# INVESTMENT GUARANTEES

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## INTERIM REPORT 2020

INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY

**Direct Investments Abroad**

## Contents



Editorial deadline: July 2020

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## 731.3 million

In the first half-year of 2020 the Federal Government assumed investment guarantees with a total volume of 731.3 million euros (capital and earnings). The highest volume of new cover was accounted for by China.

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## 34 guarantees

The Federal Government assumed 34 investment guarantees for 26 projects in eleven countries. These also included projects in a number of countries which are rarely the subject of enquiries such as Honduras, Zambia and Pakistan.

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## 22% / 26%

22% of companies which made an application were doing so for the first time. 26% of newly assumed cover went to small and medium-sized enterprises.

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## 29.3 billion

The guarantee portfolio of the Federal Government in mid-2020 stands at 29.3 billion euros. With 9.5 billion euros of covered investments, China posts the highest volume of any single country, followed by Russia with 8.1 billion euros.

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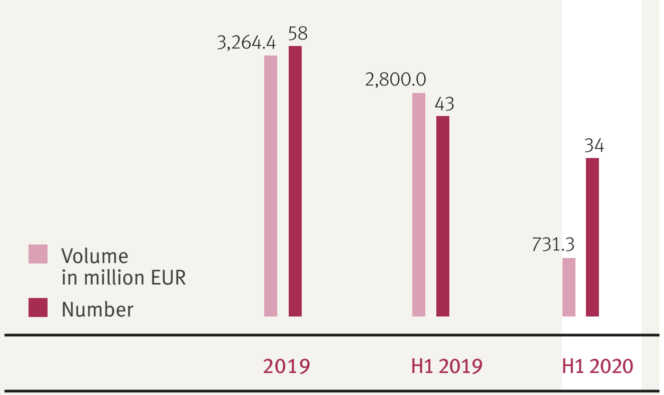
DEVELOPMENT OF ACCEPTED APPLICATIONS




TOP 5 COUNTRIES
VOLUME APPLICATIONS ACCEPTED IN MILLION EUR

| | | |
|---|---|---|
| China | | 414 |
| Belarus | | 97 |
| India | | 77 |
| Russia | | 63 |
| Pakistan | | 51 |
| TOP 5 countries as at 30.06.2020: | (96%) | 702 |
| Worldwide as at 30.06.2020: | (100%) | 731 |

## THE FIRST HALF AT A GLANCE

**731.3 million**

The new cover volume assumed in the first half-year of 2020 was 731.3 million euros (capital and earnings), a decrease compared with the same period of the previous year (2.8 billion euros), in which the Federal Government had assumed higher volumes of cover in respect of individual major projects.

**34 guarantees**

The lower number of 34 assumed guarantees (first half-year 2019: 43) in particular indicates that the international environment for investments has become more difficult in the first half-year of 2020. The reasons for this are closely linked with the COVID-19 pandemic; on top of already existing political and economic crises, a complex interaction with COVID-19 ensues. The 26 covered projects are distributed over eleven emerging markets and developing countries (first half-year 2019: 15). This includes, after a hiatus of 38 years, a project in Zambia again, as well as projects in countries which are rarely the subject of enquiries such as Honduras and Pakistan.

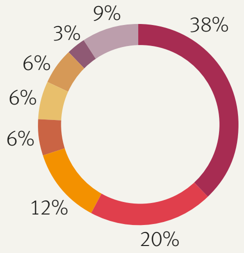
The regional focus in the first half-year of 2020 was Asia, which accounted for some three quarters of newly assumed cover volume (76%), with the largest single share going to China. The PR China is followed by India, Pakistan and Vietnam. In terms of the number of applications approved, Asia also led the field with 47% before (Eastern) Europe with 38%, Central and South America with 9% and Africa with 6%. The PR China also takes first place as regards the number of applications approved.

**22% / 26%**

Of the companies which applied for a guarantee in the first half-year of 2020, 22% were applying for the first time, doing so in order to secure cover for their projects in China, Vietnam, Turkey and Zambia. The trend towards greater use of the investment guarantee instrument by small and medium-sized enterprises, already familiar from previous years, is continuing: 26% of newly assumed cover went to these companies. This is higher than the average of the last ten years.

## NUMBER OF APPLICATIONS APPROVED BY SECTORS

| | |
|---|---|
| Construction industry | 13 |
| Energy industry | 7 |
| Chemical and pharmaceutical industry | 4 |
| Mechanical engineering | 2 |
| Leather and textile industry | 2 |
| Other secondary sector (e.g. paper and wood industry) | 2 |
| Trade, marketing, representations | 1 |
| Other tertiary sector | 3 |
| **Total as at 30.06.2020:** | **34** |




## TOP 5 COUNTRIES
## NUMBER OF NEWLY REGISTERED APPLICATIONS

| | | |
|---|---|---|
| Pakistan | | 4 |
| Egypt | | 4 |
| Belarus | | 3 |
| Russia | | 3 |
| Turkey | | 3 |
| TOP 5 countries as at 30.06.2020: | (57%) | 17 |
| **Worldwide as at 30.06.2020:** | **(100%)** | **30** |

88% of approved applications in the first half-year are accounted for by the industrial sector, whereby manufacturing posts an even greater share than in previous reporting periods. In a breakdown of sectors, the construction industry is the clear front runner (38%), followed by the energy sector (20%) and the chemical and pharmaceutical industry (12%).

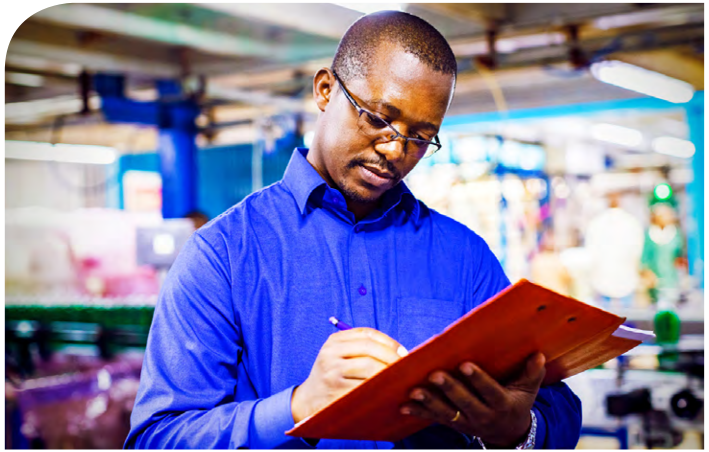
The investment guarantees newly assumed in the first half-year of 2020 support projects with an investment volume of 0.9 billion euros in total, which secure or create 3,100 jobs in the host countries. At the same time the covered projects also contribute to safe-guarding jobs at German company sites.

The total volume of new applications, at 2.7 billion euros (capital and earnings), stands at an equally high level as in mid-year 2019 (2.6 billion euros). The regional focus of this new application volume is the United Arab Emirates. In terms of the number of newly registered applications, Pakistan and Egypt posted the highest demand.

The total volume of pending applications as of mid-2020 stands at 7.6 billion euros. The highest amount here is accounted for by projects in Russia (2.6 billion euros), followed by projects in the United Arab Emirates (2.2 billion euros), in Argentina (0.8 billion euros), in the PR China (0.3 billion euros) as well as in Indonesia and Brazil (0.2 billion euros each). Projects in the PR China take first place as regards the number of pending applications (290) ahead of those in Russia and Ukraine. In most cases, these are applications which were made now in order to observe the stipulated deadline and are successively being completed by the companies concerned.

## COVER POLICY ON INDIVIDUAL COUNTRIES

The Federal Government gave cover for a project in Zambia for the first time after a hiatus of 38 years. This is a project of an SME in the renewable energy sector. The basis for the decision was the German-Zambian Bilateral Investment Treaty (BIT), which stipulates the approval of the capital investment as a precondition.





The Federal Government also assumed guarantees in the first half of 2020 for new investments in Pakistan for the first time since 2007. This gave full cover for the invested capital. In view of the political and economic situation of the country, however, the Interministerial Committee (IMC) felt unable to include earnings in the cover. In addition, the disbursement period for the conversion and transfer risk as well as the risks from payment embargoes or moratoriums was extended from six to nine months.

For the first time since 2015, the IMC granted cover for the conversion and transfer risk as well as the risks from payment embargoes or moratoriums in respect of a project in Ukraine. This was possible due to the liberalization of Ukraine's exchange laws.

On top of this, the IMC assumed a guarantee for an investment in Honduras for the first time since 2016. Full cover was given here for the capital employed.

In addition, the IMC took a decision concerning guarantee applications for an investment in Vietnam. It is a precondition for the applicability of the German-Vietnamese BIT that the capital investments by the German investors must have been approved under the relevant Vietnamese legal provisions. Due to the probable entry into force of the investment protection agreement negotiated with Vietnam by the European Union (EU-Vietnam Investment Protection Agreement – EVIPA) during the period covered by the guarantees, the Federal Government assumed cover on the basis of both the BIT and the EVIPA. Under this arrangement, it was possible to grant cover both for the invested capital as well as the earnings due. Nevertheless the IMC decided on one restriction: risks arising out of time limits on the transfer of payments due from sale or liquidation proceeds in the event of exceptional balance of payments difficulties suffered by Vietnam (annual transfer rates of at least 33 1/3%), are not covered under the guarantees. Further restrictions which may arise under the wording of the EVIPA will apply as of the agreement coming into force.

## CRISIS MANAGEMENT AND LOSS PREVENTION

The Federal Government also accompanied several covered investment projects in the first half of 2020 in order to prevent the failure of the projects and the occurrence of an event of loss. The main thrust of such crisis management was in covered projects in Belarus, the PR China, Iran as well as in Ethiopia.

In one case of a potential event of loss in the PR China, members of the Federal Government raised the issue of the behaviour of a regional governmental agency in discussions with the central authorities. As a result of this, an agreement with the state project partner and consequently the continuation of the project now appear possible. No claims were paid out during the period under review.

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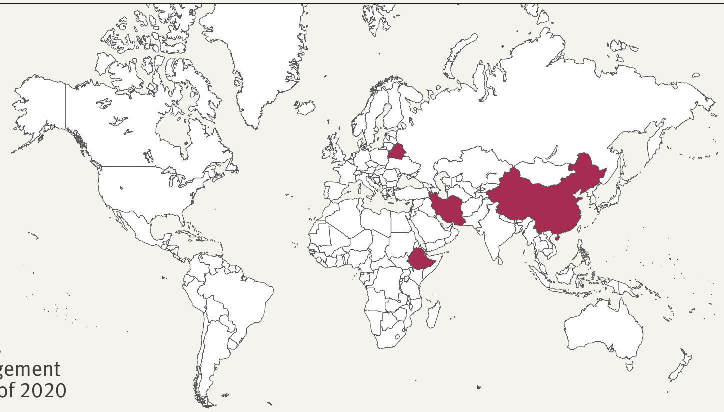
ACTIVE CRISIS MANAGEMENT WORLDWIDE



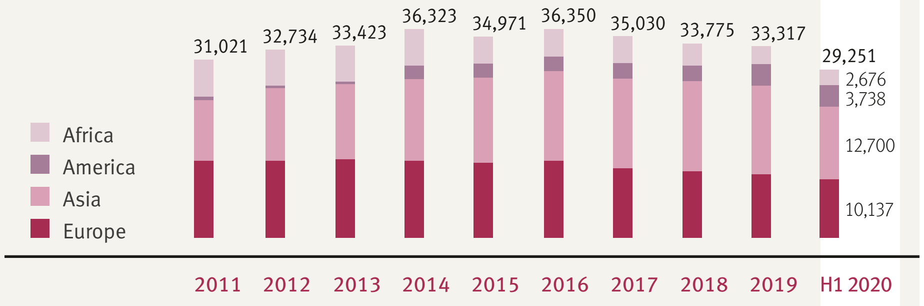
Focus countries for crisis management in the first half of 2020

## TOP 10 COUNTRIES RELATING TO GUARANTEE PORTFOLIO NUMBER AND VOLUME OF GUARANTEES AS AT 30.06.2020

| | in billion EUR | Number |
|---|---|---|
| China | 9.5 | 180 |
| Russia | 8.1 | 152 |
| Turkey | 1.0 | 46 |
| India | 1.7 | 31 |
| Ukraine | 0.5 | 29 |
| Belarus | 0.3 | 28 |
| Colombia | 0.1 | 24 |
| Iran | 0.1 | 18 |
| Egypt | 1.3 | 12 |
| Algeria | 0.4 | 10 |
| TOP 10 countries as at 30.06.2020: | 22.9 | 530 |
| Share of TOP 10 countries: | 78% | 76% |
| Worldwide as at 30.06.2020: (100%) | 29.3 | 699 |

Number
Volume

## MAXIMUM LIABILITY (EXPOSURE) 10-YEARS SURVEY REGIONAL DISTRIBUTION IN MILLION EUR




## RESULT OF THE FIRST HALF-YEAR

**29.3 billion**

The maximum liability of the Federal Government (exposure) from outstanding commitments at mid-year 2020 stands at 29.3 billion euros (end of 2019: 33.3 billion euros). The number of guarantees in the portfolio has fallen to 699 (end of 2019: 794) due to the expiry of guarantees, loan repayments and cancellations. The guarantee portfolio at the end of the first half-year comprised projects in 62 countries. With 43%, the major share of the portfolio continued to be accounted for by projects in Asia (predominantly in the PR China and India). 35% of the portfolio covered projects in (Eastern) Europe, here above all Russia and Turkey; projects in Central and South America (mainly in Mexico and Argentina) came in third place with 13%, while projects in Africa (primarily in Egypt and Libya) were fourth with 9%. In volume terms the PR China, with 9.5 billion euros of covered investments, was the country with the highest value; the next highest volume for a single country was accounted for by projects in Russia (8.1 billion euros). In absolute numbers of guarantees too, projects in China lie ahead of those in Russia.

In terms of its guarantee portfolio, the Investment Guarantee scheme of the Federal Republic of Germany took second place at the end of 2019 in a comparison of the insurers organised in the Berne Union, the international organisation of credit and investment insurers.

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## Investment Guarantees of the Federal Republic of Germany

Investment Guarantees have been an established and effective foreign trade promotion instrument of the Federal Government for decades. Investment Guarantees protect eligible German direct investments in developing countries and emerging economies against political risks. This promotion instrument plays an important role in fostering economic growth as well as in protecting and creating jobs both in the host country and in Germany.

The investment guarantee scheme is managed on behalf of the Federal Republic of Germany by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as mandatary of the Federal Government.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwi.de under the search term “Promotion of foreign trade and investment”.

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