”

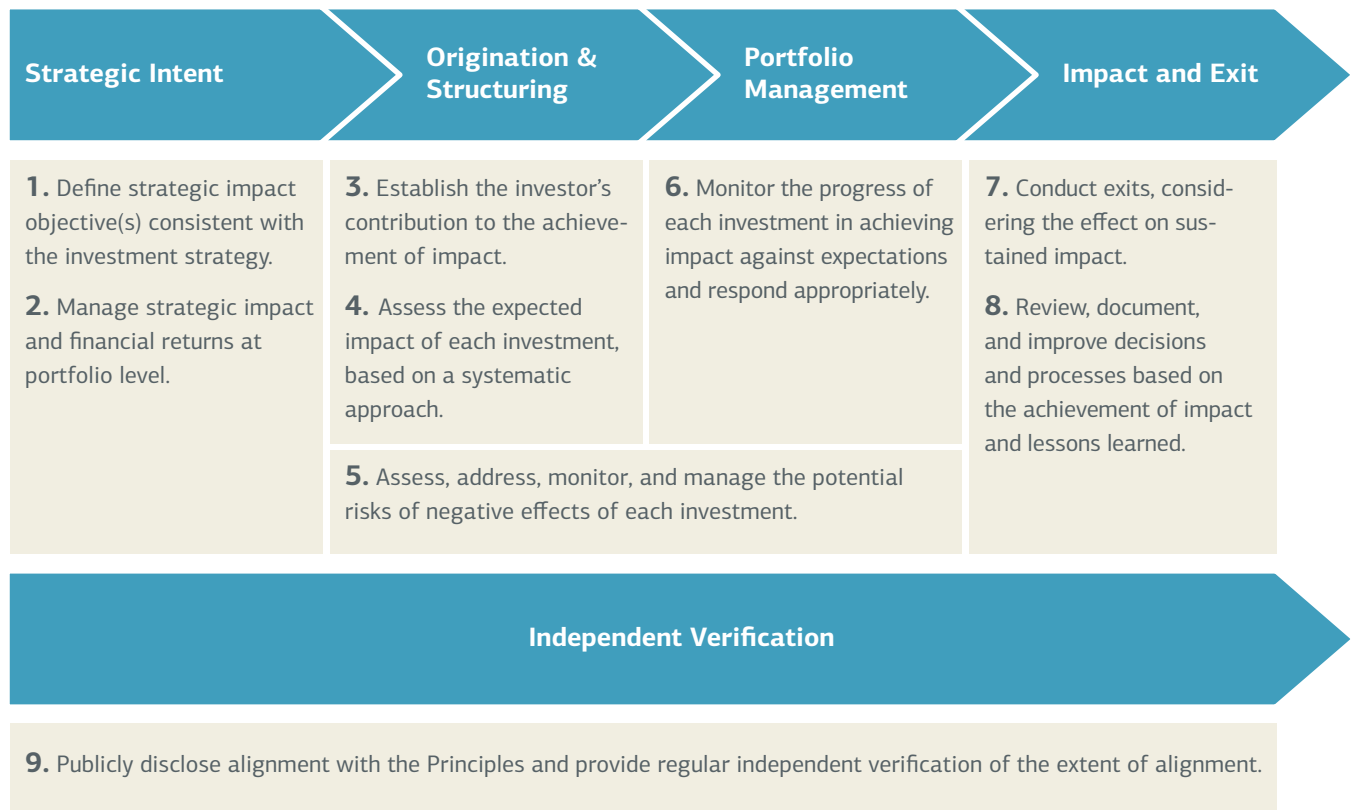
The new “Operating Principles for Impact Management” developed under the lead of IFC set standards for development investments with regard to strategy, origination, structuring, management and verification. DEG was among the very first signatories at the World Bank’s Spring Meetings in April 2019.

The introduction of the IFC Impact Principles is designed to further develop the market for impact investing. The Principles are aimed at public-sector and private investors that want to use their investments not only to generate financial returns,

but also to achieve measurable positive social, economic and environmental development effects.

DEG is already working in accordance with the Principles: it pursues a corresponding portfolio management approach, bases its environmental and social management system on the IFC Performance Standards, records, evaluates and publishes the impact results recorded through the DERA on an annual basis and arranges for the DERA to be verified as a measuring instrument by external consultants on a regular basis, most recently in 2018 by consulting firm d-fine.

### Operating Principles for Impact Management



Find out more: [www.ifc.org/impactprinciples](http://www.ifc.org/impactprinciples)



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June 2019

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