

NEWS

NEW INVESTMENT GUIDES IN COOPERATION WITH THE F.A.Z. INSTITUTE.

The F.A.Z. institute, DEG and Rödl & Partner have been jointly publishing a series of investment guides for several years. Currently, two new publications are available: the investment guide for India 2007 provides comprehensive information on the economic, political, legal and tax conditions in Asia's booming third largest economy, covering selected industrial sectors, locations and finance opportunities for companies wishing to invest in the country. The updated investment

guide Southeast Europe 2007 offers a lot of sound information on some of the most attractive investment locations such as Bulgaria, Croatia and Romania – countries currently preparing to join the European Union.

For more information: [germancorporates@deginvest.de](mailto:germancorporates@deginvest.de) or [www.faz-institut.de](http://www.faz-institut.de)

HYDROELECTRIC POWER FOR YUNNAN.

DEG is co-financing another renewable energy project: it has granted a loan amounting to about EUR 10 million to a Chinese company. The project in Yanjin, in China's southwestern province Yunnan, includes the construction and operation of three hydroelectric power plants, which meet international technical and environmental standards. Through this financing project, DEG contributes to the diversification of electricity generation in China towards renewable energies. In addition, it improves the energy supply for a poor region with inadequate electricity supplies. The company Zhongda Hydro develops, constructs and operates small and medium-size hydroelectric power plants in China. By the end of 2005, there were 14 power plants with a total output of 58 megawatts. New plants are currently under construction, among them three which have been co-financed by DEG. Other investment partners include the world bank subsidiary IFC and the French development financier Proparco. DEG is committed particularly to infrastructure investments promoting climate protection measures and the use of renewable energies. Among other projects it has co-

financed wind and hydroelectric power plants in Asia and Latin America with a total of about EUR 80 million.



NEW DIVISION "STRUCTURED FINANCE II".

Holger Rothenbusch has been appointed head of the newly established DEG "Structured Finance II" division with effect from 1 November. This incorporates the departments Equity/Mezzanine, Financial Institutions

and Special Programmes. Mr Rothenbusch is the former head of the Equity/Mezzanine department, which is still assigned to him until further notice.

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 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 billion of finance, we have contributed to a total investment of EUR 45 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.

**Publisher:** DEG –Deutsche Investitions- und Entwicklungsgesellschaft mbH • Belvederestraße 40 • 50933 Cologne • Germany • Phone: +49 221 4986-0 • Fax: +49 221 4986-1290 [info@deginvest.de](mailto:info@deginvest.de) • [www.deginvest.de](http://www.deginvest.de) **Editor:** Cordula Rinsche **Design:** Werkstudio. werbung und design **Photos:** DEG: page 1, 2 and 4, Corbis: page 3, © 2006 DEG.



# DEG Horizons

Our business is developing.

FOCUS

- Food: demand guaranteed. .... 2

FINANCING

- In demand: investment finance in local currency. .... 3

PARTNERS AND PROJECTS

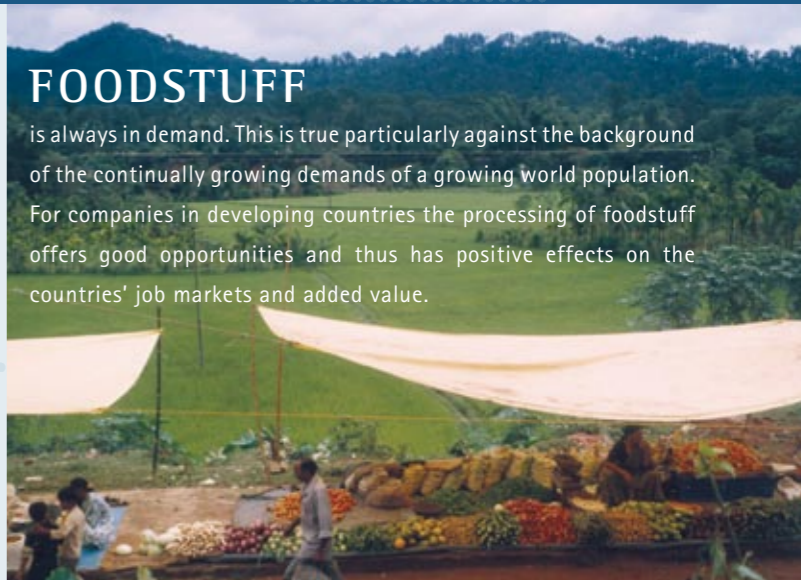
- Participation in Croatian foodstuffs holding. .... 3

NEWS

- New investment guides in cooperation with the F.A.Z. Institute. .... 4
- Hydroelectric power for Yunnan. .... 4

## FOODSTUFF

is always in demand. This is true particularly against the background of the continually growing demands of a growing world population. For companies in developing countries the processing of foodstuff offers good opportunities and thus has positive effects on the countries' job markets and added value.



## EDITORIAL

The global economic situation is good; according to forecasts it can be expected to develop steadily, if a bit more slowly in the coming year. Most positive effects still come from the Asian countries, however, and Latin America as one of the most important exporters of raw materials with considerable growth rates.

DEG is committed to successful investments not only in times of positive economic development. It makes a permanent contribution to development by supporting companies investing in developing countries and emerging markets. It is a dependable and long-term partner for its clients. This issue of DEG-Horizons features reports on examples from current projects in the foodstuff sector, infrastructure finance and other sectors.

All issues of DEG-Horizons are available in the Internet: [www.deginvest.de](http://www.deginvest.de)

The editorial team wishes you pleasant reading

## IN BRIEF

Due to significant growth rates, global foreign direct investment totalled USD 916 billion in 2005. According to UNCTAD's "World Investment Report 2006", more than one-third of this went to developing countries and emerging markets. Also **South-South investments** have increased: in 2005, international investments amounted to about USD 60 billion. This development is mirrored also in DEG's activities. In 2006, **new commitments** are expected to amount to about **EUR 700 million**. This also includes financing for companies in developing countries investing in other developing countries.

DEG has been structuring and co-financing **infrastructure projects** of private companies for several years. Besides various finance projects aimed at the expansion of the telecommunications sector – recently in Cambodia and Pakistan – DEG is committed to **transportation infrastructure** and **energy supply**. Thus broad levels of the population in DEG's partner countries can benefit from improved infrastructure. In 2006, infrastructure finance is expected to contribute **more than EUR 100 million** to DEG's new business.





## FOCUS

# FOOD: DEMAND GUARANTEED.

Commodity prices are increasing. What has been taking place for crude oil, gold and copper for quite some time, can also be observed in the market for soft commodities such as wheat, corn or oil-seed. This is currently mirrored by commodity funds, which not only invest in energy and metal but also in agricultural raw materials. Traded on the stock exchange or not, food is in great demand, no matter how prices fluctuate. When it comes to supplying a globalised world with primary and processed food products, countries in Latin America or Asia play an increasingly important role. In addition to this, the demand in emerging markets with their changing consumer habits is rising. Enterprises in the food and agribusiness sector look for opportunities not only in local markets but particularly in the export business.

In Argentina agricultural export products are a central pillar of the country's economic strength and one of the main sources of government revenues. One of the leading agribusiness enterprises is the Asociación de Cooperativas Argentinas (ACA) with 155 farmers' cooperatives and about 80,000 members. With almost 10 million tons, ACA held a share of 12 per cent in the corn and oil-seed trade in 2005. The umbrella cooperative provides about 1,000 jobs and safeguards at least another 100,000 jobs in cooperatives and agricultural member companies. Recently, DEG provided the third long-term loan to ACA for investment in expansion. With a total of USD 30 million – half of which has been contributed by the Dutch Rabobank – new silos and other projects have been financed. In 2006, DEG provided long-term debt capital for a food company in the medium-sized Molino Cañuelas

Group totalling USD 15 million, which will be used to expand an existing port by installing a corn terminal. DEG has been active in Argentina since 1968. Most of its Argentina portfolio – more than 80 per cent – comprises agribusiness finance.

The food-processing sector has a fair growth potential as well. Particularly in industrial countries there is a strong demand for food products ranging from processed food to convenience food. Against this background, there are good opportunities for producers in developing countries with positive effects on the added-value chain because the products are processed on-site. Nowadays, filleted fish from Vietnam, ready-to-cook vegetables from Kenya or organic banana chips from the Philippines are consumed in the United States, Japan and Europe – which has positive effects in the producing countries in terms of providing jobs, foreign currency and government revenues. Quality is a critical criterion here. DEG, which has been committed to the agribusiness and food sector for years, finances many companies producing and marketing high-quality food products. Over the last five years alone, finance has totalled almost EUR 340 million. This includes meat-processing companies in Uruguay and Argentina, Chinese fruit-juice producers as well as German organic food producers getting their products from Turkey and other countries. In 2006, DEG's new business in this field is expected to total more than EUR 140 million.

For more information please contact: Karl Weinfurter, Head of the Agribusiness, Forestry and Food department, e-mail: wf@deginvest.de



## IN DEMAND: INVESTMENT FINANCE IN LOCAL CURRENCY.

Enterprises in a number of developing countries need local currency finance. The activities of many companies are limited to the local market, they do not export and have no currency earnings to meet foreign currency liabilities. Due to the associated currency exchange risks, loans in hard currencies such as the US dollar and Euro are not a realistic means of finance. Banks, however, usually offer only short-term credits in local currency. Therefore, many companies have difficulties in obtaining adequate financing particularly for long-term investments.

DEG develops solutions for local currency finance with a significant development potential which limit existing currency risks. Credit guarantees are a possibility to promote local currency finance. By means of long-term risk security for loans provided by third parties, DEG facilitates access to investment capital in local currency for companies in developing countries. DEG acts as guarantor for loans from banks, the banks are the warrantees. On the basis of such guarantees, banks can provide credits in local currency to companies. In this way, DEG together with other finance institutes has provided guarantees for loans in local currency in Kenya and Chad to finance investments

in the agricultural and mobile communication sectors. Thus, through risk assumption by DEG, economically successful companies have been enabled to extend their credit lines.

In some cases, DEG has also committed direct long-term finance in local currency in countries such as South Africa, Indonesia and Mexico. In South Africa, for example, DEG together with other financiers provided in 2005 mezzanine finance in South African Rand (ZAR) for a transaction to promote the economic integration of formerly discriminated groups of the population (Black Economic Empowerment). In this specific case, several non-profit organisations were able to take shares in a South African bank. In order to secure those risks, DEG – which as a credit institute must avoid open risk positions – applied hedging instruments such as swaps. In case of a currency swap, interest payments and capital sums in different currencies are swapped over a defined period of time. The availability of hedging instruments on the capital market is a prerequisite for such an approach. Currently, DEG is intensively examining other approaches to facilitate local currency finance.

## PARTNERS AND PROJECTS

### PARTICIPATION IN CROATIAN FOODSTUFFS HOLDING.

With equity capital amounting to EUR 11 million, DEG has participated recently in Atlantic Grupa, a leading Croatian enterprise in the foodstuffs sector. Atlantic Grupa, founded in 1991 as a family-owned enterprise, has been a DEG client for five years now and has developed into a foodstuffs holding focusing on the trade and production of brand food articles. The company maintains excellent corporate governance as well as environmental and social standards. DEG has co-financed, among other projects, the purchase and expansion of the vitamin beverage company Cedevita and the cosmetics company Neva, which has contributed significantly to the successful expansion of the enterprise's market position. Atlantic Grupa today has a staff of 1,200 and an annual turnover of about EUR 160 million. 58 per cent of its turnover is generated in the Croatian market, 42 per cent in international markets. DEG's participation of about 8 per cent is linked with a seat

on the board and enables the company to finance further investments in order to continue its expansion and to strengthen the structure of the balance sheet. DEG will support the enterprise as an advising finance investor, including advice regarding its initial public offering, which is planned in the medium term.

Croatia is one of DEG's important investment countries in Southeast Europe. The portfolio amounted to EUR 63 million at the end of 2005. DEG has been specifically financing the manufacturing industry and the financial sector. In addition, it has developed – together with other players – a tourism master plan for the region and has thus contributed to Croatia's successful orientation towards a quality tourism destination.