

DEG Horizons

Our business is developing.

CORPORATE SOCIAL RESPONSIBILITY

refers to the social obligations of corporations. Just a buzzword, a marketing wheeze, or much more? DEG has been exploring how firms in developing countries bring CSR to life.



EDITORIAL

"Record flows in 2007, but set to decline" – that was the heading of the World Investment Report published at the end of September. Global foreign direct investment (FDI) reached an all-time high of USD 1,833 billion in 2007. But the outlook for 2008 is very different: the financial crisis, which is impacting globally, is casting a shadow over the real economy. Recent months have been marked by stock market upheavals, recession fears and government rescue packages. Investors who, not too long ago, were looking everywhere for attractive investment opportunities have pulled out capital on a massive scale.

Worst hit by the effects are developing and emerging countries. To ensure that the improvements seen in recent years are not reversed, continuity is required. As an institution promoting the private sector, DEG will hold its course, consistently supporting enterprises over the long term even in hard times – just as it has since 1962.

That staying power is useful was recently shown by a review, commissioned by DEG, of enterprises' CSR activities. One result is that such activities make a particularly strong contribution to corporate success when devised for the long term. Find out more in this edition.

The DEG editorial team wishes you pleasant reading

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IN BRIEF

New head office inaugurated.

The debut of the 680 square metre atrium: on 24 October this was the venue for the inauguration of DEG's new head office in the heart of Cologne which was occupied in mid-September. Dr Winfried Polte, Chairman of the DEG Board of Management, welcomed some 120 guests, including Dr Ulrich Schröder, CEO of KfW Bankengruppe, Wolfgang Kroh, member of KfW's Board of Management, Erich Stather, State Secretary at the Federal Ministry for Economic Cooperation and Development (BMZ), the Lord Mayor of Cologne, Fritz Schramma and Mayor Josef Müller.

In future the atrium will regularly serve as a venue for DEG events. A first symposium was held there on 30 October (cf. "Focus").



Handover of keys to DEG's management at the opening of the new HQ.

FOCUS

CSR: IT PAYS TO ACT RESPONSIBLY.



Participants from 25 countries discussed CSR in developing countries.

Corporate Social Responsibility – the responsibility business has towards society – is high on the agenda. Many of DEG's clients are joining in and demonstrating their social commitment wherever they are based. The change they are bringing about in developing and emerging market countries was the subject of a study commissioned by DEG in 2008. Independent experts evaluated the CSR activities of 16 enterprises co-financed by DEG.

The question what CSR actually implies is variously under discussion. DEG takes its bearings from the ISO 26000 "ethical standards". These are currently being developed by experts from more than 50 countries and are due to be published as globally accepted guidance in 2010. ISO 26000 lists seven evaluation criteria: transparent corporate governance, human rights, appropriate working conditions, environment, fair competition and anti-corruption measures, respect for consumer issues and development of the community. These measurable criteria ensure that CSR cannot be reduced to "doing a bit of good".

One of the study's conclusions is that when enterprises act in socially responsible ways, there is a pay-off for both parties – the society and the business. The range of activities is very diverse. For instance, firms may invest in public transport routes or the energy supply, build hospitals, schools, churches and mosques, and improve the water supply and sewage systems. Many provide much higher rates of pay than are required by law as well as giving bonuses, a housing allowance, subsistence or training grants. Other important benefits on offer include e.g., social security and health insurance, sick pay, free meals and workplace transport, free accommodation or support for housing construction. HIV/Aids prevention and caring for people affected by HIV/Aids play an important part in CSR activities, especially in Africa.

Much more than marketing.

The enterprises included in the study had various reasons for becoming involved. Some recognise

their ethical responsibility for the future, so they have integrated CSR into their corporate strategy. Others want to promote active support for an investment project among staff, local residents and communities, or they are transferring the standards already established "back home" to their bases in foreign countries and hence to developing countries. Some also feel personally responsible for supporting anyone connected to the enterprise.

But they all share the conviction that CSR can provide a strategic competitive advantage and will secure the enterprise's long-term success. As a result, the firms in the study have devised their CSR activities for the long term and are continually developing them.

To enhance awareness of CSR, to promote an intensive debate between enterprises from Germany and those from developing countries, and to present some examples of "best practice" from the study, DEG held an internationally attended symposium entitled "Act responsibly – why CSR pays off" at its new headquarters on 30 October. Some 100 guests from 25 countries explored strategies and practices as well as participating in lively debate about what CSR can achieve, and which issues demand the participation of other parties. Helmy Abouleish set the ball rolling with a keynote speech; he is managing director of SEKEM Holding of Egypt, which produces organic phyto-pharmaceuticals and has been a DEG client for many years. Among those giving presentations and workshops and answering participants' questions were, the directors of subsidiaries of the holding company "Industrial Promotion Services Kenya", the managing director of a hydro-electric plant in Peru, a rose grower from Kenya and a German entrepreneur who produces veneers in the Ukraine. The symposium will not be the last of its kind to be held at the new HQ. In fact, it is designed to kick off a series of events under the title "Dialogue in the Atrium".

You can find more information on the web at www.deginvest.de

FINANCING

PREMIUM COFFEE CREATES JOBS.

Coffee is a major export commodity. Over the past years, the development of its price on the world market has been stable. These days, premium coffee in particular is in greater demand; in many countries, it is regarded and consumed as a "life-style product".

The international trading company ECOM Agro-industrial Corp. Ltd. markets and processes raw coffee and has specialised in certified premium coffee. One important aspect of certifying the quality is the ability to track the coffee back from end user to plantation. To meet growing demand, the corporation has itself taken over a number of coffee plantations in Latin America and now runs them on its own behalf. Its experience of the ecologically sustainable production methods practised there have been so encouraging that it plans to extend its premium coffee production to other plantations in Central America, some of which are now lying idle.

DEG recently made a loan of approx. USD 6 million to an ECOM subsidiary for this scheme.

The funds will be made available to the coffee plantations as loans. During the loan period, ECOM will take an active part in managing the plantations, ensuring the introduction of up-to-date production methods and social standards. This will allow more productive and resistant coffee trees to be planted, agricultural machinery to be purchased and the infrastructure of the farms to be improved. After the loans have been paid off, the owners will go back to running the plantations independently.

The farmers will benefit from higher prices for their coffee, while ECOM will be able to service a strongly growing market segment. One positive outcome of the co-finance provided by DEG will be the creation of some 4,500 jobs in an extremely deprived region. Discussions are under way about following up this pilot project with further, similar schemes in other countries.



Costly coffee – now in demand as a "life-style product" in many parts of the world.

PARTNERS AND PROJECTS

PPP: LONG-TERM QUALIFICATIONS FOR SUPPLIERS.

These days many medium-sized enterprises in the manufacturing sector maintain business links with firms in developing countries and use e.g., product components manufactured there. But often, the output of these suppliers fails to meet the required international quality standards, too much of it is substandard, and delivery deadlines are missed.

So four medium-sized German enterprises that manufacture measuring tools, laser projection systems, switching equipment and electromagnetic sensors for various industries have joined forces to help suppliers in China to achieve the necessary qualifications. The aim was to give firms willing to develop the long-term capability to meet international quality standards.

DEG advised the German enterprises and supported the 18-month project with PPP funds partly provided by the German federal Ministry for Economic Cooperation and Development. A package of qualification measures was developed jointly with the wbk Institute for Production Science at the University of Karlsruhe and the Tongji University in Shanghai. Social standards, health and safety at work and environmental protection were priority subjects on the training courses, which were attended by approx. 40 small and medium-sized enterprises, including some based in rural →





On the ground: more than 20 enterprises received tailor-made development plans.

Western China. Additional modules dealt with such subjects as quality management, production engineering, certification and production planning and control. Individual development plans were devised for 25 suppliers, and their implementation monitored. Quality assurance and safety officers were trained in these enterprises; they will be able to act as multipliers in future and go on to train staff from their own and other firms.

Participating enterprises received a detailed qualification manual in Chinese and English, which is also freely available to interested parties on the web. The Chinese partner university has integrated the supplier qualification concept into its curriculum, boosting the broad effect. Overall, a good example of a project with a long-term impact, from which many enterprises outside the circle of the scheme's instigators will benefit.

NEWS

Representative office for West Africa opened.

Ghana has been chosen as the location for DEG's new representative office for the West Africa region and was officially opened last summer. The Accra office is headed by Dr Amichia Biley. Contact: phone +233 21 7639-42, e-mail bi@deginvest.de.

New head for local office in Mexico.

1 November brought a change of management at the local office DEG has maintained for five years in Mexico City's "Centro Aleman". In Mexico, Gunnar Stork is now the first point of contact for enterprises proposing to invest with DEG's help. Contact: phone +52 55 9172-9400, e-mail info@degmexico.com.

New DEG division.

Because of an increase in workload, one of DEG's divisions has been split into two. Since 1 August Achim Scheibler has been Head of Division at "Inhouse Services" with the departments IT, Organisation and Administration. The "Finance/Controlling" division has been run by Jochem Wihler since 1 November and includes the departments Planning/Controlling, Accounting and Portfolio Accounting.

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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