

DEG Horizons

Our business is developing.

RUSSIA

is being discovered by more and more enterprises, both as a market and an investment location. Good prospects are not confined to the large conurbations.



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EDITORIAL

There are 6.7 billion people living in the world today, and the number increases by more than 200,000 every day. World Population Day on 11 July – established in 1989 when the 5 billion mark was passed – is designed as a regular reminder of the rapid growth of humankind and the problems associated with it. The growth is almost entirely confined to developing countries.

One consequence is the emergence of more and more "mega-cities" with millions of people and infrastructure that is unable to cope with the continuous influx of new inhabitants. How the urgent housing problem facing people on low and middle incomes can be alleviated in cooperation with the private sector is one of the subjects in this edition.

The DEG editorial team
wishes you pleasant reading

IN BRIEF

Substantially more than EUR 600 million in new commitments by the time of going to press at the end of June: a very promising start to the 2008 business year at DEG. Most of the finance is going to enterprises investing in Asia, with Eastern Europe coming second. Equally positive: more than **EUR 74 million** have already been approved for investments in **Africa**.

On our own account: DEG is relocating within Cologne. From **15 September 2008**, you will find DEG at its **new address in Kämmergasse 22, 50676 Cologne**. Mail may also be addressed to the new PO box: Postfach 10 09 61, 50449 Cologne. All telephone and fax numbers remain unchanged, as do e-mail addresses.



An excellent outlook:
view of Cologne
Cathedral from DEG's
new headquarters.

FOCUS

MARKET WITH PROSPECTS: RUSSIA.



There are markets for, e.g. plant construction firms, automotive suppliers and building materials producers.

Economic growth of over seven percent driven by high commodity prices and a distinct benefit for direct investment, both domestic and foreign: Russia's economic upturn has been noted throughout the world. On the other hand, despite the rise in real earnings, roughly 16 percent of the population are living below the poverty line, and the gap between rich and poor is growing ever wider. There are considerable regional differences, but the average monthly income is only approx. EUR 410. The process of economic and social transformation which began in the early 1990s, after the fall of the Soviet Union, is far from complete. Economic diversification and reducing the country's dependency on commodity price trends remain the keystones of Russian economic policy.

Germany is now Russia's main trading partner. During the past year, Germany exported mainly machinery, vehicles and components, building materials and electronic goods to the value of more than EUR 28 billion, while importing predominantly raw materials from Russia. Quite a few German enterprises are already operating in Russia, or are planning to invest there in order to open up this attractive market.

Medium-sized businesses head for Russia

One enterprise that took the plunge a few years ago is the medium-sized German wallpaper manufacturer Erismann & Cie. GmbH, based in Breisach in the South of Germany. This long-established firm set up a subsidiary in Bronnitsy near Moscow to produce and sell top quality wallpaper for its most important export market locally. The subsidiary has been successful, and a few months ago, DEG provided an almost eight-figure sum for an expansion programme. Earlier, it had successfully supported the start-up of the firm in Russia.

For some years now, Russia has been growing in importance as an investment country for DEG. The current portfolio amounts to approx. EUR 265 million. Medium-sized German enterprises, especially in the manufacturing sector, are an important target group. In the past, DEG has advised, among



others, firms producing plastic fastenings, agricultural machinery and building materials during their move to Russia and has provided long-term loans to finance their investments. A further priority is support for the financial sector via regional banks, leasing firms and equity investment companies; the aim is to improve access to investment capital for small and medium-sized local enterprises, especially outside the main conurbations.

Since 2006, DEG has had its own representative office in Moscow, allowing it to maintain a permanent presence on the ground. In future, its priorities will involve supporting German investors and providing investment finance for medium-sized Russian enterprises, a sector that is gradually emerging. There is potential in, among other things, the automobile supply industry and plant engineering and construction. Energy efficiency and renewable energies are further sectors that are gaining in importance and offer opportunities for German investors.

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FINANCING

EQUITY CAPITAL FOR AFRICAN ENTERPRISES.

In 2006, USD 36 billion in foreign direct investment (FDI) flowed into Africa, according to the most recent World Investment Report – a record volume. The lion's share went into the commodities sector, i.e. oil, gas and other natural resources. However, this positive picture is put into perspective if one considers that Africa's share of worldwide FDI is tiny and had actually shrunk from 3.1 percent the previous year to 2.7 percent. Besides, the investment only flowed into a handful of countries, including Egypt, Nigeria, the Sudan and Tunisia. There were only two other countries from sub-Saharan Africa in the top ten, Equatorial Guinea and Ghana.

Investment in the secondary and tertiary economic sectors is crucial to achieving sustainable economic development. Due to the high levels of risk, the long-term capital needed to finance projects remains in short supply; African enterprises in particular have very little access to matched maturity funds. But there is an increasing number of companies willing to provide them with equity capital and mezzanine finance. For example: Industrial Promotion Services Kenya Ltd. (IPSK) acquires participating interests in enterprises in the manufacturing and infrastructure sectors. Its majority shareholder is the Aga Khan Fund for Economic Development. IPSK is continuously expanding its activities in East Africa. DEG was among those

supplying the additional capital required. With a seat on the supervisory board, it is also involved in IPSK as well as playing a part in selecting and providing advice to the enterprises being co-financed.

A further approach consists of becoming involved in investment funds with environmentally significant portfolios. DEG has recently acquired a capital interest in two African funds. "KIBO", a relatively small fund with a volume of approx. EUR 50 million, invests mainly in medium-sized enterprises in East Africa in industries such as telecommunications, technology and financial services. "African Development Partners I" focuses on larger enterprises with major growth potential and currently has a volume of roughly EUR 230 million. This fund plans to invest in various regions, including countries with low per capita income. In both organisations, DEG has a seat on the board of directors and on the investment committee, and even during the inception phase, the institution played an active part in establishing the strategic direction and making business policy decisions. This includes strengthening organisational and management structures and improving competencies in, e.g. environmental and social management.

By financing equity investment companies, DEG is able to supplement its support for the private sector in Africa. Its Africa portfolio totals approx. EUR 640 million.

EUR 15 BILLION FOR ENTERPRISES IN DEVELOPING COUNTRIES.

At European level, DEG has for years been involved in EDFI, the Brussels-based organisation of European Development Finance Institutions supporting the private sector. That EDFI is thriving is evident from, among other things, the consolidated figures just published. In 2007, the EDFI group, like DEG, recorded a marked increase in new business, which grew to just under EUR 6 billion from EUR 3.8 billion in 2006.

By the end of 2007, the consolidated portfolio had risen by EUR 2.6 billion to EUR 15.1 billion for more than 3,600 investment projects in developing countries. Finance for ACP (African, Caribbean & Pacific) states actually accounts for approx. 26 percent of the portfolio, impressively highlighting EDFI's active support for Africa and the private sector.

More information at: www.edfi.be



Enterprises that process African products locally are important to create added value.

NEWS

HOUSING FOR THE MANY.

Mushrooming cities with millions of inhabitants are typical of many developing countries. However, the cities' infrastructure is rarely able to keep pace. Nor are the problems confined to energy, water or environmental pollution; housing is also scarce. People on low and middle incomes are particularly badly affected – and they have few ways of securing appropriate finance to buy their own homes. In some developing countries, housing finance is not on offer at all, meaning that often, "ordinary" bank loans with less advantageous terms and conditions are the only choice.

That is why DEG is investing in specialist institutions offering housing finance. In Romania some years ago, it co-financed the country's first mortgage bank. It also helped to organise the setting-up of Egypt's first privately owned mortgage bank. It was supported by one of India's market leaders in housing finance, an organisation with which DEG has enjoyed long-term cooperation. Additional finance went to Latin-American countries such as Mexico and Peru as well as to India. The portfolio currently totals approx. EUR 170 million. One positive note: so far, providers of housing finance in developing countries have remained unaffected by what is known as the sub-prime mortgage crisis, where lower rated US mortgages which had been

bundled into complex, asset-backed securities and sold to investors, turned out not to be a sound investment.



A few weeks ago, DEG committed a long-term local currency loan in Mexico, equivalent to an eight-figure sum in euros: Hipotecaria Casa Mexicana (HCM) provides long-term property loans to private clients on low and middle incomes. By re-financing through DEG, HCM will be able to offer more loans and expand into more regions in the poorer south of the country. DEG will also be supporting and advising the institution on management issues. There are plans to extend DEG's investment in housing finance further over the coming years.

DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging market countries for more than 45 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agribusiness and infrastructure to manufacturing and services. We also focus on the development of the financial sector in order to facilitate reliable access to capital locally.
- 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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