Development in Fragile States: Overcoming Crises, Creating Prospects

ANNUAL REPORT 2011 ON COOPERATION WITH DEVELOPING COUNTRIES

Bank aus Verantwortung
Development – our mission

On behalf of the German Government, KfW Entwicklungsbank and DEG – Deutsche Investitions- und Entwicklungsgesellschaft support the partner countries in their development efforts, in protecting the environment, nature and climate and improving the living conditions of their inhabitants. Among other areas, KfW promotes the expansion of renewable energy capacity by financing solar power facilities, wind farms and geothermal power plants. It supports the construction of new schools and hospitals, roads, bridges and irrigation systems to improve people’s quality of life. DEG promotes the development of the private sector in order to create employment, income and better prospects for the population.

KfW Entwicklungsbank and DEG support the German Government in meeting its targets in international cooperation with developing and industrialising countries. Around the world, we look after the development and climate projects we finance with perseverance and many years of experience in development policy. Together with other countries, organisations of the global community and local institutions we help people in the partner countries to improve their livelihoods in a sustainable way and to protect the climate.

The overriding principle we rely on is the initiative and ownership of our partner countries. We support them in mobilising forces of growth, strengthening capacities and implementing reforms. After all, only with viable, efficient structures can women and men exercise their political rights, secure their economic livelihood and build their lives in dignity. We measure the success of our work primarily by asking ourselves what we have accomplished for the people – for this generation and for those to come.
The cooperation of KfW Entwicklungsbank and DEG with developing and industrialising countries was once more very successful in 2011. They increased their promotional volume again slightly to a record level of EUR 5.8 billion (Previous year: EUR 5.7 billion).

In 2011 KfW Entwicklungsbank was again successful in raising the biggest portion of the more than EUR 4.5 billion in commitments by mobilising funds on the capital market. Funds raised by KfW itself totalled EUR 2.6 billion. In this way KfW added a considerable volume to the funds allocated from the federal budget, enabling the German Government to use budget funds in particularly poor countries and regions. DEG, which promotes the private sector, stabilised its financing operations with new commitments exceeding EUR 1.2 billion.

### Commitments by KfW Entwicklungsbank and DEG
#### 2010–2011 (in EUR million)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Commitments by KfW Entwicklungsbank</td>
<td>4,452</td>
<td>4,532</td>
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<tr>
<td>- of which budget funds</td>
<td>1,430</td>
<td>1,614</td>
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<tr>
<td>- of which KfW funds</td>
<td>2,840</td>
<td>2,575</td>
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<tr>
<td>- of which delegated funds*</td>
<td>183</td>
<td>343</td>
</tr>
<tr>
<td>Commitments by DEG</td>
<td>1,226</td>
<td>1,223</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,678</td>
<td>5,755</td>
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*Excluding intermediary funds in 2011 (EUR 73 million) and in 2010 (EUR 10 million), differences in the totals are due to rounding.
Commitments by region

On behalf of the German Government, KfW Entwicklungsbank used the funds from the federal budget in particularly poor countries. Most of them, 39 %, again went to Sub-Saharan Africa.

This was followed at some distance behind by Asia/Oceania (26 %), North Africa and the Middle East (14 %), Europe/Caucasus (11 %) and Latin America (8 %).

Budget funds committed in 2011 by region

Differences in totals are due to rounding
Commitments by sector

The biggest share of commitments made by KfW Entwicklungsbank and DEG, 28%, went to financial system development, a traditionally strong area of intervention. Social infrastructure and economic infrastructure followed with a share of 24% each. Measures financed in these sectors include safe drinking water supply and the construction of schools and hospitals. In the area of economic infrastructure, financing is provided for programmes and projects that contribute among other things to efficient and, thus, climate-friendly use of energy. In this way KfW and DEG make an important contribution to climate protection.

Total commitments by KfW Entwicklungsbank and DEG by priority sector in 2011

- Financial sector: 28%
- Social infrastructure: 24%
- Economic infrastructure: 24%
- Producing industries: 9%
- Other: 14%
Development in fragile states

Fragile states are increasingly becoming a focus of development cooperation. A high proportion of the world’s poor live in these countries. The state structures of these countries are usually weak, and the trust between the state and its citizens has been shattered in the wake of crises and conflicts. As a result, these countries can do little to counter the effects of natural disasters, outbreaks of violence or ethnic confrontations. They remain vulnerable to crises and must be regarded as a separate group of states with particular problems but opportunities as well.

After the end of a conflict: Fragile states need support.

Any organisation becoming involved in these states, such as KfW Entwicklungsbank and DEG – Deutsche Investitions- und Entwicklungsgesellschaft on behalf of the German Government, must adapt their approach to meet such challenges. In the process, people need to quickly see signs of progress and at the same time it is crucial to gradually establish infrastructure and sustainable, efficient state structures so that a fragile state may evolve into a stable one. When the living conditions improve, a peace-building and stabilisation process can develop that provides new, viable prospects for the people.
In the early stage of cooperation with fragile states, civil society plays a key role. While the government is still weak, non-governmental organisations facilitate fast access to the people. Yet it continues to be important to involve the government in the development effort so that the citizens develop trust in their state institutions.

According to the Organisation for Economic Cooperation and Development (OECD), currently there are 45 fragile states, 32 of which KfW Entwicklungsbank is supporting. Over the past five years it has committed more than EUR 3.5 billion in an effort to improve the living situation of the people in these countries. This represents 18% of overall commitments during this period.

In 2011 alone KfW committed more than EUR 900 million for cooperation with fragile states. In this way KfW Entwicklungsbank is helping to strengthen institutions so that they can offer their citizens the things that make a normal life possible: water and electricity, paths and roads, hospitals and schools.

DEG promotes the development of the private sector as an engine for development. Private enterprises make important contributions to improving living conditions and create economically and socially sustainable prospects for the people. Economic strength creates employment and income, improves infrastructure and restores the countries’ access to regional and global markets. DEG invested a total of EUR 275 million in high-risk countries in 2011.

The experience of KfW Entwicklungsbank and DEG shows that particular standards need to be applied in cooperating with fragile states. Steps need to be chosen carefully and be worthwhile to make a difference in strengthening these states. Essentially, what matters most is to re-establish lost trust. The citizens need to trust the state and its structures, enterprises need to have trust in worthwhile investments and the population needs to have trust in their own potential and prospects.
Support that works

The success of KfW Entwicklungsbank and DEG is measured by the positive impacts their work has for the people in the partner countries and on the global climate. The commitments we made in 2011 have achieved the following development impacts in various sectors:

- **Climate and Environment**: KfW Entwicklungsbank committed some EUR 2.7 billion for climate and environmental protection in 2011. This is over 60% of the total financing volume. The new commitments reduce greenhouse gas emissions in the partner countries by around 7.2 million tonnes annually, which roughly corresponds to the energy-related carbon emissions of Latvia.

- **Nature**: KfW Entwicklungsbank is also making an important contribution towards protecting natural habitats. Through the commitments made in 2011, around 10 million hectares of endangered natural habitats, particularly tropical forests, have been placed under protection, and a contribution has been made to preserving the livelihoods of 1.5 million people.

- **Health**: KfW Entwicklungsbank is helping to improve healthcare services in partner countries. For example, the commitments made in 2011 to fight tuberculosis in Uzbekistan, Pakistan and Tajikistan reach around 100,000 people.
• **Education**: With the commitments in the education sector in 2011, KfW Entwicklungsbank is reaching some 3 million people, especially children and youths. The funds are being used for the construction of schools, for teaching and learning materials, for the training of teachers and for vocational training.

• **Rural development**: In this sector KfW Entwicklungsbank helps farmers to irrigate their fields more efficiently and achieve better harvests. The commitments made in 2011 benefit around 250,000 people in smallholder families.

• **Financial sector**: With its commitments in 2011 KfW Entwicklungsbank creates and ensures access to financial services for almost 3 million people, more than half of whom are women. We support the vast majority of these people – around 80% – through microfinance. Our commitments enable around 765,000 additional loans.

• **Water and energy**: Our commitments in the water and sanitation sector reach around 20 million people all over the world. Forty percent of the commitments in this sector are relevant to the climate. Around 15 million people around the world are now benefiting from an improved energy supply.

• **Business investments**: The new commitments made by DEG in 2011 mobilise private-sector investment amounting to roughly EUR 6.8 billion. Thus DEG’s financings contribute to creating a considerable leverage effect of nearly 1 to 7. Around 110,000 jobs in businesses are being created or safeguarded. Added to this are another 130,000 jobs at supplier firms and sub-borrowers in financial sector projects.

• **Public revenue**: The businesses co-financed by DEG contribute to expected annual state revenue of around EUR 780 million through tax payments in the partner countries, generating roughly EUR 700 million in net foreign exchange revenues every year.
KfW Bankengruppe is one of the leading and most experienced development and promotional banks in the world. For KfW, promotion means assuming responsibility and as a partner giving impulses for responsible action. We use our knowledge and our energy to improve economic, social and ecological living conditions. KfW provides a range of products to support its customers in realising their projects in the fields of small and medium-sized enterprises, business start-ups, environmental protection, housing, infrastructure, education, project and export finance as well as development cooperation.

Photos: Title (left to right) KfW photo archive/photo agency: auslöser photographie, KfW photo archive/photographer: Bernhard Schurian; front inside cover, left KfW photo archive/photographer: Bernhard Schurian; front inside cover, right KfW photo archive/photo agency: auslöser photographie

KfW Bankengruppe

KfW Entwicklungsbank
Palmengartenstrasse 5–9
60325 Frankfurt am Main, Germany
Phone +49 69 7431-0
Fax +49 69 7431-2944
info@kfw-entwicklungsbank.de
www.kfw.de

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Kämmergasse 22
50676 Cologne Germany
Phone +49 221 4986-0
Fax 0221 4986-1290
info@deginvest.de
www.deginvest.de

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