

DEG Horizons

Our business is developing.

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RENEWABLE ENERGY

will be indispensable in the future. Fossil fuels have been the driving force behind the economic growth in industrialised countries. However, these sources of energy are finite and are also responsible for many global environmental problems. Renewable sources of energy will therefore become an increasingly important, ecologically compatible alternative in industrialised and developing countries.

EDITORIAL

We only have to take a quick look in the newspaper every day to see that the world is now a less peaceful place than ever before. Last year was marked by disturbances and crises in many regions of the world, too. A really strange feature of life in the "global village" is that it is newsworthiness that determines whether we become aware of a crisis or not. However, despite the gloom, we do not think that there is any reason to be downhearted. We are repeatedly finding new ideas and approaches worth following.

Companies that are involved in developing and emerging countries, and invest in projects there, also help. They boost economic growth and offer people work and better prospects. Companies like a paper-maker who uses plants from the Amazon region as raw materials, a mobile phone provider in India or power station operators that are backing the use of renewable sources of energy. You can learn more about their investments in this latest issue of *Horizons*.

The *DEG Horizons* editorial team wishes you pleasant reading.

IN BRIEF

Many investments in Asia, Africa, Latin America or eastern Europe could not be financed without the help of development financiers like DEG. In **2003**, DEG approved **investments** totalling **506 million euros**. A further 52 million euros went into the co-financing of projects with KfW and the Dutch FMO. DEG thus continued the positive development of its business of recent years even in a year in which the world's economy was characterised by stagnation and political uncertainty. There was a marked increase in disbursements to 434 million euros (2002: 357 million euros). With a portfolio of 2.4 billion euros, DEG is one of the largest European development finance institutions for the promotion of private enterprise in developing and emerging countries.

In **Africa**, DEG is a shareholder in **Industrial Promotion Services Kenya** (IPSK), which offers East African companies equity capital and management support. It was established in 1963 by the Aga Khan Group for Economic Development (AKFED) and is particularly active in Kenya's industrial sector. IPSK is now expanding its activities to cover Tanzania and Uganda.

Beijing, Bangkok, Jakarta, Johannesburg, São Paulo – DEG has further strengthened its **network of local offices**. At the end of January, it opened its second office in Latin America in **Mexico City**. The KfW Group has about 30 local offices worldwide. These provide greater proximity to markets and customers and make it increasingly possible to provide investment finance for smaller and medium-sized companies.



FOCUS

RENEWABLE ENERGY – POWER FROM THE SUN, WIND AND WATER.

The increased use of energy coupled with low energy costs has enabled industrialised countries to achieve economic growth. Given the limited amounts of resources available, global warming and other ecological consequences, it is becoming increasingly necessary to turn to renewable sources of energy; without energy, there will not be any growth. Different types of solution are needed to meet the growing demand in a sustainable manner. Figures from the People's Republic of China emphasise the problem: the country is already the world's second largest energy user after the USA, with an annual consumption of 15,000 billion kilowatt-hours of electricity. It is estimated that increased industrialisation and improved living standards will lead to a sixfold increase in consumption by the year 2050.

Germany is hosting the International Conference for Renewable Energies from 1st to 4th June 2004 in Bonn. Over 1,000 participants – governments, international organisations, companies and non government organisations – will discuss the increased use of renewable sources of energy worldwide. Financing will be a significant aspect. Private plant operators and financiers can play important roles here. For many years, DEG has been successfully financing power plant projects that utilise renewable sources of energy in developing countries. It bears the country and project risks, provides long-term credit and mobilises other financiers, such as commercial banks or international financial institutions, in order to secure the funding for capital-intensive investments.

Build-own-operate (BOO) and build-own-operate-transfer (BOOT) are models that are also being increasingly used in developing countries to finance power plants that utilise renewable sources of energy. These plants are built and financed by private companies and they feed electricity into the grids of state-owned power suppliers as part of long-term supply contracts. However, there has to be a steady and adequate supply of hydro, wind or solar power. Not every country is as well endowed with such natural resources as countries like Nepal or Costa Rica. In Costa Rica, one of the most advanced countries in

Central America, hydroelectricity meets more than 80 percent of the country's electricity requirements. In the rainy north of the country, DEG has co-financed two power stations with a total capacity of almost 30 megawatts that produce enough electricity to meet the needs of about 55,000 households.

A country needs to have not only adequate natural resources but above all it has to provide the right climate for investment: predictability of legal decisions for private investors, safeguards with respect to the risks associated with the completion of a project, guaranteed supply contracts for electricity and access to long-term capital.

Clearly defined conditions are also important for the companies that build the wind parks. Germany is the world champion when it comes to wind power, with about 40 percent of the world's installed capacity. German experience in the construction and operation of wind parks is in great demand abroad: there are now wind turbines turning out electricity in the northeast of Brazil, on the Turkish Aegean island of Bozcaada and in the Chinese province of Shandong that were co-financed by DEG.

There are numerous medium-sized companies in the power engineering and environmental technology fields in Germany that are marketing their innovative technologies abroad. DEG finances pilot projects in developing countries via its Public-Private-Partnership (PPP) programme and thus bears part of the start-up costs. In Morocco, a company called Afrisol is using this approach to evaluate the use of its "Sun Box", a small, compact photovoltaic unit, in 400 households.

In addition, DEG offers advice to companies that are considering the possibility of trading in emissions certificates. The publication *Carbon credits – DEG's new approach to co-finance climate-friendly investments* provides valuable information. It can be ordered from info@deginvest.de or downloaded from www.deginvest.de (Online Library).

PARTNERS AND PROJECTS

SPOTLIGHT ON INDIA.

The Indian subcontinent has recently become an increasingly sought-after target for investors. The large domestic market, with a population of more than a billion people, and the high standard of education of the country's qualified personnel, such as in the IT field, are significant factors here. In addition, India underwent a remarkable change in the 90s and dismantled barriers for investors. Nowadays it is possible for private companies to become involved to a major extent in practically all sections of the economy. The country is a driving force for southern Asia: three quarters of the region's economic performance is attributable to India. Growth forecasts are also very positive. Economic growth in 2004 is expected to be 6%. From a political point of view, the parliamentary elections due to take place this year will set the tone.

DEG has been co-financing investments for companies in India since 1964. As a result, 168 million euros have been invested in 36 projects in various sectors, particularly in manufacturing industries. The current increased interest is reflected in last year's figures: DEG approved new investments in India totalling about 62 million euros in 2003. These included a number of major involvements in the financial sector, with DEG contributing to improving local access to long-term investment capital as well as providing finance for projects in the manufacturing and the agricultural and food industries.

DEG is continuing to finance a project that is enabling one of India's leading private telecommunications providers to expand its mobile phone network. The country opened up its telecommunications market for private investors at the beginning of the 90s. Today, there is widespread competition. However, this does not prevent Indians from being less well provided for phone-wise than people in other Asian countries: only one Indian in 25 is connected to a conventional phone network and only one in 72 has a mobile phone. Analysts estimate that in three years time between 33 and 54 million Indians will have a mobile phone. This corresponds to at least a tripling of today's figure. In addition to DEG and the Dutch FMO, commercial banks and providers of export credit guarantees are participating in the financing of the investments for the mobile phone operator's expansion programme. In 2004, DEG is planning to further expand its involvement in India, with a similar level of capital commitments as last year. Companies in India can rely on the competent support of the staff at DEG's local office in New Delhi.

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INFORMATION FOR INVESTORS

IN GREAT DEMAND: LITERATURE FROM F.A.Z.-INSTITUT AND DEG.

Observing new markets, analysing information, identifying and assessing risks and developing strategic plans: companies that want to invest abroad need to consider such a move carefully and evaluate the opportunities and risks involved. To do so it is imperative to have information that is meaningful and up to date. DEG has been publishing literature jointly with F.A.Z.-Institut since 1994 in order to ensure that advice on any involvement abroad is available right from the start, especially for medium-sized companies. The publications provide information on investments abroad and cover various sectors and countries.

Investment guides, e.g. on India and Turkey, as well as country analyses that appear at six-monthly intervals, on countries such as Brazil, Mexico and China, provide companies with a continually up-dated guide through the often complex legal, economic and political conditions in the different investment countries. In the *Chancen in Emerging Markets* series (Opportunities in Emerging Markets) there are comprehensive studies on the healthcare, food processing, logistics and renewable energy sectors. Practice-related guides provide information on a large number of support programmes and instruments of finance for Asia, Africa, Latin America and central and eastern Europe, and offer a compact overview.

There are two volumes available under the title *Erfolgsfaktoren für Investitionen im Ausland* (Factors of Success for Investments Abroad); they deal with the subjects of risk rating and the form of a contract for joint ventures. One volume offers companies concrete advice about recognising risks in joint ventures and how to reduce them. The second volume is a legal guide to joint ventures and their financing, including detailed analyses of contracts.

A new investment guide to Russia (*Russland 2004*) has recently appeared; it provides information about entering the Russian market and about the general conditions relating to business activities locally. There are also plans in 2004 to publish a new study that will provide information about innovative forms of finance particularly for conducting business abroad – such as factoring, leasing or asset backed securities – and provide examples of best practices.

Further information is available from +49 221 4986-398 or at deutschermarkt@deginvest.de.

NEWS

ASIA IN FIRST PLACE.

Asia is currently the world's growth region. In addition to China, India is increasingly gaining the trust of foreign investors. DEG approved 154 million euros to finance private investments in Asia last year. This means Asia was the No. 1 region for DEG's involvement in 2003. In eastern and southern Europe, DEG approved new investments totalling 135 million euros. The focus here was on Romania and Croatia. Contrary to expectations at the beginning of 2003, the economies of many Latin American countries recovered during the year. DEG approved 129 million euros in investments, particularly in local financial institutions and private infrastructure

projects. DEG invested in Uruguay for the first time: DEG loans are enabling a rice producer and a papermaker to expand their business activities. DEG approved 79 million euros for projects in Africa. It made about 60 million euros available to finance foreign investments by medium-sized German companies in the People's Republic of China, Russia, Poland and Romania.

The trend of the second half of 2003 appears to be continuing; DEG is cautiously optimistic about business prospects in 2004.

PUBLIC PRIVATE PARTNERSHIP

A GREETINGS CARD FROM THE AMAZON REGION.

The Poverty and Environment in Amazõnia (POEMA) programme relies on the natural riches of the rain forest and their utilisation in a sustainable manner. The programme was initiated by a sociologist who lectures at the University of Belém and is supported by DaimlerChrysler and DEG; POEMA aims to improve people's working conditions and counteract the destruction of the environment.

In the beginning there was a coconut: the flesh is processed for cosmetics. The fibres are processed into car components such as headrests and sun visors, as well as into filling material for seats. These products require less energy to manufacture than comparable synthetic materials and are easy to recycle. POEMATEC is a modern

production facility that supplies DaimlerChrysler and other automotive manufacturers. But the rain forest has even more to offer: fibres from the curauá, which belongs to the pineapple family, can be used as a raw material for papermaking. Amazon Paper, a subsidiary of POEMATEC, uses it to make a range of products, such as gift-wrap paper, greetings cards and lampshades – without using any chemicals. So much innovation and business initiative in harmony with man and nature had to be in line for a prize; Amazon Paper received a Development Marketplace Award from the World Bank in 2003. Congratulations! You can find out more about Amazon Paper's products at: www.bolsaamazonia.com/eng/Produtos/papel.asp

TEST YOUR KNOWLEDGE OF FINANCIAL TERMINOLOGY

What's ... a piggyback arrangement?

- a loan which allows part of the repayments to be made in pork?
- a contract which means you inevitably end up wallowing around in mud?
- an agreement where one clause rides on the back of another?

(c). The term "piggy back" does not have any negative connotations and has nothing at all to do with pigs. It is a form of tag-along arrangement; strictly speaking, it is an agreement between two partners in a company whereby if the one partner sells his shares the other partner has the right to demand that his shares be sold along with them.

Solution:

DEG

- DEG has been financing and structuring the investments of private companies in developing and transition countries for more than 40 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agriculture to infrastructure and manufacturing to services. We also focus on investments in local capital markets in order to facilitate reliable access to capital locally.
- So far, we have worked together with more than 1,100 companies. By providing 5.6 billion euros of finance, we have achieved a total investment of 37 billion euros.
- Our aim is to establish and expand private enterprise structures in developing and transition countries, and thus create the basis for sustainable economic growth and a lasting improvement in the living conditions of the local population.

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