

FC Financial products - Promotional loans



KfW uses promotional loans as a financing instrument in Financial Cooperation (FC) with developing countries and emerging economies.

The commissioning party is the Federal Government

Promotional loans bridge the gap between low-interest development loans and commercial financing and thus complete the range of FC financial products available. It is used to finance projects politically eligible for promotion mainly in countries with no identifiable debt problems. Promotional loans are particularly suitable for promoting the private sector in our partner countries and thus complement the range of instruments and services offered by German development cooperation.

Essential characteristics

- Promotional loans are subject to political eligibility for the projects to be financed, which is assessed according to the sectoral and regional principles of the Federal Government.
- In addition, the risks associated with the implementation of the project have to be acceptable to KfW and the solvency of the borrower needs to be sufficient.
- The borrowers are usually state-owned or state-guaranteed financial institutions in the formal banking sector.

The terms of promotional loans are close to the market, i.e. they are still below the market conditions. They are individually adapted to the borrower / partner country and the respective project requirements. As KfW mainly finances projects that require long-term funding, the loan term is usually 10 to 15 years. Shorter terms are possible in particular cases.

The method of financing depends on the individual structure of the project. Promotional loans can be given as individual loans, syndicated loans or as loan guarantees for investments in the infrastructure sector as well as as loans and equity exposures in the microfinance sector.

Initiating loans and preparing projects

The use of promotional loans is included in the minutes on bilateral intergovernmental negotiations where possible. In order to prepare for and monitor the use of the promotional loans, funds can be provided from the Study and Consultancy Fund (SBF) or the Basic and Advanced Training Fund (A+F-Fonds) of the Federal Government .

In particular, KfW should be approached as early as possible in the event of investments in the infrastructure sector in order to take account of the diverse structure of this method of financing. Requests for financing should be supported by meaningful information on the planned financing project. As a rule, this is done by the investors on the basis of a preliminary risk assessment (so-called information memorandum).

The credit risk analysis itself is carried out on the basis of a feasibility study and an on-site project appraisal. A sustainable financing concept (including collateral) is developed together with the project participants. Depending on the case, this may require the involvement of experienced law firms. If the project is approved, the loan can be granted to the partner. KfW accompanies the projects throughout the whole project term.

The contact persons for promotional loans are the respective regional departments of KfW Development Bank, e-mail: info@kfw-entwicklungsbank.de.

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