

# Financial products of FC – Budget Loans

As of: December 2024

**KfW uses budget loans as a financing instrument for financial cooperation (FC) with developing countries and emerging economies.**

## **The commissioning party is the German Federal Government**

Budget loans are an important instrument of KfW Development Bank to support emerging and developing countries in financing their development projects. These highly concessional loans enable countries to make the necessary investments in infrastructure, education, health and environmental protection in order to improve the living conditions of the population. To this end, funds from the federal budget are being given as low-interest loans to less developed countries.

## **Essential characteristics of budget loans**

- The aim of the financed projects is to reduce poverty and/or protect the environment and climate and thus to sustainably improve the living conditions of people in the partner countries.
- The beneficiaries of loans from the budget are States, which normally channel the funds to public project executing agencies.
- Unlike grants, these low-interest loans have to be repaid by the partner country.

In principle, budget loans can be granted to non-LDCs (Least Developed Countries) and, under certain conditions, also to LDCs. The Federal Government is guided by the list of LDCs maintained by the United Nations and by the World Bank's credit conditions list for the respective country category. The loans are characterized by comparatively long maturities and many grace years at a low interest rate. The concessional level and the amount of the grant element will decrease with the state of development of the country. The loan conditions for IDA countries therefore have a larger grant element and are more concessional than the Blend and IBRD loan conditions.

## **Project Preparation**

The supported projects, which are to be financed by a budget loan from the federal government, are proposed by the governments of the partner countries and pledged to the partner in the framework of government talks. In the further course of the project preparation, KfW examines for the Federal Government whether the projects are politically sensible and eligible for support. This is usually done based on a detailed feasibility study, which also analyses social and environmental risks, as well as an on-site project review. If the project receives a positive decision, the budget loan can be granted to the partner to finance the project. KfW supports the projects throughout their entire duration.

## **Requests for financing**

Requests for financing should be supported by sound information on the planned financing project. Contact persons for grants are the respective regional departments of KfW Development Bank, e-mail: [info@kfw.entwicklungsbank.de](mailto:info@kfw.entwicklungsbank.de)

## **Publisher / Originator**

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