

Investment Guarantees
of the
Federal Republic of Germany
Annual Report



2000

**INVESTMENT GUARANTEES
OF THE FEDERAL REPUBLIC OF GERMANY**

Annual Report 2000

INVESTMENT GUARANTEES AT A GLANCE

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	1998 Amounts in million DM	1999 Amounts in million DM	2000 Amounts in million DM
GUARANTEE APPLICATIONS			
• Number	245	249	161
• Volume (maximum amounts)	6,574.7	10,392.7	7,824.7
GUARANTEES			
• Number	150	139	109
• Volume (maximum amounts)	4,558.2	5,492.2	8,248.3
GOVERNMENT EXPOSURE FROM OUTSTANDING COMMITMENTS (END OF THE YEAR)			
• Number	964	973	963
• Maximum liability	16,072.9	19,316.9	26,223.0

MESSAGE FROM DR WERNER MÜLLER, FEDERAL MINISTER OF ECONOMICS AND TECHNOLOGY



Government investment guarantees are a major instrument of our foreign trade policy. For more than 40 years investment guarantees have accompanied German business enterprises in important markets in developing and transition countries and have relieved them of political risks on which enterprises themselves have had no influence.

The guarantees contribute to improving the competitiveness of our business enterprises and therefore to maintaining jobs and protecting procurement and sales markets.

The changes of the international economic conditions demand a permanent development of this guarantee scheme in order to meet future requirements, for example, by supporting BOT-type projects in the infrastructure sector or by adapting the coverage of bank loans to international practice or by creating a more transparent breach of contract coverage. Especially in these respects, we made considerable progress in the course of the last year.

Changing financing structures and - above all - environmental requirements are of paramount interest to the German Government. Adequate solutions in these fields demonstrate the adaptability of the scheme.

To limit the risks of project financing for BOT-type projects, I think it is of special importance that the German Government offers German enterprises the opportunity of combining the coverage schemes such as investment guarantees, export credit guarantees and guarantees for import financing in accordance with their special requirements. By doing so, enterprises, for example, working in the sector of plant engineering and construction, power and water supply were able to take their chances in the world markets in the course of the last year.

I am very concerned about small and medium-sized enterprises since their use of the investment guarantees is still unsatisfactory. With more information and special public relations activities, I would like to encourage especially these enterprises to benefit from the protection of the Government on their way abroad.

Werner Müller

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PROMOTION OF FOREIGN DIRECT INVESTMENTS BY THE GERMAN GOVERNMENT

Direct Investments and Investment Guarantees

In 2000 German **direct investments** abroad¹ amounted to DM 92.3 billion. DM 70.3 billion were invested in industrialized countries - mainly in non-European countries (USA) - and DM 22 billion were invested in developing and transition countries.

Under the promotion scheme by the Government, the investment guarantees provide coverage for **developing, (emerging) and transition countries**. Therefore, this report only refers to investments in these regions.

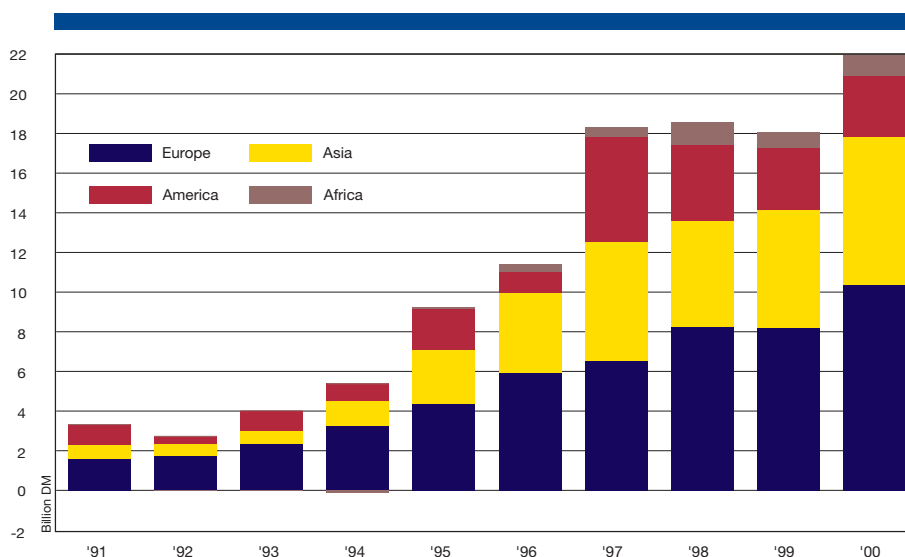
Of German net direct investments in these countries in 2000 47% were invested in **South East European countries, Central and Eastern Europe** (mainly Slovakia and Poland) and **Turkey**, 34% in

Asia (above all Republic of Korea, China and Singapore), 14% in Latin American countries (mainly Brazil) and 5% in African countries (especially South Africa).

In the last years the development was above all characterized by a **strong growth** of investments in European transition countries after the opening of these markets. In addition, German enterprises increased their investments in Asian countries while their investments in Latin America remained almost constant. On the other hand, the African developing countries could only note small increases in direct investments.

Foreign business engagements which are realized with long-term prospects and by using direct investments often meet

GERMAN NET DIRECT INVESTMENTS IN DEVELOPING AND TRANSITION COUNTRIES
10-YEARS SURVEY – REGIONAL DISTRIBUTION



¹ Reference: balance of payments statistics of Deutsche Bundesbank ("net direct investments")

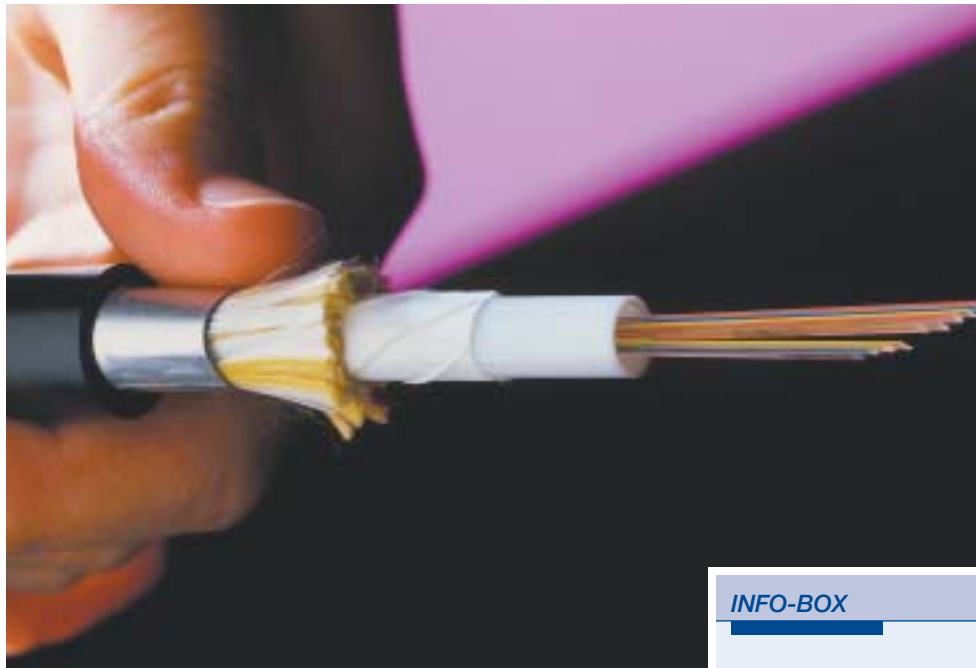
with difficult conditions. **Risks** in developing and transition countries especially result from **changes in the political conditions** which are neither foreseeable nor can they be influenced by the investor. In order to create predictable conditions for German investments, the German Government has concluded **Investment Protection Treaties**¹ with 123 countries up to now. Based on a statutory maximum exposure, the Government moreover provides **guarantees to cover political risks** for German business enterprises and for German entrepreneurs for their foreign direct investments in such countries.

In 2000 the German Government **granted coverage** (maximum amounts for capital and earnings) in the amount of DM 8.25 billion. This was an **increase** of 50% compared with 1999 (DM 5.49 billion). The result of the year under review was the highest ever since the investment guarantee scheme was initiated. Even in comparison with other international investment insurers, the German guarantee scheme took the **first place** before Japan and the World Bank organization MIGA.

In 2000 - as well as in previous years - a substantial portion of coverage was granted **for larger single projects**, so that the existing volume of cover by itself does not represent a reliable indication for the development of the underwriting demand of German enterprises. Furthermore, large business enterprises continued to benefit

from a considerable share of the volume of cover, though at least more than one third of the guarantee applications came from **small and medium-sized enterprises**.

Deutsche Telekom was involved in the privatization of Croatian Telekom and received an investment guarantee to cover its participation.



Up to now, the **motivation** to use investment guarantees as a protection against political risks may have been determined by executive decisions in the enterprises, showing the individual preparedness to take risks and the varying degree of the owners' need for protection. In addition, the risk structure of all foreign engagements of an enterprise and a counterbalance of risks within the enterprise could play a decisive role.

Due to new requirements for the banks by the **Basle II Regulations** and the **German Law on Control and Transparency in Business Enterprises** (KonTraG), the importance of measures for the limitation of risks in connection with investments abroad continues to increase. Therefore, a more sophisticated evaluation of credit risks will become necessary, and the banks will have to face this necessity after Basle II will have been adopted and con-

INFO-BOX

An investment guarantee may be granted, if

- the engagement of a German enterprise has an investment character,
- it is a new investment,
- there is sufficient legal protection in the host country due to an Investment Protection Treaty, the national legal system of the country or otherwise,
- the investment is eligible for investment promotion,
- the investment is justifiable from the risk point of view,
- according to the Government's policy of cover the investment is principally eligible.

¹ Treaty concerning the Reciprocal Encouragement and Protection of Investments

INFO-BOX

The following investments are eligible for cover:

- Equity investments in foreign enterprises, even if the German investor holds 100% of the shares (equity participation). The acquisition of the shares may result from the establishment of an enterprise and/or a capital increase or from the sale by a withdrawing shareholder.
- claims arising from loans granted by a shareholder (investment-like loans) or third-party loans, for example, by a bank to the foreign enterprise,
- capital endowments to the legally dependent foreign branch or plant of a German enterprise (dotation capital),
- special forms of investments, e. g. rights under exploration and/or production sharing agreements (so-called service contracts) for the oil and natural gas industry.

verted into national law. Since the granting of credits and especially the credit terms are subject to the rating of the enterprise as well as the project, the rating equally has effects on the methods of financing investments abroad.

The German Law on Control and Transparency in Business Enterprises moreover induces managers to establish a **risk management system**. The discernment and supervision of risks become an essential feature of entrepreneurial action, and they are of special importance due to the high complexity of foreign engagements. Therefore, political risk insurance provided by the Government is also part of a well-developed entrepreneurial risk control strategy.

A limitation of investment risks is equally decisive for small and medium-sized enterprises. For these enterprises the **flanking support** of the Government by means of investment guarantees is an essential precondition in order to have access to favourable refinancing terms by being able to assign the possible claims under the guarantee (also within the loan scheme of the Kreditanstalt für Wiederaufbau).

Though large German investors predominate in the investment guarantee scheme, they are not the only ones who take advantage of the promotion effect. Due to positive effects on employment, also medium-sized enterprises can **indirectly** benefit from projects of large concerns, for example, as suppliers of primary products and contractors for services.

In general, the interest in investment insurance cannot only be reduced to a possible indemnification in case a political risk occurs and therefore to the reimbursement of the invested capital. In fact, the **value of the investment guarantee** already becomes apparent in the case of a crisis when due to the German Government's intervention on behalf of the investor a loss can be avoided or reduced.

The continuing economic globalization and the increasing internationalization of business activities in politically difficult regions will increase the importance of governmental support through political risk coverage. Therefore, the Government continues to modify the investment guarantee scheme and to create **predictable conditions for investments** for the German economy by entering into new or updating older Investment Protection Treaties.

In line with the increase of German direct investments in developing and transition countries, investment guarantees were more intensively utilized. Regarding total net direct investments in these regions, the percentage of investments covered by guarantees (effective investments under guarantees) nevertheless has been relatively constant between 10% and 20% for years.

The informative value of **cover rates** regarding continents or countries in differ-

The group Avk/SEG (SME) operates a joint venture with more than 200 skilled workers in Romania. Together with a local partner the investor manufactures at low cost synchronous generators for electricity production and intermediate products to be delivered for the production of generators in Germany.



ent years appears to be limited because comparatively few investments are covered by guarantees, and it is methodically impossible to evaluate the data accurately. For comparison's sake it is necessary to focus on the accumulated value in order to avoid temporal deviations. On the other hand, it is impossible to compare the relevant figures, (the net direct investments listed in the balance of payments statistics include, for example, short-term bank loans and trade credits for which coverage by way of investment guarantees is not available).

General statements about cover rates in individual regions are at best possible and useful in so far as in the early 90ies there was a substantial demand for investment guarantees in **Central and Eastern Europe**.

INFO-BOX

The cover of political risks includes

- **nationalization, expropriation or other sovereign acts which in their effects are similar to expropriation (expropriation risk),**
- **breach of legally binding commitments by the government or other entities directed or controlled by the government in the host country in so far as these commitments establish rights for the business enterprise itself and are specified in the policy (breach of contract risk),**
- **war, other armed conflicts, revolution or civil disturbance (war risk),**
- **payment embargo, moratoriums (moratorium risk) and**
- **inconvertibility or transfer restrictions (convertibility and transfer risk).**

Interministerial Committee

Report on the Celebration of the 40th Anniversary

In the year under review the Interministerial Committee (IMC), responsible for the underwriting decisions, could celebrate its **40th anniversary**. On this occasion, a celebration took place in Berlin on 9 May 2000. In the name of the Federal Government the Federal Minister of Economics and Technology, Dr Werner Müller, invited representatives of the German industry, trade, banks and associations as well as ambassadors from all over the world and press representatives.

The minister and Dr Joachim von Harbou, member of the board of directors of Dresdner Bank AG as representative of the German economy, emphasized that the investment guarantees promoting German direct investments in developing and transition countries are an important **instrument of foreign trade policy**. They

stressed that especially globalization makes great demands on investment guarantees. The positive development of the guarantee scheme as the so-called "younger sister" of the export guarantees could - above all - be attributed to the fact that it was able to react to the **needs of the economy** and to adapt its terms of cover as flexibly as the export guarantees. Moreover, the cooperation between the German Government and the mandatary **PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) and Hermes Kreditversicherung-AG (Hermes)** has proved to be a successful public private partnership.

The German Government would support the **economic development** in host countries by granting guarantees, thus improving the international **competitiveness** of

German enterprises and maintaining jobs in Germany.

By investments in the traditional manufacturing and subcontractor sectors as well as in trade and financial services, German enterprises would be able to use their opportunities by developing and being present in **new sales markets**. The business prospects for **BOT-type projects** would be equally favourable.

The minister therefore emphasized the importance of investment guarantees as a supporting Government measure for **internationally financed infrastructure projects** as well as for the **refinancing of foreign investments by small and medium-sized German enterprises**. As the majority of investment guarantees is granted on the basis of treaties between Germany and the host country (Investment Protection Treaty), the Government would by means of such coverage create **additional legal certainty** for the enforcement of claims against the host country. Furthermore, in the case of impending risks Government interventions would actively help to **prevent losses**.

The speakers declared themselves in favour of a **modernization** of the guarantee scheme in accordance with the changing financing and investment conditions as well as with the requirements of the economy. Among other things, they stressed that new requirements may result from the trend to **privatize** former public infrastructure domains (telecommunications, water supply/sewage disposal, power supply) and from the creation of various **models of cooperation** between private enterprises and state authorities.

As the Government schemes for financing and guaranteeing foreign trade as well as investments are complementary, Dr von Harbou expressed the opinion that their combination should be made easier

On the occasion of the 40th anniversary of the Investment Guarantees of the Federal Republic of Germany, the Federal Minister of Economics and Technology invited more than 100 German and foreign guests from industry, commerce and politics. The Federal Minister Dr Werner Müller (2nd on the left, here in discussion with Prof. Rolf Windmüller, spokesman of the board of directors of PwC Deutsche Revision) and Dr Joachim von Harbou, member of the board of directors of Dresdner Bank AG (left), made the speeches. Ministerialrat Dr Reinhard Zimmer, chairman of the IMC, delivered the welcoming speech.



Speech of the Federal Minister Dr Werner Müller





The subsequent reception of the Federal Minister was an opportunity for interesting conversations ...

by **harmonization** and that they should be brought in line with other European guarantee schemes. The Federal Minister Dr Müller expressly appreciated international **cooperation agreements**, in particular with other national investment insurers with the emphasis on loss prevention.



...and for professional comments on the development of the investment guarantees.

The Work of the IMC - the Further Development of the Guarantee Scheme

Due to various modifications, the guarantee scheme once more gained in **attractiveness** in 2000. They were prompted by investment projects of German enterprises requiring a more sophisticated underwriting approach.

Since 1999 there has been the general possibility to include **earnings** in the guarantee policy as far as BOT-models in the infrastructure sector were concerned. Coverage may now include earnings of up to 20% annually and 300% as a maximum. By doing so, the Government took into account the investors' higher risks during the limited life-time of such projects.

The Government moreover was prepared to extend cover for claims evi-

denced by document (so-called **bonds**) as far as they are long-term bonds and their further assignment is restricted.

In addition, the Government continued to develop **breach of contract coverage**. This form of cover protects investors against the breach of legally binding commitments by the government or government-controlled entities in the host countries, provided that such commitments are of essential importance for investment projects. These developments contribute to the fact that guarantee policies become more concrete and consequently more transparent. The respective investors considered them an essential improvement of their investment protection.

For the banking sector it is of interest that the Government is now prepared to guarantee **syndicated loans** provided that the German banks involved have independent claims against the borrower. This improvement favours projects for which loans can only jointly be made available by a pool of banks.

Another subject of the IMC was the modification of the rights of contract termination for the purpose of maintaining the **investment-like quality of bank loans** in the case of international financing. Such modified rights are acceptable for an investment guarantee if - provided that all other pre-conditions of an investment-like bank loan are fulfilled - the interests of the Government are taken into consideration upon the termination of the loan agreement.

In case of large internationally financed projects with the participation of other

investment and export credit insurers, PwC concluded several **cooperation agreements** with these institutions in order to achieve a more effective loss prevention and to improve the claims management.

For details we refer to the sections "International Cooperation" and "Key Topic".

To an increasing extent, the IMC was concerned with **statements of intent**. Potential investors can apply for such statements already during the planning and bidding stage of projects with complex structures (for example before accepting a tender). Since investment guarantees, being part of the collateral concept form the basis for financial decisions, the statement of intent is particularly important for investors during the preliminary phase of the project realization.

Fagus-GreCon, Alfeld, is a mechanical engineering company which has been acting in the solid wood-processing industry for 25 years. The company is engaged in a Latvian joint venture and contributes to the financing of wood working machines for the production of glued wood (building and furniture industry):

Making Small and Medium-Sized Investors more Familiar with the Guarantee Scheme

Small and medium-sized enterprises do not use the guarantee scheme in accordance with their share in foreign direct investments. Therefore, the Government started to realize first steps to make them more familiar with the features of the guarantee scheme.

This includes **lectures and seminars** given at banks, chambers of commerce and trade associations where representatives of small and medium-sized enterprises and lending banks are informed about the guarantee scheme by **PwC**. It will advise investors on all aspects regarding the Government's investment guarantee scheme.

In addition, the Ministry of Economics and Technology created the **foreign trade portal iXPOS**. Using the internet address www.iXPOS.de, all those who are interested in German foreign trade promotion can find a platform for information.

To simplify the application process for especially all those small and medium-sized enterprises which are not familiar with such promotion schemes, the **application** form was modified. Furthermore, several **leaflets** about special topics will be published. The special requirements of small and medium-sized enterprises and their need of more intensive advising has already been taken into account in day-to-day work. Besides, the internet presentation of the guarantee scheme under the PwC domain is presently being prepared. In future, relevant documents such as forms, general conditions, leaflets and information on special aspects of investment guarantees may be obtained via internet.



Environmental Aspects in the Examination Process

Having for some lengths of time developed a practice regarding environmental aspects, the IMC decided to systematize the **environmental check** for the purpose of making its own decisions more transparent. The procedure includes the preparation of the underwriting decision as well as the later supervision of the guaranteed investment. A recently published **leaflet on environmental procedures** contains general guidelines for the consideration of environmental aspects and a survey regarding the procedure as well as the requirements to be fulfilled for an underwriting decision by the Government. The leaflet may be obtained from PwC.



investor's information, the environmental impact of the project is subjected to a so-called **screening** on the basis of which the project is classified in one of three cate-

gories (A: significant, not locally limited and/or irreversible adverse impact; B: less significant, site-significant and reversible adverse impact; C: no or insignificant adverse impact). Projects of category A and B require a more **detailed examination** on environmental grounds (**review**). Throughout the term of the investment guarantee the investor is requested to report annually on the environmental situation (**monitoring**).

In Sri Lanka Twistringer RBM Dränfilter GmbH & Co KG produces coconut fibres and erosion protection mats for river banks as well as a substratum for soil improvement. The German Government approved of this project as eligible for promotion since the processing of this natural product is considered to be ecologically useful.

In principle, investment guarantees may only be granted for foreign direct investments eligible for promotion. In this connection, **environmental compatibility** is an essential feature because environmental issues may have consequences for assessing the eligibility and the political risks of a project.

With the application form the investor has to submit **information on the environmental impact of the project and on the relevant factors**. On the basis of the

Guidelines of the OECD for Multinational Enterprises

In June 2000 the governments of the member states of the OECD (Organization for Economic Cooperation and Development) as well as of Argentina, Brazil, Chile and Slovakia agreed on guidelines regarding the responsible and legally correct conduct of enterprises in their **activities** abroad. These guidelines are recommended by the governments and are to be

observed by enterprises subject to the special requirements of the country where they are active. A reference is now included in the application form for investment guarantees. The OECD-guidelines for multinational enterprises can be obtained via internet under www.oecd.org/deutschland/downloads.html.

INFO-BOX

Members of the Interministerial Committee deciding on investment guarantees:

- Federal Ministry of Economics and Technology (lead function),
- Federal Ministry of Finance,
- Federal Foreign Office,
- Federal Ministry for Economic Cooperation and Development,
- PwC and Hermes (mandatory consortium),
- experts of the German economy.

More Transparency

With investment guarantees becoming better known, **public interest** in the work of the IMC increases. The IMC can comply with the request for more transparency only insofar as this does not affect the confidentiality of the investors' information on details of their projects. As far as the decision-making process and the **publication of information** of the guarantee scheme are concerned, reports of topical interest, information on important deci-

sions on the underwriting policy, expositions on special topics and information on country cover policies will soon be made available via PwC homepage (and iXPOS as well) for all interested investors. The relevant forms and documents for application may be obtained as well.

Combating International Bribery and Corruption

On 15 February 1999 the OECD member states concluded a Convention to Combat Corruption of Foreign Public Officials in International Business Transactions. The main objective of the Convention is to act against the distortion of international competition by bribery.

For the purpose of implementing the convention, the Federal Republic of Germany amended criminal law by the **Law Against International Bribery** of 21 September 1998 which equally came into force on 15 February 1999. Under this law the bribery of foreign public officials as well as members of parliament constitutes a criminal act of offence insofar as the act of bribery has the intention of obtaining or retaining for oneself or a third person business or other improper advantage in international business.

Already in the past, an application for an investment guarantee would have been rejected for not being eligible, if the Government had at that time learned about an act of bribery in connection with the project.

In line with the implementation of the law against international bribery, the IMC decided on further **measures**. Now, an applicant has to confirm in the application form that agreements, public commitments, permits, registrations and other advantages in connection with the project

are not and/or have not been obtained by illegal acts, especially bribery. If the applicant submits such a statement and if this statement later proves to be untrue, the Government is entitled to withdraw from the guarantee. Furthermore, the Government is free of its obligation to pay an indemnification under the terms of the guarantee unless the investor neither knew nor was able to know about the act of bribery.

International Cooperation

Berne Union

PwC is a **member of the Berne Union**, an association of all government-backed export credit and investment insurers. Recently this association has also been opened for private insurers to become members under certain conditions.

One of the main objectives of the Berne Union is to develop standards regarding a sound structure of export credit and investment insurance schemes. At the same time, the Berne Union is the platform for a permanent **exchange of information and experience** among insurers on current events and developments. In particular, general meetings where problems are discussed and solutions are found are held twice a year to serve this purpose.

To achieve a comprehensive exchange of information, it is equally necessary to integrate the **private insurance market**. This has now been realized by the membership of the American investment insurer American International Group, Inc. (AIG). Other private insurers are to follow.



100 km south of Manila, the largest and the most modern power plant of the Philippines is under construction. Siemens AG is constructing the second gas and steam turbine power plant San Lorenzo (500 MW) as a turn key plant near by the 1,000 MW power plant Santa Rita (see picture above). This is a BOT-type project. Within the frame of project and export financing, the KfW grants credits as well as investment loans (in order to finance the local costs).

Cooperation Agreements

Larger projects, especially **infrastructure investments** in the form of BOT-type models are increasingly financed on an international basis. Foreign investors and lenders equally make use of their own national guarantee schemes. Therefore, a close **cooperation** of the various schemes and institutions is necessary in order to cope with critical situations by coordinating all steps. In such multi-lending cases, the various insurers (and possibly the participating international developing banks) usually conclude cooperation agreements. In such cases, PwC concludes the cooperation agreements on behalf of the German Government.

The cross-border cooperation was intensified for internationally financed projects.

For this reason, PwC concluded a **cooperation agreement** for future joint projects with the Multilateral Investment Guarantee Agency (MIGA), an affiliate organization of the World Bank. Moreover, a power plant project in Turkey was the occasion for PwC to agree with Oesterreichische Kontrollbank Aktiengesellschaft (OeKB) and the South-African Credit Guarantee Insurance Corporation of Africa Ltd. (CGIC) on a cooperation in the prevention and settlement of claims. For another energy project in China a similar cooperation agreement with the respective foreign export credit insurer is to be finalized in the near future. Agreements of this kind ensure that in a precarious political situation the investor's interests may be safeguarded effectively before losses actually occur.

Outlook

The investment guarantee scheme will continue to be **adapted** to the requirements to be met by German investors abroad. This includes new forms of investment and structures of financing such as bonds and other forms of financing (e.g. fund models). The growing trend to privatize former state-owned companies and services (infrastructure) in developing and transition countries does not only offer new business opportunities to German enterprises, it also creates **special risks** on

export credit and investment insurers as well as the financing institutions. The cooperation is to be **extended** in the years to follow.

With the support of banks, industrial and country associations, PwC will continue **to make known** the possibilities of the guarantee scheme. A series of lectures started in autumn 2000 and is going to be continued in 2001. The **use of modern information technology** will be intensified for enhancing the publicity of the guarantee scheme and for processing applications and guarantees.

For investors, the guarantee scheme continues to be an essential element for the limitation of risks relating to foreign direct investments. With regard to supporting small and medium-sized enterprises investment guarantees also represent an indispensable **instrument of German foreign trade promotion**. The further support of the German economy through promotion measures is an adequate method to promote the development in the host countries.



Since the beginning of the 90ies, Ferrostaal AG has constructed and operated turn key plants for the production of methanol and ammonia in Trinidad and Tobago. The Federal Government accompanies these foreign engagements by granting investment guarantees and export credit guarantees.

account of state authorities being parties to the project (e.g. in power purchase contracts and in fixing and adapting tariffs). These incal-

culabilities are major criteria for decisions on investments. Therefore, it seems to be adequate to include these risks in the policy through a breach of contract coverage.

Due to their investment volume, projects in the form of BOT-type models can regularly be handled only with international participation. The complex structures of such projects therefore require an intensive cooperation between the international

KEY TOPIC

Combined Use of the Various Guarantee Schemes of the German Government and the Federal States, especially with Project Financing (Examples)

The Government defines **project financing** as the financing of the investment cost of those projects where operating cost and debt service for loans are derived from the project itself and the interested sponsors provide a non-recourse or limited recourse financing. Project financing mainly applies for infrastructure as well as for the power supply and distribution sector.

In project financing, the guarantee schemes of the Government are more and more **used in combination** insofar as the German suppliers of investment goods and the users of **export credit guarantees** as project sponsors are expected to also participate in the equity of the project company. This usually applies to cases where sponsors operate the project and provide funds for the project company. This represents entrepreneurial engagement which is characterized by the fact that the investor bears the commercial risk and has a business concept for achieving project profitability. Various models have been developed for these so-called **BOT-type projects**.

For financing the investment goods to be purchased for such projects, investment-like loans by the German shareholder or by German banks - with or without recourse of the German shareholder - may be granted. In this case the Government provides **investment guarantees** to cover the political risks. In contrast to buyer credits, the investment character of such loans should prevail in comparison

with the financing of German supplies and services. The Government scrutinizes projects with regard to this aspect.

In order to refinance or secure shares and loans in connection with projects abroad, enterprises (partly limited to small and medium-sized enterprises) may apply for **guarantees of a Federal State** (up to now mainly in Lower Saxony, North Rhine-Westphalia and Saxony-Anhalt). This depends on the fact where they have their headquarters or their economic focus. The guarantee by North Rhine-Westphalia for loans for partially financed projects which are to be realized abroad secures the refinancing of a direct investment. The guarantees of Lower Saxony and Saxony-



The reconstruction and modernization of the aluminium works Mostar in Bosnia-Herzegovina is an example of a successful combination of the Federal Government's promotion instruments. By DEG's granting an investment-like loan a part of the investment goods could be financed.

Anhalt on the other hand cover the commercial risk of a foreign direct investment independently of its refinancing.

The combination of such guarantee schemes, i. e. export credit and investment guarantees in addition to guarantees by Federal States, have up to now particularly been used in connection with infra-

structure and oil projects as well as for projects by small and medium-sized enterprises. Since the combined use of these schemes requires an **intensive coordination** between all parties, the mandataries of the Government and the Federal States should be contacted in an early stage of the project. Only this procedure may ensure that the necessary underwriting decisions can be made in time. Usually, the guarantee by a Federal State requires a back-up guarantee of the

investment guarantee covering the political risks. Accordingly, the claims under the investment guarantee have to be assigned to the refinancing bank or the Federal State.

In the year under review, several projects combining the guarantee schemes by the Government and the Federal States were presented to the IMC for decision. In the following we would like to outline two of these projects:

Power Plant in Turkey (Iskenderun)

The German STEAG and the KfW jointly finance a major part of the investment cost for the construction and the operation of a power plant in Turkey through shares and an investment-like loan. This project on BO-basis (build-operate basis) is a project financing. To safeguard the direct investments and the supplies and services of a German-Turkish consortium, guarantees for investments as well as for export credits and a buyer credit by the KfW were granted by the Government.

The investment volume amounts to more than USD 1 billion. With regard to investment guarantees, this is one of the largest projects the Government has covered so far.

The power plant is constructed in the bay of Iskenderun (Mediterranean Sea). This base load power plant will have a net capacity of 1,210 MW on the basis of imported pit coal. The produced power is to be purchased by the Turkish public utility TEAS.

Due to the special features of this Turkish project, it was necessary to adapt the terms of the investment guarantees, especially with regard to the loan syndication and the breach of contract coverage.

In the past, the Government was concerned with financing structures from the banking sector where **one loan** was granted externally whereas internally Ger-

man and foreign banks participated in the risks (concealed syndication). Such financing structures were repeatedly accepted by the German Government and cover was granted for the externally agreed loan.

In this case, the loan was to be granted by an open consortium of 14 banks where each bank is to have its own separate claim for payment against the project company (open syndication). In order to simplify the procedure, the banks applied for insurance for all loans under **one policy**. The Government agreed on condition that all lenders joining the external consortium were German banks. Furthermore, one bank (one of the lead arrangers) was prepared to act as policy holder for the consortium in order to reduce the administrative work to a reasonable extent.

Moreover, the terms of contract included **more extensive rights of contract termination** than it was usual for investment-like loans. Nevertheless, in this case the Government accepted the investment-like quality of the loan since it is a common practice in international project financing that the lenders have extensive rights of contract termination in order to be able to influence the management of the project company in an early stage of arising difficulties. The policy therefore contains an additional stipulation, stating that the lender is obliged to observe the German

Government's interest in the case of contract termination. Other elements also proved the investment-like quality of the loan (extended loan period, grace period, participation in the commercial risk).

Besides, the Government dealt with **special applications for the breach of contract coverage**. Up to now, this coverage has been handled as follows:

- In the policy text several obligations by state authorities in the host country were listed without especially qualifying them as commitments. A final decision whether these obligations are covered

by § 4 sec. 1 b) of the General Conditions is only made in the event of loss (alternative 1).

- The obligation in question is indicated in an additional stipulation as a commitment under breach of contract coverage (alternative 2).

Furthermore, a stipulation was added according to which the policy holder has to provide evidence that the breach of the commitment is due to **political events**, for example, legislative or executive acts in the host country.

The generation of energy by an operator company is subject to a financing by sponsors. In the case of the planned coal-fired power plant „Iskenderun“ in Turkey (see project model below) German funds are mainly provided by STEAG and KfW.



Due to the fact that Turkish authorities are closely associated with the Iskenderun project, the German Government developed the following solution:

- The commitments, which may become eligible for a breach of contract coverage, are expressly indicated in the policy within an additional stipulation and

- the policy holder is not obliged to provide evidence that the breach of contract is caused by political acts.

- On the other hand, the Government may be entitled to refuse to pay indemnification if the breach of a commitment is not caused by political events.

Consequently, the policy holder only has to prove that the commitment was breached illegally and caused the total loss of the project company. However, the Government can refuse indemnification if, for example, **economic reasons** caused the breach of a commitment.

As a result, the Government improved its underwriting practice in favour of investors in three ways:

- Instead of a shareholder loan and a bank loan (loan by a third party) **syndicated loans** (open consortium) can be covered as well.

- Extensive rights of contract termination do not automatically result in the refusal of coverage for an investment-like loan. By adding a stipulation the policy holder may become obliged to observe the interests of the German Government.

- The commitments for which cover is applied may be expressly indicated in a stipulation. In individual cases, the policy holder's obligations to provide evidence in the case of a claim may be simplified.

Textile Industry Project in the Czech Republic (Schoeller Litvinov)

The family-owned business Leopold Schoeller jr. GmbH & Cie. KG in Düren, Germany, has been active in the textile industry for more than 200 years. In 1994 the joint venture „Schoeller Litvinov k.s.“ was established in the Czech Republic. Meanwhile, the successful business enterprise has become a 100% affiliate of the Schoeller group.

In order to continue and maintain the positive development of this enterprise and to initiate its positioning as a leading European supplier of threads in selected niche markets, the business enterprise started expansion investments in an overall amount of approx. DM 36 million in the year 2000. Approx. 120 additional workers are going to be hired and trained to work with the most modern spinning and twisting machines by 2002.

For the purpose of protecting the investments and exports relating to this project against commercial and political risks, the business enterprise decided to take advantage of a combination of different guarantee schemes.

By granting a **Federal State guarantee**, North Rhine-Westphalia covers the refinancing of investments such as real estate, buildings and part of the machinery. This guarantee protects against the commercial risk of the refinancing banks and therefore permits favourable financing conditions.

The political risks for this part of the investment are covered by an **investment guarantee** including war, expropriation or transfer risks.

Finally, the machines and facilities supplied by a textile machine manufacturer to Schoeller Litvinov s.k. are secured by an **export credit guarantee**.

This combination offers a **high level of security** to small and medium-sized enterprises as well as to refinancing banks for their activities abroad.



A company of the Schoeller-group (SME) in Düren provided additional funds for the extension of their already existing thread production in the Czech Republic. The funds are secured by various Government guarantees.

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INVESTMENT GUARANTEES**– INTERVIEW WITH AN INVESTOR**

PwC interviewed Werner Vogt, director for finance and accounting of the brewery Beck & Co., Bremen, on the company's new engagement in Namibia and its motivation to take advantage of the investment guarantees by the Government.

PwC: Mr Vogt, last year one company of the Beck group was the first business enterprise to be granted an investment guarantee for Namibia after the German-Namibian Investment Protection Treaty had come into force. At first, we would like to know how the project has developed since then.

Vogt: Nearly one year after the conclusion of the joint venture contract with our Namibian partner, the Namibia Breweries Limited (NBL) continues to grow. NBL could especially maintain its position in the presently declining South African beer market. The beer production amounted again to more than 1 million hectolitres.

On 1 October 2000 a milestone was reached with the market entry of „Beck's“ in Namibia and South Africa after a few months of intensive preparations for the licensed production in the modern brewery plants of NBL, i. a. with the help of two Beck & Co. employees who now work for NBL.

PwC: What was the reason for Beck & Co. to invest even in southern Africa and acquire an interest in an existing brewery?

Vogt: For more than 50 years „Beck's“ has been known and popular in southern Africa as an imported product. Due to import fees, importer's margins and transport cost, „Beck's“ price level was excessive and not acceptable.

Now, in the post-apartheid era, South Africa is emerging. Due to an enlarging middle class and an increasing expenditure for brands and consumer goods, the South African beer market is going to increase especially in the Premium beer segment. In



*Werner Vogt,
director in charge of finance
and accounting for the brewery
Beck & Co, Bremen*

order to utilize this potential, we decided to establish a licensed production of „Beck's“ in the region. The sales results after the launch in October fully confirmed our expectations.

Our negotiations with Ohlthaver & List, the founders and main shareholders of Namibia Breweries, quickly resulted in the idea of a joint approach by Beck & Co. acquiring interests in the NBL Investment Holdings which is the controlling shareholder of NBL.

PwC: What are the main advantages for you regarding the location Windhoek? Can you also tell us which were the decisive cri-

INTERVIEW

teria of Beck & Co. for the choice of the joint venture partner?

Vogt: The German-Namibian relationship has a long and changeful tradition. Even today, there is a large community of people in Namibia who descend from Germans. The Namibian brewery was established in 1920 by German descendants, too. The beer purity regulations of 1516 are still the basis for today's beer production. Insofar, there exists a „cultural fit“ of the company philosophy, management and product quality which can rarely be found elsewhere in the world. Furthermore, NBL is the only serious competitor of the market leader South African Breweries (SAB) with a market share of 97% in this region. The NBL is therefore the natural „partner of choice“.

PwC: Why did you decide to have your investments covered against political risks? Did the requirements of the German Law for Control and Transparency in Business Enterprises (KonTraG) influence the decision of Beck & Co.?

Vogt: In spite of its size, Beck & Co. is a family-owned business with a 125-year old tradition and the structure of a medium-sized enterprise. The participation in Namibia is a relatively large investment for us as well; for that reason it was important for us to get the best possible security for our investments. We decide such issues on a case by case basis, especially for investments in countries where we cannot assess the political risks.

This approach corresponds with our opportunity and risk management system which we built up for the companies of our business group according to legal standards. On the one hand, this system aims at the early recognition and control of risks likely to jeopardize the company, and on the other hand at the systematic recognition and utilization of all opportunities. Consequently, we specifically looked for possibilities of coverage.

The high quality of the product range of Namibia Breweries Ltd. is complemented by Beck's – here's an impression of the events during the product launch.



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PwC: Investors often complain that the possibilities for investment cover are not very well known - in contrast to the export credit guarantees by the Government, the so-called Hermes guarantees. Therefore, we should like to know how you got your information about the investment guarantees by the Government?

Vogt: We asked the DEG for information on promotion schemes and they drew our attention to investment guarantees. In our case, the mediative function of the DEG had a positive effect. However, as far as questions of German enterprises regarding foreign trade are concerned, there is no central agency pooling information on governmental schemes for export/investment promotion and financing. In my opinion the Governmental information policy on promotion schemes through various competent organisations (such as BfAI, KfW, DEG and the

mandataries for the guarantee schemes) is operatively effective but does not really meet the actual demand to make concise information available at one central place. The guarantee investment scheme requires an effective presentation, for example in the internet. In this connection, the foreign trade portal of the German Government iXPOS appears to be „a great hit“ towards more publicity. However, it should have been launched with a greater advertising effect. Especially small and medium-sized enterprises which do not have enough planning staff at their disposal are not in a position to deal intensively with issues of risk coverage. They neither have enough time to procure

Strict quality control is routine in the modern production facilities of Namibia Breweries Ltd. which complies with German standards.



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the necessary general information. I even could imagine that small and medium-sized enterprises really could feel overtaxed, if they are „flooded“ with information by various competent organisations.

Here, in my opinion, it seems to be adequate to limit information to selected and absolutely necessary details - for example through a flyer as a medium of the first contact. Further details could be provided later. To draw attention by well directed promotion measures constitutes a modern approach.

Please permit me another remark on the presentation of the investment guarantee scheme to the public. You do not only gain publicity by carefully planned and coordinated measures for the circulation of information. It is the recognition effect of a product like that of a particular brand - everywhere in the world our long-necked green „Beck's“ beer bottle bears the same characters on its label - that should make the Governmental guarantee schemes unmistakable. This aim was evidently reached with the well-known Hermes guarantees. For the investment guarantees a catchy logo or label should be found which is associated with the coverage of risks.

PwC: What do you think can be done to increase the attractiveness of the Governmental guarantee scheme (above all for small and medium-sized enterprises)?

Vogt: For small and medium-sized enterprises a premium amount of 0.5% p. a. on the covered amount is not insignificant so that a cost reduction seems to be desirable. However, since investment guarantees are part of the loan collateral, more favourable refinancing possibilities are at the same time available in Germany, thus mitigating the effect of guarantee premium.

Information on host countries would be advantageous for the internet presentation since this would make work much easier. Furthermore, current developments and underwriting details from the work of the

IMC (for example in the form of periodicals) should be published, and it should be possible to download the information from the website. A discussion forum for the exchange of information and for questions and answers regarding investment coverage would make it easier for interested investors to get into touch with PwC and would encourage especially young and innovative entrepreneurs to seek contact.

Moreover, I think it is important to publish a leaflet with special information for lending banks which are often the first who get to know foreign investment intentions. With regard to the credit risk assessment, the responsible managers and their staff should be trained in this respect as well.

A clearer layout of the application form and computerised handling would be advantageous for the application procedure.

Generally, an improvement of the guarantee scheme in respect of quality would be desirable. I mainly think of the inclusion of earnings without limitation as to their amount. Those involved in investment projects, especially the banks, would appreciate less stringent requirements for investment-like loans. An extension of coverage also in view of claims under license agreements would equally be welcomed as an improvement.

PwC: We shall be pleased to pass on your ideas. Which was your general impression of the application procedure for the investment guarantee? Do you have suggestions for improvement?

Vogt: Taking into consideration the special project construction in Namibia, the current procedure is not inadequate. More frequent IMC meetings could accelerate decisions. I consider it generally problematic that in view of the large number of contracts to be concluded in connection with such projects pressure of time regularly builds up and culminates at the end. In my opinion it is desirable to get an underwriting decision subject to certain preconditions before the project

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agreement is definitely concluded. I think, for example, of offers of cover such as those of the Hermes guarantees for project financing.

Surely quite helpful are the statements of intent which meanwhile have been introduced as a general statement by the Government in the planning and tendering stage of a project to check whether an investment guarantee may be granted.

PwC: The construction you chose for your participation in Namibia is characterized by a complex legal structure. Did the Government's decision come up to your expectations?

Vogt: In this connection I would like to emphasize the willingness for cooperation of all those involved in the decision process. Together, PwC and the Government found underwriting solutions permitting tailor-made coverage for this particular case. The investment coverage by the Government facilitated our decision to make use of favourable refinancing possibilities with Namibian banks. As the project was realized with local currency the exchange risk could be excluded.

My general impression of the underwriting procedure is that the Government uses the promotion scheme in accordance with the requirements and is rather flexible in particular cases.

PwC: Environmental aspects had to be included in the assessment whether the project was eligible for promotion. What importance does this topic have for Beck & Co?

Vogt: Nowadays environmental issues are equally part of our daily work. It is, of course, comprehensible that the Government attaches increasing importance to these issues in the underwriting procedure.

In its company guidelines Beck & Co acknowledges its responsibility for human beings and environment. In accordance with

the environmental guidelines which were developed on the basis of the company guidelines, Beck & Co is obliged to consequently realize measures for environmental protection as well as health and safety regulations in the brewery, to save resources and to minimize emissions. In addition, new environmental protection technologies are to be used for achieving this purpose. Since 1994 the brewery has had a certified quality management system according to DIN ISO 9002. Our environmental management system ensures that „Beck's“ is produced and bottled in an environmentally sound process. We are certified on the basis of the internationally accepted standard DIN EN ISO 14001. As a well-known producer of the natural product beer the combination of quality and environmental protection is inseparable for us.

In particular I would like to emphasize that NBL has already been certified according to ISO 9002 in Namibia since November 1998.

PwC: Thank you very much for this detailed interview.

DEVELOPMENT OF THE INVESTMENT GUARANTEES

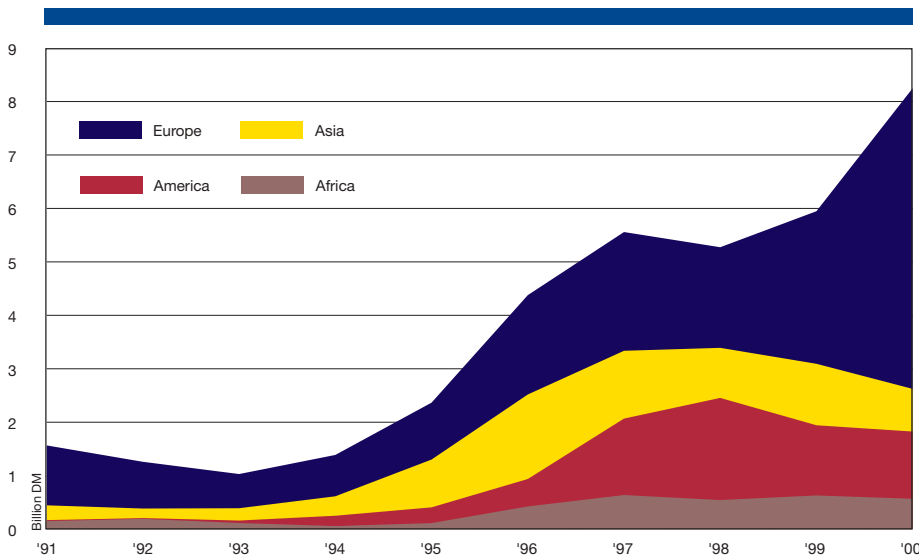
New Policies and Promoted Projects

In the year 2000 the IMC **positively decided** on guarantee applications for investments in 31 countries with a volume (maximum amount) of DM 8.25 billion of which DM 5.45 billion related to capital and DM 2.80 billion to earnings. This means that 83 projects were promoted. Again larger single projects considerably influenced the annual result. Without taking into account the two largest projects, the annual coverage volume reached a figure between DM 2.50 billion and DM 3.54 billion in the last five years. In 2000 the correspondingly adjusted volume with DM 3.30 billion was within this range and thus shows a stable development regarding the long-term average.

Consequently larger projects also influenced the following evaluations: In the year under review, the **biggest** underwriting volume resulted from investments in Turkey followed by Croatia and Brazil. In 2000 the underwriting volume was regionally spread as follows: 68.2% in Europe (East and South East Europe), 15.2% in South and Central America, 9.7% in Asia and 6.9% in Africa. The German Government granted investment guarantees for Cape Verde for the first time in 2000.

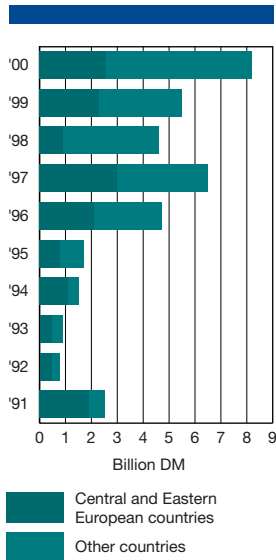
Since in previous years a big portion of the underwriting volume equally referred to larger projects, the **regional division** for a decade is shown as a continuous development¹. The overall figures of the respec-

VOLUME OF COVER 10-YEARS SURVEY – REGIONAL DISTRIBUTION

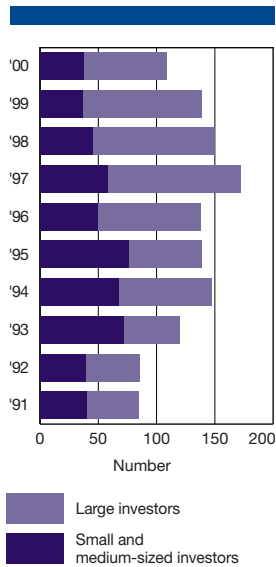


¹ Therefore, the basic figures – apart from those for the year under review – were weighted. The figures of the basic year were counted twice and the figures of the previous year and the year after were counted once for the evaluation (average figure of three years).

VOLUME OF COVER
10-YEARS SURVEY
TRANSITION AND OTHER
COUNTRIES



VOLUME OF COVER
10-YEARS SURVEY
SIZE OF THE INVESTORS
ACCORDING TO THEIR NUMBER
OF GUARANTEE APPLICATIONS



tive years can be found in the statistical annex (page 42).

In 2000 32% of the underwriting volume accounted for investments in **Central and Eastern European countries and CIS states**. In the preceding years their proportion was constantly higher - especially after investments had also become possible in Eastern European countries.

As in previous years, the proportion of **large investors** using the guarantee scheme has remained unchanged at a high level and had a share of 99% of the underwriting volume in 2000. On the other hand, 34.9% of the applications which led to a Government guarantee were filed by small and medium-sized enterprises as against 1999 with only 26.6%. In years prior to 1999 their proportion had reached almost 60%.

Regarding the **sectors of the supported projects**, in 2000 the underwriting volume mainly came from the energy sector with 35.8%, telecommunication and transport industry with 28.1% and car manufacturing industry with 9.4%.

Concerning the **size of investments** 85.3% of the under-

writing volume in 2000 referred to projects with a coverage of DM 100 million and more. On the other hand, 50.5% of the number of applications were made for investments with a coverage for amounts of up to DM 5 million. With 70% to 80%, the proportion of applications for investment guarantees of up to DM 5 million was considerably higher during the first half of the 90ies.

As to **types of investments**, the underwriting volume was split up in 2000 as follows: 56.7% for equity participations and 41.2% for investment-like loans. The majority, i. e. 67.9% of the number of underwriting decisions, also related to equity participations.

Guarantee periods of more than 10 and up to 15 years predominated in 2000 with 81.5%. This was mainly due to the usual



The production of large pipes by a joint venture in St. Petersburg between Europipe GmbH (Mannesmannröhrenwerke /Dillinger Hüttenwerke) and the Russian steel group Severstal is to improve the supply of the country with gas and oil pipelines.

contract periods of 15 years for equity participations. Policies with a general guarantee period of up to 10 years (mainly investment-like loans) had a proportion of 14.6%.

In the year under review, 109 applications (previous year: 139) were positively decided by the Government. The **number of decisions** has remained at more than 100 for several years.

From the introduction of the guarantee scheme in 1960 until the end of 2000, 294 IMC meetings took place in the course of which underwriting decisions for investment guarantees for a total of DM 47.7 billion were passed, whereas underwriting decisions within the last 10 years amounted to DM 36.9 billion (77.4%). For the regional division and the countries with the largest amounts of cover please refer to the statistical annex.

Anchieta-Sao Bernardo in the Brazilian federal state Sao Paulo: Automobiles for the South-American market are manufactured in the main plant of Volkswagen do Brasil. The KfW supports the modernization of this plant by granting a loan which is covered by the German Government.



Application Volume and Number of Applications

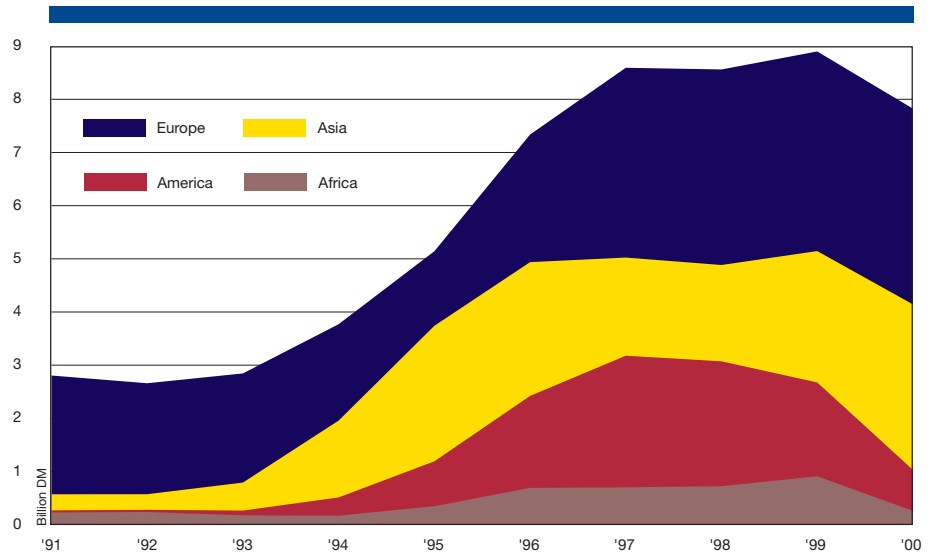
With DM 7.82 billion the demand for investment cover by the Government in 2000 (DM 4.31 billion for capital and DM 3.51 billion for earnings) did not reach the level of the previous year (DM 10.39 billion) and insofar was mainly influenced by several large projects. The volume of applications referred to 38 countries.

In 2000 investment coverage was above all requested for projects in Turkey, China and the Philippines. In the year under review the application volume was regionally divided as follows: 47% for Europe, 39.8% for Asia, 9.9% for South- and Central America and 3.3% for Africa.

Due to the predominance of larger projects, the application volume for the last decade is shown in the regional survey as

a continuous development. For the absolute annual figures we refer to the statistical annex (page 42).

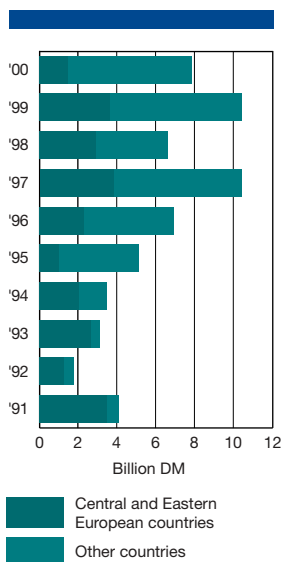
APPLICATION VOLUME 10-YEARS SURVEY – REGIONAL DISTRIBUTION



18.8% of the application volume concerned projects in Central and Eastern European countries and CIS states. At the beginning of the 90ies the demand for investment coverage for projects in transition countries was considerably larger. With 47.2% in the year under review, applications for projects in these regions still represented a considerable share.

47.7 billion). Up to now, guarantees have been **refused** for only 0.4% of the application volume. This was mainly due to the fact that applications - which in an early stage were considered to have no chance

APPLICATION VOLUME 10-YEARS SURVEY TRANSITION AND OTHER COUNTRIES



In 2000 161 applications were made (249 in the previous year). This shows that the number of applications continued to decrease during the last years.

Since the introduction of the guarantee scheme applications for cover were made for a total volume of DM 78.7 billion, thereof even DM 59.6 billion (75.7%) within the last ten years. For the regional division and the principal host countries please refer to the statistical annex.

From the volume of cover, for which applications have been made since 1960 (DM 78.7 billion), the German Government as yet **approved** 60.6% which is more than the half of the amount (DM

INFO-BOX

When applying for cover please observe the following points:

- Since only new investments are eligible for cover, the application has to be made before any contributions are made to capital (application in time).
- The coverage for contributions to capital commences upon the issuance of the policy (commencement of coverage).
- The term of the policy is usually limited to 15 years, in justified cases it may be extended to 20 years. Upon expiry, the term of the policy may be extended by 5 years (guarantee period).
- In the case of indemnification a portion of 5% is usually borne by the investor (self-participation).

of being accepted - were withdrawn and therefore not presented for decision. Some decisions (0.9%) had to be **post-poned** mainly due to problems regarding legal protection and the foreign exchange situation of a country.

With 23.3% a considerable part of the application volume did not result in underwriting decisions. The applications were **withdrawn** because enterprises had applied for cover during a very early planning stage, but later on the projects were not realized or reduced in volume.

The application volume (for capital and earnings) **in process and therefore not ready for decision** amounted to DM 11.8 billion (14.9%). Although this, as an absolute figure, appears rather high, it decreased considerably in comparison with the preceding year (DM 13 billion/18.3%). 61% of the application volume and 45% of the number of applications are still to be completed and therefore have to be considered as precautionary applications. 22% of the application volume and

41% of the number of applications were not ready for decision since the necessary preconditions for granting a guarantee were not yet fulfilled. The remaining 17% of the application volume and 14% of the number of applications, which were under review, will be presented to the IMC for decision as soon as possible.

INFO-BOX

When applying for an investment guarantee there will be the following costs:

- Upon application, a handling fee of 1‰ is charged on the volume of cover (capital and earnings) of up to DM 10 million and 0.5‰ on the exceeding amount, though the total fee may not exceed DM 20,000.— (fee).
- A premium of 0.5% p. a. is payable for covered capital and annual earnings, whereas a reduced premium of 1/6 of the regular premium is charged on anticipated investments (premium).

The export of horticulture products is a stable factor of the Kenyan foreign trade. For the Klemm group the favourable climatic conditions for the propagation and the growing of carnations and geraniums were a decisive factor for choosing the location in Kenya.



Claims Payments

In 2000, investors reported that their investment companies were **adversely affected** in various regions of the world such as Yugoslavia, Eastern Europe, Africa and China. In case of **impending losses** the German Government intervened to safeguard the interests of the policy holders. Through diplomatic interventions on behalf of German investors, sovereign acts affecting foreign investments could be avoided. In 2000 the German Government **did not have to pay any indemnifications** at all.

As at the end of 2000, the German government has paid indemnifications totalling DM 186.7 million (after deducting recoveries from recourse). DM 154.3 million or 82.6% were paid for claims regarding investments in former Yugoslavia. Further large claims concerned projects in the Democratic Republic of Kongo (former Zaire) with DM 17.2 million as well as in Iran with DM 10.9 million.

RESULTS

Results of Promotion

Direct investments and the ensuing long-term entrepreneurial business activities promote the development in host countries and contribute to an improvement of

their social structures. They reflect the world-wide division of labour in the economy. Apart from the inflow of foreign capital for urgently needed infrastructure invest-

To be in line with the strict German environmental regulations also in Turkey, BSH Bosch und Siemens Hausgeräte GmbH will modernize its joint venture for the production of refrigerators, washing machines and stoves. The KfW provides funds out of a special programme for the financing of environmental protection measures and grants an investment loan which is covered by the German Government.



ments, developing and transition countries have a large demand for qualified training, modern technology and entrepreneurial know-how. Investments create local jobs and regularly result in training measures by German experts and therefore in a knowledge transfer.

The start of production in the host country, which increases the local benefits by employing local workers and using local raw materials and intermediate products, has positive effects on its foreign exchange situation. The availability of products in the local market may save foreign exchange by substituting imports and may improve the exchange balance through the export of goods. By enhancing the local infrastructure, industrialisation is promoted on the basis of environmental compatibility.

With its investment guarantee scheme the German Government supported new projects and/or the extension of projects in developing and transition countries in 2000 with a total **volume** of more than DM 14 billion. This project volume involved 52,000 **jobs** in the various host countries. It can be assumed that the majority of these jobs was additionally created or maintained and consequently secured.

Thus, the investment guarantee scheme of the German Government may have substantially contributed **to the development** of these countries.

Budgetary Results

So far, the German Government has been able to meet all its payment obligations under the investment guarantee scheme from fees and premiums as well as from recoveries due to recourse against

host countries. Since their introduction, the guarantees for foreign direct investments **have not burdened the German budget**.

DEVELOPMENT OF THE GUARANTEE PORTFOLIO

Statutory Maximum Exposure and Changes in Exposure

A **statutory maximum exposure** for the coverage of foreign direct investments and other guarantees in connection with untied financing loans, loans by the European Investment Bank and the participation of the KfW in the subscribed capital of the European Investment Fund is laid down annually in the **Federal Budget Law**. In the fiscal year 2000 the statutory maximum exposure amounted to DM 55 billion, the

same figure as in the previous year. Up to now, the exposure has not been fully utilized. Nevertheless, for the current fiscal year 2001 the statutory maximum exposure was increased to DM 65 billion with regard to future developments.

The **maximum liability** of all investment guarantees issued by the German Government in 2000 amounted to DM 7.8 bil-

lion. The countries already mentioned above (Turkey, Croatia, Brazil) have the largest share in the guarantee volume.

In the year under review, guarantees with a maximum liability were reduced by DM 0.9 billion in total. Therefore, the outstanding commitments decreased, since policies expired or capital investments (loans) were repaid on schedule (DM 0.5 billion), projects were not realized at all or only partly (DM 0.2 billion) or the investor did

not need cover any more as a result of having re-evaluated the risks in the host country (DM 0.2 billion).

Due to new guarantees as well as reductions, the maximum liability of the Government from outstanding commitments¹ increased by DM 6.9 billion from DM 19.3 billion to DM 26.2 billion at the end of 2000.

Maximum Liability of the German Government (Exposure)

At the end of the year under review, Russia (16.9%), China (16.6%) and Turkey (12.3%) had the highest amounts of covered investments. For the regional division please refer to the statistical annex.

In spite of new policies issued, the number of guarantees decreased by 10 so that by the end of 2000, the 973 policies of the previous year were reduced to 963 policies.

With 35% the Central and Eastern European countries and the CIS states had the

largest share in the total outstanding commitments. 52.2% of the portfolio accounts for equity participation, 39.7% for investment-like loans, 7.4% for dotation capital and 0.7% for rights under service contracts. 64.3% of the portfolio referred to policies with guarantee periods of more than 10 and up to 15 years. The majority of projects was realized in the power sector, the mining and car manufacturing industry.

¹ Up to now reports were based on the exposure (maximum liability under effective guarantees) recorded at the Bundesschuldenverwaltung (Federal debt administration). Explanations were always needed, if the figures of the actual exposure of the Federal Government (outstanding commitment) were required. This is the reason why the evaluation basis was changed.

ANNEX

Definitions and Explanations

BfAI:

The Federal Office of Foreign Trade Information is an agency of the Federal Ministry of Economics and Technology (the name has meanwhile been changed to German Office for Foreign Trade) and procures information on foreign markets and in particular supports small and medium-sized enterprises in matters of foreign trade.

CIS:

Azerbaijan, Kasachstan, Kirghizia, Moldova, Russian Federation, Ukraine, Uzbekistan, Belarus

DEG:

The German Investment and Development Company advises private companies, structures and finances their investments in developing and transition countries.

DEVELOPING AND TRANSITION COUNTRIES:

All countries according to DAC (Development Assistance Committee) as well as the Central and Eastern European countries

EBRD:

European Bank for Reconstruction and Development, London

EXPOSURE:

Maximum liability of the German Government

GUARANTEE:

The German Government pays indemnification for the loss of a capital investment if this is caused by the realization of a political risk.

INVESTMENT PROTECTION TREATY:

Treaty between the host country and the Federal Republic of Germany concerning the reciprocal encouragement and protection of investments

KFW:

Kreditanstalt für Wiederaufbau, Frankfurt am Main

PROJECT COMPANY:

Enterprise in the host country in which capital is invested

SME:

Small and medium-sized enterprises (criteria for the size of enterprises were stipulated by the IMC at the end of the 70ies, according to which SME have the following criteria: work force up to 2,000 or a turnover up to DM 1 billion and not being a member of a larger group of enterprises. Companies are defined as large enterprises when they exceed either the above mentioned number of work force or the turnover or belong to a larger group of enterprises.

STATUTORY MAXIMUM EXPOSURE:

Maximum amount up to which liability in the form of issued guarantees may be accepted by the German Government.

MIGA:

Multilateral Investment Guarantee Agency, Washington

NET DIRECT INVESTMENTS:

New investments due to equity investments, long-term loans and other investments (including acquisition of land but without reinvested profits) less liquidated investments plus short-term financing and trade loans (according to the definition of the Deutsche Bundesbank in the payments statistics); the figures of the previous year may differ from former publications due to later changes

CENTRAL AND EASTERN EUROPEAN COUNTRIES AS WELL AS SOUTH EAST EUROPEAN COUNTRIES:

Albania, Bosnia-Herzegovina, Bulgaria, Estonia, Yugoslavia, Croatia, Latvia, Lithuania, Macedonia, (Moldova), Poland, Romania, (Russian Federation), Slovakia, Slovenia, Czech Republic, (Ukraine), Hungary, (Belarus)

STATEMENT OF INTENT:

Statement by the IMC (Interministerial Committee) on the possibilities of coverage for projects with complex structures; this statement is given without prejudice to the later decision

INVESTMENT PROTECTION TREATIES

Until the present (April 2001) Investment Protection Treaties have been signed with 123 countries (without the formerly signed treaty with Columbia which is not likely to come into force in the present form).

Albania	Egypt	Madagascar	Sierra Leone
Algeria ¹	El Salvador	Malaysia	Singapore
Antigua and Barbuda	Estonia	Mali	Slovenia
Argentina	Gabon ⁵	Malta	Somalia
Armenia	Georgia	Mauritania	South Africa
Azerbaijan	Ghana	Mauritius	Soviet Union ³
Bangladesh	Greece	Mexico	Sri Lanka ⁵
Barbados ¹	Guinea	Moldova (Republic) ¹	Sudan
Belarus	Guyana	Mongolia	Swaziland
Benin	Haiti	Morocco	Syria
Bolivia	Honduras	Namibia	Tanzania
Botswana ¹	Hong Kong	Nepal	Thailand
Brazil ¹	Hungary	Nicaragua	Togo
Brunei ¹	India	Niger	Tunisia
Bulgaria	Indonesia	Nigeria ¹	Turkey
Burkina Faso ¹	Iran	Oman	Turkmenistan
Burundi	Israel ¹	Pakistan	Uganda
Cambodia ¹	Ivory Coast	Panama	Ukraine
Cameroon	Jamaica	Papua New Guinea	United Arab Emirates
Cape Verde	Jordan	Paraguay	Uruguay
Central African Republic	Kazakhstan	Peru	Uzbekistan
Chad	Kenya	Philippines	Venezuela
Chile	Kyrgyzstan ¹	Palestine ¹	Vietnam
China	Korea (Republic)	Poland	Yemen (Arab. Republic)
Congo (Democratic Republic)	Kuwait	Portugal	Yugoslavia (SFRY) ²
Congo (People's Republic)	Laos	Qatar	Zambia
Costa Rica	Latvia	Romania	Zimbabwe
Croatia	Lebanon	Rwanda	
Cuba	Lesotho	St. Lucia	
Czechoslovakia ⁴	Liberia	St. Vincent and the Grenadines	
Dominica	Lithuania	Saudi Arabia	
Ecuador	Macedonia	Senegal	

¹ The treaties are not yet in force.

² The treaty with former Yugoslavia continues to be effective for Bosnia-Herzegovina and the Federal Republic of Yugoslavia.

³ The treaty continues to be effective for Russia and Tajikistan as well as Kyrgyzstan and Moldova (until the already signed treaties come into force).

⁴ The treaty continues to be effective for the Czech Republic and the Slovak Republic.

⁵ The treaty continues to be in force until the newly signed treaty comes into force.

INVESTMENT GUARANTEES IN HOST COUNTRIES

Between 1960 and 2000 investment guarantees (for capital and earnings) were granted in the following countries and regions:

Afghanistan	Guinea	Niger	Trinidad and Tobago
Argentina	Haiti	Nigeria	Turkey
Azerbaijan	Honduras	Oman	Tunisia
Bangladesh	Hungary	Pakistan	Uganda
Barbados	India	Panama	Ukraine
Belarus	Indonesia	Papua New Guinea	Uruguay
Benin	Iraq	Paraguay	Uzbekistan
Bolivia	Iran	Peru	Venezuela
Bosnia-Herzegovina	Israel	Philippines	Vietnam
Brazil	Ivory Coast	Poland	Yemen (Arab. Republic)
Bulgaria	Jamaica	Portugal	Yugoslavia (SFRY) ¹
Cameroon	Jordan	Romania	Zambia
Cape Verde	Kazakhstan	Russia	Zimbabwe ²
Chile	Kenya	St. Lucia	
China	Korea (Republic)	St. Vincent and the Grenadines	
Columbia	Latvia	Samoa	
Congo (People's Republic)	Lebanon	Saudi Arabia	
Congo (Democratic Republic)	Liberia	Senegal	
Costa Rica	Lithuania	Sierra Leone	
Croatia	Libya	Singapore	
Czech Republic	Madagascar	Slovak Republic	
Dominican Republic	Malawi	Slovenia	
Ecuador	Malaysia	Somalia	
Egypt	Mali	South Africa	
El Salvador	Malta	Spain	
Estonia	Mauritania	Sri Lanka	
Ethiopia	Mauritius	Sudan	
Finland	Macedonia	Swaziland	
Gabon	Mexico	Syria	
Gambia	Moldova (Republic)	Taiwan	
Ghana	Mongolia	Tanzania	
Greece	Morocco	Thailand	
Guatemala	Nicaragua	Togo	

¹ guarantees for investments in the former Yugoslavia as well as in the present Federal Republic of Yugoslavia

² investments in the former Rhodesia.

POLICIES AND APPLICATIONS

Year	Policies		Applications	
	Number	Million DM	Number	Million DM
1960-1963	182	310.8	346	1,147.0
1964	68	159.1	113	110.9
1965	89	312.0	125	138.7
1966	82	67.9	133	181.7
1967	92	100.0	116	151.0
1968	80	90.1	124	120.0
1969	79	132.7	145	267.8
1970	113	144.1	187	475.2
1971	120	252.2	200	425.4
1972	80	156.1	148	271.0
1973	107	298.3	181	348.3
1974	128	462.0	175	488.9
1975	124	172.5	207	343.7
1976	142	352.4	231	484.7
1977	115	275.2	171	521.1
1978	87	230.2	175	923.1
1979	136	309.0	194	787.5
1980	118	749.7	225	959.9
1981	126	378.2	181	2,129.6
1982	91	1,121.3	136	1,537.1
1983	96	753.3	100	692.7
1984	72	344.1	97	550.3
1985	69	599.2	90	1,145.3
1986	58	476.2	63	327.0
1987	56	390.0	80	774.6
1988	47	619.8	61	683.7
1989	49	1,013.8	119	1,567.0
1990	60	437.7	161	1,358.6
1991	85	2,500.4	146	4,066.9
1992	86	824.3	234	1,729.6
1993	120	889.0	263	3,114.0
1994	147	1,519.6	327	3,422.5
1995	139	1,713.6	311	5,122.7
1996	138	4,699.1	352	6,901.0
1997	172	6,487.3	239	10,425.2
1998	150	4,558.2	245	6,574.7
1999	139	5,492.2	249	10,392.7
2000	109	8,248.3	161	7,824.7

POLICIES AND APPLICATIONS SINCE 1960

	Policies				Applications			
	Number		Million DM		Number		Million DM	
AFRICA	888	22.7%	6,686.6	14.0%	1,436	21.4%	10,373.7	13.2%
i.a.:	Libya	31	2,009.3		60		2,566.6	
	Egypt	43	1,594.8		73		2,293.9	
	South Africa	20	1,300.6		37		1,714.2	
	Marocco	47	560.8		81		651.3	
SOUTH AND CENTRAL AMERICA	972	24.8%	9,892.8	20.7%	1,471	21.9%	15,506.6	19.7%
i.a.:	Brazil	506	5,621.6		640		7,529.3	
	Argentina	93	1,532.1		165		3,080.4	
	Venezuela	20	1,054.6		36		1,176.0	
	Mexico	40	963.5		94		1,807.4	
ASIA	957	24.5%	11,246.9	23.6%	1,675	24.9%	22,795.8	28.9%
i.a.:	China	230	4,881.4		406		8,864.6	
	Indonesia	81	1,408.6		129		2,184.4	
	Syria	7	940.3		9		969.5	
	Kazakhstan	10	781.1		30		1,199.3	
EUROPE	1,096	28.0%	19,867.7	41.7%	2,140	31.8%	30,041.0	38.2%
i.a.:	Russia	140	5,029.4		294		7,311.1	
	Turkey	134	3,703.1		186		4,598.8	
	Czech Republik	135	3,024.0		219		4,022.1	
	Croatia	15	2,748.5		36		4,046.5	
WORLD WIDE	3,913	100%	47,694.0	100%	6,722	100%	78,717.1	100%

**MAXIMUM LIABILITY (EXPOSURE)
OF THE GERMAN GOVERNMENT**

Year	Number	Cumulative Sum	Million DM	Cumulative Sum in Million DM
1960	16	16	10.0	10.0
1961	76	92	100.0	110.0
1962	42	134	83.6	193.6
1963	53	187	29.5	223.1
1964	37	224	157.4	380.5
1965	85	309	267.5	648.0
1966	88	397	61.2	709.2
1967	85	482	58.4	767.6
1968	50	532	73.0	840.6
1969	53	585	50.1	890.7
1970	97	682	116.2	1,006.9
1971	89	771	221.1	1,228.0
1972	20	791	109.8	1,337.8
1973	42	833	144.4	1,482.2
1974	78	911	194.8	1,677.0
1975	74	985	239.8	1,916.8
1976	81	1,066	254.4	2,171.2
1977	59	1,125	124.4	2,295.6
1978	3	1,128	173.0	2,468.6
1979	42	1,170	150.6	2,619.2
1980	28	1,198	580.2	3,199.4
1981	12	1,210	141.3	3,340.7
1982	18	1,228	742.0	4,082.7
1983	-50	1,178	181.1	4,263.8
1984	-34	1,144	12.4	4,276.2
1985	-36	1,108	273.6	4,549.8
1986	-22	1,086	169.5	4,719.3
1987	-88	998	-987.5	3,731.8
1988	-38	960	157.8	3,889.6
1989	-69	891	318.5	4,208.1
1990	-55	836	-61.7	4,146.4
1991	-2	834	1,975.5	6,121.9
1992	-92	742	-429.7	5,692.2
1993	-15	727	186.8	5,879.0
1994	52	779	884.6	6,763.6
1995	86	865	667.2	7,430.8
1996	13	878	3,340.7	10,771.5
1997	45	923	4,170.8	14,942.3
1998	41	964	1,130.6	16,072.9
1999	9	973	3,244.0	19,316.9
2000	-10	963	6,906.1	26,223.0

**MAXIMUM LIABILITY (EXPOSURE)
OF THE GERMAN GOVERNMENT – BREAKDOWN BY CONTINENTS**

10-YEARS SURVEY

Continent	End 1991	End 1992	End 1993	End 1994	End 1995	End 1996	End 1997	End 1998	End 1999	End 2000
AFRICA	877.1	1,012.2	996.3	879.1	847.4	975.9	1,771.9	1,719.6	1,828.6	2,047.1
AMERICA	1,381.0	989.4	708.1	652.5	907.4	908.1	2,052.5	3,980.8	4,432.4	5,382.4
ASIA	1,728.8	1,425.1	1,499.3	1,839.1	1,925.2	3,922.1	4,515.4	5,057.9	6,278.0	6,916.3
EUROPE	2,135.0	2,265.5	2,675.3	3,392.9	3,750.8	4,965.4	6,602.5	5,314.6	6,777.9	11,877.2
WORLD W.	6,121.9	5,692.2	5,879.0	6,763.6	7,430.8	10,771.5	14,942.3	16,072.9	19,316.9	26,223.0

Reference

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The lead function for underwriting decisions for investment guarantees by the Federal Republic of Germany is exercised by the **Federal Ministry for Economics and Technology**:

Bundesministerium
für Wirtschaft und Technologie
Referat V C/F 2
Scharnhorststraße 34 – 37
10115 Berlin

PwC Deutsche Revision

Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

New-York-Ring 13, 22297 Hamburg
Postfach 60 27 20, 22237 Hamburg
Telefon: (0049) 40 63 78-0
Telefax: (0049) 40 63 78-1510
Internet: <http://www.pwc.de>
E-Mail: projektfinanzierung@de.pwc.global.com

The Government has appointed a consortium formed by **PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg**, as lead partner, and **Hermes Kreditversicherungs-AG, Hamburg**, to manage the investment guarantee scheme. Documents with further details as well as detailed consultation concerning the possibilities for cover may be obtained by contacting PwC Deutsche Revision. General information on the investment guarantees of the Federal Republic of Germany can be obtained via internet: www.bmwi.de and www.iXPOS.de.

This report on the investment guarantee scheme of the Federal Republic of Germany is available in German and English.

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