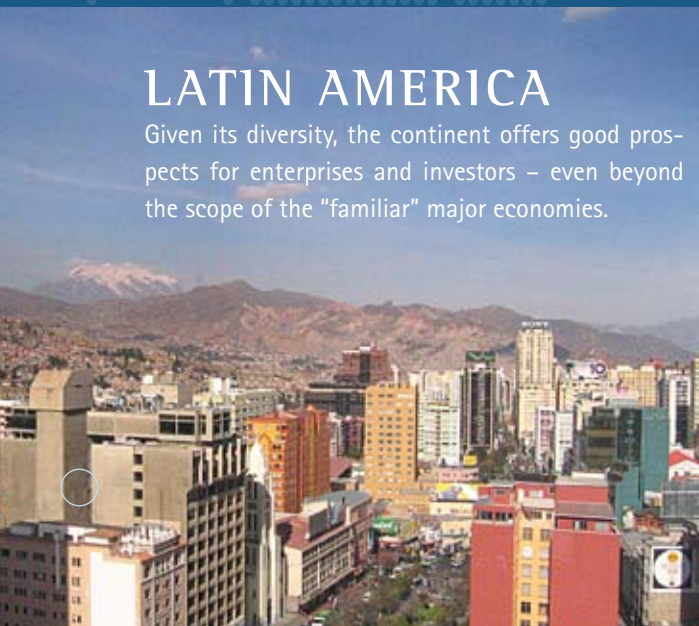


# DEG Horizons

Our business is developing.

## LATIN AMERICA

Given its diversity, the continent offers good prospects for enterprises and investors – even beyond the scope of the “familiar” major economies.



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## EDITORIAL

This summer, clouds gathered in the otherwise clear economic skies. As the sub-prime lending crisis unfolded, the stock exchanges were not the only ones holding their breath. A serious economic slowdown seems unlikely, but this has demonstrated how closely global markets are intertwined and how sensitively they react.

How can enterprises become involved in up-and-coming markets, e.g. in Latin America, in ways that are successful and risk-appropriate? And what advantages can arrangements provide when it comes to financing investments? Just two of the subjects discussed in this issue of *DEG-Horizons*.

The DEG editorial team  
wishes you pleasant reading

## IN BRIEF

The first half of the 2007 business year has passed off well for DEG: it was able to approve EUR 530 million in investments for private enterprises up to the 30th of June. At the time of going to press in early August, **new business** already totalled approximately **EUR 580 million**. This included an increasing proportion of structured finance, and the equity and mezzanine segment also showed continued growth. The **portfolio** comprised **EUR 3.3 billion** to 30th of June – an increase of more than 16 per cent compared to the 2006 half-year figure.

Looking at the new business on a regional basis, Eastern Europe and Asia are currently in the lead. One item is of particular interest in terms of development policy: by the middle of the year, roughly **EUR 70 million** in investment finance had already been approved for **Africa**; again, this is an encouraging development. The funds are going to e.g. **mobile network operators** in Nigeria and Uganda, or a building society specialising in **infrastructure projects** which operates in several African countries.





## FOCUS

# BRIGHT OUTLOOK FOR LATIN AMERICA.

In this as in previous years, Latin America's economies have recorded good levels of growth: GDP is expected to increase by an average of 5 per cent in 2007. The world economy and the boom in raw materials are driving this development, although there are certainly regional differences.

Brazil and Mexico provide excellent examples of the continent's appeal – not least for foreign banks and investors, who are becoming heavily involved at the moment. Just in these two countries, where DEG has been operating for more than 40 years, the current portfolio amounts to approx. EUR 200 million. Central America also offers business potential, though the risks are higher by comparison. Enterprises operating in that region are often unable to obtain sufficient investment finance as a result. Thanks to its market knowledge, DEG is able to devise appropriate project and risk structures even in these regions. For instance, it has increased its involvement in countries such as Costa Rica or Nicaragua, where it is financing enterprises in the traditionally important agricultural sector, in the processing industry and the infrastructure sector. In the near future, DEG will be turning its attention to the growing potential of the Andean region with a new office in Lima. In Peru, for example, it is currently co-financing a variety of infrastructure projects.

For medium-sized enterprises in particular, it can make sense not just to finance investments in the "traditional" way by taking out loans, but also to take advantage of third-party equity participation or mezzanine finance. DEG makes a point of offering these products in Latin America as elsewhere. For instance, it has an equity stake in a Mexican enterprise that builds industrial parks and then lets them to commercial users. The tenants benefit from being able to use the industrial estate's first-rate infrastructure on an "ad hoc" basis. DEG

has recently supported the enterprise's expansion by increasing its equity stake. As a hands-on investor, it plays its part on the board and advises the management. Recently, DEG also took a stake in a bank in Honduras which plans to expand the business it does with medium-sized clients. DEG's commitment as a shareholder sends out a positive signal in a higher-risk market.

The demand for mezzanine finance is also gradually increasing in Latin America. It may be attractive if e.g. an enterprise is unable to provide adequate security to obtain additional finance via loans with matching maturity, or alternatively is unwilling to increase the number of shareholders. Mezzanine finance can be designed to meet the requirements of the individual project, with either the equity or debt features taking precedence. It is subordinate to senior debt, or is regarded as part of the equity capital, thus increasing the finance options available to enterprises. Innovative products like this allow DEG to compensate for the shortcomings of local markets and supplement what is on offer from the commercial banks.

Familiarity with the market and advice are essential criteria when it comes to being able to understand and meet the needs of clients. For several years now, DEG has had specialists on the ground in local offices in Brazil and Mexico. The Andean Office in Lima is due to open in September.

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Latin America is one of DEG's priority regions: in 2006, new business totalled more than EUR 200 million, and it is expected to be on a similar scale in 2007.

## FINANCING

### STRUCTURED FINANCE.

To meet the growing demand for investment finance on a larger scale, DEG is increasingly undertaking finance arrangements. This means that enterprises receive either the whole of their debt finance or a particular tranche from a single source. DEG structures the finance at the clients' request and puts together a consortium of co-financing lenders. In 2006, roughly EUR 100 million were arranged through DEG; in the current year to date, the sum is already running at EUR 125 million, including one EUR 78 million tranche for a Turkish mobile network operator.

A key advantage for the enterprises is that large volumes are supplied by a sole partner. The clients benefit because the arranging party co-ordinates the co-financing institutions during due diligence and contract negotiations. In addition, the standardised contracts and the fact that DEG acts as an "agent" facilitate payout, reporting and repayment of the finance. As a German provider of development finance for private enterprise, DEG also has 45 years of experience and a well-developed foreign network to offer. The institution's excellent links to development finance providers and commercial

banks help it to structure even large volumes in accordance with the needs of individual projects.

Both projects and investment countries benefit from the mobilisation of larger sums for investments that are crucial for development, while beneficial effects are enhanced. DEG works on a "best efforts" basis, doing everything in its power to complete the arrangement. However, if it falls through, DEG is under no obligation to provide all the finance. Two different structures are possible. On the one hand, DEG can take the lead in providing parallel finance in a consortium along with other lenders. This model is often used in co-operation with development finance providers in especially high-risk markets. On the other hand, DEG can approve the entire sum as "A-loan lender" and re-finance through other banks, the "B-loan lenders". Taking market and risk considerations into account, this kind of involvement can be attractive, especially for commercial banks.

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## PARTNERS AND PROJECTS

### CLIMATE PROTECTION: THINK GLOBALLY, ACT GLOBALLY.

Climate change affects both industrialised and developing nations. If attempts to slow down global warming are unsuccessful, developing countries in particular will suffer the consequences. Since the mid-1990s, one of DEG's stated aims has been to support projects designed to protect the climate. In 2006 alone, it approved EUR 54 million for projects of this type. Geothermal power plants, bio-diesel projects and schemes to improve energy efficiency are other approaches DEG is currently pursuing.

Take a topical example: DEG has established a joint venture with PCC SE, a company involved in the international trade in electricity. The partners plan to invest in around 30 small-scale hydro-electric plants in South-Eastern Europe. This will increase power-generating capacities as well as promoting the use of renewables. By exploiting hydropower, considerable amounts of CO<sub>2</sub> can be saved. Another of DEG's more recent commitments is its participation in a new "Global Environment

Emerging Market Fund". Targeted at emerging markets, it provides equity participation for medium-sized enterprises operating in fields of relevance for the environment.

DEG is also involved in climate protection via the Public Private Partnership Programme. To date, more than 420 PPP projects with a total volume of EUR 180 million have been carried out in co-operation with enterprises, around two thirds of them in the environmental field. One of these, "Kyoto Coaching Cologne", was set up jointly by DEG and the TÜV Rheinland Group. The network provides advice for enterprises and supports them through the complex certification process for CDP projects. KCC handled the entire certification for a wind farm in China co-financed by DEG and was recently able to sell 10,000 carbon credits.

Additional information: [www.deginvest.de](http://www.deginvest.de),  
[www.kyoto-coaching-cologne.de](http://www.kyoto-coaching-cologne.de)



Wind farms and hydro-electric plants built by private investors are being co-financed by DEG in China, India, Turkey, Brazil, Peru and elsewhere. Geothermal energy can be used in countries like Kenya or Indonesia to improve power supplies without affecting the climate.

## PUBLIC-PRIVATE PARTNERSHIP

### PRELIMINARY STUDIES: DEG CAN HELP.

As of recently, DEG has been able to co-finance studies under the Public Private Partnership scheme. This applies to studies in preparation of private sector commitments in developing countries, specifically commitments with an impact on development and relating to infrastructure, including financial infrastructure. The PPP Study Facility is available to companies based in the European Union and in developing countries which are planning to become involved in an infrastructure project either

as investors or operators. It supports companies in carrying out preliminary studies which may be crucial to the success of an investment. The project to which the study relates must have a meaningful impact on development and fit into the general conception of German Development Co-operation. DEG is able to assume up to 50 per cent of the cost of a study, to a maximum of EUR 200,000.

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To ensure the success of infrastructure projects, it is worth assessing e.g. market potential or the legal framework in advance. Studies exploring such issues can be co-financed with PPP programme funding.

## NEWS

### RENEWABLE ENERGIES: DEG AND WPD CO-OPERATE.

DEG and the experienced project developer WPD AG have agreed on a co-operative venture, jointly carrying out renewable energy projects in developing countries and emerging markets. The aim of the partnership is to make a contribution to finding ecologically and economically sound solutions to the relentlessly growing worldwide demand for energy. DEG and WPD will establish regional organisations in selected countries which

will identify and develop projects. The partners will contribute capital as well as their own particular expertise to the organisations. As finance provider, DEG is mainly required to supply risk capital, while also contributing its know-how about various countries and its excellent links to government authorities and institutions. Co-operation with WPD will make it possible to unlock additional potential in a promising business field.

## DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging market countries for more than 40 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agri-business to infrastructure and from manufacturing to services. We also focus on the development of the financial sector in order to facilitate reliable access to capital locally.
- So far, we have worked together with more than 1,300 companies. By providing EUR 7.7 billion of finance, we have contributed to a total investment of EUR 50 billion.
- 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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