

# DEG Horizons

Our business is developing.

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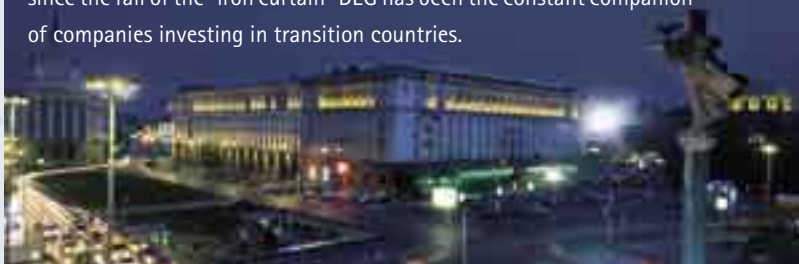
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## GO EAST

is the motto of many investors; they are now increasingly turning their attention to south-eastern Europe and central Asia. DEG has already shown that these countries offer opportunities for investments and since the fall of the "iron curtain" DEG has been the constant companion of companies investing in transition countries.



## EDITORIAL

Developing countries often only partly conform to the clichéd image that the western world has of them. A country such as India is a good example: it is a poor agricultural country in some respects but yet in certain sectors it has developed into a high-tech location. As is often the case, it is advisable to adopt a differentiated view. During the 42 years that it has been involved with development, DEG has been able to follow how quickly – and sometimes how slowly – change can occur in developing countries. Here, the political and economic framework in a country plays a decisive role.

Private companies can make an effective contribution towards stimulating the economy in those countries in which they invest, and they can offer the people who work there prospects for a brighter future. We present a number of examples of this in *DEG Horizons*. The regional focus this time is on eastern Europe and central Asia; other topics include investments by a German company in India and a PPP project in Kazakhstan.

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

## IN BRIEF

DEG's involvement has shown that it is possible to do substantial business even in high-risk regions, and that at the same time this benefits the development of the countries in which the investments are made. As has been the case for some of years, DEG will again report an **increase in business** in 2004. Figures indicate that newly committed finance will total around **550 million euros**. Divided into regions, most finance has gone to projects in Asia, with Europe in second place, followed by Latin America and Africa.

Nowadays, it is frequently necessary and advisable to involve private enterprises when carrying out infrastructure projects. A current example is **Tirana Airport**. Albania's only international airport will be taken over by the German company Hochtief AirPort, expanded and operated as part of a BOOT (build own operate transfer) concession. **DEG** is participating in this project: in addition to providing long-term finance, it is making available its extensive experience in providing advice for **private infrastructure projects** in developing countries.

DEG is also co-financing investments in infrastructure in **Africa**. Here, the expansion of telecommunications, for which there is an urgent need in most countries, would be inconceivable without the participation of private partners. **Mobile phones** offer a relatively simple approach to providing a good many people with access to telecommunications for the first time. DEG made a new commitment in 2004 for the first private mobile phone network in Tunisia; in southern Africa, it is financing investments in mobile phone networks in countries such as South Africa, Uganda and Nigeria.

## FOCUS

### EUROPE'S GROWTH – INDICATIVE FOR DEG.

With the latest EU expansion in 2004, what began life in the 50s as the European Economic Community with its six member countries became a union of 25 states. It has created a market of 450 million consumers. Emerging markets from the East have come face to face with the highly developed economies of "old" Europe. The move has widened the scope for the international division of work, the motor of progress. The majority of the countries that used to be under the aegis of the Soviet Union, and organised economically within the Comecon, has thus oriented itself towards the West. Because of the European Union, other countries, such as those in the Black Sea region, are also now looking westwards.

DEG has been actively involved in the countries of central, eastern and south-eastern Europe since 1993 and has commitments in 21 of the 27

medium-sized German companies. In 2003, projects included financing for leasing and a housing association. The country has great potential: special mention should be given to the finance sector, manufacturing and retail chains.

In Turkey, the country where Europe and Asia come together, DEG has been financing investments by private companies for almost 40 years. It has initiated finance for projects in the food industry, manufacturing and the finance sector and has a stake in the country's first private-enterprise windfarm. At the end of 2003, the portfolio covered 18 projects with a total volume of some 150 million euros. These figures include a line of credit for a development bank, which makes long-term loans available to those in Turkey starting up their own companies. The prospect of negotiations for EU membership taking place has inspired



transition countries. Initially, its investments were mainly in the financial sector. The aim was to strengthen individual finance institutions and banks in this sector in general as well as to promote the structures for medium-sized enterprises. Other focal points were manufacturing and the food industry. Expressed in country terms, DEG's finance was focussed on the new EU members: Poland, the Czech Republic, Slovakia, Hungary, Slovenia and the three Baltic states. DEG will stop doing new business in these countries after 2005, as its mission as a development financing institution will be finished there. Since the end of the 90s DEG has been moving even further east – Russia, Ukraine and south-eastern Europe's stability pact region comprising Croatia, Romania and Bulgaria – and is now also active in the western Balkan states. In future, DEG is expecting increasing investments in the Black Sea region, the Caucasus and in central Asia, with Kazakhstan as the "anchor" country.

Take Romania as an example: DEG's portfolio at the end of last year was already about 85 million euros. The country, which is a candidate for EU membership in 2007, is characterised by dynamic economic growth, a willingness to undergo reforms and the largest domestic market in south-eastern Europe, with a population of 21 million. DEG's involvement here is mainly in manufacturing, where it is supporting many

Turkey and contributed to necessary political and economic reforms being carried out. Following the serious economic crisis of 2000/2001, good rates of economic growth are once again the order of the day. In recent months, DEG has approved funds for a Turkish company that manages car fleets and for a tinned food producer. When financing Turkish enterprises, DEG concentrates on those that can show they already have experience in their particular field of business and practice good corporate governance.

When it comes to ambitions to undergo political and economic reforms, the countries of eastern and south-eastern Europe and central Asia have developed by differing degrees. All of the new neighbouring countries have one thing in common, namely that they offer opportunities for private investments. DEG makes its experience available in order to successfully structure investments and provide project-specific finance.

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## PARTNERS AND PROJECTS

### INTERNATIONALISATION OF MAJOR IMPORTANCE.

Since it was founded in 1962, one of the DEG's main tasks has been to support German companies carrying out their business abroad. Nowadays, all sizes of company are forming joint ventures or setting up their own production facilities abroad. New sales markets and cost-efficient production are two motives. This is happening not only in Europe but also in regions much further away. Brazil and South Africa are the "classical" examples. Thanks to the size of its markets, Asia is of great interest to companies from every possible sector. The pulling power of China's booming economy means there are now over 1600 German companies in that country alone.

DEG offers German companies investing abroad the help of investment managers with long-term experience in this special field of business. They advise companies during the development phase of a project, check business plans and provide the clients with material for them to plan and structure their proposals. Furthermore, DEG supports them when it comes to evaluating local partners and informs them about other possible forms of finance. Together with the client it evaluates the proposed project, tries to find possible weaknesses and looks for ways of minimising risk. This service is especially important for companies with little experience abroad. German companies wishing to invest abroad have a tailor-made instrument at their disposal that pays equal attention to changing markets and clients' requirements.

DEG advised one of the world's leading producers of needles for industrial sewing machines when it was planning to locate a factory

in India. It recently provided the German family-owned company with a long-term loan to set up the new production facility in Bangalore. The company, which has a reputation for the quality of its products, is continually expanding its production and sales activities abroad in order to stay competitive long term.

India attracts investors for different reasons: With its population of more than 1 billion people it is one of the high-potential sales markets. Qualified personnel and low production costs are further advantages. India is a country with many faces. With 61% of the working population employed in agriculture, India is in many ways still a developing country, although it has also developed into a high-tech location in certain sectors in recent years. There are important industrial centres in the Mumbai/Pune and Delhi conurbations, as well as in Bangalore, Chennai and Hyderabad in southern India. The liberalisation of what was hitherto a relatively closed market started at the beginning of the 90s, and economic reforms and the gradual opening up of the economy to foreign equity capital led to rapid economic growth. Especially in a multi-faceted country like India, profound knowledge of the business environment and of customary conventions is essential for acting successfully there. Clients benefit directly from the wide-ranging experience of DEG with its own representative office in New Delhi and its Indian network.

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## FINANCING

### PACKAGE SOLUTION: GENERAL CREDIT AGREEMENT.

DEG offers companies operating abroad a very wide range of financial products for their investments in developing and emerging countries. It comprises long-term loans and guarantees in addition to equity capital and mezzanine finance that is similar to equity capital. The funds can be used to co-finance both the setting up of new companies as well as investments in the expansion of existing ones. In addition to its financial services, DEG also advises companies during the development phase of their project and helps them structure the whole of their financing.

DEG has developed a special form of finance for German companies that are already successfully operating more than one subsidiary in a developing or transition country. If required, and as part of compre-

hensive agreements, DEG will make long-term funds available that will be used flexibly in a company's foreign holdings. By means of an individual credit agreement, DEG then makes the funds needed to meet the requirements of the respective subsidiary available at short notice. It is also possible to make the whole sum available via a "special purpose vehicle".

An example of such a general agreement is the long-term finance DEG made available to a German supplier of automotive components in 2004. The dynamically expanding company has built up plants in several countries following its major customers in their most important markets. DEG's long term-loan is to finance expansion and modernisation projects at its plants in Hungary, South Korea and Mexico.



## PUBLIC-PRIVATE PARTNERSHIP

### HOMELAND – A MODEL FARM IN KAZAKHSTAN.

DEG has been active for about ten years in the transition countries of the Caucasus and central Asia. It has also been active in Kazakhstan since 1998, where it has principally made long-term finance available to the local financial sector in order to contribute to its development. Together with German companies it has also carried out projects there via the PPP programme. This enables pre-investment and investment-tied measures, such as pilot plants and training programmes, to be co-financed with up to 200,000 euros. An essential prerequisite is that this contributes to a country's development.

One of the PPP projects in Kazakhstan is aimed at making the country's agriculture more productive and training the people employed in this sector of the economy accordingly. Together with DEG, Claas, a company based in East Westphalia in Germany which specialises in agricultural machinery, is establishing three large-scale model farms. The three farms, which are in agricultural regions with differing climatic and geological conditions near to Astana, Almaty and Pavlodar, will be converted into businesses operating according to western standards. Using state-of-the-art technology, procedures will be made

more efficient, a series of trials of different methods of cultivation will be conducted and the employees will undergo thorough training. A professor who was previously at an agricultural college is in charge of the training. The data obtained from the trials will be used as the basis for training courses and seminars. Claas is working together with the Astana Agricultural College, whose students will also undertake practical training on the farms.

The PPP project, which was started in September 2004, is planned to run for two years. The first seminars were held this autumn, one for some 140 students from the Astana University and the other for 120 managers and engineers from Kazakh farms. The seminars were held at the Rodina ("homeland") farm near Astana. Rodina employs 730 people and has an area of 42,000 hectares under cultivation, of which 22,500 hectares are given over to cereal growing. In addition, there are 2,700 cattle, including 800 dairy cows.

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## TEST YOUR KNOWLEDGE OF FINANCIAL TERMINOLOGY

### What exactly is a "floor trader"?

- Someone who sells floor coverings such as carpets or laminate flooring.
- A trader on the floor of a stock exchange who operates in his own name and for his own account.
- Someone who operates a mobile service offering snacks and drinks in discos.

As is often the case, the truth lies in the middle. A floor trader is an independent trader on a stock exchange.

**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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