

Mittendorff, Herbert

Article — Digitized Version

Ten years DEG

Intereconomics

Suggested Citation: Mittendorff, Herbert (1972) : Ten years DEG, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 07, Iss. 11, pp. 330-332, <https://doi.org/10.1007/BF02929661>

This Version is available at:

<https://hdl.handle.net/10419/138728>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Ten Years DEG

An interview with Dr Herbert Mittendorff, Managing Director of the "Deutsche Gesellschaft für wirtschaftliche Zusammenarbeit" – DEG (German Development Company)

Dr Mittendorff, this year the German Development Company – DEG – has celebrated the tenth anniversary of its foundation. DEG is usually described as a mediator for German investors and their business partners in the less developed countries (LDCs). How does DEG solve the tasks as a middleman in practice?

DEG activities may be broken down into three sectors:

Firstly, we are engaged in the promotion of projects and in the search for suitable ones. We are looking for chances to invest in LDCs by close cooperation with local governments, development institutions, development companies, and banks. We are collecting relevant data for investments, and we are bringing together German investors who are willing to cooperate with investors from LDCs. We have reinforced this kind of activity especially from 1971 onwards, becoming active initially mainly in Morocco and Tunisia.

Secondly, we give support to investments in LDCs by making available capital in the form of equity participations and loans with equity features. This means

that we take a genuine part –together with our local and German partners–in the risks of new investments. As a rule, in doing this, we cooperate with the development agencies of other countries, both bilaterally and multilaterally.

Thirdly and lastly, our experts give advice for planning and carrying out investments in LDCs. We make available to investing companies our knowhow relating to individual countries and branches of industry, in order to safeguard the success of given projects.

Repayment Terms

At which kind of interest rates and repayment terms does DEG operate in regard to taking over participations for German companies?

We must distinguish between participations and granting loans that are similar to participations. Besides, I must state in advance that no project is identical with the next one. For every project we must tailor our conditions to the job in hand, which means that we must find the most suitable form of financing and agree on it with our partners. In acquiring par-

ticipations, DEG proceeds in the same way as any other investor by taking over shares for financing a given investment. We expect a reasonable yield from our participations. In addition, we are interested in selling off our share interest, after an interval of about six to ten years, to our local or to our German partners. Repayment of our loans is invariably expected in DM, and we grant them at "going" market terms. We are not in a position to offer "soft conditions"; on the contrary, our lendings are given for periods corresponding to those provided for depreciation, at most for eight years, and our rates of interest are also those which are usual in the capital markets.

This might lead to the assumption that DEG deals in investments in LDCs in the same way as other private investors, for whom purely economic aspects provide guidance. But how can DEG then carry out the mission in development policy with which it has been charged by the Federal Government, who is the main shareholder in DEG?

We examine every project not only as to its profitability but

also as to its value for development policy. DEG is owned by the Federal Government, which sets the Association its targets. Pursuant to this, which means to operate within the framework of the Government's development policy, we give support only to those projects which contribute to building up the economy of LDCs, and this requires that they have to correspond to the development policies of these countries. We favour projects for whose products there is a fair chance to sell in world markets, meaning that they boost the export trade of a given LDC, or that they, at least, are able to substitute for imports of that country. Investments which are promoted by DEG are to diversify the structure of LDCs' production and, above all, to create new jobs.

DEG has mainly be briefed to promote foreign investments by German small and medium-size companies. But it also engages in joint investments with big concerns. Which is the average size of its individual operations, and what are DEG's experiences in this work?

Our company articles prescribe support for joint ventures, mainly aiding along this way small and medium-scale companies. But concerns are also carrying out projects of significance for development policy in foreign countries, and we will not exclude such ventures from our assistance. We aim at a sound mixture between bigger and smaller partners. For the cooperation with big firms, we have so far promised about DM 28 mn, i.e. about 16 p.c. of all the monies provided by DEG.

In answering the question whether big or small companies ought to be aided it is necessary to realise that our German business partners must have a certain capacity to invest. In remote countries whose state

of development is low, generally only larger companies are able to invest because they are able to accept higher risks. On the other hand, countries that are not too far away from Europe make it easier for smaller partners to carry out investments, because it is very important for foreign investments to be suitably supervised, also regarding the cost of looking after the soundness of a given project.

How much of total investment has DEG been able to mobilise during the past ten years, through its contributions?

Up to the middle of 1972, we had financed 119 projects in 35 different countries. By then, the total of our commitments had reached DM 171 mn, which enabled total investments of about DM 1,000 mn to be made, meaning that the effect of our capital mobilisation was roughly fivefold. Every DM invested by DEG has brought forth about five times as much capital from local and German partners, and from other financing agencies.

Regional Breakdown

Some time ago, there was criticism in the Federal Republic against an alleged heavy preference given by DEG investments to Latin America and to European LDCs. Would investment not have taken place in such countries, even if DEG had not given them support?

At present, a breakdown of our financing promises by regions results in the following picture: 44 p.c. of our promises benefit Africa, 24 p.c. Latin America, 23 p.c. Asia, and 19 p.c. Europe, in terms of total funds used.

It is clear that we depend on cooperation with industrial partners and, to a certain degree, we are dependent on the willingness of our partners to invest. And it is a fact that private investors are primarily interest-

ed in countries with a favourable climate for investments, which means that they must be politically stable and that their economic and monetary conditions are in good order. Also, the size of their home market must be sufficient. This is the one side of the problem.

On the other hand, DEG—fully conscious of its mission in regard to development policy—is highly interested in attracting investments to countries which have so far not found favour in the eyes of foreign investors. But this striving is restricted by the aforementioned factors — the investment climate and the size of the local market. You must never forget that especially smaller and medium-sized firms depend heavily on an existing infrastructure for being able to give their projects an economically reasonable shape.

It is my belief that, in future, German business will enter more frequently such countries as have, in the past, benefited less than others from the inflow of private capital. But also in these cases, this will depend on conditions which permit the private investor to operate satisfactorily. Our experience has been that not enough information is yet available for this purpose, and we therefore consider it to be part of our task to collect and pass on such information to the German business world.

Efficiency of Work

It is intended to enlarge the scope of DEG's tasks and operations widely, in future, in order "to increase the efficiency of work". What is this supposed to mean?

These questions are at present under consideration with our main shareholder, the Federal Government, and with our Supervisory Board. In this context, I refer especially to the address

of Minister Dr Eppler to the meeting held in Cologne on September 14, 1972, to celebrate the tenth anniversary of the DEG's founding. In our deliberations, we try to profit from our experiences and to utilise them for our future work. One of the lessons we have learnt is that we should cooperate not only with private partners but also with state-run and semi-public corporations, provided that these operate along normal, competitive business lines. Secondly, in all those cases in which we cannot find any German partner for projects that are of importance for development policy, we should like to be able to cooperate with other European partners. And, lastly, we intend to strengthen our activities in countries with a low development level.

What does DEG think about cooperation with other member countries of the EEC?

Cooperation within the EEC

We believe that projects in LDCs should be conceived on as broad a basis as possible, also in regard to the choice of partners. I have already mentioned that in all those cases in which we do not find any German partners we intend to cooperate with European partners more closely in the future. In this context, I should like to underline especially the fact that we are practising close cooperation with our sister institutions in France, in the UK, in the Netherlands, and in other European countries, including the joint acquisition of shares in development banks. Our experiences in this joint work have been excellent, and we should like to broaden and deepen this kind of cooperation in the future.

Which are the special difficulties encountered by DEG in its investment policy in the Third World?

There are two sides to this problem: Main difficulties for German investors mostly focus on obtaining efficient management — especially for smaller and medium-size companies. Finding capital is by far not the most thorny problem. It is much more difficult to recruit suitable senior staff willing and able to work for a certain period in LDCs — which means managers who are not only sufficiently qualified but whose personal outlook makes them capable of working together with local partners and staff for building up development projects.

On the side of LDCs, there are frequent difficulties in the fields of infrastructure and the collection of data, especially for evaluating market conditions. However, there are also problems caused by local legal and administrative rules, about which the foreign partner has to learn. This is one of the reasons why we prefer to make our investments, on principle, in joint ventures or partnerships. For this, we urgently need the knowhow of local partners.

Joint Work with Public-Sector Corporations

What do you envisage about DEG's cooperation with public-sector entities in such LDCs whose economic policy is strongly wedded to nationalisation?

We do not refuse to cooperate with partners which are state-owned or semi-public corporations, and it is likely that, in future, we will set up a growing number of partnerships of this kind, provided that German partners participate in such ventures in sufficient numbers. However, the condition for creating such partnerships is that they operate on the usual lines of private business. I am also of the opinion that there must be sufficient protection

against government interference. In this field, the Federal Government has done pioneering work by negotiating a number of treaties on promoting and protecting investments, in order to facilitate the inflow of private capital into LDCs, and it intends to continue this work.

In 1971, DEG did not succeed in continuing the expansion of its business as registered in 1970. How do you view the prospects of this development during the next few years?

Growth rates of private German investments abroad have not increased during recent years in LDCs, and in 1971 this growth rate has actually declined. This is partly due to cyclical factors, but partly also to a deterioration of the investment climate in a number of LDCs. I nevertheless believe that DEG can look forward to an expansion of its business in the future. My hope is built on the number of investment enquiries reaching us. The "cost explosion" in Europe has strengthened the trend to shift production to LDCs with a lower cost level, in order to re-export the manufactures made there.

Future Outlook

What is your view about future developments of German private investment in LDCs?

Many talks with German businessmen have convinced me that the potential inclination to make investments abroad is on the upgrade. Big German concerns have already made much progress along this path, and I assume that also medium-sized and smaller companies will follow this trend. However, the essential basis for increasing the investments of the German business world in LDCs is—as I have stated repeatedly—the kind of conditions for investment prevailing in these countries.