FC Development Loan – MIXED FINANCING

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

Mixed financings are an instrument of Financial Cooperation (FC). In addition to the budget funds made available by the German federal government, KfW extends capital market funds at favourable conditions. This increases the volume of German 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 individual needs.

What may be financed?

Mixed financings are available for financing projects that are eligible for promotion according to development-policy criteria in the fields of infrastructure (telecommunications, energy supply, transport, water supply, environmental technology and waste management) and industry.

Who are the borrowers?

Borrowers may be states or project-executing agencies benefiting from a state guarantee.

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. Under mixed finance, KfW complements the budget funds by capital market funds. The grant element of the total financing meets the requirements for recognition as official development aid (ODA). The country risk is assumed by KfW, which therefore requires this risk to be covered by a Hermes coverage (supply-tied fixed finance) or by a first-class foreign official export credit agency (untied mixed financing). Consequently, mixed finance projects also have to meet the requirements of the respective export credit insurance agency. The fees for the export credit insurance must be considered in the supplier's offers and must be borne by the project-executing agency.

What are the conditions and maturities?

The conditions for mixed financings essentially depend on the conditions at which the budget funds are extended to the partner country. Particularly needy developing countries with a per-capita income of up to USD 875 are eligible for loans at IDA conditions (0.75 % p. a. interest, 10 grace years, term of 40 years). All other developing countries may obtain these loans at standard FC conditions (2 % p. a. interest, 10 grace years, term of 30 years). These budget funds may be combined with a hypothetical loan of market funds (4.87 % p. a. fixed interest *[as per January 2003]*, 0.5 grace years, term of 10 years) as follows:

	IDA conditions	Standard conditions
Minimum share of budget funds in tied loans	52 %	74 %
Minimum share of budget funds in untied loans	8,2 %	10,7 %
Average interest on tied loans on untied loans	 1.4 % p. a. 3.6 % p. a.	 2.23 % p. a. 3.95 % p. a.

The interest rate for the capital market funds is market-defined and may be variable of fixed for the entire term of the loan (when the loan agreement is signed or the funds are disbursed).

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