

»»» Financial cooperation with China – Q&A

China – an important global partner of the BMZ

The Federal Ministry for Economic Cooperation and Development (BMZ) works with its global partners in both parties' interests to **resolve key global issues for the future**.

A clear thematic focus (especially on the protection of global public goods) and selection of cooperation instruments tailored to the performance capacity of the partner countries are hallmarks of cooperation with global partners.

For FC with China this means

- a strong focus on **environmental and climate change mitigation** projects, and
- exclusive use of FC promotional loans, **with no additional budget funds**.

What does FC with China mean today?

“Traditional” financial cooperation (FC) with China ended back in 2009. The Federal Government has not committed any more budget funds since then.

In the intervening period, FC with China has continued with a focus on mutual interest, taking into account China's economic performance capacity and the status it has acquired as a global power. KfW issues FC promotional loans to finance specific investments, usually made by provincial regions to promote environmental protection and climate change mitigation (for example, projects relating to sustainable urban development, energy efficiency and sustainable forestry). FC promotional loans are fully repayable loans made from KfW's own funds, and they accrue interest with conditions close to the market.

Are other development banks (still) active in China?

In many cases, KfW finances projects jointly with other development banks, which are still active in China to a considerable extent. These include, in particular:

- The Asian Development Bank (ADB)
- The World Bank Group
- The European Investment Bank (EIB)
- The Agence Française de Développement (AFD)

Since 2018, the European Commission has also begun to finance environmental protection and climate change mitigation projects in China again.

Why is it in Germany's interests to continue FC with China?

Environmental protection and climate change mitigation are global public goods: climate change is a challenge worldwide.

No one country can resolve these global environmental and climate-related problems on its own, so international cooperation is a must in this area.

As the “workshop of the world” and the largest emitter of greenhouse gases in absolute terms, China's involvement is crucial for global climate action. It is therefore in Germany's interests to work with China, including in China, to achieve the aims of the Paris Agreement and the UN's Sustainable Development Agenda. FC helps with this.

Why is China interested in cooperating with Germany?

China's interest in cooperating with KfW is *not* (or is no longer) primarily about availability of credit. The local financial markets are generally sufficiently highly developed and have enough liquidity for self-financing of investments.

China, for its part, mainly seeks to cooperate with us in order to establish international standards for investments at provincial level. Of particular benefit are our experience of implementation while adhering to environmental and social standards, transparent awarding procedures and our technical expertise in relation to environmental protection and climate change mitigation. Germany's expertise in this area is globally recognised.

Who funds FC with China?

The conditions attached to the FC promotional loans are structured such that the costs of the FC and a profit element are borne by the Chinese side. FC with China therefore makes a positive contribution to the Group's revenue and to strengthening KfW's equity base.

Do German companies also benefit from FC with China?

FC promotional loans are primarily focused on financing technical components and consulting services that require international expertise and increase the climate-related impact of investments.

All of the deliveries and services financed through FC must be subject to an international public procurement process. This ensures that FC creates transparent, discrimination-free awarding procedures and opens up invitations to tender, including for German companies, that would otherwise have remained limited to China.

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