Impact/Climate Commitments

Promoting Private Sector Development in Emerging Markets:
DEG’s pathway to higher SDG contributions and a GHG neutral portfolio

For more than 60 years, we at DEG have been investing in sustainable development by providing financing and advice to private companies in developing and emerging markets. With our global reach and international network, we feel the pulse and urgency of the time. With a rapidly warming climate, rising global inequality, and a volatile geopolitical landscape, major challenges lie ahead of us. At DEG, we firmly believe that the private sector can deliver on addressing global challenges for a sustainable future. With this belief at our core, we support our clients and their value chains in creating positive impact with decent jobs, inclusive economic growth, and the sustainable social-ecological transformation.

As reflected in the Paris Agreement, there is an urgent need to act on promoting a rapid transition to net-zero and climate resilience. Green economic transformation has started worldwide, and our clients increasingly seek tailored advice and financing to manage their own transition, navigate climate risks, and future-proof their operations for sustainable business success. At the same time, societal challenges are exacerbated by the climate crisis. For us, acting on climate change is thus also an essential component of delivering on impact.

To promote future-oriented companies in developing and emerging markets, we updated our business model in 2022. We provide our clients—often medium-sized companies in Infrastructure & Energy, Industries & Services, and Banking—with superior impact and climate solutions geared towards fostering sustainable, resilient business models. For the first time, impact and sustainable financial returns are both equally important strategic targets for DEG. A new steering approach at the portfolio level ensures an effective allocation of our equity and resources, including our internal carbon budget, to achieve these targets.

For these reasons, we present three commitments, which form the backbone of our business in the coming years:

1. Our commitment to **impact** – increasing our clients’ positive impact on society and the environment, and thus strengthening our contribution to the Sustainable Development Goals (SDGs).
2. Our commitment to combating **climate change** – we will enter a reduction pathway in alignment with the Paris Agreement’s 1,5° C targets, achieving a net-zero portfolio by 2040.
3. Our commitment to **transformation** – achieving our goals together: supporting our clients on their own transformative journeys towards positive impact and more climate resilience.

To achieve our ambitious impact, climate, and transformation goals, we have made some organisational changes to further enhance our expertise. We will monitor, review, and report on our progress annually. We will adhere to KfW Banking Group guidelines and EDFI (European Development Finance Institutions) harmonised approaches as well as other relevant international standards as defined below and will contribute to their continuous development.

1. Our commitment to impact

Goals:	We commit to increasing our clients' contributions to economic, social, and environmental objectives as indicated by the Sustainable Development Goals (SDGs), thereby improving the positive impacts of our investments continuously.
Measures:	• We are adapting our origination strategy to only finance clients who already have strong net-positive impacts in line with the SDGs, where the new investment will result in such impacts or the clients are willing to transform towards them. • We have overhauled our impact measurement system, the internationally recognised Development Effectiveness Rating (DERa), which now integrates both positive and negative impacts. • We will continue to promote the implementation of international environmental and social standards in our investments as a precondition for sustainable business development. • We are also continuously improving internal impact management in line with the Operating Principles Impact Management (OPIM). We disclose our performance annually and have moved to an annual independent verification cycle starting in 2024. The latest disclosure statement can be found here.
Standards & Principles:	• Operating Principles for Impact Management • IFC Performance Standards, ILO conventions covering core labour standards and the basic terms and conditions of employment, World Bank Group EHS Guidelines, and UN Guiding Principles on Business and Human Rights
Measuring progress:	• On the client level, we track impact performance annually using the DERa and share our assessment with clients for their own use and as a basis for discussion on how to improve their impact performance. • On the portfolio level, we track impact performance using an average DERa score that takes into account the performance of all of our clients. To measure success, this average score is compared to a predefined DERa scoring target. • We communicate our impact performance in our annual development report.

2. Our commitment to combating climate change

Goals:	We commit for all our decisions throughout the investment lifecycle that we will consider the total climate impact of our clients, including their supply and value chain. Today, all our client's greenhouse gas (GHG) emissions[1] that are attributable to DEG amount to a portfolio GHG footprint of 2.2 million tons of CO_{2e} (in 2021: 2.9 million tons of CO_{2e}). We are committed to achieving net-zero GHG emissions at the portfolio level in 2040, aligned with the Paris Agreement's 1.5°C goal. We entered a science-based net-zero pathway, reducing the carbon intensity of our investment portfolio by two-thirds until 2040 compared to our baseline year 2021.We will neutralize the remaining portfolio GHG emissions, attributed to DEG, by investing in carbon removal projects certified by internationally recognised standards to achieve our net-zero goal in 2040.
Measures:	Our measures are guided by a hierarchy of (1) avoiding GHG emissions, (2) reducing GHG emissions and adapting to climate change by implementing transformation pathways with our clients, and (3) neutralising remaining GHG emissions. • We started our science-based reduction pathway with the establishment of our baseline year in 2021. From 2025 onwards, we aim to achieve on average an annual reduction of 4.2% reducing the GHG intensity of our attributed portfolio by two-thirds by 2040. • Next to more climate-conscious client selection (*avoid*), our reduction pathway is achieved by supporting Paris-aligned transformation pathways of our clients, particularly for high emitters. For this, and to help our clients adapt to climate change, we will signficantly expand our Carbon Advisory and Reduction Initiative (CARI) (*reduce and adapt*). • By piloting the allocation of carbon budgets to DEG's internal business units, we incentivise ownership and decision-making in line with our reduction pathway. These carbon budgets serve as complements to the impact and return metrics within our internal steering system. • We are building a diverse carbon removal portfolio, currently looking at afforestation and reforestation investments, according to internationally recognised standards (*neutralise*).
Standards:	• Science-based targets initiative (SBTi) to guide our net-zero transformation pathway • Task Force on Climate-Related Financial Disclosures • Partnership for Carbon Accounting Financials (PCAF) for GHG accounting and reporting • Verified Carbon Standard (VERRA) and the Climate, Community and Biodiversity Standards (CCB Standards) for carbon sink certifications • KfW Paris-compatible sector guidelines and the KfW Exclusion List, KfW TranSForm Initiative and EDFI harmonised approaches and fossil fuel exclusions

1 Figures based on portfolio end of 2022. The statement is focusing on DEG´s portfolio emissions (Scope 3-15 Investment) and includes the Scope 1 and 2 emissions of our corporate and infrastructure (project) finance clients. For the financial institutions and certain funds we are relating to their Scope 3-15 emissions.

Measuring progress:	• We will account for clients’ GHG emissions in the DERa • We are committed to high data quality in our reporting according to PCAF. We measure our clients’ emissions based on real data wherever possible and model the remaining portfolio emissions using the Joint Impact Model. • We will publicly disclose our attributed portfolio emissions annually starting 2023 in our annual development report..

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3. Our commitment to transformation

Goals:	Recognising the need for a tailored approach, we commit to working with our clients to achieve sustainable transformation and climate resilient business in line with the SDGs – within their internal operations, their supply chains, and the environments they operate in. This way, we are able to achieve our impact and climate goals together with our clients.
Measures:	• We embark on tailored transformation journeys that span the entire investment cycle together with selected clients. After identifying transformation potential, we facilitate successful transformation by offering tailored advisory services on topics such as climate mitigation and adaptation, capacity building and talent management, gender equality and corporate governance. In addition, we can link our clients with innovative solutions and best-in-class technologies. • Our new DERa 2.0 includes metrics relevant to transformation. It tracks each client’s transformation progress as well as DEG’s contribution. • DEG has set up DEG Impulse, a subsidiary that is focused exclusively on advisory services (DEG Impulse) and significantly increases funds for transformation support.
Measuring progress:	• Using the updated DERa, we track progress on transformation in line with the objectives defined for each client. • On the portfolio level, we track the DERa sub-score on transformation, which provides an aggregated overview of clients’ progress.

Our approach to achieve these commitments	
Goals:	We will implement the required organisational and processual changes, and strengthen our expertise to realise our ambitious impact, climate, and transformation goals.
Measures:	• At portfolio level: A new steering approach ensures that we maximise impact and returns by effectively allocating our equity and resources, including our internal carbon budget. • We are adjusting our internal processes from origination until responsible exit to systematically integrate impact and climate considerations and build relevant capacity. • We are enhancing impact and climate expertise across all our business units through dedicated learning and development programs. The implementation of the role of the Chief Sustainability Officer will further mainstream sustainability into our organisation with a focus on expertise and facilitating climate-friendly, resilient and impactful transformation of our clients. • With regard to our own internal business operations, we will continue seeking further opportunities to avoid negative effects on the environment, e.g. by optimising the efficient use of office space, offering mobility alternatives and continuously raising awareness among our employees use about the importance of conserving resources and by opting for digital processes and solutions wherever possible.

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