Fact Sheet
DEG (Germany) and private finance for development

What is DEG?

The Deutsche Investitions- und Entwicklungsgesellschaft (DEG) was founded in 1962 as the German Association for Economic Cooperation, an institution of the German federal government. Its objective was to support medium-sized German companies that were setting up production facilities in the global south.

Since 2001, DEG has been a subsidiary of the KfW banking group.[1] KfW Group is a government-owned public agency, with 4/5th of the KfW Group capital held by the federal German state and 1/5th held by the Bundesländer (states).

KfW was established as a public corporation in 1948. Its original purpose was to finance reconstruction projects in post-war Germany. KfW Group is headed by a five-member Managing Board, which in turn reports to a 37-member Supervisory Board. This includes seven federal ministers. The group consists of two main business units that focus exclusively on lending in Germany and other European countries (KfW Förderbank and KfW Mittelstandsbank – accounting for the large majority of total lending) and three subsidiaries that predominantly lend internationally (KfW IPEX Bank, DEG and KfW Development Bank).[2]

According to DEG's mandate, its mission is "to promote business initiative in developing and emerging market countries as a contribution to sustainable growth and improved living conditions of the local population." To this end, DEG makes long-term financing and advice available to private enterprises investing in these countries.[3]

Within the KfW Group, DEG's focus remains on financing and structuring of investments to private companies operating in developing and transition countries, claiming that "it also seeks to ensure that their investments have positive impacts on the societies in developing countries. DEG commits exclusively to projects that are developmentally sound and environmentally and socially compatible." [4]

DEG key figures

(€ million unless noted otherwise)	2012	2011	2010	2009	2008
Total assets	4,654	4,369	3,883[5]	3,520[6]	3,755
Total financial commitments in financial year/ new business	1,328	1,223	1,226	1,015	1,225
Portfolio (commitment obligation) at year end	5,958	5,647	5,236	4,701	4,427
Net income /loss	132	220	270	-50	20
Income from 'participating interests' (equity, quasi-equity, mezzanine equity and holdings in private equity funds)	27	19	17	21	15
Income from long-term loans	209	180	172	175	180
Taxes	-31	-29	-4	-3	-6

Sector focus DEG (€ million)

Sector focus DEG (% of net committed portfolio €)	Financial sector	Manufacturing sector[8]	Agribusiness[9]	Infrastructure[10]	Services[11]	Energy & water supply
2012	44	22.8	4.1	8.3	8.9	11.3
2011	42.7	25.3	3.2	9.6	8.4	10.0
2010	40.7	28.2	3.6	10.0	8.1	9.0
2009	41.5	28.4	4.6	8.5	9.4	7.0
2008	42.3[12]	29.4	3.9	8.3	8.9	6.9

Objectives and practices

Sectors

The sectors DEG lists as investment priorities on its website are the financial sector (€2.1 billion); manufacturing industry (€1.6 billion); infrastructure (€1.3 billion) and agribusiness (€699 million). As a percentage of net commitments, financing for the financial sector was nearly double that of the next biggest sector (support to manufacturing industries) in 2012 and at least 10% above commitments to other sectors in all the years assessed. Indirect financing of small and medium-sized enterprises (SME) and other manufacturing industry via intermediaries is also counted in the financial sector category.

In sub-Saharan Africa, priority sectors for funding are the manufacturing and service industries, as well as agribusiness and infrastructure projects.[7] In Asia, DEG investments are primarily in the manufacturing industry, in infrastructure and for 'renewable' energy projects. Key areas in Latin America are the financing of infrastructure projects in the field of 'renewable' energies and in the financial sector, loans and mezzanine financing to commercial banks. In Central and Eastern Europe and the Caucasus, the financial sector, financing of infrastructure (including 'renewable' energy projects in the manufacturing industry) are priority areas for DEG financing.

Type of investments

About 60% of DEG's annual financing is provided in the form of direct senior loans to companies, with the remaining 40% of financing through risk capital. In an article, DEG's director for Africa notes that the latter is "broadly divided into mezzanine financing (20%), direct equity in companies (10%) and direct equity in funds (10%)."[13]

Of the €737.2 million provided in 2008 as direct project finance (excluding financial sector and insurance), the focus of DEG financing was on local corporate projects (€345.9 million). Projects in cooperation with German enterprises amounted to €164.8 million in 2008, and €182.3 million in 2012.

In 2008, DEG provided €88 million in financing to projects with investors from other EU countries; €37.9 million went to companies from industrialised countries outside the EU; DEG committed €100.6 million to cooperation between companies in the global south "involving different investors from developing countries."[14] Net investments amounted to €3,063 million in 2008, of which participating interests made up €483.6 million.

Instruments

DEG financing on its own account is provided principally through four financing instruments:

(a) Equity capital (minority stake as a rule; in some cases, voting rights and seat on the company board);

(b) Mezzanine finance (subordinate and convertible debt options);

(c) Long-term loans (in euros or US dollars, also local currency; term usually between four & ten years; collateral security generally fixed assets of the company; interest rate fixed or variable, "market-oriented according to project and country risks");

(d) Guarantees (reduced exchange-rate risk via repayment in local currency, risk sharing with local bank or bond creditor preferred).

Use of different Instruments

In 2012, loans were the dominant instrument used by DEG. Almost two thirds (61.8%) [15] of DEG's financing was granted as loans; 11.8% was granted as loans with equity features, 26.3% in equity and 0% in guarantees.[16] About 50% of DEG equity investments are investments in private equity funds.

For comparison over longer time periods, in 1998 equity holdings by DEG accounted for 21% of overall commitments, and long-term loans accounted for 79%. The total investment of enterprises to which DEG had contributed equity or loan finance amounted to Deutsche Marks 32.7 billion (approx. 16.7 billion euros) in 1998.[17]

DEG financing from German government budget funding is provided via feasibility studies (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – Federal Ministry for Economic Cooperation and Development funds or BMZ); BMZ's private-public partnership programme develoPPP.de; as part of the "Climate Partnerships with the Private Sector" programme of the Federal Ministry for Environment or as complementary measures (see below), funded through both DEG's own funds and the German Ministry for Economic Cooperation and Development (BMZ) funding.

DEG portfolio commitments by region and sector (in %)

Share of portfolio (commitment obligation as at 31 Dec 2012)	Africa	Asia	Europe/ Caucasus	Latin America	Total	Prev. year 31 Dec 2011
Financial institutions	8.3	11.4	12.8	11.5	**44.0**	42.7
Manufacturing	2.8	9.7	5.6	4.7	**22.8**	25.3
Energy & water supply	2.1	3.2	0.6	5.3	**11.3**	10.0
Transport, telecommunications, infrastructure	2.4	2.62	2.2	1.0	**8.3**	9.6
Other services, tourism	1.1	0.7	4.7	2.4	**8.9**	8.4
Agriculture, forestry, fisheries	1.0	1.2	0.9	1.0	**4.1**	3.2
Mining, quarrying, non-metallic minerals	0.4	0.2	-29	0.0	**0.7**	0.7
Total	**18.1**	**29.1**	**26.9**	**26.0**	**100.0**	**–**
Prev. year, 31 Dec 2011	17.8	31.3	27.0	23.9	–	100.0

Region and country exposure[18]

DEG's portfolio includes investments and financing in the following regions: Asia, Latin America, Africa (with a focus on sub-Saharan countries) and European countries outside the EU, as well as financing of supra-regional projects. In 2012, DEG invested €1,808 million of its total portfolio in Asia, €1,624 million across Latin America, €1,024 million in sub-Saharan countries in Africa, €145 million in North Africa and the Middle East, and €1,269 million in Europe.

In 2008, the geographical distribution of DEG's activities was as follows: new commitments in Asia amounted to €451.4 million (37%), followed by new commitments of €341.8 million (28%) across Latin America. In Europe (including Turkey), DEG made new financial commitments of €249.2 million (20%). A total of €179.3 million (15%) was committed to projects across Africa, with recipients in sub-Saharan Africa accounting for €163.6 million and North Africa for €15.7 million; €3 million was allocated for a regional project in Africa. In 2008, DEG direct project finance was concentrated both numerically and in terms of volume in Malaysia, China, Argentina and Mexico.

In 2012, highest total financing commitments per country were made in India (€136.68 million) and Mexico (€105.71 million), followed by Brazil (€69.98 million), Chile (€59.31 million), Peru (€55.13 million), Turkey (€48.14 million), China (€43.34 million) and Bangladesh (€42.91 million).[19] In 2008, countries with "high risk and /or low per capita income accounted for about 42% of new projects."[20] Commitments in BRICS countries[21] (in order of amounts committed: 1. India, 2. Brazil, 3. China and 4. South Africa) represented 21.1% of DEG's total portfolio in 2012.

DEG identifies priority countries for investment. "In Africa, the main countries of investment are those where DEG has offices: South Africa, Kenya and Ghana. In addition to these countries, DEG has selected eight countries in SSA[sub-Saharan Africa] where it is doing business in a broad spectrum: Cameroon, Ivory Coast, Nigeria, Ethiopia, Uganda, Tanzania, Zambia and Mozambique." In around 20 additional African countries, DEG finances on a "selective basis, opportunity-driven, and when there are good projects and good partners."[22]

Financing from trust funds & budget funds, ODA funding

DEG receives ODA funds through multiple funds. However, these still represent a very low percentage of DEG's overall portfolio. In 2008, DEG received €11 million from BMZ's develoPPP.de programme, of which €4.9 million was pledged for 31 new projects and the remaining funds were allotted for disbursement obligations to projects from previous years. In relation to develoPPP.de, DEG reports that, "Partner companies and third parties invested EUR 9.2 million. Altogether, project finance worth EUR 14.1 million was mobilized in 2008."[23] In 2012, DEG made €16.4 million from BMZ develoPPP.de funds available for new commitments and current projects and approved 73 develoPPP.de projects.

In 2008, financing from trust funds further included continuation of a loan guarantee fund set up in 2005 by DEG to provide small and medium-sized businesses in Afghanistan with easier access to adequate finance. The guarantee fund was set up with contributions from BMZ and the United States Agency for International Development (USAID) totalling US$ 9.15 million. For loans issued by two local partner banks, the fund underwrites 72% of credit exposure.

In 2008, 453 guarantees were issued for a volume of credit amounting to $13.3 million. The 2008 Annual Report notes that "Total aggregate commitments since December 2005 for 724 loan approvals come to US$ 19.6 million, creating or securing around 15,800 jobs in small and medium-sized enterprises."[24] In its 2012 Annual Report, DEG notes that "some 512 guarantees were issued for loans with a volume of USD 16.4 million" in 2012 from the loan guarantee fund, and that the fund has provided guarantees totalling "around 2,600 loans with a volume of USD 93.4 million."[25]

DEG further joined with the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Federal Enterprise for International Cooperation or GIZ) as the implementing partner of an agreement with the Bill & Melinda Gates Foundation to promote cotton-growing smallholders in six African countries in 2008. Of the total $48.9 million, $24.4 million was provided by the Gates Foundation, BMZ funds contributed $6 million and local cotton companies $18.5 million. Financing of trust funds from the Gates Foundation continued in 2012, through the "Competitive African Cotton Initiative" and the "Coffee Partnership for Tanzania", which supports 85,000 farmers and has a volume of $31.6 million.

In addition, trust funds from the BMZ budget were used to finance feasibility studies (€0.2 million) and projects under the "Climate partnerships with the private sector" programme with the BMU[26] (€0.8 million).

How does DEG determine development impacts?

In 2002, DEG introduced the qualitative and quantitative assessment method for its Corporate-Policy Project Rating (GPR).[27] The assessment is based on a series of indicators and is performed ex-ante, during and ex-post and thus provides a way of tracking the performance of a project over time. The project also enables comparison of performance within a sector. The tool includes quantitative evaluations pertaining to job creation, the use of "renewable raw materials or energy, more efficient resource use, cleaner production technologies and the production of environmental goods". It also provides information on the return on DEG's investment and other economic performance indicators. DEG further states that the GPR tool is being used globally by 15 other development institutions and funds as a monitoring and evaluation tool. DEG uses information obtained through GPR to calculate the development impacts of its financing.

Another instrument DEG uses to "enhance the developmental impact of DEG finance" are complementary measures, which according to DEG "support the economic, social and ecological sustainability of the projects and take special account of the role of private investments in difficult developing countries". These complementary measures include additional training that DEG develops with their client, depending on the specific situation, or preparation for voluntary certification or energy efficiency checks. DEG explains that, "Complementary measures help to enhance the broad-based and structural developmental effects of investment undertakings. DEG covers part of the cost of such measures from both its own and BMZ funds. Support is provided for, e.g. certification of suppliers or the introduction of environmental management systems."[28] In 2008, 56 such complementary measures were financed, using €1.4 million in budgetary funds for technical assistance from BMZ with DEG contributing €1.3 million of its own capital.[29] In 2012, expenditure for such complementary measures totalled €4.7 million, of which BMZ funds accounted for €2.2 million and DEG contributed €2.5 million.[30]

Recent policy changes and the way forward

Safeguards

DEG abides by the IFC Performance Standards, as well as the substance of the Equator Principles as the basis for its evaluations of the environmental and social risks of planned financing. As a member of the KfW banking group, DEG also takes part in the United Nation Environment Programme (UNEP) statement by financial institutions on the environment and sustainable development and on the Principles for Responsible Investment (PRI) initiative from the UNEP Finance Initiative and the UN Global Compact. Along with the KfW banking group, the DEG is also a signatory to the human rights declaration initiated by the Business & Human Rights Resource Centre in 2008.

The general environmental and social rule of KfW provides that project assessment is based "on the regulations that apply in the country in which the project is to be implemented. These regulations must be consistent with international environmental, social, health, safety and labour standards. These include the standards set by the EU and leading Organisation for Economic Co-operation and Development (OECD) countries, the Performance Standards of the International Finance Corporation (IFC) and the Environmental, Health and Safety (EHS) Guidelines of the World Bank Group. These standards are adhered to as regards the information provided to the general public and the involvement of the people directly impacted by the project, as well as when dealing with specific objections to projects." [31]

Finally, in 2011 the BMZ introduced a Human Rights Policy that is binding for all German bilateral development aid. BMZ and DEG are currently discussing to what extent DEG should adopt a new human rights framework based on the new policy.

Transparency and accountability

DEG does not have a dedicated disclosure and transparency policy in place, and does not provide a list of the projects receiving DEG support. Only activities financed with overseas development assistance (ODA) funding are disclosed. While stakeholder consultation is a requirement by the IFC [Performance Standards], which DEG and other development finance institutions (DFIs) follow in their investments, no information on social and environmental impacts and mitigation plans is provided.

Compliance mechanisms

Together with the Dutch development bank FMO, DEG recently became the first European development finance institution to introduce an Independent Complaints Mechanism, "to ensure individuals, groups, communities or other parties who believe to be adversely affected by a project financed or planned by DEG the right to be heard and the right to complain". According to DEG, the complaint mechanism is supported by an Independent External Panel that will decide on the admissibility of each complaint and that will process the complaint afterwards. This panel is made up of three international specialists with expertise in various fields.

Tax issues

DEG has a policy in place called "guidelines of KfW for dealing with financing transactions in non-transparent countries and territories". According to DEG, these guidelines apply to the whole KfW banking group, which includes DEG. The policy is not, however, publicly available.

Sectors

Energy, water, health, education: DEG does not have sector policies, or does not make them available on its website. The KfW banking group published a position paper on the financing of coal-fired power plants. In practice DEG does not finance coal-fired power plants any more, but the position paper is also effective for the DEG. The paper states that modern coal power plants are more efficient and thus present an "important option for an improved access to energy for developing and emerging countries."[32]

In relation to climate change and carbon finance, the KfW banking group defined climate change and the environment as one of the key challenges for its business. In order to reflect this priority, KfW dedicated itself to dedicating roughly 33% of its funding to climate and environmental issues.

Subsidised finance (blended finance)

DEG does not have a specific policy on subsidised finance. The level of financing with German government trust funds is very minimal.

Endnotes

1 Federal Government's Answer to the Parliamentary Question of MPs Klaus-Jürgen Hedrich, Dr. Norbert Blüm, Siegfried Helias, further MPs and the CDU/CSU Group. http://dipbt.bundestag.de/doc/btd/14/048/1404895.pdf

2 KfW Group Annual Report 2009.

3 https://www.kfw.de/KfW-Group/About-KfW/Auftrag/Entwicklungsfinanzierung/ and *Gesetz über die Kreditanstalt für Wiederaufbau* (Law about the Credit Institute for Reconstruction) https://www.kfw.de/Download-Center/KfW-Gesetz-und-Satzung-sowie-Gesch%C3%A4ftsordnungen/KfW_Gesetz_D.pdf

4 Development Finance, Deutsche Investitions- und Entwicklungsgesellschaft mbH https://www.kfw.de/KfW-Group/About-KfW/Auftrag/Entwicklungsfinanzierung/

5 Large volume of assets held in trust: €95,849.8 million.

6 The 2009 Annual Report gives the figure of €3,642,689.1 million (3,642,689,097 thousand) on p. 26 and €3,520,541 thousand is given as total assets for 2009 in 2010 AR on p. 28. It is assumed here that the unit given for the table (thousand) is incorrect and figures cited here are correct.

7 All information on current sector preferences in different regions from https://www.deginvest.de/International-financing/DEG/Unsere-Investitionen/Regionen/

8 Includes electro, paper, chemicals, automotive and machine-building industries.

9 Includes all primary agricultural and food production, as well as raw-materials processing, agricultural services, forestry and fisheries.

10 Includes telecommunications and waste water management.

11 Focus on IT, tourism and health.

12 New commitments in the financial sector made up almost 40 % of new business in 2008.

13 50-year footprint. Article in Africa AM. https://www.deginvest.de/DEG-Documents-in-English/Download-Center/Africa-AM_50-years-DEG-Footprint_Weinfurtner_201401.pdf

14 DEG Annual Report 2008, p.6 https://www.deginvest.de/DEG-Englische-Dokumente/Download-Center/Annual-Report-2008.pdf

15 56% according to figure in European Development Finance Institutions (EDFI) Annual Report 2012 p. 32. 61.8% based on own calculation using data from DEG balance sheet AR 2012. EDFI cites 44% as equity and quasi-equity, which probably includes loans with equity features.

16 Own calculation and 2012 EDFI Annual report, p.32 http://www.edfi.eu/news/news/30-2012-annual-report.html

17 *How to Finance Economic Development in the New Millennium: German Capital Exports to Asia and the Debate on the Effectiveness of Official Development Financing*. Kiel Working Paper No. 981. May 2000 http://www.ifw-members.ifw-kiel.de/publications/how-to-finance-economic-development-in-the-new-millennium-german-capital-exports-to-asia-and-the-debate-on-the-effectiveness-of-official-development-financing/kap981.pdf

18 See Annex 2.c for graph showing country and sector spread per year for 2008 and 2012.

19 Joint KfW development bank and DEG Annual Report 2012, p. 57 https://www.deginvest.de/DEG-Englische-Dokumente/PDFs-Download-Center/Annual-report-KfW_DEG_2012.pdf

20 DEG Annual Report 2008, p.5 https://www.deginvest.de/DEG-Englische-Dokumente/Download-Center/Annual-Report-2008.pdf

21 No figure provided for Russia, though financing is mentioned in the Annual Report.

22 *50-year footprint*. https://www.deginvest.de/DEG-Documents-in-English/Download-Center/Africa-AM_50-years-DEG-Footprint_Weinfurtner_201401.pdf

23 DEG Annual Report 2008, p.7 https://www.deginvest.de/DEG-Englische-Dokumente/Download-Center/Annual-Report-2008.pdf

24 DEG Annual Report 2008, p.7 https://www.deginvest.de/DEG-Englische-Dokumente/Download-Center/Annual-Report-2008.pdf

25 DEG Annual Report 2008, p.19 https://www.deginvest.de/DEG-Englische-Dokumente/Download-Center/Annual-Report-2008.pdf

26 Federal Ministry for the Environment

27 https://www.deginvest.de/Internationale-Finanzierung/DEG/Die-DEG/Was-wir-bewirken/#3; ausführliche Beschreibung des GPR in ‚Geschäftspolitisches Projektrating (GPR©). Kurzdarstellung - (05.2013). https://www.deginvest.de/DEG-deutsche-Dokumente/Die-DEG/Auftrag/GPR-Darstellung.pdf

28 *DEG: Financing opportunities – shaping development*. Brochure. https://www.deginvest.de/DEG-Documents-in-English/Download-Center/DEG_Brochure_EN_2013.pdf

29 DEG Annual Report 2008, p. 7 https://www.deginvest.de/DEG-Englische-Dokumente/Download-Center/Annual-Report-2008.pdf

30 DEG Annual Repot 2012, p. 18 https://www.deginvest.de/DEG-deutsche-Dokumente/PDFs-Download-Center/DEG_Annual_Report_2012.pdf

31 Environmental and social impact asesessments: https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Strategie-Management/Umwelt-Sozialvertr%C3%A4glichkeitspr%C3%BCfungen/

32 KfW position on financing of coal-fired power plants: https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Sustainability-Management/Guidelines/KfW-position-on-financing-of-coal-fired-power-plants/

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