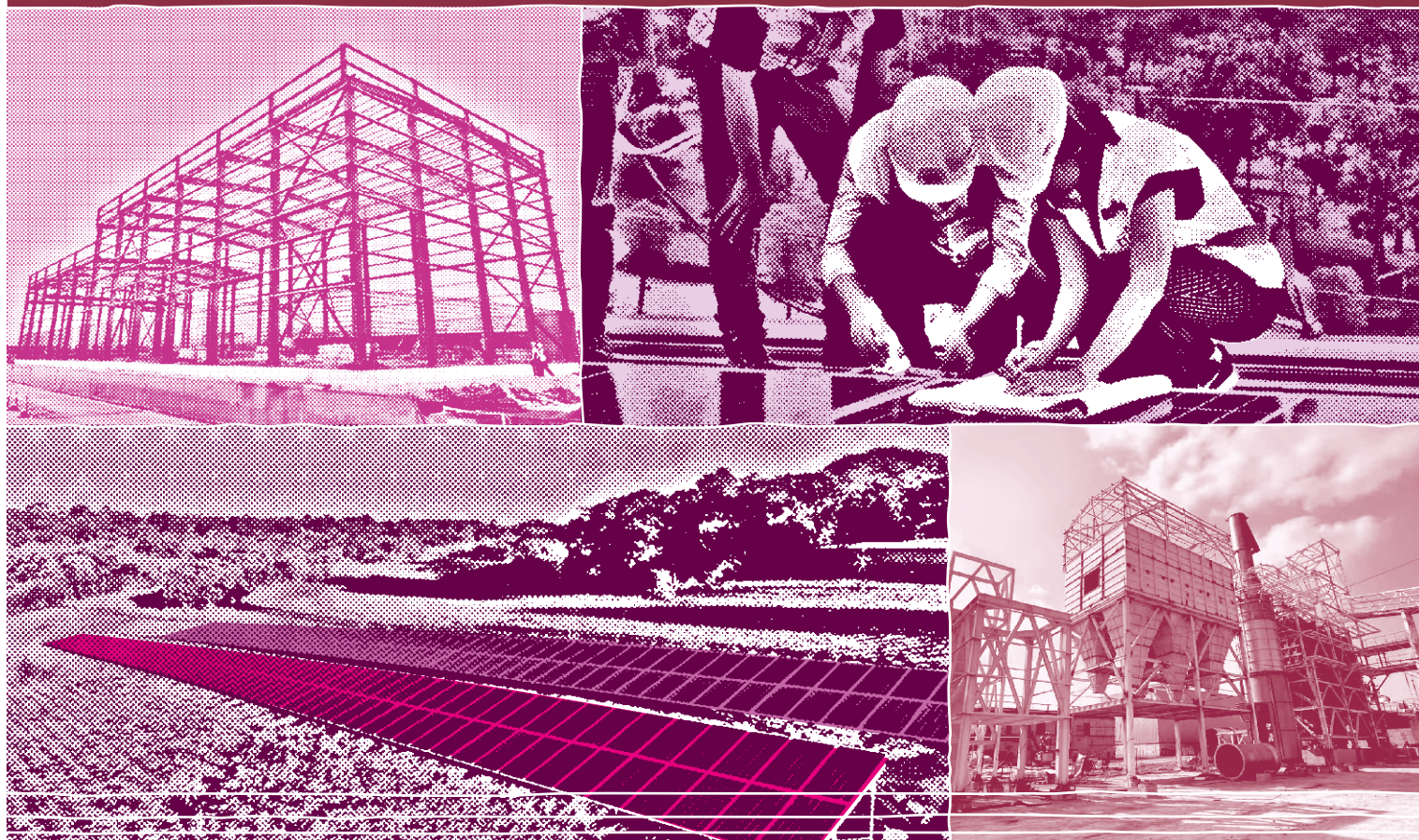


INVESTMENT GUARANTEES



ANNUAL REPORT 2020 — HIGHLIGHTS

INVESTMENT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Direct Investments Abroad**



Dear ladies and gentlemen,

We look back on a quite extraordinary year which was marked all over the world by the effects of the COVID-19 pandemic. The Federal Government reacted swiftly and decisively and offered German companies its support with a whole range of measures. These included a significant increase in the statutory maximum exposure limit which is set every year in the budget law for the assumption of investment guarantees from 58 to 75 billion euros. On top of this, the application and administration processes for the guarantees were further digitized so that we were able to maintain the support scheme without restrictions despite the challenging conditions.

The policyholders expressed their great concern over the effects of the pandemic in a poll held at the end of 2020. Three quarters of respondents stated that there had been delays in realizing foreign investments and nearly every second one expects an increase in political risks in the target countries for the investments. Over and above this, it became apparent that many German companies are rethinking

their globalization strategy and planning new, diversified investments in order to reduce the vulnerability of their supply chains to external shocks. Investment guarantees support German companies in this challenge by protecting their direct investments in the host countries against political risks.

The Federal Government decided on measures to implement the climate strategy for the investment guarantees in 2020. In future, we will promote climate-friendly investments in renewable energy projects even more intensively. We already gave support by means of investment guarantees to a particularly large number of projects in this sector in 2020. We expect further impulses through these measures for the coming years.

In all, the Federal Republic of Germany assumed investment guarantees with a volume of 0.9 billion euros in 2020. Most guarantees were in connection with projects in Asia, mainly in China. Against the background of a substantial international drop in foreign investments, guarantee volume was down by two thirds year-on-year. The impacts of

the COVID-19 pandemic thus clearly also left their mark on the investment guarantees. On the other hand, the volume of newly registered applications in 2020 almost doubled compared with the previous year. This is a clear indication that German companies are continuing to invest internationally on a large scale. In view of the palpable political risks all over the world, the availability of cover through the Federal Government investment guarantee scheme is often a crucial precondition when deciding to make an investment.

You can find further details of the development of the investment guarantee scheme in 2020 on the following pages. I thank you for your interest in the investment guarantees and I hope you will find them fascinating reading!

Peter Altmeier
Federal Minister for
Economic Affairs and Energy

RESULT OF THE BUSINESS YEAR

0.9 billion

- ▶ The **guarantee volume** (capital and earnings), at 0.9 billion euros, is steeply down on the previous year (3.3 billion euros). The number of **applications accepted** (53; 2019: 58) also went down. This was probably caused by the delays in realizing projects due to the COVID-19 pandemic which many applicants gave as the reason.
- ▶ The Federal Government assumed guarantees in 2020 for 38 projects (2019: 38) in 13 countries (2019: 16). Measured by the number of applications accepted, the distribution in terms of **regions** was 42% for projects in Asia (China, India, Pakistan and Vietnam) as well as 40% for projects in (Eastern) Europe (Belarus, Russia and Turkey). This is followed by Africa (Egypt, Zambia and Tanzania) and South and Central America (Brazil, Honduras, Colombia), with 9% each.

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INVESTMENT GUARANTEES OF THE FEDERAL REPUBLIC OF GERMANY AT A GLANCE AMOUNTS IN MILLION EUR






	2016	2017	2018	2019	2020
Guarantee applications					
Number	135	109	99	63	59
Volume (maximum amounts)	3,353.9	3,042.2	3,962.1	3,777.3	6,991.8
Applications accepted					
Number	101	67	70	58	53
Volume (maximum amounts)	4,277.6	1,123.6	1,201.5	3,264.4	909.0
Promoted projects					
Number	72	48	51	38	38
in countries	22	17	17	16	13
Exposure from outstanding commitments of the Federal Republic of Germany (end of the year)					
Number	877	872	882	794	643
Maximum liability	36,350.0	35,029.8	33,775.2	33,317.5	27,563.7

Investment guarantees – annual report 2020

The digital long version of the current annual report is available here:








TOP 5 COUNTRIES VOLUME APPLICATIONS ACCEPTED IN MILLION EUR

China		517.1
Russia		115.5
Belarus		96.6
India		77.5
Pakistan		50.6
TOP 5 countries 2020:	(94.3%)	857.3






Worldwide 2020: (100%) 909.0

TOP 5 COUNTRIES NUMBER OF APPLICATIONS ACCEPTED

China		10
Russia		9
Turkey		7
Balarus		5
India		4
TOP 5 countries 2020:	(66.0%)	35

Worldwide 2020: (100%) 53

TOP 5 COUNTRIES NUMBER OF NEWLY REGISTERED APPLICATIONS

China		14
Turkey		6
Russia		5
Egypt		5
Pakistan		4
TOP 5 countries 2020:	(57.6%)	34

Worldwide 2020: (100%) 59

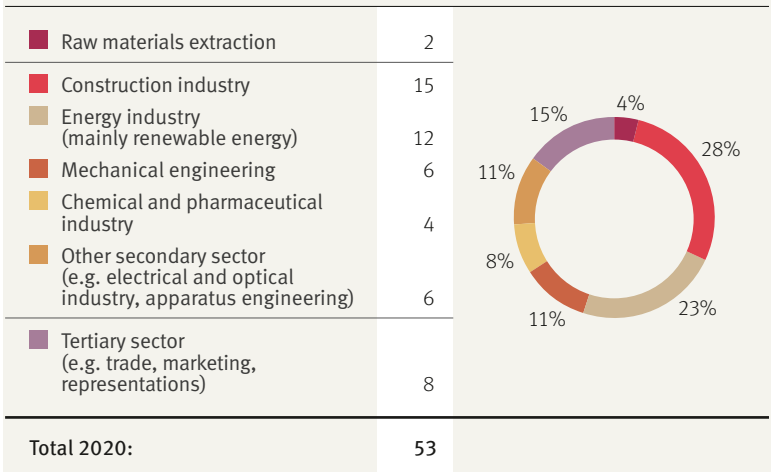
- ▶ The sectoral focus based on the number of applications accepted was on projects in the construction industry (28%) and the energy sector (23%). With 81%, the majority of applications accepted were for the industrial sector ahead of services (15%) as well as projects for raw materials extraction (4%).
- ▶ Cover was exclusively given for **equity participations** and **investment-like loans**. The focus here, both in the number (64%) as well as the volume (85%) of applications accepted was equity participations.
- ▶ 32% of applications accepted were made by **small and medium-sized enterprises**. This confirms the trend of recent years and shows the increased demand for guarantee cover among companies in this segment.
- ▶ 28% of **policyholders** received an investment guarantee for the first time in 2020 (2019: 30%).
- ▶ Investments **of any size** are eligible for cover. In 2020 the Federal Government assumed guarantees in a range from some 17,000 euros to 130 million euros.
- ▶ The volume of **new applications** stands at 7.0 billion euros and thus almost doubled compared with the preceding year (2019: 3.8 billion euros). This is the highest figure of the last five years and demonstrates a considerably higher demand for political risk cover, which has also been noted by the other investment insurers in the Berne Union.

7.0 billion

- ▶ 86 **enquiries** (2019: 151) were received in 2020, which related to projects distributed over 43 host countries (2019: 64). Enquiries were predominantly made about projects in Turkey as well as in China, Russia and Ukraine. Small and medium-sized enterprises submitted 63% of these enquiries (2019: 72%).
- ▶ The Federal Government’s maximum liability under the **guarantee portfolio** stood at 27.6 billion euros (2019: 33.3 billion euros).
- ▶ In 2020, too, the Federal Government supported a number of covered projects in order to prevent their failure and the occurrence of events of loss. The main thrust of such **crisis management** activities was covered projects in Ethiopia, Belarus, China, Iran, Libya and Montenegro, among other countries.
- ▶ The ministries in the Interministerial Committee (IMC) decided on measures to implement a strategy designed to take the effects of climate change into consideration in relation to the investment guarantees in 2020. The cover options for projects identified as hazardous to the climate will be restricted under these and conversely, climate-friendly investments in renewable energy projects will be more strongly promoted.
- ▶ **Internationally**, the investment guarantee scheme had the second highest guarantee portfolio among the insurers organized in the Berne Union in mid-2020.



NUMBER OF APPLICATIONS APPROVED BY SECTORS



HOST COUNTRY RISK ASSESSMENT

For the first time in 38 years, the Federal Government again assumed a guarantee for a project in **Zambia**. This is a renewable energy project from a small/medium-sized enterprise.

In addition, the IMC made a positive decision concerning cover applications for investments in **Vietnam**. Based on the expected coming into effect of the investment protection agreement negotiated by the European Union with Vietnam (EVIPA) during the term of the guarantees, the Federal Government assumed cover both on the basis of the German-Vietnamese bilateral investment treaty as well as the EVIPA.

For the first time since 2015, the Federal Government included convertibility and transfer risks as well as the risk from payment embargoes or moratoriums in the scope of cover for a project in **Ukraine**. This became possible because Ukraine had liberalized its currency regulations.

The Federal Government also assumed a guarantee for an investment in **Honduras** again for the first time since 2016.

On top of this, the Federal Government gave cover for capital invested in **Pakistan** again for the first time since 2007. In view of the political and economic situation of Pakistan, it was not, however, possible to include earnings cover.

In 2020 the Federal Government once again assumed a guarantee for a project in a member country of the **Compact with Africa (CwA)** initiative, namely **Egypt**.

The ministries in the IMC decided on measures to implement a **strategy to take the effects of climate change into consideration** for the investment guarantee scheme. On the one hand the cover options for certain projects defined as being hazardous to the climate will be restricted. This means specifically that with immediate effect it will no longer be possible to assume guarantees for the new construction or major expansion of coal-fired power stations as well as for projects for petroleum extraction in which routine venting and flaring is involved.

Conversely it was decided to strengthen the promotion of climate-friendly investments in renewable energy projects. This will be done through more comprehensive cover for the payment risks arising out of power purchase agreements under **breach of contract cover**. The Federal Government will in future also offer this cover in respect of non-central state electricity off-takers and for all countries with an applicable bilateral investment treaty, including many countries in Sub-Saharan Africa. This makes it possible to obtain an indication at an early stage of what scope cover under an investment guarantee might have.



Climate Strategy
Investment Guarantees

CRISIS MANAGEMENT AND CLAIMS PAYMENTS

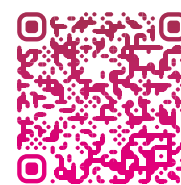
If the realization of a political risk in respect of covered investments is impending, the Federal Government undertakes efforts towards the host country to secure the **continuation of the project**. To do this, the Federal Government, in consultation with the company involved, decides on appropriate measures such as for instance the embassies of the Federal Republic of Germany in the host country accompanying the policyholder in negotiations with the public authorities of the host country or at court proceedings or sending high-level letters to the government of the host country. The Federal Government is prepared in principle to participate in **costs incurred to prevent or mitigate losses** (e.g. attorneys' fees and court costs) on a case-by-case basis.

Through such diplomatic support measures, the Federal Government has been able to **prevent the occurrence of an event of loss** in investments with a total volume of some **1.5 billion euros** over the past five years.

2020 was a very active and successful year in this respect. For example, in a project in China, it was possible to smooth the way for the policyholder's wish to withdraw from the project due to repeated difficulties with regional public authorities thanks to sustained high-level diplomatic support. Further focal points for crisis management, among others, were covered projects in Ethiopia, Belarus, Iran, Libya and Montenegro.

If it proves impossible to prevent an event of loss despite everything and the Federal Government pays **indemnification** to the company affected, it subsequently under normal circumstances takes **recourse** against the host country.

The amounts indemnified by the Federal Government since the inception of the promotion scheme exceed the recoveries secured up to now by some 390 million euros.



Country Cover Policy
Investment Guarantees

NOTES

Rounding differences:

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

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www.investitions Garantien.de/en

Investment Guarantees: an instrument to promote foreign trade and investment provided by the:



Commissioned to implement the federal funding instrument 'Investment Guarantees':



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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