

DEG Horizons

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TELECOMMUNICATIONS

help people communicate, do business and obtain information. The fact that on average there are only seven telephone subscribers per 100 inhabitants in Africa compared with a figure of 138 for Germany is a clear indication that in Africa in particular there is considerable demand. Solutions based on the use of mobile phones are a sensible way of providing the continent with a digital network.



EDITORIAL

A new year has begun – and it is already up to speed again. A good opportunity to look ahead; a chance for new ideas. Nowadays, more than ever before, companies also have to take a fresh look at things and think differently and creatively if they want to improve. Setting up business in different countries is the tried and tested way of opening up new markets in those countries. Developing and emerging countries are increasingly in demand here. Not only do a lot of these countries offer opportunities; they also stand to benefit from the investments.

In the current issue of DEG Horizons you can read about what is happening, for example, to the economy in central America and what the work of private companies has achieved in the expansion of telecommunications in Africa. Other topics are how DEG's business performed in 2004 and the services that DEG can offer companies when it comes to equity and mezzanine capital.

The DEG Horizons editorial team wishes you pleasant reading.

IN BRIEF

The increased interest in direct investments in developing and emerging countries is reflected in DEG's business. It increased its involvement in **2004** again. DEG approved new commitments totalling **600 million euros** in 2004, 563 million euros of it at DEG's own risk, further 38 million euros via co-financings together with KfW Entwicklungsbank (KfW development bank) and FMO of the Netherlands. 20 per cent of the commitments for investment capital was to projects of German companies. Mezzanine finance and equity capital accounted for a quarter of the commitments.

Disbursements were up 18% on the previous year; the **562 million euros** paid out was the highest amount ever in DEG's history. The **portfolio** grew to **2.5 billion euros**; this figure includes finance for 475 companies in 82 countries.

Dr Michael Bornmann has become a **member** of the **DEG board of management** and together with Johannes-Jürgen Bernsen and Dr Winfried Polte (Chairman) will be responsible for the development and growth of DEG. The economist, who has worked for KfW for many years, most recently as group executive director with responsibility for KfW's True-Sale initiative, took up his new post in Cologne on 15 February 2005.

FOCUS

MOBILE PHONES: QUANTUM JUMP IN TECHNOLOGY FOR AFRICA.

"Leap frogging" is the magic word when it comes to expanding telecommunications in developing countries. This somewhat sporty expression describes how one can use sensible technology jumps to make leaps forward by adopting solutions involving mobile phones instead of expensive, inadequate fixed networks. The resultant associated effects are very obvious in countries where phones were the privilege of only a few until not so long ago. Nowadays, lots of people use mobile phones, even in remote areas. Private companies are playing an important role here. They improve the telecommunications infrastructure in those countries that would not have the strength to close the so-called "digital gap" on their own. Otherwise, especially in poor and rural areas, large parts of the population would continue to be denied access to telecommunications.



In the past, DEG has financed numerous projects in the fields of information and communication technology. In recent years, particular attention has been given to mobile phones in Africa; compared with industrial nations, the digital gap is particularly extreme on this continent. In Africa, DEG has co-financed mobile-phone investments in Algeria, Nigeria, Tanzania and Uganda. When the markets were opened up, several licences were awarded in each case. This creates competition, which helps prevent monopolistic tendencies, such as with the rates charged. With the pre-paid phone card system,

users have to purchase a card for a fixed sum and this credit is then used to pay for calls. The system allows broad sections of the population to use the phone; for the system operator it reduces the risk of possible non-payment by users.

CelTel International is an example that goes beyond national borders. The company, which was founded in 1998, now runs the largest coherent mobile-phone network in Africa and is accessible to about 30 per cent of the continent's population. CelTel has an active presence in 13 countries, including Malawi, Burkina Faso, Uganda, Kenya, Sierra Leone and Gabon. DEG took an equity share in the company in 2001 and last year it decided to increase its stake. This involvement is a good example of how projects can promote development and still be profitable even in countries that are less developed.

Modern methods of communication are an essential prerequisite for the economic development of a country; they can speed up communications and trade and make it more effective. The benefits are not limited just to more telecommunications services being made available and improved access for more people. The operating companies make a large contribution to a country's income by way of taxes. Not least, the setting up of mobile-phone networks promotes the training of local workers and the setting up small businesses for the distribution of the telephone services. One of the leading mobile-phone companies in Nigeria employs 1,700 employees itself and in addition creates jobs and income for several thousand other people selling phone cards and accessories.

DEG is planning further involvement in the growth area telecommunications. Talks are in progress concerning possible involvement amongst others in Turkey and Bangladesh in 2005.

PARTNERS AND PROJECTS

CENTRAL AMERICA: TOGETHER WE ARE STRONG.

Despite their political, economic and cultural differences, the countries of central America are beginning to speak with a common voice on economic matters. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama have been backing liberalisation and the opening up of markets since the 90s; in addition, there are signs today that countries in the region are striving to achieve a common economic community. Free trade agreements, such as the one with Mexico, are evidence of this. Another pointer is CAFTA; the free trade agreement

between the central American states and the USA was finalised in 2004 and is expected to come into force early in 2005 following ratification by the national parliaments. This brings with it the prospect of the central American countries having access to NAFTA, the free trade zone covering Canada, Mexico and the USA.

There are correspondingly ever more opportunities for investors. DEG has started to further expand its involvement in central America, which

it regards as a region with a future. The portfolio currently totals about 57 million euros. In the past, DEG was mainly active in the financial sector; now, involvement includes investments in manufacturing and agriculture. Last year, for example, it approved a long-term loan in Costa Rica for an up-and-coming high-tech company to enable it to expand its production facilities; the company makes precision components for use in oil exploration and the film and photo industry as well as special machinery.

In Guatemala, an agricultural company received finance to invest in modernisation. It produces melons at three locations, mainly for export. The producer, who is the leader in his particular field, complies with strict international environmental and social standards and employs 300 people permanently together with up to 3,200 seasonal workers at harvest time.

Recently, Dr Winfried Polte, chairman of DEG's board of management, signed a contract in Nicaragua for a distribution centre for which DEG is providing US-Dollar 4.8 million, the largest share of the finance. The investment agreement, which is very important for Nicaragua, was signed in the presence of the country's head of state, Enrique Bolaños Geyer. OCAL S.A., a trading company, is setting up a new distribution centre in Managua. It will be equipped with a modern warehouse and

management system that will enable OCAL to improve its distribution to wholesalers and retailers – including some 2000 "pulperías", or small shops – throughout Nicaragua with groceries and everyday necessities using its own fleet of trucks.

DEG is planning further involvement in central America in 2005; agreements relating to projects in Costa Rica, El Salvador, Panama and Honduras are expected to be signed in the next few months.

Your DEG partner: Dr Michael Beetz, bee@deginvest.de



PUBLIC PRIVATE PARTNERSHIP

GOOD PROSPECTS FOR ARMENIAN IT STUDENTS.

A transformation country and one-time member of the Soviet Union, Armenia is still battling against poverty and unemployment. The country has always had a good educational system and so has a correspondingly well-trained population. However, most Armenian technical universities lack modern technical equipment and personnel. Poor economic prospects have led to the emigration of well-trained young people in particular.

The IT field is one of the few growth-oriented sectors in the Caucasian republic. Within the scope of the PPP programme, which supports companies in doing investment-tied measures, DEG is a project by Lycos Europe GmbH. The internet enterprise is actively involved in Armenia and is establishing a subsidiary in the field of software development. As part of a PPP project and in cooperation with two state-run technical universities in Eriwan, two new courses for undergraduates

are being set up in information and communication technology sciences with emphasis on internet technology. The aim is to provide about 50 students with the opportunity to have a sound, market-oriented education. Lycos is financing the technical equipment for the universities; the teaching staff is being provided by companies and the universities themselves.

In 2004, the first step was to develop the syllabuses and equip the universities with the necessary equipment. The first course started in September last year with 30 students enrolled. The demand for places was much greater, with about 120 applicants seeking places. And 200 applications have already been received for the course that starts in 2005.

Further information about the PPP programme: ppp@deginvest.de

FINANCING

SPECIALISTS FOR EQUITY UND MEZZANINE CAPITAL.

DEG offers equity capital in the form of equity shares and mezzanine finance for companies wanting to invest in developing countries and possibly set up a subsidiary or joint venture there. These finance products, which can be designed in different ways to suit a project, can be attractive for medium-sized businesses in particular. In 2004, DEG set up its Equity und Mezzanine Department with a team of qualified and internationally experienced staff to tend to the needs of DEG customers in this special sector.

An equity share involves an investor acquiring a stake in a company, and thus participating in the profits and losses of the company. A strategic investor usually takes an equity stake in a company to strengthen his own position or open up new markets; he will often acquire a majority shareholding. By contrast, DEG's involvement is always that of a finance investor within the framework of a minority equity share; the equity share can vary depending on the risk structure involved and the aims of the project partners.

Mezzanine finance is a mixture of equity and debt capital that can be arranged in different ways, for example as a convertible loan or a junior loan with warrants. With various scenarios, mezzanine tools can be a very sensible approach and can be used to satisfy the diverse interests of the participants in an investment project.

For example, they can be interesting when there is a need to fulfil capital requirements without diluting a company's ownership structure; likewise, they can be useful when a young company has a positive cash-flow and promising business prospects but inadequate security to obtain credit from a bank. Equity and mezzanine finance accounted for about a quarter of DEG's first-time commitments in the 2004 financial year.

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TEST YOUR KNOWLEDGE OF FINANCIAL TERMINOLOGY

What does ABS mean?

- anti-blocking system, a term taken from the car industry that is now also used in risk management by finance institutions.
- Australian Bureau of Statistics, the authority responsible for statistics "down under".
- asset-backed securities, a financing instrument, securitization of assets like amounts receivable as tradable securities.

The abbreviation ABS is used for all three of the above expressions, whereby a) is only actually used in the automotive industry. In the world of finance, ABS only means the type of finance mentioned under c).

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 the financial sector in order to facilitate reliable access to investment capital locally.
- So far, we have worked together with more than 1,200 companies. By providing 6.2 billion euros of finance, we have achieved a total investment of 41 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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