

FC Development Loan – REDUCED-INTEREST LOANS

An additional financing instrument in Financial Cooperation (FC) with Developing Countries

Since January 1, 2001 a further financing instrument, the reduced-interest loan, has been available to the developing countries. This facility provides additional capital to advanced developing countries and thus increases the volume of Financial Cooperation. By adapting this instrument to the economic situation of the partner countries and the commercial viability of the projects KfW is able to provide financing solutions tailored to individuals needs.

4.25 % p. a. (maturity of 10 years and two grace years) and 5.00 % p.a. (maturity of 12 years and three grace years).

What may be financed?

Given the relatively short maturity of the loan, this instrument particularly serves the financial sector. In principle, it is also available for financing projects that are eligible for promotion according to development policy criteria in the fields of infrastructure (telecommunications, energy generation and distribution, transport, environmental technology and waste management) and industry. Reduced-interest loans are not tied to German supplies.

To what extent does it constitute development aid?

Each project that is implemented under German FC is assessed as to its developmental effectiveness. This is done regardless of whether KfW provides market funds or not. KfW uses only capital market funds for the reduced-interest loans. Interest payments under the loan are reduced by means of grant funds from the federal budget so that the requirements are met for recognition as official development aid (ODA). The grant amount is set according to the market interest rate level and the exact amount can be determined only at the time of conclusion of the contract.

Who are the borrowers?

Reduced-interest loans may be borrowed by States or project-executing agencies benefiting from a state guarantee.

What are the conditions and maturities?

The maturity of the reduced-interest loan is generally 10 to 12 years with 2 to 3 grace years. Since the reduced-interest loans are granted at KfW's own risk, they are awarded only if KfW considers the risks acceptable.

Depending on the conditions agreed, the interest rate to be paid by the borrower currently ranges between

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