

DEG-HORIZONS

OUR BUSINESS IS DEVELOPING.

3/2009



RURAL AREAS

present a development challenge for many countries. The population includes large numbers of people living in poverty who need work to support themselves and their families.

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An alarming glimpse of the future: in the lead-up to the Copenhagen climate summit, a study by insurer Allianz and environmental organisation WWF was published, claiming that some climate phenomena may pass the tipping-point even before 2050 and further increase global warming. The melting of the polar ice caps is one example. Hundreds of millions of people would be affected; the upshot would be damage running into billions.

"Act while there is still time," demand the experts. Climate change is a central issue in development cooperation as elsewhere, since poorer countries are most affected. What can be achieved by working with enterprises to, e.g. promote sustainable development using environmental technology – that is just one of the themes in this issue of *DEG-Horizons*.

Hoping you find this edition informative,
the DEG Editorial Team

IN BRIEF

Bruno Wenn took over on 1 October as **Chairman of the Board of Management** at DEG, a member of the KfW Bankengruppe. Wenn, who trained as an economist, previously spent many years working for KfW Entwicklungsbank and is now responsible for DEG's support of the private sector within the framework of the German development cooperation. "The promotion of private sector initiative is a key function of development cooperation," explained Wenn as he took up his new post. "I look forward to further improving the image of DEG, which can look back on decades of successful **entrepreneurial development cooperation**."



Bruno Wenn, on the occasion of an "IFC – Euro Finance Week" panel with Imoni Akpofure, Special Representative Europe, IFC and Norbert Walter, Chief Economist, Deutsche Bank

FOCUS

RURAL DEVELOPMENT

**"AgroAfrica":
EUR 100 million
for agriculture.**



"DEG has the will and the courage and the expertise in the agricultural sector to help devise this forward-looking initiative. That makes it an ideal cooperation for 'AgroAfrica'."

**Jerome Yazbek,
Group CEO
Farmsecure.**

Large sections of the population in developing countries live in rural areas, where poverty and malnutrition are rife. Many people are forced to rely on subsistence farming. The situation is further aggravated by the urgent need to feed growing numbers of people due to rapid population growth. That is why farming is of central importance in enabling across-the-board development. Productivity is low, and both farming methods and yields per hectare badly need to be brought up to date.

Farming is labour-intensive and is affected by essentially unpredictable risks: weather, water, soil and pests being important keywords. Agricultural producers can draw on their expertise to help professionalise the sector. Sustainable private sector commitment, resulting in greater productivity, more added value and higher incomes for farmers, can be found in Asia, Latin America and also in Africa. In West Africa, for example, cotton producers are employing tens of thousands of small farmers, tying them in to production systems and providing training to ensure that the required quality standards are maintained during cultivation. In several African regions, DEG has given targeted development support to enterprises that work with contract farmers to supply agricultural produce, and has provided them with long-term capital.

Another example is "AgroAfrica". To achieve efficient development of the agricultural sector in Southern Africa and boost the range of available foods, DEG has entered into a strategic partnership with Standard Chartered Bank, a major provider of structured agricultural finance. Their first joint project offers packaged solutions for farmers. Along with crop

input finance and insurance, the farmers receive detailed advice and an optimisation programme for cultivation tailored to their specific soil conditions. The advice is supplied by a further project partner, Farmsecure Holdings (Pty) Ltd.. By providing surety, DEG has made it possible for the project to be considerably expanded. It has already attracted so much interest that consideration is being given to offering it in Eastern Europe or Latin America.

Diversifying the national economy

Because of increasing mechanisation, any development of the agricultural sector can be expected to displace jobs. That is why rural development must go hand in hand with the creation of skilled jobs in manufacturing and the service sector.

In Namibia, for example, only a fifth of earnings is generated by manufacturing. The government has explicitly set itself the target of bringing about change. Schwenk Zement KG, a German family business, is contributing to that change. It is building a cement works roughly 400 kilometres north of Windhoek, in a remote region where farming is currently the main occupation. The factory will provide 300 jobs and indirectly generate work for a further 2,000 people. At present, Namibia has no cement factory of its own, so all its cement has to be imported. However, if the nation's infrastructure is to be upgraded as planned, a local supply is urgently needed.

Ohorongo is Schwenk's first foreign location. DEG has been operating in Africa for over 40 years and has advised the medium-sized business on taking this step and arranged the necessary debt finance of approx. EUR 132 million. DEG itself provided a long-term loan of just under EUR 32 million; co-financiers were the European Investment Bank (EIB) and the Development Bank of Southern Africa (DBSA). Schwenk prefers to use secondary raw

materials and fuels in order to conserve resources where possible. It is an approach the business intends to pursue in Africa as elsewhere. It plans to use invasive vegetation, known as "invader bush", as an energy source.

PARTNERS AND PROJECTS

Environmental technology: business with a future

Environmental pollution due to waste is constantly on the rise in developing countries and emerging markets. Ever larger amounts of waste come up against infrastructure that is inadequate to meet disposal and recycling needs. Added to that, there are industrial waste products needing expert disposal. Usually, there is a lack of the technology required to dispose of toxins without environmental damage while reprocessing recyclables for reuse. So the business potential for enterprises offering intelligent, environmentally friendly recycling solutions is considerable.

One such enterprise is the Vietstar Joint Stock Company. With the help of development finance providers FMO, DEG and Swedfund, the company has built a state-of-the-art recycling plant in Vietnam. It started operating in mid-December. The plant near Saigon recycles 1,200 tons of domestic waste daily – waste that would previously have gone to landfill. Thanks to the technology employed, recyclables can be reprocessed and then reused. Organic waste is turned into compost which finds a use in agriculture. Plastics are processed to produce polyethylene granulates, which go into making plastic pipes, for example. Metals are also separated out and reused. As a result, the amount of waste destined for landfill has been reduced by some 1,000 tons every day. Dutch development finance

provider FMO arranged the debt finance for the plant; DEG provided a long-term loan of approx. USD 12 million.

In the Middle East, considerable environmental pollution is caused by the extraction of oil, a key economic activity. A by-product is polluted process water, which needs to be decontaminated. A German enterprise with many years' experience in biological water treatment has been awarded a contract for a pilot project in Oman: Bauer Resources GmbH of Schrobenhausen will create a constructed wetland system to provide waste water treatment with a low environmental impact and will operate the plant for twenty years. It incorporates an oil separator, the plant-based treatment facility and a downstream saline. At the end of the process, the water has been treated and the residual salt can be processed into industrial salt. There are plans to treat 45,000 cubic metres of water per day from 2011. DEG provided a USD 28 million quasi-equity loan for this progressive environmental engineering project.

FINANCING

Insuring against risks: a contribution against poverty

In developing countries many people have no type of insurance at all. And yet they are exposed to risks that could quickly undermine their livelihood, since they are unable to compensate for possible damage on their own. So DEG has decided to support the expansion of the insurance sector via development policy, with a view to closing gaps in provision and facilitating systematic financial protection. To that end, DEG has taken an equity stake in an African reinsurer and an enterprise in Thailand that specialises in providing vehicle insurance for small businesses. →



Reeds serve as natural water treatment agents in constructed wetland systems.



Walter Scheel at the first DEG press conference.

Another approach entails becoming financially involved in life insurance companies. Life insurance can make an important contribution to protecting people against poverty. It helps to improve provision for old age and gives families financial security in case of a death; for instance, it can be used to meet the cost of educating surviving children. DEG plans to, e.g. acquire an interest in a life insurance company in Indonesia, with a view to helping the business to build up a new clientele and develop products designed to appeal to low-income groups as well as small and medium-sized businesses.

DEG's commitment to the insurance sector is to be further expanded. The aim is not merely to support insurance companies, but also to improve the range of financial services on offer and further advance the professionalisation of the financial sector in developing countries. Accordingly, one of the issues on which DEG advises the enterprises it co-finances is that of adequate corporate governance standards.

NEWS

DEG anniversary

On 14 September DEG was able to look back on 47 years of entrepreneurial development cooperation. In 1962 Germany's first Minister for Development Aid, Walter Scheel, set up the "Deutsche Gesellschaft für wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft) mit beschränkter Haftung". It grew out of a 1961 proposal by Kai-Uwe von Hassel, the then state premier of Schleswig-Holstein. "Providing support for private sector initiative ... plays a key role in our development policy," noted Scheel at the press conference in Cologne to mark the launch. After starting out with DM 75 million in original share capital, DEG, which employs its own funds to finance the investments of enterprises, now have more than EUR 1.4 billion in equity capital. Its portfolio of commitments currently totals EUR 4.3 billion. Since 2001 DEG has been a member of the KfW Bankengruppe.



DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging-market countries for more than 47 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 contribute to sustainable economic growth and permanently improve the living conditions of the local population.

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