

DEG Horizons

Our business is developing.

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THE FOOD INDUSTRY

is a sector that in recent years has proven to be one of the most reliable when it comes to growth. The enormous potential, especially in developing and threshold countries, means the prospects for the future also look good.

EDITORIAL

At a time of high oil prices and concern over the finiteness of fossil-fuel resources, alternative renewable sources of energy are once again highly topical. Given the current general economic situation, the recent "Renewables 2004" international conference, which was hosted in Bonn by the German federal government, was thus perfectly timed. The 150 participating nations agreed to an action plan that set a binding target of supplying a billion people with energy from the sun, wind and water by 2015.

DEG co-finances investments by private companies such as those in power stations based on regenerative energy; it has been our credo for years that especially in developing and emerging countries there is potential for renewable energies and thus for an efficient energy supply for the people who live there. An example is the hydroelectric power plant in Peru presented in this issue. Our focus on the food economy illustrates what DEG is doing to advise producers and facilitate investments in another growth area.

The *DEG Horizons* editorial team wishes you pleasant reading.

IN BRIEF

Foodstuffs are a commodity that is continually in demand all over the world. DEG has been actively involved in the agri-food sector for years. One of the focal points is finance for agricultural enterprises in **Africa** that grow and process rubber, palm oil, cotton, fruit and vegetables. At a symposium in June, DEG brought together high-level representatives of producers from southern Africa in order to encourage an exchange of ideas about challenges and opportunities.

In 2003, DEG recorded marked growth in its business activities for **the third year in succession**. Commitments for new projects (506 million euros, up 56 million via co-financing) and disbursements (434 million euros, up 43 million euros) rose yet again, and operating profit was again up on the previous year. In the 2003 **annual report** you can read about what characterised the financial year as a whole and the developments that occurred in the various regions and sectors where DEG is financing investments. Further information is given on page 3.



FOCUS

FUTURE FOR FOOD INDUSTRY.

With increased economic development, the demand for processed food is growing in developing and emerging countries. At the same time, consumers are demanding food that is of higher quality, organically grown and health oriented; and they also want ready-meals. This creates new market opportunities for foreign companies, who are increasingly using local companies or subsidiaries to make imported products locally.

However, even domestic brands have quite a future. This applies to established companies as well as to newcomers. The traditional company Globus from Hungary once supplied the whole of eastern Europe with fruit and vegetable dishes and ready-meals. With privatisation the company switched to high-grade goods that have secured market shares throughout the whole of Europe. Another example of a successful privatisation is the producer of "Cedevita", a vitamin drink that is popular in Croatia and the surrounding region, which was taken over by the Atlantic Group family business.

In the People's Republic of China, two private companies set up at the beginning of the 1990s have quickly established themselves. The Beijing Huiyuan Beverage & Food Group is China's largest producer of fruit juice. It started out in the important fruit-growing province of Shandong with the production of apple juice concentrates. Today, it produces various fruit juices for the domestic market and what is more has supply agreements and business links with Europe and Japan. The Haitong Food Group, which is primarily involved in processing vegetables for frozen foods and juices, has also made a good name for itself internationally.

The increasing demand for organic produce and the trend towards healthier eating offer developing and transition countries added opportunities. For example, Rapunzel, one of Germany's leading producers of organic food, has set up a subsidiary in Turkey that, amongst other things, grows fruit and nuts there and processes them.

In Egypt, Sekem is in the vanguard when it comes to biodynamically grown produce. Its teas, vegetables and fruit are in demand in Europe and the USA, as are its baby clothes made from ecological cotton.

In today's food industry, it is important to have a high-quality, tightly knit logistical system along the whole of the production chain, from the primary agricultural producer via the processor to the consumer. Buzzwords here are certificate of origin, food safety, and environmental and social standards. For instance, bananas from the Compagnie Fruitière's plantations in the Ivory Coast are certified in accordance with ISO 1400. This guarantees high-quality fruit for the consumer, high social standards for the producer and reliable protection for the environment.

Many food producers cooperate closely with their suppliers; they provide them with seed and other necessities, and guarantee prices for the produce. They are important employers in rural areas and safeguard the income of thousands of farming families. For example, Huiyuan alone employs 8,000 people and more than 200,000 farming families supply their fruit to the company. In Cameroon, DEG has co-financed the Proleg factory for tinned beans; the French food company Bonduelle markets the products. Some 9,000 small farmers supply the factory with the beans they harvest.

Globus, Cedevita, Huiyuan, Haitong, Rapunzel, Sekem and Compagnie Fruitière are all examples of companies for whom DEG has made long-term investment capital available and put its decades of expertise in the food economy at their disposal. Its portfolio in the food industry has grown to about 120 million euros in recent years. And it does what it can to encourage an exchanges between producers. DEG specialists traditionally invite people to attend a meeting for the sector at the world's largest trade fair for food, the ANUGA. Contact: Karl Weinfurter (head of Agriculture, Forestry and Food Department), wf@deginvest.de.

PARTNERS AND PROJECTS

HYDROPOWER GOES ON STREAM.

The privately owned hydroelectric plant Poechos 1 of Sindicato Energético S.A. (SINERSA), with a capacity of 15.4 MW, has gone on stream in the northwest of Peru, on the border with Ecuador. Thanks to Poechos 1, 20,000 people will be supplied with electricity for the time. The Poechos Reservoir was built in 1975 for irrigation purposes; it also provides flood protection during the rainy season. The construction of small hydroelectric plants was taken into consideration at the planning stage. However, the country did not have sufficient money available to implement the plan. Following the opening up of the electricity market to private companies in the 1990s, a group of domestic and international investors adopted the plan. They formed SINERSA and built the 12.5 MW Curumuy power plant, which was Peru's first private hydroelectric power station. With Poechos 1, a second, smaller power plant is now producing electricity using the water from the reservoir; the water is subsequently redirected back into the Rivers Piura and Chira and used for agricultural irrigation. The electric power is supplied to the partly privatised regional energy-supply company Electronoreste as part of long-term electricity purchasing agreements and then fed into

the national grid. Electronoreste has installed three small distribution stations in order to be able to supply households in remote areas as well.

Hydroelectric power plants are only profitable in the long term. Their construction is more demanding, riskier, takes longer to complete and is more expensive than a thermal power station that uses gas turbines or diesel units. Each megawatt of installed power in Peru costs around USD 1 million for hydroelectricity, USD 0.5 million for gas-fired plants and about USD 0.7 million for a diesel-fired power station. On the other hand, a hydroelectric plant has double the life expectancy of a thermal power plant and there is no need to import fossil fuels as raw materials: its source of raw materials is regenerative. The financing has to take the higher investment costs into account. There is a need for financiers to provide loans with long maturities. Poechos 1 was financed by DEG together with the Inter American Investment Corporation (IIC) and the infrastructure fund Corporacion Interamericana para el Financiamiento de Infraestructura (CIFI).

BANKING ACADEMY GOES CHINESE.

The Shanghai International Banking and Finance Institute is the first Sino-German joint venture in the field of education and training. It combines the competence of Bankakademie e.V. of Frankfurt/Main, which was established in 1975 and to which the Hochschule für Bankwirtschaft belongs, with the market and cultural experience of the Shanghai University of Finance and Economics. Equity participation by DEG and the World Bank subsidiary IFC has strengthened the financial basis of the institute, which was opened in April this year. Many of the places on offer in 2004 were taken up within the first few hours. In the medium-term, the institute headed by Prof Horst Löchel is expecting up to 3,000 participants a year.

A competitive, diversified financial sector is important for the sustainable development of any national economy. In the People's Republic of China the reconstruction of the state-owned banking sector has started, a recapitalisation of individual institutes has been announced and two of the four large Chinese state banks are to be listed in international financial centres. Following the liberalisation that resulted from joining the WTO, foreign banks are pressing to enter the market. There is a move towards a professional finance and

management culture, from the banking sector to accountancy and including fund management.

Shanghai, where the institute is located, is China's largest banking and finance centre. It was the first one to be opened up to foreign institutions. Of the city's 20 million inhabitants, 100,000 are engaged in the banking and finance sector; the city is also a centre for science and research. The Shanghai International Banking and Finance Institute adds to the courses available in the area of banking and finance. It offers courses in retail banking, HR management, risk management and asset management, which can be combined as blocks to create a three-stage course leading to an "Executive Diploma in Finance". In the medium term, there are plans for a Master of Finance course with the Hochschule für Bankwirtschaft as the institution making the award.

There has been strong internationalisation of the education and training market in recent years. German colleges are aiming to position themselves internationally. The step taken by Bankakademie to set up its own institute in China is an innovative one. It goes beyond the usual forms of cooperation between scientific institutions.

Just published: At DEG's annual press conference on 2 June 2004 board members Johannes-Jürgen Bernsen and Dr Winfried Polte (chairman) presented DEG's annual report for 2003. In addition to the report of the board of directors, the business-policy section contains information about the areas that were afforded particular emphasis during the financial year and the developments in the various business sectors, including articles on DEG's promotion of the financial sector and regions where it made new project commitments in 2003. The second part includes compulsory aspects, with a statement on the company's state of affairs and the annual accounts; it includes additional information on personnel and DEG's portfolio. You can download a PDF version of the annual report at www.deginvest.de or you can order a paper copy via info@deginvest.de.

PUBLIC-PRIVATE PARTNERSHIP

ENVIRONMENTAL COMPETENCE CENTER IN THAILAND.

The German-Thai joint venture Recycle Engineering reprocesses industrial waste, especially solvents, and is the only registered and certified chemical reprocessing plant in Thailand. As part of a PPP project, Recycle Engineering and DEG set up a training and demonstration facility for environment management in 2003. The Environmental Competence Center will train some 120 people a year from industrial companies engaged in the field of environmental management. It will also be used to provide employees of Thai institutions with a broad knowledge of environmental technologies and management. The initiative was the idea of entrepreneur Thomas Sack, who set up Recycle Engineering with a Thai partner. Sack is in demand as an expert in Germany and Thailand; among other things, he is the only foreigner working with a committee of the Bangkok Metropolitan Authority that is developing a waste concept for the whole of Thailand.

At the suggestion of DEG, Recycle Engineering has started offering space for demonstration purposes at its factory site to other companies

engaged in the field of environmental protection in order to concentrate environmental engineering expertise at one place. Thai companies can then obtain comprehensive information about what is technically feasible. The projects include a multipurpose effluent-treatment plant, a transportable "mini-refinery" for processing waste oil and zero-emission bungalows as models for hotel complexes. Another project is the setting up of a database for environmental data, which will be used to establish a recycling exchange. This will allow companies to exchange recoverable materials and waste. The database is the first of its kind in southeast Asia. Further demonstration plants, such as one for processing mixed plastics, are at the planning stage.

All of the projects mentioned were co-financed by DEG on a pro-rata basis via the PPP programme. DEG expects this involvement to lead to the adoption of a focussed approach in order to establish a model example of environmental protection for Thailand's industry. Further information can be obtained via ppp@deginvest.de.

NEW WEBSITE FOR KfW ENTWICKLUNGSBANK.

KfW Entwicklungsbank's new website has an improved structure. Important information – about specialist topics, countries, projects and procedures – as well as links to invitations to tender can be accessed directly from the homepage.

There is also a new four-weekly newsletter service that brings you the latest announcements from KfW Entwicklungsbank. Further details at www.kfw-entwicklungsbank.de.

TEST YOUR KNOWLEDGE OF FINANCIAL TERMINOLOGY

What is an... affirmative covenant?

- a confirmatory clause?
- something similar to affirmative action?
- a clause that specifies actions one party to an agreement must take or must already have taken?

(a) is the literal meaning, (c) is a more accurate description: an affirmative covenant is a clause in an agreement whereby one of the parties confirms that it has taken or will take certain actions, such as condition that might be imposed by a bank on a borrower as part of the financing of a project.

Solution:

DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging countries for more than 40 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agriculture to infrastructure and manufacturing to services. We also focus on investments in local capital markets in order to facilitate reliable access to capital locally.
- So far, we have worked together with more than 1,100 companies. By providing 5.6 billion euros of finance, we have achieved a total investment of 37 billion euros.
- 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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