

PRACTICAL INFORMATION

JANUARY 2020



Untied Loan Guarantees granted by the Federal Government
for corporate finance

UFG-GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Untied Loan Finance**

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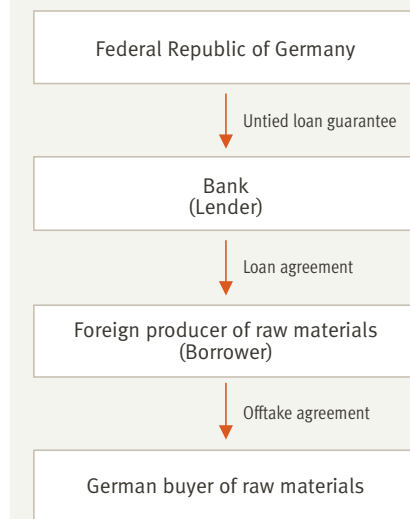
Untied Loan Guarantees form an integral part of the Federal Government's **raw materials strategy**. It is continuing this strategy by widening the scope for Untied Loan Guarantees to include corporate finance.

AVAILABILITY IN CONNECTION WITH CORPORATE FINANCE

On request, the Federal Republic of Germany (Federal Government) will issue guarantees for outstanding amounts under untied loans provided that the purpose of the loan is to finance an eligible foreign project or such loan is in the particular sovereign interests of the Federal Republic of Germany. Previously, Untied Loan Guarantees were granted solely to finance investments in the construction or extension of specific raw material projects abroad in cases in which the output of such project was delivered to a German buyer after completion of the project.

Now that the availability of Untied Loan Guarantees has been widened, it is possible to apply for Untied Loan Guarantees to cover corporate finance even in cases in which the funding is not linked to a specific project. However, this is still contingent upon the existence of a long-term contract for the delivery of raw materials to Germany. In this way, it is possible for the contractual relations between German companies and foreign suppliers of raw materials to be promoted regardless of the development of a new investment project.

STRUCTURE OF CORPORATE FINANCE COVERED BY AN UNTIED LOAN GUARANTEE



There are no changes to the main terms and conditions set out in the product information on Untied Loan Guarantees provided by the Federal Government. These particularly govern the conditions of eligibility for applying for an Untied Loan Guarantee and the subject matter and scope of cover.

CONDITIONS FOR THE GRANTING OF GUARANTEES

Untied Loan Guarantees are suitable for loans used for financing an eligible project abroad. In particular, projects that help to secure the availability of raw materials for the Federal Republic of Germany and are in its macroeconomic interests are eligible for cover (eligibility for cover in the light of raw material policy considerations).

Accordingly, the granting of Untied Loan Guarantees is contingent upon the existence of a forward-looking long-term contract between the foreign borrower and a German buyer governing the offtake of eligible raw materials to Germany. However, the existence of such an offtake agreement is of itself not sufficient to ensure eligibility for cover in the light of raw material policy considerations. What is decisive is the extent to which the granting of a guarantee by the Federal Government secures the offtake of additional quantities of raw materials. In addition to a new offtake agreement, additions (in terms of quantities and/or duration) to an existing contract may indicate eligibility for cover in the light of raw material policy considerations. The following constellations are conceivable:

ELIGIBILITY CRITERIA FOR OFFTAKE AGREEMENTS		
	Modification of an existing contract (contractual relationship)	New contract
Increase in annual offtake volumes	<ul style="list-style-type: none"> ► Additional quantities generally eligible for cover 	<ul style="list-style-type: none"> ► Generally eligible for cover
Extension of contract duration	<ul style="list-style-type: none"> ► Based on the merits of the individual case 	
No material change to an existing contract	<ul style="list-style-type: none"> ► Not eligible for cover 	

The review of environmental, social and human rights aspects has considerable significance with this form of Untied Loan Guarantee as well. What this means for the examination of applications for Untied Loan Guarantees for corporate finance is that the borrower's environmental and social management system must first be assessed. This is joined by a risk-oriented review at the level of the specific source(s) of supply under the offtake agreement.

In addition to the question of eligibility for cover, the risk for the Federal Government of issuing the Untied Loan Guarantee must be **justifiable**, i.e. in the light of the borrower's creditworthiness and the political risks related to the provision of the loan, there must be a reasonable expectation that the loan granted will be repaid in full free of any disruptions resulting in a loss.

APPLICATION AND APPROVAL PROCESS

There are generally no changes to the application and approval process.

A **two-stage process** (eligibility for cover in the light of raw material policy considerations and offer of cover) has been defined for Untied Loan Guarantees for corporate finance. First of all, an **inquiry** can be submitted to determine **the eligibility for cover in the light of raw material policy considerations**. This is particularly advisable for corporate finance in cases in which the Federal Government has not recently made any decision

on the raw materials to be imported and/or the underlying offtake structure deviates from standard practice. This inquiry can be submitted in any form and at no expense for the applicant.

The ensuing stages of the examination are then initiated when the bank submits a **formal application**. The application is subsequently processed to determine whether the conditions for the issue of a guarantee are satisfied. In addition to establishing eligibility for cover of the supply of raw materials, the **justifiability of the risks** involved is determined by means of an analysis of the borrower's annual financial statements in the light of any other parameters that may also be relevant (e.g. country risk). Supplementary security may be necessary if the borrower's creditworthiness is not sufficient for the loan to be granted. The opinion of an external expert is usually not required.

INFORMATION AND DOCUMENTS REQUIRED FOR PROCESSING THE APPLICATION

The Federal Government expects to receive meaningful information and documents on the borrower, the planned loan agreement and the supplies of the raw materials in question:

- ▶ Information on the borrower, the purchaser of the raw materials and information on the sources from which the deliveries of the raw materials will be made
- ▶ Information on the contract for the supply of raw materials (subject matter of the contract, status, contracting parties, quantity to be delivered, duration, special features such as swap structure, involvement of traders, etc.)
- ▶ Information on previous business relationships between the borrower and the purchaser of the raw materials
- ▶ Recent annual financial statements of the foreign borrower, other information (company presentation or similar)
- ▶ Information relating to the loan contract (amount of loan, conditions for disbursement, repayment terms)
- ▶ Information on environmental, social and human rights aspects, both with regard to the company and the agreed sources of supply.

Depending on the individual case, further documentation may also be required.

If the responsible Interministerial Committee (UFK-IMC) comes to a favourable conclusion after reviewing the information and documents, the applicant receives an offer of cover from the Federal Government confirming that it will approve the application for the Untied Loan Guarantee requested provided that there are no changes in the factual or legal situation and the loan agreement is signed within the specified period (**offer of cover**). After the loan agreement has been signed, the final request for cover can be submitted.

CONTACT AND FURTHER INFORMATION

The General Terms and Conditions for the Issuance of Untied Loan Guarantees and the information leaflet on fees and premium rates also apply to corporate finance. These documents as well as further information and application forms can be inspected and downloaded on the Internet at www.ufk-garantien.de/en. Contact with the Federal Government is established via Euler Hermes Aktiengesellschaft in Hamburg.

Export Credit Guarantees and Untied Loan Guarantees:
instruments to promote foreign trade and investment
provided by the



Federal Ministry
for Economic Affairs
and Climate Action

Commissioned to implement the federal
funding instruments Export Credit Guarantees
and Untied Loan Guarantees:



EULER HERMES

Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees have been established and effective foreign trade promotion instruments of the Federal Government for decades. Export Credit Guarantees (so-called Hermes Cover) protect German exporters and banks financing exports against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs. Federal Government commissioned Euler Hermes Aktiengesellschaft to manage the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwk.de/en under the heading Promotion of Foreign Trade and Investment.

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