FINANCING DEVELOPMENT

In cooperation with DEG and KfW Entwicklungsbank

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DEG KFW BANKENGRUPPE

KfW ENTWICKLUNGSBANK

Successful entrepreneurs reduce poverty

[Development]
The private sector is indispensable

[Construction]
Namibia's first cement factory

[Climate protection]
Eco-friendly geothermal power

The third pillar

Getting access to capital is one of the greatest hurdles of all for companies in developing countries. Therefore, the Danish consultancy Dalberg praises Europe's development finance institutions which invest specifically in trail-blazing businesses in poor countries. Germany's development finance institution is DEG, a member of KfW Bankengruppe.

DEG

"Cotton made in Africa" is a good example of development driven by the private sector.

No economy will flourish without private enterprise, and no company can thrive without capital. That is why European development finance institutions play "a key role in international cooperation". This is what Luc Rigouzzo, chairman of the Association of European Development Finance Institutions (EDFI), states in his foreword to the Dalberg report entitled "The growing role of the development finance institutions in international development policy".

EDFI members include institutions like PROPARCO (France), FMO (Netherlands), CDC (UK) or Swedfund (Sweden). In many cases, these names are not widely known even in their home countries. The 15 European development financiers have in common that they support private-sector investments that are relevant for development and make good business sense. They open up investment opportunities for companies that cannot find other backers although their business models are sound – and even though they would have a catalytic effect either as role models or service providers for other companies.

Germany's development finance institution is the Cologne-based DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH. A member of KfW Bankengruppe, DEG supplements the work done by KfW Entwicklungsbank, which promotes reform processes and public investment. Last year, DEG achieved new business worth around € 1 billion. Its leverage was impressive: DEG's engagement triggered private-sector investments worth € 4.6 billion.

As a positive example of private-sector driven development the Dalberg report mentions the DEG project "Cotton made in Africa". It is an alliance that was initially forged by Otto, the retail giant. While ensuring the long-term availability of high-quality cotton, this initiative also improves the productivity of African smallholders, boosts their incomes and enforces international environmental standards.

Such projects bear prodigious fruit. Last year, DEG secured around 196,000 jobs – with 15,200 being new. KfW Bankengruppe sees DEG as an essential partner. KfW head of department Helmut Gauges stresses that its activity and that of the development bank are mutually reinforcing: "DEG helps companies to grasp business opportunities, whilst the development bank is creating the necessary environment through bilateral cooperation with partner countries on behalf of Germany's Federal Government."

Most EDFIs are government-owned; some also have private investors among their shareholders. According to the Danish evaluators, the total volume of the EDFI portfolio has doubled in recent years thanks to shrewd business policy. It now amounts to nearly € 18.5 billion. The EDFIs play a key role in ensuring that business opportunities that arise thanks to technical and financial cooperation are actually used. Therefore, the Dalberg report considers them "the third pillar" of development policy.

Public awareness of this pillar remains low, however, so the evaluators call upon the EDFIs to boost their public profile: "Organisations with relatively modest reputations have a harder time pursuing ambitious strategies to expand and have a greater impact."

Link:
Dalberg Report: "The growing role of the development finance institutions in international development policy"
http://www.edfi.be/news/news/19-news-item-6.html

Titelbild: Namibian construction site. **Foto:** Koene/Lineair

"We cater to our partners' needs"

Governments cannot provide widespread employment. Winning the fight against poverty therefore depends on the private sector. DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, member of KfW Bankengruppe, promotes small and medium-sized businesses in developing countries. Bruno Wenn, chairman of the Management Board of DEG, explained the company's operations in an interview.

To many, development programmes to promote private sector are microfinance and public-private partnerships. Isn't that enough?
No, it is not. I'm not saying microfinance and PPPs are not important. Of course, poor people need access to banking services, loans as well as savings accounts. These things matter very much, but they will never suffice to put a national economy on a path of self-sustaining growth. The greatest challenge today is that small and medium-sized companies in developing, emerging and transition countries need access to long-term capital. No economy can thrive without such companies. That is why DEG supports businesses in this segment.

DEG provides loans, but you also buy equity stakes in companies. What is more important?
Both approaches are important, but holding equity is more challenging. It entails a commitment to the company as well as exposure to the risks it faces for seven to ten years. With loans, if all goes well, we will get debt-service payments, the regular payment of interest and principal. That is easier to handle than becoming a shareholder. On the other hand, direct investment in an enterprise gives us more influence. We get more comprehensive information and we have a say in who runs the business with what means. As a matter of principle, we only hold minority shares. We want the entrepreneurs to manage the businesses, shoulder most of the risk and make their companies solid pillars of their nations' economies. Our philosophy and actions are based on entrepreneurship. We are a good and dependable partner, but we do not consider ourselves entrepreneurs.

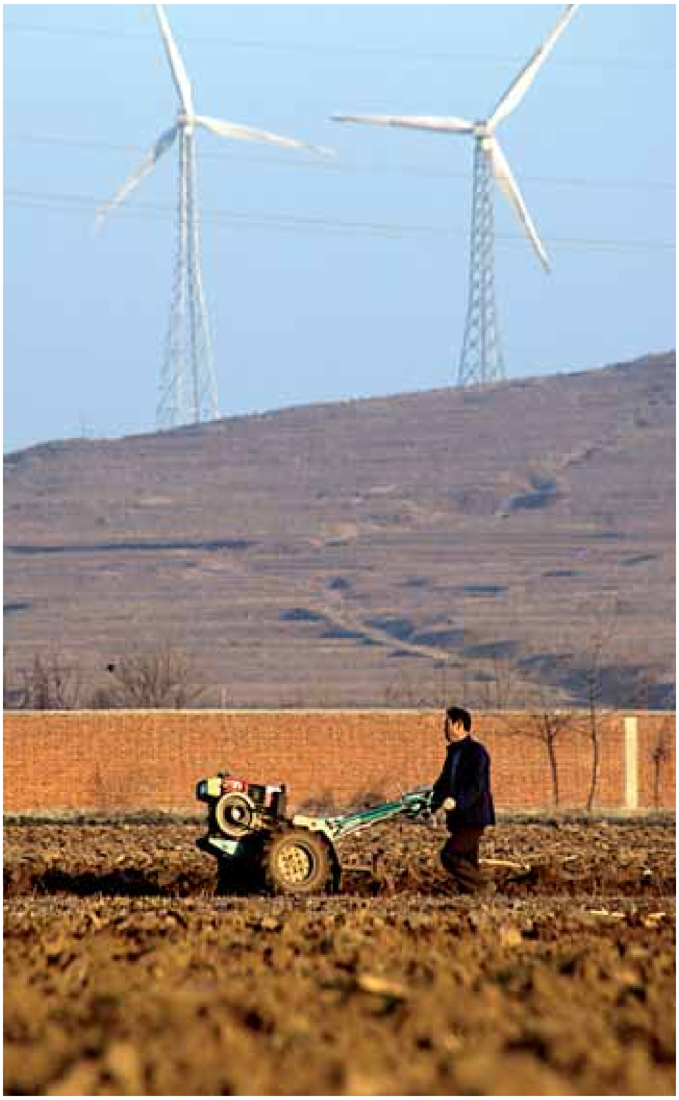
Which sectors are you involved in?
All sectors – from agriculture to manufacturing through to services. When we use our funds to help a company manufacture generic pharmaceuticals in Cameroon, for instance, we support that country's economy. The same is true when we finance wind farms in Mexico or China, or an insurance company in Indonesia. In the latter case, the management of a life-insurance firm that was part owned by the ailing US-based group AIG wanted to stage a buy-out and continue operations. We supported this plan. You see, when companies like that flourish, they create jobs and reduce poverty – generating employment not only in the company itself but also at suppliers and clients. Governments cannot provide widespread employment. Only the private sector can do that. But our projects deliver more than employment: they improve access to medication, provide clean energy or, in the example just given, expand the range of insurance coverage – which is almost as important as a well operating banking sector. These are significant private sector contributions to development.

DEG

Bruno Wenn is the chairman of the Management Board of DEG.

But to make those contributions, the private sector needs the right legal and institutional environment. Can you influence such matters?
DEG has no direct leverage. But we do have some influence in the context of development agencies in Germany, Europe and all over the world. We share the view of Germany's Federal Ministry for Economic Cooperation and Development (BMZ), that it makes sense to bundle German development instruments and thus generate added value. A good example of concerted action to promote private-sector activity can go like this:

- GTZ helps to bring about feed-in legislation in the power sector, thus creating incentives for private-sector investments in renewable energies,
- KfW Entwicklungsbank cooperates with governments to facilitate



DEG

Clean energy from wind power courtesy of the private sector.

public-sector investments on which the private sector depends, and
- DEG then ensures that resourceful entrepreneurs grasp the newly arising opportunities.

How did you experience the global financial crisis of the past two years?
Many of our partner companies were affected, some more, some less. We want to be a dependable long-term partner, so we amended some existing agreements to help our clients weather the storm – provided the risks were acceptable. Such support was vital for many partners, especially after many private-sector banks withdrew from developing, emerging and transition markets. We had to be diligent and put aside a lot of money, but there were only few defaults. On the other hand, many of our partners have postponed investments, so the volume of our new business last year was € 200 million down on 2008.

Isn't there a problem when an entity like DEG, which belongs to a state-owned banking group, decides which private-sector company is given a chance and which is not?
No, there is no political bias. DEG operates like a business. We fund our operations with our own resources. We do not get money from the federal budget for our core business. But we certainly have a special mandate. We are aware of taking high risks. Our mission, after all, is to provide small and medium-sized enterprises in high-risk countries with loans and equity. We do not decide which company is given a chance; we diligently assess which company will have a realistic chance of becoming successful in the long run thanks to our support.

What about CSR – corporate social responsibility? In Germany, a company that complies with the law broadly meets its social and environmental responsibilities. In developing and transition countries, things are not that simple.
That is true. These countries often do not have laws that would regulate all relevant issues, nor is compliance enforced comprehensively. Therefore we insist on our partner companies' observance of international environmental and social standards. If a company fails in this regard, we cannot fund it. In view of poor governance, however, many companies in developing countries do a lot voluntarily, for example in terms of training, housing or healthcare. CSR is a much more urgent issue in poor countries than in well-developed welfare states like Germany.

How do you verify CSR performance?
We rely on the IFC Performance Standards. That is the international yardstick used by the International Finance Corporation, the private-sector arm of the World Bank Group. Social and environmental action plans are always part of our contracts, and we pay close attention to observance. Moreover, we insist on compliance with all laws, including tax obligations – which again

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Responsible: Michael Seyler, KfW Bankengruppe
Editing: Dr. Hans Dembowski
Author: Stephan Loichinger
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serves development as money flows into national budgets.

To what extent is CSR a source of tension?
Tensions are always possible. To deal with them, we insist on our right to appoint independent evaluators who can verify whether or not environmental and social standards are met. It is sometimes tedious to debate employment standards and issues such as overtime arrangements or sick leave – but it is part of our job as a development finance institution. We help our partner companies to perform better. Our clients and partners must not consider CSR a tiresome duty. It is a requirement for successful sustainable development. As corporate players from rich nations know, CSR is a safeguard for a company's economic success.

You just mentioned the IFC. What is your relationship like?
We are partners and competitors at the same time. Competition is stimulating, for example,by prompting innovation. We compare our operations and we learn from one another. And this is not only true of the IFC, but of all European development finance institutions, the EDFIs, as well. Our umbrella organisation unites 15 financial institutions based in different European countries. With an aggregate investment volume of € 18.5 billion, the EDFIs are nearly as big as the IFC. In terms of the number of projects, however, we are almost twice as big. We are structurally more diverse, so we can support smaller companies. But we also team up with IFC frequently, spreading risks over more shoulders. An important thing we all have in common is that we are all driven by demand in our partner countries. We cater to our partners' needs and have thus achieved a high degree of harmonisation, standardisation and division of labour for the good of our clients.

Is DEG also obliged to Germany's business community?
Yes, we are expected to make 15 % of our commitments outside the financial sector available to German companies. Part of our mission is to help German SMEs expand foreign operations. We do not see ourselves only as an investor, we are a provider of expertise too. We draw on nearly 50 years of experience. In some cases, we advise against expansion abroad when a firm is not ready yet. But if a company is suitably built, we are happy to help pave its way, for example, in Cameroon or Peru.

Isn't there a conflict of interests? On the one hand, you are supposed to support a German company and, on the other hand, the development of Cameroon or Peru.
No, there is no conflict of interests. German companies that engage in developing countries are normally in it for the long run. They plan to introduce something the country does not have yet. In such cases, promotion of foreign trade and development cooperation coincide, they are two sides of the same coin. Germany's Federal Government is keen on this kind of synergy. By providing support to German clients in developing countries, DEG has been serving the purpose for nearly 50 years.

Policy goal: Poverty reduction driven by the public sector

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

The Federal Ministry for Economic Cooperation and Development (BMZ) stresses the relevance of private enterprise. Minister Dirk Niebel says: "Companies that develop markets create jobs, secure incomes, convey technical expertise and transfer technology. Both sides win: the company and the partner country."

National economies depend on small and medium-sized enterprises (SMEs) in particular. This sector was hit especially hard by the global financial crisis. At present, not even a quarter of SMEs in developing countries have access to credit. Therefore the BMZ welcomed the G20 Toronto summit's decision to address the issue and to collect proposals for meeting SME financing requirements most effectively.

Further Information:
http://www.bmz.de

DEG

Life insurance shields Asian people from poverty.

Giling/Lineair; DEG

Cement will be exported to Namibia's neighbours.

Namibia's first cement production plant.

From importer to exporter

A new cement works is under construction in the north of Namibia. Its completion will end the country's need to import this important commodity. The production plant, moreover, will provide employment in a sparsely populated area.

The road to the new cement works between Otavi and Tsumeb is one of the few asphalt highways in Namibia. The 400-kilometre journey from Windhoek takes about six hours. The port of Walvis Bay, linked by rail, is also a long way off. Those who can afford to do so travel by air.

There are not many people in the area – but there is limestone, and the limestone that occurs here is perfect for cement production. The location, moreover, is near Angola, Zambia and Botswana, where cement will be delivered once production begins in the Ohorongo cement works. With an annual capacity of 700,000 tonnes, the facility is due to come onstream in early 2011.

Namibia uses around 300,000 to 400,000 tonnes per year, says Gerhard Hirth. He is the CEO of Schwenk, a German company based in Ulm. Together with a number of Namibian partners, this medium-sized enterprise is part of the consortium that is investing € 250 million in Namibia's first cement works, which after a construction period of two years is currently being completed. "Schwenk does not need a cement works in Namibia, but Namibia needs a cement works for its development," says Hirth. "And the growth prospects are good."

The production plant will directly employ around 300 people. Indirectly, Hirth anticipates the creation of another 2,000 jobs – at markets, restaurants and taxi businesses. What is more, the new production plant will make a difference at the national level: Namibia needs cement to build roads, hotels, power stations and other facilities.

So far, cement has been imported. But these arrangements are "inefficient, expensive and heavy on carbon emissions," says DEG investment manager Stefan Blum. DEG granted Schwenk a loan of € 31.5 million and arranged all the long-term debt financing for the € 132 million needed in total.

Schwenk invited 20 former miners and dockers from Namibia to plants in Germany and taught them the art of cement-making in a training programme spanning several months. As many of the 300 jobs at Ohorongo as possible will go to Namibians. To train them, Schwenk will initially send 30 to 40 specialists to Namibia from Germany.

DEG considers cement manufacturer Schwenk a valuable partner. This company is keen on energy efficiency and the use of renewable energy resources, which makes a difference in the energy-intensive sector of cement making. Schwenk also complies with international environmental and social standards, which is a prerequisite for getting a DEG loan.

"The realisation of Ohorongo is a good sign for the entire region," says Blum – a sign reinforced by the cement manufacturer's commitment to social projects in the Otavi area: Schwenk has donated beds for a hospital and arranged for the renovation of public squares. The company thus scored points with local policymakers. Ranga Haikali, a representative of the Namibian investors in Ohorongo, told the Namibian German-language daily Allgemeine Zeitung: "This is a world-class partner."

Dirk Niebel, Germany's federal minister for economic cooperation and development, underlined the importance of the cement works by attending the topping-out ceremony in person during his visit to Africa in February. "Namibia is about to become a cement exporter – and a country with new economic opportunities," he said.

(Stephan Loichinger)

Hot earth

Geothermal power is the right choice for Kenya. KfW Entwicklungsbank and DEG are working hand in hand to ensure optimal use of this climate-friendly source of energy.

"The typical Kenyan household," says KfW project manager Katrin Kessels, "has no electricity." The government-run Kenya Power and Lighting Company (KPLC) delivers power to only one in five private households. The government in Nairobi wants to improve power supply – including for the poor. In order to do so, Kessels says, it must harness geothermal energy.

Once installed, geothermal power plants provide reliable zero-carbon electricity regardless of the weather. In Kenya, as across the whole of the East African Rift Valley, it is relatively easy to use geothermal resources. Water vapour at more than 200 degrees Celsius is found in many places at depths of just 700 metres. Germany's Federal Ministry for Economic Cooperation and Development and Kenya's Ministry of Energy estimate the country's potential for geothermal power generation at around 5,000 megawatts.

At present, Kenya's total power capacity is a mere 1,150 megawatts, 60 % of which is hydropower. A quarter is supplied with diesel generators, and only 15 % is geothermal. During droughts, however, hydropower dries up, and the use of diesel generators is always expensive. "Only hotels and large companies can afford them," Kessels notes. Unreliable electricity supply is holding back business in many African countries. "The most expensive electricity of all is unavailable electricity," says Kessels.

For Kenya, the exploitation of geothermal resources is obviously the most attractive option. But test drills are expensive and not always successful. Exploration can cost more than Euro 10 million for a set of two wells and may only reveal that a place is not suitable for power generation. That is why the loans of KfW Entwicklungsbank mattered when Kenya's Olkaria geothermal field was developed 90 kilometres northwest of Nairobi. This is where Africa's first geothermal power plant came onstream 30 years ago. "Geothermal resources have been successfully harnessed by governmental and private operators in Mexico and the Philippines, for instance, but in all successful cases, the government supported the initial, high-risk explorations wells," Kessels reports. Bilateral cooperation with governments of developing countries is part of the core business of KfW Entwicklungsbank. In the meantime, a fourth Olkaria power station is being planned. The capacity of the three plants already in place was steadily increased. It is currently around 200 megawatts.

Olkaria III is Africa's only privately operated geothermal power plant so far. It is owned and operated by Orpower 4, a subsidiary of Ormat Technologies from the USA. DEG and KfW Entwicklungsbank joined hands to provide a long-term loan of $ 40 million for Olkaria III. Moreover, DEG arranged the complete debt financing required. The total amount was $ 105 million, thanks to which the plant's capacity was increased by a factor of 3.7 – from 13 to 48 megawatts.

Olkaria III is a good example of the way DEG and KfW Entwicklungsbank work in tandem. DEG ensures that the private sector can grasp opportunities that arise from KfW's cooperation with authorities. The geothermal loan, moreover, fits into DEG's climate-protection portfolio, which also includes private-sector investments in eco-friendly power supply elsewhere. Examples include a wind farm in Mexico, a biomass power plant in Ecuador and a hydropower plant in Uganda.

Olkaria is setting an example. KfW Entwicklungsbank is in the process of establishing a Euro 50 million regional grant fund for geothermal projects in East Africa. According to Kessels, Uganda, Tanzania and Rwanda have not even begun to tap their geothermal potential.

(Stephan Loichinger)

DEG

Kenya's government wants to provide more households with electricity – and some of it will be supplied from geothermal power plants like this one.

Mobile telephony pioneer in Africa

In 2005, Kuwait's Zain group (then still the Mobile Telecommunications Company), spent around $ 3.4 billion to buy Celtel, an African mobile-telephony corporation. At a single stroke, the Kuwaiti company thus acquired millions of customers in more than a dozen African countries. This year, Zain sold its Africa division to India's Bharti Airtel for $ 10.7 billion.

Mobile telephony in Africa is not just exciting big business; it is also a boon for small farmers and traders. Phones serve to find out about prices in nearby markets, arrange appointments or call doctors in emergencies. Telecommunications is driving growth. Discussing mobile phones in Africa, Celtel's founder Mo Ibrahim once said: "It's like someone switched on the light in a dark room." Thanks to mobile networks, nearly 300 million Africans have access today.

DEG helped to bring that about. In 2001, it became a Celtel shareholder. At the time, the pioneer of African mobile telephony needed capital to build and expand rural networks. In 2005, DEG sold its shares at a profit. By then, Celtel's customer base had grown from 100,000 to over 5 million.

Mobile satellite access to the internet remains expensive. Therefore, African countries need to be wired with broadband cables. This summer, the Main One submarine cable connected Ghana and Nigeria with Europe. Once more, DEG was involved. It granted a $ 20 million loan to make the project worth $ 240 million happen. South Africa will also be connected to this broadband cable which is operated by the private sector. *(loi)*

Lineair

Some 300 million Africans have access to phones today.

Better opportunities for investors

In 2008, it took an entrepreneur 14 days and eight visits to government offices to register a business in Rwanda. A year later, the procedure could be completed in just three days after only two encounters with officialdom. At the same time, the country had introduced more legal safeguards for investors.

The World Bank sees Rwanda as an example of how developing countries should improve their investment climates. Nevertheless, Sub-Saharan Africa attracts less foreign corporate investment than any other world region. The consequences are low employment and low prosperity.

In 2006, the Investment Climate Facility for Africa was established to improve the situation. Shareholders include donors, international finance institutions and private companies. Among those on board are Shell and Coca-Cola as well as the World Bank and the African Development Bank. In 2007, Germany's Federal Government channelled $ 10 million through KfW Entwicklungsbank to support the Facility. Should more money be required, the sum will be doubled.

Whether companies see a country as an interesting location depends on many factors. The funds of the Investment Climate Facility are used to

- strengthen proprietary and contract law,
- simplify the start-up procedures for businesses,
- improve tax and customs regulations,
- make government agencies leaner and more effective,
- boost the rule of law, and
- prevent counterfeiting.

A recent progress report by the Facility was positive. Almost every project hat served to simplify administrative procedures and lower bureaucratic hurdles.