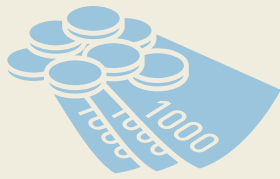


»» We shape development

DEG's contributions to the Global Goals
for Sustainable Development



2016

Foreword

In 2016, DEG continued to expand its commitment to supporting sustainably successful and effective private-sector investments. This expansion related not only to its financial services (new commitments of EUR 1.6 billion), but also to its advisory and promotional programmes that aim to increase sustainability. Among other things, the companies co-financed in 2016 will create or safeguard around 145,000 direct jobs and pay EUR 280 million in taxes annually.

Above and beyond this, the multidimensional, index-based development assessment was also advanced. The newly launched Development Effectiveness Rating (DERa) is guided by the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs), and reflects 15 years of experience with the Corporate Policy Project Rating (GPR) (page 3). The contributions our customers' investments make to development are shown and assessed for the first time using the five newly developed outcome categories of the DERa (pages 4–8).

In 2016, we expanded the advisory services we offer our customers, which now include amongst others the "People Management+" product (page 9). With this advisory service we are addressing one of the most frequent barriers to investment – a lack of qualification – and are strengthening our contribution to SDG 8 (decent work and economic growth).

The focus of this year's external evaluation was on environmental and social management systems in DEG-financed banks and funds. DEG makes an important contribution to this with a specially designed advisory product. The study presented on pages 10 and 11 shows the challenges involved and how DEG customers benefit from environmental and social management systems.

The examples presented in this report clearly show that our commitment to sustainable entrepreneurial initiatives has a measurable impact and represents an important contribution to the goals of the 2030 Agenda of the United Nations.

I hope you enjoy reading our report.



Bruno Wenn
Chairman of the Management Board



»» Measuring development effectiveness

DEG is committed to sustainably competitive companies that comply with international environmental and social standards, promote local development and by doing so contribute to achieving the SDGs. The development effectiveness of these investments is being measured with a newly developed rating tool (DERa) and further enhanced by Business Support Services.

DEG offers companies financial services and special promotional and advisory programmes in order to increase sustainability and to generate broad-based effects. It thus contributes to implementing the 2030 Agenda for Sustainable Development, approved in September 2015. For realisation of this Agenda, key importance is attached to the commitment of the private sector and new forms of collaboration between state stakeholders, business and civil society.

The Agenda includes 17 Sustainable Development Goals (SDGs) that cover the ecological, economic and social dimensions of sustainable development. Private-sector companies contribute to implementing these development goals through long-term investments, creating jobs, enhancing local added value and at the same time operating in an innovative, resource-saving and socially responsible manner.

DEG supports its customers in realising this potential through its range of financing and advisory products and services. In the 2016 business year, DEG entered into commitments totalling almost EUR 1.6 billion for 94 investments. DEG's portfolio thus amounts to approx. EUR 8.6 billion – financing for around 600 customers in 81 countries.

DEG developed the Development Effectiveness Rating (DERa) to assess how private companies, banks and funds contribute to development, and to identify how the impacts can be increased. The rating tool builds on international best practice by using predominantly quantitative and harmonised indicators; it is applied to the entire portfolio and all new commitments since January 2017.

Guided by the SDGs, the DERa uses five outcome categories to assess the development contributions of each customer. The development effects of investments made by DEG's portfolio customers in 2016 and their contribution to the SDGs are

Selected key figures for new business 2016

Number of commitments	94
Number of employees	130,000
Number of jobs expected to be created	15,000
Expected annual tax payments over the next 5 years	EUR 280 million
Expected annual contribution to national income over the next 5 years	EUR 900 million
Planned green energy production p.a.	1,850 GWh
Number of people that can be serviced	5 million
Reduction in CO ₂ emissions p.a.	600,000 t
Number of small and medium enterprises financed by DEG-supported financial institutions	600,000

presented along these five categories. The first three categories assess what was achieved and the other two, how these effects were achieved:



1. Decent jobs



2. Local income



3. Market and sector development



4. Environmental stewardship



5. Community benefits

»» Development effects of DEG's 2016 portfolio

Decent jobs

Creating and safeguarding qualified jobs are urgent priorities, as vocational training and employment, in particular, are the main path out of poverty. Jobs provide more than monetary income; they are the cornerstone of development by improving living standards, raising productivity and fostering social cohesion.

The private sector is one of the most important employers worldwide. However, it is not the mere number of jobs that is relevant; ensuring that the work adheres to certain quality standards matters just as much. DEG's focus is therefore on creating and safeguarding formal employment in compliance with the core labour standards of the International Labour Organization (ILO), as well as ILO basic terms and conditions. DEG thus makes a significant contribution to achieving SDG 8 (decent work).

- Currently (as at 31.12.2016) 800,000 people work in the companies and financial institutions DEG has a business relationship with. The number of people these customers employ has risen by almost 165,000 since DEG invested in them.
- All DEG's customers undertake to apply ILO core labour standards and ILO basic terms and conditions, thus improving working conditions for their employees. To date, half of all customers have already demonstrated their full compliance with these standards, while the remaining customers are working at eliminating the shortfalls identified with the support of DEG. Implementing better working conditions is worthwhile for companies, as this increases motivation and productivity and lowers staff fluctuation and absenteeism.
- Companies and financial institutions that operate in a sustainably successful way also indirectly safeguard a large number of jobs up- and downstream in the value chain, or with their borrowers. DEG's customers safeguard at least 1.3 million jobs indirectly.
- Over 90 per cent of the financed manufacturing companies and banks are actively committed to training their staff, and around half have their own training facilities. Through this, they are contributing to employee qualification.



Higher qualified staff boosts business success

Deep Catch Namibia, a frozen goods direct distributor offering storage and trade, has grown enormously in the past two years and thus needed additional qualified local employees. However, the company had difficulties in finding sufficient new staff with the skills required.

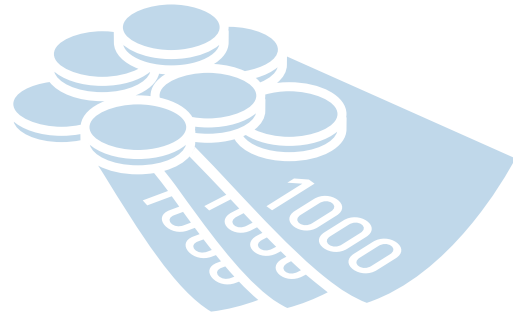
Using DEG's newly developed BSS measure "People Management+", Deep Catch was able to identify especially relevant qualification requirements and gaps. Based on best practice approaches and with the support of experienced consultants, the company developed qualification profiles for existing and new jobs, established training concepts and measures in the areas of leadership, sales and customer service, and created development strategies for functions already in existence.

The implementation focuses on fostering skills such as flexibility, customer orientation and sales talent, as well as introducing an active corporate culture and corporate identity. The possibility for staff to acquire company shares, for example, contributes to boosting their identification with the company.

Within a short period of time, Deep Catch was able to achieve a noticeable improvement and systematisation in its recruiting process, and make progress towards higher staff retention and satisfaction, and thus also improve business results.

The example of Deep Catch Namibia clearly shows that effective human resource management and adequately qualified and motivated staff are the basis for the long-term financial success of a company.





Increasing local income

When local income rises, opportunities also increase for individuals in developing countries to make autonomous decisions. The private sector in particular generates local income and makes an even larger contribution if companies' business models are strongly linked to the local context, for instance, if a firm employs personnel from the area, pays taxes locally and sources from local suppliers. The 2030 Agenda underscores that mobilising and using domestic resources efficiently are central to achieving the SDGs. This supports in particular SDGs 8 (decent work and economic growth), 10 (reduced inequalities) and 17 (strengthening domestic resource mobilisation).

- Agricultural, industrial and service sector companies financed by DEG pay an annual total of around EUR 1.7 billion in wages and salaries.
- Government revenues from taxes, concessions, licences and dividends derived from companies and infrastructure investments amount to more than EUR 1.5 billion.
- Around 60 per cent of the agricultural, industrial and service sector companies make a further contribution to creating local income through sourcing local products and collaborating with local service providers.



Investments in growing companies increase local income in Africa

The pan-African private equity fund African Development Partners I (ADP I) invests in established and growing companies, offering products for Africa's growing middle class. DEG was there right from the start to strengthen the fund's capital base with an investment of EUR 15 million and to mobilise further investors. ADP I invests in a variety of industries, including telecommunications, financial services and healthcare, with activities in 18 African countries. After four successful exits, ADP I is currently invested in five portfolio companies.

With its investments in growing African companies, ADP I accelerates the growth of the private sector in Africa, thus supporting local economic development and contributing to the eradication of poverty. The ADP I portfolio companies employed 6,638 people at the end of 2016, paying at least EUR 74 million in wages. Since initial investment by ADP I, the nine investee companies increased the net number of jobs by 2,475 and paid a total of EUR 278 million in taxes. The companies thus contribute to national revenue and increase local income. In addition, some of the investee companies have also developed strategies to enhance local income, e.g. directly by strengthening local linkages in the supply chain or indirectly by improving healthcare and providing inclusive finance.

Market and sector development

Depending on the country, similar business activities can have different development effects. Accordingly, the impact of a single investment is likely to be much greater in less developed countries than in more advanced states. The same applies to investments in sectors that facilitate further private-sector development. Additional relevant aspects for market development are, for instance, enhancing competition and fostering innovation, which contributes to SDG 9 (innovation).

- Half of the manufacturing companies in DEG's portfolio and around 40 per cent of the financial institutions work in economically underdeveloped regions.
- Two-thirds of the manufacturing companies foster competition in their respective markets, for example as a result of them entering that market.
- Over 80 per cent of the manufacturing companies and infrastructure investments are committed to transferring state-of-the-art technologies, while over half of the financial institutions offer new, advanced services in their markets.

An effective financial sector is a key prerequisite for economic growth, especially for small and medium-sized enterprises (SMEs).

- Financial institutions supported by DEG facilitate access to financing for 1.3 million SMEs.
- In order to strengthen the performance of the financial institutions, DEG supports 60 per cent of them in at least one of the following areas: corporate governance, risk management, and/or information and control systems.



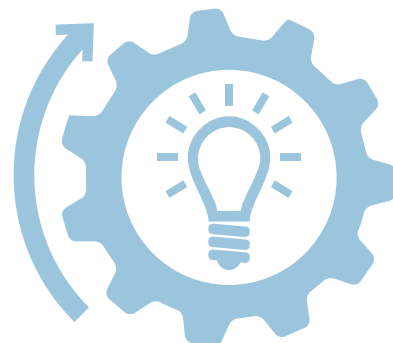
A country-wide mobile phone network facilitates market development in Myanmar

Expanding mobile telephony provides significant impetus for development in rural areas. For instance, farmers can use it to check the latest market prices and weather forecasts online or via text message. The use of mobile phones also enables cash-free payments to be made far from the nearest bank.

In 2014, only 14 per cent of the population in Myanmar had access to mobile phone services; this figure has now risen to 50 per cent. To ensure that the mobile phone network is available nationally in the future, the necessary infrastructure is currently being expanded – also supported by private operators such as Irrawaddy Green Towers Ltd.

DEG provided the company with a long-term loan amounting to USD 19.8 million in 2015 to set up and operate over 2,000 mobile phone transmission masts. The loan was part of a USD 122 million financing package with other European development financiers. In 2016, a follow-up deal was made, taking the amount to USD 192 million (DEG: USD 31.8 million), to allow the construction and operation of up to 3,600 masts.

Currently Irrawaddy Green Towers Ltd. operates over 2,600 transmission masts that provide several million people with access to the mobile phone network. In the next 3–4 years, the company is planning to double the number of masts.





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. Large sections of the global private sector rely on natural resources, either as part of their core business, or in their supply chains. For development to be sustainable, global environmental and climate protection, as well as resource efficiency, are decisive. By complying with international environmental standards, implementing initiatives for achieving more sustainable business operations or by producing renewable energy, private-sector companies shape their business in line with the Sustainable Development Goals, such as SDG 12 (responsible consumption and production) and SDG 13 (climate action).

- All the manufacturing companies and infrastructure investments in DEG's portfolio commit to complying with international environmental, social and corporate governance standards. During due diligence, a company's current status is assessed and – if necessary – an environmental and social action plan is drawn up. DEG supports its customers and monitors implementation.
- DEG expects banks and funds to implement their own environmental and social management systems (ESMS), and for them to also implement the relevant standards with their customers. The positive impacts of this for financial institutions and their customers have been proven: risks can be mitigated, investment opportunities identified and reputations improved (see also pages 10–11). DEG supports its customers through Business Support Services focused on ESMS.
- A quarter of DEG's investments are relevant to climate protection: They produce clean electricity, are energy efficient or are particularly resource-saving in the way they operate. DEG offers its customers energy and resource efficiency checks in cooperation with leading environmental companies.
- The energy suppliers directly co-financed by DEG produce 17 TWh of power annually from renewable sources and, at current rates of consumption, can supply over 19 million people. If this amount of electricity were produced in the respective country with the existing power mix, an annual total of over 6 million t CO₂ would be emitted. By producing renewable energies without CO₂ emissions, energy providers are playing a major role in achieving the goal to keep global warming to below two degrees Celsius.



Environmental and social management systems lower risks for banks

In many developing and emerging-market countries, consistent compliance with environmental and social standards is slowly growing in importance. Banco Promerica El Salvador recognised the benefits of effective environmental and social management for its financing early on. The bank, which mainly finances small and medium-sized enterprises alongside private customers, thus set up an environmental and social management system (ESMS) precisely tailored to its needs. It received support in doing so via DEG's Business Support Services.

The ESMS enables the bank to recognise potential environmental and social risks at an early stage. Furthermore, employees broaden their knowledge of measures to increase energy or resource efficiency for their investments. In the application of the ESMS, their customers' attention is drawn to possibilities for improving environmental and social performance, and they are encouraged to realise them.

Based on its own experiences with the ESMS, Banco Promerica El Salvador is planning to strengthen its orientation towards investment options for increasing resource efficiency and reducing climate impacts in the future. The bank is also supporting more banks in the Promerica Group in other countries in introducing a similar system.

Evaluated by Citrus Partners LLP

Community benefits

Entrepreneurs are active citizens who often play an important role in society. Within the framework of its environmental and social standards, DEG calls for good community health & safety management. Moreover, the role of actively engaging with local communities is becoming more widely appreciated because it produces a win-win situation for all involved: Businesses encourage local support for their activities and acceptance in society, while communities benefit from growth in amenities and opportunities that would not otherwise have existed.

- Half of the financed companies from the agricultural, industrial and services sector alone benefit the community through investing in local social and technical infrastructure, such as schools or health centres.

DEG supports its customers in practising social responsibility and offers advice on how to shape their non-profit activities. In doing so, special emphasis is placed on the needs of local communities. The focus may, for example, be on teaching agricultural knowledge to enable rural communities to provide for themselves or on providing drinking water, health education or training.



Practising social responsibility is worthwhile

The Indian pharmaceutical company Granules, with customers in over 75 countries, not only assumes social responsibility for its approx. 4,000 employees, but also takes action to support people in its direct neighbourhood.

In 2016, Granules sponsored the establishment of the vocational school “Pharma Patashala” on the premises of Swarna Bharat Trust in Hyderabad. In this school, up to 500 students a year attend 8-week courses to prepare them for the job market in the pharma industry. Students train with state-of-the-art equipment, which guarantees participants a good basis for successfully launching a career in leading pharma companies in India. The participants come from economically disadvantaged families from rural villages.

Around the production site in Vizag, Granules supports local communities by providing drinking water treatment plants, setting up an emergency control centre and large-scale tree plantation.

Through its activities, Granules bridges employment and production gaps and is thus laying the foundation for long-term corporate growth. At the same time, the living conditions of the local population are being improved continually. Granules' social commitment shows that practised responsibility can produce a win-win situation.



»» Promoting business in a targeted way

DEG is also supporting development through its promotional programmes. The goals are to tap into new markets, train staff and suppliers, introduce environmental and social standards and improve corporate structures.

In 2016, a total of EUR 25.3 million was disbursed within the framework of DEG's promotional programmes, of which EUR 4.3 million were DEG's own funds and EUR 21 million were on behalf of various donors.

Initiatives with development impact by German and European companies are realised through the **develoPPP.de** programme sponsored by the German Federal Ministry for Economic Cooperation and Development (BMZ). Examples include pilot projects, qualifying measures for suppliers, training, developing innovative products and improving energy efficiency.

The so-called **Business Support Services (BSS)** assist companies with advisory services to solve challenges in the corporate environment. The BSS are financed from BMZ funds and DEG's own funds, and aim to improve the financial and management structures of companies, reduce project risks or foster good business practices. An example is the newly developed advisory product "People Management+". It shows that effective personnel management makes financial sense for companies and creates better jobs with higher productivity.

The focus of the **Climate partnerships with the private sector** programme of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) is on promoting the transfer of technology and know-how for supporting the setting up of a climate-friendly economy.

By co-financing **feasibility studies**, DEG supports companies entering new markets, as well as the economic, technical and ecological due diligence of investments. As part of its **Up-scaling programme**, DEG uses its own funds to promote investments of small and medium-sized enterprises that aim to expand innovative, impactful business models. Both programmes promote market and sector development.

DEG implements both the Competitive African Cotton Initiative and the Coffee Partnership for Tanzania on behalf of the Bill & Melinda Gates Foundation. Around one million cotton small-holders in twelve African countries and nearly 100,000 coffee farmers in Tanzania and other countries benefit from these initiatives, for example through training programmes.

In 2016, commitments were entered into for a total of 180 new projects, of which 93 were with German companies. These new commitments can be allocated to five topical priority areas:

- 51 projects reduce project risks, amongst others by implementing environmental and social standards
- 48 projects contribute to qualifying staff and suppliers
- 44 projects serve to tap into new markets, for example through building up demonstration and pilot facilities
- 27 projects contribute to improving production processes
- 10 projects received access to venture capital



Financial technology facilitates access to loans

Within the framework of its Up-scaling programme, DEG provided financing for the financial technology start-up awamo totalling EUR 500,000. The technology developed by the German company enables micro-finance institutions (MFIs) in Africa to authenticate borrowers biometrically and exchange information about borrowers with other MFIs. awamo's service has the potential to significantly reduce loan defaults at MFIs in the financial sector and to ease borrower access to financial services.

»» Environmental and social management at banks and funds

A current evaluation shows that dealing with environmental and social risks in a responsible way is an important factor for successful companies and financial institutions. DEG therefore encourages the use of structured environmental and social management systems.

DEG's customers operate in a wide variety of sectors in over 80 countries worldwide. In the majority of these countries, the state guidelines and provisions regarding occupational health and safety and protection of the environment and people within the vicinity of the company are insufficient, or compliance with them is seldom checked. For this reason, the companies themselves are responsible for recognising, monitoring and avoiding risks. However, the companies often lack the required knowledge, resources and processes to do so.

As a development financier, DEG demands and fosters the use of a structured environmental and social management system (ESMS) by its customers. This includes, for instance, a systematic categorisation of risks and how to deal with them, as well as the recruitment of an environmental and social manager. DEG assists customers in setting up or improving systems depending on their particular needs. This applies to companies as well as to financial institutions and funds.

Evaluation of environmental and social management

With a 44 per cent share in DEG's overall portfolio, financial institutions and funds constitute an important customer cluster in DEG's business dealings. In 2016, DEG conducted an evaluation study with Citrus Partners LLP on environmental and social management at DEG-financed banks and funds. The goal was to evaluate the use of the environmental and social management systems required by DEG and to analyse the challenges and approaches of their customers in handling environmental and social risks. The focus of the study was on implementation and practical usage of ESMSs by DEG customers, the effectiveness and impact of such a system, and the added value created by DEG's advisory and training programme.

Significant improvements on several levels

An environmental and social management system that works well has many advantages for banks and funds. In the study, customers mentioned examples such as improving the general

risk management, avoiding fines and the loss of reputation, higher earnings from investments, and advantages in attracting international financiers (see graph on page 11). Furthermore, such a system can also help in recognising investment opportunities, for example, for financing energy efficiency measures.

The application of an ESMS also improves the environmental and social performance of companies financed by the banks and funds. According to the customers interviewed, this applies in particular to where environmental and social action plans were employed in a targeted way. Examples are improvements in working conditions, occupational health, and environmental protection.

Promoting structural changes

DEG plays an important role in implementing an ESMS or improving existing systems. A good two-thirds of bank customers in the survey stated that they implemented or improved existing systems after signing a contract with DEG in order to fulfil DEG's requirements; for funds it was even more, at 80 per cent.

About a third of the interviewed funds and banks received support from DEG's Business Support Programme for implementing or improving a system. As part of this service, customers – with the support of experienced consultants – develop environmental and social guidelines, environmental and social management processes and customised tools for analysis. Staff are trained locally in using the ESMS and receive ongoing support if required. In addition, DEG's investment managers and the experts from the DEG sustainability department are available with advice for the banks and funds.

Considerable challenges remain

For many banks and funds there still are considerable challenges: Many of them operate in countries where environmental and social management is only just getting off the ground and the awareness for it – partly also within the companies' own

management – still needs to be raised; many of them have thousands of small and medium-sized enterprises in their customer portfolio. The required expertise is also often not readily available in their own countries. DEG can provide important impetus and support for solving these challenges.

ising risk or in training qualified personnel. Some of them are now pioneers in environmental and social management in their region and work actively, for example via round-table discussions or jointly with the government, to establish standards in their countries.

At the same time, the evaluation showed that numerous banks and funds themselves have developed innovative solutions tailored to their needs that help them, for instance, in categor-

Customer survey: benefits of environmental and social management systems

It improves our overall client risk management



It excludes projects which might otherwise cause us reputational risk



It helps identify opportunities to maximise social and environmental benefits



It leads to measurable performance in Health and Safety and better working conditions



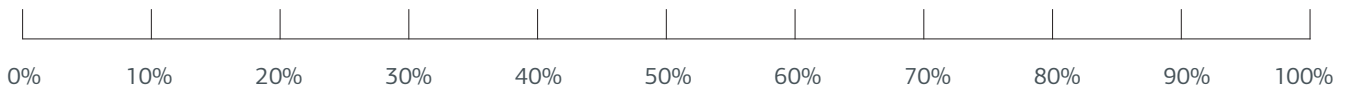
It helps avoid fines and other non-compliance penalties



It is easier to attract international finance



It helps us in dialogue with NGOs and interest groups



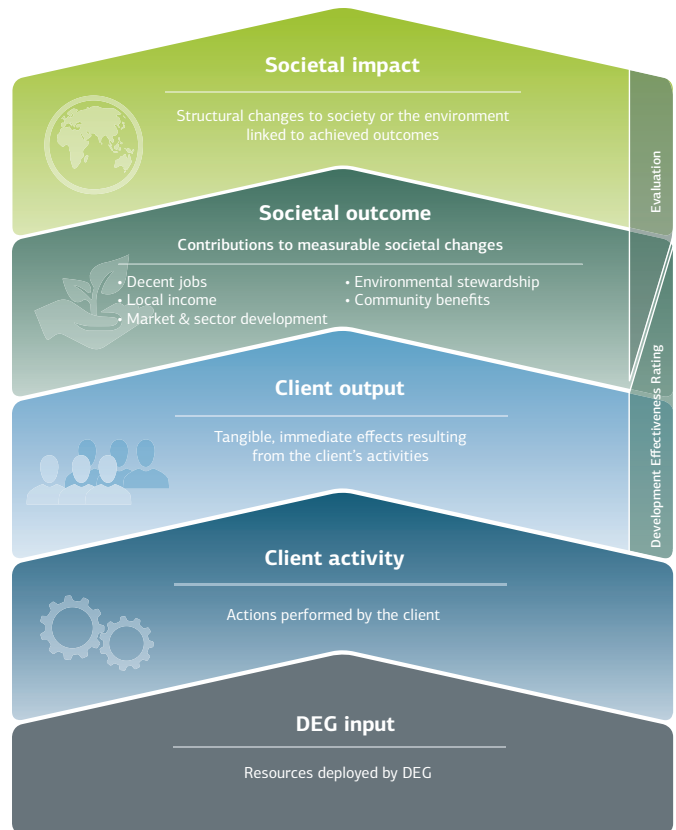
»» Monitoring and evaluation at DEG

The monitoring and evaluation team at DEG regularly reviews the development effectiveness of its investments and highlights options for making further improvements for DEG and its customers. DEG builds its reviews on a “theory of change”, starting from the activities of a DEG client (client activity), the resulting outputs (client output) to desired development effects (societal outcome) and impacts (societal impact). In a further step DEG’s role is incorporated into the model (DEG input).

DEG has been using the newly created Development Effectiveness Rating (DERa) for monitoring purposes since the beginning of 2017. Using five categories on the outcome level, the DERa rates individual customers’ contributions to development and follows up on changes in performance since DEG’s investment. The DERa forms the basis for DEG’s impact reporting and allows DEG to steer the overall development quality of its portfolio and provide impetus for improvements.

The goal of evaluation at DEG is to assess and to improve development impacts of DEG investments. The question “What have we achieved?” is linked to the questions “How did we achieve it?” and “What can we learn from it?” Similar to other development financiers, DEG applies international evaluation standards, including the criteria of the Evaluation Cooperation Group of the multilateral development banks and the OECD DAC.

From financing to impact – theory of change



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