

# 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 1m hectolitres.

On October 1<sup>st</sup>, 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 plant 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 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 criteria of Beck & Co. for the choice of the joint venture partner?

**Vogt:** The German-Namibian relationship has a long and vengeful 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 the 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 the chances offering . Consequently, we specifically looked for possibilities of coverage.

**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 mediating 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 guaranty schemes) is operatively effective but does not really meet the actual demand to make concise information available at one central place.

The Guaranty 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 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, to 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 co-ordinated 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. of 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 fee.

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 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 phase of a project as to 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 co-operation 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 "Becks'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 conversation.