

Focusing on results

advancing development.

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PREFACE.

The carpenter on the cover of this year's report has her eyes set on more than her piece of work. She can also take an optimistic view of the future. In our partner countries, it is not every woman who has been able to go to school, can obtain medical treatment in her own village and can train for a profession.

Success of this kind results from the fact that we at KfW Entwicklungsbank and DEG focus on the effectiveness of our work and take a holistic view of sectors and processes. The impact of our work contributes to achieving the global objectives of development cooperation. In particular, this entails improving the underlying economic and political conditions, securing peace and protecting the environment. We promote projects and initiatives with an impact that extends beyond the local area, making it possible for large numbers of people to have clean water to drink, to go to school and to obtain small loans – in short, to take charge of their own lives.

Creating sustainable structures also means adopting the right developmental approaches. Our financing instruments, accompanying advisory measures and our professional expertise equip us to help our partners to find and implement the best solution for them. It is essential for our partners to be in a position to assume responsibility when substantial, long-term changes are set in train. With all parties concerned working together, this is the only way to achieve success in development processes with an impact that extends beyond the individual case.

The examples from the regions in this Annual Report are intended to illustrate the ways in which we tackle the various challenges in our partner countries – so that development can succeed.



Wolfgang Kroh



Dr Winfried Polte

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Wolfgang Kroh
(Member of the Board of Managing
Directors of KfW Bankengruppe)

Handwritten signature of Dr Winfried Polte in blue ink.

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1. THE ACTIVITIES OF KFW ENTWICKLUNGSBANK AND DEG IN THE PROMOTION OF DEVELOPING COUNTRIES.

OVERVIEW.

Commitments by KfW Entwicklungsbank and DEG greatly exceeded the expectations in 2006. Both achieved the highest commitment level ever. A total of EUR 3.4 billion was committed to development projects and programmes in Asia, Europe and the Caucasus, Sub-Saharan Africa, Latin America, North Africa and the Middle East. Funds were made available primarily for investment in renewable energies and energy efficiency, rural water supply, resource protection programmes, the fight against HIV and tuberculosis, micro-finance development, measures aimed at improving municipal administration, and for business development.

OUR MISSION, OUR GOALS.

The objective of Germany's development cooperation is to improve the economic and social situation of people in developing countries. One of the German government's most important instruments for this is Financial Cooperation (FC), which KfW Entwicklungsbank carries out on behalf of the German Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – BMZ).

Financial Cooperation addresses deficiencies in sector structures and the shortage of long-term capital, as well as the failure or inadequate functioning of market

mechanisms. Cooperation does not centre around the distribution of alms but on positively changing the development conditions and transferring the knowledge and resources needed to make this happen. A Chinese proverb says, "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime." But to catch a fish he will need a fishing net. So we can say that Financial Cooperation enables people to purchase a fishing net themselves and decide how they want to learn to fish.

KfW Entwicklungsbank is part of KfW Bankengruppe. It finances the development of economic and



THE OBJECTIVES OF GERMAN DEVELOPMENT COOPERATION.

Germany has committed itself to actively participating in achieving the Millennium Development Goals (see infobox on page 9). By the same token, the German federal government committed itself to supporting the decisions of the Monterrey Consensus (embedding development cooperation into general foreign and economic policy, raising official development assistance commitments) and the Johannesburg Action Plan (preserving the environment and the climate, clean drinking water for all) as well as the Paris Declaration (greatest possible harmonisation of donor contributions).

In this framework the Action Programme 2015 and the operational plan for implementing the Paris Declaration are the German federal government's key instruments for defining the course of German development policy. In this plan the German government established in what way it intends to design and further develop its contribution within the international framework of action. Its efforts follow the guiding principle of **global sustainable development** and the four objectives of:

- **reducing poverty worldwide**
- **making globalisation fair**
- **securing the peace and making democracy a reality**
- **protecting the environment**

social infrastructure, the establishment of efficient financial sectors and the management of natural resources. To achieve this it finances investments and complementary consultancy services that are organised or carried out by the partners in the developing countries on their own responsibility.

Our promotional activities are not limited to individual projects with only local impacts but ultimately aim to achieve the overarching developmental objectives of the German federal government and the partner countries. KfW Entwicklungsbank therefore supports its partners in overcoming structural obstacles and working towards economically viable and sustainable development. This also means protecting natural resources and the environment and striving for social equality.

Furthermore, the projects are closely coordinated with activities conducted by German Technical Cooperation (TC) and other bilateral and multilateral donors. KfW Entwicklungsbank advises the decision-makers within the BMZ as well as the local partners with comprehensive professional expertise.



The partner countries usually receive the funds made available from the federal budget in the form of grants or loans but also in the form of equity participations. In order to achieve the Millennium Development Goals, enormous efforts still need to be undertaken within development cooperation (DC). KfW Entwicklungsbank supports the BMZ with a broad range of financial instruments. Being a development organisation and a bank in one, it is in a position to considerably expand the scope of development cooperation by combining federal budget and capital markets funds. In particular, reduced-interest loans have great potential. For each euro in grants KfW Entwicklungsbank has been able to make an average of six euros available in loans in 2006. In concrete terms this means improved living conditions for more people without putting additional strain on the federal budget.

The integration into KfW Bankengruppe and the close exchange between the Group's various business areas enables KfW Entwicklungsbank to take up innovative financing concepts early in development cooperation and to consistently develop them further. One example of this is the securitisation of microloans in Bangladesh in the summer of 2006, which gave a non-governmental organisation scope to extend the equivalent of as much as EUR 180 million in new microloans and gave many thousands of people prospects for a brighter future.

DEG is part of KfW Bankengruppe and specialises in financing investments by private enterprises operating in developing and industrialising countries. As one of Europe's leading players in this area it works to expand private-sector structures in order to contribute to sustainable economic growth and improving people's living conditions.

Economic growth can only be generated by private enterprises that are successful and capable of surviving in the long term. They create employment and income, contribute to improving the country's balance of foreign exchange payments by producing competitive products,

add to state revenues with their tax payments and increase the value created in the country by processing locally available resources.

DEG performs its role as development finance institution for the private sector in two ways. It is a reliable financing partner for private enterprises that invest, but it also seeks to ensure that their investments have positive impacts on the societies in developing countries. In this way DEG also contributes to achieving the Millennium Development Goals.

DEG operates as a finance institution in a subsidiary way, which means that it supplements the short and medium-term financing offers made by commercial banks and other commercial finance institutions with long-term funds. In addition, it provides scarce venture capital in the form of equity participations and mezzanine financings, particularly for small and medium-sized enterprises (SMEs). All of its funds are made available at market-driven terms.

An important task performed by DEG is that of accompanying the partners over the long term as they set

INTERNATIONAL RECOGNITION OF DEVELOPMENT COOPERATION ACTIVITIES.

The developmental work performed by KfW Entwicklungsbank is internationally acknowledged and affirmed. In the area of microfinance for example, the renowned CGAP (Consultative Group to Assist the Poorest) has rated the activities of KfW Entwicklungsbank in the partner countries' financial sector as very good. It has described them as exemplary because they not only open up a direct path out of poverty for the people but at the same time work to create structures that help the people in the long term.

The Grameen Bank in Bangladesh, which was awarded the Nobel Peace Prize in December 2006, was given a total of EUR 24 million in FC funds by KfW Entwicklungsbank in the 1980s and 1990s. KfW Entwicklungsbank is one of the world's leading players in the area of microfinancing; it has also made a substantial contribution to advancing the establishment of innovative microfinance funds. It takes up innovative financing approaches and promotional strategies and consistently develops them further. At the end of 2006 it was financing a total of 100 microfinance projects in 39 countries, providing 12 million people with access to savings facilities and credit.

up a comprehensive environmental and social management. The aim is to secure the sustainability of the joint projects as well as to promote the implementation of higher standards in the partner countries. The environ-

mental and social management system practised by DEG is designed to be internationally compatible, thereby taking into account the increasing cooperation with other development finance organisations.

OUR MEASURE OF SUCCESS.

We want our work towards achieving the objectives of German development cooperation and its results to be comprehensible to the public, the German federal government and the German parliament. This is why we submit our projects to systematic evaluations.

KfW Entwicklungsbank has the developmental efficacy of its projects and programmes evaluated by an independent evaluation unit several years after completion against five key criteria based on the criteria of the OECD.

1. Relevance – How does the project help to solve the problem? How have the living conditions changed for the people?
2. Effectiveness – Does the actual development project achieve its developmental objectives?
3. Overarching developmental results – Does the development project contribute to achieving overarching developmental objectives?
4. Efficiency – Is the input reasonable compared with the output?
5. Sustainability – Will the project work without us and will it have lasting positive impacts?

This evaluation method (see chapter 4, page 55) is recognised internationally as exemplary. Besides, we make the results transparent and publish them on the internet and in the evaluation report.

DEG measures the quality of its projects by its "corporate policy project rating mechanism", a points system that covers four different evaluation aspects:

1. Long-term profitability / financial sustainability – Does the investment work in the long term, that is, is it financially sustainable?
2. Developmental impacts – To what extent does the project contribute to the development of the local private sector and to poverty reduction?
3. The role of DEG – To what extent does DEG assume the risks and tasks which other financiers (still) are not prepared to assume, and in what way does this make it a signaller for the country and other actors?
4. Return on equity – Is it ensured that the equity capital of DEG will be preserved in the long term?

The developmental impacts can be of a quantitative nature (eg state revenues, net foreign exchange impacts, jobs) or of a qualitative nature (eg technology transfer, environmental and social standards). Possible contributions to achieving the Millennium Development Goals are also verified systematically.

The corporate policy project rating has already become widespread among the members of the Association of European Development Finance Institutions (see also page 25).



2. EFFECTIVENESS REQUIRES EXCELLENCE.

The 380,000 square kilometres of rain forest which the Amazonian Indians and the Brazilian government are protecting in cooperation with KfW Entwicklungsbank will hopefully still be there 100 years from now. It is an area the size of Germany.

The quest for sustainability is what drives KfW Entwicklungsbank's activities in Burundi and Rwanda as well, where it is helping to secure peace on behalf of the German federal government and to bring home ex-combatants, soldiers and refugees. In 2006 alone, around 34,000 of these returnees had to be integrated into civilian life and tension between ethnic groups had to be overcome. To support these countries, funds are being made available to reconstruct 4,000 units of accommodation, repair schools and health stations and upgrade the road network.

Today German Financial Cooperation is plotting the course for durably protecting the Earth's climate and the bases of life of millions of people tomorrow by financing wind turbines that generate renewable energy at the windiest locations of Africa, hydro power plants in Pakistan and Egypt, or geothermal power plants in Kenya. These and similar projects which it supported in 2006 are helping to reduce carbon dioxide emissions by around 1.5 million tonnes each year. Projects that make the irrigation of the Nile valley fields more efficient not only contribute to increasing the harvests and income of the still desperately poor Egyptian farmers – they also reduce water consumption by up to 20%, possibly helping to prevent a conflict between the Nile river countries over what is becoming an increasingly scarce resource.

OUR WORK HAS MANY IMPACTS.

All German Financial Cooperation projects are designed in such a way that they not only fulfil their immediate purpose, such as supplying a village with water or electricity, but also support global objectives like promoting

democracy, protecting the environment or securing a country's peace.

In addition to easily measurable factors such as the output of new power plants, the number of newly built



Strengthening the rights of the Indian population also helps to protect the Amazon jungle.

GLOBAL SUSTAINABLE DEVELOPMENT.

DEVELOPMENTAL OBJECTIVES

Secure the peace,
foster democracy

Make
globalisation fair

Reduce poverty worldwide

Protect the environment

IMPACTS OF FC

Develop efficient structures

Improve people's health

Raise education level /
improve technical skills

Good
governance

Food
security

Increase employ-
ment and income

Protect the climate

Prevent crises

Gender equality

FC PROJECTS

Financial/private
sector development

Energy
supply

Education

Agriculture/
resource protection

Water/waste management

Transport

Health care

The chain of impacts of FC projects.

classrooms or the number of wells drilled and power lines laid, Germany's Financial Cooperation with partner countries generates a number of positive results – more gender equality, improved health care leading to benefits such as reduced maternal and infant mortality, the preservation of the natural bases of life, the democratisation of social structures, greater educational opportunities, and stable financial systems as a basis for employment and higher income for poor groups of the population. All these impacts help to combat poverty at its roots.

The diversity of impacts which development projects can have is demonstrated most impressively by surveys conducted in the water sector, an area in which German Financial Cooperation is especially committed all over the world. In many African countries KfW Entwicklungsbank finances drinking water supply projects for the poor population. The water projects financed under German Financial Cooperation in 2006 benefit around 10 million people. The immediate impacts are obvious – clean drinking water is not only vital for human survival but also ensures better

health for people who used to fall ill from consuming contaminated water. Surveys have shown that clean drinking water and proper sanitation reduce under-five mortality by around 55%. Children no longer come into contact with contaminated water, the main cause of diarrhoea and dangerous infectious diseases like cholera or typhoid fever. Good drinking water supply hence promotes the achievement of various UN Millennium Development Goals.

The studies also demonstrated that good drinking water supply also promotes gender equality. In 90% of Sub-Saharan Africa, providing families with water is the task of women and girls. As a result, fetching water keeps women and girls busy for up to five hours a day. This is valuable time they could use to work the fields or for other gainful activities such as selling home-made products, hygiene, homework, education and schooling. In other words, poor water supply usually also results in low education and low income.

A survey of the impacts of water projects in India has shown that improved rural water supply enables women to generate extra income for their families simply by allowing them to invest the additional time they now have in cultivating the land and selling the produce. Obviously this improves not only their financial situation but also their food supply and, hence, their physical health. A similar FC project implemented in Tanzania led to a 12% rise in school enrolment. Girls in particular now finally have the chance to attend school.

An efficient water supply also boosts progress towards the achievement of several Millennium Development Goals.



AN OVERVIEW OF THE MILLENNIUM DEVELOPMENT GOALS (MDGs).

In the year 2000 the Member States of the United Nations agreed on the Millennium Declaration and the following Millennium Development Goals as a blueprint for achieving the overarching goal of securing the future of the planet.

1. Eradicate extreme poverty and hunger
2. Universal primary education
3. Promote gender equality and empowerment of women
4. Reduce child mortality
5. Improve maternal health care
6. Halt and reverse the spread of HIV/AIDS, malaria and other major diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

COOPERATION WITH GLOBAL IMPACTS.

Development impacts of the projects initiated by KfW Entwicklungsbank in 2006.

- 60% of the commitments are for direct, cross-sector poverty reduction.
- Over 6.3 million people will be given access to financial services that will include about 1.2 million loans. These loans will generate around EUR 3.2 billion in additional income over the next five years. Savings deposits will be made more secure for another 6.4 million people.
- More than 9 million people will benefit from improvements in municipal administration, decentralisation and better municipal services.
- More than 3.3 million people will be supplied with additional energy. This will improve their quality of life and enhance their income opportunities.
- Schooling will be made accessible and the quality of education improved for more than 4.3 million children.
- 44% of the commitments support the goal of gender equality.
- Programmes aimed at containing the spread of infectious diseases will reach over 31 million people. Around 228,000 tuberculosis infections will be prevented in Central Asia and around 31 million children will be immunised against poliomyelitis in India.
- More than 4.6 million people will benefit from the expansion and equipment of hospitals and health stations.
- Awareness campaigns conducted under HIV prevention and family planning programmes will reach as many as 35 million people.
- Improved transport infrastructure will benefit around 30 million users per year.
- More than 7.3 million people will be able to make use of the many advantages of improved water supply and sanitation.
- 40% of the commitments will have positive impacts on the protection of the environment and natural resources.
- Projects designed to improve energy generation and distribution and to make the transport infrastructure more efficient will prevent the emission of more than 1.7 million tonnes of CO₂ – roughly the amount of CO₂ caused by all inhabitants of Brussels.

Development impacts of the funds committed by DEG in 2006.

- The 111 projects financed by DEG in 2006 created approximately 32,600 new jobs. Furthermore, the DEG partner enterprises and their suppliers employ around 445,000 people, giving them and their families a secure income.
- Two thirds of them pay salaries that are above collectively agreed levels and are also involved in social projects – they finance day nurseries and schools, health programmes and HIV prevention, for example.
- The investments encouraged by the 111 projects will reach a volume of EUR 4.2 billion.
- Thanks to the new investments, the enterprises will be paying around EUR 520 million in taxes per year, enabling their governments to invest more in the fight against poverty and in education, healthcare and infrastructure.
- They will also contribute to generating roughly EUR 2.2 billion in foreign exchange, which is important to the host countries.
- All new commitment agreements require compliance with World Bank environmental standards and the social standards of the International Labour Organisation (ILO).

The social position of women has also improved as a result of the water projects. In Mali a new rule has been introduced according to which the water user associations

are to be managed by a man and a woman with equal powers. This has led to women being more readily accepted and respected by the families and village community.

DIVERSE CHALLENGES CALL FOR DIVERSE SKILLS.

A development agency of excellence. The evaluations conducted in the years 2004 and 2005 revealed that 71% of the development projects supported by KfW under German Financial Cooperation were successful and have proven their developmental efficacy. This result, which is outstanding by international comparison, demonstrates that KfW Entwicklungsbank has successfully adapted its projects to the regional and technical conditions. The success rate is high even though all projects are inevitably embedded in a difficult and complex setting with a high risk of failure. Promoting development means much more than providing funds. Financing must always go hand in

hand with the transfer of know-how, and there must be agreement on realistically achievable strategies.

The diverse challenges and great differences between partner countries and partner organisations all over the world require different forms of expertise in German Financial Cooperation. In this regard the particular organisation and focus of KfW Entwicklungsbank have proven to be of great value – it is a development agency and a bank in one. It has the capacity to get to the root of complex developmental problems, to engineer appropriately adapted and innovative solutions and to advise and accompany the partners and the German government in their imple-

Continuous development must involve the local population – sensitisation measures in Morocco.



mentation. Moreover, as a bank it has the financial instruments that are necessary to realise the solutions.

A typical FC support package may look like this. Wells, pumps and a small distribution network are being financed under a water supply project for a small town in Mali in the Sahel region. At the same time – and this is at least as important – KfW Entwicklungsbank supports the establishment of an efficient and transparent operating and management system in order to ensure a reliable long-term supply of clean drinking water for the local population. After all, without knowing how to maintain and keep the system operating and how to apply the user fees efficiently, the partners will not be able to achieve sustainable success.

In order to achieve optimal results KfW Entwicklungsbank has set up a network of regional offices with numerous experts at 50 locations around the world. This infrastructure enables it to assess regional developments from close-up. It also permits close dialogue with govern-

ments, project partners, non-governmental organisations and, not least, with the people of the partner country.

In the implementation of FC projects KfW Entwicklungsbank sets great store by aspects that are part and parcel of the concept of good national governance and corporate governance – transparency, democracy, equality, meeting people's needs and participation by civil society. Only these factors can assure the sustainability of the project measures that are in place.

In order to plan and successfully implement projects with such far-reaching impacts, KfW Entwicklungsbank needs many experts with very different skills. Regional experts, project managers and sector specialists work together here. Economists and business administrators cooperate with doctors, agricultural economists, hydraulic engineers, ethnologists and transport experts. They all must have one thing in common – an understanding of and a vision for sustainable development processes.

Variety and innovation in financing. Knowledge alone is no guarantee of success. The funds employed to

finance investments and services form just as important a basis for development. The terms and conditions at which they are granted also make a difference. The project partners with whom KfW Entwicklungsbank cooperates work on very different levels around the world. Depending on the country, sector and target group, projects differ greatly in their results and efficiency. KfW Entwicklungsbank takes these factors into account by using tailor-made financing instruments that allow it to flexibly combine grants, guarantees

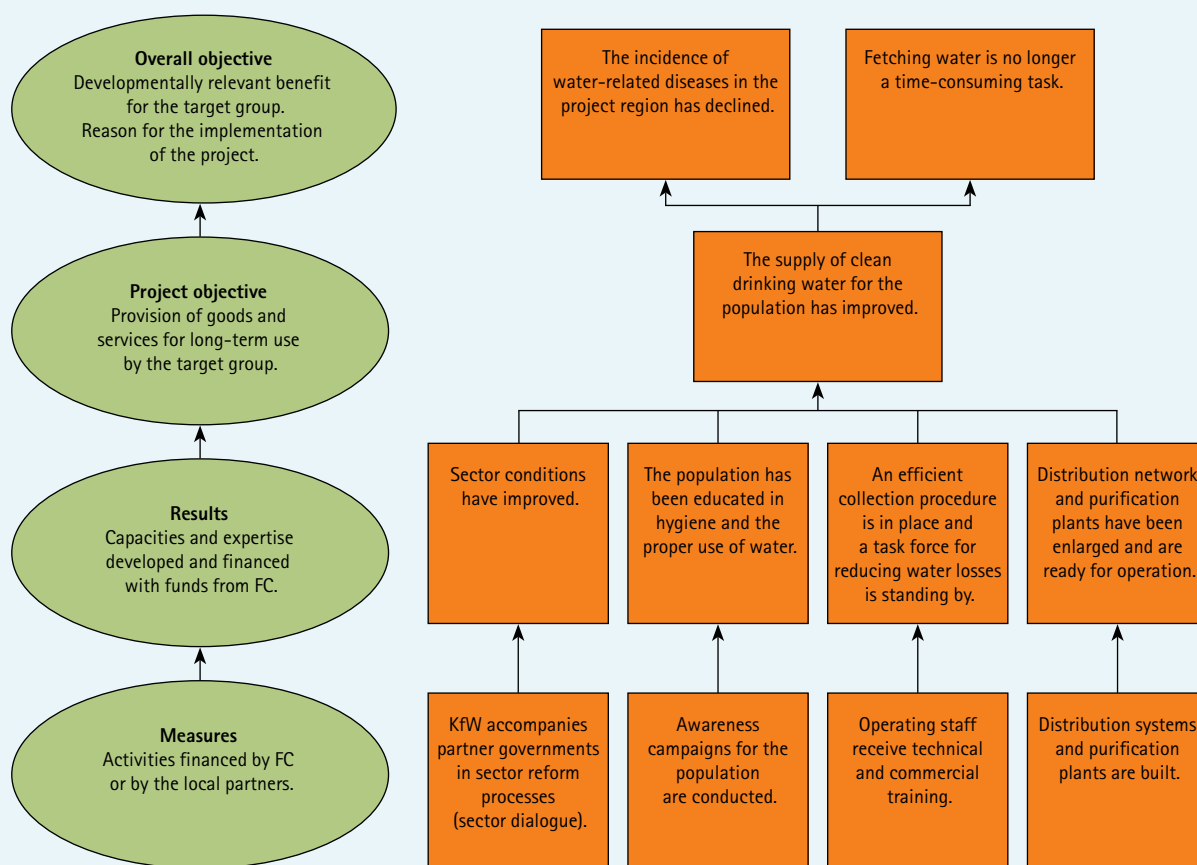
Developmental effectiveness means close discussions with the local partners.



THE LOGICAL FRAMEWORK – ALL PROJECT IMPACTS AT A GLANCE.

In FC the logical framework approach (logframe) is the main instrument for planning and evaluating impacts. It clearly describes the main relations between activities and targets and defines verifiable indicators for target achievement. The risks associated with the implementation of a project are identified and assessed in the logframe matrix. The logic of the logframe aids the local partners and KfW Entwicklungsbank in managing the projects, monitoring critical points and responding in a timely manner if things threaten to go wrong.

CHAIN OF IMPACTS ON THE BASIS OF A LOGFRAME FOR A WATER PROJECT.



and loans at the most varied terms and conditions. This mix also allows it to gradually prepare the partner countries for more market-driven financing terms and thereby to actively promote their financial development as well.

The national tuberculosis eradication programmes in Central Asia, (Kyrgyzstan, Uzbekistan Kazakhstan Tajikistan), for example, could not be financed through loans – even on very favourable terms. After all, medical treatment and medication must be administered to the

mostly very poor population free of charge. KfW Entwicklungsbank has been supporting these tuberculosis eradication programmes with around EUR 35 million in grants since 1996, contributing significantly to the decline in new infections that has now been recorded in most countries and to a noticeable drop in the mortality rate. In Kyrgyzstan the mortality rate caused by tuberculosis dropped from 21.4 deaths per 100,000 inhabitants in 1997 to 11 deaths in 2005.

Poverty reduction does not require grants to be effective. In Mexico the microcredit institution Financiera Compartamos gives loans averaging 360 US dollars, mostly to rural women micro entrepreneurs, to help them start or enlarge their own business. Thanks to its efficient work structure Financiera Compartamos generates enough profit to allow it to fund its operations with an FC promotional loan from KfW Entwicklungsbank under German Financial Cooperation – a loan composed of KfW funds with no concessionary element. The institution decided in favour of a loan from KfW Entwicklungsbank because such a loan has a substantially longer maturity than the local capital market funds. Likewise, this enables the bank to offer its clients longer loan terms that better match the lifetime of their investments, permitting them more affordable repayment instalments. Besides, KfW Entwicklungsbank gave Financiera Compartamos a loan in local currency. This eliminated the additional currency risk the microbank would have otherwise incurred, allowing it to make the loans even more favourable for the ultimate borrowers.

The financing of a drinking water supply project in southeastern Tunisia is a vivid example of how the increasing use of KfW's own funds is contributing to development cooperation. The appraisal revealed that EUR 25 million would be needed to finance the project. Only EUR 3.7 million was available in grant funds from the federal budget, so KfW Entwicklungsbank added KfW funds at its own risk to provide the necessary loan amount at an acceptable interest rate. This interest-rate reduction takes into account the limited economic efficiency of public water supply while meeting the financing requirements.

This type of financing has a particular advantage. Not only the EUR 3.7 million in budget funds but the entire amount of EUR 25 million meet the ODA requirements. This is more than just statistics, however. The combination of federal budget funds and KfW funds enables more than 600,000 people in Tunisia to be supplied with clean drinking water. Such a broad impact would not have been achievable with the grant alone. The combination of funds enables German development cooperation to be even more effective and to make an important step on the way towards achieving the Millennium Development Goals.

Extensive immunisation programmes help to combat tuberculosis in Central Asia.



WE FOCUS ON PEOPLE.

The prime motivation for all development cooperation is to improve the living conditions, particularly of poor people. Just how much still needs to be done is illustrated by the fact that the difficult conditions in the partner countries still persist, which is what led to the formulation of the Millennium Development Goals. On behalf of the BMZ KfW Entwicklungsbank is operating in numerous projects and in the most diverse sectors in order to help the people in the partner countries. Experience shows, however, that impacts are not sustainable if they are not supported by the structures. Behavioural change, for instance, must be supported by incentive schemes and transfer of knowledge, and the overall external framework must be improved.

This is working in the health sector, for example:

In Côte d'Ivoire the HIV prevalence rate has stabilised at around 7% of the population. An AIDS prevention programme conducted under German Financial Cooperation has contributed significantly to this result, as the condoms distributed through this programme hold a market share of over 90%. Oral contraceptives have also been introduced under the programme and they are making an important

contribution to family planning. They are helping couples in Côte d'Ivoire to decide for themselves how many children they want.

KfW Entwicklungsbank has gone unusual ways to achieve this impact. It financed not only the subsidised distribution of condoms but also up-to-date radio broadcasts on the subject of HIV and condom use as well as the soap opera "Aids in the City", which has now been broadcast in neighbouring countries, too. German Financial Cooperation even supported the production of a set of stamps on the topic of HIV in Chad to familiarise as many groups of the population as possible with the topic.



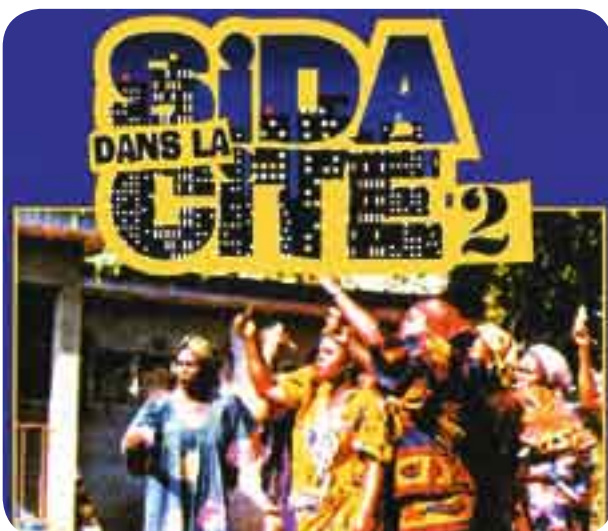
and a set of stamps does the same in Chad.

India is now almost completely free of poliomyelitis.

Since 1996 KfW Entwicklungsbank has invested nearly EUR 108 million on behalf of the BMZ in the procurement of vaccines, and it has supported awareness campaigns and the implementation of immunisation programmes together with the World Health Organisation (WHO) and UNICEF. All 167 million children under the age of five have now been immunised. Whereas around 50,000 cases of poliomyelitis were still registered in India in 1994, the WHO will presumably classify the country as poliomyelitis-free by the year 2010. In such a populous country, this is an enormous achievement.

Education is the basis for development. German Financial Cooperation is supporting the partner countries in developing their education and training systems. KfW Entwicklungsbank is making a substantial contribution to achieving the Millennium Development Goal of providing schooling for all children up to the age of 14 by the year 2015 through the construction and equipment

Unorthodox methods take effect – a TV soap heightens AIDS awareness among people in West Africa ...



of schools, teacher training centres, training workshops, universities and other educational facilities. KfW Entwicklungsbank has been supporting the education sector on behalf of the BMZ since the beginning of the 1990s. So far it has invested EUR 1.12 billion in reform programmes, of which EUR 872 million in primary education alone.

Yemen, for instance, has a shortage of schools, and the low school attendance rate of girls is another problem. It was not until the parents were sensitised and encouraged to actively participate in expanding the local supply

Parental involvement means that more girls in Yemen are allowed to attend school.



of schools and mothers' and fathers' councils were formed at the schools that more and more children, including more girls, have been attending school in Yemen. Today 70% of the children and teenagers attend school and the illiteracy rate has dropped from 60% to 47% in the last 10 years.

Roads provide access to health care and education. It seems obvious that education, health care, drinking water and sanitation projects have numerous significant impacts on people. But projects in the transport sector also improve people's living conditions tangibly, as is clearly illustrated by an FC project in Bangladesh. Here KfW Entwicklungsbank financed the construction of rural markets and roads in the regions of Khulna and Barisal in order to link remote villages to larger towns and markets. The project has changed virtually all dimensions of people's lives. The connection to the supra-regional road network has improved the sales prospects for the region's products and reduced the purchase prices for products from other parts of the country. Reaching a school or the nearest hospital is no longer an insurmountable challenge as travel times are now much shorter. The road connection has increased the transport volume by 63% while transport costs have been falling. This has drastically improved farmers' sales opportunities and is reflected in farmers' household income, which has risen by an average of 38%.

RECONCILING GROWTH WITH THE ENVIRONMENT.

Natural resources are limited, and many of them can be used only once. A piece of land can be used as forest, cropland or for settlement. Amid continuing worldwide population growth, mounting pollution and advancing land consumption, German Financial Cooperation seeks to reconcile the developing countries' necessary growth efforts with sound management of their natural resources.

The experience which KfW Entwicklungsbank has gathered shows that environmental protection does not have to hamper a country's development nor be an obstacle to income improvements for poor groups of the population.

Environmental protection reduces poverty. The resource protection programmes supported under German Financial Cooperation do not only promote reforestation, which is so important for the water regime, soil and climate protection. In countries where the timber industry essentially means deforestation the programmes have proven that poor farmers can develop a sustainable and secure source of income through sustainable forest management. At last families have enough income to be able to afford health care and education as well.

A market stall supplements these farmers' income.



In the Amazon rainforest, forest protection is combined with social impacts that are crucial to the success of the project. The indigenous people, who still live in and from the forest, are suffering from depredation, shrinking habitats, low income and fear of an uncertain future. But what is helping the Amazon forest is also good for the indigenous population. The concept of protected areas is designed not only to protect the forest but also to preserve the indigenous peoples' bases of life. Of the 107 million hectares of Amazon rainforest that is home to indigenous peoples, 94 million hectares is officially recognised as indigenous land, and 38 million hectares alone – an area larger than Germany – under an FC-financed programme. It is being monitored by a satellite-based surveillance programme financed from FC funds that detects illegal timber felling activities and thereby supports the indigenous people in the surveillance of their forest. Moreover, usage rights to a part of the rainforest that belongs to the state have been transferred to the indigenous people. These rights also mean that the indigenous people now have the legal basis on which to exclude other users, such as the soya farmers who clear vast areas of forest.

Energy for growth without additional emissions. Efficient energy use is another key factor in reducing the burden on the world's climate. According to estimates by the International Energy Agency, global primary energy consumption will rise by almost 50% of the current level between now and 2030. As energy costs will be rising at the same time, this trend will continue primarily at the expense of the developing countries and their poorer inhabitants.

The more efficient use of energy and the generation of energy from renewable sources such as hydropower, geothermal energy and wind energy are a priority of KfW Entwicklungsbank's work in the energy sector. One example is Kenya, where the Olkaria thermal power plant,



Promoting regenerative energies – photovoltaics in Morocco.

situated roughly 90 km north-west of the capital Nairobi, has been in operation since 2003, converting heat from inside the Earth with an installed capacity of 70 MW. Steam rises at a temperature of up to 300°C from a depth of around 2000 m through pipelines to drive the turbines in the power plant. This reduces CO₂ emissions by around 290,000 tonnes a year against conventional power generation. Plans to enlarge the power plant by 70–100 MW are under way to supply another 430,000 people with electricity. KfW Entwicklungsbank is financing both

projects on behalf of the BMZ, contributing to providing Kenya with a clean and reliable source of energy. After all, several years of drought have led to a decline in hydro-power generation in Kenya and power cuts are now everyday occurrences. The new geothermal power plant will not run out of steam so fast because Kenya still has great geothermal energy potential that has not yet been tapped. Experts estimate it at around 2000 MW, nearly twice as much as Kenya's installed power plant capacities.

RENEWABLE ENERGY AND ENERGY EFFICIENCY CONTRIBUTE TO THE KYOTO CLIMATE OBJECTIVES.

The Kyoto Protocol, which was signed in 1997 and expires in the year 2012, prescribes binding targets for the reduction of greenhouse gas emissions considered to be the cause of global warming.

The high efficiency of investments in modern energy technology and their significant contribution to achieving the Kyoto climate objectives have prompted the German government and KfW Entwicklungsbank to set up a special programme to promote renewable energies and increase energy efficiency. A total of EUR 500 million is available for this purpose between 2005 and 2009. Under this facility, low-interest loans are available for an estimated 50 investment projects designed to conserve natural resources and protect the environment such as windfarms, biomass plants, photovoltaics and measures to reduce losses in transmission and distribution networks. Low-interest loans have already been agreed for nine projects in a sum of EUR 300 million.

Protecting the climate with environmentally sound transport concepts. Energy is not the only sector in which the Millennium Development Goal of ecological sustainability can be pursued. The rapid increase in transport volume, particularly in Asia, has a strong influence on the development of energy consumption and on the climate. The gross domestic product of China, for example, is growing at a rate of 9% annually while automobile traffic is increasing by 20% and air traffic by 14%. This indicates that economic growth in developing and transition countries is associated with a growing consumption of resources and energy, while developed economies now succeed in increasing their gross national product while even reducing energy consumption in some areas. While 34% of energy consumption in the OECD countries is used for transport, in India and China this share is still between 9% and 11%. With road transport exploding here, however, these figures are growing fast. In Brazil this share has already reached 31%, and the alternatives to roads are largely underdeveloped. Given the fast-rising energy prices this increase is not only a problem for developing countries but also places a serious burden on the Earth's environment and climate.

So the aim must be to divert the growing transport volume in developing countries to environmentally sound means of transport. The transport of goods should be shifted onto the railroads and environmentally friendly local public transport systems in Asia's megacities should be promoted, as they can hardly handle the burgeoning masses of cars any longer. Most of all, this will impact favourably on their energy balance. Transporting freight on railroads consumes only one 20th of the energy needed to move goods on roads and is good for the climate.

German Financial Cooperation is supporting China in expanding its railroad network with innovative technology. It is hoped that early planning can increase the share of railroad transport in the overall transport of both passen-

gers and freight. The line from Chongqing in western China to Huaihua in central China, which went into operation in early 2006 and was co-financed from FC funds, shortens the distance between the two cities by 300 km and reduces the travel time from 33 hours to only eight hours. The impact is enormous as 120 million people live in the catchment area of a railroad line that now connects them to the more dynamic regions of central China and the coast. But the burden on the environment will decline despite economic growth and increasing traffic. Shifting freight and passenger transport from roads and airplanes to the railroad also avoids 440,000 tonnes of CO₂ emissions every year.

China – putting growth on a low-energy track.



IMPROVING STRUCTURES DURABLY.

KfW Entwicklungsbank aims to create structures that ensure the long-term impact of development cooperation. This is why a project does not end with the enlargement of a drinking water supply system, the construction and equipment of health stations and classrooms, the electrification of villages, the installation of irrigation systems or the establishment of a microcredit bank. The aim is not achieved until the long-term operation of the facilities created has been firmly established in society through culturally and economically viable rules and laws.



Active participation by those concerned helps to achieve long-term structural changes.

Cooperation therefore must take a broader perspective than that of an individual project and maintain an overview of the structures and processes that define the entire sector.

Irrigation systems, for example, cannot be efficiently operated, maintained and repaired unless the farmers are

trained and prepared accordingly. Only specific techniques guarantee efficient irrigation that saves water and ensures long-term availability of this precious resource. Modern irrigation techniques enable several harvests a year, and growing high-quality products can very significantly improve the families' income and food situation. So it makes sense to pay for water. The revenues must be used efficiently and a legal framework must be in place to enable sanctions against defaulting consumers.

FC projects support sector reforms and promote lasting structural changes in a sector. This requires active participation by the immediate stakeholders. However, the parliament, government and ministries in charge must adopt relevant laws and regulations and ensure that they are enforced. But this is just what many developing countries lack. Many state institutions are inefficient and there is a lack of legal safety, gender equality, capable administrations and opportunities for the population to participate in order to reduce poverty sustainably and successfully.

If the community of nations intends to achieve the Millennium Development Goals, state structures in the partner countries must be reinforced, and the countries must take more responsibility for their own development. To make this possible the donor countries must change their behaviours as well. They must coordinate their cooperation approaches much more strongly than before and renounce isolated actions.

Greater impacts through improved cooperation.

This common understanding marked the meeting of high-ranking representatives from more than 100 donor and partner countries and multilateral development organisations in Paris in early 2005 and the Paris declaration that was signed there.

By the year 2010, two thirds of all development cooperation funds are to be provided under the programme-

Programme-based approach means the joint financing of general or sector reform programmes and corresponding government expenditure by various donors. This requires close coordination of the conception and the implementation procedures of the programmes among the donors as well as between the donor group and the partner government. Disbursement of funds is usually conditional on the fulfilment of political, fiscal, economic and sector reforms by the partner government. In programmes of this kind the partners take more responsibility for the utilisation of the funds. They also have greater scope to decide on the advice they need. Experienced sector experts from the donor institutions coordinate their work closely and advise the partner governments in their complex tasks.

based approach rather than for individual projects. The advantages are obvious:

- Cooperation based on joint agreements between partner countries and donors can have much greater leverage. The more the cooperation focuses on entire sectors, the more a joint financing approach and a reliable basis for planning can enable partner countries to gradually set up an efficient public administration and transparent budgeting procedures.
- The approach is also less of a strain for the governments of the partner countries. They no longer need to meet the different individual requirements and procedures of different donor institutions under numerous individual projects. The approach reduces the administrative and management effort considerably and liberates available personnel to do actual government work.

Joint financing operations are an important element of the programme-based approach. Both sides demand much from the other here, and both the partner country and the donor give each other more influence and participation. Their cooperation is designed for the long term. It also means that both sides relinquish some of their influence. The recipient country grants the donor countries considerable rights, for instance to check the government budget. Conversely, the donors allow the partner countries

increasing autonomy to act and, hence, more responsibility to allocate funds for investment and advice.

In order to qualify for programmes such as the joint-financing approach, the partner countries must meet some minimum requirements. These include minimum human rights and civil rights standards, more resolve in fighting corruption and abuse of authority, and the creation of a market economy. This means specifically that government and administrative procedures, particularly financial and budgetary procedures, often need to be thoroughly reformed. Budgets need to be made transparent and have to be set up with parliamentary participation, and the use of the budgets also needs to be transparent and traceable. Control mechanisms such as the influence of the parliament and the courts of audit must be strengthened. This also applies to public procurement in general. These requirements should ensure that the funds are used properly. More importantly, modern and transparent structures should be set up permanently in government and administration. The donor countries jointly support the partner countries in these efforts with funds and through intensive dialogue, experience and advice.

Seventeen countries, half of them in Sub-Saharan Africa, received EUR 191 million for national poverty reduction programmes and sector programmes under programme-based approaches in 2006. Another 25 similar

HARMONISATION BEGINS AT HOME.

Harmonisation and greater efficacy are also the focus of the BMZ's reform efforts for German development cooperation. The process for optimising German DC, which was initiated in early 2006, is intended to further improve the efficacy and visibility of German development cooperation on an international scale. KfW Entwicklungsbank has been contributing to this process with its many years of experience in development cooperation and its skills as a bank with expertise from all areas of KfW Bankengruppe. With these qualities it has been supporting the German government in its efforts to make FC and TC more efficient and more effective.

programmes with a total volume of EUR 256 million were successfully appraised in 2006. Taking Tanzania as an example, the following chapter "Regional focus" describes the concrete impacts that can be achieved through this form of cooperation.

Harmonisation also works in other ways. Greater coordination enables donors to contribute to making the structural impacts of their cooperation more effective in other ways, too. Donors can speak with a single voice when financing a project, impose a uniform set of requirements and apply identical procedures. It also means, however, that the donor countries' specific expertise can be made much more available to all and that each country focuses on its particular strengths in order to divide the tasks efficiently.

Donor coordination also means that not all donors need to be present in all sectors in every country anymore but instead transfer to each other the responsibility for particular tasks according to their strengths. Accordingly, KfW Entwicklungsbank may pool funds received from the French development bank AfD and the EU and apply them in agreed programmes. Conversely, France and other countries may be commissioned by Germany. This translates into less effort and greater impacts through coordination and the division of tasks.

The financial sector – an important key to sustainable economic development. The establishment of strong

non-governmental structures, particularly in the financial sector, is an important objective of German FC. The financial sector plays a crucial role for a country's economy to develop.

The economy of developed countries such as Germany would break down immediately if consumers and enterprises were no longer able to pay their bills by bank transfer, take out loans to buy homes or invest, or put their money on an interest-bearing long-term savings account for future purchases. Many developing countries cannot even begin to develop because fundamental prerequisites such as a functioning financial market or trustworthy financial institutions are lacking. It is estimated that only around 10% of people in developing and transition countries have access to microcredit institutions, banks or savings banks. This means that poor people in developing countries in particular cannot use their economic potential. As they have no alternative to hiding their money under the mattress it is impossible for them to effectively save for a rainy day, let alone for a business investment. Private enterprise, however, is a fundamental prerequisite for a society to prosper.

KfW Entwicklungsbank is one of the leading micro-financing players in the world and has contributed to the establishment of numerous microcredit institutions.

In Kosovo, for example, there was not a single bank in the war-damaged country in 2000; there was no way to

keep or deposit money safely, to say nothing of borrowing money for investments. It was obvious that the people in Kosovo had been waiting desperately for the foundation of the microcredit bank, in which KfW Entwicklungsbank has played a major role by taking a stake of 16.7%. In the first months the bank sometimes had 2000 to 3000 new customers – daily. It was also as a result of KfW Entwicklungsbank's participation that the people began to trust the bank and finally deposit their money there safely and with interest. By the end of October 2006 savings deposits had grown to more than EUR 370 million, clearly exceeding the loans outstanding. Since the bank was founded around 114,000 loans worth a total of EUR 627 million have been extended to private companies in Kosovo.

In its first years the bank was funded to a substantial degree through the European Fund for Kosovo, which was initially established by KfW Entwicklungsbank and has since merged into the European Fund for Southeast Europe (EFSE). Because it is trusted by the population and offers savings products that meet their needs the bank is today in a position to fund 90% of its operations from its customers' deposits. The borrowers have created more than 14,000 new jobs with their investments – a high number for a country ravaged by civil war. Furthermore, other financial institutions have now opened offices in Kosovo as well and two Kosovar banks have been established. Within a few years a functioning and stable financial market has emerged in a region where the first bank counter was opened only six years ago.



Thanks to a microloan, Sami Bullaki was able to expand his business in Pristina.

The fact that a functioning financial sector benefits the population most of all is demonstrated by figures from Bangladesh. Here KfW Entwicklungsbank provided a microcredit bank with funds of EUR 6.1 million. The results exceeded all expectations. From an average per capita income of only USD 430 per year the income of the 45,000 particularly poor borrowers in the country's north-west doubled within four years from an average of EUR 328 to EUR 657. Land ownership increased from an average 0.35 ha to 0.58 ha and the number of goats per household grew from an average of one goat to 3.6 goats.

DEG – PROFITABILITY AND DEVELOPMENTAL EFFICACY GO HAND IN HAND.

The record is impressive. Of 440 evaluated projects in the DEG portfolio, 73% have been classified as "an unqualified success". Together with the investors and other financiers, in 2006 DEG contributed EUR 1.4 billion to the national revenue and around EUR 5.9 billion in net foreign currency as well as creating 54,000 new jobs. Some 1.6 million people have found work directly and indirectly through DEG projects.

Through loans and participations, DEG provides badly needed funds not only for the development of the private sector in the partner countries. It also makes a major contribution to combating income poverty and is committed to maintaining international environmental and social standards.

DEG, a KfW subsidiary, is able to keep precise track of the actual success of its work thanks to a well-established instrument used to measure its achievements – its corporate policy project rating mechanism. An index point system and corresponding ratings (from 1 to 6) are used to evaluate every single project before it is accepted (ex ante) and after it has been completed (ex post).

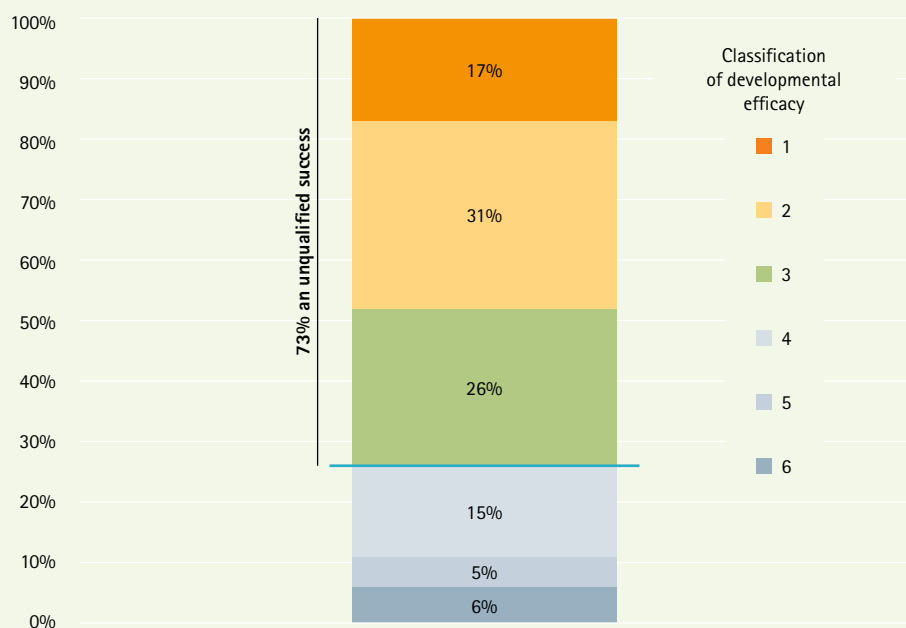
DEG now carries out a thorough appraisal of every project at regular intervals to check its developmental impact and sustainability as well as its long-term profitability. In addition, it evaluates its own role. The evaluation criteria include, for example, whether it has been possible to obtain further financiers as a result of DEG's involvement and thus to mobilise urgently needed capital in the markets. A further evaluation criterion is the profitability of the commitment for DEG, i.e. its contribution to the return on equity of DEG as a financier. Sustained project profitability and positive developmental impacts are not a contradiction in terms. Observations in recent years have allowed DEG to demonstrate that – because they pay more tax, for example, provide secure jobs and also benefit society through additional activities – profitable businesses tend to have a far greater developmental impact than less profitable enterprises.

By providing long-term finance, which automatically involves DEG in higher risk in developing and transition countries, DEG makes a decisive contribution to enabling these enterprises to grow and consequently to employ more people. In 2006 51% of the newly committed funds (53% if calculated in terms of the number of projects) were channelled to high-risk or low-income countries, in which other banks are scarcely active. It is precisely this long-term business finance that is still in short supply – if it is available at all – in the local

financial markets in DEG's partner countries. According to a survey conducted by the World Bank among 26,000 enterprises and investors in 53 developing and transition countries, one of the main obstacles to development, alongside an inadequate infrastructure, is the lack of long-term finance.

The corporate policy project rating mechanism has proved its worth in practice as a rating instrument for measuring developmental impact. Today it is being used by eight European development finance institutions and considerable harmonisation has thus been achieved. Along with determining the quantitative impact of financing private investment this harmonisation also contributes to implementing the impact orientation objective agreed in the Paris Declaration.

DEVELOPMENTAL EFFICACY OF DEG PROJECTS IN 2006.





3. REGIONAL FOCUS.

Sub-Saharan Africa.

MORE IMPACT THROUGH GREATER OWNERSHIP.

The current news headlines from Africa seem to herald a brighter future. Economic growth in 2006 stood at around 5%, and the forecast for 2007 is significantly higher, at 7.2%. Inflation has hit a low point, budget deficits are at manageable levels and capital inflows are on the rise. Even the oil-importing countries report robust macroeconomic development, in part due to the solid economic policies pursued by reforming countries such as Mozambique and Ghana. These countries have improved the domestic investment climate, stabilised their currencies and strengthened their financial sectors. The progress made in the area of democratic development and peace-building is another good news story. Violent conflicts are on the decline and the number of multi-party systems is increasing, as is the number of non-military governments.

Although it is important not to ignore crisis hotspots, for example Somalia, Darfur and Zimbabwe, more and more countries are nevertheless well placed to undertake sustainable poverty reduction measures. However, in addition to reforms, Africa needs investment, and it is fitting that Africa tops the agenda during the German G8 and EU Council Presidency. In line with the Paris Declaration on increasing aid effectiveness, the aim of Financial Cooperation is to support reform-minded states in their own efforts to restructure and to follow their own effective paths out of poverty.

The following examples show that although structural impacts are making themselves felt, the results will not be achieved overnight. The necessary reforms cannot be imposed from outside nor can they be bought; they depend on the formation of a political will in the partner country based on democratic principles. On behalf of the BMZ, KfW Entwicklungsbank has firmly set out to promote ownership in these countries so that conditions improve not only for the people in the project regions.

MALI – FIELDS MADE FERTILE BY IRRIGATION.

The markets in the Niger Inland Delta have certainly changed. They are now abuzz with the cry of vendors pitching their new radios and women hawking sweet potatoes, onions and other vegetables at the top of their voices. A few years ago, when the rice harvests along Mali's major waterway yielded barely sufficient to feed the farmers' extended families, such scenes would have been unthinkable. Selling part of the rice harvest was not an option in the world's fourth poorest country. Thanks to an irrigation programme instigated by the Malian government with the support of KfW Entwicklungsbank, 11,000 people have been able in just a few years to take the decisive strides out of poverty.

Today, when the rice is growing in the fields during the rainy season, the countryside is a luxuriant green. And even in the dry season, maize, tomatoes, onions and

potatoes are cultivated, irrigated by water piped from the Markala dam.

The people themselves have worked this transformation with the help of the ambitious irrigation programme. Not only were the existing water channels repaired in order to irrigate 2,900 hectares of agricultural land, but 750 hectares were newly developed and allocated to landless farmers.

KfW Entwicklungsbank cooperates closely and in a spirit of mutual trust with its Malian partners and lays great store on the active involvement of the farmers. The key point is that the farmers organise village user groups and take full responsibility for maintaining the subchannels that lead the water directly to the fields. The Office du Niger, the authority responsible for irrigation, is charged with looking after the main and tributary channels. The



A good crop generates income, provides healthier nutrition and promises a better future.

user groups also represent the farmers' interests at the Office du Niger and participate in setting water charges. The farmers now accept that the water for their fields has to be paid for if the irrigation system is to operate on a sustainable basis. Today, 80% to 95% of the farmers pay the charges and thus help ensure the Office de Niger has sufficient resources to perform its tasks.

This income stream is bearing fruit. During the main growing season, the rice yield has risen from 4.4 tonnes

to more than 6 tonnes per hectare. Part of the harvest is now sold. In addition, vegetables planted on small plots primarily tended by women are significantly improving the nutrition status of their families. During the dry season, up to 30% of the fields under the purview of the Office du Niger are under cultivation – areas that previously lay fallow. These positive developments translate into noticeably increased incomes for the farmers.

SENEGAL – TAKING MATTERS INTO THEIR OWN HANDS.

Which village in Medina Sabakh is in most urgent need of a school? Where are school enrolments highest? In which village do children have the longest journey to school? What would be the most suitable location? Alternatively, would it make more sense to provide training for women and young people rather than build new classrooms? The ten women and men elected to the budget committee of the local council in Medina Sabakh in Senegal take such decisions themselves. And the results are remarkable. Since central government in faraway Dakar no longer decides, the communities are extremely proactive about taking matters into their own hands.

In 1996, the Senegalese government decided to transfer some of their tasks to the newly established and elected district and local councils. Despite the fact that the taxation system and financial allocations have not yet been fully worked out and community resources are by no means adequate, the councils are exercising their right to draw up their own budgets and to take investment decisions on local infrastructure issues. They are drafting their own zoning plans as well as planning schools, drinking water systems and health care units.

On behalf of the BMZ, KfW Entwicklungsbank has been supporting the decentralisation process in two of Senegal's poorest regions, Kaolack and Fatick, since 1994. Some 1.8 million people live in these two regions in around 50 poor rural communities. The excel-

lent results achieved are in no small part due to the development plans that were drawn up to cover a period of several years and widely and openly discussed among the inhabitants. There is often a lack of health care services, schools and adequate water supplies, especially in sparsely populated communities. With the help of KfW Entwicklungsbank and German FC resources, a fund was set up in 2000 to provide investment subsidies to the communities in the Kaolack and Fatick regions. KfW Entwicklungsbank has so far approved funding of around EUR 10.1 million.

The local inhabitants are using this to their advantage. To date, 450 infrastructure initiatives have been completed in just four years: 76 classrooms, 72 health care units, eight community centres for women and young people, and water supply systems with 290 public taps and 71 wells. Support for this programme is provided in close cooperation with GTZ, which advises the communities on drawing up development plans. The major investments that are needed are financed through the fund.

The importance of self-determination – decentralisation in Senegal.



A survey conducted in ten communities reveals just how beneficial these measures are. Four years ago, only half of the population had access to a doctor or midwife in their vicinity; today the rate is almost 90%. Whereas only two thirds of the people had safe drinking water, it is now available to nearly everybody. The new classrooms have been instrumental in raising the school attendance rate to 90%. In addition, opportunities for gainful employment have improved. For example, 460 market stalls are now established in 13 indoor markets, providing livelihoods for entire large families. The market in Ndiagate is a case in point. A carpenter, hairdresser, cobbler, hot-food stall, motorcycle workshop and an ironmonger now all earn their living under its roof.

These positive developments were only possible because the communities gained new knowledge and expertise. They learned how to put projects out to tender, how to award contracts and how to carry out calculations to ensure that operations cover their costs. The energetic participation of the local population was vital and also engendered a stronger identification with the programme. Parents and user committees now assume the responsibility for operating and maintaining schools, health care units and water supply systems. Markets and bus stations

are operated under leasing agreements, and the income generated helps communities finance new infrastructure projects.

All this is remarkable when one remembers that these communities were ruled by patriarchs not ten years ago. The local councils had no say, and in practical terms women were not represented at all. In the meantime, two elections down the line, the local and rural district councils have new leaders. A new generation of younger and well educated councillors, including many women, are shaping the futures of the poorest regions in Senegal.

The lively participation of the voters is quite remarkable. Even the poor soon came to grips with the practical side of democratic participation and learned how to exercise their new rights. In committee meetings, the politicians are not left to their own devices, as in Germany, since half the village joins in the discussions. Women have taken on a new and more prominent role in many communities. Frequently, it is one of the women elected to the community council who is then appointed to head the finance committee – a key post in the local administrations. "They seem more skilful when it comes to administering our funds," explains the council president in Djinrnda.

TANZANIA – DONORS UNITE TO PROVIDE WATER FOR ALL.

Many donors are engaged in Tanzania, where they do much to foster the country's development. On the face of it, this should be cause for celebration. But donor diversity often results in conflicting requirements and concepts. For the staff at the water ministry it entailed an appreciably heavier work load, and too little time remained for the real tasks of the ministry. The donor community has since taken steps to remedy the situation. Dr Jörg Hartmann, head of the KfW Office in the capital Dar es Salaam, will be the chief contact for government level communication

on the water sector over the coming years. Donors will now speak through him with one voice. This is the outcome of a successful donor harmonisation process that also gives the Tanzanian government a four-month respite from donor-institution visits each year.

On behalf of the German government and numerous other donors, KfW Entwicklungsbank is acting as lead donor and coordinating water sector development together with the World Bank. The Tanzanian government, the World Bank, the USA, the African Development Bank, the



In many parts of Tanzania an unfulfilled hope ...

Netherlands and Germany intend to mobilise around USD 950 million in order to give the majority of the population access to safe drinking water over the next two decades. "The only chance of success was for all parties to agree on a common procedure and to pool resources. And this has happened," explains Mr Hartmann.

Germany is well placed to function as coordinator, since it can draw on many years of experience in the water sector in Tanzania. Since the mid-1990s, Germany has helped supply drinking water throughout whole regions in the country. Tanga is a case in point, where safe drinking water is now piped to each house. Some 250,000 families or 98% of all households, many of them poor, are now connected to the water supply 24/7. The water is so clean that people do not need to boil it first – they can drink right out of the tap. Cases of cholera, typhus and dysentery have declined markedly. Women and children are happy that they no longer have to fetch water in buckets from water holes or buy it at exorbitant prices from water sellers. And they do not need to search for firewood to boil the water. Today, they can spend more time on productive activity, and the children can go to school. Poor families are better off: incomes are rising, and water from the tap costs only one tenth of what the private water sellers charge. The jointly operated water sector programme is

now planning to bring these benefits to communities throughout the country.

In Tanzania too, decentralisation is playing a key role in the success of the programme. Water used to be the sole preserve of the national government, which was basically out of touch with the interests of the population. "Free water for all! This was the principle under which the government operated the water networks, supplying the precious liquid free of charge or at symbolic prices. The upshot was dilapidated networks, enormous water losses, poor water quality and the provision of water supplies to just half the population," explains Mr Hartmann.

All this changed in the 1990s. Partly due to the lessons learned in pilot regions supported by KfW Entwicklungsbank on behalf of the BMZ, the government decided

... that has been realised in Tanga – clean water on tap.



to decentralise the whole water supply system. Today, the country's 180 municipal water utilities are in charge of the networks. They decide how to spend their budgets and income and are responsible for operating and investing in the system. In the villages, the people themselves organise the water supply, contributing to the success of the programme through their own efforts and extraordinary commitment. The sector has benefited from the introduction of a modern institutional framework complete with a regulatory authority and public-sector offices responsible

for water-resource protection. "However, some networks are in such poor condition that concerted action will be needed if the water utilities are to operate on a sustainable basis," comments Mr Hartmann. "We soon learned it would be impossible to improve the water supply in Tanzania quickly enough through one-off projects." This realisation gave birth to the idea that all donors should join together with the government in promoting the water sector. Since the beginning of 2007, the stakeholders have been putting this idea into practice.

DEG – PROSPERITY THROUGH RUBBER AND FLOWER PRODUCTION.

In Sub-Saharan Africa, the demand for long-term finance among private enterprises remains high and is set to rise further, thanks to the positive economic developments taking place in many African countries. In 2006, DEG supported 23 projects with a total of EUR 143 million. The following examples from Gabon and Kenya illustrate just how successfully African enterprises can perform.

Gabon imports around 80% of its food requirements. Given that oil production is declining, this places a major strain on the country's foreign exchange reserves. In response, the government is aiming to expand agricultural production and to develop new products for export. With DEG support, the rubber and palm oil producer SIAT Gabon is helping achieve this goal. The company was formed through the privatisation of three state-owned businesses and has developed well thanks to the investment by its Belgian sponsor and the financial support of DEG in the form of an equity participation and a quasi-equity loan totalling EUR 5.1 million. In 2006, the production of rubber (destined for export) and palm oil were running at full capacity, and the greater part of the initial operating losses have already been recouped. Today, SIAT supplies large parts of the country with cooking oil and soap made from palm oil, and it provides secure livelihoods for almost 2,200 employees.

SIAT has undertaken not to clear any forests to make way for its palm oil and rubber plantations, nor to exploit other valuable natural areas. The company complies not only with national environmental and social standards but with international standards too. Foreign exchange earnings, so important for purchasing Gabon's food imports, are now at EUR 30 million a year and climbing. The project was deservedly awarded top marks in the corporate policy project rating based on development policy and economic criteria.

A long-term loan of EUR 7 million approved in 2006 for Panda, the Kenyan rose-grower, has yielded equally impressive results. The established company is aiming to expand its Flower Business Park from 210 to 270 hectares and to increase the number of its employees by 1,000 to 5,500. This company too is very serious about international environmental and social standards and complies with the EurepGAP and Max Havelaar certification standards. In view of the high credit risk, Panda had no chance of funding its long-term investment plans through the local financial market. The project and the whole flower sector is nevertheless crucial to Kenya's development. Flower exports, which bring in some EUR 400 million a year, are the country's third largest foreign exchange earner after tea cultivation and tourism. Panda alone anticipates foreign exchange earnings to the tune of EUR 6 million annually. Directly and indirectly, horticulture provides employment for 500,000 Kenyans. Poor and unskilled labourers in particular are able to earn a living from flower cultivation. The energy required to produce a rose in Kenya and to export it to Europe is about half that required to grow a rose in a greenhouse in Europe. DEG is helping finance six horticulture companies in Kenya, which account for 15% of the land under cultivation in this sector.

But the Flower Business Park is not just significant as the source of 1,000 new jobs. The company is also cofinancing a health centre out of its own resources that will serve an area in which 35,000 women live. Panda offers regular AIDS prevention courses for employees and also funds a boarding school for 50 streetchildren. All this is financed by flowers that fill markets with fragrance and colour throughout Germany.

Rose-growing in Kenya – high environmental and social standards.





INVESTING WISELY FOR THE BENEFIT OF ALL.

The economic and social conditions are improving in Central and South America. Against the background of the global boom in raw materials, countries are chalking up growth rates of between 4 and 5%, with frontrunners such as Venezuela and Argentina managing a heady 9%. Official unemployment is falling, albeit slowly, and inflation is under control almost everywhere. Countries such as Brazil, Colombia and Peru have used this window of opportunity to reduce high levels of national debt and to narrow their budget deficits.

But the continent is still fraught with problems. Despite rising per-capita incomes, poverty still afflicts broad sections of the population: 40% of the people live on less than USD 2 a day and have inadequate or no access to education, finance, drinking water or health services. Income is still distributed more unequally in Latin America than anywhere else in the world. Most states suffer from corruption, weak institutions and poorly functioning legal systems, and the marginalisation of indigenous population groups remains a growing problem. These are all reasons why the political landscape in Latin America, and especially the Andean region, is characterised by increasing populism and a penchant for quick fixes.

KfW Entwicklungsbank and the other German development organisations are therefore concentrating their activities on good governance, environmental protection and resource conservation, drinking water supply and sanitation. Good governance is a theme of particular importance for poorer population groups. Social, economic and environmental progress and broad-based growth are only possible under democratic rule-of-law conditions and through citizens' participation. The poor are hardest hit by corruption, inefficient government and the low standard of public-sector service provision. When implementing FC projects and programmes, the sector dialogue with governments is therefore crucial to shaping an enabling environment that is conducive to growth and poverty reduction. The examples of our work in Latin America show that it is possible to achieve results in unstable states, such as Haiti, and to promote good governance and economic development, even through water projects.

PERU – RELIABLE WATER SUPPLIES THROUGH GOOD GOVERNANCE.

It was more or less the same story everywhere you looked in Peru: contaminated drinking water was the cause of much illness among the population. In addition, due to the high losses in the supply networks, water was available only intermittently for a few hours at a time. Many households were secretly connected to the water supply. Households with registered connections often had no water meters, and those that did were frequently not checked to make sure that bills were paid. As a result, many municipal water utilities were on the verge of bankruptcy. Without income, it is not possible to guarantee reliable supplies or maintain networks.

This situation is politically charged, as mayors exert great pressure on water utilities to keep their charges as low as possible. In the past, covering costs was not an issue, as long as the population voted for the right candidate. In many cases, the negligible income generated by the utilities went straight into the municipal coffers. The situation was exacerbated by poor management and a lack of investment and financial planning.

In the meantime, the situation in many towns and cities in Peru has improved considerably. KfW Entwicklungsbank, GTZ and InWEnt are supporting the government immediate relief programme throughout the country. With



Peru – it is worth paying for a reliable, clean supply of water.

the financial support provided by KfW Entwicklungsbank, the utilities now have the resources to rehabilitate their networks and to renew wells, household connections, treatment plants and sewage clarification basins. The programme, which is scheduled to run until 2009, aims to ensure that the water utilities receiving support in ten municipalities simultaneously acquire modern management techniques and also start to calculate water charges and costs correctly.

In the past, the management in the provincial capital Ayacucho had no idea of water production levels, neither did the utility have any data on the enormous water losses.

There were no reserves to meet future investment needs and no reliable financial plans.

Today, the subject of water losses is on the agenda at every management meeting; executives have been trained and a management information system introduced for cost accounting, bookkeeping and invoicing. At the same time, a hygiene education programme was conducted in the poor residential areas to explain the dangers of contaminated water, especially to women and children. We are now seeing the first positive results: measured water losses have dropped from 60% to 46%.

Around half of German FC commitments for Peru since 1996 have been channelled into the water and wastewater sector. However, KfW Entwicklungsbank is not only providing financing but also encouraging change at the political level. KfW Entwicklungsbank and GTZ are working closely with the various ministries and authorities responsible for the water sector in an effort to clarify regulations and disentangle the overlapping areas of competence that are hindering development. Although the water utilities are organised as private companies, they are wholly state owned and therefore the target of considerable political pressure. The goal is to clarify areas of responsibility and ensure that the utilities operate on a cost-covering basis, like other private companies.

These on-site successes are having far-reaching impacts. Poor sections of the population in particular are benefiting from the improved water supplies. The health situation has taken a significant turn for the better, and the intermittent recurrences of cholera that used to plague the provincial capital Chiclayo are now a thing of the past. Even private enterprises are now showing interest in investing in the water sector.

HAITI – MICROENTERPRISES BRING BRIGHTER PROSPECTS.

Haiti is the poorest country in America. Two-thirds of the population of over eight million are living in absolute poverty. Average per-capita income is USD 560 per year, and there is one doctor for every 10,000 inhabitants. Pregnant women can afford neither a midwife nor a doctor at childbirth, which explains why Haiti has the highest maternal mortality rate in the world. The country also has the highest AIDS prevalence rate outside Africa. According to UNICEF, 12% of children die by the age of five due to malnutrition, illness (for example diarrhoea) or as victims of violence. According to the UN, more than 50% of the population can neither read nor write.

It is almost a miracle that successes can be achieved at all under these unstable social and political conditions. This is indeed cause for optimism. For thousands of people in Haiti, Micro Cr dit National (MCN) has become a symbol of hope. This bank manages to bring off the seemingly impossible task of lending money to poorer sections of the population. This is of far-reaching consequence, as there are around 300,000 informal microenterprises in Haiti. Until very recently, the owners had no chance of obtaining loans to finance business expansion or to purchase goods and equipment. They could not save money or pay bills by

bank transfer. They were customers that no bank wanted to serve. Only a handful of Haitians had access to banking services before MCN was founded.

This changed in 1999 when MCN began to grant small loans to the poor. Acting on behalf of the BMZ, KfW Entwicklungsbank made EUR 2.5 million available to enable MCN to refinance loans and invest in business equipment. This was a risky undertaking that 11 commercial banks in the country had not dared touch.

But this courageous step paid off. By the end of 2005, MCN had a portfolio of 33,000 loans amounting to some USD 51,000,000. The remarkable thing is that the loan default rate currently stands at a manageable 5%, even under the extremely difficult conditions in Haiti. In some years the figure is significantly lower.

MCN has turned a profit since its second year of trading, proving that microentrepreneurs are a valuable client group. Good news travels fast, and six of the eleven commercial banks are now offering microcredits. One reason for the positive results is that the clients receive their first small loans only after making a convincing case for themselves, their set-up and their business concept in the course of many meetings and visits. This conforms to

the general practice adopted by other microfinance banks. Provided the entrepreneurs repay their first loans on time, larger follow-on loans can be granted. In this way, a relationship based on trust gradually develops between the banks and their clients. And just for the record, 58% of MCN's borrowers are successful businesswomen.

Haiti – in the language of the indigenous population this means "mountainous country".



DEG – ENVIRONMENTAL PROTECTION WITH SUGAR AND COCOA.

The promising developments in Latin America are also making themselves felt in DEG's operations. In 2006, support was provided for 32 projects with a regional concentration in Argentina, Mexico, Nicaragua and Brazil, as well as for individual projects in the Dominican Republic, Ecuador, Honduras, Colombia, Peru and Uruguay.

Sectoral priority was attached in particular to investments aimed at expanding capacity in the agricultural and manufacturing sectors. Among other things, this is expected to create new employment opportunities.

A booming private sector is not necessarily incompatible with environmental protection. This is being demonstrated by a sugar project in Nicaragua that is giving poorer sections of the population too a chance to earn comparatively high incomes.

DEG provided financing of almost EUR 14 million to Nicaragua Sugar Estates S.A., the country's leading sugar producer, enabling it to purchase 2,200 hectares of land, install irrigation systems and construct an ethanol distillation plant. The irrigation systems have not only boosted agricultural yields by 25 to 30% but also allowed the company to set apart some of its output for biofuel production. Nicaragua Sugar is thus substituting biofuel for expensive oil imports worth around USD 7 million and providing 350 new jobs in ethanol production alone. This is of prime importance in Nicaragua, where 45% of the population live under the poverty line.



Nicaragua Sugar employs almost 570 permanent staff and around 2,500 seasonal workers. Another 850 jobs in smallholdings and service companies are indirectly dependent on the sugar factory. Wages are high compared with average incomes. While the minimum wage in the agricultural sector stands at USD 60, Nicaragua Sugar pays the workers on its payroll USD 164 per month. The company also assumes the costs of social insurance and provides subsidised medical and transportation services.



Through a long-term loan of EUR 2.4 million, DEG is helping a family business in the Dominican Republic to finance the move into and further development of its organic cocoa bean production. In order to cushion itself from the extreme price fluctuations for cocoa beans on the world market, the company started to convert to organic production in 2002. The manufacturer gets its supplies from 10,000 smallholdings. They are receiving support in the changeover to organic production and certification as well as assistance towards financing the next harvest. Today, 2,000 tonnes of beans out of an annual total of 17,000 tonnes are grown organically. Some 1,700 farmers are already certified and 1,200 are currently undergoing the acceptance tests. Two processing centres have been established to date with DEG funds.

By doing away with the need for the usual pesticides, the changeover to organic agriculture is having a significant positive impact on the environment. Farmer incomes, too, are improving as a result of the more stable prices commanded by organic products. The benefits also feed through to the country as a whole, where up to 65% of the population live below the poverty line. The export of the complete harvest substantially increases foreign currency reserves and generates tax revenues for a country experiencing chronic balance-of-payments and budget deficits.



STEERING GOOD DEVELOPMENTS TOWARDS SUSTAINABILITY.

Asia's developing countries continued to report robust economic performance in 2006 and posted growth rates of between 7% and 10%. The region benefited from the positive business climate worldwide and in particular from the domestic reforms pushed through in recent years. These factors have also led to a considerable improvement in the development policy outlook. The core Millennium Development Goal (MDG) of "halving the proportion of the population living in poverty by 2015" is now within reach in Asia, as are the two MDGs that focus on improving basic education and promoting gender equality.

Many reforms do have an economic downside for the population, for instance the introduction of cost-covering tariff systems for public-sector services and reductions in the level of subsidies. But such measures are essential if major development constraints are to be overcome. Dismantling highly subsidised tariffs for water, electricity and transport for the population, irrespective of need, is the key to curbing waste and reducing the consumption of scarce resources.

The project examples from the Asian region clearly show that German FC is driving and helping shape important structural changes. The concepts and improved technical solutions put into practice with the support of FC often have model character. They are intended to be replicable, to set examples that convince other stakeholders and thus find wider application. At the same time, we know that these are not quick-fix solutions. This is certainly true in the health sector and especially where environmental issues are concerned. The economic boom in Asia is clearly taking its toll on natural resources and resulting in higher emissions. This affects the countries themselves as well as the global climate.

VIETNAM – GREATER PROSPERITY AND MORE FORESTS THANKS TO THE RED AND GREEN BOOKS.

In German furniture stores, on balconies and sun decks, you will soon find garden and patio furniture made of wood from sustainably managed forests in Vietnam. Some years ago, as a result of war followed by ruthless exploitation, Vietnam's forests dwindled down to only 20% of the country's surface. The consequences were disastrous: soil erosion, exposed mountainsides, a severely impaired water balance and a shortage of water for agriculture. Timber is now so scarce that Vietnam actually imports from Brazil.

But by 2010, Vietnam aims to double its forest coverage to 42%. Two books, one red and one green, are playing a pivotal role in attaining this objective. KfW project manager Jens Mackensen enthuses: "It is incredible to see how desolate mountain slopes have once again become lush green forestscapes in Bac Giang and Lang Son, where our partners started reforestation measures

with KfW support in 1995." At the latest count, 36% of the country's total surface area is now forested.

When the Vietnamese government decided in the early 1990s to reforest large swathes of the country, it was confronted with almost insurmountable problems. As there is no private land ownership in the communist-run country, farmers have no vested interest in cultivating waste land. The red books provide the answer. They transfer land-use rights for a period of 50 years to the farmers, who in turn make a commitment to reforest and maintain plots of up to two hectares. The forest products – timber, resin for the varnish industry and cinnamon bark – belong to the farmers.

The second problem: it takes at least eight years before the forest becomes economically productive. As a consequence, the planted trees are felled too early and the



Reforestation in Vietnam creates jobs – for today's generations ...

plots revert to waste land. The green savings books address this problem. Each farmer is credited at a bank with between USD 200 and USD 250 per hectare. For a plot measuring two hectares, this means that USD 500 is paid out over a period of eight years – a lot of money for rice farmers who normally earn only USD 130 a year. However, the money is not disbursed unless the agreed planting and maintenance targets have been met, and compliance is strictly monitored by the forest administration.

It has proved an effective model. "Through the forest programme, we are reaching 86,000 very poor families (400,000 people) whose incomes have risen by around 20%," says Mr Mackensen. The water balance and soil conditions have shown significant improvements. Thanks to the more reliable supply of water from rivers and streams, a second rice harvest is now possible in many regions.

Forest monitoring has shown that the farmers take excellent care of the trees, with nine out of ten saplings surviving. The programme, which KfW Entwicklungsbank has supported on behalf of the BMZ with funding of EUR 51 million since 1995, has brought about change in Vietnam. The introduction of legally documented land-use rights and savings books have brought many poorer sections of the population into contact with banks for the

first time. For the banks, they are new customers, now creditworthy thanks to their land-use rights.

This was reason enough for Vietnam to incorporate large parts of the model that was tried and tested with KfW Entwicklungsbank into the national reforestation programme. With support from KfW Entwicklungsbank, the successful concept of the red and green books is now being transferred to village communities that manage natural forest areas on a communal basis. Although the management of these degraded natural forests is to a large extent only possible with the help of subsidies, the investments will pay off in the medium term. The concept is also to be applied in a project in the UNESCO National Park "Phong Nha Ke Bang", which will be carried out in cooperation with GTZ.

The potential economic benefits of replanting and maintaining communal forest areas are considerable and include substantial and sustainable improvement in farmer incomes. The environmental organisation WWF is planning to integrate the farmers and village communities into the Global Forest and Trade Network, which certifies timber from sustainable sources. This timber, which is primarily in demand in the furniture industry, will then be used instead of illegally logged tropical hardwoods.

... and for future generations, too!



PAKISTAN – GREEN ELECTRICITY FOR 16 MILLION PEOPLE.

The Indus is an invaluable resource for the people of Pakistan. When the lights are turned on in the evenings, when water pumps transport drinking water to homes and when industry churns into action, it is the power delivered by the longest river on the Indian subcontinent that makes it happen. The new hydropower plant Ghazi-Barotha, a good 100 km from Pakistan's capital Islamabad, generates 6,600 gigawatt-hours of power each year. Since coming fully on stream in 2004, this power station has been supplying electricity to 16 million people. Despite its enormous output, it has emitted not one tonne of the greenhouse gas CO₂.

The specifications of the hydroelectric plant are most impressive. Ghazi-Barotha's five turbines have a total installed capacity of 1,500 megawatts; at maximum output, it emits 6.3 million fewer tonnes of CO₂ each year than a comparable coal-fired plant.

With economic development driving up Pakistan's electricity consumption faster than anticipated, the power plant was sorely needed. A few years ago, power consumption was expected to rise by 5% a year, whereas the actual figure is now around three percentage points higher and climbing. Before Ghazi-Barotha came on stream, power outages and fluctuations were the order of the day. "In Pakistan, we have a good example of how developing and transition countries are not yet in a position to achieve economic growth without consuming more power. We have managed this in Germany by increasing energy

efficiency," explains Klaus-Peter Pischke, head of the competence centre for energy at KfW Entwicklungsbank. The rapid growth in energy consumption is also fuelled by subsidised energy prices, in particular for private households. This issue is being jointly addressed by donors in government-level talks.

Rising power consumption also caused the once high proportion of hydropower in total power generation to fall to around 25% by the year 2000. In effect, hydropower was increasingly squeezed out by thermally generated electricity. This has had a deleterious impact, not only on the climate. As oil prices have risen, it has also put a severe strain on Pakistan's foreign exchange account. Klaus-Peter Pischke comments: "Through Ghazi-Barotha and the expansion of numerous other hydroelectric plants, the Pakistani government is intent on scaling up the proportion of hydropower once more to around 40%." By 2025, Pakistan is aiming to install further capacity of 35,000 megawatts, two thirds of which will be based on hydropower.

However, there is also scope in the existing network for making the power supply more climate-friendly. The fact that the public-sector power networks are unable to cope with rising demand leads to considerable technical losses. This is compounded by a high level of power theft. In an effort to reduce losses, KfW Entwicklungsbank is supporting programmes that encourage the more efficient use of energy.

CENTRAL ASIA – WORKING TOGETHER TO FIGHT THE SCOURGE OF POVERTY – TUBERCULOSIS.

In Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan), the danger of contracting tuberculosis is high, even in everyday life. The average infection rate is 120 per 100,000 inhabitants, and in some regions it is as high as

300. By comparison, the average in Germany is seven. The problem is most pressing where people live in very close quarters, for example in prisons. The release of prisoners who are apparently free of the disease but not completely

cured often leads to the infection of healthy members of the population.

The scourge of TB is almost as acute as that of AIDS, and yet it is a disease almost forgotten. According to World Health Organization (WHO) estimates, two billion people worldwide are infected, and there are nine million new infections each year. Two million people die from tuberculosis annually, in other words 5,500 a day. The incidence of the disease is increasing dramatically, especially in Central Asia and in areas where poverty is rife. In some parts of Central Asia, up to 84% of the population is classified as poor, and unofficial estimates put the unemployment rate in some areas at up to 60%.

There are 50,000 new TB infections in Central Asia each year. In an effort to stem the further spread of the disease, all four countries are now implementing, with donor support, the Directly Observed Treatment Strategy (DOTS) developed by WHO. DOTS requires that all patients are immediately treated with antibiotics for a period of six to eight months. The long period of treatment is crucial, otherwise patients are not completely cured and extremely dangerous and resistant pathogens can develop.

To ensure that treatment can be provided safely and for the required duration, nationwide networks of TB clinics and health care units are being set up with donor assistance. Donor funds are also being used to equip laboratories, enabling them to analyse samples quickly and reliably. KfW Entwicklungsbank recognised the problems in the mid-1990s and, as a first step, provided financial support for the national TB programme in Kyrgyzstan with BMZ funds. Uzbekistan, Kazakhstan und Tajikistan were next. A total of around EUR 35 million is being channelled into improving the facilities in clinics, DOTS centres and laboratories. A further EUR 1.2 million is earmarked for



Uzbekistan – well trained staff are needed to combat tuberculosis effectively.

training measures for doctors and nursing staff in the various regions.

Now that many countries and organisations are tackling the problem and devoting considerable resources to immediate and free antibiotic treatment for patients, the speed at which the disease was spreading appears to have been checked. One particularly important move was the hotly contested decision taken by the majority of countries to extend treatment to prison inmates. In all four countries, new infection and mortality rates are now falling slightly. Since the programme was launched in Tajikistan in 2003, the number of new infections has dropped by 3%. Kyrgyzstan has achieved a reduction of 10%. "We have made a start," says Ulrich Dorf, head of the team for health and basic education in Asia, "but we will need time and better health education if we are to drive infection rates down further." It is also imperative to step up cross-border cooperation in order to prevent the progress already achieved in one country from being cancelled out by the incidence of new infections in neighbouring regions.

DEG – MOBILE TELECOMMUNICATIONS AS A CORNERSTONE OF ECONOMIC DEVELOPMENT.

In 2006, the Asian region (excluding the Caucasus and Turkey) was once again the focus of DEG operations. One third of DEG commitments last year went to 35 projects in Asian countries, fostering private business investment through long-term loans and equity participations. The main thrust of activities centred on Indonesia, China, Pakistan and India. Support was primarily directed towards investments in energy efficiency and mobile telecommunications networks, improving refinancing facilities for banks and providing financing for the purchase of plant and machinery in manufacturing industry. As the markets served by the manufacturing sector are experiencing rapid growth, companies in this sector are providing employment opportunities on a large scale, especially for poorer sections of the population.

There was evidence of indirect poverty reduction impacts, even in projects that at first sight have little to do with poverty, for example the establishment of mobile telecommunications networks. These networks are nevertheless essential for further economic development, especially in low-income countries with infrastructure deficits. Against this background, DEG financed the establishment and expansion of mobile telecommunications networks in Afghanistan, Cambodia, Bangladesh and Pakistan in 2006. Where no landlines exist, mobile telephony is a make-or-break factor for micro entrepreneurs, traders, farmers, artisans and other business people. Without it, they might be completely cut off from their customers.

DEG is therefore supporting the further expansion of the mobile telecommunications network in Afghanistan with a long-term loan of around EUR 8 million. Almost 5% of the 30 million population now have mobile phones, and 62% of these are customers of the leading mobile telecommunications operator, Roshan. Roshan has already expanded its network with the help of financing provided by DEG, the Asian Development Bank and two other donors. But network expansions are not the end of the story. The company itself is now making an important contribution to the national economy. It is a major source of tax revenue and has over 800 staff on its payroll – 23% of them women, which is an unusually high figure for Afghanistan. A further 15,000 people are employed at supplier firms and sales outlets for telephones and pre-paid telephone cards. Roshan is also active in the fight against poverty and finances six soup kitchens that feed 10,000 children from poor families in Kabul alone. Another six soup kitchens are planned in other regions of the country. In addition, the company supports a hospital and a business start-up scheme for women who wish to become self-employed, for example by opening sales outlets for prepaid telephone cards and mobile telephone contracts.

Development-policy impacts of this magnitude are also in evidence in similar programmes in Bangladesh and Pakistan. In Cambodia too, DEG is financing network expansions through a loan of EUR 10.3 million. CamGSM, the market leader, is also one of the country's chief sources of tax revenue and is thus enabling the government to step up the fight against poverty. By 2011, CamGSM is aiming to double the size of its workforce to 1,260.



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کتابت: دولت‌شهری و همکارانش
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COOPERATION AS A STABILISING FACTOR.

At first sight, the developments taking place in the Arab countries of North Africa and the Middle East are grounds for optimism. Since 2002, annual economic growth has stood at around 6% while unemployment has fallen from 15% to 12.2%, despite a 3.5% annual increase in the workforce. However, the overall level of economic dynamism is driven by the booming oil and gas markets and tends to mask the far more modest developments taking place outside Saudi Arabia and the Gulf States. And it is an undisputed fact that if we neglect the question of distribution, rapid economic growth alone will not reduce poverty.

The conflicts in Iraq, Lebanon, Israel and the Palestinian territories have again graphically highlighted the political instability in the region. Against this background, positive political developments such as the reconciliation process in Algeria and the ongoing political and social reforms in Morocco tend to fade into the background.

The activities of German development cooperation organisations in the region are geared to long-term objectives. Support for renewable energy sources is starting to produce promising results, even in today's oil and gas producing countries. Ever more countries are discovering opportunities for harnessing and exporting wind and solar power as environmentally friendly sources of energy. Europe and its neighbours to the south are waking up to their common interests. German activities focus on bringing about changes in the framework conditions, for example by dismantling energy subsidies in order to reduce wasteful consumption and to open up market opportunities for renewables. Germany is now the major financier of renewable energies in the region.

The high rate of population growth and the fact that more than half of the population are under the age of 24 is an issue of major concern. The education programmes supported through Financial Cooperation are helping improve access to and the quality of schooling. This is another ray of hope in the crisis-prone region.

EGYPT – POWER FROM THE DESERT WIND.

The wind blows around the clock on the Egyptian Red Sea coast with an average speed of 10 m/s – almost wind force six. "The Red Sea coast is one of the best locations in the world for wind energy," explains Dietmar Wenz, project manager at KfW Entwicklungsbank. Work started in 1999 on setting up a wind farm at Zafarana, 120 km south of Suez, and this is sending out a message in Egypt. For although the wind conditions are excellent and the sun shines up to 4,000 hours each year, wind and solar energy still make only negligible contributions to Egypt's power generation capacity. And the country's energy requirements are increasing rapidly at an annual rate of more than 7%. Meanwhile, the proportion of power generated in the country's predominantly gas-fired power stations

has risen to 86%. The remainder is provided by five hydro-power plants on the Nile.

Egypt can no longer afford to continue along this path. Although the country does produce some oil and gas, the volume is insufficient to meet even present demand. Moreover, Egypt badly needs the foreign exchange generated through the export of its natural gas. There is precious little potential for additional emissions-free hydropower. The bottom line is that new energy supply solutions will have to be found.

As early as 1982, the Egyptian government set up a programme to explore and tap renewable energy potentials; in 1986 it founded the New and Renewable Energy Authority (NREA). As part of the energy ministry,

North Africa/Middle East.

its mission is to promote greater use of energy from the sun, biomass and wind, and to ensure that renewables (excluding water) provide 3% of the country's energy requirements by 2010 and 14% by 2020.

Zafarana is the answer. The wind farm is expected to reach a capacity of 600 megawatts in the near future and feed around 2,400 gigawatt/hours of power into the Egyptian national grid each year. This will reduce annual emissions of CO₂, the harmful greenhouse gas, by 1.4 million tonnes. On behalf of the BMZ, KfW Entwicklungsbank is supporting the construction of the wind generators needed by providing funding of around EUR 150 million. With Danish, Spanish and Japanese support, the wind farm is expected to reach full capacity in 2008. Since 2004, it has been feeding 50% of its projected full capacity into the grid, thanks to 126 wind turbines driven by the desert winds.

Based on these results, Egypt is upbeat about achieving its ambitious goals. After Zafarana is completed, the country is planning to build a considerably larger wind farm with a total installed capacity of 3,000 megawatts. This is equivalent to the current capacity of Great Britain, France and Portugal combined. Germany also intends to participate in the Gabal el Zeit wind farm and is currently financing the preparatory studies.

Another of Egypt's goals is to acquire the wind energy expertise to be able to operate and further develop the plants itself. On behalf of BMZ, KfW Entwicklungsbank



Clean energy for sustainable development in Egypt.

is therefore helping set up a regional research and training centre for renewable energies that is expected to offer a masters degree programme in renewables in Cairo. The centre will focus on training and research in the fields of wind energy, solar thermal power, photovoltaics, batteries and biomass – sowing the seeds of self-reliant development.

PALESTINIAN TERRITORIES – GIVING PEACE A CHANCE THROUGH EDUCATION.

Children in Gaza charge about the schoolyard, kick footballs, have tussles and play with skipping ropes – just like kids their age the world over. And yet things are certainly different for the one million children and young people living under the most abject conditions and attending school in the Palestinian territories, the Gaza Strip and the

West Bank. In view of the poverty, the almost bankrupt state of the Palestinian Authority and the ongoing conflicts with Israel it is a wonder that the schools are open at all. But the children represent the hope that some day peace and development will prevail in the Palestinian territories.

The current situation is sobering. The average monthly income of Palestinian families is around EUR 210, half of what it was before the start of the Intifada. According to the most recent surveys, more than half of the population are living under the poverty line. Unemployment stood at 31% at the beginning of 2006 and has risen as a result of the border closures to Israel. The 45,000 Palestinians who worked in Israel at the beginning of the year are now hardly able to travel to their place of work. By the end of 2007, the UN expects unemployment to hit the 50% mark.

In this situation, the schools appear to be the only bastion of public life still functioning. Despite the catastrophic situation, 1,700 state schools in the Gaza Strip and the West Bank provide schooling for 750,000 Palestinian children and young people – boys and girls alike in contrast to most Arab states. The majority of schools operate a double-shift system as there are not nearly enough schools and classrooms to accommodate the rising numbers of pupils. Half of the 3.8 million Palestinians are under the age of 18, and despite the poverty and violence, the population is growing at an annual rate of 3.5%. Between 700 and 1,000 new classrooms and 1,000 to 1,500 new teachers are needed every year, just to keep pace with growing pupil numbers.

The Palestinian Authority, however, does not have the resources to finance a further increase in the number of schools. Between 1994 and 2003, many donors therefore became actively engaged in the education sector in the Palestinian territories, helping build or refurbish almost



A daily miracle in Palestine – schools continue to operate despite ongoing conflicts.

10,000 classrooms at over 400 schools. "KfW Entwicklungsbank has made available a total of EUR 50 million out of German FC funds to support the construction or renovation of around 1,400 classrooms at over 120 schools. This makes it the largest financier of school construction in the West Bank and the Gaza Strip," reports Klaus Vöhringer, project manager.

Around 100,000 pupils are benefiting from these programmes. At the same time, the building measures provide 5,000 people with work and income for at least half a year.

Education is a stabilising factor and a shimmer of hope shining through the chaos. The overall literacy rate is very high at 92%, and today all children and young people can read and write. The number of pupils who have to repeat a school year has fallen from 4.6% in 1994 to 1.4% today. This is a sound basis on which the Palestinian territories can start to reduce the acute shortage of skilled and specialist labour. It also provides the foundation for the fight against poverty and for securing a more peaceful future.



THE ONGOING UPTURN AND STEPS TOWARDS EU HARMONISATION.

For the eighth year in succession, the region reported highly dynamic economic growth in 2006. Key drivers of this ongoing trend were the determined reform efforts, the steps taken towards EU harmonisation and the improved framework conditions. These factors have also had a positive impact on the quality of Financial Cooperation activities, with FC performance attaining high and demanding standards in the region.

Reducing poverty and maintaining stability nevertheless remain important challenges. German FC is therefore concentrating its efforts on poorer and crisis-prone regions. In Turkey, for example, it is investing almost exclusively in eastern Anatolia. In many projects – such as in energy supply measures designed to underpin economic development or in the tuberculosis programme in the Caucasus – cross-border cooperation is essential in order to diffuse tensions and promote collaboration on activities with supraregional impact.

A major FC priority in the region is to provide financing for water supply systems and environmental infrastructure. This includes wastewater disposal services and environmentally sound solid waste management, which is still inadequate, especially in many of the region's smaller municipalities. The task involves more than just laying pipes and building clarification basins. KfW Entwicklungsbank is aiming for sustainable results, for example by introducing cost-covering and socially just tariff systems or by providing consultancy services to facilitate the drafting of legislation in line with EU standards. One project in Turkey (see below) is a prime example of how this can succeed.

Excellent results are also being achieved in the financial sector through Financial Cooperation in the region. By supporting the establishment of microbanks, KfW Entwicklungsbank has improved the delivery of financial services to poorer sections of the population while encouraging commercial banks to move into this market segment. What does this mean in practice? For one, Armenians are now able to purchase their own homes, which gives them security in their old age. At the same time, KfW Entwicklungsbank is enabling countries in the region to tap international capital markets and mobilise additional private capital for development aid projects. For example, the European Fund for Southeast Europe (EFSE), which was set up at the end of 2005 with BMZ participation, attracted private capital totalling EUR 150 million within a year of opening its doors. This capital is being used to grant microloans that will soon be benefiting many small enterprises in the region.

ARMENIA – HOUSING LOANS FOR THE AVERAGE CITIZEN.

Living in the large residential complexes on the outskirts of Yerevan, the country's capital, may not be to everyone's liking. Roofs leak and the doors and windows in the stairwells are broken or simply missing. Plaster is peeling off the walls and the floors are in appalling condition. It is obvious that nothing has been invested in the structural upkeep of the buildings for decades, neither during the Soviet era nor after the collapse of communism. To make things worse, the country was rocked by a severe earthquake in 1988. But there was little point in home owners

going to the bank for a loan if they wanted to fix the roof or revamp their homes, let alone buy a new house or flat. Up till now, mortgages have to all intents and purposes been out of reach in Armenia – a dire situation in a country where home ownership is a cornerstone of the population's provisions for old age.

For the three million citizens of Armenia, the collapse of the Soviet Union unleashed an economic crisis that effectively wiped out all their savings and provisions for the future. Runaway inflation that peaked in 1993 at an

astronomical 5,000%, a 60% nose dive in gross domestic product, decaying public infrastructure, a banking crisis, the ongoing blockade of the border with Turkey and the war with Azerbaijan over Nagorno-Karabakh robbed Armenians of everything they had worked a lifetime to achieve. All they had left were their houses: 96% of Armenians own their own homes, which were transferred to them under a privatisation plan.



Housing rehabilitation is necessary to secure retirement provision in Armenia.

Nevertheless, in view of the condition of the buildings themselves, this form of old-age security is also in jeopardy. Up to 2006, the 21 Armenian commercial banks, whose combined strength is only a quarter that of the savings bank of the small German town of Harburg-Buxtehude, offered mortgages in local currency that had to be repaid within a few years and at interest rates of almost 20%. These are conditions that people on normal incomes cannot afford.

The Armenian government has vowed to change this state of affairs by strengthening the financial sector. At the request of the government, KfW Entwicklungsbank coordinated donor activities and started introducing long-term, low-interest mortgage loans in Armenia in 2006. Since October of that year, training courses on loan techniques have been provided for staff at the commercial banks, products have been developed and refinancing facilities made available. German Financial Cooperation is channelling up to EUR 18 million into Armenia so that long-term loans can be provided for the modernisation and purchase of homes.

The Armenian government and KfW Entwicklungsbank were gratified to see the desired response to their initiative. The financial sector followed suit even before the programme got under way. "The interest rates of between 17 and 20% previously charged on loans, depending on their term, have since fallen significantly to between 10 and 13%," comments Stefan W Hirche, project manager at KfW Entwicklungsbank. "Already loan maturities have generally been extended from five to seven years, and 13 financial institutions are now offering ten-year loans." These are the first signs of improvement in the Armenian property market.

The benefits will ultimately spill over into the labour market. Armenia is hoping that the new loan facilities will spur a rapid and broad-based revitalisation of the construction sector, and help cut unemployment in the process. According to official statistics, the unemployment rate fell to 7.2% in December 2006, although unofficial estimates put the figure at double this amount.

TURKEY – NO MORE WATER-INDUCED ILLNESSES.

The stench in Diyarbakir used to be unbearable. The city's wastewater trickled untreated through the streets, was used to irrigate fruit and vegetable gardens and then ran through open sewers into the Tigris. In 1990, before refugees started pouring into the city to escape the Kurdish conflict and the abject poverty in the Anatolian villages, the city had a population of 370,000. Following the influx of these newcomers in 1993, the number of people contracting typhus, dysentery and diarrhoea in Diyarbakir rocketed: only half of the households were connected to the sewerage system while the other half simply disposed of their waste wherever it was produced. Conditions were catastrophic, particularly in the old town.

Diyarbakir has 800,000 inhabitants today. Although the population has doubled in only 15 years, the city has greatly improved its water supply and sanitation services and consequently brought its health problems under control. The incidence of water-borne diseases has also dropped dramatically. Cases of typhus have fallen from almost 13,000 to 2,750 annually; dysentery from 6,300 to 980 and diarrhoea from 25,780 to only 3,700.

These achievements serve as a beacon for the nine regions in eastern Turkey, where KfW Entwicklungsbank is working together with the European Investment Bank on behalf of the German government to help establish efficient water supply and sanitation systems.

The huge efforts needed to develop the poorer regions of eastern Turkey are overstressing the nation's capacity, despite the resources of the prosperous regions in the west of the country and the tourism industry on the Mediterranean coast. According to EU estimates, Turkey will have to invest around EUR 50 billion by 2023 if it is to comply with EU environmental standards on water, wastewater and solid waste disposal. This is too large a sum for



This sewage treatment plant ensures better health in Diyarbakir.

the Turkish government and local authorities to mobilise on their own. Foreign donors will also have to play a role. Some EUR 780 million has been made available to date through German Financial Cooperation.

Cooperation is producing results. The drinking-water supply rate via the public water grid has risen from 76% in 1984 to 92% today, and the connection rate to the sewerage system has improved to 78%. Thanks to KfW Entwicklungsbank, the wastewater produced by seven million people is now treated in clarification plants that operate in line with EU standards. In 2006, the Fethiye project on the Mediterranean coast was singled out for a Turkish environmental award owing to its exemplary wastewater treatment system, which complies with the EU Bathing Water Directive.

However, these successes are not solely due to the provision of long-term, low-interest loans to towns and cities that urgently need to invest in dilapidated infrastructure. KfW Entwicklungsbank also develops the capacities of public utilities and their employees in order to secure the long-term viability of these operations.

The results are plain to see. The children and adults in Diyarbakir no longer have to fetch their water from dubious sources. And fish swim once more in the Tigris.

DEG – PRIVATE ENTERPRISE CREATING NEW JOBS.

The countries of Eastern and South-Eastern Europe, the Caucasus and Turkey accounted for 25% of new business activity in 2006, thus making this the second most important region for investment after Asia. Altogether 25 projects were supported here, chiefly in the Russian Federation, Ukraine, Turkey, Romania, and Bosnia and Herzegovina. Part-financing was provided for individual investment projects in Serbia, Croatia, Montenegro, Georgia, Armenia and Azerbaijan. Two thirds of the bank's new business in the region focused on the expansion of the financial sector. The specific aim was to improve loan allocations to small and medium-sized enterprises, including those in provincial locations, through long-term refinancing facilities and equity participations. Cooperation with local commercial banks was a priority issue here. Other projects worked to expand the use of leasing products and to promote participation funds. The remaining third of new business activity centred on financing the expansion and modernisation of private companies in the manufacturing, services and infrastructure sectors, which created a large number of additional jobs.

One project in Ukraine, the former breadbasket of the Soviet Union, aims to boost agricultural capacity. Grain production has declined since the collapse of the USSR. The necessary infrastructure is no longer in place and know-how has been lost. Today, the agriculture sector is technologically weak and short of capital, experience and professional management. DEG is therefore supporting the work of Alfred C Toepfer International GmbH, a group of companies that specialise in trading and marketing grain, oilseeds and feedstuffs worldwide. The German company has been operating in Ukraine for more than ten years and is planning to build a network of modern silos as a means of improving the marketing of Ukrainian grain and oilseeds.

As long-term financing could not be obtained on the Ukrainian financial market, DEG is funding the planned investments through an equity participation of EUR 1 million and a long-term loan of EUR 7 million. As a result, 250 jobs will either be secured or newly created. Toepfer International is a global leader in the field of grain and oilseed trading. With its know-how, the Ukrainian agricultural sector is set to reap considerable benefits from the improved marketing of its produce. Today, up to 6% of Toepfer International's grain sales stem from Ukraine. The aim is to double this figure in the medium term.

4. CONTINUOUS IMPROVEMENTS ADVANCE DEVELOPMENT – THE EVALUATION UNIT OF KFW ENTWICKLUNGSBANK.

Is our development work successful? Are we achieving our objectives of reducing poverty in developing countries, improving health care and education, and stimulating economic development? Have we had successes and made mistakes that we can learn from? These questions are answered regularly by the independent Evaluation Unit of KfW Entwicklungsbank, which was set up in 2000. The unit directly reports to the Board of Managing Directors and systematically evaluates the impacts and outcomes of the FC projects three to five years after the promotional measures have been completed.

These evaluations are of great importance for KfW Entwicklungsbank, but also for the general public, the German federal government and the German parliament. This is so because the experts of the Evaluation Unit give account of whether the taxpayers' money and the funds provided by KfW Entwicklungsbank at its own risk are well invested. The conclusions drawn from the evaluations are immediately taken into account in new and ongoing projects.

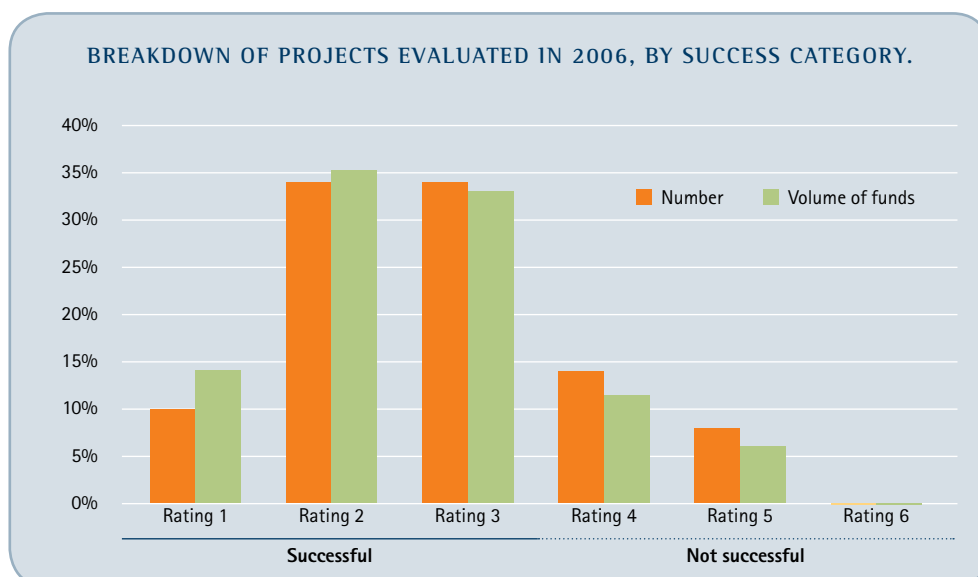
In the transport sector, for example, it has become apparent that immediate income and employment effects can be achieved for the poor local population in road construction by deliberately utilising their available manpower. To ensure that a road remains serviceable in the long term the organisational and financial prerequisites for maintenance have to be met during the planning phase, for example by setting up a maintenance fund. Moreover, transport programmes produce the highest benefit if they are combined with programmes in other sectors such as microfinance, municipal development or agriculture.

Every two years a comprehensive evaluation report is published which does not only present the results of the individual projects but also draws conclusions for the design of new projects. All reports are available in the KfW Online Library under http://www.kfw-entwicklungsbank.de/EN_Home/Service/Online_Library.

RESULTS OF THE 2006 EVALUATIONS.

The results show that evaluations are worthwhile and that KfW Entwicklungsbank draws the consequences from mistakes.

Around two-thirds of the projects subjected to post evaluation produced satisfactory results (rating 2) or sufficient results (rating 3). Ten percent of the projects



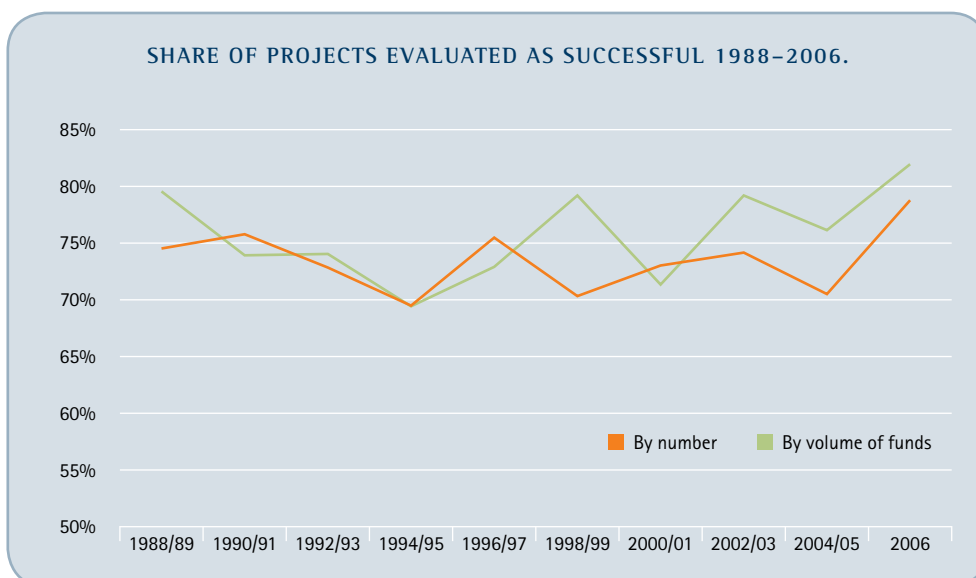
(13% by volume) were even classified as "best practice" examples (rating 1). Just as many projects produced substantial positive effects (14% by number and 11% by volume), but did not produce sufficient results from today's perspective and were classified as slightly insufficient (rating 4). A clearly insufficient rating of 5 was assigned to 8% of the projects (6% by volume). However, none of the projects was a complete failure (rating 6).

Thus, the high success rate of the last few years was maintained and was even particularly high in 2006, with 78% of the projects rated successful (see Chart). In total, 120 projects underwent ex post evaluations last year. In terms of the funds used the success rate was even 83%. By international comparison, too, this is a very good result.

However, the relatively constant success rate con-

ceals significant shifts that occurred over the years. In the financial sector, for example, KfW Entwicklungsbank replaced the model of state development banks, which often proved to be ineffective, by new approaches such as microfinance, which show above-average success.

Likewise, KfW Entwicklungsbank, in agreement with the BMZ, withdrew from sectors which produced below-average developmental results, such as the financing of cement and steel works. At the same time new promotional areas were chosen, which we expect to show high developmental efficacy, but which may be very difficult to implement, for example in the areas of resource protection, renewable energies, sewage treatment and decentralisation. This underlines that KfW as a development bank does not turn away from difficult projects. Quite the opposite – it is our task to find solutions for such projects.



LEARNING FROM MISTAKES.

Despite the very good success rate of 78%, it is worthwhile to examine the projects that did not achieve sufficient development efficacy. Besides causes which occurred only in specific cases, risk factors exist that may generally jeopardise the efficacy of projects and lead to failure. By far the most important single factor is **inefficiency on the part of the project executing agency**: Inadequately qualified staff, organisational deficits, lack of internal efficiency and poor management reduce the quality of products and services and compromise the desired developmental impact.

The **sector conditions** are the second most important factor. Many project objectives were not achieved due to state intervention. Such intervention ranges from the fixing of prices that are too low to cover costs and the

granting of subsidies and inadequate legislation to failure to impose sanctions on defaulting customers.

Weaknesses in relation to the **target group** are the third main cause of project failure. In some cases the target group was unable to benefit from the expected project results because they lacked knowledge or remained attached to traditional behaviour patterns.

In contrast, **macroeconomic conditions and force majeure** were relatively seldom the direct cause of failure. This is mainly due to the fact that KfW Entwicklungsbank takes account of the weaknesses or strengths of the overall framework when the projects are designed and plans them for success even amid the increased risk of the developing country setting.

CONSEQUENCES FOR NEW PROJECTS.

Because the project executing agency plays a vital role for the success or failure of KfW's projects it is obvious that we have to focus more strongly on strengthening the efficiency of our partners and including capacity building measures in the project design from the very start.

Unfavourable sector conditions, such as statutory ceilings on fees and charges that do not permit adequate cost coverage or misallocated subsidies, can seldom be changed with regionally limited projects. However, the definition of priority areas that has been consistently pursued in German DC in recent years, the trend towards programme-based financing approaches and greater

coordination among donors now enable us to hold a dialogue that is also aimed at changing sector conditions.

Problems surrounding target groups can be avoided or reduced by involving the later beneficiaries even more during the planning phase and performing a detailed analysis of the target group before the start of the project. These ideas have already been put into practice in resource protection programmes, for instance in Vietnam (see "Regional focus – Asia", p 41 ff). For the partner governments it is often a learning process to see development projects not only as offering technical solutions but also as a manifestation of social development and structural change.

Detailed information on this topic and our independent Evaluation Unit is available under "Evaluation" on our website www.kfw-entwicklungsbank.de/EN_Home/Ex-post_Evaluation_at_KfW.

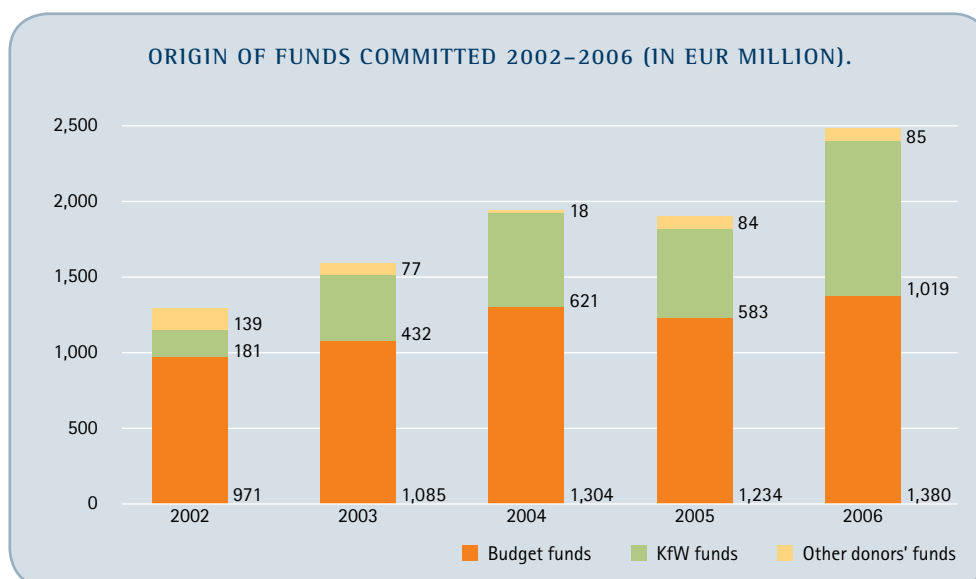


5. ACTIVITIES IN FIGURES.

THE ACTIVITIES OF KfW ENTWICKLUNGSBANK.

In 2006 KfW Entwicklungsbank committed EUR 2,483 million in loans and grants (EUR 1,900 million). Given this development KfW Entwicklungsbank was able to almost double the funds provided for the promotion of developing

countries in the course of five years, thus attaining the highest commitment volume ever since the start of German Financial Cooperation in 1958.



The strong rise against 2005 is mostly due to the increased commitment of funds raised by KfW. Their share in total commitments now amounts to 41% (EUR 1,019 million; 2005: EUR 583 million).

Commitments by region. Due to the higher share of KfW funds it is possible to increase FC commitments to those developing countries that do not require grants, but are economically in a position to raise favourable development loans. At the same time KfW does not have to draw on the scarce federal budget funds – which can then be used to benefit poorer countries.

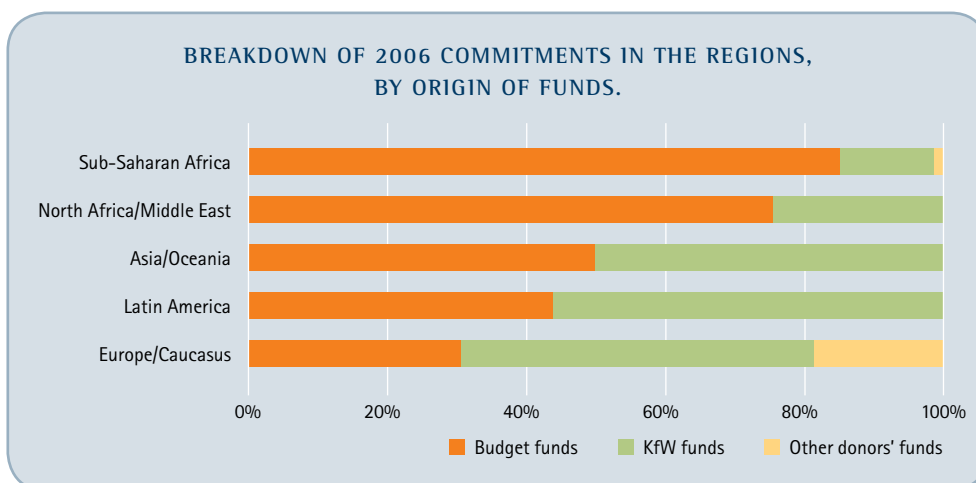
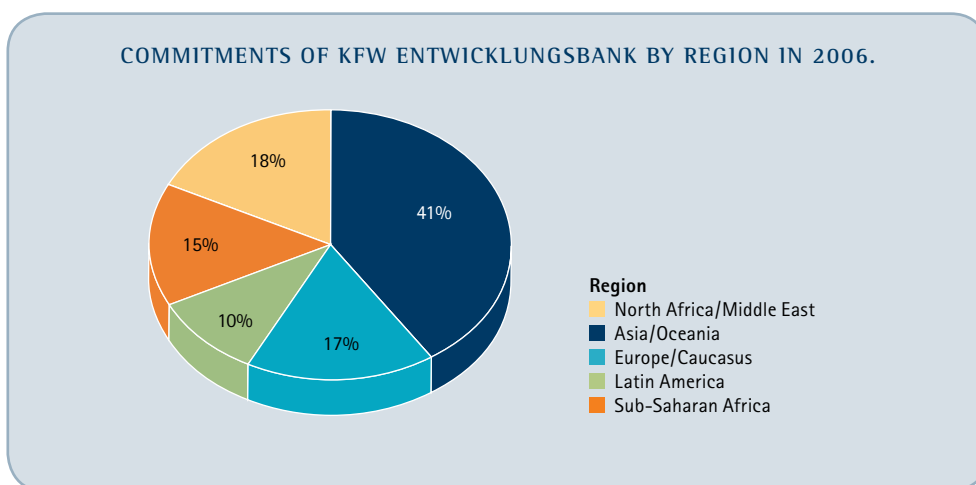
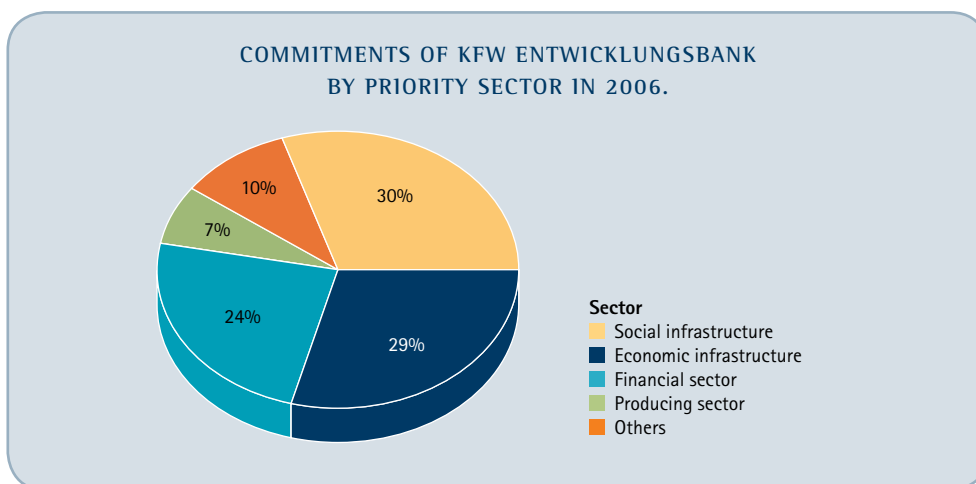
The development in the Asia/Oceania region illustrates this process very well: With 41% of total commitments and a volume of EUR 1,015 million (2005: EUR 678 million) the region accounted for most of last year's growth. At the same time the share of federal budget funds declined to 36.6% in the year under review. Com-

mitments to Sub-Saharan Africa, which accounted for 22% of all federal budget funds, represented a share of 15% of overall commitments. Owing to a special effect, commitments to North Africa and the Middle East rose by around two-thirds, reaching 18% of all commitments. Europe and the Caucasus as well as Latin America received around one-third more FC funds than in the previous year. Their percentage shares, however, remained nearly identical at 17% and 10% respectively.

Commitments by priority sector. Measures aimed at developing the social infrastructure were again the main focus of cooperation in 2006, accounting for around 30% of the commitment volume of KfW Entwicklungsbank. Nearly as important was the promotion of the economic infrastructure at 29% (2005: 29%) and financial sector projects at 24% (2005: 26%). Projects aimed at improving the social infrastructure were mainly conducted in the priority areas of water supply, sanitation, waste disposal

(EUR 324 million), healthcare and family planning (EUR 272 million) and education (EUR 96 million). The financial sector projects mostly pursued structural objectives to promote economic reform and develop a market economy,

such as the long-term promotion of micro, small and medium-sized enterprises and the strengthening of the local financial markets.



Around half the commitments for economic infrastructure measures were in the energy sector (EUR 365 million) and involved energy efficiency, renewable energies and rural electrification measures. A further EUR 360 million was invested in the transport sector.

The commitments reflected the core objectives of development cooperation. Accordingly, 60% (2005: 65%) of funds were dedicated to projects that directly serve poverty reduction. The remaining 40% have poverty reduction as an indirect objective. The share of commitments directed at protecting the environment and natural resources or in which environmental and resource protec-

tion was a secondary objective rose to 40% (2005: 36%). The overall commitment volume for all environmental and resource protection projects and programmes also increased by 44% to EUR 984 million (2005: EUR 684 million).

Gender equality is also an important goal of development cooperation. After all, everywhere in the world women are much more strongly affected by poverty than men. This is why 44% of the commitments made by KfW Entwicklungsbank on behalf of the German government in 2006 pursued gender equality as the main or secondary objective.

THE ACTIVITIES OF DEG.

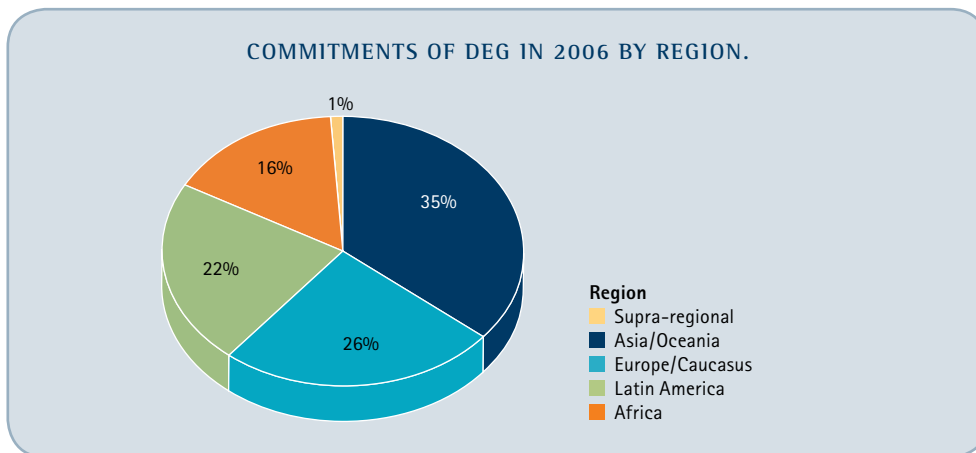
Given the persistently good economic and political framework in its most important host regions DEG again substantially expanded its financing activities and increased the volume of new commitments by 33% to EUR 930 million (2005: EUR 702 million). This is the highest volume of new commitments reached in 44 years of business activity. EUR 12 million were committed in the form of a risk sub-participation in cooperation with a Dutch commercial bank. The overall portfolio rose by 11% to EUR 3.051 billion, distributed across 496 enterprises in 80 partner countries.

In the context of the new business conducted at its own risk DEG committed EUR 123 million to finance participations in 2006. Loan commitments amounted to EUR 748 million, EUR 150 million of which was granted in the form of quasi-equity financing (mezzanine capital). Thus, the use of risk capital in the form of private equity and mezzanine financings amounted to EUR 273 million, which represents 30% of the new business. EUR 47 million were committed for guarantees.

Commitments by region. As in the previous year, financing commitments were made to 40 countries in the

year under review. Funds were made available for projects in Armenia for the first time. Due to the persistent economic dynamics, the geographic focus of the new business was again the region Asia/Oceania with financing commitments of EUR 328 million (36%), followed by the regions Europe/Caucasus/Turkey with EUR 235 million (25%) and Latin America with EUR 202 million (22%). DEG's project companies in Africa received commitments of EUR 143 million (16%), the highest annual volume of finance that DEG had ever provided for that continent. EUR 10 million was committed to one supra-regional project (1%). No new business was made in the Middle East in 2006.

Commitments by sector. In 2006 DEG further extended its commitment in the financial sectors in the partner countries. The funds committed for this sector accounted for a share of 34% of new business. The focus was on further deepening the cooperation with local commercial and regional banks, in particular to reach small and medium-sized enterprises at remote locations. Besides this, leasing and private equity firms as well as special institutions for agriculture, education and infrastructure financing are of particular importance. Manufacturing



enterprises received 27% of the funds with the focus on investment in the food, chemical, electrical and paper sectors. Infrastructure projects – in the areas of telecommunications, energy, transport, health and education – accounted for 21% of new commitments.

To enhance the developmental impacts of the financing provided by DEG the BMZ made available federal funds in the amount of EUR 0.75 million last year, which were complemented by the same amount of DEG's own funds. This budget was used to finance 21 measures accompanying DEG projects, particularly with the aim of broadening the impact and enhancing the structural effects of the projects. For the years ahead DEG has set up a reserve of EUR 5 million in 2006 specifically designed for technical assistance. This underlines the particular significance of accompanying measures for strengthening the economic, social and ecological sustainability of private investment in developing countries with a difficult overall context.

International ecological and social standards play a major role in the financing business of DEG. The share of financing projects, for which compliance with the environ-

mental standards of the World Bank was contractually agreed, attained 100% for the first time last year. Likewise, the share of co-financed enterprises that bindingly committed themselves to meeting the core labour standards of the International Labour Organization (ILO) amounted to 100% in 2006. Due to the financing by DEG the environmental balance sheet of 43% of new projects was improved, with a particular focus on the use of renewable raw materials or energies, a more efficient use of resources, the use of environmentally friendly production techniques and the production of environmental goods. Positive climate protection effects were detected in 14 new projects. The funds provided for these projects amounted to EUR 54 million.

In the year under review DEG financed 52 projects under the **Public Private Partnership (PPP)** Programme set up by the BMZ for development partnerships with the private sector. It committed EUR 9.4 million to these projects from federal budget funds. The partner enterprises and third parties invested a further EUR 18.8 million, enabling a total project volume of EUR 28.2 million to be achieved in 2006.

DISBURSEMENTS BY KfW ENTWICKLUNGSBANK AND DEG.

In the year under review **KfW Entwicklungsbank** disbursed EUR 1,485 million (2005: EUR 1,386 million) for projects in developing and transition countries, of which EUR 1,055 million (2005: EUR 880 million) was from federal budget funds.

The disbursements by **DEG** rose substantially to

EUR 788 million (2005: EUR 549 million), which was due to the strong expansion of its new business. EUR 12 million (2005: EUR 35 million) of this was disbursed to project companies under risk sub-participations. EUR 0.3 million were disbursed in the trust business, after no funds had been disbursed in this business in 2005.

DEBT CONSOLIDATIONS AND CONVERSIONS FOR ENVIRONMENTAL PROTECTION AND POVERTY ALLEVIATION.

For highly indebted partner countries that are willing to undertake reforms, the federal government is prepared, under certain conditions, to ease the repayment of development loans or to write off part of such loans. Pledges of this kind are made in coordination with the international community of donors in the Paris Club or through the HIPC Initiative. The initiative is administered by the International Monetary Fund (IMF) as an approach to debt reduction for poor, highly indebted countries. KfW Entwicklungsbank participates in the negotiations on the German side.

To provide debt relief for partner countries, in 2006 KfW Entwicklungsbank concluded debt rescheduling and cancellation agreements totalling EUR 278 million with

Cameroon, the Dominican Republic, Georgia, Nigeria, Senegal and Sri Lanka.

Under debt conversions debtor countries are released from repayment if they have previously committed themselves to investing the funds thus released in poverty reduction and environmental protection projects. In 2006 KfW Entwicklungsbank, on behalf of the German government, concluded debt conversion agreements in the sum of EUR 88 million with Bosnia and Herzegovina, Indonesia, Jordan and Serbia. After various projects had been implemented by the debtors KfW Entwicklungsbank cancelled debt worth more than EUR 66 million, part of which had already been agreed in previous years.

PROMOTION FOR BUSINESS START-UPS AND YOUNG ENTERPRISES.

Under special loan programmes for business founders and young entrepreneurs, which have been offered since 1999 on behalf of the BMZ, roughly 180 loans at market conditions were approved as seed capital in 2006.

DEG has also been supporting new businesses in Afghanistan on behalf of the BMZ since 2002. By 2006 some 330 projects had been financed, most of them in traditional handicrafts businesses, with non-repayable equity assistance and complementary advisory services. Equity capital assistance was replaced in the course of 2006 by loan guarantee funds financed by the BMZ and USAID, under which loans by local banks to young entrepreneurs and small and medium-sized enterprises are hedged. In the year under review 75 guarantees for a loan commitment volume of more than USD 1.7 million were provided.

Overall, these commitments by DEG have created or safeguarded more than 7,400 jobs.



6. STATISTICS.

1. COMMITMENTS BY KfW ENTWICKLUNGSBANK AND DEG IN THE YEARS 2002 -2006 (IN EUR MILLION).

	2002	2003	2004	2005	2006
KfW Entwicklungsbank					
FC grants	680	757	685	770	902
FC standard loans	182	227	298	307	280
FC development loans	249	287	782	492	704
of which total budget funds	109	101	321	157	198
of which: total KfW funds	140	186	461	336	507
FC promotional loans	41	246	160	247	512
Other donors' funds	139	77	18	84	85
Total	1,291	1,594	1,943	1,900	2,483
DEG (own risk)	464	506	563	672	918
Total (KfW + DEG)	1,755	2,100	2,506	2,572	3,401

Differences in the totals are due to rounding.

2. ORIGIN OF COMMITMENTS BY KfW ENTWICKLUNGSBANK 2002-2006 (IN EUR MILLION).

	2002	2003	2004	2005	2006
Budget funds	971	1,085	1,304	1,234	1,380
KfW funds	181	432	621	583	1,019
Other donors' funds	139	77	18	84	85
Total	1,291	1,594	1,943	1,900	2,483

Differences in the totals are due to rounding.

3. TOTAL COMMITMENTS BY REGION IN 2006 (IN EUR MILLION).

	KfW Entwicklungsbank	DEG	Total	Share (%)	from budget funds (KfW Entwick- lungsbank only)	Share (%)
Asia/Oceania	1,015	328	1,343	40	506	37
Sub-Saharan Africa	363	143	506	15	309	22
Europe/Caucasus	428	235	663	20	131	9
North Africa/Middle East	435	0	435	13	328	24
Latin America	242	202	444	13	106	8
Supra-regional	0	10	10	0,3	0	0
Total	2,483	918	3,401	100	1,380	100

Differences in the totals are due to rounding.

4. COMMITMENTS BY BMZ BUDGET FUNDS AND COUNTRY IN THE YEAR 2006
(IN EUR MILLION).

Rank	Country	BMZ budget funds	Other donors' funds	KfW funds	DEG (own risk)
1	Egypt	102.39	0.00	55.32	0.00
2	China PR	92.80	0.00	301.70	78.30
3	Indonesia	85.63	0.00	0.00	103.16
4	Morocco	83.29	0.00	52.09	0.00
5	India	80.42	0.00	155.37	46.60
6	Bangladesh	65.00	0.00	5.49	13.17
7	Yemen	61.50	0.00	0.00	0.00
8	Pakistan	51.19	0.00	0.00	47.02
9	Palestinian Territories	50.02	0.00	0.00	0.00
10	Afghanistan	48.40	0.00	0.00	7.90
11	Peru	38.80	0.00	15.13	6.82
12	Congo DR	38.00	0.00	0.00	0.00
13	Azerbaijan	32.40	10.00	4.16	7.40
14	Mozambique	30.00	0.79	0.00	0.00
15	Vietnam	27.64	0.00	7.45	0.00
16	Ghana	22.60	3.44	0.00	0.00
17	Georgia	21.58	2.10	13.63	8.43
18	Kenya	21.56	0.00	25.45	12.81
19	Nicaragua	18.93	0.00	0.00	29.38
20	Zimbabwe	17.90	0.00	0.00	0.00
21	Zambia	17.50	0.00	0.00	22.55
22	Uganda	17.10	0.00	0.00	5.40
23	Kyrgyzstan	16.00	0.00	0.00	0.04
24	Albania	14.97	1.35	0.00	0.00
25	El Salvador	13.53	0.00	7.94	0.00
26	Tanzania	13.00	0.00	0.00	9.00
27	Benin	12.20	0.00	0.00	0.00
28	Sierra Leone	12.00	0.00	0.00	0.00
29	Côte d'Ivoire	11.66	0.00	0.00	0.00
30	Jordan	11.52	0.00	0.00	0.00
31	South Africa	11.20	0.00	0.00	41.66
32	Philippines	11.00	0.00	0.00	0.00
33	Namibia	10.32	0.00	0.00	0.00
34	Sudan	10.00	0.00	0.00	0.00
35	Chad	10.00	0.00	0.00	0.00
36	Montenegro	9.59	0.00	10.00	10.00

4. COMMITMENTS BY BMZ BUDGET FUNDS AND COUNTRY IN THE YEAR 2006
(IN EUR MILLION).

Rank	Country	BMZ budget funds	Other donors' funds	KfW funds	DEG (own risk)
37	Burkina Faso	9.50	0.00	0.00	0.00
38	Bolivia	9.25	0.00	0.00	0.00
39	Ukraine	9.00	0.00	0.00	40.81
40	Senegal	8.81	0.00	0.00	0.00
41	Laos	8.75	0.00	0.00	0.00
42	Madagascar	8.50	0.00	0.00	1.35
43	Serbia	8.00	0.00	12.00	20.00
44	Burundi	7.96	0.00	0.00	0.00
45	Mali	7.31	0.00	0.00	0.00
46	Armenia	7.00	0.00	7.83	7.88
47	Cambodia	7.00	0.00	0.00	11.89
48	Honduras	6.80	0.00	0.00	3.03
49	Sri Lanka	6.60	0.00	0.00	12.47
50	Ethiopia	6.00	0.00	0.00	0.00
51	Malawi	6.00	0.00	0.00	0.00
52	Lebanon	5.00	0.00	0.00	0.00
53	Cameroon	4.00	0.00	0.00	28.13
54	Syria	4.00	0.00	0.00	0.00
55	Brazil	3.19	0.00	0.00	29.26
56	Tadjikistan	2.60	0.00	0.00	0.00
57	Uzbekistan	2.50	0.00	0.00	0.00
58	Turkey	0.69	49.00	0.00	36.39
59	Romania	0.60	0.00	13.07	22.50
60	Macedonia	0.50	0.00	0.00	0.00
61	Rwanda	0.47	0.91	0.00	0.00
62	Bulgaria	0.00	0.00	62.00	0.00
63	Kazakhstan	0.00	0.00	39.20	0.00
64	Chile	0.00	0.00	32.74	0.00
65	Russian Federation	0.00	2.20	25.82	41.22
66	Bosnia and Herzegovina	0.00	8.84	0.00	20.00
67	Mexico	0.00	0.00	6.25	33.44
68	Argentina	0.00	0.00	0.00	53.70
69	Croatia	0.00	0.00	0.00	11.07
70	Colombia	0.00	0.00	0.00	8.21
71	Singapore	0.00	0.00	0.00	7.10
72	Ecuador	0.00	0.00	0.00	6.25

4. COMMITMENTS BY BMZ BUDGET FUNDS AND COUNTRY IN THE YEAR 2006
(IN EUR MILLION).

Rank	Country	BMZ budget funds	Other donors' funds	KfW funds	DEG (own risk)
73	Gabon	0.00	0.00	0.00	5.06
74	Uruguay	0.00	0.00	0.00	4.15
75	Dominican Republic	0.00	0.00	0.00	2.75
76	Mauritania	0.00	0.00	0.00	2.00
77	Poland	0.00	0.00	0.00	1.50
78	Costa Rica	0.00	0.00	0.00	0.27
Supra-regional		48.01	5.98	165.83	57.75
Total commitments		1,379.68	84.61	1,018.48	917.80

5. TOTAL COMMITMENTS BY SECTOR IN 2006 (IN EUR MILLION).

	KfW Entwicklungsbank	DEG	Total	Share (%)
Social infrastructure	734	10	744	22
Economic infrastructure	725	180	905	27
Financial Sector	600	315	915	27
Producing Sector	186	313	499	15
Other	238	100	338	10
Total	2,483	918	3,401	100

Differences in the totals are due to rounding.

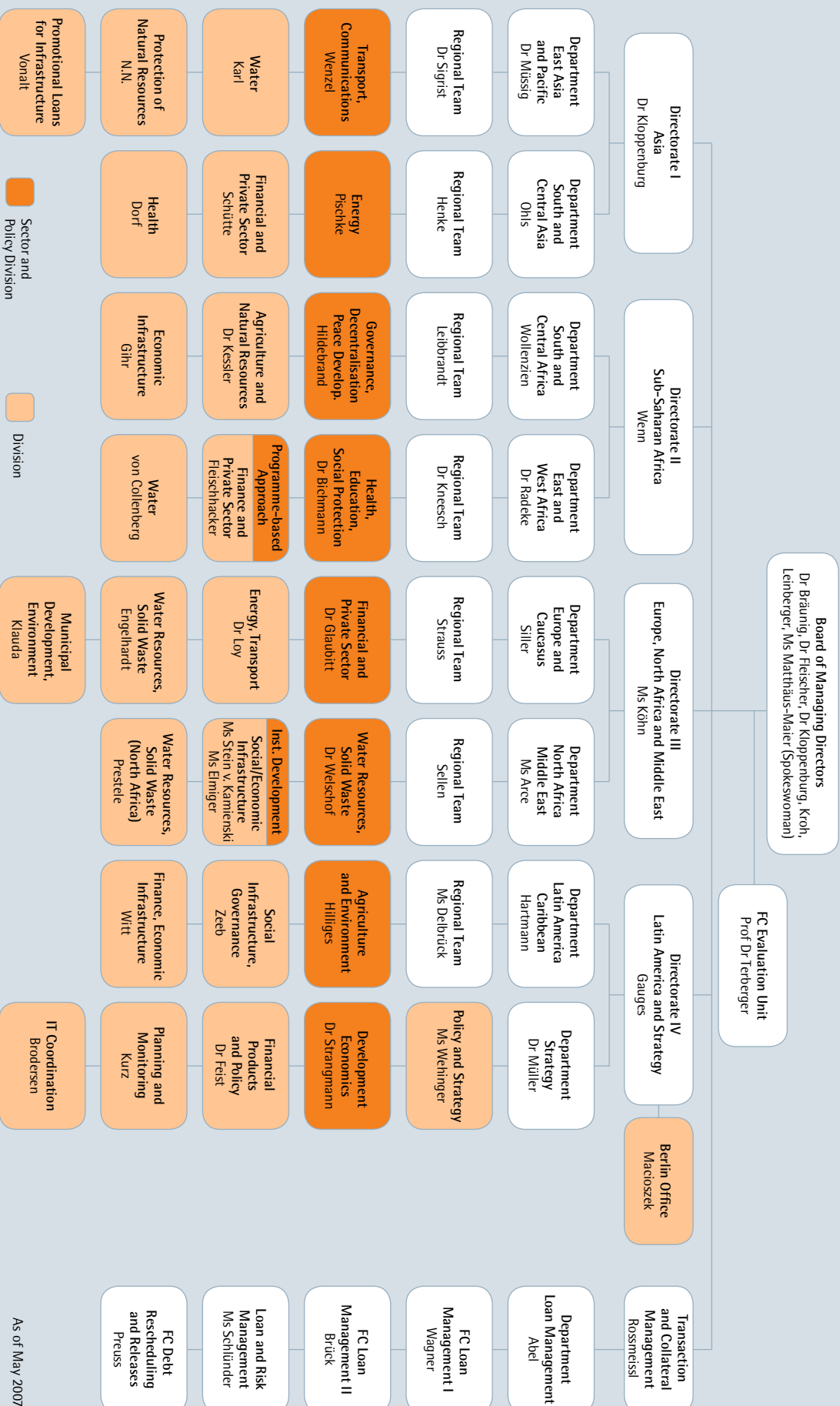
6. COMMITMENTS OF KFW ENTWICKLUNGSBANK BY BMZ PRIORITY AREAS (IN EUR MILLION).

BMZ Priority Area	2005		2006	
	EUR million	number	EUR million	number
Democracy, civil society and public administration	170.7	33	120.9	19
Peace development and crisis prevention	47.9	5	18.6	3
Education	69.5	14	84.5	13
Health, family planning, HIV/AIDS prevention	84.9	19	266.9	33
Drinking water supply, water management, wastewater management/solid waste management	305.3	47	402.8	49
Food security, agriculture / fishery	61.2	9	65.1	9
Environmental policy, conservation and sustainable use of natural resources	63.0	12	116.0	15
Economic reform and development of a market economy	495.8	71	646.1	74
Energy (incl. energy efficiency and renewable energies)	373.0	26	268.2	22
Transport and communications	122.4	13	270.6	12
Other, non-attributable	106.1	17	223.0	15
Total	1,899.7	266	2,482.8	264

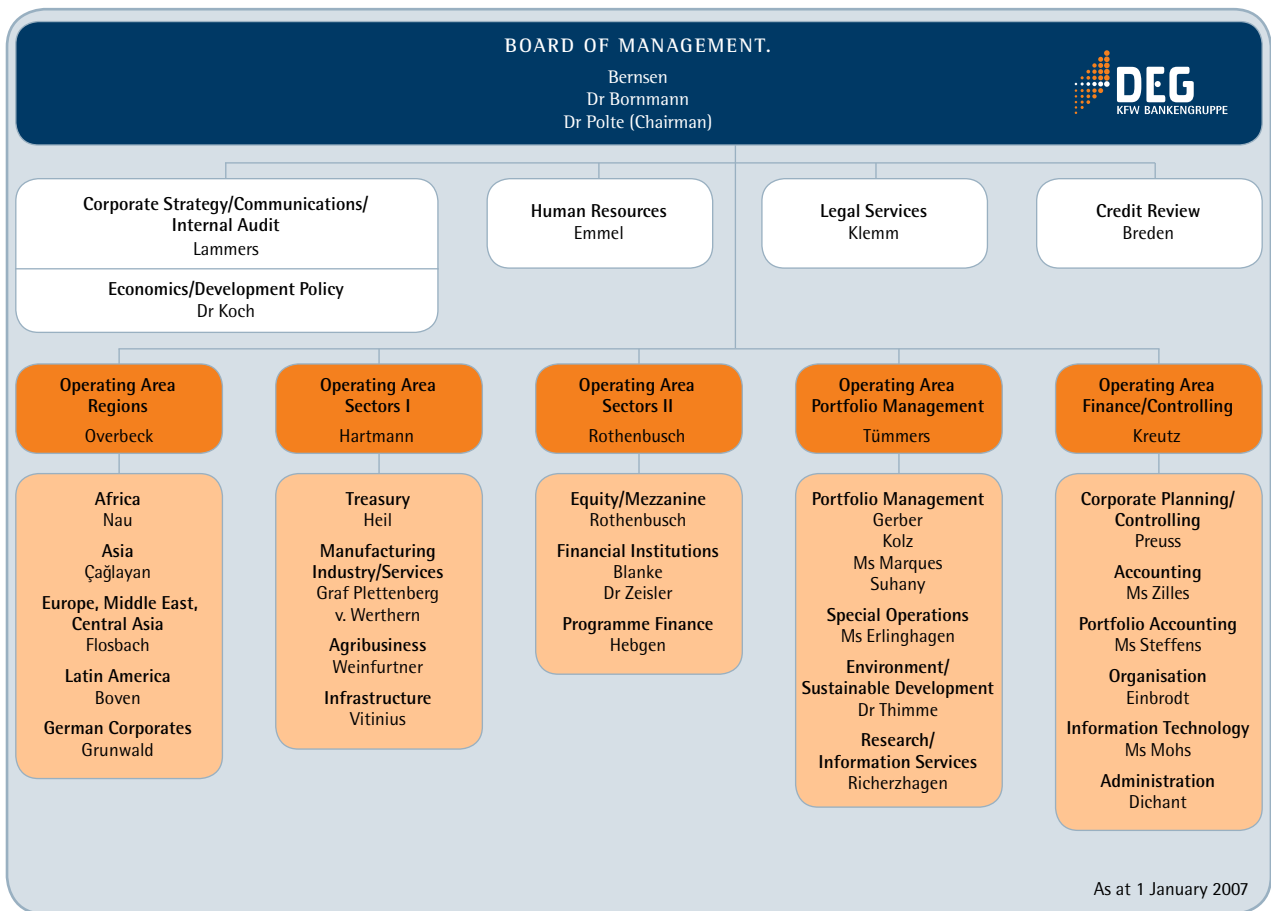
7. COMMITMENTS MADE BY DEG AT ITS OWN RISK BY SECTOR (IN EUR MILLION).

Sector	Average 2001–2005		2006	
	EUR million	%	EUR million	%
Producing sectors	211	40	313	34
Agriculture, forestry, fishery	20	4	37	4
Manufacturing, raw materials, mining, construction	191	37	275	30
Economic infrastructure	73	14	180	20
Energy sector	12	2	64	7
Transport and storage	27	5	34	4
Communications	34	7	82	9
Social infrastructure	13	3	10	1
Water supply, sanitation/waste management	8	1	0	0
Education	3	0	0	0
Health	3	1	9	1
Public Administration	0	0	0	0
Financial Sector	203	39	315	34
Other services	23	4	100	11
Trade and tourism	16	3	56	6
Real estate, leasing, corporate service providers and others	8	1	44	5
Total	523	100	918	100

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