

Measuring results

Measuring results is one of the defining characteristics of impact investing. All the projects we finance have a clear goal to contribute to improving living conditions in developing countries. We therefore regularly collect data from the clients we invest in and measure and monitor the impact of our projects.

On portfolio level

In order to measure progress towards the goals defined in our strategy, we operate a comprehensive Results Framework which encompasses specific indicators and targets and provides a framework to gauge progress toward the achievement of results.

On project level

Since the beginning of 2019, we have been using an adapted version of the Development Effectiveness Rating (DERa), developed by KfW

DEG to measure impact and link results to the SDGs.

Guided by the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) and based on international best practice, DERa rates individual clients' contribution to development and follows up on changes in performance since OeEB's investment. Based on the DERa assessments, we can build our impact reporting and steer the overall development quality of our portfolio.



OeEB uses DERa in order to measure how its clients contribute to development and to identify how these impacts can be increased.

Theoretical foundation

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 OeEB'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 OeEB.

Application

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 OeEB's investment.

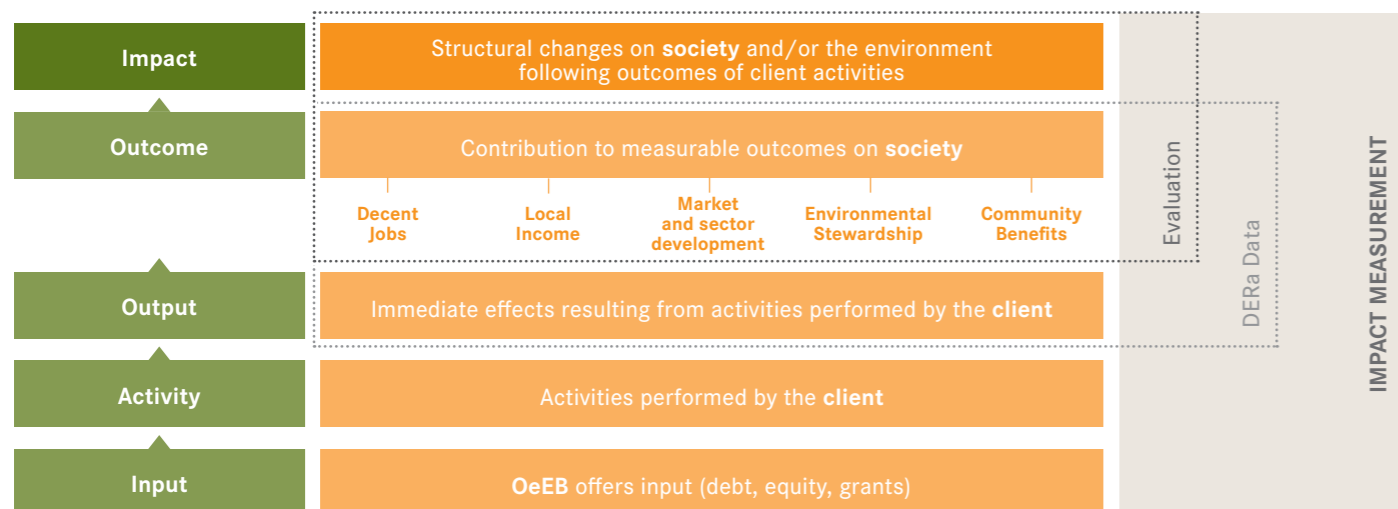
Key outcome categories

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.



DERa – developed by KfW DEG

THEORY OF CHANGE



KEY OUTCOME CATEGORIES

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, OeEB's focus is on creating and safeguarding formal employment in compliance with ILO standards, thus contributing to SDG 8 (decent work).

DERa assessment fields

- # of decent jobs
- % job growth
- Indirect job potential

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 mobilisation and effective use of domestic resources are central to achieving the SDGs.

DERa assessment fields

- Sum of local income
- Annual growth of local income

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.

DERa assessment fields

- Country and sector focus
- Promoting 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.

DERa assessment fields

- Environmentally responsible practice
- Avoidance and savings

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.

DERa assessment fields

- Manage community risks
- Pro-active community development



DERa combines quantitative and qualitative indicators to measure development for each client.

Structure

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, realised effects and secondly, the growth processes. These indicators likewise differentiate between mitigating risk and proactive development contributions.

Indicators that assess whether a client contributes to the 17 SDGs and whether the financed transaction was additional from a financial and/or a value perspective are also included in DERa for reporting purposes. In addition to scoring-relevant indicators, we collect further information such as the number of female employees, GWh produced or greenhouse gas avoided, to gain a more detailed insight into the client's development impact.

OeEB's clients drive forward sustainable development in line with the 2030 Agenda.



DERa score

DERa produces a cumulative score with a maximum of 150 points. For ease of interpretation, the score is linked to a qualitative categorisation:

QUALITATIVE CATEGORISATION

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

Due to the multidimensional nature of DERa, no type of investment can achieve the maximum of 150 points. This was taken into consideration when developing the qualitative categorisation.

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” carrying 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 (see table on page 5). Each assessment field combines indicators that logically belong together, e.g. different types of local income or different standards adhered to.

OeEB can support its clients in achieving a better impact and hence a higher DERa score, e.g. through accompanying technical assistance or measures to improve their environmental and social management system.

In 2019, our portfolio had an average DERa score of 81.35

How DERa is applied

Working towards a gender equitable society

Gender inequality is particularly high in Pakistan which significantly limits women's personal and economic development potential and respective opportunities. As one of the largest specialised microfinance institutions in the country, Kashf Foundation aims to alleviate poverty and empower women by providing microcredit and microinsurance products to women entrepreneurs and low-income households.

In support of this mission, OeEB provided a USD 10 million loan to Kashf Foundation in July 2019, enabling the institution to expand and open more than 160 new branches in the near future. The investment was evaluated with the impact measurement tool DERa and scored a “very good” rating based on the following criteria:

Decent jobs

Kashf currently employs around 3,000 people and is expected to increase its staff to over 5,700 within the next 5 years. Kashf fully complies with the ILO core labour standards and has good HR management policies in place which speaks for the high quality of the jobs provided.

Local income

By opening up new branches, Kashf expects to be able to double its customer base within the next 5 years. As a result of this, local income is expected to grow significantly.

Market and sector development

Pakistan, Kashf's country of operation, is classified as highly relevant.



A loan from Kashf Foundation enabled Akbari Begum to start her own business.

A SUCCESSFUL JOURNEY

Akbari Begum is a long-time client of Kashf Foundation. After her husband passed away, the housewife and mother of six children faced extreme poverty. With the help of an initial loan from Kashf Foundation, Akbari started an embroidery business which she ran for three years before opening a general store. While before she struggled to run her household on a day to day basis, she is now able to afford all the necessities in life, she has health insurance and is planning to expand her business. “Owning and running a business has earned me respect from my family and the community and I am proud that my grandchildren can get proper education and a better future.” Akbari has also helped other families in her community by encouraging them to seek help from Kashf and hosts weekly debt management and investment trainings by Kashf Business Development Officers at her house.

Additional value is created by the credit line being dedicated exclusively to women and by accompanying technical assistance measures.

Environmental stewardship

As a microfinance institution, Kashf presents low environmental risks. Social risks are reduced through Kashf's “Smart Campaign” certification and external complaint mechanism.

Community benefits

Kashf spends a significant amount of funds on CSR projects, especially gender awareness trainings and financial literacy courses, therefore contributing to community development.

OeEB's credit line to Kashf Foundation contributes to SDG 5 (Gender Equality), SDG 8 (Decent Jobs and Economic Growth) and SDG 10 (Reduced Inequalities).



Driven by the expected growth in employment and local income, Kashf is expected to reach an “exceptional” score within the 5-year forecast period.