

Results of Financial Cooperation

Fifth Evaluation Report on
Projects and Programmes Promoted
in Developing Countries



KfW at a Glance

Kreditanstalt für Wiederaufbau (KfW) was founded by law in 1948 as a corporation under public law domiciled in Frankfurt am Main. Its statutory functions are those of a promotional bank for the domestic economy and a development bank for the developing countries. Its capital is DEM 1 billion, of which 80% is held by the Federal Republic and 20% by the Federal Länder. With a balance sheet total of around EUR 173 billion* it counts among Germany's large banks.

■ Promotion of the German Economy

■ Investment Finance

The main focus is the promotion of small and medium-sized enterprises whose investments in Germany and abroad can be financed long-term through KfW at fixed conditions. A particular concern is the financing of innovations and the provision of venture capital to small and medium-sized companies. Other tasks include the financing of communal infrastructure investments and the modernization and acquisition of housing. Environmental protection plays an important part in all of KfW's programmes.

Thanks to their low interest rates and long maturities the investment loans constitute a reliable basis of calculation for investors.

■ Export and Project Finance

KfW extends long-term loans denominated in euros and foreign currencies to finance exports of capital goods by German enterprises. This includes financing aircraft and ship exports. The Bank also offers project finance for large-scale projects in Germany and abroad, especially in the areas of power, telecommunications, and transport infrastructure. It also grants loans to secure the supply of raw materials to the German economy.

■ Promotion of the Developing Countries

Under the Financial Cooperation of the Federal Republic of Germany with developing countries KfW finances investments and related consulting services on behalf of the Federal Government to expand the economic and social infrastructure and the manufacturing industry, to protect the environment and natural resources, and to develop financial systems. KfW appraises the eligibility of projects for promotion according to development-policy criteria, supports the partner

countries in their preparation, and evaluates the success of the projects after completion.

■ Advisory and Other Services

On behalf of the Federal Government KfW has assumed the implementation of the Law on Assistance with Old Debts and other tasks, such as the agency business for the Redemption Fund for Inherited Liabilities and the Compensation Fund for Currency Conversion. In addition, the Bank assists the Federal Government in coordinating and realizing advisory projects in the transition countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). KfW also promotes the establishment of promotional banks.

The Bank also assists the Federal Republic in the privatization of shares in public enterprises such as Deutsche Telekom AG.

* as per June 30, 1999

Abbreviations

AFD

Agence Française de Développement

BMZ

Bundesministerium für wirtschaftliche
Zusammenarbeit und Entwicklung
(Federal Ministry for Economic
Cooperation and Development)

DAC

Development Assistance Committee

DC

Development Cooperation

DED

Deutscher Entwicklungsdienst
(German Development Service)

FC

Financial Cooperation

GTZ

German Agency for
Technical Cooperation

KfW

Kreditanstalt für Wiederaufbau

OECD

Organisation for Economic Cooperation
and Development

OED

Operations Evaluation Department
(of the World Bank)

PwC

PwC Deutsche Revision Wirtschafts-
prüfungsgesellschaft (member of
PricewaterhouseCoopers International)

TC

Technical Cooperation

EVALUATING THE PERFORMANCE OF FC PROJECTS AND PROGRAMMES

- KfW conducts a final evaluation of the performance of each FC operation.
- When? About three to five years after the investment project has been put into operation or completed.
- An independent auditing firm reviews KfW's evaluation. It concluded that 75% of the 237 evaluated FC projects and programmes were successful in terms of the development impacts.
- The most important criteria for determining the development success of FC operations (see Annex 2 for further explanations) are:
 - achievement of objectives and development of sector conditions
 - financial impacts
 - economic impacts
 - socioeconomic and sociocultural impacts
 - environmental impacts
 - sustainability.
- Based on the criteria, each FC operation is assigned to one of six performance ratings:

Successful in terms of develop-
ment impacts: ratings 1 to 3

Unsuccessful in terms of develop-
ment impacts: ratings 4 to 6



Rating 1: Very good and good
development results



Rating 2: Satisfactory develop-
ment results



Rating 3: Altogether adequate
development results



Rating 4: Altogether inadequate
development results



Rating 5: Clearly insufficient
development results



Rating 6: Complete failure

THE OPINION OF INDEPENDENT AUDITORS IS DECISIVE FOR THE RATING

On behalf of the German Ministry for Economic Cooperation and Development (BMZ) an independent auditing firm, PwC Deutsche Revision Wirtschaftsprüfungsgesellschaft, continually monitors KfW's work in Financial Cooperation. The auditors assign the completed projects to performance categories independently of our assessment, taking into consideration all relevant development-policy aspects. The auditors' opinion is decisive for the performance rating of the projects in this report. As in the first four Evaluation Reports, the auditors' and our own assessments corresponded to a large degree.

Organization Chart (as from October 1999)

(FC-relevant departments are shown in detail.)

BOARD OF MANAGING DIRECTORS

Dr. Peter Klaus

Rudolf Klein

Detlef Leinberger

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Economic coordination Müller-Kästner 2313	EU representative EU Brussels/Belgium: v. Lindeiner (+32 2) 233.38.51	Regional department I L I Europe, South and Central Asia, East Asia and Pacific Frank 2400	Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Georgia, Macedonia, Moldova, Portugal, Romania, special programmes for CEE and NIS countries, Turkey L I a Dr. Neuhoff 2378	Afghanistan, Bangladesh, India, Iran, Kazakhstan, Kyrgyzstan, Maldives, Nepal, Pakistan, Sri Lanka, Tadjikistan, Turkmenistan, Uzbekistan L I b Ohls 2229	Cambodia, Indonesia, Korea (Rep.), Laos, Malaysia, Mongolia, Myanmar, Papua New Guinea, People's Rep. of China, Philippines, Taiwan, Thailand, Tonga, Vietnam, Western Samoa L I c Dr. Müssig 2150	
Loan department I K I Investment finance Oerter 2135	Treasury and fund-raising FM Lewark 2296	Regional department II L II Sub-Saharan Africa, North Africa and Middle East, America Dr. Polte 2421	Angola, Benin, BOAD, Botswana, Burundi, Cameroon, CAR, Comoros, Congo, Dem. Rep. Congo, Equatorial Guinea, Gabon, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, SADC, São Tomé & Príncipe, South Africa, Swaziland, Tanzania, TAZARA, Togo, Zambia, Zimbabwe L II a Lange 2423	Burkina Faso, Cape Verde, Chad, Côte d'Ivoire, Eritrea, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Kenya, Liberia, Mali, Mauritania, Niger, OMVS, Senegal, Seychelles, Sierra Leone, Uganda L II b Dr. Dittmar 2362	Algeria, Djibouti, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Territories, Somalia, Sudan, Syria, Tunisia, Yemen L II c Dr. Callies 2530	Argentina, BCIE, Bolivia, Brazil, CAF, CDB, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Peru, Uruguay, Venezuela L II d Dr. Zenk 2578
Loan department II K II Export and project finance for raw materials, industrial and environmental technologies, energy, telecommunications, construction industry, medical technologies Heims 2637	Accounting/Controlling RW Vogt 2263	Technical Department T N. N.				
Loan department III K III Export and project finance for the transport sector Murach 3299	Information systems/data processing ID Dr. Schreiber 2110	Legal affairs, collateral, processing of lending and funding operations RS Saß 2420	Legal affairs, collateral RS a Dr. Groß 2398	Processing of lending and funding operations RS b Roßmeißl 2342	Legal department Berlin* RS c Klimpe 102	
Loan department IV K IV Infrastructure, housing, agency business for the Federal Government Genter 5146	Personnel and general administration PA Seibert 3151					

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FOREWORD



Development cooperation can be successful only if it is thoroughly planned, carried out competently and efficiently, and critically appraised and evaluated. This is the only way one can learn from one's mistakes but also from one's successes for future work. Our Federal Government therefore attaches particular importance to reviewing the performance of development cooperation projects.

A recent study of the HWWA economic research institute on the system of performance review has attested KfW a methodically demanding system of quality assurance and a high density of controls, exceeding even that of the World Bank¹. The present Fifth Evaluation Report is evidence of this. It offers readers a wealth of experience from more than 200 projects which underwent final evaluation. The report shows that projects of development cooperation are predominantly successful. Even about half of the projects not rated successful still had significant positive

effects; clear failures, which can never be completely avoided, remain the exception in Financial Cooperation.

The report shows once more that the success or failure of projects is not only determined by the quality of planning and implementing them. The general political environment and its realistic assessment are also decisive for project success.

I extend my thanks to KfW for its committed and competent work within the scope of German development cooperation, which is also reflected in this convincing presentation.

Heidemarie Wieczorek-Zeul

¹ Bormann et. al.: Analyse und Bewertung der Erfolgskontrolle in der deutschen Entwicklungszusammenarbeit; Institut für Wirtschaftsforschung, Hamburg, May 1999

PREFACE

With this fifth report on the results of Financial Cooperation we complete a decade of regular publication of the impacts and performance ratings of projects promoted by KfW on behalf of the German Ministry for Economic Cooperation and Development (BMZ).

This report covers all completed projects that underwent a final performance evaluation in the period 1996/97. According to these statistics, 75% of the projects were successful in terms of their development impacts. The success ratios of previous Evaluation Reports were comparable, at 73%. This is an encouraging feedback for our efforts to optimize the use of scarce budget funds in development cooperation.

KfW has neither reason for nor any interest in „embellishing“ the results of its work; about 30% of all evaluations are made by external experts in any case. The performance ratings are determined in an intensive process of sometimes controversial discussions with the sector-policy and strategy department of KfW. The performance ratings thus defined are then verified

one by one by the auditing firm PwC Deutsche Revision; in case of diverging opinions their view is decisive for the rating within the scope of the present report. Therefore, KfW attempts to match its evaluation procedures as far as possible to those of independent external experts.

As experience has shown, an adequate political, economic and sectoral environment is a precondition for improving the living conditions of the population in developing countries. Through its assistance KfW continues its efforts to contribute to changing any general conditions in developing countries that impede their development.

It remains a permanent challenge for KfW to further improve the effectiveness of the funds made available under Financial Cooperation and, with this aim in mind and taking into account decreasing budget resources, to increase its sectoral concentration.


Rudolf Klein



SUMMARY

Three quarters of the evaluated projects and programmes successful in terms of development impacts

This Fifth Evaluation Report is based on the analysis of all 237 operations of Financial Cooperation that underwent a final evaluation of their developmental effectiveness in the years 1996 and 1997. Altogether they were promoted with around DEM 7.4 billion.

Altogether, 75% of the operations proved successful in terms of developmental impacts. The success rate in relation to the volume of funds employed was only slightly lower at 72%.

Weighing factors of success against factors of failure does not in all cases yield a clear-cut result: for instance, the sustainability of projects rated as altogether successful may still be affected by certain risks. On the other hand, some of the operations classified as unsuccessful (25%) are far from being failures: although they show considerable weaknesses in individual aspects, the facilities financed are often operational and in use. It is naturally very difficult to assess the performance of such borderline cases, since this assessment also takes into account any risks



Thailand – Construction of low-cost housing for village development

affecting the sustainability of the project, hence, uncertain developments in the future. Only 26 operations (11%) have clearly unsatisfactory effects (performance rating 5) or are complete failures (performance rating 6).

Operations in the **sectors** of telecommunications, health and manufacturing were more successful than the average, whereas projects in the energy sector and to protect the environment and natural resources were less successful on the whole.

A comparison by **regions** yields the best success rates for operations in Asia and Europe. However, the impacts of the Asian crisis are not yet reflected in this evaluation. In individual sectors, declining demand may lead to setbacks with regard to the attainment of objectives and the profitability of operations - however, this was not foreseeable at the time of evaluation. A welcome development is the increase in the success rate of projects in Sub-Saharan Africa from 65% to 75%; projects in Africa now reach the overall average.

Compared with the results of **earlier evaluation reports**, the success rate in relation to the volume of FC funds employed is almost identical, and the success rate in relation to the number of projects is slightly higher than the long-term average (73%).

Further major results can be summarized as follows:

- Only one third of the investment cost was financed from FC funds. This figure illustrates the considerable efforts made by partner countries.
- FC funds benefited German companies to a considerable extent, as German firms proved competitive in – mostly international – tendering procedures.
- FC/TC cooperative projects constitute a major element in the long-standing distribution of tasks between GTZ and KfW.

KfW's **quality control** is "**comprehensive and demanding**". This is the judgement made by the HWWA economic research institute in a comprehensive study on performance control and quality assurance of German organizations of development cooperation published in 1998. Judging by internationally recognized evaluation standards but also in terms of its results, KfW stands up to the **comparison with major international development cooperation institutions**.

In response to the suggestion made by several readers of the last evaluation report, we have tried to present the performance of the projects also from our **partners' point of view**. Our partners are the project-executing agencies and target groups (beneficiaries of the projects or people affected by any negative project impacts) with their different

The present evaluation confirms the main conclusions of earlier reports:

1 The frequently encountered financial weaknesses of executing agencies (weak earning power, insufficient equity base, tight liquidity situation due to high outstanding accounts) have less to do with a lack of know-how than with the interference of political pressure groups (for example with regard to tariff structures). Through their own interventions governments often fail to provide the right incentives for executing agencies to operate the facilities efficiently.

2 In this situation, greater involvement of the private sector and a market-oriented economic policy, with the government ensuring a definite regulatory framework, are gaining in importance. In these efforts, FC can play an important catalytic role.

3 The long acknowledged importance of good governance for the success of a project is confirmed by the above-average success rates of some African reform countries. Good governance not only creates the necessary confidence in the development of existing potentials, it also directly improves sectoral conditions and gives the private sector reasonable

incentives. Financial Cooperation has supported these efforts with successful, structurally effective projects.

4 Given the still unsatisfactory political and sectoral conditions in some developing countries and the cuts in German budget funds, a consistent sectoral concentration represents one of the major challenges to Financial Cooperation. FC should focus on areas where it has a recognized problem-solving capacity, such as the introduction of modern environmental technologies or the improvement of social and economic infrastructure. Concentrating on specific sectors and on its own strengths is a decisive factor if FC is to encourage structural change and so to continue its successful contribution to the economic and social development of the partner countries.

expectations and interests. There is no such thing as a single partner perspective.

As we maintain close contact with *project-executing agencies* throughout the duration of a project, we gain a clear picture of their assessment of the project. The *target group's* acceptance of the project is measured by analyzing the demand for and utilization of the capacities created within the framework

of the project (e.g. drinking water consumption), in suitable cases also through interviews. The interviews conducted with target group members of two programmes show that, although they do not replace a thorough evaluation, such interviews are a complementary element providing greater insight into the social impacts of projects.



Turkey – Flue gas desulphurization to protect the environment

CHARACTERISTICS OF THE OPERATIONS EVALUATED

This Evaluation Report analyzes the experience of all 237 operations which underwent final evaluation in the years 1996 and 1997 and which were financed with FC funds totalling DEM 7,417 million. Projects and programmes were financed in 58 countries. Figure 1 shows the breakdown of operations by types; a complete list of all projects and programmes is contained in Annex 1.

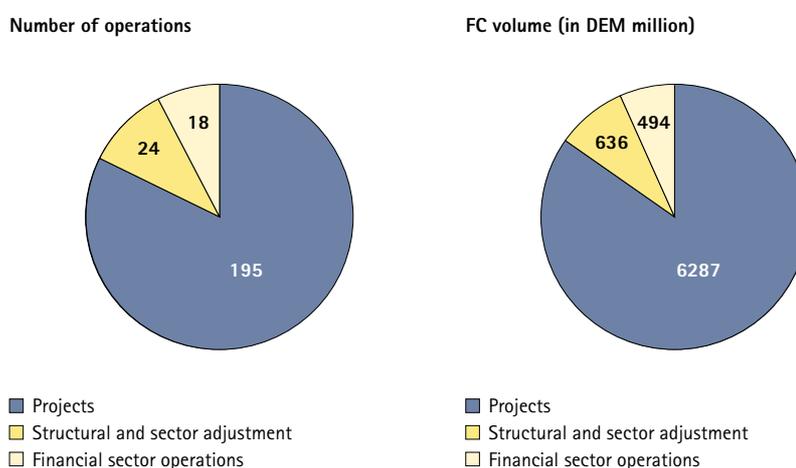
As in the previous years, **projects** formed the main focus of the evaluation. Most of them were new investments and expansions as well as rehabilitations, which were frequently integrated into a targeted sector policy.

The second largest body of operations were **structural and sector adjustment programmes (SAP)** designed to improve the overall economic and sector conditions. These programmes are frequently cofinanced with multilateral institutions, above all the World Bank. The basic principle of SAPs is the following: a government undertakes to implement previously agreed economic and/or sectoral reforms and, in return, receives funds to finance necessary imports. Although structural adjustment measures may lead to social hardship due to layoffs or price increases, they very often create the scope needed in the

first place to effectively reallocate resources to social sectors as an element of an effective poverty alleviation strategy. It is attempted within the framework of SAPs to cushion negative social impacts by appropriate measures, for example employment programmes or social funds.

An example: thanks to the structural adjustment programme cofinanced with the World Bank, El Salvador successfully managed to improve the performance of the public sector, strengthen the mobilization of private savings and increase the investment ratio. Social-policy reforms, such as a significant increase in the share of the health and education sectors in the general budget, were an integral part of the measures.

Figure 1: Ex-post evaluations in 1996 and 1997 by type of operation





Cambodia – Micro-loans help people set themselves up in business

The adjustment programme contributed to an increase in real per-capita income which was beyond expectations and to an improvement of the supply of social infrastructure facilities (health posts, schools, social services) also for the poorer sections of the population.

Financial sector operations served to improve the performance of local finance institutions (e.g. commercial banks, Apex institutions and micro-finance institutions). The provision of long-term funding possibilities, combined with advice for the banks, gave small and medium-sized enterprises, which cannot provide much collateral,

durable access to investment loans. Support for micro-credit systems enabled poor people to obtain credit and deposit savings. The amounts involved are very small by our standards:

The Thai Bank for Agriculture and Agricultural Cooperatives (BAAC), for example, extends loans averaging only DEM 2,300 to smallholding families, predominantly to buy cattle.

Altogether the FC financial sector operations (mainly credit lines), sometimes completed by funds of the participating banks, allowed more than 17,000 loans to be extended of an average volume of approx. DEM 40,000, primarily to highly labour-intensive small and micro-enterprises.

Of the operations under review, 43 were accompanied by **human resource development measures**. They included training activities and specific expert assignments to support the project-executing agency as well as to sensitize the target groups (e.g. hygiene campaigns) so as to ensure the proper operation of the facilities financed.

The number of operations examined (237) has risen significantly compared to previous evaluation reports. The average FC amount committed per project is DEM 31 million, but this average

reflects a very broad band of project sizes, ranging from DEM 0.9 million committed for a supplementary measure under the project “Rural Access Roads” (Zambia) to DEM 665 million for the project “Lignite Open-cast Mining and Elbistan Power Station” (Turkey). The appraisals of the operations evaluated here took place largely in the period between 1977 and 1994.

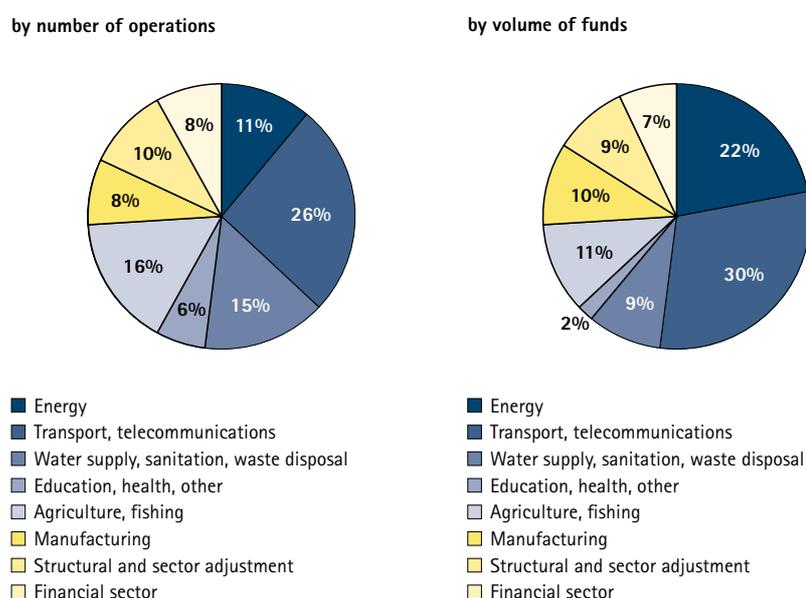
In terms of **sectoral distribution**, operations in economic infrastructure (energy, transport and telecommunications) are predominant, as in the previous reports, and account for 37% of operations and almost 53% of funds. Operations in social infrastructure (education, health, water supply, waste disposal) make up for 21% (11% of funds). This sectoral distribution is very different from that of the present portfolio. Thus, in the last few years, given the growing importance and often greater efficiency of the private sector, hardly any projects have been undertaken in the manufacturing industry. Instead, Financial Cooperation has concentrated more on projects of social infrastructure.

The main regional focus was on Asia and Sub-Saharan Africa, closely followed by North Africa, which corres-

ponds largely with the distribution of our current portfolio.

Of the budget funds disbursed, long-term loans at concessionary terms accounted for 79% (DEM 5,857 million), non-repayable grants made up 21% (DEM 1,560 million) and were extended almost exclusively for projects in the least developed countries. In the FC commitments of the last three years the share of loans has been considerably smaller at around 50%. This reflects both the greater number of projects in environmental protection and social infrastructure, for which mostly grants are committed, and the contribution made by Financial Cooperation to limit the debt of developing countries: thus, the majority of the FC partner countries covered by the HIPC Initiative (“Highly Indebted Poor Countries”) exclusively receive grants.

Figure 2: Sectoral distribution of operations



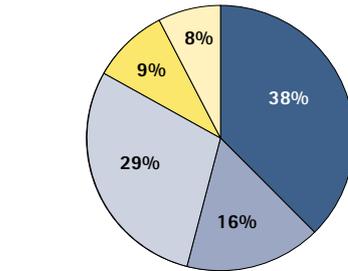
Characteristics of the Operations Evaluated

In 34 operations KfW added market funds totalling DEM 1,558 million to the FC funds under mixed finance, thus complementing scarce budget funds and significantly increasing the volume of German development cooperation.

FC funds cannot and must not replace the partners' financial commitment. An appropriate contribution from the partners is a fundamental precondition for cooperation. The fact that the total FC funds made available on average cover only 33% of total investment cost (approx. DEM 22.2 billion) attests to the subsidiary nature of Financial Cooperation. For every deutschmark from Germany our partners have mobilized almost two deutschmarks from other sources - mostly in the countries themselves. As experience has shown, this enhances the partner countries' sense of ownership of their projects.

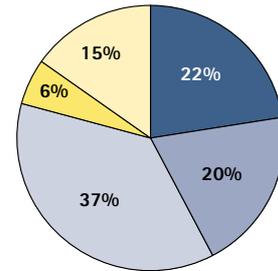
Figure 3: Regional distribution of operations

Number of operations



- Sub-Saharan Africa
- North Africa
- Asia
- Latin America/Caribbean
- Europe/Middle East/Caucasus

FC volume



- Sub-Saharan Africa
- North Africa
- Asia
- Latin America/Caribbean
- Europe/Middle East/Caucasus

A noteworthy effect of development cooperation is that FC funds have benefited German enterprises to a considerable extent: approx. half of the contracts for supplies and services for the projects went to German enterprises; in terms of the volume of FC funds, the share was 60%. Thus, Finan-

cial Cooperation also contributed to securing jobs in Germany. These effects were above all due to the competitiveness of German industry and not to any protective measures such as financing being tied to deliveries. In 63% of operations contracts were awarded upon international competitive bidding.



This result matches the clearly positive conclusions of an expertise of the ifo economic research institute on the effects of development cooperation on Germany as a business location. The expertise emphasizes the indirect impacts of development cooperation on German exports (“goodwill”, “catalytic function”) and expects considerable positive effects on the German labour market on account of this alone.

Effective donor coordination is indispensable for successful development cooperation. We have taken this necessity into account by intensifying our cooperation with other DC institutions: in approx. 40% of operations – a considerable increase of 15 percentage points compared to our last evaluation – other promotional institutions were involved. KfW cooperated with the German Agency for Technical Cooperation (GTZ) in 25 projects (see text box). 48 operations (structural and sector adjustment

programmes, investment projects and population programmes) were co-financed with the World Bank. A further 21 projects were supported jointly with other bilateral and international organizations (AFD, DED, DEG etc.).

FC/TC Cooperation: The Comparative Advantages of FC and TC Complement Each Other

Whereas Financial Cooperation concentrates on physical investments to develop the production potential of developing countries, including their economic and social infrastructure, GTZ primarily enhances the performance capabilities of people and organizations (capacity building) within the scope of Technical Cooperation (TC). This general distribution of tasks between KfW and GTZ has proved very useful, particularly since there is enough flexibility to allow small-scale investments to be undertaken within the scope of TC as well as limited manpower support activities (e.g. training) within the framework of FC, so as to ensure efficient support from one single institution. Where the work of one instrumentality (FC or TC) alone does not promise to be successful, the two may work together on so-called cooperative projects. Cooperative operations are conducted mainly in sectors such as forestry, the protection of natural resources, and health care. FC would finance, for example, the cost of an afforestation programme, and TC would be in charge of promoting the institutional capacity of the forest administration. Or TC would help improve the quality of health services, while FC would finance

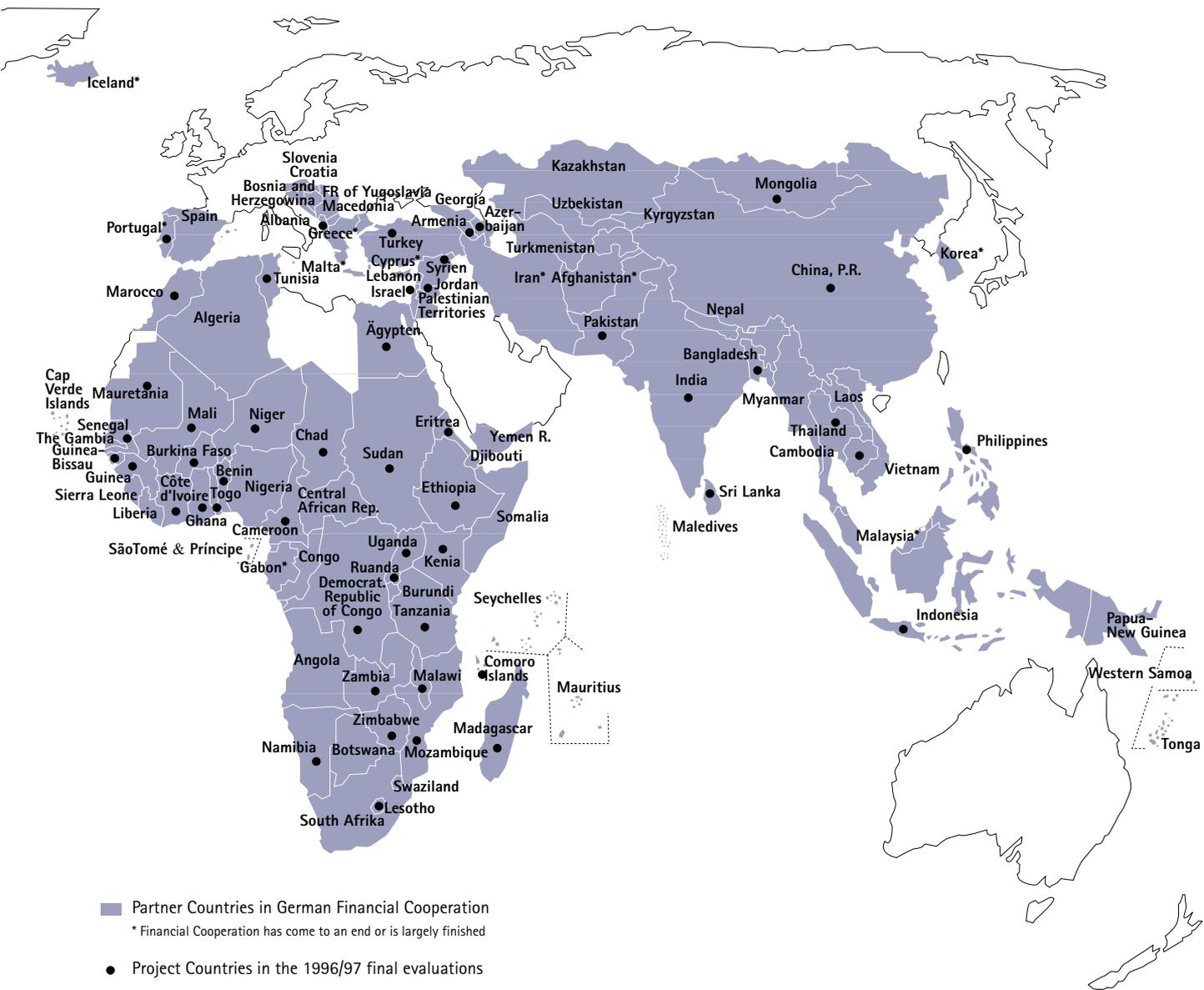
the construction or rehabilitation of hospitals or health posts, including medico-technical equipment.

This evaluation concerned 25 cooperative projects with an FC financing volume of approx. DEM 403 million (11% of all projects; above all irrigated farming and resource protection). The success rate of 80% confirms that in such complex development operations cooperative projects are a useful complement to the general institutional distribution of tasks between GTZ and KfW despite the greater steering and coordination effort involved.

Beyond their cooperation at the level of individual projects, GTZ and KfW work together on the basis of the country strategies of the Ministry for Economic Cooperation and Development, i.e. with regard to common support strategies for a partner country. Concentration on key areas of promotion and coordinated support strategies ensure coherent development cooperation. Collaboration between KfW and GTZ is facilitated by common representation in at present nine countries.

Partner countries of German Financial Cooperation





■ Partner Countries in German Financial Cooperation
 * Financial Cooperation has come to an end or is largely finished
 ● Project Countries in the 1996/97 final evaluations

RESULTS OF FINANCIAL COOPERATION

The Overall Result

The KfW measures project performance according to the criteria of effectiveness (attainment of objectives), significance (of the attainment of objectives for solving the developmental problem concerned), financial and economic efficiency (viability), taking into consideration the sustainability of these project impacts. The influence of sectoral conditions as well as the socio-economic, socio-cultural and ecological impacts of the project are evaluated. In an overall evaluation each project is then assigned

to one of six **performance ratings**. Ratings 1–3 are allocated to successful projects and 4–6 to unsuccessful projects (A detailed presentation of these criteria is contained in Annex 2).

Altogether, 75% of all operations, accounting for 72% of FC funds, were successful in terms of development impacts. 44% of operations displayed very good to satisfactory developmental effects. 31% were rated adequate (grade 3); flaws in individual areas or persisting uncertainties as to their sustainable effects could be more than compensated by above-average positive effects in central aspects.

33 operations (14%) were rated altogether **inadequate** because of severe deficiencies in certain aspects (e.g. insufficient cost recovery or financial or economic viability), although they did have notable and measurable positive development impacts: the facilities financed from FC funds are in operation; the capacities created are being used. However, the results have not allowed the project objectives to be achieved to a satisfactory extent or have involved undesired side-effects or excessively high risks to their sustain-

Table 1: Overall developmental result

Performance evaluation	Rating	Number of operations		FZ volume in DEM million	
		absolute	%	absolute	%
very good and good	1	38	16 %	1,625	22 %
satisfactory	2	66	28 %	1,886	25 %
adequate	3	74	31 %	1,845	25 %
inadequate	4	33	14 %	762	10 %
insufficient	5	20	8 %	1,166	16 %
complete failure	6	6	3 %	133	2 %
Sum		237	100 %	7,417	100 %
of which					
successful	1–3	178	75 %	5,356	72 %
unsuccessful	4–6	59	25 %	2,061	28 %

ability. These projects failed, despite positive effects, for example because of insufficient demand, inadequate recovery of running cost or insufficient profitability.

Weighing the factors of success and failure does not always lead us to a clear-cut result. For example, in an irrigation project in Tunisia the impacts at the micro-economic level were judged satisfactory, while the economic rate of return was clearly negative, due mainly to the unfavourable development of the world market price of sugar. We have therefore assigned the project to performance rating 4. In a water supply project in Indonesia, on the other hand, (see project example page 39ff.), the positive impacts prevailed, and it was therefore rated generally positive despite remaining risks to the sustainability.

In 20 operations the effectiveness was clearly **insufficient**; six operations had to be rated **complete failures**. These projects (10.9% of all operations) were clear-cut cases of failures. In the preceding evaluation the rate of failure was similar.

Seen from a **sectoral** perspective, operations in telecommunications, health and manufacturing were more successful than the average; the least good results



were achieved by projects in the energy sector and environmental and resource protection. The performance ratings in individual sectors varied a lot compared with preceding evaluations – it is thus not possible to detect any general trends with regard to the prospects of success in different sectors.

As in the Fourth Evaluation Report, projects in the **health and education sectors** again reached particularly high performance ratings. However, their share in the total number of projects (3%) is too low to allow any general (positive) conclusions to be drawn. The same applies – conversely – to projects in environmental and resource protection.

The good result of the **manufacturing sector** is related to exceptional influences, such as the project “Abu Qir

HWWA: "KfW's Quality Control is Comprehensive and Demanding"

It is not least due to the shortness of public funds that development aid is under public scrutiny. It is therefore particularly important for German development cooperation to provide evidence of the effective and efficient use of the development budget. In the light of this the German Ministry for Economic Cooperation and Development (BMZ) therefore commissioned a study on the effectiveness of the **performance control** and **quality assurance** of 14 German development aid institutions, including the BMZ itself. The study was conducted by the HWWA economic research institute, Hamburg, on the basis of pertinent documents, interviews at the institutions under review and meetings with the Federal Audit Office, auditing firms such as PwC Deutsche Revision, and last but not least representatives of politics, industry and practitioners of development cooperation. The study investigated all the activities conducted by the institutions under review in the area of continuous monitoring and steering of ongoing projects and periodical evaluation of the project success.

The quality of performance control systems was assessed by HWWA particularly with regard to whether the institutions respect the internationally recognized principles of the Development Assistance Committee (DAC) for evaluation of development assistance¹. These principles can be summarized as follows:

- Development institutions should have clearly defined guidelines and methods, a distinct understanding of their role and clearly defined responsibilities for performance control.

- Performance control should be unbiased and independent of policy formulation and the implementation of development assistance.
- Performance control should be as open and its results be publicized as widely as possible.
- The lessons learnt from the evaluation must be fed back into the operational work.
- Performance control should be conducted in cooperation with the partners and with other donors as far as possible.
- The requirements of performance control must be taken into account already in the planning stage of a project, in particular by defining clear and measurable project goals.

KfW's results in the study are quite significant. Quote: "KfW has a comprehensive quality assurance system accompanying each project. It covers the entire project cycle from project preparation to a final performance evaluation conducted some time after completion of a project. ... To be emphasized once more in this connection is the fact that KfW is the only implementation organization which subjects all projects to an ex-post evaluation of their impacts. ... In short, it can be said that KfW has developed a valuable quality control system."

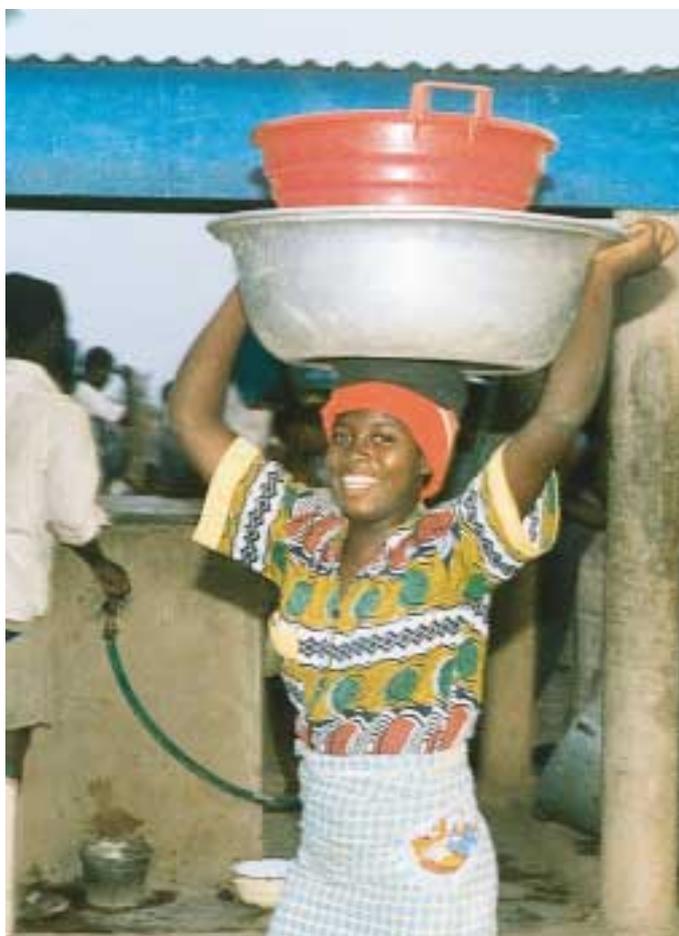
¹ „DAC-Principles for Evaluation of Development Assistance"; OECD/DAC 1992.

Fertilizer Factory II (Egypt, see detailed description of project example on page 30ff.)" rated as "very good". Despite such positive examples, the evaluation confirms the earlier assessment that the prospects of success of industrial projects are poor if they are run by the state or state-controlled bodies. Such projects are often characterized by a high degree of dependency on public subsidies and a lack of competitiveness. Productive operations should be run by the private sector, which is better able to do so. Therefore, the promotion of industry within the scope of Financial Cooperation focuses on the funding and capacity-building of local finance institutions to improve the credit supply for small and medium-sized private enterprises. Thus, a market-oriented and competitive environment propitious for the private sector with adequate financing opportunities is created.

The reasons for the poor rating of the **energy sector** are to be seen in the negative performance of the large-scale project "Lignite Open-Cast Mining and Elbistan Power Station" (Turkey), which alone accounted for 40% (DEM 665 million) of FC funds allocated to the energy sector projects covered by this evaluation. This project failed largely due to high production cost, caused among other factors by a doubling of investment cost and a four-year delay in commissioning but also by power demand staying considerably short of expectations. In addition, inadequate

power tariffs led to insufficient cost recovery. The project goal of efficient plant operation was clearly missed, given a rate of plant availability of just 53%.

The other projects rated unsuccessful were concentrated in Sub-Saharan Africa. Except for project failures related to civil war (Sudan), the reasons were insufficient demand, inadequate revenue from tariffs or major unpredictable changes in the project environment, such as changes in climatic trends leading to insufficient rainfall in the case of a hydropower plant. In the sector-related programme Bissau Power Supply (Guinea Bissau), due to revenue short-



Burkina Faso – Improved water supply benefits women in particular

Table 2: Shares of successful operations by sectors

SECTOR	total	Number		FZ volume (in DEM million)		
		successful absolute	in %	total DEM million	successful DEM million	in %
Economic infrastructure	88	64	73 %	3,904	2,718	70 %
Energy	26	16	62 %	1,667	831	50 %
Transport, telecommunications	62	48	77 %	2,237	1,887	84 %
Social infrastructure	50	39	78 %	856	637	74 %
Water supply, sanitation, waste disposal	35	24	69 %	706	486	69 %
Education, health, other	15	15	100 %	150	150	100 %
Producing sector	54	39	72 %	1,508	990	66 %
Agriculture and fishing	34	25	74 %	783	408	52 %
Manufacturing	20	14	70 %	725	582	80 %
Environmental protection	3	2	67 %	19,3	17,7	92 %
PROJECTS OVERALL	195	144	74 %	6,287	4,362	69 %
Structural and sector adjustment programmes	24	20	83 %	636	587	92 %
Financial sector	18	14	78 %	494	407	82 %
ALL OPERATIONS	237	178	75 %	7,417	5,356	72 %

falls insufficient amounts of diesel fuel were procured, which caused the rate of machine availability to drop to only 43% and consequently led to supply shortages; as a result, consumers went back to covering their own energy needs themselves (in a more cost-intensive way). These negative experiences should not make one jump to the conclusion that energy projects in Sub-Saharan Africa cannot be successful: in our current portfolio the sectoral conditions in Sub-Saharan Africa are largely being assessed positively.

Operations in **telecommunications** had above average results. A contributing factor in this was that the projects were being implemented mainly in advanced developing countries with relatively good macro-economic conditions

(e.g. Egypt, China) or with greater involvement of private operators of telecommunications networks (e.g. Pakistan).

The example of telecommunications projects in Pakistan also shows that by financing durably profitable investments Financial Cooperation can play a catalytic function for the development of private-sector activities. The state-owned executing agency was transformed to a stock corporation, which has in the meantime been partly privatized. Furthermore, in some telecom services (for example, card and mobile phones) competition was admitted, and the contract for installing and operating 500,000 connections was awarded to private enterprises.



Sri Lanka – Mahaweli-Rantembe dam project

The relatively large discrepancy between the success rates by number of projects (74%) and by volume of FC funds (52%) in the sector of **agriculture** and **fishing** is explained largely by two unsuccessful large-scale projects in Portugal (“Cova da Beira Irrigation Project”, see project example on page 54ff.) and Tunisia (“Bou Heurtma Irrigation Project”).

The evaluation by **regions** shows the following results: operations in **Asia** still tend to have above-average success rates, the same goes for projects in Europe. Any potential negative impacts of the Asian crisis have not been reflected in the results of the projects, which underwent final evaluation in 1996 and 1997. Short-term slumps in demand and revenue shortfalls are to be expected, but we presume that the long-term utilization and commercial viability of the projects will not be substantially affected by this.

The success rate of operations in **Sub-Saharan Africa** improved from 65% in the preceding evaluation to 75%. This is also an indication for the positive development in some African countries which have been undergoing a reform process towards the market economy. For example, politically and economically relatively successful countries such as Ghana, Mali and Mozambique reached success rates of more than 80%. This relativizes the common, entirely pessimistic view of the situation on this continent and shows that development efforts bear fruit also in Africa if the general political and economic orientation is right.

Results in **Europe** and **North Africa** are strongly affected by particular factors, such as the aforementioned large-scale Elbistan power project (Turkey).

Table 3: Shares of successful operations by regions

Region	total	Number successful		FZ volume in DEM million		
		absolute	in %	total DEM million	successful DEM million	in %
Sub-Saharan Africa	89	67	75 %	1,666	1,118	67 %
North Africa	39	18	46 %	1,471	952	65 %
Asia	69	60	87 %	2,735	2,516	92 %
Latin America/Caribbean	22	17	77 %	419	370	88 %
Europe	18	16	89 %	1,126	401	36 %

Performance: Long-Term Trends

In comparison with the results of the previous evaluation reports the rate of success established in this report was slightly higher in relation to the number of projects (73%) and almost identical in terms of FC volume (71%) (see Table 4).

The long-term comparison relativizes the considerable increase of 8 percentage points in the success rate over the

4th Evaluation Report (67%). The result of the present evaluation can therefore be considered sufficiently meaningful in the long-term comparison (1988-97).

Just like the previous report, the present evaluation cannot be considered as statistically representative, given the specific sectoral composition of operations and the influence of some large-scale projects. Particularly, the following factors played a significant role in this evaluation:

- the share of old projects with long implementation periods is significantly lower than in the last evaluation. Such projects usually have a lower incidence of success than projects implemented fairly rapidly, as delays tend to reflect unfavourable general conditions or institutional weaknesses;
- a large share of projects were implemented in the 1990s, in a period when the overall economic situation in many countries had improved after sometimes considerable slowdown of growth in the eighties;
- the share of extension projects, characterized by lower risk, increased while the share of initial investments dropped.



Egypt – Supply of line locomotives

Table 4: Long-Term Comparison of Success Rates

	total	By number		By volume (DEM million)		
		absolute	successful in %	total DEM million	successful DEM million	successful in %
5th Evaluation Report – Final evaluations 1996/97						
Projects	195	144	74 %	6,287	4,362	69 %
Programmes	24	20	83 %	636	587	92 %
Projects + programmes	219	164	75 %	6,923	4,949	71 %
Financial sector	18	14	78 %	494	407	82 %
TOTAL	237	178	75 %	7,417	5,356	72 %
4th Evaluation Report – Final evaluations 1994/95						
Projects	140	92	66 %	3,520	2,310	66 %
Programmes	13	12	92 %	278	247	89 %
Projects + programmes	153	104	68 %	3,798	2,557	67 %
Financial sector	24	15	63 %	470	302	64 %
TOTAL	177	119	67 %	4,268	2,859	67 %
3th Evaluation Report – Final evaluations 1992/93						
Projects	115	80	70 %	2,471	1,693	69 %
Programmes	19	16	84 %	388	312	80 %
Projects + programmes	134	96	72 %	2,859	2,005	70 %
Financial sector	19	13	68 %	206	185	90 %
TOTAL	153	109	71 %	3,065	2,190	71 %
2nd Evaluation Report – Final evaluations 1990/91						
Projects	97	71	73 %	2,676	1,712	64 %
Programmes	15	14	93 %	358	331	92 %
TOTAL	112	85	76 %	3,034	2,043	67 %
1st Evaluation Report – Final evaluations 1988/99						
TOTAL (Projects)	110	82	75 %	2,248	1,767	79 %
OVERALL RESULT						
(1st – 5th Evaluation Reports)						
Projects	657	469	71 %	17,202	11,844	69 %
Programmes	71	62	87 %	1,660	1,477	89 %
Projects + programmes	728	531	73 %	18,862	13,321	71 %
Financial sector	61	42	69 %	1,170	894	76 %
GRAND TOTAL	789	573	73 %	20,032	14,215	71 %

Risk Analysis and Possible Influence on Risks in FC Projects

What can make a project fail? This question is looked into in a risk analysis. The analysis of risks assesses the likelihood of assumptions made at the planning stage of a project not being fulfilled in the course of project implementation, of results not being achieved and, consequently, objectives not being met. For example, how likely is it that the Abidjan power utility does not succeed in enforcing the rise in electricity tariffs which is indispensable for operation and has already been promised, and how serious would this be? The power utility would not have sufficient funds to maintain its power stations, to ensure that they stay operational and so to improve power supply on a durable basis.

The risk analysis distinguishes between the risks affecting single aspects of a project (specific risks) and the risk of the project as such failing (overall risk). The notion of risk is applied in establishing the following classification of the likelihood of the occurrence of the hazard:

- 1 = no/minor risk
- 2 = medium risk
- 3 = high risk
- 4 = very high risk/occurrence of hazard.

In the present example, we would rate the specific risk relating to the adjustment of power tariffs as high if the decision-makers on the Ivorian side have repeatedly pronounced their willingness to raise tariffs but concrete steps have not been taken or are being blocked by political forces.

The realization of a project bearing high risks is justified only if it is compensated by a substantial benefit in terms of the development impacts. What is also important is having sufficient scope to influence risks in order to prevent undesired developments and to ensure that the responsible parties in the partner country keep to their undertakings. If we rated the possible influence on the risk in our example as low, we would have to recommend to our government not to provide any FC funds for the investment project of the power utility in Abidjan. We obviously prefer to avoid taking such a step in the case of projects which otherwise have very high chances of success in terms of development. In our example, we would therefore make the commitment of FC funds dependent on the condition that the power utility has furnished evidence of a first substantial increase in the power tariffs prior to the first

disbursement of funds, or even before signing the financing agreement. Such a confidence-building measure allows us to reduce the overall risk of a project to an acceptable scale.

A risks analysis is conducted for the first time when designing and appraising a project and is then continuously updated in the course of project implementation. All projects are continually monitored and reassessed at least once a year. As the example shows, the risk analysis conducted at KfW does not lay any claims to scientific accuracy. Rather, it helps us to take decisions and appraise and monitor projects, and it has proven to be a useful warning signal for our staff in charge of projects under implementation.

Particularly significant is the increase of the percentage of operations assigned to performance rating 3 from 25% in the last Evaluation Report to 31% in the present report, while the share of projects rated to grade 4 fell accordingly. At the same time, the share of operations with “high” risks as to their sustainability significantly rose compared to the last evaluation. This result indicates that we tended to be more optimistic in our assessment whether the detected risks to the sustainability

of projects would or not affect future project operation.

However, this “optimism” has been justified by long-term evaluations of project sustainability. A long-term evaluation commissioned by the BMZ last year of the Beyla water supply project in Guinea, which started in 1988, showed that despite difficult general conditions most of the hand pumps financed under the project are still in working order and in use even 10 years after the end of outside support.

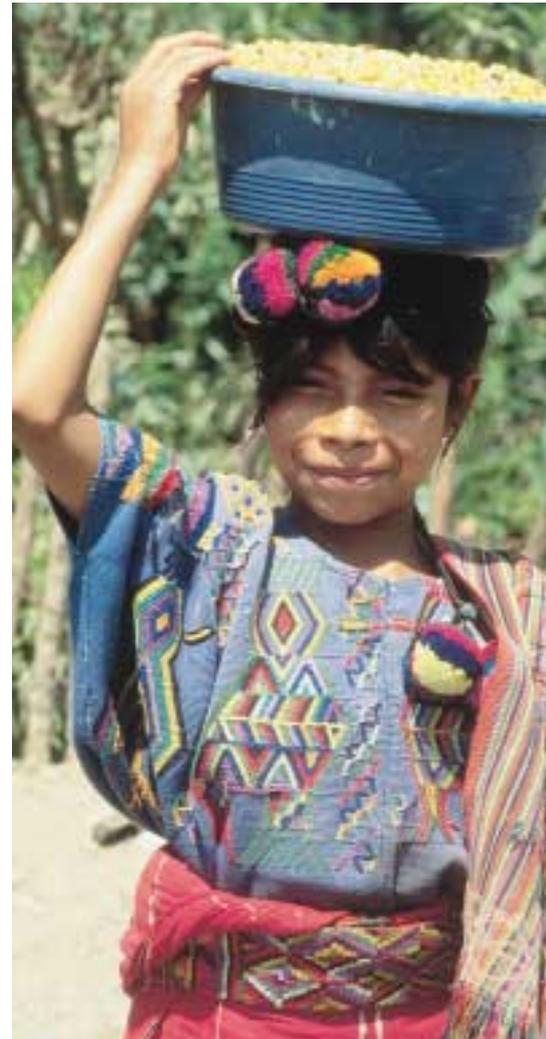
Comparison with other Institutions

Our evaluation tools largely conform with the internationally recognized standards of the OECD Development Assistance Committee (see text box on the HWWA study). Nevertheless, it is our aim to permanently measure our evaluation standards and practices against the state of the art and to keep improving them. For this purpose we regularly analyze the ex-post evaluations conducted by major bilateral and multilateral donor organizations. It has been confirmed again for the period under review that our final evaluations stand up to international comparison both in terms of methodology and complexity and in terms of the actual results.

■ The performance criteria of the World Bank are comparable to ours; however, projects are evaluated separately according to the criteria of project impacts, sustainability and institutional development impact. No overall assessment is made. According to the most recent evaluation report of the Operations Evaluation Department (OED)¹, 75% of projects in 1997 and 80% in 1998 were a development success in terms of the project

impacts. However, just over half the projects meet the criterion of sustainability. The long-term trend at the World Bank (since 1992) reveals an average success rate of around 70% by number of projects (ca. 74% in terms of disbursements) and is thus comparable to that of German FC.

■ The Agence Française de Développement (AFD)² subjects one project out of six to an ex-post evaluation conducted by a special evaluation unit at AFD. Performance criteria include, besides the evaluation of the project conception and implementation, the attainment of the objectives, the project impacts and the sustainability of the project. The methodology is largely identical with ours. In the 1998 ex-post evaluation, 20 out of 28 projects (71%) were rated successful; however, only just under 40% of projects were considered to be sustainable. The long-term average success rate is 58%.



¹ World Bank, Operations Evaluation Department, Annual Review of Development Effectiveness 1997/98, Washington D. C., 1999

² Agence Française de Développement, Les résultats de l'évaluation rétrospective en 1998, La lettre de l'évaluation, Paris, April 1999

SUCCESS AND FAILURE OF PROJECTS FROM THE POINT OF VIEW OF OUR PARTNERS

The objective of development cooperation, which we are striving to attain, is to improve the living conditions of people in developing countries. Who, might one ask, would be better equipped to judge whether this aim has been met than the beneficiaries of our cooperation? Or, to express it differently: why do we not leave this evaluation largely or totally to the organizations directly involved and the people concerned by the projects (target groups) in the developing countries?

This question is not easily answered. The projects are undeniably our partners' and not German projects. Thus, our partners are not only in charge of planning, implementation and operation, they should also be granted a shared responsibility for the evaluation of the results. But first of all, there is one question to be answered: who are the local partners in Financial Cooperation? There is the local project-executing agency on the one hand, and the target group benefiting of the project or affected by any negative impacts on the other hand. Executing agencies and target groups are often socially very differently structured and have different expectations and interests. There is no single partner perspective in a project.

We maintain close contact with the project-executing agencies throughout the duration of a project. On the occasion of each final project evaluation, a memorandum is signed with the project-executing agency after discussing the results, which also contains an evaluation of the development impacts. In the discussion, but also during project monitoring in the operation phase we obtain a clear picture of how the project-executing agency assesses the project. The assessment of the project-executing agency may of course differ from our own impression, and it is, in practice, frequently more positive than ours. For example, we would consider a well-run irrigation project as a failure if its economic rate of return is clearly negative – the project-executing agency, however, would probably not consider this criterion particularly important or would even apply completely different criteria.

More complex is it to ascertain how the target group evaluates the success of a project. An important aspect is acceptance: most projects of Financial Cooperation produce goods or services to be supplied against payment. This applies to drinking water and power supply, transport projects, micro-credit programmes, the supply of irrigation



water for agriculture etc. People in developing countries are free to decide whether to use the FC-funded railway, the bus or not to use any transport. Thus, the attainment of the project goal and the acceptance of the project can be established by looking at the demand for the services financed, measured in terms of capacity utilization. If passenger trains are not used sufficiently because all transports take place by road or because the railways are slow and unreliable, KfW will rate the project as a failure because the objectives have not been met and the project is not profitable.



Even when services are provided free of charge (e.g. roads, schools, hygiene campaigns), the attainment of the project goal can be measured in terms of actual utilization, for example by counting the traffic, or establishing the occupancy rate of classrooms. Since the actual use (and not just the provision) of the created capacities is always the yardstick for the achievement of the project goal, KfW has to consider a project a failure if the target group views it negatively.

One can also think of cases, however, where at least a part of the target group – those negatively affected – take a critical stance on an otherwise successful project. For example, families living in an area where a barrage is to be built may have to be resettled.

Measures will be conducted within the scope of project implementation to improve their social situation, for example the construction of better housing, additional health posts or schools in their new places of settlement. Nevertheless, the resettled people in retrospect often see the loss of their old villages as a disadvantage which is hard to compensate for. During the operation phase or on the occasion of the final evaluation they are usually interviewed about their general opinion in order to make sure they have been compensated adequately but also to identify any other project-related changes in their living conditions.

What do we do if parts of the target group view a project more positively

than we ourselves do? In the case of a rural credit programme, for example, it is certainly more advantageous for a farmer to receive a grant than a loan for buying dairy cows. And he would prefer a loan at highly preferential terms to an expensive loan. However, from KfW's point of view the programme is successful only if the investments financed from the loans are commercially viable and generate enough money to enable the borrowers to repay the loans and to pay interest in line with market interest rates. Only this will ensure the financial survival of the rural bank and thus the sustainable access of the target group to credit.

Even though we take the question of acceptance into account to a large

extent within the framework of our evaluation system, it can make sense to directly interview target groups so as to obtain additional important information, which may differ from other sources. Within the scope of the present evaluation we have given the target groups of two projects (India, "Development Bank HFDC I" and Mauritania, "Small Dams

in Tagant") the opportunity to speak for themselves (see text box). Although the results largely confirm the findings of our analysis of project impacts, they do show some interesting additional aspects. The people concerned particularly emphasized the socio-economic effects of the projects, while other

aspects such as the commercial viability of the projects were less prominent.

All in all, we conclude from our previous evaluation practice and from interviewing the target group that such interviews significantly deepen the insight into the social impacts of projects.

Interviews with Beneficiaries of FC Projects in Mauritania and India

Example 1 – Mauritania, "Small Dams in Tagant" (performance rating 3)

Within the scope of this project 29 small dams were built to collect sporadic rain and 25 wells were dug to supply drinking water and water for cattle. In November 1998 11 persons living on farming, including 4 women, were selected at random and interviewed with the assistance of the project-executing agency SONADER. A result which may be surprising to us was that the interviewed persons based their largely positive attitude less on the additional food production or income increases generated by the project than on indirect effects such as better health, the creation of rural forms of organization (cooperatives) and the avoidance of a rural exodus.

"Our living conditions have clearly improved", says a 35-year-old farmer, "now there is finally enough water for us and our herds." The 40-year-old head of a women's cooperative points out: "Thanks to the project we have managed to emancipate ourselves; we are now one of the most advanced women's cooperatives here." The representative of another cooperative shares her view, but adds: "The transition phase after the end of the project activities was much too short. We need more time to organize the maintenance of the dams and to

get ourselves organized. The regular upkeep of the small dams is also still a problem." "Without the project", says a 60-year-old farmer, we would all have fled this harsh region." A retired civil servant adds: "Many people have come to live here. With the additional incomes we have been able to build our own homes, schools and health posts. The project has made it possible for us to manage by ourselves."

Example 2: India, Housing Development Finance Corporation I (performance rating 1)

The project aims to improve the housing situation of the poor population by supplying credit for simple housing. How do the home owners themselves view the results and impacts of the project? To answer this question, HDFC, with the help of local journalists, interviewed 10 home owners promoted by the programme at the end of 1998. Most of them do simple, unskilled work, for example as day labourers, fish vendors, small traders and peddlers. For them the housing loan was a decisive event in their lives: "I could never have imagined", says a 55-year-old woman, who folds paper bags from old newspaper and sells them to grocers' stores, "that I would ever have a house with a roof that doesn't leak and with a proper toilet. It has changed my life completely." "Repaying

the loans in no problem", remarks a social worker of a church-run NGO, "but HDFC should take account of increased building cost and raise the loan amount." A 35-year-old smallholder suggests to increase credit for borrowers who have punctually repaid their loans. A day labourer who lived with a family of 7 in a small hut with no washing or toilet facilities finds the newly built toilet the most important improvement which "protects my daughters from unpleasant stares." He also emphasizes the favourable repayment terms: "HDFC's interest rate of 7% is much lower than those of moneylenders; they charge 60%. If we had fallen for that we would have lost the little land that we own to the moneylenders." A 68-year-old fishmonger is happy about the better social standing she has gained thanks to building her own house.

CONCLUSIONS AND PERSPECTIVES

The present analysis allows the following conclusions to be drawn and offers the following perspectives:

With regard to the determinants of success and failure the present evaluation confirms the conclusions of previous reports. The **sectoral and institutional environment** is frequently characterized by strong political influence, for example regarding the level of tariffs (power, water, sewage) and the allocation of budget funds for maintenance (roads). In some projects these general conditions lead to a chronic lack of trained and motivated operating staff, unfounded management decisions and resulting financial difficulties. These weaknesses are not so much caused by a lack of know-how; rather,

they are of a structural nature and produced by the interests of particular groups: for instance, the commercial viability of a project can be highly impeded by officially administered prices or the bad payment behaviour of institutional or politically influential customers. In these cases governments are partly to blame for the problems of the project-executing agencies since through their interventions they fail to give executing agencies the right incentives to operate the financed facilities efficiently.

Bearing this in mind, KfW, like many international aid organizations, is trying to involve the **private sector** more strongly so as to reduce political intervention and to support market and customer orientated business policies.





Peru – Tinajones irrigation project

Wherever possible, the state should concentrate on setting an appropriate institutional and regulatory framework. Promoting the private sector is certainly no panacea, but the positive effect on economic development of a well-prepared private-sector based sectoral development, with a compulsory framework being set and controlled by the state, has been proven in many cases. As the example of telecom projects in Pakistan shows, Financial Cooperation has been able to prepare the ground for private-sector activities in this segment.

Where private-sector structures cannot be implemented within the foreseeable future, attempts have to be made to render state-run systems more efficient, for instance in the course of commercialization processes. In doing so, it is important not to lose sight of the concerns of the poorest sections of the population.

Unfavourable **political conditions**, such as political instability, corruption and a lack of participation of the citizens in policy-making continued to be major obstacles to development which can hardly be influenced within the framework of individual projects. Development above all needs good governance.

This has been demonstrated by the successes of some African countries since the early 1990s, where market-economy reforms were accompanied by remarkable democratization processes and efforts to support the respect of human rights. Projects in these countries show an above-average success rate (more than 80%).

The World Bank summarizes these conclusions in a well-noted paper on the effectiveness of development aid¹: public development aid has the most effective poverty-reducing impacts in countries clearly oriented towards reform and institutional development. In these countries development cooperation can trigger and amplify developments and influence the improvement of sectoral and institutional conditions through exemplary project approaches.

This influence, which is decisive for the structural effectiveness of FC, is conditioned to some degree by the volume of funds made available under FC. Only an appropriate volume of funds gives Financial Cooperation the necessary

¹ Assessing Aid. What Works, What Doesn't and Why, World Bank Policy Research Paper, Washington 1998

weight in the sector dialogue. Consistent sectoral concentration significantly increases the possibilities to positively influence general sector conditions and is becoming ever more important given the decreasing volume of funds.

Financial Cooperation should continue to focus on areas where it has a recognized problem-solving capacity, such as the combination of technological modernization and environmental protection, or the improvement of social and economic infrastructure. In these areas Financial Cooperation, drawing on the know-how available in Germany and the internationally competitive performance of German industry, should associate effective aid with further-reaching goodwill on the partner side.

This evaluation report has shown again that Financial Cooperation, by aiming at changing structures, makes a positive contribution towards the economic and social development of recipient countries. Concentration on particular sectors and on its own strengths are decisive factors for FC to continue to build on these successes.

PROJECT EXAMPLES

Burkina Faso

Colombia

Egypt

India

Indonesia

Mauritania

Mozambique

Philippines

Portugal



Statistical data on area, population, per-capita income, population below poverty line, literacy rate and life expectancy have been obtained from "World Bank, World Development Report: 1998, Selected World Development Indicators", Washington D.C. Unless indicated otherwise, data are based on the following points in time or periods:

Population: mid-1997; population growth: average annual growth rate 1990-1997; per-capita income (GNP per capita): US dollar in 1997; population below poverty line: % of population with less than 1 US dollar of disposable income, applying purchasing power parities 1981-1995; adult literacy rate: 1995; life expectancy: at birth in 1996.



BURKINA FASO:

OUAGADOUGOU – KAYA ROAD

Road development
linked with extensive
reforms in the
transport sector

Burkina Faso, situated in the middle of the Sahel Zone and lacking in natural resources, ranks among the poorest countries of the world. Agriculture, where 92% of the economically active population works, mainly in subsistence farming, is the most important economic sector. However, agricultural development is hindered by the dry climate. Only cotton and cattle play a role for exports. The export of existing mineral resources (manganese, zinc, gold) is hindered by the unfavourable position (no access to the sea) and the high exploitation and transport costs.

But without the exchange of raw materials, goods and services there is no possibility for economic growth and a division of labour to develop. Without any access to existing health care and education facilities social development stagnates as well. For this reason an appropriate transport infrastructure, securing a connection to neighbouring countries with access to the sea on the one hand and corresponding to the mobility needs of the population on the other hand is a fundamental prerequisite to unfold the small development potential of a poor landlocked state such as Burkina Faso.

This is why the country's network of roads and tracks was enlarged and improved particularly in the 70s and 80s. With about 13,000 km of "classified" roads of which 1,900 km are covered with asphalt, and 6,000 km of rural tracks the road network is dense enough at the moment to cover the transport demand. However, maintenance work on the network could not keep in pace with the expansion and thus assure its existence. Towards the end of the 1980s more than 75% of the roads were in bad or very bad condition. Apart from the fact that budgetary funds were completely insufficient to perform maintenance work, shortcomings of the governmental planning and road building administration contributed to the increasing deterioration of the road network.

It became more and more obvious that Burkina Faso needed extensive external aid to restore its road infrastructure. But at the same time it was impossible to solve the problems of durably maintaining the roads without fundamental structural reforms of government policies. Against this background the government of Burkina Faso agreed on an extensive sector adjustment programme for the transport sector ("PASECT") with the World Bank at the beginning of the 1990s, which included

extensive financial aid for the maintenance of the road network. One aspect was to determine road sections that were to be maintained in priority, another element consisted in fundamental administrative reforms.

German assistance in the road sector supports the aims of the PASECT programme and takes into account the definition of road sections that should be given priority. The road that connects the capital Ouagadougou with the city of Kaya, one of the most important regional centres of the country situated about 100 km to the north-west, was one of the roads to be developed in priority. The zones affected by the project stretch far into the north-east of the country, a region which is underprivileged in ecological, economic and social terms. Besides improving the connections between this centre and the capital the aim of the operation was to considerably improve the participation of the whole population living in the area of the road (1-1.2 million people) in the exchange of goods and services.

Now, which are the development impacts of this road improvement? During the final evaluation in 1996 we observed that, with 470 vehicles per day, the project road was used far more than we had expected during project appraisal (225 vehicles per day). The reduction of transport times and the sizeable price reduction for road transport as a result of decreased tariffs for the transportation of people and goods

by up to 50% compared to the situation before the road development, played an essential part in this. Thus, an important goal was achieved – to reduce the cost of the exchange of goods and services. At 10% the economic rate of return of the project is twice as high as expected during project appraisal.

Without any doubt the road has largely contributed to the recent economic upturn of the regional centre of Kaya. Had the connection to the capital not been improved, the construction of a new market, a petrol station and two modern hotels would hardly have been conceivable. It is also obvious that the project road has had an effect beyond Kaya on the whole northeastern region of the country, which benefits of the reduced costs for transport. Thus, the possibilities of supplying people of this region with social services have considerably increased, for example because hospitals and health posts can be reached much more easily.

At the time of the final evaluation the road was in very good condition. This is also true for the other “classified” roads of the country, of which only 17% were rated as being in a bad or very bad condition in 1995. Undoubtedly, this can be attributed to the accelerated rehabilitation efforts and the sector reform measures of the government.

BURKINA FASO

Area:	274 000 km ²
Population:	11 million
Population growth rate:	2.8% p.a.
Per-capita income:	US\$ 240
Population below	
poverty line:	45%
Literacy rate:	19%
Life expectancy:	46 years





As a whole, the development impacts of the operation can be described as good. The durability of all these efforts can only be assessed in the course of time, though. Will it be possible to adequately maintain the project road and the whole network of important roads and to avoid the problems caused by inefficient road maintenance in the long run? Burkina Faso's own effort to secure and continue reforms, which is considerable compared to other African countries, will only continue to be made if the corresponding political

willingness is there. Considering that the proportion of the road network which is in good or very good condition has gone down from 45% to 25% again since the final evaluation we have to be careful. The fact that the budgetary funds for road maintenance have been reduced again as a result of political influences has prompted us ultimately to attest the project satisfactory development results (**performance rating 2**) although all other criteria would have justified a better rating.

2 COLOMBIA: EROSION-CONTROL PROGRAMME RIO CHECUA

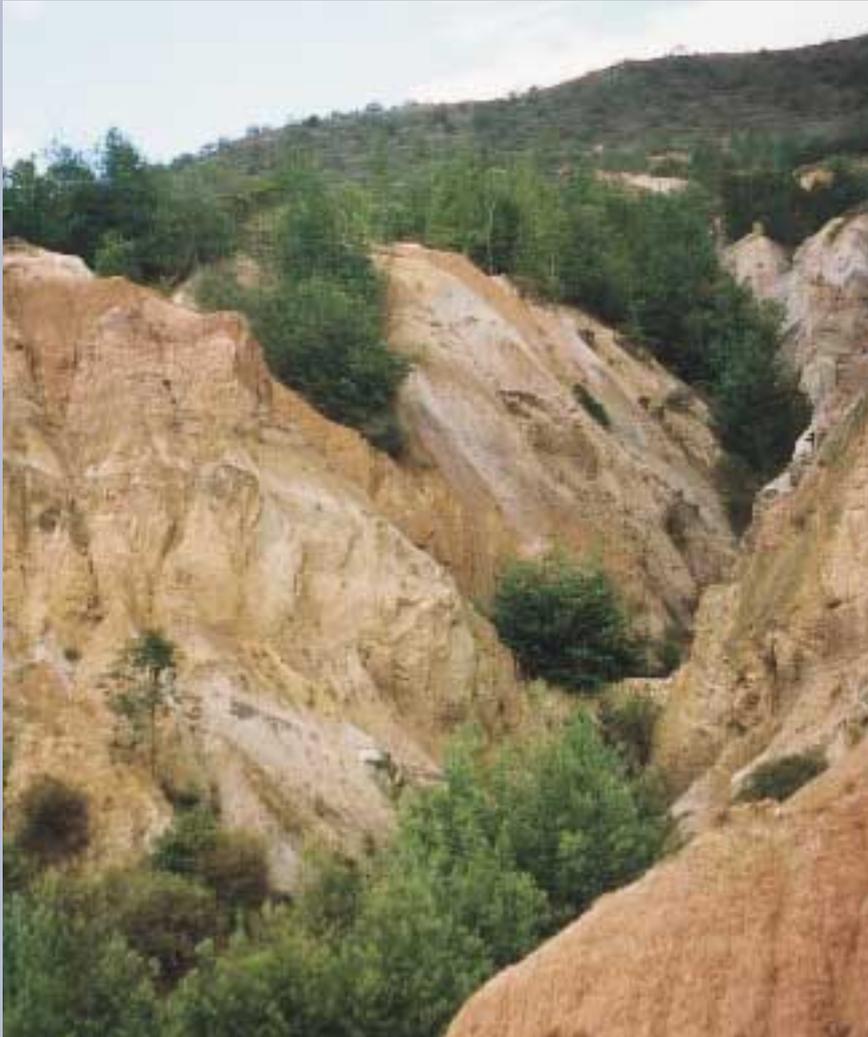
Since the appraisal of the project in 1983 Colombia has initially experienced quite stable economic development, with GDP growth rates that lingered around 4% annually for a long time. In the past five years, however, growth was clearly lower and the key macroeconomic indicators have again deteriorated. Vast mineral deposits, a strong private sector, a well-trained workforce and a balanced economic policy for a long time were the foundations of a favourable development. Since 1994/95, however, the consequences of the long civil war have been affecting the economy as well. A considerable portion of national income is being generated by drug trade. In addition, the growth was hardly sufficient to reduce the poverty rate of 20%, which has remained unchanged amid the overall economic development and mainly reflects the unequal distribution of wealth and income.

In the farming sector, which still provides a vast portion of the population with income and employment, wealth is unevenly distributed as well. While big farms manage the good land the poor small farming units must settle prima-

rily for the low-yield, erosion-prone slopes, thereby speeding up the pace of erosion already in progress. Most affected by this are the settlement areas of the Andes, where slopes prevail. The erosion damage, caused primarily by the destruction of forest, the clearing of new land, and unsustainable land use, is already visible in many places. As a result, soil fertility has declined and some areas are no longer usable for farming at all. Every year around 45 ha of farmland (0.3% of the total area) is lost to erosion. The further consequence is that the subsistence of a large portion of the population is in danger. In addition, the danger of flooding in river catchment areas rises, as does the cost of more intensive water purification required by the higher sedimentation.

Successful erosion control on the Checua River reduces the risk of flooding and secures the subsistence of 6,700 families





These problems also affected the water catchment area of the Checua river which was chosen for the programme described here. At the time of our appraisal in 1983, nearly three quarters of the original area with an extension of 17,000 ha was rated as erosion-prone. The programme objective was to control and contain the erosion processes by a combination of physical-biological erosion-control measures and

the introduction of adapted farming techniques. The target group were the roughly 6,700 small farmer families living in the area (approx. 33,500 people) with an average cultivation area of less than 10 ha each. Neither the natural conditions nor the land ownership structure and use have changed significantly in the past years.

The operation, supported in cooperation with TC, was conceived as an open programme from the outset in order to test optimal individual measures successively. While the TC component rendered rural extension services (soil use systems, alternative sources of income) and supported the Corporación Autónoma Regional de Cundinamarca (CAR), the project-executing agency, in establishing a functioning monitoring system, the FC funds were used between 1984 and 1995 to finance the construction of contour gullies, retention pools, measures for regulating water bodies, and the planting of eroded areas.

The quality of the physical structures meets local standards and is good. Sporadic flaws, for instance in the retention pools, were due to an inadequate plant cover. This illustrates how necessary constant care and maintenance are, even in structures of this simplicity. This includes simple upkeep and repair works, but also the forming

of a sufficient plant cover, particularly the planting of trees. The CAR will have to allocate significantly more funds to these measures. On the other hand, the municipalities and land owners as well have to take responsibility for the maintenance and upkeep of the structures and vegetation. This requires binding regulations and effective incentives.

The measures for torrent control and the forming of small retention pools have produced the effect that in the immediate vicinity of these structures areas that had already been eroded could be restabilized and rendered productive, particularly for pasture rearing. Further encouraging effects were the reduction of erosion-related loss of soil fertility and the improvement of the nutritional basis and, thus, the families' subsistence. Altogether the measures permitted a lasting conservation of natural resources in the programme region and improved the earnings situation of the farms.

Outside the programme region the ecological balance was positive as well:

- the water storage capacity in the catchment area was increased;
- the risk of flooding of fertile farmland in the valleys was reduced;
- the amount of sediments and suspended particles in the waterbodies has fallen noticeably, reducing

the cost of purification of drinking water for Bogotá.

Many of the principles and approaches devised under the programme have now been adopted by other operations of the CAR and also by Colombian universities. Thus, the project has played a pioneer role in Colombia's erosion-control practice.

The programme has proven that it is possible to contain erosion with simple and low-cost methods even in the difficult conditions of the Andean highlands. It has also confirmed earlier experiences with resource-protection projects that economic incentives in the form of improved earnings alone are insufficient to motivate farmers to change their modes of operation. What is needed is a balanced mixture between external support and the farmers' own contributions. Just as important is a clear political and institutional support with binding and unambiguous rules and regulations.

Because of the results achieved we have attributed a satisfactory developmental effectiveness to the programme (**performance rating 2**).

COLOMBIA

Area:	1 million km ²
Population:	38 million
Population growth rate	1.8%/p. a.
Per-capita income:	US\$ 2,280
Population below poverty line:	7.4% (1991)
Literacy rate:	91%
Life expectancy:	70 years





EGYPT:

ABU QIR II FERTILIZER FACTORY

Factory efficiently produces fertilizer for the Egyptian market and contributes to a notable increase in agricultural production.

With a per-capita income of just under US\$ 1,200 Egypt is a typical newly industrializing country. After the country endured a persisting economic crisis with growing foreign debt and balance of payment deficits between 1986 and 1995, economic growth has risen to a level of 5% since 1995. This positive development is in striking contrast with the still widespread poverty: 23% of the population live below the poverty line, almost half live near the poverty line. The rural population, owning little or no land (rural labourers, smallholders) is affected by poverty to the same degree as the urban population.

Agriculture contributes only 17% of gross domestic product but provides income and employment for 40–50% of the population. However, extremely unequal ownership structures prevail: 50% of the arable land is owned by just 7% of land owners. Given the very limited surface of arable land (only 3–4% of the country's total area), the only way to keep agricultural production in line with the increasing demand of the population, which grows by approx. 2% a year, is to increase the yield per area. An important precondition, besides continuous irrigation, is

the environmentally sound increase of the use of fertilizer. Given the considerable dependency on imports, the Egyptian government applied for German FC support for the construction of the Abu Qir fertilizer factory. This first FC project, completed in 1980, was followed by the second fertilizer factory in Alexandria described here, producing ammonium nitrate (annual capacity approx. 760,000 tons). The project was appraised in 1986.

The project's objective was to increase agricultural production. This was achieved to a sufficient extent: the yield per area rose by up to 50% for the major crops (wheat, maize, rice). This result allowed Egypt's degree of self-sufficiency to be maintained in a situation of growing demand, and even to be increased in the case of wheat.

The objective of improving the supply of nitrogen fertilizer in Egypt was also fully attained: instead of the planned target of a 90% utilization of the production capacities (indicator), full capacity utilization was reached from the second year of operation. The supply gap existing at the time of project appraisal was overcome by the project – around one quarter of the demand for nitrogen fertilizer had to be met by imports – and 100% self-sufficiency was achieved, with the two FC projects Abu Qir I and II covering 50% of total demand in Egypt. In addition, the excess output exported since 1995 helped to improve the country's export performance.

Production results and product quality exceeded our expectations by far. The quality of maintenance meets western European standards and is considered exemplary in the region. The qualified management of the project-executing agency, Abu Qir Fertilizers & Chemical Industries Co. (AFC), the performance-oriented corporate culture and the high motivation of staff – untypical for a former state-owned enterprise – contributed to its excellent reputation.

The financial profitability analysis conducted during the final evaluation showed an internal rate of return of 15%, a rate significantly above the figure calculated at the time of project appraisal (10%). Another decisive factor for the high return, besides the good management of AFC, was the relatively low price of natural gas. AFC is among the suppliers with the lowest production cost in the world market.

Is the operation of a fertilizer factory not particularly polluting? This question has also been investigated within the scope of our final evaluation. Environmental risks are, for example, connected with ammonia and suspended particles in the wastewater produced by the plant. We observed that the limits, which are based on international environmental standards, are respected. To reduce emissions further, AFC plans to install a newly developed plant for the final treatment of wastewater, which will go into operation in 2000. Stricter environmental standards can thus be met from the year 2000 onward.

Altogether we rate the project as having a good developmental effectiveness (**performance rating 1**). What were the decisive factors of success in this case?

EGYPT

Area:	1 million km ²
Population:	60 million
Population growth rate:	2.0%/p.a.
Per-capita income:	US\$ 1,180
Population below poverty line:	23% (1996)
Literacy rate:	52%
Life expectancy:	66 years



- The good technical and financial operating results of AFC were influenced decisively by the consistent introduction of private-sector elements. The capital of AFC was not concentrated directly in the hands of the official industry authority initially in charge, but was distributed to a multitude of banks, insurance companies and the national petrol company. Although these investors are majority-owned by the state, this ownership structure liberated AFC from direct ministerial intervention.

Furthermore, the government subjected AFC to the law governing private enterprises, which gives it much greater scope for action than would be permitted to a state enterprise. The sale of public shares is now intended in order to fully privatize the enterprise.

- The absence of state intervention means above all the absence of official price regulation in the sales markets - in this case, the full liberalization of fertilizer sales. In the present case, the liberalization of producer prices in the early 1990s made it possible for almost all agricultural products to achieve world market price levels. These production incentives were responsible for the steady growth of demand for fertilizer and also improved general conditions in the Egyptian agricultural sector.



1 INDIA: HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC) I

1 In 1988 an estimated 800 million people were living in India. The growth rate in urban areas was roughly twice as high as the national average of 2.2% p.a. The strong rural exodus of poor and destitute people to medium-sized towns, spurred by the hope for a better life, was further aggravating the already enormous housing shortage which in turn heightened social tensions in the towns. At the end of the 1980s India was lacking around 35 million basic housing units.

The savings and loan facilities offered by Indian banks for housing investments were directed primarily at clients with medium and higher incomes. Minimum loan amounts were high, maturities and debt service too rigid, security had to be material, and branch offices were few and far between, so poor people received no loans. Thus their basic need for adequate housing and sanitary installations remained largely unfulfilled. This was the central problem which the FC project, the refinancing of low-cost housing loans for the low-income population, was to help solve.

The partner organization was the Housing Development Finance Corporation

Ltd. (HDFC), which was established in 1977 as a housing construction finance corporation. In the first years its lending operations focused on clients with medium and higher incomes and only 6% of loans were granted to “poor” clients (family incomes below the equivalent of DEM 90 per month). Access to low-interest FC funds was to enable the HDFC to expand its business with these groups of the population.

The object of the programme consisted in constructing 12,000 low-cost housing units with sanitary installations and enabling low-income families to occupy at least 90% of them. The introduction of a home building savings programme was to be supported as well. As one of

Loans for low-cost homes improved the housing situation of poor families





the selection criteria for loan approvals, the borrower's entire monthly expenditure (own contribution, interest and principal, other charges) had to be in an acceptable proportion to the family income.

Our partner bank, however, discovered that the intended outreach could not be achieved through the granting of loans alone. Instead the HDFC ventured an innovative path by cooperating with non-governmental organizations (NGOs). Its hope was that the NGOs would help the bank in the selection of and assistance to the clients and contribute to raising the loan repayment ratio. HDFC also worked together with selected housing development societies and firms seeking to improve their staff's housing situation. The latter provided guarantees and other forms of support.

The final inspection of the project showed that the intended results had been fully achieved: The HDFC extended a total of 49 credit lines to interposed NGOs, state housing development societies and firms, with which around 35,000 sub-loans were granted and as many homes constructed. Thus the originally planned number of 12,000 homes was nearly tripled. The average loan amount was the equivalent of around DEM 700. State institutions provided DEM 380, much less than the NGOs (DEM 1,200), as the former decided in the course of the programme to encourage the renovation and expansion of existing homes as well.

Random samples were taken, showing that the target group was reached, too. It was established that the vast majority of families had a disposable monthly income of DEM 36 to DEM 45. An average family consists of five persons so that around 175,000 people were able to improve their housing situation. Thus the programme succeeded in reaching poor and destitute groups of the population and achieving an effectiveness that was much broader than had been expected.

Although many families' incomes were very low, the NGOs participating in the programme recorded a very good repayment rate of 99%. One factor of this success was that the HDFC carefully selected the NGOs and placed relatively high demands on the individual projects. The NGOs sometimes criticized this

“conservative” attitude of the HDFC as too rigid. The strategy of the HDFC, however, which was consistent from the start, has been and is still the basis that enables it to continue successfully financing home builders with low incomes. The rate of repayments to state building societies has been over 80%. The HDFC itself has suffered no losses as it can resort to a state guarantee for these agencies. Initially the programme assumed a repayment rate of at least 80% of the amounts due to the HDFC and of the sub-loans of the state building societies which were refinanced from FC, and this rate has thus been attained.

Most of the borrowers have worked in the construction themselves and identified with this task. The “embellishment” work already performed on some of the homes suggests that the residents will make necessary repairs on their own in future as well.

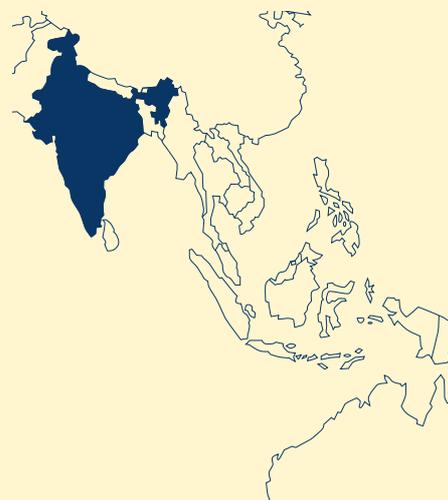
Our expectations concerning the positive effects of the programme on the situation of women have been fulfilled as well. Women have taken an active role in designing and building the houses. Among other things, they adapted the cooking area to their own needs and thus improved the working conditions in their kitchen. The use of sanitary installations such as latrines has substantially reduced the incidence of disease from lack of hygiene.

The home building savings programme which was planned as well, however, started only listlessly: the households preferred to incur higher debts first than to begin by saving. The HDFC explained this behaviour with the borrowers’ inflation awareness, the fast rise in land prices in India and the lack of any state benefits for building society savers. Under the FC-funded programme a total of 733 building society loans were refinanced, and their average sum was DEM 2,300. The share of building society savers in all the sub-loans was only around 10% instead of the intended 25%, which indicates how unattractive it was to save for building a home. Since the HDFC can do little to influence the causes for the low acceptance, which still prevail today, it has decided to end the building savings programme in the medium term. Nevertheless, what should be rated positive is that by testing the instrument of savings for home building the bank has been able to assess its possibilities in the Indian setting.

Altogether, because it has achieved the objectives and has had a significant outreach in the sense of self-help oriented poverty alleviation we were able to rate the programme as having a good developmental effectiveness (**performance rating 1**). As the results of interviews with the residents show (see textbox on the subject “Success ratings from the point of view of our partners”), this verdict is fully shared by the beneficiaries of the programme.

INDIEN

Area:	3 million km ²
Population:	961 million
Population growth rate:	1.8% p.a.
Per-capita income:	US\$ 390 USD
Population below poverty line:	53% (1992)
Literacy rate:	52%
Life expectancy:	62 years



3 INDONESIA: WATER SUPPLY PADANG

All-year access to drinking water for the population of the city Padang. Yet sustainability is at risk due to unsolved problems of operation and sewage disposal.

With a per-capita income of US\$ 1,110 Indonesia ranks among the lower third of the more advanced developing countries. But measured with the Human Development Index, which also includes indicators of social development such as education and health, the country ranks far better than in a comparison of per-capita incomes, and it ranks just before China and considerably before India. However, the current financial and economic crisis has dramatically worsened the economic and social situation of large parts of the population.

In spite of a good supply of natural resources Indonesia had to fight against severe impediments to development even before the crisis, such as an uneven income distribution, an unbalanced economic structure and a deficient infrastructure. At the time of our project appraisal (1983) only 40% of the urban population and 18% of the rural population had access to the public drinking water supply. It was possible to considerably increase the rate of coverage, not least because of the different FC projects, but many people still have to rely on traditional unsafe sources of water such as streams, pools or rain barrels.



Also Padang (725,000 inhabitants), the capital of the province West Sumatra, was confronted with the problem of a very unsafe drinking water supply in completely inadequate amounts at the time of our project appraisal. Only 17% of the population was connected to the public distribution system. It was absolutely necessary to enlarge the distribution facilities, the more so since the city was growing relatively fast - by about 200,000 inhabitants since the project appraisal. So, drilled wells were built, the existing river water purification plant and the distribution network were enlarged and 5,600 home connections and 144 standpipes were set up under the FC project.

Thanks to the programme the rate of water supply coverage was increased from 17% (1984) to about 44%. Thus about 220,000 more people were connected and for those who already were a continuous and adequate water supply was assured. The quality of the processed raw water is good. But there are problems with the tap water that ultimately reaches the consumer. As the distribution network regrettably is not maintained systematically the network is sometimes contaminated by leaks and infiltrations, and so people usually boil the water before using it. The maintenance work is insufficient because the personnel are not given incentives to perform preventive maintenance and, in particular, because operation budgets are too low as a result of financial bottlenecks. The running operation

costs are covered by a good collection rate of 90%. But as the budgeting and hence the expenditure is insufficient full cost coverage is not being achieved. The project executing agency does not have the funds needed for reinvestments or even expansion investments. This poses a risk to the sustainable operation of the system.

One important lesson to be learned from this programme concerns the chosen service standard and thus the integration of the target group during the preparations of the programme. Against all expectations of the planning group stand pipes were not met very favourably by the population. This was mainly due to the fact that obtaining water from public stand pipes is considered by the population to be a sign of poverty and people prefer the more convenient taps in the house or in the yard. This confirms that involving the target group at an early stage and considering their needs is indispensable.

The problem of sewage and faeces disposal is still unsolved. While 75% of the households are equipped with toilets or latrines only few of them are connected to hygienically acceptable individual or collective septic ponds. There is no orderly central sewerage system. Sewage and faeces are discharged into open drainage canals, ponds and streams, threatening humans and the environment. A sewage disposal project which was initially planned was not carried out because no agreement

INDONESIA

Area:	1.8 million km ²
Population:	200 million
Population growth rate:	1.7%/p. a.
Per-capita income:	US\$ 1,110
Population below poverty line:	11.8% (1995)
Literacy rate:	84%
Life expectancy:	65 years





on the disposal design was reached with the Indonesian government in spite of lengthy negotiations.

In spite of these circumstances which are clearly unsatisfying the project has altogether significantly improved the drinking water supply and thus the living conditions of 316,000 inhabitants

of Padang. And with an average cost of DEM 65 per beneficiary this has been achieved at a low cost. In our opinion, the positive effects of the project outweigh the existing sustainability risks. Therefore, we rate the project as having altogether just reached still adequate development results (**performance rating 3**).

3 MAURITANIA: SMALL DAMS IN TAGANT I-III

Mauritania, a country consisting almost only of desert, is situated in the transitional zone between the Sahara and the Sahel zone. Besides agriculture it is fishing and mining (iron ore) that provide a small development potential for the country. In spite of considerable and commendable efforts of the Mauritanian government to use this potential in a better way poverty is prevailing all over the country. In 1996, 72% of the population living on traditional agriculture were considered as poor. Forecasts reckon that poverty will go up further especially in the rural regions that are particularly disadvantaged by the climate.

The part of the agricultural sector in the Mauritanian domestic product has remained unchanged at 20% since

1982, the time of our project appraisal. The ratio of people employed in that sector, however, has decreased from 85% (1980) to about 60% (1990). Numerous reform efforts have improved the general situation of agriculture. As an example, the farming prices for cereals have been liberated, with the result that farmers now have better production incentives.

Yet, the area suitable for growing the main crops millet and sorghum (65% of the cereals production) constitutes only 0.5% of the total surface of the country and, moreover, it depends on very irregular precipitation. Therefore Mauritania has been able to cover only 20–40% of domestic cereals requirements in the last few years and it depends on food imports.

Small impounding dams and a whole-year water supply ensure the livelihood of 18,000 people in a region with an unfavourable climate.





foods, which forced the farmers to migrate into urban regions. But animal farming, too, was affected by the seasonal scarcity of water and the insufficient amount of wells and cattle watering places, not to speak of the drinking water supply for human beings.

The programme which has been realized in cooperation with TC since 1983 addressed these problems. The sporadic rainfall was to be collected and retained with the help of small impounding dams in order to increase millet production on the dammed-up areas. At the same time the drinking water supply was to be improved through the construction of wells. Thus, 29 small impounding dams and 16 water regulation structures with an impounding surface of about 3,500 ha in total were built or rehabilitated and 25 wells for drinking water supply and cattle watering places were built. The developmental objectives of the programme were to increase the people's self-sufficiency in terms of food and to improve their living conditions.

The programme region Tagant, which is situated north of the Senegal valley also had to face these problems. The livelihood of people in this region was and still is in the cultivation of millet for their own subsistence. Livestock farming (5-15 animals per family) is an additional source of income. This livelihood was threatened mainly by the strong fluctuations in precipitation. There were recurrent shortages of staple

These objectives have, in fact, been reached:

Thanks to the additional impounding areas a supplementary amount of 400 kg p.a. of millet can be produced per family, which allows the families to ensure their livelihood in normal years (an additional family income of just over DEM 200 p.a.). This figure is clearly above the estimations of our

project appraisal (DEM 102). In total the families dispose of a yearly quantity of 760 kg per family of millet or 125 kg per capita. Moreover fodder production increased in and around the impounding areas with the result that earnings from livestock farming increased. Thanks to the newly dug wells every village has a whole-year supply of drinking water for humans and animals – except for years with extreme droughts. At the time of our final evaluation all wells but one were in working order. As planned, about 3,000 poor rural households have benefited from the programme. The project has contributed decisively towards ensuring survival for 18,000 people.

Beyond the mere production of food-stuffs the programme had still other positive social effects. A large part of the former nomads have settled, which is also partly due to the improved water supply. Formerly discriminated groups such as the Haratine (former slaves) have gained access to the cultivation areas. It was not least due to these factors that the project enjoys very high prestige in Mauritania.

The works were performed on force account by the national irrigation authority SONADER (Société Nationale du Développement Rural). The farmers contributed own efforts to the construction work. The rights of use to the newly dammed-up areas were distributed independently by the village community in general consent.

Durable maintenance of the small impounding dams is still at risk, however. While larger maintenance work has been, up to now, performed by SONADER on request of and against payment from the village committees, small maintenance work (e.g. repair of slope damages) has to be done directly by the user groups, which consist of representatives of the village population. But they only partly fulfilled their obligations. Here SONADER still has to do some convincing.

Apart from this risk to sustainability – which we consider to be bearable – we consider that the essential success of the programme is its contribution to ensuring the livelihood of the people in a climatically unfavourable and ecologically fragile region. Besides, this contribution was achieved at an economically appropriate cost-benefit relation. After evaluating the positive effects and the remaining maintenance risk we have attributed the programme a still adequate development result (**Performance rating 3**). For an assessment of the programme from the point of view of our partners see also the interviews with beneficiaries in the corresponding text box (Chapter 4).

MAURITANIA

Area:	1.03 million km ²
Population:	2.0 million
Population growth rate:	2.5%/p. a.
Per-capita income:	US\$ 450
Population below poverty line:	31.4% (1988)
Literacy rate:	38%
Life expectancy:	54 years



4 MOZAMBIQUE: OVERHAUL OF MAPUTO THERMAL POWER STATION

Changes in sector conditions and cheap power imports make thermal power station obsolete

Despite its favourable natural conditions, Mozambique is one of the world's poorest countries.

According to the present UNDP "Human Development Index", Mozambique holds 166th place among 174 countries rated. This low development was caused by a flawed economic policy in the past and by the civil war which broke out in the middle of the 1980s but was ended in 1992. The political stability that has since prevailed and a far-reaching stabilization, adjustment and reconstruction programme have led to a more stable economy and faster growth. The gross domestic product grew by an average 9% in real terms

over the past three years, and poverty has also declined in this period.

The north of the country, sparsely populated and largely rural, contrasts with the populous south, which forms the industrial centre of Mozambique with the capital of Maputo, its industries, ports and railroad lines. This contrast is also reflected in the demand for power: around two thirds is consumed by the south. Since 1972 power has been supplied mostly through a 275-kV transmission line from South Africa. The only local power generation unit at the time of the project appraisal (1987) was the thermal power plant, the Central



Térmica Maputo (CTM). The capacities of the Cahora Bassa hydroelectric power station (2,040 MW) could not be used due to the civil war. The CTM consisted of a coal-fired thermal power plant and two gas turbines. Unlike the gas turbines, the thermal power plant was in poor condition as a result of inadequate maintenance and could generate less than half the installed capacity. It was therefore used mainly as a “stand-by power station” in case of supply shortages. Acts of sabotage against the transmission line and power cuts became extremely frequent during the civil war in the 1980s, amounting to over 2,000 hours of interruptions per year in the most violent periods. These frequent, long power interruptions severely impaired economic activity and caused considerable additional costs to households, administrations and industries by forcing them to employ their own emergency generators. The CTM became incapable of closing these gaps as they exceeded its own limited capacity. It was therefore decided to secure the power supply to the capital and the southern region by rehabilitating the dilapidated thermal power station with the support of German Financial Cooperation and with technical assistance from the World Bank. The intention was to compensate the power failures and to replace some of the costly energy imports from South Africa over an operating period of 10 to 15 years. The total cost of the project was DEM 25.8 million and FC funds were provided in the sum of DEM 17.1 million.

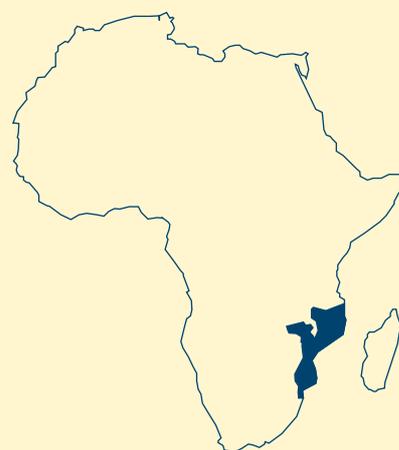
These two objectives were reached only in phases: While the power station did succeed in contributing significantly to the supply of electricity by providing as much as 26% of the power in the grid during the phase of the most massive line disruptions at the end of the 1980s, it was capable of reaching the intended capacity utilization of 70% for only a short period. Just one year after the rehabilitation works were finally completed the civil war ended surprisingly and, above all, definitely. So did the sabotage on the high-voltage transmission line, and the power cuts dropped to less than 30 hours p.a. At the same time an additional 110-kV transmission line from South Africa was put into operation. The power prices offered by the South African power utility ESKOM were 2 US cents/kWh and falling, and already were far below the production costs of the Maputo thermal power station. Thus it became obsolete and consequently was put in “cold reserve” in 1993, that is, closed down. The gas turbines still kept in warm reserve had already been in disuse for years.

Against this background we rated the project as altogether no longer successful (**performance rating 4**). The still relatively benign success rating was justified in our view by the important contribution the power station made during the civil war to uphold the power supply to the people and economy in Maputo and the southern region of Mozambique.

MOZAMBIQUE

Area:	802,000 km ²
Population:	17 million
Population growth rate:	2.4% p.a.
Per-capita income:	US\$ 140
Population below poverty line:	47% ¹
Literacy rate:	40%
Life expectancy:	45 years

¹ No WDR data available, mean value of different estimates





The Maputo power station is one example that illustrates how changes in the exogenous conditions – politically welcome changes in this case – can eliminate the rationale of an FC project.

2 PHILIPPINES: REHABILITATION OF THE POWER PLANTS UNITS SUCAT II-IV

The Philippines are the world's second largest island state consisting of about 7,100 islands of which about 1,000 are inhabited. The urban population already accounts for 56% of the about 73 million inhabitants, and about one third of the urban population lives in the conurbation of Manila on Luzon, one of the two main islands of the archipelago.

Under the government of president Ramos it was possible to set the course for a better economic development after the years of mismanagement during the Marcos era. Yet, with a per-capita income of US\$ 1,220, the Philippines remain among the lower half of the middle-income countries (Thailand in comparison: US\$ 2,800 in

1997), with an extremely unbalanced distribution of incomes and wealth.

The consumption of electrical energy is still low in the Philippines with about 460 kWh/inhabitant (1996) (in comparison: in Germany, electricity consumption is 14 times higher). About 70% of the energy requirements have to be covered by imports. The amount spent for these imports amounts to about 12% of export earnings. The Philippines place great hopes in opening up own off-shore gas fields, the exploitation of which is to reduce energy imports by 20–30%.

The basic situation was completely different when we appraised the first component of the project to rehabilitate

Cost-efficient rehabilitation of oil-fired power stations in order to promote economic growth and to reduce environmental pollution





unit IV of the heavy oil fired power plant Sucat near Manila in 1987. In order to prevent short-time shortages of electricity supply, at that time the government mainly relied on measures extending the life and increasing the efficiency of existing power plants and on the construction of gas turbine power plants which can be erected relatively quickly.

At the time the four units of the power station Sucat (total power output 850 MW) were the main source of power supply for the conurbation of the capital Manila where the majority of business establishments and industrial plants of the Philippines are located. After 15 years of operation, however, the power plant could not be relied on to reach its full output any more. Therefore the objective of the project was to prolong the use of the units of

the power plant by 15 years through a complete overhaul. At the same time environmental pollution in the conurbation of Manila was to be reduced (sulphur dioxide and dust immissions among others) through a rise in efficiency.

At first, this was only planned for the biggest unit, Sucat IV (300 MW), the rehabilitation of which was started at the end of 1989. But soon it became apparent that this proceeding did not keep up with the rising electricity demand with the result that from 1990 there were more and more brown-outs and black-outs due to a wanting reserve capacity and a limited availability of the existing power plants. Not only private consumers but increasingly also commercial consumers were affected by this. The electricity supply was threatening to become a bottleneck

to further economic development. At the height of the supply crisis in 1992/93 the annual economic loss caused by electricity cuts amounted to about 1.5% of gross domestic product, according to serious estimations.

In 1991, confronted with this menacing development, the Philippine government decided on a general overhaul of units II and III of the power plant (200 MW each) as well. Their operational capacity was beginning to decrease dramatically due to numerous and lasting idle periods. Yet they could not be switched off until a sufficient capacity was ensured through private investment (gas turbines and gas/steam combination power plants) to cover for the time of the overhaul. The units were switched off between 1993 and 1994 and they were reconnected after a relatively short period with full capacity.

The objectives set with the project were almost fully reached:

- Although the targeted electricity production did not fully meet the expectations the power plant Sucat largely contributes to covering the electricity demand in the conurbation of Manila without any significant power cuts. In the years 1996 and 1997 the rehabilitated units contributed about 20% of total Philippine electricity generation.
- As the consumers are mainly “productive” users, i.e. commercial and indus-

trial consumers, it can be expected that a significant contribution to the promotion of economic development has been made.

- Thanks to the improved operating conditions and the related reduction of polluting emissions a positive environmental impact was achieved as regards the reduction of air pollution in the conurbation of Manila.
- The installed capacity was increased in a cost-efficient way. With DEM 770 per installed kW the investment cost was far below that of a newly constructed power plant at that time.

But the aspect of a guaranteed electricity supply can also be illustrated from another point of view. What would have been the consequences if the project had not been realized? The feared impairment to economic life as a result of long lasting power cuts in the conurbation of Manila would certainly not only have influenced industry and commerce but also large parts of the small crafts and of the informal sector, which employ mainly the poor. Previous experience has shown that the poor suffer more than the average from electricity cuts even if they do not have their own connections, e.g. because of the interrupted freezer chain for staple foods and vaccines, because of the breakdown of the water supply when pumps cannot work or because of the temporary real wage cut during disruptions of production. Such negative social effects of electricity crises as could be observed at the beginning of

the 90s in the Philippines and at the beginning of 1998 in several West African countries show the developmental significance of a guaranteed electricity supply.

Not least because of the large number of commercial suppliers – as early as in 1988 the government had put an end to the production monopoly of the National Power Corporation (NPC) – the electricity tariffs fully covered the standby costs until the outbreak of the Asian crisis. However, as a result of the depreciation of the Philippine Peso due to the financial crisis, this signal effect of the electricity price was lost again. Therefore tariff increases – but also cost savings – remain indispensable to leave enough financial scope to ensure necessary replacement and expansion equipment.

Overall, we rate the project as having reached satisfactory development results (**performance rating 2**) because of its significant contribution to covering electricity demand of industry and households in the conurbation of Manila, the good sector conditions and the largely cost covering electricity supply.

PHILIPPINES

Area:	298,000 km ²
Population:	73 million
Population growth rate:	2.3% p.a.
Per-capita income:	US\$ 1,220
Population below poverty line:	28.6% (1991)
Literacy rate:	94%
Life expectancy:	66 years





PORTUGAL:

COVA DA BEIRA IRRIGATION PROJECT

Cost-intensive irrigation infrastructure for higher agricultural output was not adapted to small farming methods

At the end of the 1970s when the project was appraised, Portugal still ranked as a developing country, based on per-capita income. Its major problems at the time were high unemployment, an obsolete industrial production basis and the low labour productivity in agriculture. Since 1986 Portugal has been a member of the EU and its living standards are now comparable to those of the other Southern European countries. The national product rose by an average 3.2% p.a. in real terms between 1986 and 1995, almost one percentage point above the mean value for the EU.

The agricultural sector did not develop very dynamically. In the period between 1990 and 1994 it even contracted by an average 1.9% annually. Not only were the natural conditions unfavourable – poor soil quality, mountainous terrain and an uneven distribution of rainfall –, farming units were also very small, the bureaucracy was sluggish and other sectors of the economy offered better earnings prospects. The share of food imports rose to 60% during this period from 40% at the time of project appraisal, and the share of persons employed in agriculture fell from 27% to 11% as a result of the rural exodus.

The area of the Cova da Beira irrigation project, which was planned at the end of the 1970s, is located south of the Serra da Estrela mountain range in the Beira Baixa region, which borders on Spain to the east and was one of Portugal's structurally weak and most underdeveloped regions. It was only with the accession to the EU that good transport links to the region were created. Originally the project was to include the construction of two water reservoirs, a small hydropower plant, irrigation and drainage canals, and a small drinking water system. The project was also intended to enable the cultivation of maize, potatoes, and fodder, and intensive grazing for livestock farming. Owing to constraints in the Portuguese budget the Ministry of Agriculture, which was receiving technical assistance from GTZ experts, in 1984 decided to limit the irrigation project to partial components (a dam with irrigation and drainage for around 3,500 ha of farmland and the drinking water system for the town of Fundão).

The irrigation component was designed to raise agricultural incomes threefold and increase food production to improve the balance on current account. An irrigation association took over the operation and maintenance of the installations, which were completed in 1992. Ultimately, the objectives of the programme could not be achieved: at our ex-post evaluation in 1996 we found out that the irrigable fields were not adequately utilized by the small farmers (average size of farming unit 1.5 ha). Only 400 out of approx. 1,200 small farms made use of the irrigation systems in 1995, and they used only 28% of the available farmland.

The expected economic effects did not occur either: It was established that agricultural income rose by 215% (against 336% at the project appraisal) and the increase of food production was around 23% of the value expected during appraisal. Operating costs cannot be recovered, however, unless at least 60% of the newly irrigable fields are actually irrigated and the tariffs are raised by 25%. Thus, the economic cost-benefit analysis produced a negative result.

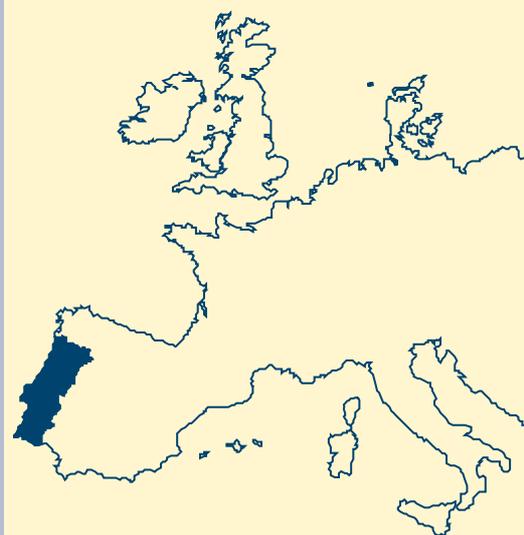
The only success was the drinking water component: the approx. 60,000 inhabitants of the town of Fundão and adjoining communities have had safe drinking water since 1989. The operation was transferred to the municipalities and is running without any problems.

What were the reasons for the farmers' lack of interest in the project?

- The very bureaucratic organization of the agricultural authorities and the low motivation of their officials at the time did not encourage the farmers to develop the initiative that was hoped for.
- The Portuguese budget was slow to allocate the funds, and this considerably stretched the implementation period of the project. Apart from this, no funds were available to advise and support the farmers intensively, particularly during the initial phase.
- The main reasons the irrigation potential was not used satisfactorily, in our view, were the high average age of the farm owners (70% are over 55 years old) and the small size of the farms (on average 1.8 ha, unchanged). Thus, there were clear limits to the expansion of the production of profitable crops (fruits, berries) or of dairy farming. The land consolidation initiated under the project proceeded very sluggishly because of the difficult ownership situation (no cadaster, reluctance of owners to cede land).

PORTUGAL

Area:	92,000 km ²
Population:	10 million (1997)
Population growth rate:	0.1%/p.a.
Per-capita income:	US\$ 10,450
Literacy rate:	90%
Life expectancy:	76 years



In summary, the project failed to achieve its objectives. Production and income increases remained far behind expectations. Given the unfavourable agrarian structure in the project area it is unlikely that a lasting improvement will occur. As a consequence we have rated the project as having a clearly inadequate developmental effectiveness (**performance rating 5**).

What lessons have we learned from this failure?

Although we did recognize the problem posed by the demographics of the target group (high average age) and its significance for the success of the project when we appraised it, we believed that if it were to be completed fast it would slow down the rural exodus and encourage part of the younger generation that had left to return to Cova da Beira. Not least because of the extremely lengthy implementation period which disappointed the target group's reliance on a swift improvement of their situation, this hope was not fulfilled. This shows how important a comprehensive socioeconomic and sociocultural target-group analysis is for the success of a project. On this basis, a comparable project would probably be denied today.

One conceivable alternative would be to choose a more dynamic region with better growth prospects. This lesson was later applied in the irrigation project Mondego Valley, which was rated a success (see Annex 1).



ANNEX

**1 ALL OPERATIONS AT A
GLANCE**

**2 CRITERIA OF
PERFORMANCE
EVALUATION IN FC**

1 ALL OPERATIONS AT A GLANCE

FINANCIAL SECTOR

Country	Operation	FC amount (DEM million)	Performance rate
Central America	Banco Centroamericana de Integración Económica (BCIE) V	20.0	3
Central America	Banco Centroamericana de Integración Económica (BCIE) VI	20.0	2
China P.R.	Agricultural Bank of China (ABC) I	20.0	2
Egypt	Industrial Development Bank of Egypt (IDBE) I und II	50.0	5
Egypt	Industrial Development Bank of Egypt (IDBE) III	21.4	5
India	Industrial Credit and Investment Corporation of India (ICICI) XXV	25.0	2
India	Industrial Credit and Investment Corporation of India (ICICI) XXVI	80.0	2
India	National Small Industries Corporation (NSIC) XI	10.0	3
India	National Small Industries Corporation (NSIC) XII (incl. accompanying measure)	9.9	4
Mali	Promotion of the Financial Sector - Banque Nationale de Développement (BND) IV	5.0	2
Mauritania	Union Nationale des Coopératives Agricoles de Crédit et d'Épargne de Mauritanie (UNCACEM) I	2.4	3
Portugal	Banco de Fomento e Exterior (BFE) IV	26.5	2
Sri Lanka	Poverty Alleviation (loan programme)	6.0	4
Thailand	Bank for Agriculture and Agricultural Cooperatives (BAAC) II	5.0	1
Thailand	Bank for Agriculture and Agricultural Cooperatives (BAAC) III	10.0	1
Turkey	Special Industrialization Aid	150.0	3
Turkey	Türkiye Cumhuriyet Ziraat Bankasi (TCZB) I	10.0	3
Turkey	Türkiye Cumhuriyet Ziraat Bankasi (TCZB) II	23.0	3
Number of operations:		18	494.2

PRODUCTION

	Country	Operation	FC amount (Mio DM)	Performance rate
AGRICULTURE, FORESTRY, FISHING	Benin	Sector Programme III	4.7	2
	Cambodia	Sector Programme Agriculture I	7.0	1
	Cambodia	Sector Programme Agriculture II	4.5	1
	Chad	Sector Programme Agriculture	5.7	2
	China P.R.	Sector Programme Agriculture	15.0	2
	India	Sector Programme Agriculture III	60.0	4
	Kenya	Vegetable Growing Centre Taita I (incl. accompanying measure)	4.3	5
	Lesotho	Rural Development Centre Semonkong II (Agriculture)	11.1	3
	Mauritania	Irrigation Programme Boghé (incl. accompanying measure)	57.2	5
	Mauritania	Small Dams in Tagant I	8.5	3
	Mauritania	Small Dams in Tagant II	5.0	3
	Mauritania	Small Dams in Tagant III	5.0	3
	Morocco	Rural Regional Development Loukkos	3,9	5
	Morocco	Loukkos, Rainfed Agriculture II	5.2	5
	Pakistan	Scarp VI Programme	20.0	5
	Peru	Irrigation Programme Southern Andes	15.0	2
	Peru	TINAJONES I (reservoir/canal TAYMI)	80,0	3
	Peru	TINAJONES II (Conchano/Chotano tunnel)	11.5	3
	Peru	TINAJONES III (irrigated zone) component 1	21.0	3
	Peru	TINAJONES III (irrigated zone) component 2	14.0	3
	Peru	TINAJONES III/3 (irrigation and drainage)	20.0	3
	Peru	TINAJONES IV (Chotano tunnel)	23.5	3
	Peru	TINAJONES V – damage repairs	15.4	3
	Portugal	Extension of Sesimbra Fishing Port	25.0	2
	Portugal	Irrigation Programme Mondego Valley	10.1	3
	Portugal	Irrigation Project Cova Da Beira	60.0	5
	Portugal	Regulation of the Mouth of Rio Mondego	10.0	1
	Portugal	Shipyard Infrastructure Vila do Conde	5.0	2
	Thailand	Nam-Pong Irrigation Stage II (incl. accompanying measure)	56.9	2
	Togo	Sector Programme V (Agriculture)	15,0	2
	Tunisia	Irrigation Bou Heurtma II (incl. accompanying measure)	70.4	4
	Tunisia	Irrigation project Bou Heurtma	94.0	4
	Tunisia	Rural Development Programme Mahdia	9.0	3
	Zimbabwe	Sector Programme Agriculture (drought aid)	10.0	2
Number of operations:		34	782.9	

All Operations at a Glance

	Country	Operation	FC amount (DEM million)	Performance rate
MANUFACTURING	Burkina Faso	Rehabilitation of Faso Fani Textile Factory (incl. accompanying measure)	5.2	5
	China P.R.	Wujiang Angora Wool Processing (incl. accompanying measure)	8.9	6
	Egypt	Abu Qir II Ammonium Nitrate Fertilizer Factory (incl. accompanying measure)	246.9	1
	Egypt	Sector Programme Industry II	78.5	2
	Egypt	Rolling Mill Rehabilitation Heluan Steel Works (incl. accompanying measure)	91.4	3
	Eritrea	Sector Programme Private Industry	8.0	1
	Ethiopia	Sector Programme Private Industry Imports	12.0	2
	India	Kapurthala Railway Car Factory	2.9	1
	India	Sithouli Waggon Spring Factory	10.8	4
	Jordan	Shidiya Phosphate Mine, Phase I	4.4	2
	Morocco	Jerada Coal Mine	4.7	6
	Philippines	Sector Programme Industry I (incl. accompanying measure)	29.9	1
	Senegal	Industrial Park Dakar II (incl. accompanying measure)	6.0	3
	Senegal	Industrial Park Dakar III (incl. accompanying measure)	8.0	3
	Sri Lanka	SFMC Colombo Fertilizer Factory	66.0	6
	Sudan	Guneid + New Halfa Sugar Factory (incl. accompanying measure)	52.3	3
	Syria	Oil Extraction Plant	14.7	3
	Tunisia	Bou Salem Sugar Complex (incl. accompanying measure)	47.2	6
	Turkey	7 Cement Factories (here: Edirne cement factory)	13.4	3
	Turkey	Conversion from oil to coal firing and dust extraction measures on cement factories	13.9	1
Number of operations:		20	725.2	

PROTECTION OF NATURAL RESOURCES AND THE ENVIRONMENT

	Burkina Faso	Sector Programme Forestry	5.7	3
	Colombia	Erosion Prevention Programme Rio Checua	12.0	2
	Morocco	Desertification Prevention Draa Valley	1.6	5
Number of operations:		3	19.3	

SOCIAL INFRASTRUCTURE

	Country	Operation	FC amount (DEM million)	Performance rate
WATER SUPPLY, SANITATION AND WASTE DISPOSAL	Albania	Water Supply Kavaja/Kukes (incl. accompanying measure)	14.0	2
	Benin	Water Supply 12 District Centres and Natitingou (incl. accompanying measure)	27.0	3
	Burkina Faso	Rural Water Supply in the East (Phase I+II) (incl. accompanying measure)	28.7	2
	Burkina Faso	Rural Water Supply in the East (Phase III)	8.2	2
	Burkina Faso	Emergency Measures Water Supply Ouagadougou (incl. accompaning measures)	24.3	1
	Burkina Faso	Wayter Supply of 9 Rural Centres II (incl. accompanying measures)	12.8	3
	Côte d'Ivoire	Rainwater and Solid Waste Disposal in Provincial Towns	8.9	3
	Côte d'Ivoire	Water Supply of Provincial Towns (incl. accompanying measure)	11.8	4
	Ghana	Regional Water Supply Cape Coast/Sekondi-Takoradi	63.8	4
	Ghana	Sector Programme IV	3.0	3
	Guinea, Republic	Rural Wayter Supply Mamou (incl. accompanying measure)	14.9	3
	Guinea, Republic	Wayter Supply Kerouane	9.3	3
	Haiti	Water Supply and Sanitation Provincial Towns III	4.7	4
	Haiti	Rehabilitation and Studies for Water Supply and Sanitation Systems II (incl. accompanying measure)	6.8	5
	Haiti	Waster Supply and Sanitation Gonaives und St. Marc	5.0	5
	Honduras	Sanitation Programme Choluteca/Valle (incl. accompanying measure)	15.0	4
	Indonesia	Water Supply Padang (Emergency Extension Programme)	11.7	3
	Indonesia	Water Supply Tegal	22.7	4
	Israel	Water Supply and Sanitation Programme	140.0	3
	Jordan	Sector Programme Water	10.0	3
	Kenya	Water Supply Kericho	12.7	3
	Mali	Water Supply II and Sanitation I Segou	10.7	3
	Mali	Water Supply Kita	15.5	3
	Morocco	Water Supply Khenifra/M'Rirt	9.5	3
	Portugal	Sanitation Coimbra	15.0	3
	Senegal	Water Supply Dakar II	46.0	2
	Sudan	Rural Water Supply (incl. accompanying measure)	14.4	5
	Sudan	Water Supply for Refugees (East Sudan) (incl. accompanying measure)	39.8	4
	Sudan	Water Supply for Refugees Qala En Nahl (incl. accompanying measure)	10.5	4
	Tanzania	Sanitation Arusha (emergency programme) (incl. accompanying measure)	3.0	3
	Tanzania	Water Supply Arusha	23.5	3
	Tanzania	Water Supply Arusha (improvement of operation)	2.0	3

SOCIAL INFRASTRUCTURE

	Country	Operation	FC amount (Mio DM)	Performance rate
	Thailand	Village Development IV	5.0	3
	Tunisia	Water Supply of Dispersed Rural Villages I	25.0	4
	Tunisia	Water Supply of Dispersed Rural Villages II (incl. accompanying measure)	30.7	3
Number of operations		35	705.9	

HEALTH, EDUCATION, OTHER	Country	Operation	FC amount (Mio DM)	Performance rate
	Albania	Health Care Kavaja/Kukes	10.0	1
	Armenia	Emergency Programme Refugee Aid	5.0	2
	Azerbaijan	Emergency Programme Refugee Aid	5.0	2
	Chile	Rehabilitation of the Chemical Faculty of the University of Chile	16.1	1
	Egypt	Project-Related Commodity Aid XXII (family planning)	5.0	2
	India	Housing Development Finance Corporation (HDFC) I	25.0	1
	Malawi	Rural Development Centres	3.8	2
	Malawi	Rural Health Centres	8.2	3
	Mongolia	Sector Programme Health I	2.4	2
	Mongolia	Sector Programme Health II	2.0	2
	Nicaragua	Social Emergency Fund (FISE) (incl. accompanying measure)	5.0	2
	Pakistan	Afghan Refugees (UNHCR) III	20.0	3
	Portugal	Hospital Equipment	18.0	2
	Thailand	Village Development V	10.0	2
	Thailand	Village Development VII	15.0	2
Number of operations		15	150.4	

STRUCTURAL AND SECTOR ADJUSTMENT PROGRAMMES

Country	Operation	FC amount (DEM million)	Performance rate
Bangladesh	Structural Adjustment Aid (reform of public finance)	15.0	4
Benin	Structural Adjustment Programme II	45.0	3
Bolivia	Structural Adjustment Aid	27.0	1
Burkina Faso	Structural Adjustment Programme	31.0	2
Comoros	Structural Adjustment Aid I	2.0	5
El Salvador	Structural Adjustment Aid	20.0	1
Ghana	Sector Adjustment Programme Agriculture	25.7	2
Ghana	Structural Adjustment Aid III	35.0	3
India	Structural Adjustment Aid I	45.0	2
Jordan	Structural Adjustment Aid I	55.0	3
Madagascar	Structural Adjustment Aid I	7.0	4
Malawi	Sector Adjustment Programme Private Sector and Drought Repairs	15.0	2
Malawi	Sector Adjustment Programme Agriculture	15.0	3
Mali	Structural Adjustment Programme	31.0	2
Mauritania	Structural Adjustment Programme PASEP	14.0	2
Mozambique	Structural Adjustment Aid I	20.0	3
Mozambique	Structural Adjustment Aid II	10.0	3
Ruanda	Structural Adjustment Programme	25.0	4
Tunisia	Sector Adjustment Programme Agriculture II	48.7	2
Tunisia	Economic and Financial Reform Programme	20.0	2
Zambia	Debt Repurchase Programme	5.7	3
Zambia	Structural Adjustment Programme I	34.0	3
Zambia	Structural Adjustment Programme II	50.0	3
Zambia	Structural Adjustment Programme IV	40.0	3
Number of operations	24	636.1	

ECONOMIC INFRASTRUCTURE

	Country	Operation	FC amount (DEM million)	Performance rate
ELECTRICITY SECTOR	Burkina Faso	Kompienga Dam	43.0	4
	Guinea-Bissau	Sector Programme I (Power Supply Bissau)	1.5	4
	Guinea-Bissau	Sector Programme II (Power Supply)	7.0	4
	Indonesia	500 KV Transmission System Krian-Paiton	114.9	1
	Israel	Expansion of Power Supply I	38.0	1
	Israel	Expansion of Power Supply II	25.0	1
	Israel	Expansion of Power Supply III	60.0	1
	Israel	Expansion of Power Supply IV	60.0	1
	Mali	Bamako-Segou Transmission Line	22.4	3
	Mozambique	Project-related Commodity Aid (EDM diesel power station)	18.7	3
	Mozambique	Overhaul of Maputo Steam Power Station	17.1	4
	Niger	Interconnected Grid Nigeria-East Niger	23.5	5
	Pakistan	Gas/Steam Turbine Power Station Guddu	117.2	2
	Philippines	Rehabilitation of Sucat Power Units II/III	70.9	2
	Philippines	Rehabilitation of Sucat Power Station (Unit IV)	46.0	2
	Sri Lanka	Mahaweli/Rantembe Dam Project	119.5	3
	Sudan	Electrification of Karima-Merowe Region IIA (incl. accompanying measure)	15.0	4
	Sudan	Electrification of Karima-Merowe Region IIB (incl. accompanying measure)	21.0	4
	Sudan	Electrification Provincial Town Karima/Merowe	40.0	4
	Sudan	Project-related Commodity Aid VI (rain and energy sources)	2.6	6
	Thailand	Securing of Ubol Ratana Dam	14.3	3
	Tunisia	Sidi Salem Dam	58.0	2
	Turkey	Elbistan Open-Cast Lignite Mine and Power Station	665.1	5
	Turkey	Desulphurization Plant Cayirhan Power Station	39.9	3
	Turkey	Technical Operation Afsin-Elbistan Power Station (TOM)	17.4	3
	Zimbabwe	Sector Programme Power Supply	9.0	3
Number of operations		26	1,666.9	

ECONOMIC INFRASTRUCTURE

	Country	Operation	FC amount (DEM million)	Performance rate
TRANSPORT AND COMMUNICATIONS	Bolivia	Rehabilitation/Maintenance of Locomotives	41.9	3
	Bolivia	Sector Programme I (public sector) – Part: ENFE	7.2	2
	Burkina Faso	Ouagadougou – Kaya Road	34.9	2
	Cameroon	Compressed-Air Brakes for Railway (incl. accompanying measures)	9.4	3
	Cameroon	Edea-Kribi Road	71.9	3
	China P.R.	Telecommunications Guangxi I	17.7	1
	China P.R.	Telecommunications Shandong I	39.0	1
	China P.R.	Telecommunications Shandong II	30.1	1
	Congo, D. R.	Road Kisangani-Bukavu, Section: Lubutu-Oso	92.0	5
	Congo, D. R.	Road Kisangani-Bukavu, Section: Oso-Osokari	99.0	5
	Egypt	Telecommunications Development, Phase III	30.0	2
	Egypt	Telecommunications Development, Phase I (incl. accompanying measure)	109.0	2
	Egypt	Telecommunications Development, Phase II a	47.6	2
	Egypt	Telecommunications Development, Phase II b (incl. accompanying measure)	35.6	2
	Ethiopia	Lorries for Relief and Rehabilitation Commission (RRC)	9.4	5
	Ghana	Sector Programme II	16.5	2
	Guinea, Republic	Telegraph Exchange Conakry (incl. accompanying measure)	19.6	5
	Honduras	Regional Development Programme Santa Barbara (roads)	17.7	4
	India	Railway Salvage Equipment I	14.6	2
	India	Railway Investment Programme I	11.2	2
	Indonesia	Digital Telecommunications II	39.2	1
	Indonesia	Digital Telecommunications, Phase V A 1	21.1	1
	Indonesia	Digital Telecommunications, Phase V A 2	30.6	1
	Indonesia	Digital Telecommunications VII A	39.3	1
	Indonesia	Digital Telecommunications, Phase VII B	46.0	1
	Indonesia	Small Telephone Exchanges	11.9	1
	Indonesia	Supply of Three Ferries	155.1	2
	Indonesia	Rehabilitation of Locomotives	11.1	3
	Israel	Road Construction Programme I	80.0	1
	Israel	Road Construction Programme II	140.0	1
	Israel	Road Construction Programme III	140.0	1
	Israel	Road Construction Programme IV	180.0	1
	Kenya	Garsen Bridge	38.0	4
Kenya	Timboroa – Eldoret Road	34.9	1	
Kenya	Maintenance and Extension of Secondary Roads II (incl. accompanying measures)	9.9	3	

ECONOMIC INFRASTRUCTURE

Country	Operation	FC amount (DEM million)	Performance rate
Malawi	Northern Corridor Transport Programme (fuel depots)	34.3	2
Malawi	Mua-Penga Penga Road	9.3	2
Malawi	Salima-Balaka Road (Section Salima-Mua)	15.0	2
Mozambique	Sector Programme Transport I (incl. accompanying measure)	20.7	3
Mozambique	Sector Programme Transport II	6.2	2
Mozambique	Telex Extension Beira (incl. accompanying measure)	8.7	3
Namibia	Rural Basic Telecommunications Owambo	4.0	1
Pakistan	Telecommunications V. Phase I	47.9	2
Pakistan	Telecommunications V. Phase II	66.8	2
Pakistan	Telecommunications V. Phase III (incl. accompanying measure)	44.9	2
Pakistan	Telecommunications V. Phase IV (incl. accompanying measure)	40.4	2
Philippines	Insular Transport Infrastructure	6.7	1
Senegal	Secondary Roads in Casamance	6.0	4
Sudan	Local Telecom Network Khartoum	15.7	3
Sudan	Project-related Commodity Aid V (ferries)	2.0	4
Sudan	Rehabilitation Programme for Sudan Railways Corporation (SRC) I (incl. accompanying measure)	17.0	4
Sudan	Ed Dueim Rabak Road	58.3	3
Sudan	Khartoum - Port Sudan Road	30.0	4
Tanzania	Sector Programme Road Freight Transport II	20.0	2
Tanzania	Sector Programme Road Freight Transport III	8.9	2
Togo	Bridge Programme	12.3	3
Tunisia	Medium-Wave Transmitter Jedeida	6.0	1
Tunisia	Ship Hoist La Goulette	3.5	6
Uganda	Reintegration of Dismissed Soldiers	5.0	2
Uganda	Telex Exchange for Uganda Posts and Telecommunications Corporation (UPTC)	3.5	4
Zambia	Supplementary Measure Rural Access Roads (incl. accompanying measure)	0.9	4
Zambia	Rural Access Roads (incl. accompanying measure)	11.4	4
Number of operations		62	2,236.5
TOTAL FC			
Number of operations		237	7,417.4

2 CRITERIA OF PERFORMANCE EVALUATION IN FC

1. Performance Ratings

Successful in terms of development impacts: ratings 1 to 3

- Rating 1: Very good and good development results
- Rating 2: Satisfactory development results
- Rating 3: Altogether adequate development results

Unsuccessful in terms of development impacts: ratings 4 to 6

- Rating 4: Altogether inadequate development results
- Rating 5: Clearly insufficient development results
- Rating 6: Complete failure

2. The Most Important Criteria for Evaluating Performance

Achievement of the project and development of sector conditions

Before a new project is started, the problems which it is to help solve are analyzed. In the area of sanitation the problem might be that in the absence of a sewage treatment plant in town A, untreated sewage is discharged into a

nearby river from which town B obtains its drinking water. The contamination of the river in town B leads to widespread waterborne diseases among its inhabitants (diarrhoea and others). The project purpose resulting from this problem situation would be: the treatment of sewage in town A.

This objective is made more concrete by using indicators which measure the degree of achievement of these objectives in terms of quantitative or qualitative variables over time in an objective way. Example: the purpose of the sewage treatment project is to be considered fulfilled if three years after commissioning of the treatment plant at least 95% of the collected sewage is being treated.

However, the development impacts of an individual project can hardly be judged without analyzing its external environment. This is where major causes for success or failure are frequently located. In analyzing sectoral conditions, the following questions are asked: Have supply and demand in the sector developed as expected during project appraisal? What causes can any deviations be attributed to? What sector policy has the partner government pursued, and how is it to be assessed?



In the case of a rural water supply system it has to be examined whether the agency in charge of this facility has sufficient autonomy in the most important aspects (supply scheme, tariff policy, etc.) to be able to charge cost-covering tariffs, for instance, or whether the most important decisions are taken by the central government. Further questions to be asked are: Is the scarce resource water being distributed appropriately to the various users (population, agriculture, industry)? Or is water being sold too cheap and squandered as a consequence? Are ecological and hygiene aspects being given the attention they deserve?

Financial impacts

In the financial analysis we take a close look inside the project-executing agency or operator and examine what financial consequences the FC project had on it in terms of expenditure and earnings: expenditure for current operation and reinvestments, and earnings from the sale of the products or services generated. The financial impacts are of varying importance depending on the type of project.

When, for instance, a power station is built, the cost of each kilowatt-hour of electrical energy generated can be compared with the relevant earnings from the sale of electricity. If earnings do not recover the costs, the power utility will have trouble raising the necessary funds for operation, debt service and reinvestments, which may affect the reliability of power supply (at least in the long term). Inadequate financial effects (poor profitability and

liquidity constraints of the executing agency) may thus ultimately jeopardize the attainment of the project purpose (the generation of a certain number of kilowatt-hours) and the success of the project.

Not in all FC projects is financial profitability of project operation a suitable success criterion. In health care or primary-education projects, user fees normally can cover only a fraction of the costs; the remainder must be financed from the government budget. The financial criterion for such projects is: to minimize costs and assure the availability of the necessary budget funds.

Besides the financial analysis of the project-executing agency the financial effects on the target group must also be examined. The ability and willingness of users to pay fees is an important aspect. In a credit fund to finance low-cost housing it is not only studied whether the substance of the fund can be maintained in real terms but also whether the borrowing terms are acceptable to the target group.

Impacts on the Economy

The overall economic analysis examines costs and benefits that accrue to the national economy as a whole. This analysis can differ greatly from that of an individual project-executing agency. In an agricultural irrigation project, for instance, major cost elements are water and fertilizers. Both are often subsidi-



dized by the government, that is, the farmers pay a price that does not reflect the actual scarcity of these goods in the country. In the cost-benefit analysis these distortions are eliminated by considering the higher costs actually incurred by the national economy. The result can be that the project is profitable on the commercial level but not from the perspective of the national economy.

Socioeconomic and Sociocultural Impacts

The socioeconomic analysis seeks to establish the impacts of the project or programme on the living conditions of the target group. Was it possible to create additional employment? What was the impact on income distribution? Did the project contribute to mitigating or rather to aggravating regional differences in development? Besides, it is of

interest to what degree the project fits into the sociocultural set-up, or whether its acceptance was problematic. One particular focus is the impact on women.

The object of a health-care project may be to equip and furnish rural health posts which offer primary health services such as immunizations, out-patient treatment and obstetrics. Women in particular may benefit as they carry a greater burden with pregnancies and caring for ailing family

members. One negative socioeconomic effect may be that traditional healers lose their jobs. A sociocultural risk may be that the project is rejected because it conflicts with traditional values or because of the opposition of local leaders.

Environmental Impacts

This analysis primarily seeks to determine and assess any damaging effects of the project on human health and on the stability of the ecosystem. The en-

vironmental impact study represents a process that accompanies the project and extends from the first probe up to the final evaluation. If serious, irreparable environmental damage is to be expected, a new project is rejected in the appraisal phase as not eligible for promotion. If the final evaluation reveals that such damage occurred, the project – even if its effects were otherwise positive – must be rated unsuccessful.

In a road construction project, for example, important aspects are the amount of land needed for the route, the material to be extracted (opening of a quarry for gravel production), soil erosion caused by the construction, and noise and exhaust fumes emitted by the traffic. What is also studied is the possible partitioning of wildlife habitats. If the road opens up a remote region it must be taken into account that it may entail indirect ecological damage such as depletion of soils as a result of deforestation. Any measures that were taken to abate such ecological strains are also considered in the final evaluation. Lastly, it remains to be judged to what extent the remaining ecological strains are acceptable.

Sustainability

All performance criteria listed above are analyzed with a view to their long-term sustainability. We regard a project or programme as sustainable when it can be continued successfully for an adequate period of operation after foreign



assistance has ended. To finance a project is of little avail if it is not also operated and maintained in the long term.

For instance, in the case of a railway project (e.g. supply of locomotives), aspects to be reviewed concerning sustainability include these: Do the railway workshops have sufficient skilled personnel? Is their operation organized in such a way that the locomotives actually go to the workshops for inspection in the technically scheduled intervals? Do the railways have sufficient funds to finance current needs, such as diesel fuel? Is there enough money for spare parts? Statements made on sustainability at the time of the final evaluation are necessarily fraught with uncertainty with regard to the further development of the project. Nevertheless, forecasts on future perspectives rely on the experience of an average of five years of operation.



Overall Rating

Assigning a project to one of the six performance ratings previously listed is not always easy. As a rule, both positive and negative impacts occurred. Each of these therefore must be weighted and pondered. In view of the great differences in the types of projects this weighting cannot be identical for all FC undertakings but depends on the individual case. Consequently, in a project for the protection of tropical forests the main emphasis lies on the environ-

mental effects while these usually have little significance in a school building programme. In the construction of rural roads sustainability is a decisive criterion but not in the case of emergency relief measures to mitigate acute suffering, for instance after a volcano eruption.

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