

»» Financial products of FC Promotional loan

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

The FC promotional loan finances development projects worthy of promotion, primarily in countries without apparent debt-related problems. With terms and conditions that are below those offered on the capital market, it rounds off the range of FC financial products available and allows the gap to be closed between development loans granted on concessionary terms and commercial financing schemes. FC promotional loans complement the contributions of German development cooperation and are particularly appropriate for promoting the private sector in partner countries.

Main characteristics

Financing may be provided for:

- the funding of official or officially guaranteed financial institutions of the formal banking sector;
- credit and equity investment operations in the micro finance sector;
- private and public investments in infrastructure (telecommunications, transport, energy, water supply, et cetera).

The award of these funds is conditional on **the eligibility for promotion** of the projects to be financed. Their appraisal is performed on the basis of the sectoral and regional development policy principles of the German federal government. In addition, the project risks must be acceptable to KfW and the borrower's credit worthiness must be satisfactory.

FC promotional loans are granted at the high end of the range of concessional financing that means close to market conditions. As KfW primarily finances projects that require the long-term provision of funds, the minimum loan term is usually four years. Shorter maturities, however, are possible in individual cases.

The forms of financing depend on the creditworthiness of the borrower/project-executing agency and its specific needs. In this regard, KfW is able to agree a flexible offer of maturities, currencies and interest rate options with the customer that fully meets its needs.

In the area of **infrastructure finance** FC promotional loans can be granted to state borrowers, private enterprises or within the framework of project financing schemes. This can be done in the form of individual loans, structured finance, syndicated loans, risk sub-participations and loan guarantees. **In all cases the loans are untied to supplies.**

If possible, the use of FC promotional loans is included in the minutes of the bilateral inter-governmental negotiations. In appropriate cases FC promotional loans may be prepared by studies and experts funds of the Federal Ministry for Economic Cooperation and Development (BMZ) and/or accompanied by capacity development measures (training).

Financing enquiries

Financing enquiries should be supported by revealing information on the planned project to be financed. Particularly in **project financings in the area of economic infrastructure** KfW 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 on-site project appraisal to be performed by KfW will be based.

Together with the project participants a viable financing concept, including collateral, will then be worked out. In individual cases this may require the assistance of experienced law firms. KfW also determines whether and to what extent an involvement by its subsidiary DEG is possible and appropriate.

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