››› Financial products of FC
Development loan

KfW Development Bank uses the development loan as a Financial Cooperation (FC) financing instrument in developing countries and emerging nations.
The commissioning party is the German federal government.

To enhance the effectiveness of the budget funds available for development cooperation and increase the volume of German promotional business, KfW Development Bank created the development loan in consultation with the German Federal Ministry for Economic Cooperation and Development (BMZ). The development loan is made up of a combination of loans and grants from the German federal budget, as well as KfW's own funds, which KfW raises on the capital market at favourable terms and conditions. The fact that the Federal Republic of Germany, as the owner of KfW, is liable, provides KfW with a triple A credit rating which, in turn, makes it possible to pass on loans with very favourable terms and conditions to developing countries.

Main characteristics

- Development loans can generally be utilised in all sectors important to development or environmental policy.
- The borrowers are usually states or national project-executing agencies.
- The ratio between budget funds and KfW's own funds is set to ensure that the projects can bear the financing costs and that the loans correspond to international ODA agreements (*Official Development Aid*). Even though the terms of the development loans are higher than those for loans comprised solely of budget funds, they are still well below market conditions.

The development loan product group includes reduced-interest loans as well as mixed and composite financing. For **reduced-interest loans** KfW Development Bank only uses funds raised on the capital market. In the majority of cases, the German federal government also provides guarantees that further lower the terms of the loans. The interest rates on the loans are further reduced for borrowers by budget funds.

Reduced-interest loans, for example, are made available to local financial institutions to give them more flexibility when granting their own loans and to give small companies better access to loans. These loans are also used to support worthy infrastructure projects that meet development requirements. Providing reliable financing at favourable terms and conditions can pave the way in many cases for innovative and eco-friendly energy, environmental and climate technologies.

In the case of **mixed financing**, the credit risk of KfW Development Bank is largely hedged by **state export credit insurance** (Euler-Hermes or foreign export credit insurance). Mixed financing thus also has to fulfil the requirements of the respective export credit insurance company. This allows KfW Development Bank to support important development infrastructure projects in developing countries more effectively. Mixed financing is thus particularly suited to projects with a major volume of supplies and services, for example, in energy supply, transport, telecommunications or water supply. The long term of the available capital corresponds to the long economic life of the infrastructure and plays an important role in creating a solid financial basis for operation over the long run.

In the case of **composite financing**, KfW Development Bank's credit risk is largely hedged by a **guarantee framework of the German federal government** designed specifically for this purpose. As is the case for mixed financing and reduced-interest development loans, important development projects are supported in developing countries. Here also favourable loans from budget funds with long terms are supplemented by KfW's own funds.

In contrast to mixed financing, composite financing is suited to infrastructure projects where no major foreign export deliveries are anticipated. As in the case of mixed financing, the specific requirements of long-term infrastructure projects are fulfilled by providing long credit terms.

Financing enquiries

Financing enquiries should be supported by revealing information on the planned project to be financed. Particularly in **project financing in the area of economic infrastructure** KfW Development Bank should be contacted as early as possible to accommodate the complex structure of this method of financing. This is usually done by the sponsors/investors. An information memorandum prepared by the sponsors/investors may already be the basis for a preliminary risk assessment. The detailed credit risk analysis, however, is performed on the basis of a feasibility study to be submitted by the sponsors/investors on which the KfW on-site project appraisal will be based. Together with the project participants a viable financing concept, including collateral, will then be worked out.

The points of contact for development loans are the relevant regional departments of KfW Development Bank, e-mail: info@kfw-entwicklungsbank.de