

PRIVATE SECTOR PEER LEARNING: MECHANISM PROFILES

DEG Financing Opportunities, German Investment and Development Corporation (DEG)

Description: The [German Investment and Development Corporation](#) (DEG) promotes private business initiatives in developing countries and emerging economies through the provision of long-term capital, advice, consulting services and partnership support. It promotes private sector development and contributes to sustainable growth and improved living conditions in partner countries. It was established in response to the growing awareness that promoting entrepreneurial initiatives and creating skilled jobs is necessary to increase value added within countries, expand the range of goods and services offered, and generate long-term economic growth.

Objectives: DEG seeks to enhance the development of the financial sector and private sector partners, strengthen local capital markets and increase the skilled labour force.

Partners: As a subsidiary of the KfW and one of the implementing partners for the German Federal Ministry for Economic Cooperation and Development's (BMZ) develoPPP.de programme, DEG offers a range of services. DEG partners can include small and medium-sized enterprises, banks, insurance companies, specialist financiers (such as leasing companies), investors and global development alliances involving two or more private partners. DEG has established partnerships in numerous host countries, primarily within the African, Asian, European and Latin American regions, as well as across a range of income levels, including least developed, low-income and upper middle-income countries. Additionally, to pool finance and knowledge for its services, it draws on various networks, including those of BMZ, the World Bank and the European Bank for Reconstruction and Development.

How it works: DEG's financing applicants come from a range of sectors, including agribusiness, manufacturing, infrastructure, services and finance. For any DEG financing opportunity, an entity must either operate in a developing country or intend to invest there. All interested applicants must contact DEG for information on different financing and consulting services. DEG works with applicants to devise viable financial plans that account for applicants' needs and possible risks. Financing options are tailored to the type of applicant and provisions for obtaining finance vary by offer and type of investor. Applicants are categorised into corporations, financial institutions, projects or funds/investors.

DEG provides **equity capital** to all types of applicants on the following conditions: equity participation in the enterprise in the investment country, a minority stake as a rule, a variable configuration of risk components, in certain cases voting rights and a seat on the company board, and clearly defined exit rules.

In addition to develoPPP.de financing for individual companies, DEG provides **grants** for strategic projects, which are conducted with one or several partner companies in one or several developing or emerging countries. A project's total volume in public and private contributions amounts to at least EUR 750 000 and the public contribution cannot amount to more than 50%.

DEG provides **guarantees** to corporations for mobilisation of long-term loans or bonds in the local currency. Exchange rate risks are reduced because loan repayments can be made in local currency. A partial guarantee is required for the corporation (percentage excess by local bank or bondholder).

DEG provides long-term finance in the form of **loans** tailored to specific investments. Loan terms are generally between four and ten years. A loan is provided in either US dollars, euros or in specific cases local currency. Collateral security is acquired as fixed assets of the company in the country of investment. DEG provides long-term loans to corporations and

Development Assistance Committee member: Germany

Duration: Ongoing since 1962

Budget: Varies

Geographic focus: Global

Sectoral focus: Finance, agribusiness, manufacturing, services and infrastructure

Offered: Loans, equity, mezzanine finance, guarantees, grants and repayable grants

financial institutions and for project financing. It also finances the innovative pioneer investments of German and local small and medium-sized enterprises in developing countries that are in the start-up phase. Such projects can be co-financed up to EUR 500 000 – repayable on success. Loans are available for corporations, financial institutions and projects.

DEG provides **mezzanine finance** for project-specific arrangements. The type of finance is between equity stake and borrowing and has risk-appropriate yields and different conversion options. Mezzanine finance is available to corporations, financial institutions and projects.

- DEG also has **promotional programmes**, which are specific to the type of finance provided, for applicants. Select programmes include:
- **Business support services:** DEG offers conceptual and financial assistance to prospective and existing applicants. It connects them with external experts to realise tailor-made advisory solutions and help applicants design coherent development projects. The related costs can be co-financed up to 50%. Business support services aim to enhance sustainability with respect to commercial, social and environmental best practices. Possible areas for support include corporate governance, risk management, strategy, environmental and social management, resource and energy efficiency, and training of staff or suppliers.
- **Climate partnerships with the private sector:** Measures by applicants designed to promote the spread of climate-friendly technologies are eligible for support of up to EUR 200 000 from the programme “Climate Partnerships with the Private Sector”, which is run by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).
- **Feasibility studies:** DEG uses funds from BMZ to co-finance feasibility studies that are aimed at laying the groundwork for developmentally sound investments. Small and medium-sized enterprises located within Germany or the European Union with an annual turnover of up to EUR 500 million are invited to submit their project proposals to DEG, which evaluates investment intentions and funds applicants in carrying out the feasibility studies. Eligibility criteria include the likely success of implementation and profitability, as well as whether the proposed project has development relevance and aligns with German development co-operation. DEG provides a maximum of 50% of the costs for feasibility studies, not exceeding EUR 200 000.
- **Up-scaling:** Up-scaling enables innovative pioneer investments by German and local small and medium-sized enterprises in developing countries to be supported during the start-up phase. Projects may attract co-finance of up to EUR 500 000, which constitutes a maximum of 50% of the total investment volume and must be repaid if the undertaking is successful. Private partners must contribute a substantial share of equity – at least 25%. Eligible partners are early-stage small and medium-sized enterprises that are registered in a developing country or emerging economy and may be local subsidiaries of German or European companies. Preference is given to investments in Africa and India.

Monitoring and evaluation: DEG uses an input-output-outcome-impact method to monitor, assess and evaluate the impacts of the investments that it co-finances. It employs monitoring and evaluation teams that check at regular intervals whether investments are achieving the required sustainable development outcomes and make specific recommendations for improvement. DEG also uses an integrated assessment tool called the Corporate-Policy Project Rating as well as topic-based evaluations as tools to assess the corporate and development quality of each investment. With regard to the Corporate-Policy Project Rating, the key areas of assessment are the long-term profitability of the project and company, development effects and sustainability, the special role of DEG, and return on DEG’s equity. In addition, DEG has established a complaint mechanism, where individuals, groups or communities that have been adversely affected by a project financed by DEG can be heard. Notably, DEG follows a framework for compliance and has a confidential whistleblower system in order to protect its data and prevent money laundering, financing of terrorism, corruption and fraud.

Results: DEG publishes its commitments for the last five business years, which are broken down by region and country, online. It also provides project examples on its website as a way to showcase the different entrepreneurial activities and initiatives that it finances. Notably, DEG published a progress report, which includes, for example, expanding finance to 113 new investments in over 49 countries in 2014 and the anticipated effects of these new commitments.

Insights: DEG’s use of non-financial tools such as feasibility studies and advice, in addition to other services, helps the private sector access new markets. The clear focus on adhering to international standards on social and environmental sustainability, transparency and compliance, is a strength of DEG’s approach.

SOURCES:

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