

# DEG Horizons

Our business is developing.

## AFRICA

and our image of Africa is changing. Despite regional differences, there are many signs of encouraging developments. And ever more companies are discovering the continent and its markets.



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## EDITORIAL

The end of the year is almost upon us again – an ideal opportunity to start taking stock, even though the business year is not quite over. Many enterprises will chalk up 2007 as a very successful year, and many economies are literally humming. It remains to be seen whether the dynamic growth of recent years will continue.

In 2007, DEG was effective in working to provide finance for enterprises operating in developing countries and emerging markets, and launch investments designed to be successful in the long term. To discover what it is doing in markets such as Africa, which is both promising and crucial to development, and how it is promoting innovative solutions for climate protection and local currency finance, read the new edition of *DEG-Horizons*.

The DEG editorial team wishes you pleasant reading.

## IN BRIEF

Foreign direct investment in developing countries and emerging markets has reached records levels, according to the "World Investment Report 2007" published in October. Of a total of more than USD 1.3 trillion, which is close to the all-time high in 2000, around USD 450 billion flowed into developing countries and transition economies. DEG's business reflects these developments. **New business** for 2007 is expected to total at least **EUR 900 million**.

**Good Corporate Governance** writ large: on the occasion of the World Bank's general meeting in Washington, DEG joined a further **30 development finance institutions**, including ADB, AfDB, EBRD, FMO and IFC, in signing a declaration. In this document, the financiers jointly committed themselves to ensuring that corporate governance standards are maintained in any projects they co-finance in developing countries. A benchmark is provided by the **OECD Principles** of Corporate Governance, which focus primarily on shareholder rights, involvement of stakeholders and transparency.





## FOCUS

# AFRICA – A CONTINENT WITH A FUTURE.



DEG has been supporting investment in Africa since the 1960s. In all, its finance approved for investments by enterprises in Africa totals approx. EUR 1.5 billion.

The news from the African continent has been good recently: fuelled by the rising price of raw materials and food commodities, the economic upturn – with growth rates of six percent on average – is set to continue and even gather pace in 2008. Overall, the situation has also stabilised politically. More investors are looking towards Africa, and there has been a marked rise in foreign direct investment. For example, German direct investment grew to just under EUR 6 billion in 2006 – an increase of over 15 percent compared to the previous year. There are still plenty of challenges in Africa, for instance the inadequate infrastructure. Another lies in creating added value, e.g. by processing more raw materials locally.

This requires both skills and investment. And to achieve both, enterprises need capital. But in many African countries, companies have no access to long-term investment capital, since it is rarely on offer. In an attempt to change this, DEG has adopted a two-pronged approach: on the one hand, it is financing investments directly. In the current year alone, it has approved more than EUR 70 million for enterprises in Africa; some of these funds are being invested in expanding mobile phone networks as well as in the processing industry.

On the other hand, DEG is providing finance to banks that lend capital to small and medium-size businesses, extending the banks' financial scope. For example, they are given lines of credit on condition that they offer loans to medium-size enterprises.

In appropriate cases, DEG will also take an equity stake: in 2007, working with its French cooperation partner Proparco, DEG acquired a stake in the Kenyan Investment & Mortgages Bank Ltd. (I & M), a successful and growing commercial bank that specialises in medium-size enterprises. The banking sector in Kenya is made up of a small number of major international banks and some 40 smaller local banks. I & M Bank is one of the first banks with Kenyan shareholders in which international financiers have taken an equity stake. To stabilise its growth and safeguard its loan business, the bank needed additional equity capital.

As a shareholder, DEG is able to become actively involved in the bank's business policy and promote its ongoing professionalisation in line with international standards. Taking an equity stake is also a signal to local and international investors in the hope of mobilising additional capital investment and expanding the services on offer to Kenyan business clients.

For this transaction as for others, DEG's presence on the ground proved useful. Since 2005, it has had a Nairobi office responsible for the East Africa region, while there has been a representative office for Southern Africa in Johannesburg since back in 2000. These will be joined by an office in Accra in early 2008. The intention is further to expand the business in West Africa, where DEG most recently approved finance for infrastructure investments in Nigeria.



## PARTNERS AND PROJECTS

### EQUITY STAKE IN INVESTOR IN CLIMATE PROTECTION.

For several years now, the Brazilian economy has been recording stable rates of growth. But the country needs to improve its infrastructure – at least since it was named as host country for the 2014 FIFA World Cup. Increasingly serious bottlenecks are hampering economic growth. That is why investments of around USD 100 billion are planned, mainly directed at the energy sector and at diversifying the energy mix. One focus will be on using renewable energy to improve the supply to businesses and households. DEG has now taken an equity stake in Energias Renováveis S.A. (ERSA) to make its own contribution.

ERSA will implement projects that use water and wind power and biomass as energy sources. More than 30 power plants are to be in place by 2015. Initially, the company will concentrate on small hydro-electric plants and has already

acquired the rights to 16 projects. ERSA's strategic partner is the Brazilian investment company Patria, which is providing USD 92 million via an energy fund. With its own USD 25 million dollar stake, DEG is making an important contribution to eliminating energy shortages and supporting the environmentally friendly use of renewables. Since DEG is providing equity capital, it also has a seat on ERSA's board and is taking an active part in company policy.

Since the mid-1990s, one of DEG's declared aims has been to support and finance climate protection. Working with both German and local enterprises, it has set up wind parks, hydroelectric and biomass plants in Latin America and in Asia. In Brazil, it is co-financing the country's first privately-owned wind park, among other projects.

"Luz para Todos" is the name of the Brazilian programme designed to promote the de-centralisation of the energy supply in rural areas. Another key objective is the increased use of a variety of energy sources.

## FINANCING

### BUFFER AGAINST LOCAL CURRENCY RISKS: THE CURRENCY EXCHANGE FUND.

In developing countries, there is a demand for local currency finance from many enterprises that generate most of their earnings in the national currency. But in these countries, long-term finance in particular is not available in local currency. So the enterprises finance their investments with short-term or foreign currency loans and are exposed to prolongation or exchange rate risks as a result.

To ensure that enterprises with no foreign exchange earnings have access to adequate finance, the Netherlands Development Finance Company FMO, one of DEG's close cooperation partners, developed the idea for a fund with the support of the Dutch government. "The Currency Exchange Fund (TCX)" is designed to provide a buffer against local currency risk. KfW Entwicklungsbank (KfW Development Bank) and DEG helped to develop the

fund and contributed a total of USD 70 million, joining eight other finance providers from Europe and South Africa. USD 300 million are now available to mitigate local currency risks, providing a transaction capacity of over USD 1 billion.

This allows fund investors to provide local currency finance even in countries where instruments such as currency swaps cannot be used to provide protection against fluctuations. The focus will be on Africa, on housing finance and finance for small and medium-size businesses. This novel approach supports the objectives of the Heiligendamm G8 summit, i.e. to dismantle obstacles to development caused by the inability of enterprises to access long-term local currency finance.

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In the past, DEG has made local currency finance available in several countries, including Brazil, Indonesia, Kenya and South Africa.



## PUBLIC-PRIVATE PARTNERSHIP

### FIGHTING HIV/AIDS: WITH A PUBLIC PRIVATE PARTNERSHIP.

HIV/AIDS affects many developing countries; around three quarters of all those infected live in Sub-Saharan Africa. To help curb the disease in Uganda, flower growers Wagagai Ltd. and DEG have set up a joint PPP project. The flower farm on the shores of Lake Victoria is to expand its "Wagagai Medical Centre". In future, the centre will not just provide medical care to employees, but to all the residents of the Wakiso district, some 14,000 people. The focus will be on the prevention and treatment of HIV/AIDS and malaria.

Wagagai has been one of DEG's clients since 2006: the institution provided a long-term loan of EUR 3.5 million for investment in expanding the flower farm. The enterprise, which is run by Dutch shareholders, employs around 1,100 people, making it by far the largest employer in the region. DEG is now providing EUR 200,000 to extend the clinic. The money is from a special fund made available by the German Federal Ministry for Economic Cooperation and Development (BMZ) for the fight against Aids. Wagagai Ltd. is to invest a further EUR 369,000. Contact: [ppp@deginvest.de](mailto:ppp@deginvest.de)



## NEWS

### TOPPING-OUT CEREMONY AT NEW DEG HQ. MOVE PLANNED FOR AUTUMN 2008.

In 2008, DEG will move into its new headquarters in the centre of Cologne. The 370 members of staff, currently split between three locations, will once again be under one roof. On the 6th of September, a topping-out ceremony was held at DEG's future address, Kämmergasse 22. Representatives of the City of Cologne, of the KfW Bankengruppe (KfW Banking Group) and future neighbours celebrated the completion of the

building's shell along with DEG and employees of the firms responsible for the design and construction of the building. Following next year's move, DEG will enjoy a presence in a very central location.

Anyone who is interested can track the progress of the building work in real time at [www.deg-neubau-webcam.de](http://www.deg-neubau-webcam.de)



## 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 agribusiness to infrastructure and 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 more than EUR 7.7 billion of finance, we have contributed to a total investment of around EUR 50 billion.
- Our aim is to create the basis for sustainable economic growth and a lasting improvement in the living conditions of the local population.

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