50-YEAR FOOTPRINT

Africa AM catches up with **Karl Weinfurtner**, DEG director for Africa, to speak about the German development finance institution's (DFI) business in Africa

BY ANNA LYUDVIG

One of the oldest DFIs in the world, the German DEG – Deutsche Investitions und Entwicklungsgesellschaft mbH – celebrated its 50th anniversary in 2012. The DFI, which started its business in Africa, has a total commitment of €1.1bn in the region out of its total of around €6bn. DEG is a limited liability company: in addition to its own funds, it gets refinancing which is provided by the parent company KfW.

DEG invests in a variety of ways: about 60% of the annual financing is direct senior loans to companies, whereas the other 40% is risk capital, which is broadly divided into mezzanine financing (20%), direct equity in companies (10%) and direct equity in funds (10%).

With regard to funds, DEG invests in regional-focused private equity funds or sector-focused funds, says DEG Director for Africa Karl Weinfurtner. "Quite often we co-invest with other DFIs and in many cases we help funds to get established in Africa. We can only invest with others, we cannot have a fund which we run ourselves," he says.

For instance, in Africa, DEG is financing with AfricInvest from Tunisia, with The Abraaj Group, with ECP, with DPI and also with some other traditional fund investors. "When we invest in funds, we are usually asking for co-investment possibilities. In case we have a good investment we would have a right of first refusal which gives us the option to look at new deals before other investors," he says.

In Africa, the main countries of investment are those where DEG has offices: South Africa, Kenya and Ghana. In addition to these countries, DEG has selected eight countries in SSA where it is doing business in a broad spectrum: Cameroon, Ivory Coast, Nigeria, Ethiopia, Uganda, Tanzania, Zambia and Mozambique.

However, overall, the DFI is invested in about 30 African countries, says Weinfurtner, pointing that in the rest of Africa DEG is doing business on a "selective basis, opportunity-driven, and when there are good projects and good partners".

"We believe that our financing is also very much a relationship business; we need to know people, we are working in an environment which is risky, and therefore it is important to know the local partners, to know the local environment and business conditions in countries where we operate," he adds.

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>
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The financial sector is a "major business" for the German DFI with roughly €330m invested (30% of the total commitments in Africa). DEG provides local or regional banks with senior loans, mezzanine financing or equity and usually requires them to use these funds for specific purposes and in most cases in order to finance small and medium enterprises (SMEs) in their countries. Weinfurtner says that the usual financing is between €5m and €25m, whereas direct transactions at lower amounts are rather difficult due to the high transaction costs.

In addition to the financial sector, DEG is interested and invested in infrastructure (energy, renewable energy, telecoms, and ports), agribusiness, mining and manufacturing sector. "DEG is quite active in agribusiness as it has a specialized team of agribusiness experts. We have financed the broad range of agribusiness projects ranging from rubber to cotton and coffee," says Weinfurtner.

The degree of due-diligence depends on the project, but usually it takes six months to complete from the idea of financing to the signing of contracts. "Financial institutions take a shorter time than infrastructure projects," he says.

Project-specific solutions

DEG not only offers private enterprises investing in developing countries the appropriate long-term finance, but also creates project-specific package solutions that are designed in such a way that the risk involved is commensurate with the constellation of the respective project. In this way, DEG can help ensure that investments are going to be successful in the long term.

"Very often we have projects which require large amounts of financing, so DEG and other DFIs are quite often offering a type of financing set to mobilize financing of commercial banks," explains Weinfurtner.

For example, DEG is currently working on a deal in a Central African country in the telecoms sector with terms between eight and 15 years, while commercial banks can only offer four to eight years. "By offering these long-term solutions we are able to mobilize additional commercial funds," says Weinfurtner.

"DEG has also access to Technical Assistance funds, so in cases where we think that companies are good and we would like to finance, but they have some deficiencies in regards to the social aspect or accounting, we would offer technical assistance and help them to improve their standards," he says.

Like other DFIs, DEG aims to invest in sustainable and profitable businesses. For Weinfurtner, it is not only the economic return that matters, but also the environmental and social aspects of the company.

"Whenever we approve a project financing, we always have to prove that it is viable in economic terms and in line with the environmental and social policy of the DEG. We follow the IFC Performance Standards and the stipulations of the Environmental, Health and Safety Sector Guidelines of the World Bank Group and if these guidelines are not fulfilled, we could not finance unless the partner is prepared to overcome the shortages," he stresses.

In 2013, DEG has financed about 25 projects with a total volume of more than €300m; among them are deals in Mozambique, DR Congo, Côte d'Ivoire and Tanzania. "We have financed three renewable energy projects in South Africa, we are engaged in energy plants in West-Africa, and we are close to signing a wind power deal in Eastern Africa," says Weinfurtner.

Going forward

Nowadays, more and more people and companies are thinking about Africa as an investment destination. Risks are high in the region, but for those who know the business environment in Africa these are lower than expected, says Weinfurtner.

"DEG is more or less gaining by knowing the real risks and that is the arbitrage on which we can do good business and earn money, because the business we do in Africa is profitable. We are making profits in Africa and that is very important," he adds.

When asked about future plans, Weinfurtner says that in 2014 DEG is planning to invest at least €300m in Africa, aiming to increase that amount to an annual of €425m by 2017. The DFI is also planning to extend its African coverage and to broaden the base of doing business. "We were heavily growing in Africa for the last couple of years and we would like to set-up a stable structure," says Weinfurtner.

"We are looking at several countries and we are currently doing studies about the financial sector in Mozambique and Ivory Coast. We also think that renewable energy has a good potential in Africa, so we are working on a strategy to roll out a stronger role of DEG in this sector," he says.

"We started more than 50 years ago in Africa, so I think our past lies in Africa and I believe our future lies in Africa, too. Africa needs us and we need Africa," he concludes. ■

DEG AT A GLANCE
(SOURCE: KFW, DEG)

Established: 1962
Employees: 480
Head office: Cologne, Germany
Shareholder: KfW Frankfurt
Equity: €1.8bn
Balance sheet total: €4.7bn
New business: €1.3 bn
Portfolio: €6bn

DEG'S COMMITMENTS IN AFRICA (SOURCE: KFW, DEG)
(AS OF APRIL 2013)

Country	€m
Africa supraregional	304.8
South Africa	144.1
Kenya	84.9
Egypt	66.7
Ghana	56.4
Uganda	47.3
Nigeria	40.6
Cameroon	33.7
Côte d'Ivoire	26.9
Togo	25.0
Ethiopia	24.9
Other African countries	191.9
TOTAL:	1,047.2