INTERIM REPORT 2017

INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Direct Investments Abroad

THE FIRST HALF-YEAR AT A GLANCE

So far in 2017, the Federal Government has given its approval to applications with a volume of some 0.5 billion euros. The main target regions for covered investments were, as in the preceding year, Asia and (Eastern) Europe. In June 2017 the Interministerial Committee decided on a revised screening procedure for evaluating the environmental, social and human rights aspects of projects.

DEVELOPMENT OF NEW BUSINESS

The new **cover volume** in the first half-year 2017 was 467.2 million euros (capital and earnings), thus coming in much lower than the equivalent period of the preceding year (2,663.3 million euros). This development is mainly due to the lack, by and large, of major projects during the period under review. Thus only one application with a volume of over 100 million euros was approved (in the first half of 2016 there were five, including one with over a billion euros). Cover for major projects does affect the overall result, but is always a more or less random snapshot of one point in time. On the other hand the number of pending applications, which even rose by something like 5% year-on-year (from 313 to 329), underlines the continuing high level of demand.

Overall in the first half of 2017 the Federal Government assumed investment guarantees for 30 projects (1st half-year 2016: 54) in ten **emerging markets and developing countries as well as former transition countries** (1st half-year 2016: 14). Included in this are the Philippines, where investment guarantees can be assumed for the first time again after years off cover.

The **regional focus** of the volume of new guarantees was Asia (mainly China and India) with 49% – unlike previous years – just ahead of (Eastern) Europe (Turkey and Russia) with 48% and well in front of Central and South America with 2% and Africa (1%). Compared with the number of accepted applications, Asia similarly led the field with 53%. In terms of countries, China (7) took first place overall ahead of Colombia (6) and Russia (4).

0.5 billion

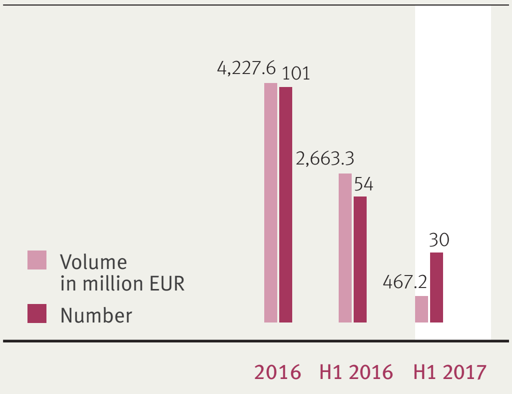
The Federal Government has assumed investment guarantees in the amount of 0.5 billion euros. The highest new volume of cover was accounted for by Turkey.

30

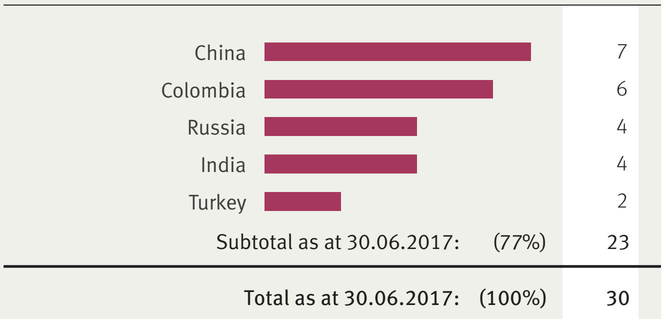
30 projects in ten countries were accepted for cover. This also included the Philippines once again. For the first time, Iran is one of the TOP 5 countries in the volume of new applications for cover.

The share of **small and medium-sized enterprises** in newly assumed cover in the first half of 2017, though, was only some 13%, and so down compared with the preceding years. Nevertheless, out of a total of 14 applicants in the first half of 2017, four were small or medium-sized enterprises (29%), an increase over the same period year-on-year (2016: 25%). And this included a number of investors who were making use of the instrument for the first time. The applications accepted from small and medium-sized enterprises were in respect of cover for investments in Saudi Arabia, Russia, Turkey and Ethiopia.

DEVELOPMENT OF ACCEPTED APPLICATIONS



NUMBER OF APPLICATIONS ACCEPTED
BY MOST IMPORTANT COUNTRIES



29%

Almost every third application accepted in the first half of 2017 came from a small or medium-sized enterprise.

36.0 billion

Exposure remains at a high level, albeit slightly down on the figure at year-end 2016 (36.4 billion euros). Russia has the highest single share here (10.4 billion euros).

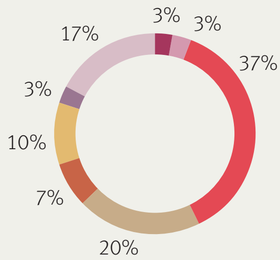
As regards the **target sectors**, the manufacturing industry came in first in terms of the number of guarantees assumed in the first half of 2017 (73%), just as in 2016. Projects in the construction industry as well as the chemical and pharmaceutical industries dominate here. This was followed by the service sector (20%) with commerce and financial services, ahead of agricultural and forestry projects and the extraction of raw materials (7%).

In the first half-year 2017, the guarantees assumed supported projects with an investment volume totalling 0.3 billion euros, which safeguard or create some 4,100 **jobs** in the host countries. The covered projects also help to secure jobs in German production localities.

New applications with a total volume of 629 million euros (capital and earnings) had been received up to the end of June 2017. Among the countries most in demand, Turkey led the field ahead of the traditionally strongly represented countries China, India and Russia and – for the first time since cover was resumed – with Iran in fifth place. In all, there were applications with a total volume of 7.1 billion euros still pending at the end of the first half of 2017. These are as a rule applications which were submitted in an early project stage and are being successively completed by the applicant companies. The dominant countries among the pending applications are, no change here, Russia and China, followed by Turkey, Ukraine and Iran.

NUMBER OF APPLICATIONS APPROVED BY SECTORS

Raw materials extraction	1
Agriculture, forestry and water management	1
Construction industry	11
Chemical and pharmaceutical industry	6
Mechanical engineering	2
Other secondary sector (e.g. energy industry)	3
Trade, marketing, representations	1
Other tertiary sector	5
Total as at 30.06.2017:	**30**



MOST IMPORTANT COUNTRIES REGARDING APPLICATIONS BY VOLUME AS AT 30.06.2017 IN MILLION EUR

Turkey		216
China		117
India		86
Russia		67
Iran		64
Subtotal as at 30.06.2017:	(87%)	550
Total as at 30.06.2017:	(100%)	629

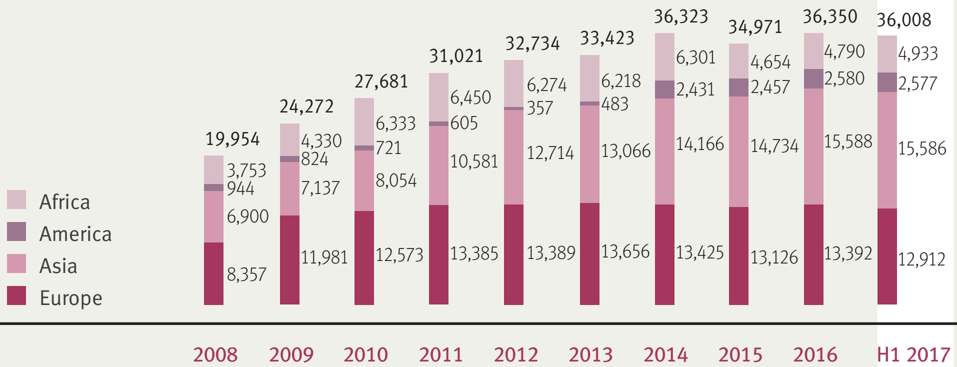
HALF-YEAR RESULT

The maximum liability (exposure) of the Federal Government from outstanding commitments at mid-year 2017 stands at 36.0 billion euros, thus coming in slightly below the figure at year-end 2016 (36.4 billion euros). The main share of exposure is accounted for by Asia (predominantly China and India) with 43%. (Eastern) Europe (here first and foremost Russia and Turkey) lies in second place with 36% again before Africa (Egypt and Libya among others) with 14% and Central and South America (especially Mexico and Brazil) with 7%. In terms of existing guarantees, China comes first as in previous years ahead of Russia and India. Measured by volume, Russia once again posts the largest volume of any single country, with 10.4 billion euros.

TOP 10-COUNTRIES RELATING TO GUARANTEE PORTFOLIO BY NUMBER AND VOLUME OF GUARANTEES AS AT 30.06.2017

	in billion EUR	Number
China	9.2	259
Russia	10.4	209
India	4.4	59
Turkey	1.4	41
Ukraine	0.6	36
Egypt	2.0	23
Belarus	0.1	21
Colombia	0.1	18
Algeria	1.1	14
Indonesia	0.2	14
Subtotal as at 30.06.2017: (82%/80%)	29.5	694
Total as at 30.06.2017: (100%)	36.0	869

MAXIMUM LIABILITY (EXPOSURE) FROM OUTSTANDING COMMITMENTS 10-YEARS SURVEY REGIONAL DISTRIBUTION IN MILLION EUR



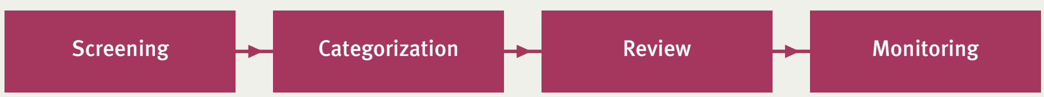
Revised version of the screening procedure for environmental, social and human rights aspects

In June 2017, the Interministerial Committee (IMC) decided on a revised screening procedure to evaluate the environmental, social and human rights aspects of eligibility for cover for the investment guarantees, which will apply in principle to applications processed as of 1 July 2017. The new procedure incorporates the changed international framework of rules for companies active abroad as well as the discussion with the interested public. Alongside the requirements of the OECD Guidelines for Multinational Enterprises (OECD Guidelines), it also takes account of the measures under the National Action Plan for Business and Human Rights (NAP). In order to ensure a consistent approach between the instruments for the promotion of foreign trade, the procedure is also aligned with the OECD Common Approaches. The new **Information Sheet** as well as an updated **Application Form** can be found on our homepage (**www.investitionsgarantien.de**).

The **screening** process is carried out for all applications, including those for extension of the term of a guarantee. Based on the study carried out by the mandatary, a risk profile is drawn up for each project defining the sectoral risks in the context of the environmental, social and human rights aspects on site. In addition, country-specific risks as well as public perceptions of the project are evaluated. Attention is focused here initially on the project company and, where relevant, further group companies. Over and above this, supply chains, related facilities (e.g. necessary infrastructure) and buyers may be included in the screening process.

Based on the risks identified in the screening process, the projects are assigned to categories and examined. Projects are allocated to the three possible categories A (high risk), B (medium risk) and C (low risk) according to their potential environmental, social and human

The procedure is divided into the following steps:



rights risks. For Category A projects, a full further examination is carried out to determine compliance with the 2012 Environmental and Social Performance Standards of the International Finance Corporation (IFC PS). The basis for this is unchanged, involving in particular expert opinions by independent third parties evaluating the environmental, social and human rights impacts of the investment. The checks on category B projects focus primarily on the risk aspects identified during the screening process. The IFC PS standards are applied as a benchmark here, too. If a project is allocated to Category C, no further checks are made as a rule unless a risk aspect has been identified during screening. If this is the case, it is checked in line with the procedure for Category B projects.

The General Conditions stipulate an **annual report** by the policyholder on the development of the project. In Category A and B projects, this general **duty to report developments** also includes information on the environmental, social and human rights impacts of the project. In order to ensure that the policyholders have an informative and at the same time manageable instrument for reporting, a **template for annual reporting** will in future be made available to policyholders.

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

The Federal Government once again deployed the wide range of options available to it for **active crisis management** in the first half of 2017, accompanying covered projects, for instance in China, Russia, Belarus, Ukraine and Montenegro, to **prevent losses**. No claims payments were made in the period under review.

Pending the resolution of an outstanding claim, it is still **not possible** for reasons of budget law to assume investment guarantees for projects in Argentina.

COUNTRY COVER PRACTICE

The principal **decisions on country cover** in the first half of 2017 can be summarised as follows:

After 14 years, the IMC has again assumed a guarantee for an investment in the **Philippines**. An earlier claim which had led to the country being declared off cover has meanwhile been resolved. As a result of this, the Federal Government can give cover again for investments in the Philippines provided they fulfil the eligibility criteria. The requisite preconditions for legal protection are given here in principle under the German-Philippine BIT which came into force on 1 February 2000.

The cover country practice introduced in 2016 for **Iran** was confirmed by the IMC in the first half-year. The necessary preconditions for legal protection are provided here in principle by the German-Iranian BIT which came into force on 23 June 2005. The applicability of this treaty presupposes that the capital investment has been approved by the Iranian government or a body designated by it. This means as a rule an approval given by the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI). An increased premium of 0.6% p.a. is charged for Iran. It is an additional prerequisite for the assumption of a guarantee that the project does not infringe the continuing sanctions put in place by the EU.

In the case of **Russia** the IMC continued its previous cover policy unchanged, discussing each individual case thoroughly and taking account of the current risk situation in each case. As a prerequisite here, too, the project must not infringe the currently applied EU sanctions. The Federal Government continues to be prepared to assume guarantees for projects in **Ukraine** following an in-depth individual examination taking account of where the project is located.

India, **Indonesia** and **Ecuador** have in each case cancelled their respective BIT with Germany. For investments undertaken up to the expiry of the treaties in each case, legal protection is still available on the basis of the grace period written into the BIT for a further 15 years (India and Ecuador) or 20 years (Indonesia). The BIT with India ceased to be in force as of 3 June 2017. According to reports in the press, however, India considers the treaty to have been already cancelled as per the end of March 2017. The Federal Republic is making efforts bilaterally to reach a common understanding here. The BIT with Indonesia ceased to be in force as of 1 June 2017. The BIT with Ecuador will cease to be in force as of 22 May 2018. Whether, and if so, to what extent it will be possible to assume cover for projects in these countries initiated later than these dates on the basis of the domestic legal system will be discussed by the Committee in due course.

ANNEX

The lead function for underwriting decisions for the investment guarantees of the Federal Republic of Germany is exercised by the Federal Ministry for Economic Affairs and Energy:

Bundesministerium für Wirtschaft und Energie
Referat V C 3
Scharnhorststraße 34 - 37
10115 Berlin, Germany
www.bmwi.bund.de

The investment guarantee scheme is managed on behalf of the Federal Government by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, (PwC) as mandatary of the Federal Government. Further information as well as detailed consultation concerning the cover available may be obtained from PwC. General information on the investment guarantees of the Federal Republic of Germany is also available on the internet, e.g. the General Terms and Conditions as well as leaflets, a flyer and the annual report in German and English.

We have created a special hotline for small and medium-sized enterprises. For details of this, please see our website (www.investitionsgarantien.de).

Rounding differences: For reasons of calculation, tables and figures may show rounding differences of +/- 1 unit (EUR, % etc.)

References/Cover: © Getty Images / Kollektion E+

Editorial deadline: July 2017
Date of publication: August 2017

www.investitionsgarantien.de

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, emerging economies and former transition countries 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”.

Federal Ministry
for Economic Affairs
and Energy

OUR PARTNER

pwc

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
Investment Guarantees of
the Federal Republic of Germany

Postal address
P.O. Box 30 17 50
20306 Hamburg, Germany

Office address
Gasstraße 27
22761 Hamburg, Germany

Phone: +49 (0)40 / 63 78 - 20 66

investitionsgarantien@de.pwc.com
www.investitionsgarantien.de