



KFW DEG Impact

Operating Principles for Impact Management

Disclosure Statement 2024

DEG Impact hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Impact Principles”).

This Disclosure Statement¹ applies to the following assets (the “Covered Assets”) under DEG Impact’s advisory: equity and foreign exchange hedging investments of the Global Impact Investment Fund (“GIIF”).

The total Covered Assets in alignment with the Impact Principles is USD 50.6m as of December 31, 2023.

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Thomas Klein (Oct 14, 2024 17:45 GMT+2)

Thomas Klein
Managing Director

October 2024

¹ The information contained in this Disclosure Statement has not been verified or endorsed by the Global Impact Investing Network (“the GIIN”) or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of the GIIN. The GIIN shall not be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, “Affiliate” shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- As an investment advisor specialising predominantly in exposure to emerging markets², we offer specialist first-rate know-how. Being part of the KfW Group, we also have access to an international network that has steadily grown over decades. We advise on investment structures that support sustainable, profitable and impactful enterprises, i.e. which generate positive real-world impact.
- We unlock access to commercial capital and actively contribute to sustainable impact practice and performance. Thus we intend to contribute to SDG 9, target 9.3: “Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets”.
- The impact goals of GIIF are creation and maintenance of decent jobs as well as promotion of renewable energy and transformative investments in emerging markets. To reach these goals we work closely with the asset manager and our partners and advise on equity investments in emerging markets as well as foreign exchange hedging of the fund to manage the risks of local currency financing. The pipeline of equity investments that we build for the asset manager reflects GIIF’s investment strategy, in particular compliance with E&S requirements and forecasted measurable impact. Furthermore, to achieve greater impact with the available funds, we advise the asset manager of GIIF on structuring the vehicle more efficiently.
- We have designed an impact logic model for GIIF, which maps out the impact pathways from our advice and management service support to the asset manager to, ultimately, the investees, thus contributing to two strategic long-term outcomes:
 - Growth of impact capital in emerging markets
 - Establishment and expansion of impact practices and performance
- We have also developed an impact measurement and management (IMM) framework and use it for GIIF. The framework is a systematic approach to (1) ex-ante assessment of the likely contribution by the partnerships, deals and fund structures to intended outcomes, (2) impact performance monitoring and management, (3) sustaining impact at exit, and (4) learning and periodic review.

² For the purposes of this document, the term “emerging markets” will include developing/frontier markets.

Principle 2: Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Our impact management and measurement framework documents ex-ante processes, such as screening and due diligence, as well as performance monitoring including our approach to sustainable exits and learning loops.
- For GIIF we implement scoring systems to choose suitable partners, who will contribute meaningfully to development impact, and to assess our financial and non-financial contribution. At least annually, we measure the impact of the individual transactions within GIIF on a deal-by-deal basis as well as on the portfolio level, using quantitative and qualitative KPIs. These metrics help track impact performance at each stage of the corresponding impact logic model.
- Impact-linked financial incentives have been established across the firm, however, not with regards to GIIF. This may be considered as best practices emerge.

Principle 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- We use a qualitative scoring system to choose the investment structures and operating approach that are most likely to contribute to achieving our strategic objectives. To determine the extent of our potential contribution we analyse the contribution through the services we are committed to deliver to the involved partners. Moreover, when screening for partners we assess their capacity to manage ESG and impact and choose only those who will contribute meaningfully to development impact.
- For GIIIF our contribution arises from our role in developing the investment structure and making the vehicle more efficient as well as from our role and influence as an advisor within the investment structure including the creation of a pipeline of eligible investees and support with their monitoring.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- We have adopted a consistent structure and format to screen and choose the right investment structures, partners and operating approach that are most likely to achieve our strategic objectives.
- In assessing the suitability of the prospective partner for sourcing impactful investments for GIIF, we review the ESG and IMM practices of the partner. Our assessment is qualitative and based on a checklist approach analysing the overall organizational and investment-related level of existing ESG and IMM practices of our prospective partners. We integrate the Operating Principles for Impact Management into our quality framework for this system verification, including a first step which assesses whether or not the partner is a signatory to the Impact Principles.
- By implementing a specific onboarding checklist for each investment in GIIF we make sure that only such investments enter the portfolio that will deliver relevant ESG and impact data and documentation.
- Expected impact is assessed for each investment within GIIF. We require the partner to collect ESG and impact data, so we can verify and provide the asset manager with the decision- and reporting relevant information of expected impact per investment.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- As an advisor, we are not directly responsible for ESG risk assessment, mitigation and management of investment portfolios. Our contribution to improving and supporting the asset manager's assessment, mitigation and management of ESG risks for GIIF is threefold:
 - In assessing the suitability of the prospective partner for ESG risk measurement and management, we review (1) their overall alignment with international standards, as well as (2) their tools and procedures for ESG risk management from screening to exit.
 - When building a pipeline of suitable investments, we make sure that the investees' ESG risk has been assessed, thereby mitigating such risks at entry to the asset manager's portfolio.
 - We review investment-specific annual ESG and impact reporting from the respective partner to determine if the portfolio is performing in line with expectations in terms of ESG risk management, and what (if any) management action is taken to support improved performance. We convene partner learning calls to discuss any issues of concern or areas where we believe partners might improve ESG risk assessment and management.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

- We monitor performance towards the achievement of impact at two levels as part of our impact approach: short-term outcome (within DEG Impact's influence) and activity/output (within DEG Impact's control - Contribution). We are committed to assessing performance at the longer-term outcome level, which is outside of our direct control or influence.
- Our results measurement framework for GIIF incorporates quantitative metrics at the short-term outcome level to assess annually the value of commercial capital mobilized from investors towards emerging markets, and the number and value of realized individual impactful deals.
- On a regular basis, at least annually, we receive investment-specific ESG and impact-related data and documentation with regards to investments within GIIF. We review this ESG and impact reporting to determine if the managed portfolio of the investment structure we advise is performing in line with expectations in terms of impact and what (if any) management action is taken by the fund manager to support improved performance. We convene partner learning calls to discuss any issues of concern or areas where we believe partners might improve ESG / impact management.

Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- We believe that the sustainable generation of social and environmental outcomes post-exit is a critical consideration for impact investors.
- However, we are not directly responsible for exits from deals that are managed by our partners. Therefore, we contribute to improving impact at exit by (1) reviewing the responsible exit policy of our partners, (2) promoting and tracking the progress of ESG and impact capacity development initiatives with investees initiated by us or our partners, and (3) discussing process and actions taken with the partner relating to any exits during the reporting period.
- We further acknowledge that unexpected and difficult-to-plan exits can happen for equity investments as well as in the case of bankruptcy of an investee. For these, we prepare a specific exit-related statement including at least the reason for the exit.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- At least once a year, our management team comes together (1) to discuss ESG and impact performance of partners' portfolios and any updates to partner ESG/impact strategy or systems to check that partners are adequately managing ESG and impact performance, and (2) to review our output-level performance as well as measurement of contribution to partners' ESG and impact performance.
- Following these annual meetings, we (1) update as necessary our ESG and impact approach, policies and procedures and tools to reflect learning and to align with evolving industry good practices, and (2) convene partner learning calls to discuss any issues of concern or areas where we believe partners might improve ESG / impact management.
- We intend to influence the capital markets ecosystem towards scaling impact capital in emerging markets. As part of this mandate, we regularly participate in conferences and events such as those organized by the GIIN and emerging markets investor forums to promote innovative approaches.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- We affirm our commitment to publicly disclose alignment with the Impact Principles on our website and to commission an independent verification of our IMM practices annually.
- In May 2024 BlueMark³ verified the alignment of GIFF with the Operating Principles for Impact Management. The Verifier Statement is available on our website⁴.
- Next planned independent verification: May 2025

About BlueMark: BlueMark, a Delaware-registered public benefit company, is a leading provider of impact verification services in the impact investing market. BlueMark was founded with a mission to “strengthen trust in impact investing” and to help bring more accountability to the impact investment process. BlueMark has conducted this verification with an independent and unconflicted team experienced in relevant impact measurement and management issues.

About the assessment methodology and scope: DEG Impact provided BlueMark with the relevant supporting documentation for the policies, processes, and tools related to the IM system applicable to the Covered Assets. The scope of BlueMark’s work was limited to processes in place related to the Covered Assets as of May 2024. BlueMark’s assessment of the IM system included an evaluation of both the system itself and supporting documentation, as well as the consistency of the draft disclosure statement with the IM system.

BlueMark’s full assessment methodology, based on its professional judgment, consisted of:

1. Assessment of the IM system in relation to the Impact Principles, using BlueMark’s proprietary rubric, and examining processes and policies against the following criteria:
 - a. *Compliance* of the IM system with a threshold level of practice;
 - b. *Quality* of the IM system’s design in terms of its consistency and robustness; and
 - c. *Depth* of sub-components of the system, focused on completeness
2. Interviews with DEG Impact staff responsible for defining and implementing the IM system;
3. Testing of selected DEG Impact transactions to check the application of the IM system; and
4. Delivery of detailed assessment findings to DEG Impact, outlining areas of strong alignment and recommended improvement, as well as BlueMark’s proprietary benchmark ratings on the extent of alignment to each of the Impact Principles.

³ BlueMark, PBC, 154 W 14th street, 2nd Floor, New York, NY 10011, United States

⁴ https://degimpact.de/wp-content/uploads/2024/09/DEG-Impact_OPIM-Practice-Verification-Statement_3-pager_05.16.2024.pdf

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Final Audit Report

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