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## DEG—Promoter of German Investment

Interview with Dr Mittendorff, Deutsche Gesellschaft  
für wirtschaftliche Zusammenarbeit  
(DEG; German Development Company), Cologne

**QUESTION:** It is said that the Deutsche Entwicklungsgesellschaft (DEG) acts as a go-between for German investors and their business partners in the Third World. What does this mean in terms of practical action?

**ANSWER:** The work of an intermediary has its different stages. The first of them is initiating cooperation. We receive large numbers of enquiries from the German business world, addressed to us by companies which are interested in making foreign investments but have not yet found a foreign partner for their purpose. We extend our help to the choice of such a partner, or partners, and to mobilising finance, e.g. through development banks which take part in joint venture types of projects. Conversely, we are also the recipient of many enquiries sent by interested parties in developing countries, who look for German companies as partners and sources of technical know-how. The next stage is usually preparation and design work for an actual project.

We have been collecting in many countries experiences over seven years, which have provided us with ample data for working out projects and for making feasibility studies on the chances of proposals being successful. The results of our calculations are also at the disposal of German would-be investors. This means that we act both as „talent scouts“ for identifying suitable partners and as consultants in drawing up individual venture enterprises. Beyond this, we act as supervisors of such ventures, as long as we remain financially interested in them, in order to make sure that their evolution takes place within the agreed framework and serves the agreed objectives.

**QUESTION:** Apart from straight participation in joint ventures, you are also extending loans which resemble such participations. Under which conditions do you make such advances?

**ANSWER:** It must be emphasised that our loans are granted to foreign companies, so that it is not their German partners

who borrow from us. It is therefore also the foreign borrower who is responsible to us for the payment of interest and redemption of the capital sums lent. Normally, we apply the usual conditions as they are set by the capital market. In cases of loans which resemble participations, we lay down that we must have the right to be consulted on major business decisions, and, as far as foreign legislation permits, we tie the interest charged by us to the profits earned. This means that our fixed rate of interest is 6 p.c. plus a bonus dependent on the yields earned on the ventures' invested capital, but only up to a ceiling.

**QUESTION:** It is said that DEG invests in developing countries along the same lines as other private investors, i.e. according to pure-economic principles. But is not the DEG bound to follow the development aid policies of the German Federal Government, its only shareholder?

**ANSWER:** We operate within the framework of the Federal

Government's development aid policies. The Federal Government is very keen on supporting the construction of a viable private economy in developing countries. We are particularly careful in fitting in the new projects or project extensions financed by ourselves to overall development planning as practised by the government of any given developing country. In particular, we study the likely effect of all projects upon the foreign currency situation, the creation of new employment, and the diversification of structure of production in such countries.

**QUESTION:** Sometimes you are criticised for allegedly showing one-sided preference for helping big firms, instead of promoting the growth of small businesses. Is this reproach borne out by your past activities?

**ANSWER:** I consider this form of criticism unfair, because very few of our business partners are big companies, and the average sum invested by us per individual venture at present is about DM 1.3 mn. This does not look like undue favouritism shown to large projects. We shall always be willing and prepared to become interested in small ventures. On the other hand, we try to build up a healthy mixture of participations, i.e. a fair distribution both geographically and over varied branches of economic operations, as well as over a wide range of sizes. However, we have to look for a certain minimum capacity for making investments in our German partners, too, for dwarf projects tied to minute partners in far distant lands often imply costs of an unbearable height, both for our German partners and, within limits, for ourselves. To obviate such difficulties effectively, we have become shareholders in development banks, which operate on the spot, know local conditions, and are therefore better suited to finance such tiny projects.

Our smallest single investment has hitherto been for DM 25,000, which shows that we are fully prepared to support dwarf projects, even though their costs are higher than the yield which we can expect from them. This is one of the tasks entrusted to us as a development aid company.

**QUESTION:** Mr Eppler, Federal Minister for Economic Cooperation, who is responsible for all development aid, has commented on your recent Annual Report with the advice to work for broader diversification of investment. It was said that you over-invested in South America, and especially in Brazil. On the other hand, earlier Annual Reports of the DEG seem to suggest that your interest in African enterprise was then predominant. Is it fair comment, then, that you have shown undue preference for one particular region, e.g. South America?

**ANSWER:** Africa has remained, to this day, our main field of operation. Actually, Brazil in particular is under-represented among the overall spread of German investments abroad, but to a certain extent, our work will always be partly dependent on investment planning by German business. Direction of the flow of private capital by government order simply will not work. Capital investment will flow to the places where it finds the most favourable conditions for earning a profit. On the other hand, we fully agree with Minister Eppler that it would be desirable to achieve a broader spread of our investments and a rising engagement of DEG in Africa.

**QUESTION:** Is it not possible to achieve a certain measure of directing the investment flow to some developing countries by granting guarantees for capital investment?

**ANSWER:** Guarantees for capital investment, as well as all the other government measures for promoting investments in developing countries, are not a

steering mechanism for distributing investments among particular regions. They merely facilitate the investor's business, no matter what his preferences are in his choice of particular countries. In practice, the main determining factor is the chance of success which attracts the support given to any project. Of course, Brazil as a country can offer more, in this respect, than a small African country. In Asia, India attracts most investments, as Brazil claims the lion's share in South America.

**QUESTION:** Has your investment policy made the attempt to concentrate on particular sections of the economy, giving priority to selected branches of business or to individual businesses of a particular type?

**ANSWER:** No, our own work does not know any "centres of gravity". Where they exist, they have grown spontaneously from the character of our business, without much of our own conscious choice. True, it may be stated that manufacturing industries, in particular textiles and general engineering, have claimed a major share in our activities. We welcome this development, because these industries create a high degree of new employment by their growth.

**QUESTION:** Would the course of your business justify the claim that DEG operations truly serve the requirements of the German economy?

**ANSWER:** I guess that I can plead unreservedly for such an assessment. Our task is twofold: first to favour by our operations the growth of private business in developing countries, and then to promote German investments abroad and thus to contribute to overcoming the lack of capital resources of the German economy, as against its competitors in the West. As I believe, the steep rise of our business volume during the last two years and its continuation through the current year has

provided proof that our work has fulfilled certain requirements of German business and continues to meet them.

**QUESTION:** Have you collected any experiences about export developments of German firms which have engaged in ventures in developing countries?

**ANSWER:** We know of German companies whose exports, especially of so-called non-essential goods, to developing countries had been important in the past. They have not been able to regain their former market position through continued exports, as the countries formerly in receipt of such shipments lack the necessary foreign currency. Such firms can only restore their former market shares by starting production on the territory of their former customers, that is, by setting up completely independent overseas production plants. Other companies have already been able to achieve a certain degree of integration for their manufacturing activities overseas, but their foreign plants will remain dependent for a certain length of time upon supplies of parts and sub-assemblies by the parent company in Germany. But it must not be forgotten, as is exemplified in virtually textbook fashion by the Brazilian Volkswagenwerke, that the share of German supplies is gradually shrinking, since local industry has progressively become able to manufacture in its own factories the formerly imported parts and sub-assemblies.

**QUESTION:** Have you concluded special agreements with partner countries on protecting investments, so as to provide security for your participations and/or the investments of German companies which you have fostered?

**ANSWER:** Agreements on protecting investments are being made between governments. They are treaties under international law which we, as a

company under private law, cannot negotiate. But in a number of cases and in several countries, we have made so-called investment agreements, which are agreements on entering our joint ventures in the company registers of the local governments. Such agreements stipulate that our foreign partners pledge themselves to make some minimum contributions to setting up a local company, and the local governments promise to act in a certain manner, e.g. by waiving customs duties on imported machinery, or by granting remission of taxes.

**QUESTION:** Would you, for example, abstain from investing in a country if the government of such a country restricts the transfer of profits?

**ANSWER:** There are numerous countries which restrict profit transfers to perhaps 12 p.c. We accept these conditions, but we would refrain from investing in a country which imposes an outright prohibition of any profit transfer, because we expect that our investments will produce a reasonable yield, which we need to cover our own cost.

**QUESTION:** Do joint ventures generally leave their profits in the developing country where they operate, or are they collected by the German partners engaged in them?

**ANSWER:** According to our experiences, profits are channelled home to a very limited extent only. Any successful business and any successful management very naturally think of enlarging existing production facilities, and therefore they usually tend to use the profits earned for expanding.

**QUESTION:** How long does it usually take before profits are earned?

**ANSWER:** We usually reckon that the initial phase will last for three or four years, and businesses will need this period for absorbing initial costs and losses. Profits will make their

appearance in the fourth or fifth trading year, and they will then also become distributable. The normal development, however, according to our experience, is that only comparatively small parts of total profits are being distributed, which reach 20 or 30 p.c., in exceptional cases only. The dividends we have hitherto received were of the order of 7 to 15 p.c.

**QUESTION:** Do you make your profit transfer dependent on the overall economic situation of the country where you are investing, by perhaps channelling capital, which transfers exaggerated dividends, to different fields for investment?

**ANSWER:** This question is premature, which is a pity, as I may add. There has not yet been a single case of profits which were so vast as to worry us. On the other hand, we are highly satisfied with the economic development of the businesses supported by us. In quite a number of cases, it has become possible to make dividend distributions, which means that yields of the companies in which we hold an interest were highly satisfactory, on average. On the other hand, we are also interested in ventures which have not yet been able to produce the hoped-for profits.

**QUESTION:** Public opinion sometimes ascribes to DEG participation in profits only but not in losses...

**ANSWER:**... This is an unjustified accusation, since our interests have carried both profits and losses.

**QUESTION:** Is DEG in a position to safeguard the interests of German participants in overseas joint ventures, as against their foreign partners?

**ANSWER:** As intermediaries and as financial partners, we have frequently been able to smooth out difficulties, and in individual cases, we have negotiated with governments, hammering out agreements which

were much more easily achieved by ourselves as a federally-owned concern than by any German private company. We usually describe that as our "bannister function".

**QUESTION:** What do you think of the possibilities and potentialities of a further growth of German private investments in developing countries?

**ANSWER:** According to our records, the willingness of German business to engage in ventures in developing countries has grown enormously over the last two years. This is reflected by our trading accounts. To what extent chances for further investment in developing countries will be utilised depends, on the one hand, on the market

chances, on the other hand on the investment climate, which means on the combination of political, monetary, and economic factors in any given country.

**QUESTION:** Do developing countries worry about extreme domination of their economies by foreign capital?

**ANSWER:** We have not yet met with hostility against exaggerated foreign investment influence. True, there are countries which restrict the share of foreign investment capital in any single venture to a maximum of 49 p.c. Such cases naturally give rise to the question in the minds of foreign partners whether such a limit of participation affords them sufficient in-

fluence upon management and development of individual companies marketing products under German brand names. My view is that developing countries ought to be strongly advised against fixing ceilings for foreign participation by law. It would be much better to leave the private partners from the foreign country and from among local businessmen to negotiate among themselves the ratio in which shareholding is to be shared. On the other hand we believe that it is not advisable to set up wholly-owned German subsidiaries in developing countries. It would be much better to invite local businesses to participate in every case of setting up German associate companies.

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