

DEG Horizons

Our business is developing.

COUNTRY FOCUS

- Southern Africa – dynamo for a whole continent. 2

PARTNERS AND PROJECTS

- Long-term capital for investments in Ecuador. 3

FINANCING

- Concerted support for private sector from EFP. 3

PUBLIC-PRIVATE PARTNERSHIP

- Geothermal energy – practically inexhaustible. 4



SOUTHERN AFRICA

is a region of contrasts and diversity. Extreme poverty reigns in some countries whereas from an economic point of view others are developing remarkably well. The examples given on the following pages show that there are interesting possibilities for investors even in such a relatively difficult environment.

EDITORIAL

Life is now back to normal after the summer break and annual holiday; the right time for you to make your plans for the coming year.

In this sixth issue of DEG Horizons you will again find articles that are worth looking at twice. The Country Focus section shows that southern Africa can be a promising terrain for investors despite all the difficulties. The Philippines is an example of how the enormous quantities of energy from the Earth's interior can be put to practical use; a German company is making a contribution to the production of electricity from a geothermal field there. Another article tells you what it means for private companies wanting to invest in Africa, the Caribbean or the Pacific region when European development financiers join forces.

You will also find all previous issues of DEG Horizons on the Internet at www.deginvest.de

The DEG Horizons editorial team wishes you pleasant reading.

IN BRIEF

DEG has been active in **South Africa** for about ten years. The republic at the Cape has developed into the driving force for development in the region. Investors in the private sector have also initiated several projects recently in a country such as **Mozambique**, with DEG providing long-term loans. These investments benefit this extremely poor country considerably thanks to the clear message they send.

There is also positive news coming out of **Latin America**. Economically, 2004 could be a very successful year. Brazil's economy has found its way back to growth. The stability-oriented policy of President 'Lula' has led to strong growth in exports and to a significant increase in domestic demand. A million new jobs were created in the first half of the year. In Mexico, there are also signs that economic growth is about to start moving again. The extent of the country's attractiveness for companies is partially illustrated by the fact that foreign direct investments in the first half of 2004 totalled over 10 billion US dollars, and had thus already almost reached the total for the whole of the previous year. DEG has had a local office in Mexico City since the beginning of the year.

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COUNTRY FOCUS

SOUTHERN AFRICA – DYNAMO FOR A WHOLE CONTINENT.

Whenever there is talk of Mozambique, many people's first thought is of the images that went round the world when the country suffered from flooding in 2000. At first it was uncertain to what extent the flooding would affect the country, which backed by international donors had showed signs of an economic upturn in the 90s following long periods of civil war. The development continues to be really positive. The 7 percent economic growth in real terms last year and good forecasts for 2004 and 2005 are signs of progress, albeit starting at a low baseline: Mozambique has an average annual per capita income of 220 euros and is still one of the world's poorest countries, with 70 percent of the population living in absolute poverty.

Mozambique has recently become more attractive as a production location having hitherto been a transit land for imports and exports from neighbouring countries. International investors have initiated a number of large-scale projects. The Mozal aluminium smelter went on stream in 2000 and was expanded further in 2003. It has had a considerable impact on the country, creating over 1,000 permanent jobs. In addition, the transport network is now in a considerably better condition, as is the region's power supply. The deep-sea port at Maputo, which is used to ship the aluminium produced, has been modernised and enlarged; after all, Mozal is an important net earner of foreign currency for Mozambique. Together with other development financiers, DEG provided long-term loans for the smelter. They are playing a key role in the project because their subordinated loans bridged a finance gap. The project partners also attach particular importance to the involvement of the development financiers as they are willing to jointly shoulder the high country risk long term and provide support at a political level.

Another large-scale project is the opening up of the Temane natural gas field, which is linked to South Africa via a pipeline in order to supply companies with an environmentally acceptable form of energy. The gas deposit is so large that it is capable of supplying the needs of the whole of southern Africa. The development is being co-financed long term by DEG. "There are encouraging signs that such projects are having a stimulative effect on the Mozambique economy," commented DEG's managing director Johannes-Jürgen Bernsen during a recent visit to Mozambique and South Africa.

DEG has been actively involved in neighbouring South Africa since the end of apartheid. It currently has investments totalling some 44 million euros. These include not only investments by subsidiaries of German companies, such as car component suppliers that manufacture for high-quality marques locally, but also projects being carried out by South African companies. DEG is involved among other things in the telecommunications field and is participating in innovative approaches to the financing of education and training.

Education and training is one of the challenges facing southern Africa, HIV/AIDS is another – with dramatic consequences. Several of the companies working there are supporting education and prevention. DEG is also actively involved: it binds its contractual partners to offer suitable preventive measures in their plants. Successfully combating the rapid spread of the immunodeficiency virus will be of decisive importance for further development in southern Africa.

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PARTNERS AND PROJECTS

LONG-TERM CAPITAL FOR INVESTMENTS IN ECUADOR.

Ecuador experienced a severe economic crisis in the 1990s; the situation is currently becoming stable again gradually. The country's economic strength is based primarily on raw materials that are exported. After oil, the second most important item is bananas: Ecuador has a global market share of about a third and is by far the leading banana exporter worldwide. 15 percent of the population rely for a living on the export of the fruit, which accounts for five percent of the gross national product and 20 percent of total export earnings.

One of the three largest banana exporters is the family-owned Favorita Fruit Company; it produces 560,000 tonnes of bananas a year on 8,000 hectares of its own arable land. DEG recently made a long-term loan of over 12 million US dollars available to the company. The loan will be used to finance planned modernisation and expansion projects in various subsidiaries of the company. In addition to extensive investments in the infrastructure of the plantations and the purchase of new transporters, the company is also planning to invest in the moderni-

sation of its own marine loading terminal and in its own cardboard box manufacturing facility.

Favorita complies with strict environmental and social standards, as demonstrated by ISO 14001 certification and the international environmental 'ECO-OK' label for its own banana plantations. The company is also engaged socially outside the confines of its production facility: a foundation financed by proceeds from the company is involved in ensuring that children in remote rural areas receive a school education. The foundation currently runs some 15 primary schools with a total of 1,100 children. In addition, it also supports about 18 state schools by providing funds to pay for qualified teachers.

Thanks to DEG's commitment, a finance gap was bridged; long-term finance is generally not available in Ecuador and the investments were only made possible at all by the DEG loan.

FINANCING

CONCERTED SUPPORT FOR PRIVATE SECTOR FROM EFP.

The realisation that one can often achieve more by combining forces than acting alone is something that is also catching on in the field of international development cooperation. This is exemplified by the fact that so-called donor countries are now increasingly acting jointly in order to achieve the best possible effects.

There have been some positive developments at European level when it comes to supporting private enterprise in developing and reforming countries. The association of European Development Finance Institutions (EDFI) has been in existence since 1992; it includes those institutions in Europe that are engaged in supporting investments by private companies in developing countries by providing finance and advice. DEG is one of the largest of these thirteen institutions, which have further intensified their cooperation in recent years. For example, DEG works together closely with the Dutch FMO and the French Proparco.

At the beginning of 2004, ten EDFI institutions and the EIB (European Investment Bank) set up the European Financing Partners (EFP) joint

venture to make use of the European Union's Cotonou Investment Facility through EDFI-customers. The Cotonou Agreement from 2000 envisages providing EU financial support to some 70 ACP (Africa, Caribbean, Pacific) countries. In addition to a programme of subsidies, the EIB will administer the so-called investment facility amounting to 2.2 billion euros. These funds will be made available to the private sector in ACP countries in the form of loans, mezzanine finance, equity capital or guarantees at fair market conditions. For the time being, EFP will be mobilising 190 million euros for investments by private companies in ACP countries. The joint venture partners will make available their expertise, local contacts and offices and, funds for the financing pro-rata basis.

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PUBLIC-PRIVATE PARTNERSHIP

GEOHERMAL ENERGY – PRACTICALLY INEXHAUSTIBLE.

At a time when other sources of energy are gradually becoming exhausted, extracting energy from the Earth's bubbling core is an exciting alternative. Geothermal energy is already being utilised extensively in some countries that are predestined for its use thanks to natural factors. For example, it now meets a fifth of Iceland's electricity demand. The remaining 80% is being met by hydroelectric power, which means that all electricity in the land of the geysers comes from renewable sources of energy.

A quarter of the Philippines' electricity demand is already being met by geothermal energy. The country is situated at the juncture of two major tectonic plates, which cause considerable volcanic and seismic activities and have resulted in the formation of large geothermal reservoirs. In cooperation with the Philippine National Science Board – Energy Development Corporation (PNOC-ECD), the Dresden-based company Sarad GmbH has set up a measuring station that incorporates a measuring system it has developed. The system enables the condition and development of the Tongonan geothermal field on the island of Leyte to be continuously monitored. It is also said to be capable of predicting earthquakes. Tongonan is the largest geothermal field in the Philippines with five power plants and a total capacity of 700 megawatts.

The pilot project is being co-financed on a pro-rata basis by DEG as part of the PPP programme. As part of the project, local employees are being



trained to deal with the measuring station and its instrumentation. Sarad and PNOC-ECD are also considering offering monitoring services for geothermal fields in other countries in future.

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TEST YOUR KNOWLEDGE OF FINANCIAL TERMINOLOGY

What do the letters LOI stand for?

- Lost over India: an extremely popular 'Bollywood' film.
- Letter of intent: a declaration of a company's intent; an initial step in reaching a contractual agreement.
- The international airport code for Cyprus's Larnaca Obligo International Airport.

It is actually b) Letter of intent, a letter that puts on record a preliminary agreement between parties who want to sign a mutual agreement.

Solution:

DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging 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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