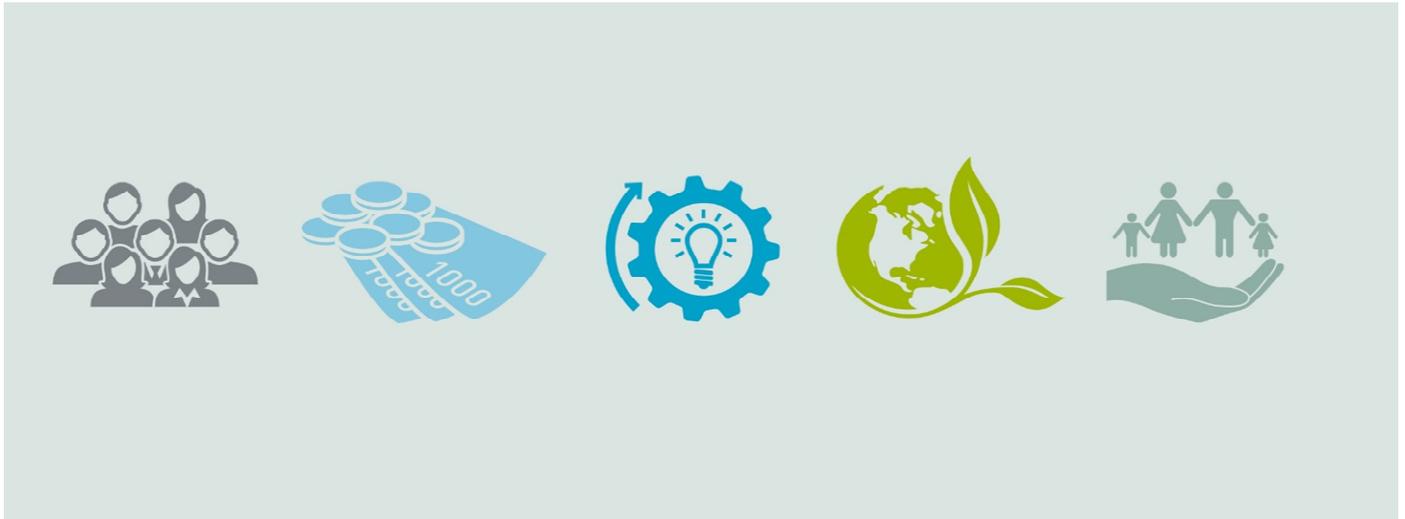


## >> Monitoring development



## Development Effectiveness Rating (DERa)<sup>©</sup>

Brief description

Private enterprises that are financially successful and acting responsibly promote local development. By providing reliable financing and targeted advisory to the private sector in developing and emerging markets, DEG strengthens its clients' overall performance and thus contributes to development.

Guided by the 2030 Agenda for Sustainable Development and the SDGs, reflecting 15 years of experience with the Corporate Policy Project Rating (GPR)<sup>®</sup> and building upon indicator harmonisation initiatives, DEG refined its multidimensional index-based development assessment by introducing the **Development Effectiveness Rating (DERa)<sup>®</sup>**.

The DERa rates individual clients' contribution to development and follows up on changes in performance since DEG's investment. Based on the DERa assessments, DEG can build its impact reporting and steer the overall development quality of its portfolio.

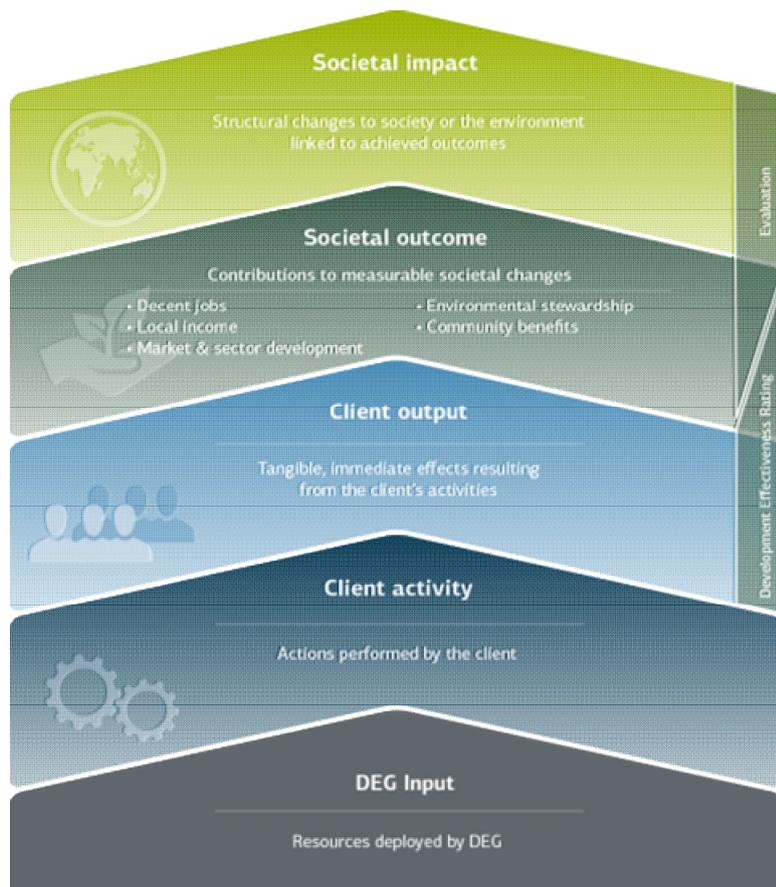
## Theoretical foundation

The DERa is based on a so-called *theory of change*, a methodology used to explain the process towards desired change by mapping causal linkages from initial activities of DEG's clients through their outputs towards one or multiple targeted outcomes and finally impacts. In a separate step, the theory of change includes the role of DEG. DEG's theory of change is depicted below.

**What DEG wants to achieve** is for our clients to provide more and better jobs, increase local income and support transformation in developing markets while acting in a sustainable manner and creating benefits for local communities.

## Five key outcome categories

Five key outcome categories were identified to assess clients' contributions to development; the first three as the main development effects, the other two as the way of doing business:



**1. Decent jobs:** Creating more jobs is an urgent priority as jobs are the main path out of poverty. Jobs provide more than monetary income; they are the cornerstone of development: Jobs boost living standards, raise productivity, and foster social cohesion. The private sector plays a key role in achieving full and productive employment. However, it is not the mere number of jobs that is relevant; decency matters just as much. Therefore, DEG's focus is on creating and safeguarding formal employment in compliance with ILO standards, thus contributing to SDG 8 (decent work).

**2. Local income:** An increase in local income provides an increase in opportunities for self-determined decisions of individuals and institutions in developing countries. The private sector is one of the main sources of local income. This contribution is stronger if the respective business model is strongly linked to the local context, i.e. if a company employs local personnel, pays taxes locally and sources from local suppliers. The Agenda 2030 underscores that the mobilization and effective use of domestic resources are central to achieving the SDGs.

**3. Market and sector development:** Similar business activities can result in very different development outcomes depending on the country of operation. In less developed countries, a single investment is likely to have a higher impact. The same is valid for investments in sectors that enable further private sector development. In addition, there are other relevant aspects for market development. Enhancing competition is one such aspect, as is fostering innovation which contributes to SDG 9 (innovation).

**4. Environmental stewardship:** Large parts 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 key and targeted by several SDGs. By complying with international environmental standards, by implementing initiatives towards more sustainable operations or by producing renewable energy, the private sector contributes actively to achieving this aim.

**5. Community benefits:** Entrepreneurs are active citizens who play an important role in society. Not only should businesses “do no harm”, but they can “do good” and contribute to development by actively engaging with local communities. This is a win-win situation for all parties involved. While businesses secure their local licence to operate, communities can see a rise in amenities and opportunities that would not have appeared otherwise.

### Structure of the DERA

The DERA is designed along these five categories. Each category consists of a set of indicators that capture a client’s contribution to that specific category. These indicators are mostly quantitative in nature or are qualitative expert judgements. Some indicators are more static while others are dynamic, which allows the valuation, firstly of absolute, realized effects and secondly, the growth processes. These indicators likewise differentiate between mitigating risk and pro-active development contributions.

The DERA differentiates between indicators used for scoring and those used only for reporting.

### The DERA score

The DERA produces a cumulative score with a maximum of 150 points. For ease of interpretation, the score is linked a qualitative categorisation. Due to the multi-dimensional nature of the DERA, no type of investment can achieve the maximum of 150 points. This was taken into consideration when developing the qualitative categorisation.

### Qualitative Categorisation:

≥ 100 points:	Exceptional
85 – 99 points:	Very good
70 – 84 points:	Good
50 – 69 points:	Satisfactory
≤ 49 points:	Unsatisfactory

The categories “decent jobs”, “local income” and “market and sector development” - the main development effects of private sector activities - make up 75% of the total score. “Environmental stewardship” and “community benefits” - the way of sustainably doing business - make up 25% of the total score with “environmental stewardship” carries slightly more weight as it is partly related to community effects.

The score for each outcome category is derived from 2-3 specific assessment fields. Each assessment field combines indicators that logically belong together, e.g. different types of local income or different standards adhered to. The assessment fields and resulting impulses for DEG are listed in the box below.

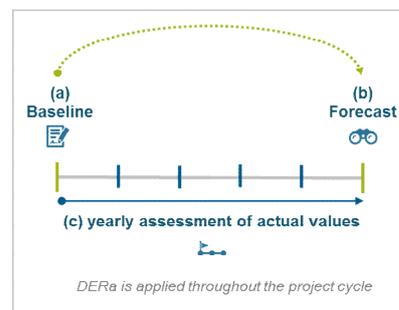
### Additional reporting indicators

Indicators that assess whether a client contributes to the 17 SDGs and whether the financed transact

tion was additional from a financial and/or a value perspective are included in the DERA for reporting purposes. In addition to the indicators that are scored, a couple of specific indicators were included in the outcome categories to enable a more detailed development story to be told.

### Application of the DERA

The DERA is applied throughout the project cycle of each transaction. Prior to approval of a transaction, the first DERA is filled in. It consists of (a) a baseline with actual values prior to investment and (b) a forecast of expected effects with the investment on a 5-year horizon. After commitment, the DERA is updated yearly with actual values (c). This allows us to analyse changes in our clients’ contribution to development since DEGs investment.



DERA assessment fields	Impulses for DEGs business
<b>Decent jobs</b> <ul style="list-style-type: none"> <li># of decent jobs</li> <li>% job growth</li> <li>Indirect job potential</li> </ul>	<b>Decent jobs</b> <ul style="list-style-type: none"> <li>Select clients with job potential</li> <li>Support clients’ social performance</li> </ul>
<b>Local income</b> <ul style="list-style-type: none"> <li>Sum of local income</li> <li>Annual growth of local income</li> </ul>	<b>Local income</b> <ul style="list-style-type: none"> <li>Improve financial sustainability</li> <li>Focus on local sourcing</li> </ul>
<b>Market and sector development</b> <ul style="list-style-type: none"> <li>Country and sector focus</li> <li>Promoting innovation</li> </ul>	<b>Market and sector development</b> <ul style="list-style-type: none"> <li>Select clients in LICs and/or enabling sectors that are innovative</li> </ul>
<b>Environmental stewardship</b> <ul style="list-style-type: none"> <li>Environmental responsible practice</li> <li>Avoidance and savings</li> </ul>	<b>Environmental stewardship</b> <ul style="list-style-type: none"> <li>Select climate focused clients</li> <li>Support clients’ environm. performance</li> </ul>
<b>Community benefits</b> <ul style="list-style-type: none"> <li>Manage community risks</li> <li>Pro-active community development</li> </ul>	<b>Community benefits</b> <ul style="list-style-type: none"> <li>Support clients’ mitigating and pro-active local development strategies</li> </ul>

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