1999 Annual Report on Financial Cooperation with Developing Countries.

KfW

KfW

KfW AT A GLANCE

KfW (Kreditanstalt für Wiederaufbau) was founded in 1948 with domicile in Frankfurt am Main. It is a bank for the German economy and a development bank for the developing countries. Its capital is held 80 % by the Federal Republic and 20 % by the Federal Länder. With a balance-sheet total of approx. 197 billion euros* it is one of Germany's large banks.

Promotion of the German Economy

Investment Finance

KfW is the bank for small and medium-sized enterprises, which form the backbone of the German economy. It finances investments of these enterprises in Germany and abroad. A particular concern is the financing of innovations and venture capital. Other important sectors are housing, infrastructure and environmental protection.

Export and Project Finance

KfW is one of Germany's leading financiers for capital goods exports. It finances worldwide exports of aircraft and ships as well as machines and other equipment. KfW also offers project finance for industry, transport infrastructure, and other areas.

Promotion of the Developing Countries

On behalf of the German Government KfW finances investments and project-related advisory services to expand economic and social infrastructure as well as trade and industry, and measures to protect the environment and natural resources in developing countries. KfW appraises the projects for their eligibility, advises the partner countries in their implementation, and evaluates the success of the projects after they are completed.

Advisory and other services

In the past years KfW has evolved into a financial services provider for the Federal Republic.

The functions it has assumed include the implementation of the Law on Assistance with Old Debts, handling the transactions for the Redemption Fund for Inherited Liabilities and the Compensation Fund for Currency Conversion, and managing the contracts for the Federal Agency for Special Tasks related to Reunification (BvS).

With the Federal Government KfW carries out advisory projects and other activities in the reform countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). It is also playing an active part in building up and financing promotional banks in these countries.

In addition, KfW assists the Federal Government in the privatization of shares in state-owned enterprises such as Deutsche Telekom AG and Deutsche Post AG.

* as per Dec. 31, 1999

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THE THEMES OF THE ANNUAL REPORT

Introduction

The inaugural speech given by US President Harry Truman in 1949 is regarded today as the birth of development cooperation. He promised that the scientific and technical progress in the west would be used to promote growth in the less developed regions of the world. In view of a worldwide and evident decline in the flow of funds for official development cooperation in the 1990s, the fiftieth anniversary of the speech in 1999 was passed over in silence.

In 1999 also the world population passed the 6 billion mark. Most of these people live in developing countries and newly industrializing countries. Between Truman's speech and the year 2000 the world's population has grown by 3.5 billion and although the growth rate is flattening the absolute rise is expected to be repeated in the next 50 years. Enabling the growing world population to have a proper standard of living is a huge challenge.

On behalf of the German Ministry for Economic Cooperation and Development (BMZ) KfW supports investments as well as economic and sector reform programmes in developing countries with long-term loans, grants and project-related advisory services.

Chapter 1 of this Report gives a survey of KfW's achievements in promoting the developing countries in 1999 and the regional and sectoral focus of Financial Cooperation. Cooperation with other development institutions is of growing importance. The objective of the cooperation is to utilize the comparative advantages of the different institutions to make development cooperation more effective and efficient for the benefit of the people in the developing countries.

Chapter 2 is concerned with the current discussion on the future of development finance. Three controversial topics are discussed: the importance of private capital flows for the developing countries, the question of the effectiveness of development cooperation and the conditions necessary for it to succeed, and the issue of a sound division of tasks and roles among the various protagonists of development cooperation.

Development cooperation must be made more effective in the interest of the people in the developing countries.

To make development cooperation more effective KfW focuses its promotion on individual regions and sectors; it also supports structural reforms and helps to shape these.

German Financial Cooperation supports the mobilization of private resources for development in partner countries, i.a. by developing local financial markets and promoting public-private partnerships. KfW also incorporates its banking potential into Financial Cooperation and provides additional capital market funds for the developing countries, itself bearing part of the risk.

This chapter shows that Financial Cooperation extends beyond the transfer of capital, using its finance as a lever to change structures. In the view of KfW private capital flows constitute a chance to increase support for the developing countries even further.

Chapter 3 outlines the development trends in the various regions of the world and profiles Financial Cooperation in five selected countries. It shows that FC is not limited to promoting individual projects but places the main emphasis on solving structural development problems.

One theme particularly characterized discussion on development policy in Germany and on international level in the past year: violent conflicts have destroyed the development achievements of many countries. Two examples of projects (pp. 21 and 26) from Kosovo, and the Albanian-Macedonian border area in Southeast Europe show how Financial Cooperation is not only contributing to reconstruction but can also help to further peaceful cooperation and prevent renewed conflict.

A Report like this can present only a small section of Financial Cooperation in practice. To improve the transparency of Financial Cooperation further and offer up-to-date and more comprehensive information on its activities KfW has expanded its presence in the Internet. Under www.kfw.de it provides detailed background information on FC. A user-friendly database is also available on the website, from which detailed descriptions of more than 500 FC projects can be downloaded.

Innovations that shape the future: promoting renewable energy – wind park in China.

A great international event is imminent: at the world's fair EXPO 2000 in Hanover (June 1 to October 31, 2000) KfW will be represented with its own exhibition in the Europa-Center at the EXPO Plaza. In addition to numerous innovations of small and medium-sized enterprises which KfW finances in Germany and abroad, the EXPO will also present 34 projects of German FC, thirteen of which will be exhibited in KfW's pavilion.

1 KfW'S CONTRIBUTION IN THE PROMOTION OF THE DEVELOPING COUNTRIES

Overview of KfW's Commitments

Commitments higher

To promote the developing countries KfW committed funds totalling DEM 3.2 billion in 1999, bringing commitments almost back to their 1997 level. 1998 showed a marked decline to DEM 2.7 billion as a result of the Asian crisis.

Scarce budget funds supplemented by market funds

The funds committed by KfW consisted of DEM 2.5 billion (DEM 2.7 billion in 1998) from the budget of the Federal Ministry for Economic Cooperation and Development (BMZ) supplemented by capital market funds raised by KfW to the amount of DEM 0.7 billion (1998: DEM 0.1 billion). Capital market funds were provided as mixed and composite finance.

Asia and Africa main regional focus

KfW's commitments to Asian countries rose by more than DEM 1 billion after the decline following the crisis in 1998, reaching DEM 1.8 billion or 56% of total commitments. Sub-Saharan Africa received 21% of commitments, Latin America 11% and North Africa/Middle East and Europe/Caucasus 6% each.

Economic and social infrastructure the main promotional areas

As in earlier years the main focus was on expanding the economic and social infrastructure, with altogether 73% of KfW's commitments. The operations included investment in transport, energy, water supply and sewage disposal, education and health.

Helping people to help themselves in the water sector.

Development of financial systems

Cooperation with local financial institutions accounted for 12% of commitments. In the projects to develop financial systems the promotion of investment by small and medium-sized firms and environmental protection measures were the main activity.

Environmental protection and poverty alleviation as cross-sectoral tasks

Projects to alleviate poverty received 55% of commitments in 1999. Environmental and resource protection was the next most important cross-sectoral area, taking 21% of commitments.

Disbursements – falling transfer to the developing countries

In 1999 KfW disbursed funds totalling DEM 2.6 billion for Financial Cooperation projects (DEM 2.8 billion in 1998); of this amount DEM 2.3 billion was budget funds and DEM 0.3 billion market funds. Debt service payments by the developing countries (interest and redemption payments) amounted to DEM 1.5 billion. The net transfer to the developing countries and so the net charge on the Federal budget fell from the previous year by DEM 0.1 billion to DEM 0.75 billion.

Debt consolidation and conversion for environmental protection and poverty alleviation

To ease the debt situation for the partner countries KfW signed consolidation agreements with Bosnia-Herzegovina and Pakistan in 1999 for a total of DEM 362 million. So far the Federal Government has agreed to debt conversion totalling DEM 781 million (DEM 72 million in 1999) for 11 countries under bilateral consolidation agreements. It has made writing off these claims under FC loans dependent on certain conditions. The countervalues in the domestic currency must be used for environmental protection and resource protection, to alleviate poverty or for education. So far KfW has concluded individual agreements for DEM 448 million for appropriate projects in developing countries on behalf of the BMZ.

Bilateral and multilateral cooperation expanded and deepened

KfW strongly expanded cooperation with other German and international institutions during the year under review. Cooperation agreements were signed with the European Union (EU), the World Bank and the French Agence Française de Développement (AFD), on the basis of which concrete projects are being prepared or already executed.

In Africa cooperation between KfW and AFD has a long tradition.

The conceptual and country-specific cooperation with the German Agency for Technical Cooperation (GTZ) and other institutions operating in development cooperation was intensified.

Commitments in Southeastern Europe

The Federal Government has responded to the greater need for finance in the Balkan region resulting from the Kosovo conflict by providing additional FC funds for Albania and Macedonia and for the first time committing funds for Bosnia and Herzegovina.

KfW has also increased its commitment in Bosnia and Herzegovina under a mandate from the EU. It is supporting housing construction and small and medium-sized firms in the private sector through local banks (see section on Bosnia, p. 56).

Shortly after the end of the war in Kosovo KfW started reconstruction work on behalf of the BMZ that goes beyond emergency aid (see Kosovo, p. 26).

The Structure of Commitments

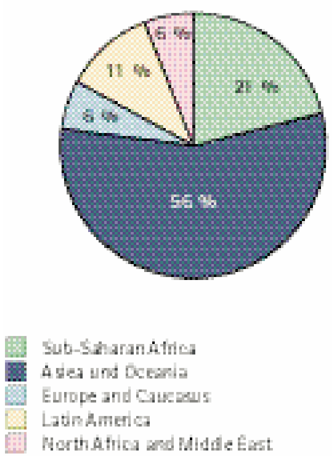
KfW committed funds totalling DEM 3.2 billion to promote the developing countries in 1999.

The commitments were composed of Federal budget funds totalling DEM 2.5 billion and market funds raised by KfW totalling DEM 0.7 billion. The funds were used as mixed and composite finance. Half of the Federal budget funds were long-term loans at favourable interest rates and half were interest-free non-repayable grants.

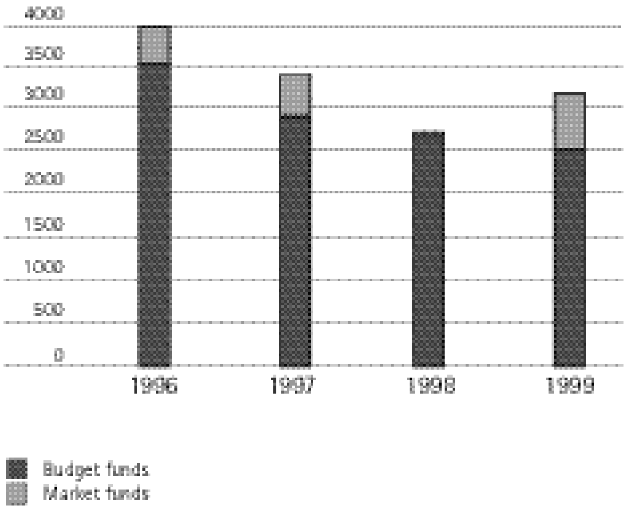
Regional Structure of Commitments

As a result of the Asian crisis in 1997/1998 the regional structure of KfW's commitments has experienced noticeable fluctuations in the last two years. Commitments to Asia first fell by more than half in 1998 to DEM 0.7 billion, and then rose again in 1999 by more than one billion to DEM 1.8 billion, which was 56% of total commitments. The rise was due first to the realization of some investment projects that had been temporarily postponed and second to the increase in finance with market funds.

The Regional Distribution of KfW's Commitments



Commitments by KfW in Financial Cooperation 1996–1999 (in DEM million)



Projects in Sub-Saharan Africa accounted for 21% of total commitments, as in the previous year, while Latin America received 11% and North Africa/Middle East and Europe/ Caucasus 6% each.

While there were only two Asian countries among the 10 largest recipients of FC funds in 1998, in 1999 Asian countries occupied the top five places. Owing to their nuclear tests India and Pakistan have received no new commitments from the Federal Government since 1998; KfW's financial commitments in these countries are for projects under government agreements that are binding in international law and were signed some years ago.

In 1999 KfW committed finance for a total of 152 new projects (196 in 1998) in 57 countries (63 in previous year). So the average volume of finance per project has risen from DEM 17 million to DEM 21 million over 1998.

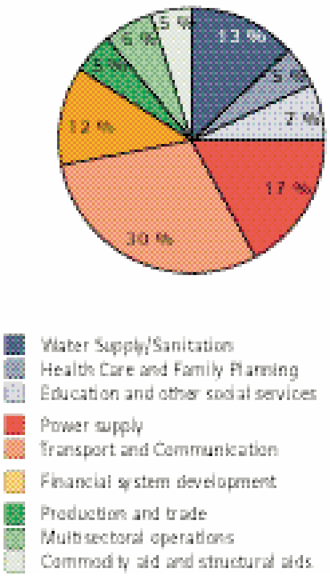
The sectoral structure of commitments

The economic infrastructure was the most important area of assistance for FC in 1999 at 48% of the total (31% in the previous year). The main focus was on energy supply and transport. Telecommunications, a major sub-sector at times in the 1980s and 1990s, has now become so attractive to private financiers that only in a few countries is it still receiving FC funds.

In second place with 25% of total commitments (36% in previous year) was social infrastructure, which includes water supply, waste disposal, education and health and other social services.

DEM 366 million was used to develop financial systems (DEM 312 million in the previous year), which was 12% (11%) of commitments. In addition, KfW cooperated with local banks on other programmes that are not primarily to develop the financial sector. They are mainly to finance investment by small and medium-sized firms and to execute environmental protection measures in manufacturing and industry. A better supply of credit for small and medium-sized firms makes an important contribution to economic growth and employment. By involving local financial intermediaries and directing loan programmes to specific purposes, disadvantaged groups (e.g. women in India and Cambodia), specific regions, branches or particular measures like investive environmental protection in firms can be promoted efficiently and with targeted effect.

The Sectoral Distribution of Commitments by Volume



Financial Cooperation gives major impulses for employment and economic growth

Cooperation with other development agencies and local representation

Cooperation with German development agencies

German development cooperation is institutionally characterized by a high degree of specialization and division of work. In investment finance two official institutions provide capital for development finance, KfW and the Deutsche Investitions- und Entwicklungsgesellschaft (The German Investment and Development Agency – DEG). Unlike KfW, the DEG only promotes private investment. In technical and personnel cooperation a larger number of state, semi-state and private institutions send experts abroad, carry out basic and advanced training and support the work of building up and improving institutions in the developing countries. A major advantage of this differentiated organizational structure is the high degree of technical regional or sectoral specialization. The flexibility and innovative capacity of German development cooperation is acknowledged worldwide.

To increase the effectiveness of German development cooperation further the BMZ works on the political level to make the various instruments even more complementary. For the same purpose KfW further developed, deepened and expanded cooperation with other German development cooperation agencies in the 1990s.

Cooperation with the GTZ has reached a very high level, and KfW and GTZ are now jointly supporting 199 cooperative projects (155 in 1998). Cooperation with GTZ is not limited to individual projects, it extends through all technical and regional levels. The central concern is a complementary use of the individual promotional instruments on the basis of the BMZ's country strategies, in the drafting and projection of which KfW and GTZ act as advisers. The stronger concentration on fewer areas of cooperation which BMZ desires will further increase the intensity of cooperation.

Another important cooperation partner, now accounting for around 20 joint operations, mainly in Sub-Saharan Africa and Latin America, is the Deutscher Entwicklungsdienst (German Development Service – DED). KfW also works in partner countries with international, German and local non-governmental organizations which include Church aid organizations, political foundations, the World Wide Fund for Nature (WWF) and the German Red Cross (see project example Cyclone Shelters in India).

On the conceptual level KfW is in intensive exchange with the Deutsches Institut für Entwicklungspolitik (German Development Policy Institute - DIE) and a number of German universities.

Cooperation with bilateral and multilateral donors

KfW maintains relations with all the important protagonists of international development cooperation. The spectrum ranges from the exchange of information and personnel, through co-finance for projects, currently in more than 100 cases, to the acceptance of execution commissions under mandates. Measured by the number of jointly promoted projects, cooperation with the World Bank heads the list, followed by the European Union, the European Investment Bank, the French Agence Française de Développement (AFD) and the British Department for International Development (DFID).

AFD and KfW have a common interest in efficient and better coordinated European development cooperation. Hence, both KfW and AFD signed cooperation agreements with the Directorate-General for Development at the European Commission in 1999. They provide for a number of measures to exchange information and ensure better coordination of the promotional programmes in ACP countries. For certain cases a more intensive form of cooperation in co-finance is desired: execution mandates from the Commission for KfW and AFD.

For the cooperation with the World Bank and the Global Environmental Facility (GEF) a memorandum of agreement was signed in September 1999; this constituted a breakthrough. GEF does not have its own execution capacities and for that reason investment projects financed by GEF are normally implemented by the World Bank. KfW is now the first bilateral development bank to take on the responsibility for executing projects financed by GEF on behalf of the World Bank. That is also acknowledgement of KfW's achievement as an environmental bank.

Local representation

KfW has opened offices since 1994 in some countries that are major focal areas for Financial Cooperation; they share buildings with other German agencies, particularly GTZ.

Offices were opened in the People's Republic of China, Kenya, Bolivia and Tanzania in 1999 or early 2000, and now KfW is represented in eleven countries. Five of these foreign offices are also supporting projects in neighbouring countries.

The main functions of the offices are to support the partner country in designing, planning and executing complex projects and to coordinate activities with other German and international organizations engaged in local development work.

2 NEW WAYS IN DEVELOPMENT FINANCE

The inaugural speech given by US President Harry Spencer Truman in 1949 is said to mark the start of development finance. He promised that the scientific and technical progress of the west would be used to promote growth in less highly developed regions of the world.

In the 50 years since Truman's speech the world population has grown from 2.5 billion to 6 billion people, of whom 80% are living in developing and newly industrializing countries. During this period great successes have been achieved in development but the ambitious aim of eliminating poverty worldwide has not been achieved. Conflicts within states and regions have also increased, as has the strain on natural resources and their destruction. Although these problems are being tackled in various policy areas they have changed public perception to a more sober assessment of the effectiveness of development cooperation.

This disillusionment, coupled with the pressure to make budget savings, has led to a fall in the official capital flows from the industrial to the developing and transition countries, that is, the funds available for development cooperation, of about one quarter in real terms between 1990 and 1999. Private investors and companies in the industrial countries have acted in exactly the opposite way to their governments, and during the same period private capital flows to the countries of the south and the east have multiplied about sevenfold.

Budget squeezes in the industrial countries and doubts in the effectiveness of development cooperation on the one hand and changes in world economic conditions on the other have brought discussion on the future of development finance. For the first time in their history the United Nations will hold a world conference on this subject in 2001. The debate is just starting. The list of subjects under discussion is enormous, ranging from the question of the "right" focal areas for development cooperation in practice to reform of the international financial architecture.

This Annual Report takes up three central points in current discussion and attempts to indicate the essential consequences for German development finance.

The themes are:

1. Mobilizing international private capital for development aims
2. The question of the direction of official development cooperation and how to improve its effectiveness
3. The tasks and roles of the various protagonists in development cooperation.

New answers are being sought to these questions and challenges. As a development bank KfW is playing an active part in this discussion. The bank is also trying out new models of financing and cooperation and continuing to develop its range of instruments.

1. Private capital does not render official development cooperation superfluous

From 1990 to 1997 the volume of private net capital flows to developing countries multiplied about sevenfold, despite a break in 1998 (see pp 28). These capital flows consist of loans, bond issues by developing countries, portfolio investment (purchases of shares) and direct investment. The private capital flows now amount to about five to six times the volume of the official capital flows, which are increasingly looking like a *quantité négligeable.*

Opinions on the value of the private capital flows vary greatly. Sceptics want to see the introduction of controls on capital transactions, as short-term capital movements in particular do little to help sustainable development. Other groups see the inflows and outflows as the expression of market mechanisms that reward efficient policy and ruthlessly sanction wrong decisions in economic policy.

The growth of private capital flows to the developing countries has led to criticism of official development finance on a number of grounds.

Some see no need or justification for further official development cooperation with those countries that have access to the international capital markets. Chief among these are the newly industrializing countries like China, India, Turkey, Indonesia and a few Latin American countries. Official development cooperation – so the argument runs – should concentrate on the "poverty countries", mainly Black Africa and a few Asian countries like Bangladesh and Nepal.

A second group of critics of official development cooperation argue exactly the opposite. In their view only those countries that can guarantee acceptable economic and political conditions and so have access to international capital flows offer the conditions needed for official aid to be effective. In their view the lack of private capital flows is an indicator of mismanagement, incompetence and corruption, and should lead to the cessation of official development finance.

On an initial consideration both standpoints seem logical and convincing, although they are opposites. But neither takes account of the complexity of the real situation.

Education is an important prerequisite for private investment.

The real picture is different

- Private foreign capital is now a major source of finance for development investment in a number of advanced developing countries. But many poorer countries that do not have significant raw materials resources are excluded from this.

- Moreover, private capital is concentrated on a few sectors, especially mining, industry and some services like telecommunications and tourism.

- Foreign private capital goes primarily into projects that will prove profitable in the short term and constitute little risk. A lesson learned from the Asian crisis in 1997 and 1998 is that considerable amounts of private capital can be withdrawn again quickly - with the corresponding damaging economic and social effects. Long-term investment can be financed only with funds that will remain available over the long term as well.

- Finally, focusing the discussion on international capital flows ignores a much more important factor in development finance: the need to mobilize domestic resources.

Sustained development must be financed primarily by savings generated within the country itself, and capital flows from abroad can only strengthen and accelerate the development. So the core of the problem for many developing countries is not the lack of foreign capital but inadequate savings formation, the flight of capital into industrial countries or unproductive investment of domestic capital.

What are the implications of private capital flows for official development finance?

- In view of the volatility of private capital flows the need for long-term finance at favourable interest rates remains high.

- Official FC investment finance is not competing with private investment. Logically, it is withdrawing from the sectors that are attracting sufficient private capital.

- FC is intended to complement private investment. Hence there is another consideration besides its withdrawal from certain areas: rural water supplies, education or environmental protection do not primarily attract private foreign investors. But a well functioning basic infrastructure and an efficient education system are **conditions for private investment.** So official development finance under Financial Cooperation does not compete with private investors but in many cases actually makes private investment possible.

- The main mission of FC is to shape overall conditions. Official development finance hence improves the prerequisites for self-help and private initiative.

- In future official development finance should be judged more by the mobilization of private domestic and foreign resources for development objectives.

Egypt – Protecting the Environment by Reprocessing Industrial Flue Gas Emissions

Reprocessing industrial emissions to protect the environment.

Egypt's population is growing fast, and only 5 % of its total land area is inhabitable. These crowded conditions and the advancing industrialization have created a heavy burden on the environment. Air and water pollution levels are many times higher than usual standards, particularly in the densely populated industrial areas. In 1994 a new environmental law was adopted. To make the adjustment easier for Egyptian enterprises and to promote environmentally friendly new investment, the German Government provided FC funds in a total of around DEM 170 million. KfW channelled these funds through five leading Egyptian commercial banks to finance pollution control measures.

One of the loans under the programme went to co-finance an investment by a German-Egyptian enterprise that specializes in recycling industrial exhaust emissions. The joint venture Messer Egypt S.A.E., founded in 1997, erected a plant in Alexandria to extract, reprocess and liquefy previously unutilized CO2 surplus gases which a chemical factory was releasing into the atmosphere in great quantities there. CO2 contributes significantly to the greenhouse effect. With this process the enterprise found a true market niche: the food industry requires considerable amounts of CO2 to manufacture frozen foods. In Egypt the gas needed for this purpose used to be produced with great effort - by the combustion of natural gas, kerosene or petroleum in furnaces. The enterprise discovered the economic potential and proceeded to recycle the excess CO2 for the Egyptian food industry. The gas is now being captured, purified, liquefied and delivered from Alexandria to currently fifteen buyers. The end product is liquefied CO2 with a purity of over 99.95%, a degree that could not be achieved by old combustion plants. The product meets the quality standards of the World Health Organization.

The old combustion plants, which used to cause great environmental damage, have been shut down. The environmental impacts of the new reprocessing plants are minor, however, since they require only electricity and coolant water.

Mobilizing domestic resources

One of the main ways to mobilize domestic resources is to strengthen the national financial systems and institutions. Improving the banking infrastructure creates the conditions for the domestic savings ratio to increase while it enables loans to be provided for productive investment in the private sector.

In water supply projects the target groups make significant contributions of their own.

In addition to promoting the financial sector "classical" FC investment projects are also designed to mobilize domestic resources and put them to more productive use. Agricultural irrigation projects, for instance, urban renewal and housing improvement are typically coupled with considerable contributions from the target groups. Indeed, FC funds often finance only a fraction of the total costs. In the physical infrastructure (electricity, water, public transport) FC aims to provide efficient technical solutions to meet needs, improve the income side for the utilities enterprises and reduce less well targeted subsidies on the expenditure side.

The textbook example of long-term investment is reforestation and forest management. Here a long time passes between the investment and the yield. In this area, too, FC is innovative. In Vietnam and China the local population are taking over the management of public forests as part of FC projects. The temporary use of FC funds to bridge the reforestation phase is mobilizing private investment in the stock of trees here (see country example China, p. 32).

Mobilizing private foreign capital

FC can also be an effective catalyst in mobilizing private foreign capital in the form of direct investment. The main advantage of this for the developing countries is that it is less volatile because once made, physical investment is not withdrawn again at short term. The second essential advantage is the transfer of technology and know-how which the investment brings.

One of the tasks of Financial Cooperation is to help advance the reform of legal and institutional conditions for direct investment. This ranges from opening certain areas (e.g. the financial sector and utilities enterprises) for private investors to privatising state enterprises (see project example Laos, p. 20). Secondly, by sharing in the investment costs Financial Cooperation can make the involvement of private investors possible in the first place, as this reduces the business risks. Where it is not possible to find private investors for all the investment and the later operation various forms of public-private partnership are available, with different degrees of involvement by private investors and official institutions in the individual projects (see project example Albania, next page).

Albania – Public-Private Partnership in Water Management

With a financing volume of thus far DEM 145 million, Financial Cooperation is the biggest donor in Albania's residential water management. The operations are not only directed at the renovation of dilapidated water supply and sanitation systems but also support the Albanian government in its efforts to reorganize the country's water management: the water utilities which have been managed as public agencies are being reorganized into municipal enterprises that are to operate on an independent economic and organizational basis. One important step in this direction was the elimination of the uniform national tariff structure in 1998, which used to hamper the coverage of even the current costs of operation. As the tariffs are now being adjusted gradually, the utilities are being put in a position to recover their costs and improve their consumer services. Albania is also receiving FC support in setting up an independent regulatory board for water supply and sanitation. Nevertheless, the need for restructuring the water sector in Albania is many times greater than the available donor funds. It would take decades to put a hygienically acceptable water supply and sanitation infrastructure in place throughout the country.

Albania: Cooperating with private enterprise in water management.

The progress achieved with FC support in the deregulation and commercialization has improved the prerequisites for private-sector commitment to such an extent that for the first time in Albania's history the concession for a water and sanitation utility is expected to be given to a foreign investor, the Berliner Wasserbetriebe (BWB). In autumn of 1999 KfW together with the BWB appraised a so-called "Build-Operate-Transfer" project (BOT) in Elbasan, Albania's third largest city with 140,000 inhabitants. BWB will provide a significant portion of the investment – in addition to FC funds – and will assume the technical implementation and operational responsibility for a term of 30 years. For this period the private investor should commit itself to contractually established supply standards at a reasonable level and ensure that tariffs will be collected that are affordable for the consumers. Specific socio-economic studies were carried out before this setup was arranged.

The active support provided under FC has created the conditions for mobilizing private capital for a country with a high investment risk – by acknowledged standards – and has contributed to reducing unsatisfied needs in a sector that is vital to the people of Albania.

Finally, as a bank KfW itself mobilizes private capital for the developing countries; it uses this to supplement the budget funds provided for development cooperation and offers it in the form of mixed and composite finance. The bank also makes market funds available for export and project finance. The possibilities for using combinations of market and budget funds are currently being further extended to suit the increasingly differentiated financing requirements of partners.

2. Increasing the effectiveness of development cooperation

In 1998 the World Bank published a study entitled "Assessing Aid" which aroused great interest. Its essential conclusion was the same as the central message in the evaluation reports which KfW has been publishing regularly since 1990: the success of development cooperation depends on the policy being pursued by the individual developing countries. Countries with a "good" policy (low inflation rate, budget discipline, reducing trade barriers) and "good" institutions (a low level of corruption, legal stability, effective administration) profit from the finance they receive. In countries with a "bad" policy and "bad" institutions development cooperation has little lasting effect.

Empirical evidence is available of the connection between the quality of the general conditions, the volume of development finance, economic growth and success in reducing poverty, and the message is clear and imperative: total development cooperation in the world in 1997 took about 30 million people permanently out of poverty. If the volume had remained unchanged at $44 billion a year but the distribution had been more efficient by the above criteria the number could have been increased to 80 million.

Another essential result of the study is that the effectiveness of official development finance in alleviating poverty cannot be judged only by the share of projects that are directly concerned with this (slum rehabilitation, micro-loan programmes, health care). It is crucial for the development funds to be used directly or indirectly in the context of efforts by the developing country to achieve a broadly based and lasting improvement in the living conditions of its people. An innovative programme of industrial pollution control can be more effective for health, the quality of life and life expectancy than a health project. A road construction project can open access to new markets, and with appropriate conditions it can have just as great, or an even greater effect, than a micro-loan programme, for instance, in promoting growth and employment and consequently increasing incomes for poor groups of the population. Structural effects beyond the project will be achieved where, parallel to financing road building or schools, for instance, innovative models are introduced to ensure that the buildings are maintained, incorporating the private sector and the users of the facilities (see project example Orissa, next page).

The conclusions reached in the study "Assessing Aid" are not new to bilateral Financial Cooperation but they are still relevant. It is KfW's experience that the factors determining the success of development finance are selectivity in the choice of qualified, reform-oriented partners, concentration on a few central areas of promotion in one country and continuity in cooperation over a long period. Only when these conditions are fulfilled will a serious dialogue develop on concrete steps in reform.

It is important to ensure that when the political decisions are being taken on the selection of the countries and sectors on which to concentrate, the criterion of need is not the only dominant one. The prospects of effective development should be the central consideration, and so the orientation of the government to reform should play a central part. It is an essential condition for success.

India: Cyclone Shelters in Orissa State

The state of Orissa is one of India's poorest regions. It is situated on the Bay of Bengal, where fierce cyclones ravage the land as many as four times a year. These storms sweep in from the sea at wind speeds of over 200 km/h and are accompanied by heavy rains. Tidal waves many metres high cause devastation in the low-lying coastal areas.

With the support of German Financial Cooperation the project-executing agency, the Indian Red Cross, erected 23 shelters at locations that offered no refuge for such emergencies. An important precondition was the willingness of the population to make contributions of their own by providing land, labour, and money for maintenance. The German Red Cross provided major support in developing the project conception and in its implementation. The 23 cyclone shelters, each of which offers protection for 1000 - 2000 people, consist of two-storey concrete buildings on pillars.

With this project FC made an important contribution to village development in the region. During the cyclone-free seasons the population can use the shelters as schools, kindergartens and youth clubs. The uses were devised together with the target groups. This way the project combines disaster-relief measures with activities to improve the village infrastructure and support the population's own initiatives.

The total cost of the project was around DEM 7 million. It was financed by an FC grant of DEM 5 million and by contributions from the German and the Indian Red Cross as well as the government of Orissa State.

In autumn of 1999, just in time before Orissa was struck by a powerful cyclone with wind speeds of 260 km/h, the last two shelters had been completed by local building contractors. The cyclone, which lasted for 17 hours and sent a tidal wave of several metres in height across the land, claimed about 10,000 lives. More than 40,000 people survived in the shelters. After the storm they served the purpose of emergency accommodation for the homeless and as distribution centres for relief goods.

In the cyclone-free season the shelters are used as schools.

3. Considering Tasks and Roles

A large number of national and international institutions are active in development cooperation. This pluralist organizational model requires intensive coordination and a **meaningful division of functions** between the various protagonists. A current example of this is the discussion on defining and delimiting the roles of the World Bank and the IMF.

A new initiative has emerged from the objective that is the driving force of development cooperation, the need to alleviate poverty worldwide, and the discussion this involves on the debt situation of the developing countries and how to relieve them of their debt. The new initiative is designed to give the developing countries more responsibility by focusing on reforms and improving the coordination of development finance. The *Comprehensive Development Framework* inaugurated by the World Bank is a notable attempt to go beyond economic aspects and formulate comprehensive development principles as the basis for a new strategy to combat poverty. The developing countries themselves are to draw up action plans to reduce poverty *(Poverty Reduction Strategies)*. The promotional strategies of the various donors are to be derived from these and coordinated with each other. The initiative is intended to lead to concerted and powerful action to help the developing countries. KfW is playing an active part in this process. To further an efficient division of operations the bank is already acting under mandates from a number of international donors in the execution of specific projects and programmes (see project examples Mathania/India and Bosnia, pp. 19 and 56).

Supporting the reconstruction of Bosnia on a mandate from the EU.

Another major issue in development cooperation is the roles and relative importance of **the state, the private sector and the civilian population** in the partner countries. Traditionally the state, the government of the developing country, is the partner in official development cooperation. Since the late 1980s different accents have developed in the policy recommendations by various UN organizations on the one hand and the Bretton Woods institutions (the World Bank and the IMF) on the other. The UN organizations were still relying on the governments playing a strong role in the development process, but the World Bank wanted to see the role of the private sector strengthened and so it has propounded the "lean state". The two groups have come closer in the course of the discussion (a qualified state must guarantee suitable general conditions for the private sector), and it has become increasingly clear that civil society must also be actively incorporated in the development process.

Taking into account not only the economic but also the social aspects of development is not new in German Financial Cooperation, it is an integral part of the political responsibility of Germany's development assistance. Financial Cooperation – like all official development cooperation – is based on agreements between states, between the German Federal Government and the government of the recipient country. Depending on the country and the attitude of the government this can restrict the choice of partner to execute the individual project. If the ideas on the roles of the state, the private sector and the civilian population change it should thus be reconsidered whether being tied to the state as the recipient of loans and grants is the best solution in any individual case.

India – Integrated Solar Thermal Power Plant Mathania

Solar thermal power plants: clean and efficient.

India has recognized the potential of alternative energy sources and has significantly improved the conditions for their use. Power from renewable energy sources fed into the grid fetches more favourable prices, and depreciation allowances and direct subsidies for investments in renewable energy sources are being granted in many states. A financing institution has also been established that today co-finances a considerable portion of investments in renewable energy in India.

In the solar thermal power plant to be financed, a heliostat field for solar steam generation is being combined for the first time with a conventional gas-and-steam-power plant and operated under commercial conditions. Under FC with India this is one approach to supporting the large-scale utilization of renewable energy. The project is located in the state of Rajasthan.

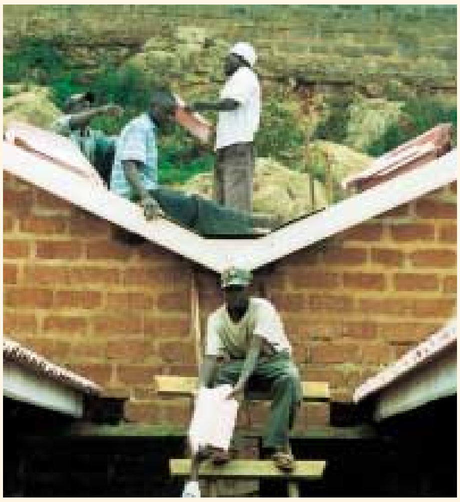
All over the world gas-steam power plants, so-called combined cycle power plants, are increasingly being built as they are particularly energy-efficient. The technology for solar thermal steam generation has been in use for around 10 years in California. What is innovative is the combination of both technologies. The steam produced by both the heliostat field and the waste heat boiler of the gas turbine generates electricity in a single steam turbine. The capital costs are lower than those of a purely solar thermal facility. Power generated from solar energy becomes more competitive. The integrated solar thermal power plant with a total capacity of approx. 140 mega-watts (MW) will have a solar thermal capacity from a heliostat field of around 35 MW. The power plant is to be operated by a private firm in the first five years.

The cost of the project, which reduces air pollution while achieving economically acceptable power generation costs, is around DEM 400 million. Approx. DEM 250 million is to be financed from an FC composite loan. A further USD 45 million will be made available from the Global Environmental Facility (GEF) through the World Bank. These funds too are to be extended through KfW as mendatary of the World Bank. This makes KfW the first bilateral institution to be entrusted by the World Bank with the handling of GEF funds.

Kenya – Slum Rehabilitation Mathare Valley

Around half the population of Kenya's capital Nairobi, more than one million people, live in slums. One of the most densely populated slum areas is Mathare Valley, located near the city centre, with around 100,000 inhabitants, most of whom are tenants. To improve the housing conditions of the poor people living there, FC funds totalling DEM 13 million have been made available since 1992. These funds are being used by the project-executing agency, the archdiocese of Nairobi, to carry out improvements in the construction of roads and paths, sewage and waste management, and the housing units themselves.

The ownership of the site on which the slum is located has been transferred to the archdiocese of Nairobi, thereby ensuring the social orientation of the project. This measure also rules out real estate speculation. The slum residents continue to be tenants. Previous owners of the shanties are receiving compensation. To ensure that the slum residents are not displaced the archdiocese pursues a fair rent policy based on the slum residents' incomes.


People help themselves in housing construction.

Mathare Valley has become a model for poverty-oriented sustainable housing development in African cities. Following initial scepticism, the archdiocese of Nairobi as project-executing agency has succeeded in encouraging the poor slum inhabitants to identify with the project by involving them in the planning, implementation and maintenance. The rent received contributes to the sustainability of the project.

Laos – Paving the Way for Commercial Financing

Having a telephone within reach was a rarity just a few years ago, particularly in rural areas of Laos. In the past years German Financial Cooperation with Laos has contributed significantly to the expansion of the telecommunications network across the country. Under various projects KfW has provided funds totalling DEM 28 million. At the same time the staff of the project-executing agency were trained and the government of Laos was supported in setting up a regulatory board for the telecommunications sector. This way the prerequisites were created for a successful partial privatization of the previously state-operated telephone company.


Creating the conditions for successful privatization by expanding the telecommunications network.

In the course of the privatization a Laotian-Thai joint venture was established in which the Thai enterprise holds 49% of the shares. This joint venture operates the Laotian telecommunications network and is expanding it further. The FC-financed investments in basic infrastructure, the training of executing-agency personnel, and the measures for improving the sector conditions should also provide access to commercial financing schemes at a later stage.

Cross-Border Cooperation in Nature Conservation in the Balkans

In the border region between Macedonia, Albania and Greece lies an important conservation area with the Lakes Ohrid, Prespa and Mitri Prespa, all three surrounded by mountains. Lake Ohrid is the oldest lake in Europe. The region offers unique flora and fauna as well as cultural monuments. It was declared a world cultural and natural heritage site by UNESCO in 1980. Its great touristic potential cannot be used for the benefit of sustainable economic development unless nature is protected effectively. This was not done in the past for lack of co-operation between the neighbouring countries. The result: the lakes are heavily polluted with untreated sewage and intensive land use is leading to progressive deforestation.

International donors, including Germany, Switzerland and the World Bank, today support the riparian states in protecting the region. A joint institution of all three countries, the „Lake Ohrid Management Board“, whose members have equal voting rights, has begun its work and is a positive example of cross-border cooperation in the Balkans.

In order to tackle the main problems of the lakes, the untreated effluents, considerable investment is necessary on both sides of Lake Ohrid. German FC funds totalling DEM 46 million have been allocated for renewing or building sewage treatment plants and sewerage systems on the Albanian and Macedonian side. KfW agreed with the partners that the water utilities, which act as project-executing agencies, will be converted into independent, commercially oriented enterprises that will be capable of operating the facilities on a sustainable basis.

For the purpose of improving drinking water supplies in the region as well, KfW is seeking a co-financing with European institutions. In addition, the German side is also planning to finance protective measures for the other two lakes connected with Lake Ohrid.

An unusual development has begun in the Balkans. What is becoming apparent is a growing environmental awareness that expresses itself in the willingness of the countries to invest scarce funds from development co-operation in environmental projects. Given the current economic problems of these countries it is unusual that a certain financial burden is also being accepted for the sake of sustainable development. This includes increased water and sewage tariffs required for the operation of the new facilities, and restrictions imposed on farmers and fishers in the region. Both Albania and Macedonia are prepared to implement measures that benefit the other country instead of holding each other responsible. They give the other country a right of co-determination in the management of the shared resources. By supporting this cooperation German FC is also contributing to crisis prevention. The neighbour countries learn in their common interest to work on a specific problem together. This creates confidence.

The Cambodian NGO ACLEDA supports female entrepreneurs with micro-loans financed under FC.

In practice private sponsors have been receiving FC funds for a long time as well as state institutions, that is, commercial enterprises and non-governmental organizations. Private sponsors and operators are increasingly emerging in areas that for a long time were government domains, especially energy and water supply and education and health (see project example Social marketing of contraceptives in Pakistan, p. 23). FC is playing an important role in the transfer of tasks performed so far by the state to the private sector. As the example of water supplies for Elbasan in Albania shows (see p. 15) this can make the risks of the transitional phase acceptable to both sides.

Another consequence is that if the state is not regarded as the primary vehicle of development the question of the conditions of finance takes on a new dimension. In the past the conditions for official development finance were oriented mainly to per capita incomes in the recipient country in regard for the ability to service the debt and the intended transfer of resources. The “poorest countries“ were given grants while “less poor countries“ were offered loans at favourable terms. Technical assistance and emergency assistance are on principle donated. The preferential conditions regularly benefited the state budget in the recipient country to a larger or lesser extent. If the state, the private sector and the civilian population are seriously to be considered as independent and equal protagonists, much suggests that the financing conditions should be **differentiated according to the project.** Grants and reduced interest rates should be made available to the project-executing agency and the recipients in individual cases, they should be specifically targeted and tailored to meet individual needs.

More **flexible financing conditions** can mobilize more funds for reform-oriented and more advanced developing countries, without infringing the standards of development policy. This will also help to secure the weight of German FC.

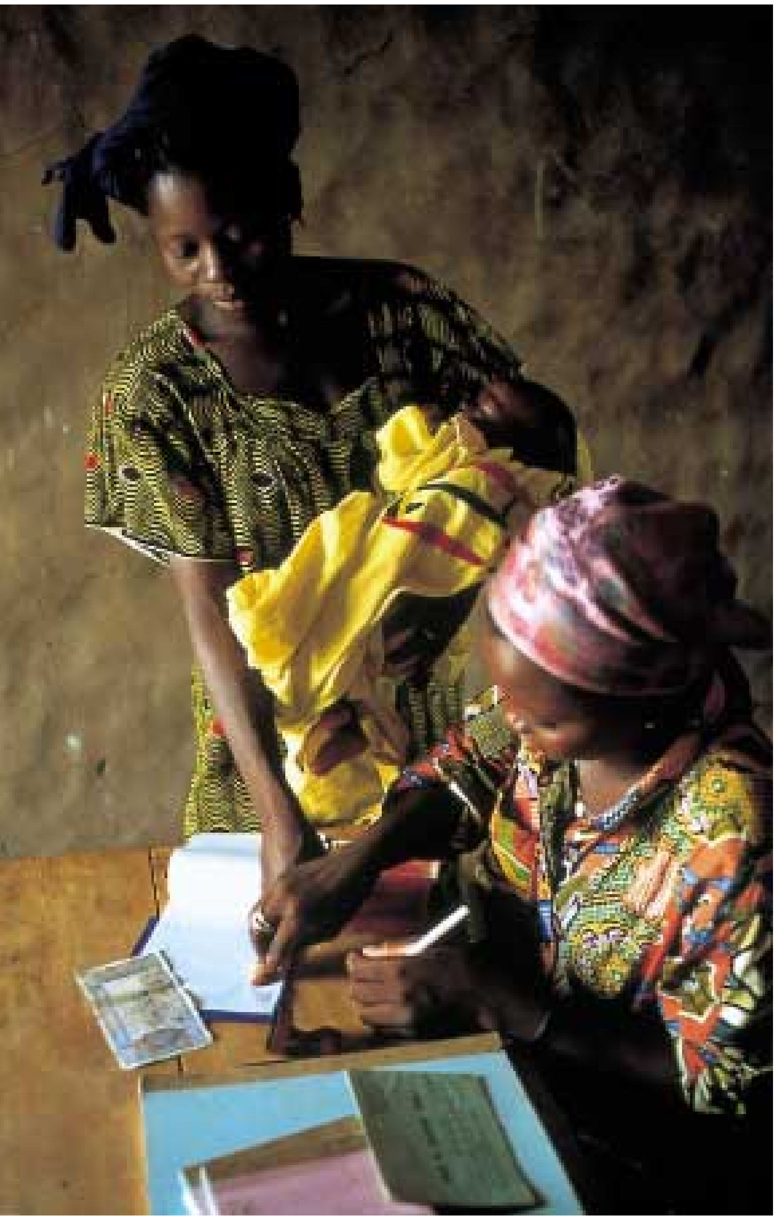
In development cooperation KfW can offer the **full range of finance,** from grants to loans at market conditions. It therefore opens a **pathway in development** for suitable project-executing agencies from concessionary finance to commercial loans, where these are justified in development policy and by market conditions.

Pakistan – Promoting Family Planning through “Social Marketing”

At its current growth rate, Pakistan’s population of more that 140 million people would double in the next 30 years. This Islamic country over the past few years has adopted family planning measures that have been meeting with acceptance, particularly in the towns and cities. The Pakistani non-governmental organization „Social Marketing of Pakistan“ (SMP), which is being supported by KfW with FC funds of DEM 48.5 million, has assumed the task of promoting this family planning. This is being done on two levels: SMP is strengthening the private health care services by providing concrete assistance to form a network of doctors, midwives and pharmacists („Green Star Clinics“), who offer qualified counselling on reproductive health. SMP is also offering contraceptives for sale at affordable prices, not only through this network but also through regular commercial channels.

This strategy has proven to be successful. Over 2,000 health service units are now members of the network of Green Star Clinics. The condoms distributed by SMP have a nationwide market share of around 72 %. Hence, German Financial Cooperation, in cooperation with an NGO, has made a significant contribution towards reducing the birth rate (from around 3 % to approx. 2.6 % today) and lowering the infant and maternal mortality rate.

Social marketing makes contraceptives affordable and promotes family planning.



Conclusions for German Financial Cooperation

The debate on the future of development finance is still in the initial stages. A full discussion is needed in view of the major changes in conditions in the world economy.

German FC is also facing new challenges from the reduction in budget funds, the limits of its traditional range of instruments and rapidly growing trade, information and finance flows.

FC starts where the market fails, or is not yet functioning well enough. In cooperation with its partners it helps to shape their projects through the instrument of long-term investment finance. As well as providing funds the bank makes a contribution to reforming structures and developing systems.

Through cooperation, setting main focal points and accepting commissions from other institutions under mandates KfW makes a contribution to a more efficient international division of tasks.

In financing with composite funds and market funds, in helping to develop the financial sector and promote the private sector, KfW has developed innovative approaches in recent years and is trying these out in practice. The purpose of further developing the range of FC instruments is to use public funds sparingly and efficiently. It is the bank's aim to use official funds as a catalyst to open up private resources from a wide variety of sources and so improve the living conditions of the people in partner countries.

Côte d'Ivoire – Sector Reforms in Agriculture

After independence in 1960, Côte d'Ivoire pursued an economic policy that relied heavily on the production of coffee and cocoa for exports, which was successful until the mid-1970s. Côte d'Ivoire became the most important country for the economy of the West African FCFA currency union. From the mid-1980s, however, the country fell into a deep crisis. One reason was the slump in world market prices for the main export commodities of coffee, cocoa and cotton. Another reason was that a policy that speculated on a renewed increase in world market prices and hampered the competitiveness of domestic agricultural production through state interventionism proved to be extremely damaging. In addition, the attempt to support state-guaranteed prices for farm produce through borrowing in order to cushion the negative effects of falling world market prices for cocoa on the farmers ended in disaster. The structural adjustment policy then introduced rectified these deviations. It was complemented by a massive devaluation of the FCFA in early 1994.

The adjustment programme in the agricultural sector, which was supported with an FC loan of DEM 29.5 million until the end of 1999, achieved substantial improvements. These included, among other things, the elimination of import quotas and guaranteed prices and the restriction of the state to its normative and regulatory functions. Decisive for this success was the closely coordinated and consistent action of all participating donors.

Thus, state monopolies on imports (rice) and exports (coffee/cocoa) were dissolved, with positive price trends for farm produce in the country. As a result, the producer prices for rice increased strongly; for coffee and cocoa the shares of producers in the export revenues rose drastically. Significant advances were also made in the institutional area, including one that was decisively influenced by the German side: KfW was able to convince the Ivorian Ministry of Agriculture to abandon its plans for a state „super agency“ for rice cultivation. Five years later it was clear to all parties involved that the rice sector developed very positively precisely because no such agency existed.

Sector reforms strengthen agriculture in the interest of the producers.

A Bank for Kosovo

When KfW accepted the challenge of reconstruction in Kosovo in the summer of 1999, the region of 11,000 km^2 was facing enormous problems. War and the repression of earlier years had left deep traces. Its people were lacking the bare necessities. The infrastructure was run down if not destroyed. Farming had ceased. Industrial production facilities were standing still. In the face of this dramatic situation the BMZ offered help to meet the needs of the people through KfW under FC. By the end of 1999 FC funds totalling DEM 25.2 million were made available from the Balkan Development Fund established by KfW. Already since November 1999 these funds have been employed to repair and modernize the drinking water supplies of small towns such as Prizren. Open-pit lignite mines have received excavators, push loaders and pipe layers, thereby temporarily securing the fuel supply of two power plants and preventing the total breakdown of power supplies.

Besides emergency assistance of this kind to repair the infrastructure, however, it is necessary to help the affected people to help themselves. Craftsmen, farmers and entrepreneurs require capital if they are to resume their operations. But without independent, efficient and uncorrupted financial institutions such a „take-off“ will not succeed. The international and national funds must be transferred and lent in the form of small loans tailored to local needs. Without the appropriate structures this is a difficult if not even impossible endeavour. Such was the situation in Kosovo: no bank has survived the war. KfW closed this gap and laid the foundation for regenerating the financial sector of Kosovo. With FC funds it initiated the founding of the Micro Enterprise Bank Kosova (MEBK) and organized the training of its staff. In January 2000 the MEBK opened its doors as the first bank of Kosovo after the war. Already one month later its first branch office in Prizren began operating. Further branch offices will follow.

Fast reconstruction in Kosovo through FC: repairing the drinking water supply in Prizren.

The FC funds made available by the BMZ were used to pay in 21.7 % of the equity of MEB through a foundation. Other shareholders are Commerzbank AG, the Dutch Development Bank FMO and the private Internationale Micro Investitionen AG, as well as the World Bank subsidiary IFC and the European Bank for Reconstruction and Development through their respective holdings in MEB Sarajevo.

KfW’s commitment in the creation of the MEBK has shown that it is possible, even under the difficult conditions of an acute emergency situation as has been the case in Kosovo, to act swiftly while achieving lasting structural effects.

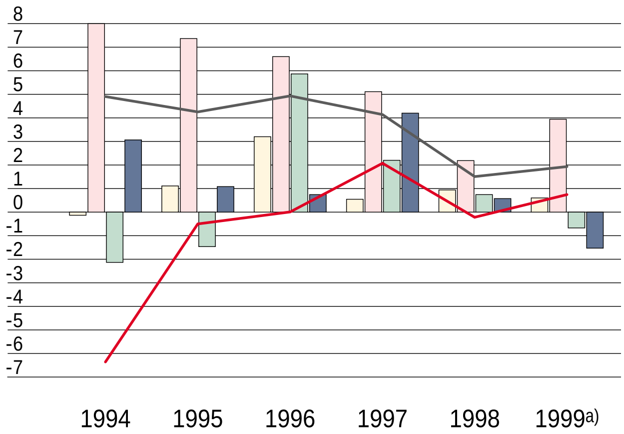
3 REGIONAL SURVEY

The Situation of the Developing Countries

Average economic growth in the developing countries accelerated slightly in 1999, according to preliminary estimates, to 3.5% after 3.2% in the previous year. So the gross domestic product (GDP) in the developing countries rose only slightly more in real terms than in the industrial countries (see Diagram 1). Owing to the higher population growht, average growth in per capita income was again lower in the developing countries than in the industrial countries in 1999, at +1.9% compared with +2.2%.

The increase in economic growth in the developing countries in 1999 was mainly due to the recovery from the crisis in South-east Asia. As international competitive positions improved following real currency devaluations and the start of important reforms in some Asian countries, particularly in the financial sector, per capita incomes in Asia rose again in 1999 by just 4%. So among the various developing regions Asia again had by far the highest average growth rate (Diagram 2). However, many countries were not yet able to regain the growth rates of before the crisis in 1997/1998.

Diagram 2:
Real Annual Growth Rates in GDP per Inhabitant in Developing and Transition Countries 1994–1999 in %

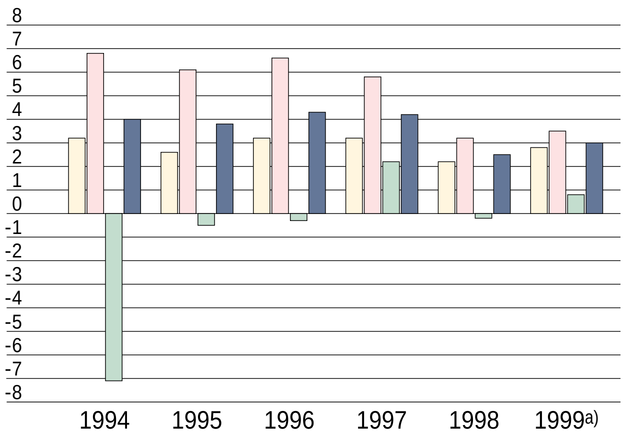


- All developing countries
- Africa (without Egypt and Libya)
- Asia (without the Middle East)
- Middle East (incl. Turkey, Malta, Egypt and Libya)
- Latin America and the Caribbean
- Transition countries

a) Estimated

Source: International Monetary Fund, World Economic Outlook (WEO)

Diagram 1:
Real Annual Growth Rates in GDP 1994–1999 in %



- Industrial countries
- Developing countries
- Transition countries
- World economy

a) Estimate

Source: International Monetary Fund, World Economic Outlook (WEO)

In Latin America the development stagnated in 1999, mainly due to the crisis in Brazil at the start of the year. Per capita incomes actually fell on average in this continent by 1.5%. In Africa, after the welcome development in the previous year, economic output per inhabitant, which was low to begin with, rose only slightly (+ 6%) in 1999, partly owing to military conflicts and the disadvantageous trend in important raw materials prices for many countries.

After a process of contraction lasting several years up to 1996, slight growth in 1997 and a renewed fall in 1998, the transition countries as a whole again showed slight growth of + 1% in 1999, in both absolute terms and per inhabitant. The improvement over 1998 was mainly due to the slight growth in GDP in Russia following the strong rise in export earnings on oil and gas. By contrast, the very dynamic growth

Poor regions are bypassed by private investment.

rate in most of the reform-oriented countries in Central Europe and the Baltic slackened in 1999 to 1% to 3%.

The year 2000 is expected to bring a further recovery in the world economy as a whole, particularly due to the upswing in Europe and slightly better prospects for Japan. The developing countries as a whole will also profit from this, although again to very different degrees. If the stabilization that has been evident in Latin America since the middle of 1999 continues, a rise in growth is to be expected there as well.

On average for the last two decades, of the developing continents only Asia has achieved a high real growth rate in per capita incomes, at a good 5% a year. So the developing countries in this continent have been able almost to triple their per-capita incomes in real terms in twenty years. But in Africa real per capita GDP has fallen by nearly 30% since 1980. According to World Bank estimates the number of poor people in the developing countries and the transition countries who have less than 1 US$ a day was just as high in 1998, at 1.2 billion, as in 1987 In East and Southeast Asia the number of poor people fell from 1987 to 1998 by one third to 280 million (from just under 27% of the population to 15%), despite the financial crisis in 1997/98. During the same period poverty also declined on average in South Asia (from 45% to 40%). In absolute terms, however, the number of poor people in South Asia grew further.

Despite all the efforts made in development cooperation it has not, practically, proved possible to reduce the great poverty which still predominates in Sub-Saharan Africa. The absolute number of people who have to survive on an purchasing power of less than 1 US$ a day actually rose there from 1987 to 1998 by one third to 290 million people.

But these average figures for major regions conceal considerable subregional differences. In Sub-Saharan Africa, despite the disappointing development as a whole some reform-oriented countries, like Botswana and Uganda, have achieved high economic growth in recent years and made good progress in alleviating poverty.

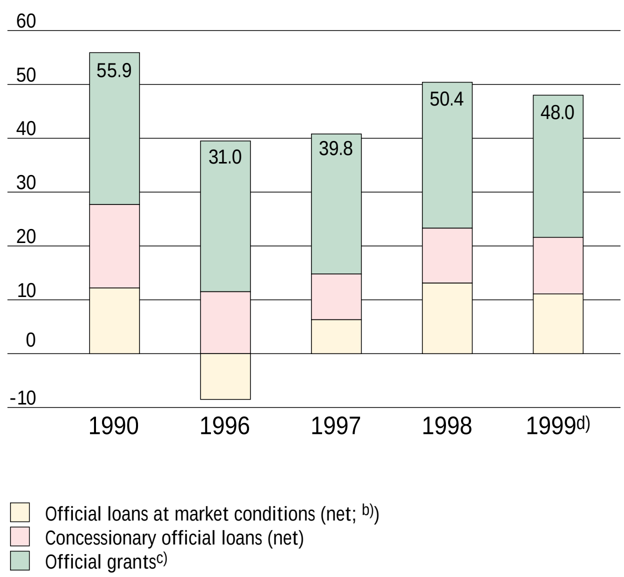
International Development Finance

The total volume of *long-term* private and official net capital flows (disbursements minus redemptions) to developing countries and transition countries fell in 1999 over the previous year by 13% to US$ 270 billion. Of this amount US$ 222 billion (82%) was private capital flows (after US$ 260 billion in 1998). By far the most important component of the private capital flows was foreign direct investment, which accounted for about 82% of private net flows to developing countries and transition countries in 1999 (after 63% in the previous year).

Since 1990 foreign direct investment to the developing countries and transition countries has risen to almost eight times its value at the start of the decade. Through the transfer of technical and economic know-how which direct investment brings this investment has made a major contribution to sustainable development in the recipient countries. However, foreign direct investment is characterized by strong concentration on a few developing countries and there on areas hat are of commercial interest. For many particularly poor countries without major raw materials resources it plays hardly and part at all. But even in some developing countries with better conditions certain regions and areas are largely ignored by private direct investors. For these countries, regions and sectors the official (bilateral and multilateral) capital flows are still essential.

Nevertheless, in 1999 official flows to developing countries and transition countries fell by 5% to US$ 48 billion. A good half of this amount was grants, which are important particularly for the poorest countries in Africa (Diagram 3).

Diagram 3:
Official Capital Flows to Developing Countries and Transition Countries in US$ billion[a)]



a) At current prices and exchange rates
b) Not including IMF loans
c) Not including ODA flows under Technical Cooperation (1999: US$ 15.9 billion)
d) Estimated

Source: World Bank, Global Development Finance (GDF)

While grants are given mainly by bilateral donors, multilateral donors accounted for 76% of concessionary loans in 1999 (after 68% in the previous year and 38% in 1999).

The countries in Black Africa received about 35% of the total grants and concessionary loans in 1999, bringing official aid to these countries to 4.2% of GDP (compared with 0.6% on average for all the developing countries and 0.8% in South Asia).

Debt

The total external debt of the developing countries and transition countries rose slightly in 1999, according to preliminary estimates by the IMF, to US$ 2,298 billion. The relation of interest and redemption payments to export earnings (the debt service ratio) remained on the same level as in the previous year for the developing countries at 27%. In the transition countries it rose to 20% (after 18.4% in the previous year). Of the major regions Latin America still has by far the highest debt service ratio at 55%, followed by Africa, where the debt service ratio rose by 4.1 percentage points in 1999 to 28.3%. By contrast, the debt service ratio in Asia fell markedly with the economic recovery and higher exports, to 15.7%.

As the burden of debt exceeds economic output, particularly in many of the poorest developing countries in Sub-Saharan Africa – despite numerous reschedulings in the past – the G7 summit in Cologne in June 1999 agreed to write off debts beyond earlier plans. At the annual meeting of the IMF and the World Bank in the autumn of 1999 details of the basic decision by the heads of state and government were laid down. Unter this agreement about 30 highly indebted poor countries (HIPCs) are to be relieved of a large part of their debt as soon as possible under the HIPC II Initiative – provided that they pursue a policy of sustained poverty alleviation.

ASIA

Regional Development

After the severe economic crisis of the two previous years 1999 brought a surprisingly rapid recovery in East Asia. Economic growth reached more than 5% on average. South Korea was in the lead with an increase in economic output of more than 10%. Indonesia, on the other hand, was only just able to maintain the low GDP of 1998 in the unstable political restructuring phase. Most of the other countries in the region achieved economic growth of 3.5% to 5.5%, with the cyclical trend steadily improving as the year progressed. In China the development was marked by recessionary tendencies and deflation, despite official growth figures of more than 7%. Only in the second half of the year was a reversal of this trend evident. Vietnam, like China, suffered from the indirect repercussions of the Asian crisis in 1999, but even more from its own unresolved internal structural and transition problems.

The rapid recovery in Asia is due mainly to rising official expenditure as part of an expansive fiscal policy. The renewed growth in exports thanks to the continued boom in the United States also had a positive effect. In the course of the year this enlivened consumer demand and investment activity. Owing to the depressed demand for imports some countries in the region achieved considerable surpluses on current account in 1999, and this favourable development in foreign trade and payments enabled some to build up their foreign currency reserves. South Korea and Thailand were actually able to refrain from drawing on part of the IMF funds promised as crisis assistance and reduce their external debts.

Market in Cambodia.

Despite this welcome economic trend in 1999 the Asian crisis is by no means overcome. The restructuring and reorganization of the banks and companies caught up in the crisis, and the necessary legal and institutional reforms, are far from completed even in the countries most eager to reform. These tasks will occupy Asia for years to come and limit the potential for growth there.

South Asia has been one of the strongest growth regions in the world for some years, and this development continued in 1999 with a rise in average GDP of 5.4%. On per capita basis as well – with population growth of 1.9% – this was very notable. However, large groups in the region's population have not profited from the economic growth – 40% of the people in South Asia (522 million people) are still living below the poverty line, on an income of less than 1 US$ a day. So policy must place even higher priority on a more efficient use of the available resources, creating more jobs and economic growth that is environmentally compatible. This will require a clear improvement in the general conditions.

In most of the countries in this region the reform processes that were initiated in the 1990s have ceased to make progress, nor was there any noticeable stimulus in 1999. This applies to India, where reforms came to a standstill in 1999 after a government crisis. The new government is in a stronger position after the elections and is expected to make a new start on reform. In Pakistan the old government under Sharif showed little readiness to reform, and the military government which took over in October 1999 has not so far brought a convincing new direction in economic policy. The other countries in the region also hardly succeeded in moving beyond the successful earlier reforms and tackling the long

In South Asia vast parts of the population still live below the poverty line.

list that is still outstanding. But this is the key to economic and social progress. Financial Cooperation still has the important task here of supporting these countries in their efforts at reform and helping to shape the process.

For most of the countries in Central Asia external conditions improved noticeably in 1999. The renewed rise in the world market price for crude oil brought a growth in export earnings for the oil-producing countries and improved their payments balances. In addition, the crisis that broke out in Russia in the summer of 1998 affected the region less strongly and for a shorter period than was originally feared. The development in internal conditions was less positive. Further stimulus to reform beyond the transition already achieved was hardly evident in 1999, although in Central Asia particularly there is considerable need for more far-reaching political change, with greater orientation to the market economy. Against that background Financial Cooperation will face the difficult task of supporting partner countries in Central Asia in their transition process in future too by improving the economic and social infrastructure and working through dialogue for reform of sectoral conditions.

Country Example: China

CHINA	
Area	9,597,000 km^2
Population	1.25 billion
Population growth	1.1% p. a.
Gross domestic product	US$ 929 billion
Economic growth rate	7.1% p. a.
Per-capita income	US$ 750 p. a.
Live expectancy	70 years
Literacy rate	83%
Per capita debt	US$ 125

Two decades of market economy reforms and a policy of opening to international influence have brought China extraordinary economic and social success. The reforms started in agriculture when collectively owned land was leased to family farmers and the rural people's communes were dissolved. Outside the state sector "town and village enterprises" were allowed in order to absorb the labour made redundant in agriculture. In the early phase of the reforms, at the start of the 1980s, the first experiments in opening to international influence were made in special economic zones in selected coastal towns. For the urban industrial sectors an extensive reform programme was introduced in the mid-1980s. Other milestones along the path of reforms came in the 1990s when the tax system was changed, as were land and commercial law, the labour market and the banking sector. Foreign exchange transactions, foreign trade and foreign investment were also made easier. Finally, in 1999 came the constitutional guarantee of private ownership of the means of production.

The search for its own "third way" between the centralized, dirigistic state and a strongly capitalist economy is typical of China's reform policy. In effect, the route has led to the coexistence of very different models to serve the objective of a "socialist market economy" introduced in 1992. In contrast to other transition countries China has so far been able to avoid social crises and serious breaks in economic output. Economic growth of nearly 10% p.a. for the last two decades has brought per capita income (US$ 750 in 1998) up fourfold since 1980. The level of supply and the standard of living of broad sections of the population have improved particularly in the prosperous coastal regions, but there have also been improvements in the less favourably situated inland provinces. China has been one of the most successful countries worldwide in alleviating poverty in the last twenty years. Other indicators of social development have also greatly improved, and most are above the level of countries with comparable per capita incomes.

Financial Cooperation ensures sewage disposal.

At the start of the reform period China was almost completely isolated but it now occupies tenth place in international trade, and since it is by far the biggest recipient of foreign direct investment among the developing countries it is highly integrated in the world economy.

Despite these successes China is currently going through a very critical development phase. Cyclical and structural problems overlay and mutually intensify each other. The cyclical weakness of the last two years was only partly caused by the

indirect effects of the Asia crisis in the form of stagnating exports and declining foreign investment. More serious are the “homemade“ structural problems: capacity overhangs in many sectors as a result of the unrestrained expansion of credit in earlier boom years, overstaffed and inefficient state enterprises, the high level of insecure loans by state banks and the chains of borrowing between enterprises and banks.

The efforts gradually to solve these central problems are causing urban unemployment to swell. Pressure from the rural unemployed or under-employed, large numbers of whom are flooding into the towns as migrant workers, is causing further problems. So it is urgently necessary to build up social security systems outside the companies and develop a private housing market to take some of the burden of social expenditure and costs off the state enterprises (on the “principle of the iron rice bowl“). Another urgent political task is to stop the growing prosperity gap between the inland and coastal provinces; this is to be achieved by more intensive promotion and measures to open up the western parts of the country that are less advanced.

Serious problems are also resulting from the heavy strain on and damage to the environment. Some of this is a burden inherited from the old central planning system, with its high consumption of resources through the use of obsolete technologies, a misdirected location policy and excessive exploitation of natural resources. But part of the problem is also due to the high level of economic growth and the growing prosperity.

Other important reform and development tasks in China are to ensure adequate food supplies for the growing population in view of the already evident shortage of arable land, to improve the level of education and training, to reduce infrastructure bottlenecks, to promote labour-intensive small and medium-sized enterprises, to strengthen the taxation basis, to develop markets for national and foreign capital and, finally, to liberalize foreign trade and direct investment further in view of China’s coming entry into the World Trade Organization.

The urgently needed reforms will pose major challenges for China in the next few years, and coping with them is also of great international interest. Entry into the WTO will give China better chances to increase its exports and attract

Wind energy is an effective way of tackling environmental problems.

foreign investment, but it will also strengthen international pressure to implement the reforms rapidly. In this China will still need international consultation and financial support, although it has great potential of its own.

Financial Cooperation with China

Since Financial Cooperation with China started in 1985 the Federal Government has committed budget funds totalling DEM 3.8 billion in the form of loans at favourable interest rates or as grants. In addition to the budget funds market funds of DEM 1.3 billion were mobilized and used by KfW in mixed and composite finance. Initially mainly projects to modernize the obsolete industrial and telecommunications sectors were promoted, then in the early 1990s promotion was directed to making the infrastructure more environmentally compatible and protecting the environment; economic reforms were also supported. Financial Cooperation with the People's Republic of China is concentrated on areas where Germany has special experience and internationally acknowledged know-how and where comparable approaches to solutions and modern technologies are not available in China: environmental technology, energy supplies, rail transport, domestic water supplies and waste disposal, reforestation and credit lines for non-governmental enterprises. The FC telecommunications projects that have now been successfully completed have prepared the way for extensive private foreign investment and commercial finance in this sector.

Making the use of energy more efficient

China is the greatest consumer of coal worldwide; it is also the greatest emitter of sulphur dioxide and the second greatest emitter of carbon dioxide. Inefficient energy production and use are the main causes of the high level of air pollution. The effects are particularly marked in the towns in China, and some are evident even in neighbouring countries. The air pollution is mainly caused by the high share of coal in electricity generation (75%) and the use of obsolete technology. FC projects are helping to alleviate the environmental problems in the energy sector through desulphurization of smoke, by modernizing turbines, purifying coke-oven gas and expanding the use of combined power and heating and wind energy.

Ensuring drinking water supplies and waste disposal

In domestic water supplies and waste disposal FC is going particularly to the densely populated eastern parts of China, where the situation is marked by a shortage of drinking water, falling ground water levels, highly polluted surface and coastal waters, growing mountains of waste and deposit problems. Altogether six drinking water projects and nine sewage treatment plants are being financed in medium and large towns, as have communal waste disposal programmes around the Huai and Yangtze rivers. A project to separate, compost and deposit domestic waste has also been financed in Beijing. Generally the Chinese partner provides a considerable share of the project and the German contribution is concentrated on importing modern technology and transferring know-how for the operation and maintenance of the facilities. Generally the FC commitment in this area is accompanied by intensive dialogue with the partners on the introduction and design of charge rates and fees for use.

Providing environmentally friendly transport technology

In the transport sector the introduction and spread of environmentally friendly concepts and technologies has become urgent. Transport facilities in China are growing at a very rapid rate. The energy consumption of the transport sector and the consequent strain on the environment are also rising at a correspondingly rapid rate. To counter this urgent environmental problem FC projects are promoting modern, environmentally-friendly transport technology. So far building up local rail systems (underground railways) has been financed in the big cities of Shanghai and Guangdong, as has the electrification of the railway line between the industrial and transport centres of Harbin-Dalian in the northeast of the country. These projects have also entailed the transfer of know-how and the construction of Chinese production plant for parts of the systems in cooperation with German supplier firms.

Supporting an extensive afforestation programme in the PR of China.

Loans to support small and medium-sized firms

Under Financial Cooperation credit lines are made available for Chinese banks to enable them to finance imports of plant and machines by small and medium-sized private firms. Supporting this particularly dynamic corporate segment is extremely effective in encouraging economic growth. At the same time the FC loans play a big part in the process of restructuring the state enterprise sector and alleviating the employment problems. In so doing they are flanking the economic reform and transition process.

Supporting large-scale afforestation initiatives

China’s forests have been decimated by centuries of timber felling. Soil erosion, growing danger of flooding, disruption to the water cycle and desertification are the serious ecological results. In order to counteract the damage to the forests Germany, as the biggest bilateral donor to China, is supporting the extensive afforestation programmes of the People’s Republic of China. As the individual projects are mainly in poor regions and the population of small farmers is involved in their execution and use, these projects are also helping to alleviate poverty. FC grants have helped to implement forest protection programmes in 14 provinces in the north of China and on the upper and middle Yangzte. Altogether areas of around 450,000 hectares – nearly twice the size of Luxembourg – are being replanted or placed under protection order to enable natural regeneration. The projects are also introducing model modern forestry methods. Planting sustainable mixed woodland, involving the local population in the planning and execution, and the promotion of private forestry on the basis of long-term contracts for use are central elements in these projects.

SUB-SAHARAN AFRICA

Regional Development

After satisfactory growth in the mid-1990s Sub-Saharan Africa had only weak economic growth in 1999 at around 2.5%. This was of the same order as the average growth in population in the region, so that per capita income stagnated. The major economies of South Africa and Nigeria in particular contributed to the low average, as they were still suffering last year from the repercussions of the difficult conditions in the world economy. In South Africa interest rates rose markedly following the Asia crisis, bringing a loss of growth in the capital-intensive sectors in the first half of 1999. Nigeria recovered only slowly from the fall in crude oil prices in previous years.

But in the other countries in the region there were tendencies to a stronger upward movement, fuelled by exports. Here gross domestic product rose by 3.2% on average for 1999 and export earnings by 4.3%; the deficits in balance of payments were almost halved. Regional associations are being formed in West, Central, East, Southern and Southeast Africa to promote economic integration, overcome the limits of the national markets, and reduce the extreme dependence on exports of primary goods and fluctuating world market prices. The countries in the West African economic and monetary association have already achieved considerable steps in the liberalization of foreign trade and payments. But if they are to profit more from the dynamic world market most African countries need to diversify their economic structure more and further reduce the obstacles that still exist to investment, for foreign capital as well.

The region suffered from armed conflict and political unrest in 1999 as well. Old conflicts that were still smouldering flared up again in the Horn of Africa and Angola, while the conflict in the Democratic Republic of Congo increasingly involved neighbouring countries, too. But there were also glimmers of hope in earlier conflict regions. Nigeria is making further progress on its democratic path and in the crisis-torn countries of Sierra Leone and Liberia the warring parties slowly began to edge closer to peace with the help of the United Nations.

Experience has shown that individual countries can successfully activate their potentials through good governance and clearly defined and coherent development objectives. Mozambique, for example, Uganda and some countries in the FCFA zone have achieved considerable success with reforms, and more governments are beginning to reform the in-

efficient public administrations. The widespread corruption that hampers development is increasingly becoming a matter of public concern. In Kenya, for example, an anti-corruption authority was set up under the direction of an independent former judge to combat corruption in authorities and ministries. The new government of Nigeria has declared publicly that it will combat corruption and has already taken the first steps. Leading personalities in Cameroon and Côte d'Ivoire have had to quit office on the grounds of being involved in corruption.

Widespread poverty is still a major problem in sub-Saharan Africa. Around 40% of the population are still living on less than one US dollar a day. Investment in drinking water supplies and schooling in recent decades has improved living conditions but the result is still unsatisfactory. Only 56% of the people on average can read and write and only just under half have access to clean drinking water. The population is expected to continue growing at a high rate in future as well and further efforts will still be needed to build up the social services.

It is becoming ever clearer that AIDS is one of the central obstacles to development in Africa. 37.5 million Africans, or around 6% of the population, are believed to be infected. Southern and eastern Africa are particularly affected and here life expectancy, which is already low, could fall by up to 14 years in the next decade to 45. German FC is committing more than DEM 100 million for preventive projects to help these countries cope with the deadly immune disease.

By decision of the G7 governments at the Cologne summit in the summer of 1999 about 30 highly indebted African countries are candidates for release from a large part of their debt (under the HIPC II Initiaitve). When these countries have fulfilled the conditions this debt release can amount to up to 80% of the total worldwide debt release, at US$ 27 billion. The total indebtedness of African countries is US$ 227 billion (1999).

Financial Cooperation supports private enterprise.

In Sub-Saharan Africa, too, the signals need to be set for a better future by privatizing and deregulating the public infrastructure. Many African countries have recognized the importance of this major development task, which will also mobilize private capital. Our country example of Senegal shows how German FC is actively supporting these countries in this.

Country Example: Senegal

SENEGAL	
Area	197,000 km²
Population	9 million
Population growth	2.7% p. a.
Gross domestic product	US$ 2.9 billion
Economic growth rate	5.7% p. a.
Per capita income	US$ 530 p. a.
Life expectancy	52 years
Literacy rate	33%
Per capita debt	US$ 430

Senegal is one of the few countries in Africa that has been politically stable since its independence in the 1960s and has a democratic government. The only source of unrest in the country is Casamance in the south, where a separatist movement is trying to gain independence. As the truce agreed at the end of 1999 is holding, hope is growing that the conflict can be settled without violence.

Drinking water supply is a traditional priority in Financial Cooperation with Senegal.

The largest part of the country, which has about 9 million inhabitants, is in the Sahel zone, where rainfall is low. There are few natural resources and the ecosystem is fragile. Water is in short supply in large parts of the country. Major economic activities are fishing, farming, phosphate mining and a small amount of tourism in the coastal regions. Structural adjustment programmes supported by the World Bank and the IMF, together with the devaluation of the FCFA regional common currency in 1994, have brought rising economic growth (currently 5.7% p.a.), with consolidation of the state budget and largely stable prices. Nevertheless, there are still considerable structural deficits, like the continued strong dependence on imports of industrial products and foodstuffs, exports limited to a small range of primary products (fish, peanuts and phosphates) and the low competitiveness of industry and agriculture.

By privatizing state enterprises, liberalizing trade and increasing economic integration with neighbouring countries (the FCFA economic and monetary union) the government aims to improve macroeconomic conditions and create incentives for foreign direct investment. With the continued high rate of population growth, the limited scope for employment in the modern sectors and the low level of basic social services (especially education and health) the situation of the poor people has not improved in recent years. More than half the population lives on less than US$ 1 a day each, that is, they are still below the poverty line. Two thirds of the population cannot read or write. Senegal is near the lower end, in Place No. 153, of the Human Development Index of 174 places.

Financial Cooperation with Senegal

German Financial Cooperation is tackling the central development bottlenecks in Senegal. In addition to the social infrastructure (health and basic education) the main focus is on agriculture/resource protection, drinking water supplies and decentralization/communal development. So German FC is making a direct contribution to alleviating poverty. As FC is concentrated on only a few sectors it can have a better influence in shaping the sectoral conditions and its effectiveness is greater.

Drinking water supplies

Drinking water supply is a traditional focal area for FC with Senegal, accounting for more than one third of total commitments. The extensive FC involvement here has helped to give around 80% of the urban population access to hygienic drinking water. The capital Dakar has profited particularly from this promotion, because it is growing very quickly and is a long way from adequate surface water supplies.

Until April 1996 a state enterprise was responsible for urban water supply throughout Senegal. On a regional comparison it was efficient, but it suffered from inadequate tariffs, political influence and a high level of unpaid charges by state customers, and so its income on the whole was too low. After intensive discussion with all the donors active in this sector, the Government of Senegal handed the operation of the water supply plant over to a private operator. This company receives part of the income from charges, depending on its performance. The other part goes to a state enterprise which uses it mainly for the necessary investment. It also monitors the private operator to ensure that it fulfils its obligations. Since 1996 the Government of Senegal has increased charges every year to ensure that income from this source will suffice to finance both enterprises over the medium term. It is hoping in this way to gain the confidence of the private sector so that future investment can also be financed with private capital. The Government of Senegal is assuming that less profitable areas, like expanding the distribution networks or waste disposal, will have to be financed with public funds in future as well, but a tender has been held for a water purification plant as part of the preparations for a major water project, and the private bidders are being asked to provide the finance themselves.

Supporting communities by investing in communal infrastructure.

Transferring the responsibility for operating the water supplies to the private sector has been highly successful. Customer service has improved. Settlement is being obtained of outstanding claims, the state is paying its bills punctually and the tariffs are sufficiently high. To avoid placing too heavy a burden on the poorer population a “social charge“ has been included in the scale at only about one third of the normal rate.

Agriculture

Although agriculture employs around 60% of the population its share in GDP is relatively low at 20%. Rain-fed farming is possible to only a very limited extent owing to climate conditions. The rivers Senegal in the north and Casamance in the south, on the other hand, offer good scope for irrigation. FC, together with other international finance institutions, is therefore concentrating on irrigation projects on the River Senegal, where rice is the main crop. These projects are also improving food supplies, rural incomes are rising, and the rural-urban migration is being reduced.

A large drainage channel in the Senegal delta is being financed with Financial Cooperation funds. It is to prevent progressive degradation of the soil through salination. The project will also help to protect the internationally famous bird sanctuary of Djoudj by systematically taking drainage water from the rice fields.

The state authorities have largely withdrawn from the management of the irrigation systems as part of institutional reforms, and today self-administered farmers’ organizations are operating the plant. This has greatly contributed to the success of the projects and to their sustainability.

Decentralization and municipal development

The more recent political development in Senegal is strongly characterized by the decentralization process which the Senegal Government introduced in the early 1990s. After the local elections in December 1996 sixty urban municipalities and 320 rural districts took over responsibility for major communal tasks. These include drawing up and administering their own budgets and carrying out municipal infrastructure investment (roads, sewerage, markets, elementary schools, health centres). Shifting decision-making powers to the municipalities did not, however, bring a corresponding increase in their budgets. In particular the municipalities lack the necessary financial means to carry out investment to improve their economic and social situation. KfW is therefore providing FC funds to finance infrastructure measures by rural district councils in Kaolack and Fatick, with financial contributions from the districts themselves. The centralized government that was practised for decades has meant that the municipal administrations have so far very little experience of decentralized administration. In the project which is being executed in cooperation with the German Agency for Technical Cooperation (GTZ) the municipal administrations are involving the population in drawing up the local development plans, which clearly indicate the most urgently needed infrastructure measures. This strengthens communal self-administration and improves the living conditions for the rural population.

The use of FC funds can also make a contribution to communal development by helping to renovate marginal housing areas. In these urban districts people often settle illegally and live in extremely poor overcrowded conditions. Infrastructure facilities and basic social services like streets, water supplies, gutters to take rain water, sanitary facilities, waste disposal, health centres and schools hardly exist. As part of an FC project executed in cooperation with the German Agency for Technical Cooperation the inhabitants themselves decide the future shape of their district. With monthly charges to legalize their property and pay for some of the infrastructure that has been created they also bear part of the costs. In this way the people themselves take responsibility for the projects and develop a sense of ownership. They pay the charges into a revolving fund that enables more projects to be financed. So this approach very greatly mobilizes the self-help potential of the mainly poor people in the urban districts involved.

Financing school buildings is an important contribution to communal development.

MIDDLE EAST

Regional Survey

Factors that have been determinants for North Africa and the Middle East for decades are losing their importance. The Arab-Israeli conflict that brought four wars appears – slowly – to be giving way to a peaceful solution. Oil and gas are no longer a sure source of wealth for the rapidly growing population. Internal and external developments are making reforms unavoidable. Economic reforms and the opening of the region will also bring political and social reforms over the longer term.

Israel's Minister of Regional Cooperation, Shimon Peres (left), the Palestinian representative to Germany, Abdallah Franji (centre), and the President of the Federal Republic of Germany, Johannes Rau (right) laying the foundation stone for the industrial park of Jenin (Palestinian Territories).

In three countries in this region (Bahrain, Jordan and Morocco) men who had ruled for many years died in 1999. Their successors have shown readiness to open up their country, and permit political reforms or economic liberalization. Other changes in government on grounds of age are due in a number of other countries. The negotiations between the Palestinians and Israel may not have been given the hoped-for dynamic by the new Israeli Prime Minister Ehud Barak, but they are making progress. The first peace talks have been held between Israel and Syria, besides Lebanon the last Arab neighbour with whom no agreement has been reached as yet.

With the foreseeable end to the Palestine conflict the military expenditure, which is heavy in some countries in the region, will lose its justification. The suppression of deviant opinions that was justified by the need for national or Arab unity will be questionable when the apparent external threat ceases to exist.

The governments of the region are increasingly aware that they are judged not by their foreign policy or defence policy but primarily by their economic success. The region's population is growing at around 2% to 2.5% p.a. and the workforce is growing even more rapidly. In many countries in the region it will have increased by 50% within the next 10 years. The necessary growth and so the necessary jobs cannot come from oil exports or public investment financed with foreign debt – unlike the situation in the 1970s and early 1980s. The region needs to diversify its economies and obtain access to private capital and know-how through direct investment. Besides Israel, which has always been open to world trade, Egypt, Morocco and Tunisia are models for the region. They are rather poor in raw materials but their economic reforms have already attracted capital, enabling above-average growth.

There is also external pressure to reform and incentives to do so. Globalization and membership of or entry to the World Trade Organization (WTO) require economic reforms. The Euro-Mediterranean Partnership is particularly important for the region. It was set up on the basis of an agreement reached in Barcelona in 1995 between 15 EU states and 12 southern states bordering the Mediterranean. The main aim is the creation of a free trade zone around 2010. So far Tunisia, Israel, Morocco, the Palestinian Authority and Jordan have signed association agreements with the European Union. The negotiations between the EU and Egypt have been concluded and the agreement is to be signed in 2000. Moving into the free trade zone requires not only the reduction of customs duties but also macroeconomic and sectoral reforms, as well as measures to increase competitiveness and promote private investment in the southern Mediterranean countries.

Over the medium term these economic processes will also affect the relationship between governments and governed. People who have been encouraged to make their own economic decisions will also want to make political and social decisions themselves.

Financial Cooperation with North Africa and the Middle East

Problems common to the developing countries in this region are a shortage of water, rapid growth of a population that is still young, and inadequate economic competitiveness for the forthcoming EU-MED free trade zone. German Financial Cooperation tackles these development bottlenecks and potentials.

The main areas of FC promotion:

- Measures to improve water management for drinking water, sewage treatment and agricultural irrigation; these are being promoted in every country in the region. FC supports the sectoral reforms that are needed for efficient and sustained use of the scarce resource water. The following example of the Palestinian Territories (see p. 44) shows that such measures can also make an important contribution to preventing conflict where the use of water crosses frontiers.

- Membership in the European-Mediterranean free trade zone requires the modernization of trade and industry. High customs duties have meant that so far low-quality and expensive products could be sold within these countries as well. With the opening of markets the local products will have to compete with EU products internally and in exports. Better quality, greater efficiency and environmentally-friendly production will require new and expansion investment or the modernization of existing plant. In Morocco, Tunisia, Jordan and Egypt FC offers the appropriate loan programmes in cooperation with local commercial banks. In offering environmental loan programmes KfW is transferring its own know-how from its promotion of the German economy.

- In the countries in the region that are poor in raw materials people are the most important resource and the central development potential. The high share of children and young people in the population, however, constitutes an enormous challenge. The social and physical infrastructure must be expanded, particularly the education system. Financial Cooperation is supporting education projects in Egypt, the Palestinian Territories, Yemen and Lebanon.

Country Example: The Palestinian Territories

PALESTINIAN TERRITORIES

Area	6,165 km²
Population	2.9 million
Population growth	5.5% p. a.[1)]
Gross domestic product	US$ 4.5 billion
Economic growth	2.0% p. a.
Per capita income	US$ 1,600 p. a,
Life expectancy	70 years
Literacy rate	85%
Per capita debt	US$ 35

1) Average 1990–1996; including returning emigrants

In the Oslo Agreements of 1993 the Palestinians were given a limited degree of autonomy in Gaza and the West Bank for the first time. The powers of the Palestinian Authority (Executive) now basically cover the larger towns on the West Bank and in the Gaza Strip. The de facto parliament, the Legislative Council, consists of freely elected members, the majority of whom support the Government and exercise only limited influence on Palestinian policy. The mayors of the towns are not freely elected, they are appointed by President Arafat. The sovereignty of the Palestinian Territories is greatly restricted by the lack of a united territory, Israel's complete control of the external frontiers, and its political and economic dominance.

The Palestinian Territories have few natural resources. But there is great human capital owing to the relatively high level of education of Palestinians at home and abroad. Compared with the West Bank the Gaza Strip is economically far behind. Here 35% of the population is below the poverty line and unemployment is around 20%, both far above the comparable figures for the West Bank (10% and 11%). The employment of Palestinians in Israel proper is possible to a limited extent only. With a very high population growth of 5.5% p.a. – partly due to returning emigrants - per capita GDP has fallen continuously since 1996.

The high political risk has frightened off foreign private investors. Public investment is largely financed by foreign donors. The Palestinian Territories are among the regions receiving the highest inflows from the international community. But there is still considerable need for finance to expand the infrastructure, especially water supplies.

Supporting a school construction programme creates both employment and schoolrooms.

Legal security and the efficiency and transparency of the administration are inadequate. State import monopolies (e.g. for petrol and cement) create cost structures that are not based on market conditions and a black economy. The Palestinian Territories are now at the crossroads between extending their bureaucratic and autocratic structures and developing a democratic state with an efficient administration. The particular challenge is that this must be combined with a peaceful settlement of the conflict with Israel and regional economic integration.

Sewage elimination has high priority.

Financial Cooperation with the Palestinian Territories

FC with the Palestinian Territories started in 1994. Drinking water supplies and sewage treatment rapidly emerged as the most important focus for cooperation. In view of the great shortage of water in this area measures to improve water purification and protect resources by proper sewage treatment have high priority and serve indirectly to prevent conflict. The need to maintain the present level of education with a rapidly growing population and also make a contribution to raising employment internally have led to the realization of a labour-intensive school building programme that is being promoted under Financial Cooperation. In the first reconstruction phase the Palestinian Authority was also supported with equipment (i.a. for Gaza airport). In view of the revival of the peace process it is planned to set up an industrial park near the town of Jenin, right beside the border to Israel proper. The project will require a considerable amount of Palestinian-Israeli cooperation and this in turn will help integration in the region.

Drinking water supplies and sewage treatment

The West Bank has the most important ground water reserves in the Middle East, where water is becoming increasingly scarce. The uneven regional distribution of water – Israel alone claims 71% of the regenerative water – leaves only a small share for the Palestinian people. Obsolete distribution systems, some of which have not been renewed since the time of the British mandate, cause heavy loss of water and shortages. Although water is purchased from Israel, drinking water has to be rationed at times in some Palestinian towns on the West Bank, while the Israeli settlements that are scattered all over the West Bank are supplied all through the year. In many parts of the Gaza Strip the ground water can no longer be used as drinking water, as excessive use is causing increasing salination.

In most places sewage is not collected and treated, it is disposed of decentrally in cesspools. Even the ten Palestinian towns with a sewage network do not have functioning sewage treatment. Raw sewage seeping into the ground endangers the quality of the ground water and clear evidence is being found of coli bacteria and nitrates in wells and springs. With the extraordinarily high population growth the water shortage and the sewage problems are most likely to become worse in future.

Responsibility for water supplies and sewage treatment in the Palestinian Territories is largely with the towns and municipalities, and there are marked differences in the qualifications of the personnel, the collection of charges, and the degree to which these cover costs. In many cases the tariffs are not sufficient to ensure the operation and maintenance of the networks, nor are the technical and administrative abilities of the staff in the municipalities. As part of the preparation for a new FC project for centralized sewage treatment in the Gaza Strip KfW and the World Bank are urging that the institutional competences, which are still fragmented, should be combined and the private sector allowed a larger role, e.g. in the form of an operator model. This could improve the completely inadequate cost recovery and ensure that the plant is operated and maintained efficiently. KfW is pursuing a similar course in the West Bank. Here an efficient regional association already exists to act as model for water supplies, the Jerusalem Water Undertaking. The Palestinian Water Authority founded in 1996 is increasingly taking on general regulatory and control tasks.

Depending on the location Israeli approval may be needed for water supply and sewage treatment projects. In such cases the coordination and approval procedure is handled by the Palestine-Israeli Joint Water Committee. Israeli frontier closures, elaborate approval procedures and the demand for Israeli settlements to be connected to the treatment plants financed under Financial Cooperation have made implementing projects in the Palestinian Territories difficult in the past. On the other hand, this has repeatedly stimulated efforts to find a solution that is acceptable to all sides.

Under German FC with the Palestinian Territories KfW has thus far committed DEM 250 million for water supply and sewage treatment projects. That is more than 80% of total FC commitments here. **Sewage treatment** in the towns of Al Bireh, Nablus and in the Tulkarem region is being financed to a total of DEM 201 million. In the next few months the first working treatment plant in the Palestinian Territories will start operating in Al Bireh. In view of the great shortage of drinking water possibilities of using treated effluent in agriculture are being examined. Water supply projects are being financed to a total of DEM 49 million in six Palestinian towns.

KfW and GTZ work closely together in the water sector. The need to strengthen the technical, administrative and financial resources of the project-executing agencies is the main concern here, and this should help to ensure sustained operation – possibly by providing technical training or better collection of charges. To create incentives to an efficient use of water and ensure that the necessary maintenance work can be financed, metered charges are to be introduced. All these measures will ultimately help to bring lasting changes for the better in existing structures.

Employment programmes

Against the background of high unemployment KfW is financing labour-intensive school-building programmes under Financial Cooperation with a volume of DEM 29.5 million. Local building firms are expanding and renovating school buildings. Around 80% of the schools in the Palestinian Territories are forced to teach in two or even three shifts a day because they do not have enough classrooms. With the support of FC school rooms have been built for about 22,000 pupils so far. The poor groups in the population profit most from the employment measures and the better supply of education. Another positive effect is that unemployed teachers can be given jobs in the bigger schools. Giving building contracts to small and medium-sized firms in the Palestinian Territories helps to promote the private sector here.

Financial Cooperation with the Palestinian Territories concentrates on a few central areas. FC will continue to urge the efficient use of water resources and cost-covering charges as an incentive to save water. With a view to the future chances for regional cooperation in the peace process are being supported.

Many new schoolrooms have been created with FC support.

LATIN AMERICA

Regional Development

After the 1980s, which are known as the "lost decade", when economic growth averaged only 1% p.a., Latin America again achieved considerable growth rates between 1991 and 1999, at 3.6% p.a. on average. To reduce the widespread poverty, however, the region needs average growth of 6% p.a.

The share of poor people in the total population has remained constant in recent years, but the absolute figure has risen further. At the same time the social indicators have improved. The illiteracy and infant mortality rates have fallen and in most countries life expectancy has risen. More and more people have access to clean drinking water. But there are still great differences between town and country: the rural population, especially the indigenous peoples, are clearly disadvantaged socially and economically. Land is also unequally distributed.

The great rural poverty is causing widespread destruction of natural resources. Slash-and-burn farming and deforestation are destroying more and more of Latin America's rain forests, which now account for about half the total rain forests in the world. Between 1990 and 1995 23 million hectares of rain forest were destroyed in Latin America – that corresponds to an annual loss of an area the size of Hesse and Baden-Württemberg combined. Over the long term this is destroying potentials that could secure income for the inhabitants. So in future techniques must be promoted that will ensure sustained use of the rain forests, help improve the living conditions of the poor people and counteract the destruction of the natural stock of trees. The high share of "primary forests", that is, areas that are still in their original state, also underlines the need for protection.

In comparison with other regions Latin America has very unevenly distributed incomes. This constitutes considerable potential for conflict.

With relatively low savings ratios, growth has largely been financed with foreign capital, so that the region's indebtedness has risen markedly on an international comparison. Of 21 Latin American countries ten are among the "severely indebted countries" in the World Bank's classification, that is, their debt is more than 80% of their gross domestic product, or more than 220% of their exports. Debt service is also above average for the Latin American countries.

Macroeconomic stabilization policies and structural reforms that have been carried out in almost every country in Latin America and the Caribbean have greatly reduced the inflation rates and the budget deficits. Now a second generation of reforms is necessary to secure these successes over the long term. The stability that has been achieved has increased the confidence of international investors. Among the ten

developing and newly industrializing countries with the highest inflow of international direct investment, five are now Latin American countries. The privatization process in the region has also helped here.

However, the Brazilian crisis at the start of 1999 showed that the Latin American economies are vulnerable owing to their high level of external finance. The strong devaluation of the Brazilian currency, the Real, caused great uncertainty. Growth forecasts for the entire region have had to be revised downwards, and although the region has quickly recovered from the crisis and a growth rate of about 3.5% is again expected for the year 2000, in future the growth process will have to be more strongly underpinned socially and ecologically.

Financial Cooperation with Latin America

Alleviating poverty had top priority in Financial Cooperation with Latin America in 1999 as well. To improve living conditions for the poor nearly one third of total commitments went to the water sector. Supplying poor groups in the population with safe drinking water and efficient sewage elimination reduces disease and infant mortality. In this area FC is giving particular support to Peru. Low-cost housing has also been provided for poor people, mainly in Honduras and El Salvador, while the promotion of health care (8%) and education (7%) is making a further contribution to alleviating poverty in the region.

With the support of social investment funds (18% of the commitments) FC is making an important contribution in Latin America to self-help oriented poverty alleviation. This FC instrument is highly efficient, and it enables measures to help the poor to be implemented rapidly and unbureaucratically. In Central America social investment funds mainly finance measures that will create employment, like building schools and kindergartens, constructing water supply systems or rehabilitating basic health care facilities. Several of these funds have helped to modernize the state and society in recent years. They rely on participation by the community in

Social investment funds: quick, unbureaucratic help for people to help themselves.

the decisions about the projects in their districts and shifting competences to the community. So the funds are an important stimulus to decentralizing the state administration.

Particularly to promote employment for poor sections of the population, FC projects support micro, small and medium-sized enterprises. New projects have been designed in this sector in Bolivia and Peru, and 5% of the funds were committed for them in 1999.

An important sectoral focus for FC with Latin America is the protection of natural resources, and this is particularly evident in the commitments for 1998. Nearly one quarter of the FC funds, which totalled DEM 245 million, were committed for projects to protect natural resources in altogether four Latin American countries and the Caribbean. Brazil alone received a commitment of more than DEM 35 million in 1998 as part of the “Pilot Project to Conserve the Tropical Rain Forests“ (PPG7) which has been supported by the G7 countries since 1990. Projects in this sector have been implemented in 13 Latin American countries under FC for some years now. Many are cooperative projects with the German Agency for Technical Cooperation.

Country Example: Bolivia

BOLIVIA	
Area	1,098,581 km^2
Population	8 million
Population growth	2.4 % p. a.
Gross domestic product	US$ 7.9 billion
Economic growth	1 % p. a.
Per capita income	US$ 1,000
Life expectancy	61.4 years
Literacy rate	83.6 %
Per-capita debt	US$ 690

Besides Paraguay, Bolivia is the only landlocked country in Latin America. It extends through three topographical zones, the high Andes plain, the intermediary valleys, and the lowlands, and all three differ greatly in population, in the degree of social and economic development, and in their development potential. Bolivia is well equipped with natural resources but the infrastructure is not highly developed. With an annual per-capita income of US$ 1000 it is one of the poorest countries in Latin America. For a long time the country was torn by crises and suffered from unfavourable world market prices for its main export goods, the high level of international interest rates and hyperinflation. At the start of the 1980s it was on the brink of ruin. In 1985 its foreign debt amounted to about 130% of GDP. A shock therapy of far-reaching economic reforms stabilized macroeconomic conditions and largely liberalized the economy. In the 1990s growth was on average around 4.3% p.a., although Bolivia's terms of trade deteriorated by 38%.

With its clear policy of reform, and as foreign debt is still high while per-capita income is relatively low, Bolivia was accepted into the HIPC (Highly Indebted Poor Countries) Initiative in 1997. The debt write-offs in the first phase and additional debt service relief granted by Japan reduced the ratio of the current level of debt to export earnings from 252% to 198%. Meantime Bolivia has presented an interim strategy to reduce poverty which is a condition for further write-offs under the extended HIPC Initiative. The objective is to reduce the debt ratio to 150%.

Bolivia is not highly industrialized. One quarter of GDP is still produced in agriculture and mining. Agricultural products and raw materials dominate the country's exports. The savings ratio is 12% of GDP, far below the Latin American average, which itself is low. In order to finance investment, which accounts for just under 20% of GDP, Bolivia is dependent on inflows of foreign capital.

The share of people living in poverty in the total population is extraordinarily high, at 67% according to the latest

estimates by the World Bank. More than 50% of the urban population lives below the poverty line. In rural areas the figure is even higher, over 90% in some provinces. Only about 37% of the rural population has access to clean drinking water. Infant mortality is still extraordinarily high at 68 per 1000 live births (Peru 40, Brazil 34). The new government of Bolivia elected in 1997 has therefore declared alleviating poverty one of its main aims and in October 1997 it presented a plan of action for the period 1997-2002. This provides for important economic, legal and institutional reforms and alternatives to the illegal growing of drug crops. Discussion on this government programme with international donors prepared the way for Bolivia to be made one of the pilot countries for a new initiative by the World Bank, the Comprehensive Development Framework (CDF). The initiative was stimulated by broad public discussion and includes non-governmental organizations. It is to work out a development plan that will take into account the interests of all concerned. An analogous procedure is also envisaged under the extended HIPC Initiative to work out a strategy for poverty orientation. German FC is playing an active part in these coordination processes. KfW opened an office in La Paz in 1999, so setting the signals for even more intensive participation.

Financial Cooperation with Bolivia

Bolivia is a main-focus country for FC, which started more than thirty years ago. Now development projects for more than DEM 1 billion have been financed. In addition, since 1993 funds from debt conversion have also been used, mainly for environmental protection and to alleviate poverty. In these areas the country will be dependent on outside support in future as well. The German and the Bolivian Governments have agreed on stronger sectoral concentration, on drinking water and sewage treatment, and financial services. Strategy papers are being prepared on these two sectors to support the dialogue between the Bolivian Government and the German Government on the necessary reforms. In addition, projects for environmental and resource protection are supporting the national efforts to sustain a balanced biosphere. In this they are helping to counteract the global destruction of the environment.

Promoting growth

Most of the low income groups in Bolivia work in the informal sector and so their chances of development are very limited. Small and very small firms are hampered by lack of access to finance. To promote economic growth in Bolivia FC has therefore been offering small and very small firms longer-term loans at favourable interest rates since the mid-1990s to finance fixed and current assets. In 1997 FC funds totalling DEM 8 million were provided for this and channelled to local financial institutions that have access to such firms through the state promotional bank NAFIBO. In order to meet the strong demand for these funds the German Government committed a further DEM 5.6 million in 1999. Providing loans in the rural areas is a challenge for the future and so KfW and GTZ have agreed on a cooperation with the TC project "Promoting the Rural Financial System".

Ensuring water supplies and sewage disposal

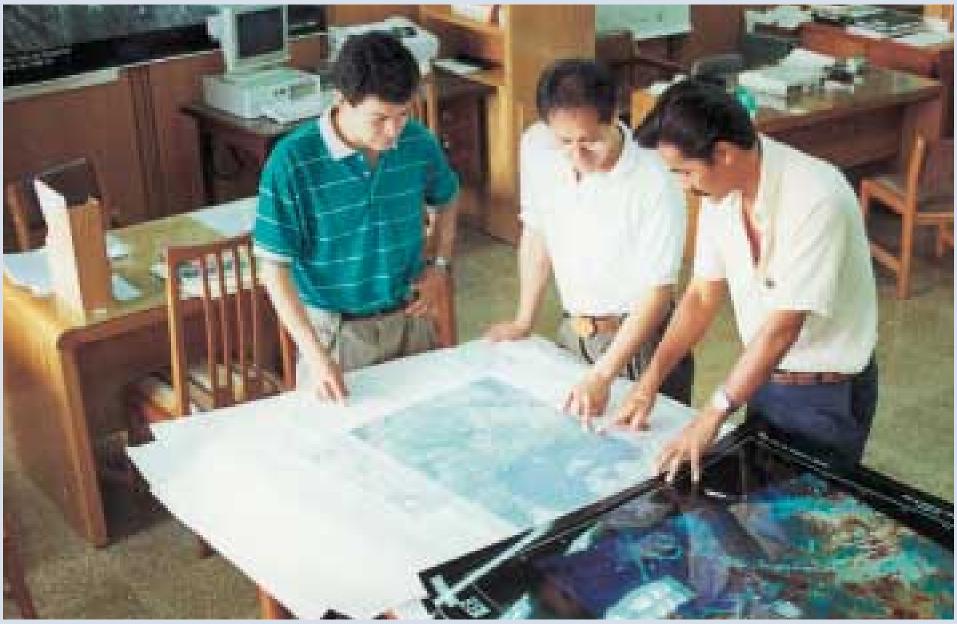
German FC has been active in the area of drinking water supplies and sewage disposal in Bolivia since the mid-1960s. First the expansion of the drinking water supplies for the capital La Paz was supported, then in the more recent past cooperation has concentrated on the capitals of the Departments; in future the main focus will be on cooperation with Bolivia's medium and small towns. This development is closely bound up with the sectoral policy reforms in the country. Water supplies and sewage treatment are being financed by the central state budget to a lesser and lesser degree. On the one hand, this is due to cutbacks in expenditure as part of the stabilization policy, but Bolivia too is becoming increasingly aware that under the appropriate conditions private operators can be more efficient and provide better services. As a result a Bolivian water management law was passed to regulate the competences and provide the central elements of an ordinance on operators (including cost-covering tariffs). For the capital La Paz and the adjoining El Alto district a concession for water supply was given to a foreign operator as early as 1997.

Supporting Rural Development

As well as promoting the financial sector FC will accord priority to productive rural development in future too. Small irrigation projects and rural road building will be the main focus. In addition to the profitability of the individual project and for the economy as a whole the orientation of these projects to alleviating poverty is the determinant factor. The „Incahuasi" irrigation programme, for example, for which DEM 17 million is earmarked, will create income possibilities in traditional agriculture in an area where about 90% of the population are living on less than one US dollar a day. In cooperation with two Bolivian development funds (the Social Investment Fund and the Fund for Rural Development) FC is supporting the expansion of infrastructure in rural areas. This is both to meet basic needs and to create the conditions for economic growth. Communities and the future users of the facilities are playing an active part in planning and providing the facilities. So the decentralized structures in Bolivia are being strengthened. The funds are to be merged and this will also contribute to institutional reforms.

Promoting the sustainable use of natural resources

In environmental policy the Bolivian Government did not create conditions to make stronger involvement in this sector appear promising until the 1990s – partly with outside support. Among other things, a national system of protected areas (SNAP) was created and an FC project for DEM 12 million will be initiated in this context. The measures will concentrate on five of the total of 26 protected areas in Bolivia. As a flanking measure about DEM 7 million from debt conversion will be used. Through cooperation between KfW and GTZ adapted user concepts for the protected areas are being developed, e.g. an ecologically compatible tourism concept. FC is therefore also providing funds to finance access routes or other simple infrastructure measures. Setting up information centres will make clear to the local poulation the value of the protected areas with their unique variety of species. As poverty is very pronounced, particularly in the protected areas and their fringe zones, nature cannot successfully be protected unless the people living there are offered alternatives to compensate for the restricted usage. Energy production from regenerative sources makes an important contribution to environmental protection and the sustainable use of natural resources. The German Government has therefore committed FC funds totalling DEM 10 million for the use of hydroelectric power and solar energy in Bolivia; this is to provide electricity for the inhabitants of smaller municipalities.



Developing a land-use plan to conserve natural resources.

THE EUROPEAN TRANSITION COUNTRIES

Regional Development

Ten years after the start of the transition process in Central and Eastern Europe and the CIS it is clear that the differences in economic and social development between these countries have widened. So far only Poland, Slovenia, Slovakia and Hungary have regained or exceeded the level of economic output they had achieved in 1989; the gap to their 1989 GDP is particularly crass in the former Soviet republics, where the spectrum ranges from Estonia, which had about 80% of the 1989 level in 1999, to Moldova with only about 30%. The reforms that have been carried out have paid off, particularly in the Central European and the Baltic states, bringing political and economic freedom for many people and raising the standard of living. But it cannot be overlooked that poverty and unequal income distribution have greatly increased, particularly in Russia and Ukraine. The results of the elections held in 1999 and early in the current year in several countries have confirmed the position of the reform-oriented forces in the majority of cases, and in countries like Russia and Croatia their position is actually stronger.

The development in the European and Caucasian transition countries was marked by two important events in 1999. While the war in Kosovo determined developments in the Balkans the Baltic countries, and the NIS in particular, had to combat the effects of the financial crisis in Russia in 1998, on account of their orientation to the Russian market. Trade declined markedly in these countries, induced by the steep devaluation of the ruble, and this had varying degrees of negative effects on economic growth. Parallel to this an increase in the state budget deficit and unemployment was evident in most cases. It is characteristic that countries like the three Baltic states, where privatization and restructuring in the corporate sector, and the reorganization of the financial sector, are making progress, could react faster and better to these problems than those with a considerable backlog of reforms, like some of the NIS.

The economic revival in **Russia** during the past year was primarily due to strong import substitution initiated by the devaluation of the ruble and the marked rise in world market prices for natural gas and oil; but it was not due to economic policy measures by the Government, which are long overdue. Only if consistent reforms in administrative policy are carried out and the financial problems are solved will Russia experience a self-sustaining economic upswing. In how far the necessary political signals will be set after the presidential elections this year remains to be seen. The unsolved structural problems are also preventing Russia, which is the region's biggest market, from having a positive influence on the economic development in the remaining CIS.

KFOR troops on their peacekeeping mission in Kosovo.

The **Southeastern European countries** suffered from the Kosovo conflict in 1999. This had very negative effects on development in a region that had considerable structural and institutional deficits even before the war, and was addressing the problems only hesitantly. The need for reforms that existed before the war, e.g. to change the corporate and financial sector, and the very unfavourable macroeconomic data in some cases pose additional difficulties for Southeastern Europe in overcoming the consequences of the war.

Coping with the immense flood of refugees in Albania and Macedonia was largely a temporary task, and it proved possible to deal with it relatively rapidly with broad support from the international community. But the war in Kosovo brought a general loss of confidence in the region and a deterioration in the investment climate. As a consequence there were losses in trade and tourism, a decline in growth and worsening macroeconomic imbalances. It must be assumed that this situation cannot be overcome over the medium term without targeted reforms and considerable support from foreign donors. The political and economic damage of the war in Serbia was devastating; moreover, Serbia has been almost completely cut off from international assistance and is now playing no part economically in the region.

Building on its experience in Bosnia and Herzegovina KfW set up the Balkan Development Fund (BEF) even before the act to establish the Stability Pact for Southeastern Europe was signed, in order to finance the reconstruction and development of the countries affected by the Kosovo crisis; the fund consists mainly of FC funds. At the initiative of the BMZ the GTZ, DEG and KfW also formed a working group to support the implementation of the German promotional measures with offices in Pristina and Bonn. In the second half of the year work began very quickly on implementing three projects to rehabilitate the economic, financial and social infrastructure in Kosovo that had been destroyed (see Project Example: Kosovo, p. 26).

The BMZ has responded to the greater need for finance resulting from the Kosovo conflict by providing additional FC funds for the Balkan region. The group of European and Caucasian reform states that are being supported with FC funds was enlarged in 1999 to include Moldova, Bosnia and Herzegovina and Kosovo, bringing the total number to 10 countries. Total commitments of FC funds for this group of countries were above the peak reached before, in 1998, at around DEM 206 million.

One result with far-reaching consequences for the desired European integration of the countries of Central and Eastern Europe was the decision by the Council of Europe in December 1999 to invite Latvia, Lithuania, Slovakia, and Bulgaria and Romania, both of which are receiving FC promotion, to negotiate on EU accession, as well as the present candidates Estonia, Poland, the Czech Republic, Hungary and Slovenia. So 8 of the altogether 11 countries whose reform process is being supported by KfW under a mandate from the German Government and as part of the TRANSFORM Programme have been named as candidates for EU membership. A total of DEM 130 million was earmarked for this programme in 1999. The main focus of the advisory services takes account of these countries' prospective EU membership, and as well as measures to improve the general economic conditions and strengthen the efficiency of the private corporate sector, includes flanking support for the preparations for EU membership. The EU Twinning Programme points in the same direction; it finances partnerships between public institutions in member states and appropriate partners in the candidates for accession. Since the autumn of 1998 KfW has been supporting the Federal Ministry of Finance on the German side under a mandate in the coordination of this important programme.

The economic prospects for the transition countries for the current year are mainly regarded as positive, on account of the recovery that began in the second half of 1999 and the cyclical upward trend in western Europe. So estimates are more favourable than for 1999, assuming that there are no new military conflicts or other crises.

Country Example: Bosnia and Herzegovina

BOSNIA AND HERZEGOVINA	
Areal	51,129 km²
Population	3.7 Mio
Population growth	3.2 % p. a.
Gross domestic product	US$ 4.5 billion
Economic growth	8 % p. a.
Per capita income	US$ 1,200
Life expectancy	67 years
Per-capita debt	US$ 870

As the multi-ethnic state of Yugoslavia collapsed, the ethnically diverse state of Bosnia and Herzegovina declared independence in the spring of 1992. Only a short time later civil war broke out between the different ethnic groups there, the Muslim Bosnians, the Serbs and the Croats. The war was conducted with great brutality and was ended in late 1995 by the Dayton Peace Accord. This agreement also contains a new constitution that is intended to enable the warring ethnic groups to live together in peace in an extremely complex federative state. Within the original borders two almost equally large part-republics have been created, known as "entities"; they form the state as a whole. The Federation of

Rebuilding a destroyed home.

Bosnia and Herzegovina has a mainly Muslim and Croatian population of about 2.5 million at present, while the Serb dominated Republika Srpska (RS) has about 1.2 million inhabitants. The entities are largely autonomous in government, and accordingly policy is still ethnic in orientation and the old power structures dating from before the war still persist. A large contingent of international troops (the SFOR) is present and a senior representative has been appointed by the international community to supervise and support the implementation of the peace agreement. He is equipped with far-reaching powers and supported by a staff of experts to counteract these centrifugal political tendencies.

The war lasted almost four years and the cost was enormous. Nearly 200,000 people lost their lives; almost as many again were wounded and about 2.2 million people – nearly half the population – fled or were driven from their homes to other parts of the country or abroad. Around 800,000 people in all fled from Bosnia and just under half of them are still living abroad.

The physical damage was also tremendous. A large part of the infrastructure (roads, railway lines, electricity and water supply facilities and much more) was destroyed or badly damaged, as were many industrial production sites and more than one third of the housing. Economic activities came to an almost total standstill. The gross domestic product plummeted during the war years of 1992 – 1995 from US$ 11 billion to less than one fifth of this figure.

Now most of the infrastructure facilities are able to function again and more than 110,000 houses and apartments have been repaired or newly built. The reconstruction work is clearly more advanced in the Federation than in Republika Srpska, which has received much less international financial assistance because the implementation of the peace agreement – especially the clauses on the return of refugees and expellees – is encountering massive resistance.

In the course of the reconstruction measures financed by foreign donors, particularly in the infrastructure sectors, the gross domestic product and per capita income have about doubled since the end of the war. But Bosnia and Herzegovina is still far from self-sustaining growth. Unemployment is still extraordinarily high at an estimated 40% to 50%, and the productive sectors of industry and trade are showing little dynamic. Besides the severe shortage of capital this is due to unsatisfactory progress in privatization, the lack of legal security combined with widespread corruption and, above all, a lack of confidence in the ability of the government to function and maintain lasting political stability.


Creating opportunities by rebuilding the economy.

Most recently – partly in view of the high demands which the reconstruction of Kosovo and the Stability Pact for South-eastern Europe are making on the international community – it is increasingly being argued that Bosnia should take more responsibility for its political, social and economic development, that it should develop a sense of „ownership". The prospects of this have improved after political changes in the region – a change in power in Croatia, the weakening of Yugoslavia and the establishment of the promising Stability Pact. The demand for more initiative and responsibility on the part of Bosnia, however, should not be interpreted as the signal for a massive reduction in military presence and international support in the near future. If this were done it would not only bring development to a standstill but also increase the danger of a relapse into destructive chaos with destabilizing effects on the whole region. As a gradual reduction in the volume of assistance to Bosnia and Herzegovina is becoming evident it will be more important than ever in future to use the available funds as efficiently as possible.

The housing construction programme developed by KfW is unique in BiH.

Financial Cooperation with Bosnia and Herzegovina and the creation of a European Fund

Bosnia and Herzegovina received FC funds totalling DEM 10 million from the BMZ for the first time in 1999. However, KfW has been operating here since early 1998 on behalf of the EU. The bank began by implementing an EU housing programme. In the years up to and including 1999 bilateral funds from the BMZ budget totalling around DEM 214 million were earmarked for Bosnia and Herzegovina. The funds are largely being used through GTZ, initially for emergency and refugee assistance and to restore the physical infrastructure. For about the last 1 1/2 years the main focus of GTZ activities has shifted to advisory services in the economic and employment policy fields.

Rebuilding destroyed housing

As it does not have sufficient personnel or administrative capacity the European Commission gave KfW a mandate to implement a housing construction programme in the spring of 1998, for which initially 15 million euros was made available. This provided the basic stock of a European Fund for Bosnia and Herzegovina (EFBH) that was set up at KfW and then supplemented from several multilateral and bilateral sources. The Housing Construction Programme developed by KfW is unique in Bosnia and Herzegovina. Unlike the other programmes no grants are given, only long-term housing construction loans at favourable interest rates channelled through local banks. KfW's concept serves two aims: as well as helping to solve the urgent housing problem and create better conditions for the voluntary return of refugees, it stimulates the development of the financial sector, which is crucial for a functioning market economy, and strengthens its structure.

Building up an efficient financial sector

The financial sector in Bosnia and Herzegovina is hardly developed. There are numerous banks, but they are all small and of very different quality and standing. Before the programme started the Bosnian banks had no experience with granting housing construction loans. The carefully chosen partner banks – initially four and now nine – are granted concessionary credit lines to fund sub-loans to specific target groups with a market orientation. The banks are given intensive advice and training in preparation for their new field of work and to equip them with the knowledge and efficient loan technologies they need to grant small, long-term loans. The advisers are also involved in supervising the granting of the sub-loans.

As the brisk demand for loans shows, the programme has met with a great response from the people. It has also met with the interest of other donors who are concerned to ensure that the programmes are efficiently executed. The Federal German state of Baden-Württemberg gave a guarantee against default for a loan of DEM 5 million at a favourable interest rate from the Council of Europe Development Bank, CEB. The loan is for housing construction.

Supporting the partner banks in establishing
an efficient financial sector.

Promotion of small and medium-sized firms

Austria, Switzerland and the German Government, represented by the special commissioner on Bosnia, have so far supported the EFBH to the amount of DEM 7.2 million in all. In view of the social and political risk posed by the extreme unemployment, which is also preventing the voluntary return of refugees, these funds are being used for loans to small and medium-sized private firms. Private companies are particularly labour-intensive and they are to be given access to urgently needed capital. The EU has now also provided 5 million euros for this component of the programme.

Altogether the EFBH has so far received funds totalling more than DEM 53 million. A good two thirds of these are for housing construction, the rest is for the SME programme. The European Commission will shortly increase its commitment for housing construction by 10 million euros. As analyses of the effects and interim evaluations confirm, the two loan programmes have so far been very successful. More than 1,500 housing construction and 100 SME loans have already been approved by the partner banks. The average amount of a loan is DEM 17,000 and DEM 56,000, respectively, and the repayment behaviour of borrowers is very good; only 1% are in arrears.

Efficient implementation and the creation of sustained structures

The KfW office that was opened in Sarajevo in April 1998 has made a major contribution to the very speedy and efficient implementation of the two programmes. It exercises an important control and supervisory function, coordinates the activities with the other donors and informs the public about the possibilities of the programmes. This type of fund is being realized for the first time in Bosnia-Herzegovina; it has proved valuable and KfW aims to apply it in Kosovo as well. Combining funds from various sources achieves synergy effects, increases efficiency and saves the scarce administrative resources on the recipients' side.

So new paths are being trodden in FC with Bosnia-Herzegovina as well. The DEM 10 million committed by BMZ will be used to set up a loan guarantee fund at KfW to open up possibilities of funding on the international capital market for Bosnian banks, which have no access to this market at present. The funds mobilized in this way are to be used for loans to small and medium-sized firms and to reduce the high level of unemployment. KfW will supplement the FC amount with a subordinated contingent liability at its own risk, also for DEM 10 million, so that altogether a loan volume of DEM 20 million will be secured. As KfW is a guarantor of first-class standing the qualified banks will be able to refinance at very favourable conditions. Beyond the employment and income effects, carefully bringing Bosnian banks to the international capital market will have strong structural effects in the financial sector. It is a further example of how the range of official funds can be expanded at favourable cost by combining these with market funds which KfW raises as a bank to further the economic development of the recipient countries.

1. Promotion of the Developing Countries – KfW Commitments by Countries in 1999

Rank	Country	Budget funds DEM million	Budget funds EUR million	Market funds DEM million[1]	Market funds EUR million[1]	Sum DEM million	Sum EUR million
1	People's Republic of China	312.18	159.62	380.47	194.53	692.65	354.15
2	Indonesia	175.00	89.48	150.00	76.69	325.00	166.17
3	Nepal	259.00	132.42	0.00	0.00	259.00	132.42
4	India	145.00	74.14	50.00	25.56	195.00	99.70
5	Philippines	93.75	47.93	50.00	25.56	143.75	73.50
6	Ghana	124.00	63.40	0.00	0.00	124.00	63.40
7	Peru	120.97	61.85	0.00	0.00	120.97	61.85
8	Egypt	95.00	48.57	0.00	0.00	95.00	48.57
9	Zambia	85.00	43.46	0.00	0.00	85.00	43.46
10	Honduras	75.50	38.60	0.00	0.00	75.50	38.60
11	Sri Lanka	27.00	13.80	45.00	23.01	72.00	36.81
12	Turkey	64.50	32.98	0.00	0.00	64.50	32.98
13	Mozambique	61.60	31.50	0.00	0.00	61.60	31.50
14	Albania	59.00	30.17	0.00	0.00	59.00	30.17
15	Burkina Faso	58.00	29.65	0.00	0.00	58.00	29.65
16	Nicaragua	50.00	25.56	0.00	0.00	50.00	25.56
17	Mali	46.90	23.98	0.00	0.00	46.90	23.98
18	Kenya	45.10	23.06	0.00	0.00	45.10	23.06
19	Yemen	39.80	20.35	0.00	0.00	39.80	20.35
20	Vietnam	38.51	19.69	0.00	0.00	38.51	19.69
21	Bolivia	37.10	18.97	0.00	0.00	37.10	18.97
22	Tanzania	31.22	15.96	0.00	0.00	31.22	15.96
23	Uganda	30.94	15.82	0.00	0.00	30.94	15.82
24	El Salvador	30.00	15.34	0.00	0.00	30.00	15.34
25	Georgia	30.00	15.34	0.00	0.00	30.00	15.34
26	Niger	30.00	15.34	0.00	0.00	30.00	15.34
27	Tunisia	10.00	5.11	20.00	10.23	30.00	15.34
28	Namibia	27.40	14.01	0.00	0.00	27.40	14.01
29	Palestinian Territories	26.50	13.55	0.00	0.00	26.50	13.55
30	Malawi	23.82	12.18	0.00	0.00	23.82	12.18
31	Benin	22.50	11.50	0.00	0.00	22.50	11.50
32	Côte d'Ivoire	22.00	11.25	0.00	0.00	22.00	11.25
33	Kosovo	20.30	10.38	0.00	0.00	20.30	10.38
34	Brazil	16.50	8.44	0.00	0.00	16.50	8.44
35	Cambodia	15.00	7.67	0.00	0.00	15.00	7.67
36	Guatemala	13.00	6.65	0.00	0.00	13.00	6.65
37	Rwanda	13.00	6.65	0.00	0.00	13.00	6.65
38	Azerbaijan	12.00	6.14	0.00	0.00	12.00	6.14
39	Chad	10.00	5.11	0.00	0.00	10.00	5.11
40	Guinea	10.00	5.11	0.00	0.00	10.00	5.11
41	Senegal	10.00	5.11	0.00	0.00	10.00	5.11
42	Uzbekistan	10.00	5.11	0.00	0.00	10.00	5.11
43	Bulgaria	9.00	4.60	0.00	0.00	9.00	4.60
44	Laos	9.00	4.60	0.00	0.00	9.00	4.60

[1] Shares of market funds in Mixed Composite and Combined Finance

Figures may not add up to totals due to rounding.

1. Promotion of the Developing Countries – KfW Commitments by Countries in 1999

Rank	Country	Budget funds DEM million	Budget funds EUR million	Market funds DEM million[1)]	Market funds EUR million[1]	Sum DEM million	Sum EUR million
45	Cameroon	8.50	4.35	0.00	0.00	8.50	4.35
46	Mauritania	7.00	3.58	0.00	0.00	7.00	3.58
47	Papua New Guinea	7.00	3.58	0.00	0.00	7.00	3.58
48	Bangladesh	5.12	2.62	0.00	0.00	5.12	2.62
49	CAR	5.00	2.56	0.00	0.00	5.00	2.56
50	Madagascar	5.00	2.56	0.00	0.00	5.00	2.56
51	Macedonia	3.00	1.53	0.00	0.00	3.00	1.53
52	South Africa	3.00	1.53	0.00	0.00	3.00	1.53
53	Southeastern Europe	3.00	1.53	0.00	0.00	3.00	1.53
54	Gambia	2.40	1.23	0.00	0.00	2.40	1.23
55	Cape Verde	2.00	1.02	0.00	0.00	2.00	1.02
56	Kyrgyzstan	2.00	1.02	0.00	0.00	2.00	1.02
57	Jordan	1.50	0.77	0.00	0.00	1.50	0.77
Total		2,499.61	1,278.03	695.47	355.58	3,195.08	1,633.62

1) Shares of market funds in Mixed, Composite and Combined Finance

Figures may not add up to totals due to rounding

2. KfW Commitments[1]) by Development Regions, Countries and Operations in 1999

		DEM million (EUR million)							
		Grant[2)]		Loan[2)]		Market Funds[3)]		Sum	
Region/Country	Designation								
Sub-Saharan Africa	Sum	498	(255)	187	(95)	0	(0)	684	(350)
Benin	Lac Nokoué Bridge	23	(12)	0	(0)	0	(0)	23	(12)
		23	(12)	0	(0)	0	(0)	23	(12)
Burkina Faso	Communal Investment Fund II	7	(4)	0	(0)	0	(0)	7	(4)
	Self-Help Fund for the East Phase II	5	(3)	0	(0)	0	(0)	5	(3)
	Water Supplies Fada N'Gourma	8	(4)	0	(0)	0	(0)	8	(4)
	Water Supplies Ouagadougou (Ziga)	38	(19)	0	(0)	0	(0)	38	(19)
		58	(30)	0	(0)	0	(0)	58	(30)
Cameroon	Bridge Rehabilitation	0	(0)	9	(4)	0	(0)	9	(4)
		0	(0)	9	(4)	0	(0)	9	(4)
Cape Verde Islands	Ports of Fogo and Brava	2	(1)	0	(0)	0	(0)	2	(1)
		2	(1)	0	(0)	0	(0)	2	(1)
CAR	Water Supplies for Small Towns	5	(3)	0	(0)	0	(0)	5	(3)
		5	(3)	0	(0)	0	(0)	5	(3)
Chad	Rehabilitation of Guelengdeng-Bongor-Ere Highway	8	(4)	0	(0)	0	(0)	8	(4)
	Studies and Experts Fund V	2	(1)	0	(0)	0	(0)	2	(1)
		10	(5)	0	(0)	0	(0)	10	(5)
Côte d'Ivoire	Primary Schools in the Bas Sassandra Region	22	(11)	0	(0)	0	(0)	22	(11)
		22	(11)	0	(0)	0	(0)	22	(11)
Gambia	Waste Water Disposal Banjul	2	(1)	0	(0)	0	(0)	2	(1)
		2	(1)	0	(0)	0	(0)	2	(1)
Ghana	District Towns II	0	(0)	10	(5)	0	(0)	10	(5)
	Primary Education/Rehabilitation Teacher Training III	3	(2)	0	(0)	0	(0)	3	(2)
	Sector Programme Rural Water Supplies I	2	(1)	0	(0)	0	(0)	2	(1)
	Sector Programme Water Supplies (PPF)	1	(1)	0	(0)	0	(0)	1	(1)
	Road Rehabilitation Tema-Sogakope	0	(0)	76	(39)	0	(0)	76	(39)
	Studies and Experts Fund IV	2	(1)	0	(0)	0	(0)	2	(1)
	Commodity Aid XI	0	(0)	10	(5)	0	(0)	10	(5)
	Commodity Aid XII	0	(0)	10	(5)	0	(0)	10	(5)
	Water Supplies Volta-Eastern Region	10	(5)	0	(0)	0	(0)	10	(5)
		18	(9)	106	(54)	0	(0)	124	(63)
Guinea	Structural Adjustment Programme	10	(5)	0	(0)	0	(0)	10	(5)
		10	(5)	0	(0)	0	(0)	10	(5)
Kenya	Geothermal Power Station OLKARIA II	0	(0)	25	(13)	0	(0)	25	(13)
	Rehabilitation of Highway Garsen-Lamu	0	(0)	15	(8)	0	(0)	15	(8)
	Road Improvement Amala River-Narok	0	(0)	5	(3)	0	(0)	5	(3)
		0	(0)	45	(23)	0	(0)	45	(23)
Madagascar	Rice Project Betsiboka V (PPF)	4	(2)	0	(0)	0	(0)	4	(2)
	Studies and Experts Fund V	1	(1)	0	(0)	0	(0)	1	(1)
		5	(3)	0	(0)	0	(0)	5	(3)
Malawi	District Health Care Chitipa	6	(3)	0	(0)	0	(0)	6	(3)
	Road Rehabilitation Programme II	12	(6)	0	(0)	0	(0)	12	(6)
	Urban Health Care Zomba	6	(3)	0	(0)	0	(0)	6	(3)
		24	(12)	0	(0)	0	(0)	24	(12)

2. KfW Commitments[1]) by Development Regions, Countries and Operations in 1999

		DEM million (EUR million)							
		Grant[2)]		Loan[2)]		Market Funds[3)]		Sum	
Region/Country	Designation								
Mali	Irrigation N'Debougou II (PPF)	1	(1)	0	(0)	0	(0)	1	(1)
	Irrigation N'Debougou II (Inv.)	19	(9)	0	(0)	0	(0)	19	(9)
	Agricultural Development Bank BNDA VII	5	(3)	0	(0)	0	(0)	5	(3)
	Refinancing Guarantee for BNDA	3	(1)	0	(0)	0	(0)	3	(1)
	Self-Help Fund Dogonland II	5	(3)	0	(0)	0	(0)	5	(3)
	Commodity Aid XVI (promotion of the energy sector)	15	(8)	0	(0)	0	(0)	15	(8)
		47	(24)	0	(0)	0	(0)	47	(24)
Mauretanien	Communal Development and Decentralization	3	(1)	0	(0)	0	(0)	3	(1)
	Studies and Experts Fund III	1	(0)	0	(0)	0	(0)	1	(0)
	Agricultural Development Bank UNCACEM III	4	(2)	0	(0)	0	(0)	4	(2)
		7	(4)	0	(0)	0	(0)	7	(4)
Mozambique	General Commodity Aid (HiPC Initiative)	20	(10)	0	(0)	0	(0)	20	(10)
	Rehabilitation of Port of Quelimane	23	(12)	0	(0)	0	(0)	23	(12)
	Rehabilitation of Substation Caia	15	(8)	0	(0)	0	(0)	15	(8)
	Study of Zambezi Hydropower Potential (supplement)	4	(2)	0	(0)	0	(0)	4	(2)
		62	(31)	0	(0)	0	(0)	62	(31)
Namibia	Rehabilitation of Oshivelo-Oshakati Highway	0	(0)	10	(5)	0	(0)	10	(15)
	Trans-Caprivi Highway III	0	(0)	17	(9)	0	(0)	17	(9)
		0	(0)	27	(14)	0	(0)	27	(14)
Niger	Public Works and Job Creation/NIGTIP III	13	(7)	0	(0)	0	(0)	13	(7)
	Structural Adjustment III	17	(9)	0	(0)	0	(0)	17	(9)
		30	(15)	0	(0)	0	(0)	30	(15)
Rwanda	HIV Prevention (Social Marketing) II	5	(3)	0	(0)	0	(0)	5	(3)
	Primary School Education (Sectoral Commodity Aid)	5	(3)	0	(0)	0	(0)	5	(3)
	Natural Resources Protection Programme II	3	(2)	0	(0)	0	(0)	3	(2)
		13	(7)	0	(0)	0	(0)	13	(7)
Senegal	Rehabilitation of Pikine Irrigulier Housing Area	10	(5)	0	(0)	0	(0)	10	(5)
		10	(5)	0	(0)	0	(0)	10	(5)
South Africa	Studies and Experts Fund I	3	(2)	0	(0)	0	(0)	3	(2)
		3	(2)	0	(0)	0	(0)	3	(2)
Tanzania	Sector Programme Family Planning II	4	(2)	0	(0)	0	(0)	4	(2)
	Programme to Improve Energy Efficiency	12	(6)	0	(0)	0	(0)	12	(6)
	Sector Programme Rural WS Arusha, Moshi, Tanga	5	(3)	0	(0)	0	(0)	5	(3)
	Water Supply Hai III	10	(5)	0	(0)	0	(0)	10	(5)
		31	(16)	0	(0)	0	(0)	31	(16)
Uganda	AIDS Prevention	10	(5)	0	(0)	0	(0)	10	(5)
	Maintenance of URC Locomotives, Phase V	3	(2)	0	(0)	0	(0)	3	(2)
	General Overhaul of URC Wagons	8	(4)	0	(0)	0	(0)	8	(4)
	Highway Programme IV East Uganda	10	(5)	0	(0)	0	(0)	10	(5)
		31	(16)	0	(0)	0	(0)	31	(16)
Zambia	Livingstone-Sesheke/Katima Mulilo Highway	65	(33)	0	(0)	0	(0)	65	(33)
	Structural Adjustment Programme V	20	(10)	0	(0)	0	(0)	20	(10)
		85	(43)	0	(0)	0	(0)	85	(43)

2. KfW Commitments[1]) by Development Regions, Countries and Operations in 1999

		DEM million (EUR million)							
		Grant[2)]		Loan[2)]		Market Funds[3)]		Sum	
Region/Country	Designation								
Asia/Oceania	Sum	384	(198)	715	(366)	675	(347)	1774	(907)
Bangladesh	Flood Damage Repairs on Rural Roads and Markets	5	(3)	0	(0)	0	(0)	5	(3)
		5	(3)	0	(0)	0	(0)	5	(3)
Cambodia	Upgrading of Rural Roads II	8	(4)	0	(0)	0	(0)	8	(4)
	Small Enterprises Development II	7	(4)	0	(0)	0	(0)	7	(4)
		15	(8)	0	(0)	0	(0)	15	(8)
India	Health-Care Programme West Bengal	60	(31)	0	(0)	0	(0)	60	(31)
	IREDA (Promotion of Renewable Energy Sources)	0	(0)	70	(36)	50	(26)	120	(61)
	Primary Health Care: Polio Vaccination Programme II	15	(8)	0	(0)	0	(0)	15	(8)
		75	(38)	70	(36)	50	(26)	195	(100)
Indonesia	Kariadi Hospital Semarang (PPF)	2	(1)	0	(0)	0	(0)	2	(1)
	Kariadi Hospital Semarang (Inv.)	0	(0)	23	(12)	0	(0)	23	(12)
	Passenger Ferries II	0	(0)	150	(77)	150	(77)	300	(153)
		2	(1)	173	(88)	150	(77)	325	(166)
Kyrgyzstan	Studies and Experts Fund IV	2	(1)	0	(0)	0	(0)	2	(1)
		2	(1)	0	(0)	0	(0)	2	(1)
Laos	Rural Telecommunication IV	9	(5)	0	(0)	0	(0)	9	(5)
		9	(5)	0	(0)	0	(0)	9	(5)
Nepal	Primary Health-Care Programme II	7	(4)	0	(0)	0	(0)	7	(4)
	Rural Infrastructure Programme Food for Work	2	(1)	0	(0)	0	(0)	2	(1)
	Hydropower Plant Middle Marsyangdi	250	(128)	0	(0)	0	(0)	250	(128)
		259	(132)	0	(0)	0	(0)	259	(132)
Papua New Guinea	Airport Equipment, Phase II	0	(0)	7	(4)	0	(0)	7	(4)
		0	(0)	7	(4)	0	(0)	7	(4)
People's Rep. China	Afforestation and Resources Protection Sichuan	5	(3)	0	(0)	0	(0)	5	(3)
	Railway Electrification. Harbin-Dalian I	0	(0)	180	(92)	180	(92)	360	(184)
	Rehabilitation of Beijing Thermal Power Plant	0	(0)	2	(1)	0	(0)	2	(1)
	Turbine Modernization Programme	0	(0)	25	(13)	50	(26)	76	(39)
	Environmental Programme Energy I	0	(0)	50	(26)	100	(51)	150	(77)
	Development Bank SME Loan Programme II	0	(0)	50	(26)	50	(26)	100	(51)
		5	(3)	307	(157)	380	(195)	693	(354)
Philippines	Credit Line for Small & Medium-Sized Enterprises (LBP)	0	(0)	25	(13)	25	(13)	50	(26)
	Credit Line for Small & Medium-Sized Enterprises II (LBP)	0	(0)	25	(13)	25	(13)	50	(26)
	Water Supplies Provincial Towns I	0	(0)	29	(15)	0	(0)	29	(15)
	Development Bank Promotion of Small Business II	0	(0)	15	(8)	0	(0)	15	(8)
		0	(0)	94	(48)	50	(26)	144	(73)
Sri Lanka	Koggala/Rehabilitation of Water Supply Mannar	1	(1)	11	(6)	0	(0)	12	(6)
	Development Bank NDB IV	0	(0)	15	(8)	45	(23)	60	(31)
		1	(1)	26	(13)	45	(23)	72	(37)
Uzbekistan	Credit Line Promotion of Priv. Enterprises/SME II (PPF)	1	(1)	0	(0)	0	(0)	1	(1)
	Credit Line Promotion of Priv. Enterprises/SME II	0	(0)	9	(5)	0	(0)	9	(5)
		1	(1)	9	(5)	0	(0)	10	(5)

2. KfW Commitments[1]) by Development Regions, Countries and Operations in 1999

		DEM million (EUR million)							
		Grant[2)]		Loan[2)]		Market Funds[3)]		Sum	
Region/Country	Designation								
Vietnam	Afforestation III (Bac Giang/Quang Ninh/Lang Son) (Inv.)	9	(4)	0	(0)	0	(0)	9	(4)
	Afforestation III (Bac Giang/Quang Ninh/Lang S.) (PPF)	1	(1)	0	(0)	0	(0)	1	(1)
	Commodity Aid III	0	(0)	10	(5)	0	(0)	10	(5)
	Commodity Aid V	0	(0)	10	(5)	0	(0)	10	(5)
	Workshop Programme Da Nang	0	(0)	9	(4)	0	(0)	9	(4)
		10	(5)	29	(15)	0	(0)	39	(20)
Europe/Caucasus	Sum	55	(28)	147	(75)	0	(0)	201	(103)
Albania	Power Supply South Albania	0	(0)	35	(18)	0	(0)	35	(18)
	Social Investment Fund (AFD)	6	(3)	0	(0)	0	(0)	6	(3)
	Commodity Aid V	8	(4)	0	(0)	0	(0)	8	(4)
	Commodity Aid VII (Power Supply Korca)	0	(0)	10	(5)	0	(0)	10	(5)
		14	(7)	45	(23)	0	(0)	59	(30)
Azerbaijan	Dev. Bank Promotion of priv. Enterprises (SMEs) (PPF)	2	(1)	0	(0)	0	(0)	2	(1)
	Dev. Bank Promotion of priv. Enterprises (SMEs) (inv.)	0	(0)	10	(5)	0	(0)	10	(5)
		2	(1)	10	(5)	0	(0)	12	(6)
Bulgaria	Wholesale Market Programme	0	(0)	9	(5)	0	(0)	9	(5)
		0	(0)	9	(5)	0	(0)	9	(5)
Georgia	Establishment of Land and Mortgage Register	0	(0)	30	(15)	0	(0)	30	(15)
		0	(0)	30	(15)	0	(0)	30	(15)
Kosova	Financing of Small Loan Programme of Kosovar SMEB	1	(1)	0	(0)	0	(0)	1	(1)
	Rehabilit. Urban Drinking Water Suppl. Southwest Kosova	9	(5)	0	(0)	0	(0)	9	(5)
	Commodity Aid for Bardhi and Mirash Pits	10	(5)	0	(0)	0	(0)	10	(5)
		20	(10)	0	(0)	0	(0)	20	(10)
Macedonia	Studies and Experts Fund I	3	(2)	0	(0)	0	(0)	3	(2)
		3	(2)	0	(0)	0	(0)	3	(2)
Southeast Europe	Studies and Experts Fund Southeast Europe	3	(2)	0	(0)	0	(0)	3	(2)
		3	(2)	0	(0)	0	(0)	3	(2)
Turkey	Waste Disposal Denizli	0	(0)	17	(8)	0	(0)	17	(8)
	Sewage Elimination Tarsus (PPF)	2	(1)	0	(0)	0	(0)	2	(1)
	Sewage Elimination Tarsus (Inv.)	0	(0)	36	(18)	0	(0)	36	(18)
	Industrial Pollution Control/EPI Fund II (PPF)	1	(0)	0	(0)	0	(0)	1	(0)
	Industrial Pollution Control/EPI Fund II (Inv.)	10	(5)	0	(0)	0	(0)	10	(5)
		13	(6)	53	(27)	0	(0)	66	(33)
Latin America	Sum	215	(111)	129	(66)	0	(0)	343	(175)
Bolivia	Financing of Micro and Small Enterprises	0	(0)	8	(4)	0	(0)	8	(4)
	School Infrastructure	23	(12)	0	(0)	0	(0)	23	(12)
	Study Fund National Irrigation Programme (PRONAR)	3	(2)	0	(0)	0	(0)	3	(2)
	Drinking Water Supply/Sewage Disposal Trinidad	3	(2)	0	(0)	0	(0)	3	(2)
		29	(15)	8	(4)	0	(0)	37	(19)
Brazil	Health Care and Basic Sanitation Programme Piauí (Inv.)	0	(0)	15	(8)	0	(0)	15	(8)
	Health Care and Basic Sanitation Programme Piauí (PPF)	2	(1)	0	(0)	0	(0)	2	(1)
		2	(1)	15	(8)	0	(0)	17	(8)

2. KfW Commitments[1]) by Development Regions, Countries and Operations in 1999

		DEM million (EUR million)							
		Grant[2)]		Loan[2)]		Market Funds[3)]		Sum	
Region/Country	Designation								
El Salvador	Low-Cost Urban Housing Construction El Sauce	15	(8)	0	(0)	0	(0)	15	(8)
	Reconstruction Programme FISDL	15	(8)	0	(0)	0	(0)	15	(8)
		30	(15)	0	(0)	0	(0)	30	(15)
Guatemala	Rural Health-Care Programme in Region VII	10	(5)	0	(0)	0	(0)	10	(5)
	Studies and Experts Fund V	3	(2)	0	(0)	0	(0)	3	(2)
		13	(7)	0	(0)	0	(0)	13	(7)
Honduras	Low-Cost Housing Construction in Rural Areas IV (PVMR)	10	(5)	0	(0)	0	(0)	10	(5)
	FHIS V Programme	15	(8)	0	(0)	0	(0)	15	(8)
	Debt Service Relief/Trust Fund	25	(13)	0	(0)	0	(0)	25	(13)
	Housing Improvements in Urban Peripheries IV	11	(5)	0	(0)	0	(0)	11	(5)
	Housing Improvements in Urban Peripheries III	15	(8)	0	(0)	0	(0)	15	(8)
		76	(39)	0	(0)	0	(0)	76	(39)
Nicaragua	Social Investment Fund Programme (FISE) IV	33	(17)	0	(0)	0	(0)	33	(17)
	WV/AE Jinotega, Matagalpa and Corinto/Inv.	17	(9)	0	(0)	0	(0)	17	(9)
		50	(26)	0	(0)	0	(0)	50	(26)
Peru	Sewage Elimination Arequipa III	0	(0)	48	(25)	0	(0)	48	(25)
	Alternative Development Alto Mayo (Roads & Irrigation)	0	(0)	18	(9)	0	(0)	18	(9)
	Assistance to Micro and Small Enterprises	0	(0)	10	(5)	0	(0)	10	(5)
	Drinking Water Supply/Sewage Disposal Cajamarca	0	(0)	20	(10)	0	(0)	20	(10)
	Drinking Water Supply/Sewage Disposal Ayacucho	15	(8)	10	(5)	0	(0)	25	(13)
		15	(8)	106	(54)	0	(0)	121	(62)
North Africa/M. East	Sum	98	(50)	76	(39)	20	(10)	193	(99)
Egypt	Sanitary Drainage/Building Protection Naga Hammadi	13	(7)	0	(0)	0	(0)	13	(7)
	Sewage Elimination Amriya/Alexandria	13	(7)	0	(0)	0	(0)	13	(7)
	Sewage Elimination Amriya/Alexandria (PPF)	2	(1)	0	(0)	0	(0)	2	(1)
	Rehabilitation of Pumping Stations	0	(0)	47	(24)	0	(0)	47	(24)
	Envir. Protection/Agricultural Drainage Naga Hammadi (PPF)	1	(1)	0	(0)	0	(0)	1	(1)
	Envir. Protection/Agricultural Drainage Naga Hammadi	0	(0)	19	(10)	0	(0)	19	(10)
		29	(15)	66	(34)	0	(0)	95	(49)
Jordan	Water Supply Greater Amman II (PPF)	2	(1)	0	(0)	0	(0)	2	(1)
		2	(1)	0	(0)	0	(0)	2	(1)
Palestinian Terr.	Sewage Elimination Al Bireh "Upper North"	6	(3)	0	(0)	0	(0)	6	(3)
	Sewage Elimination Salfeet	6	(3)	0	(0)	0	(0)	6	(3)
	Employment Programme V	5	(3)	0	(0)	0	(0)	5	(3)
	School Buildings West Bank/Employment Programme IV	8	(4)	0	(0)	0	(0)	8	(4)
	Water Supply Hebron (emergency measure)	2	(1)	0	(0)	0	(0)	2	(1)
		27	(14)	0	(0)	0	(0)	27	(14)
Tunisia	Sewage Elimination Small and Medium Towns I	0	(0)	10	(5)	20	(10)	30	(15)
		0	(0)	10	(5)	20	(10)	30	(15)
Yemen	Sewage Elimination Zabid	9	(5)	0	(0)	0	(0)	9	(5)
	Family Health and Family Planning	8	(4)	0	(0)	0	(0)	8	(4)
	Water Supplies/Sanitation in Provincial Towns	23	(12)	0	(0)	0	(0)	23	(12)
		40	(20)	0	(0)	0	(0)	40	(20)

[1)] Figures may not add to totals due to rounding

[2)] Funds from the Federal Budget (BMZ)

[3)] Mixed and Composite Finance

3. KfW Commitments by Sectors 1995 to 1999

Sector	Average 1995-1999 DEM mn	-%-	1995 DEM mn	-%-	1996 DEM mn	-%-	1997 DEM mn	-%-	1998 DEM mn	-%-	1999 DEM mn	-%-
Total	3,426	100	3,830	100	3,990	100	3,397	100	2,719	100	3,195	100
Producing Sector	263	8	333	9	422	11	171	5	243	9	145	5
Agriculture, Fishery, Forestry	252	7	310	8	402	10	171	5	240	9	136	4
Manufacturing, raw materials, mining, construction	9	0	23	1	20	1	0	0	3	0	0	0
Trade and Tourism	2	0	0	0	0	0	0	0	0	0	9	0
Economic Infrastructure	1,384	40	1,139	30	1,855	46	1,563	46	839	31	1,522	48
Energy	659	19	547	14	731	18	938	28	539	20	538	17
Transport and Storage	692	20	527	14	1.082	27	617	18	258	9	974	30
Communications	33	1	65	2	42	1	8	0	42	2	9	0
Social Infrastructure	1,066	31	1,352	35	985	25	1,213	36	977	36	805	25
Water Supplies and Sanitation/Waste Disposal	605	18	739	19	506	13	708	21	641	24	430	13
Education	204	6	305	8	329	8	138	4	188	7	61	2
Health Care	107	3	106	3	75	2	144	4	83	3	129	4
Population policy	63	2	99	3	39	1	90	3	61	2	27	1
Other Social Services	87	3	104	3	35	1	133	4	4	0	158	5
Financial Sector	330	10	228	6	453	11	289	9	312	11	366	12
Cross-Sectoral Operations	170	5	246	6	105	3	102	3	218	8	181	6
Commodity Aid	125	4	326	9	79	2	24	1	92	3	103	3
Structural Aids	90	3	208	5	92	2	35	1	39	1	74	2
of which protection of the environment and natural resources	*729*	*21*	*521*	*14*	*632*	*16*	*1.039*	*31*	*781*	*29*	*672*	*21*

Figures may not add to totals due to rounding

4. Promotion of the Developing Countries Cumulative Commitments of KfW by Regions and Sectors 1960–1999

	Commitment in millions of DEM						Share in % at commitments					
	SSAfrica[2]	Asia	Europe	Latin America	NA/ME[3]	Total	SSAfrica[2]	Asia	Europe	Latin America	NA/ME[3]	Total
Total[1]	20,732	37,709	11,380	7,407	19,536	96,764	100	100	100	100	100	100
Producing Sector	2,741	7,555	1,589	1,347	4,691	17,923	13	20	14	18	24	19
Agriculture, Fishery Forestry	1,987	2,.032	871	884	2,395	8,169	10	5	8	12	12	8
Manufacturing, raw materials mining, construction	753	5,518	709	463	2,296	9,738	4	15	6	6	12	10
Trade and Tourism	1	5	9	0	0	15	0	0	0	0	0	0
Economic Infrastructure	9,018	17,643	4,244	1,870	6,438	39,214	43	47	37	25	33	41
Energy	1,975	10,482	3,281	1,030	2,376	19,144	10	28	29	14	12	20
Transport and Storage	6,733	5,543	824	718	2,992	16,811	32	15	7	10	15	17
Communications	310	1,618	139	122	1,070	3,260	1	4	1	2	5	3
Social Infrastructure	4,195	2,397	1,294	1,900	3,772	13,558	20	6	11	26	19	14
Water Supplies and Sanitation/Waste Disposal	3,243	949	1,.203	842	2,201	8,437	16	3	11	11	11	9
Education	241	282	5	336	559	1,423	1	1	0	5	3	1
Health Care	343	487	33	416	36	1,314	2	1	0	6	0	1
Population Policy	154	482	3	0	13	652	1	1	0	0	0	1
Other Social Services	215	197	50	306	964	1,732	1	1	0	4	5	2
Financial Sector	477	2,819	875	781	2,115	7,066	2	7	8	11	11	7
Cross-Sectoral	684	642	283	560	170	2,340	3	2	2	8	1	2
Commodity Aid	2,467	6,555	2,948	725	2,129	14,825	12	17	26	10	11	15
Structural Aids	1,149	98	147	225	221	1,839	6	0	1	3	1	2

[1] *Cancellations and reductions have been deducted. Figures may not add up to totals due to rounding* [2] *Sub-Saharan Africa* [3] *North Africa/Middle East*

5. Promotion of the Developing Countries Disbursements by Supplier Countries – Summary 1998 and 1999

	Disbursements[1]			
	in millions of DEM		in %	
	1998	1999	1998	1999
Total disbursements	2,495.6	2,258.6	X	X
Apportionable disbursements	2,329.1	2,075.4	X	X
of which:				
expenditures in foreign currency	1,422.7	1,247.8	100.0	100.0
Federal Republic of Germany	1,181.5	1,033.9	83.0	82.9
Developing countries	70.2	74.3	4.9	6.0
Other supplier countries	171.0	139.6	12.0	11.2
Local costs (project countries)	906.4	827.6	X	X

[1] Not including disbursements under the Training Fund and the Project Preparation Fund

Disbursements

Supplier countries and types of supplies

The disbursements are broken down by supplier countries based on the seat of the supplier firms, where known. The following types of supplies are distinguished:

1. Disbursements for supplies and services of foreign firms to a developing country (foreign currency costs)
2. Disbursements for supplies and services provided by firms of the developing country itself (domestic costs)
3. Disbursements not divisible according to supplier countries
   a) Supplies and services that are provided by a company in the developing country but consist chiefly of inputs procured abroad (indirect foreign currency costs). In the case of indirect foreign currency costs the supplier country itself is not the producing country. In what country's production the supply ultimately originated cannot be established. The data therefore are based largely on estimates.
   b) Supplies and services for which individual invoices under a simplified disbursement procedure are not available at the time of the survey.

Since the scope of disbursements that cannot be divided by supplier countries fluctuates from year to year an annual comparison of shares that refer to all disbursements often yields an incorrect picture. The share of domestic costs also fluctuates considerably in the individual years. The data therefore are usually given on the basis of the foreign currency costs (without indirect foreign currency costs).

Supplier industries

Disbursements are attributed to the supplier industries in different ways for the project assistance and the non-project-tied aid. In the project assistance each supply contract is attributed to the industry of the main supplier already at the first disbursement and codified in accordance with the industrial identification method of the European Union (NACE). All ensuing disbursements are then attributed to that supplier industry. This method disregards sub-contractors belonging to a different branch of industry. For contracts executed through mercantile establishments the supplies are attributed to the industry of their manufacturer. Transport and insurance are not considered separately. Consulting services, however, are recorded separately.

For the non-project-tied aid the individual supplies are recorded by groups of commodities in accordance with the Standard International Trade Classification (SITC) method of the United Nations.

Developing Countries

The classification as a developing country follows the definitions of the OECD. Any deviation is marked by footnotes. In the attribution of developing countries to continents Oceania is counted to Asia and Turkey to Europe.

6. Disbursements by Supplier Countries and Purposes in 1999

Supplier Country	Disbursements in millions of DEM			in percent of foreign-currency costs		
	Total	project-tied[1]	non-project-tied	Total	project-tied[1]	non-project-tied
Australia	0.0	0.0		0.0	0.0	
Austria	4.6	4.5	0.1	0.4	0.4	0.1
Belgium/Luxembourg	4.9	3.2	1.7	0.4	0.3	1.5
Canada	2.9	2.9		0.2	0.3	
Denmark	22.0	2.2		0.2	0.2	
Federal Republic of Germany	1,033.9	969.5	64.3	82.9	85.4	57.4
Finland	1.0	1.0		0.1	0.1	
France	33.8	33.8		2.7	3.0	
Great Britain	7.6	7.4	0.1	0.6	0.7	0.1
Italia	8.6	7.8	0.8	0.7	0.7	0.7
Japan	26.2	26.2		2.1	2.3	
Netherlands	3.2	3.2		0.3	0.3	
Norway	0.0	0.0		0.0	0.0	
Sweden	1.8	1.8		0.1	0.2	
Switzerland	2.6	2.6		0.2	0.2	
Spain	1.2	1.2		0.1	0.1	
USA	38.2	13.2	25.0	3.1	1.2	22.3
OECD countries	1,172.6	1,080.5	92.2	94.0	95.1	82.2
Other supplier countries	0.8	0.8	–	0.1	0.1	–
Africa	10.4	10.4		0.8	0.9	
Asia	50.8	30.8	20.0	4.1	2.7	17.8
Europe	11.5	11.5		0.9	1.0	
Latin America	1.6	1.6		0.1		
Developing countries	74.3	54.3	20.0	6.0	4.8	17.8
Foreign-currency costs	1,247.8	1,135.6	112.2	100.0	100.0	100.0
Africa	416.0	415.8	0.1	X	X	X
Asia	225.4	223.3	2.1	X	X	X
Europe	13.6	13.6		X	X	X
Latin America	172.6	172.6		X	X	X
Local costs	827.6	825.4	2.2	X	X	X
Apportionable disbursements	2,075.4	1,961.1	114.4	X	X	X
not apportionable disbursements	183.2	135.4	47.8	X	X	X
of which indirect foreign-currency costs	109.3	89.6	19.6	X	X	X
Total disbursements	2,258.6	2,096.4	162.2	X	X	X

[1] including complementary measures

7. Disbursements for Foreign Exchange Expenditures by Supply Sectors in 1998 and 1999

Supply Sector	Disbursements for foreign currency costs in millions of DEM: all supplier countries		supplies from the Federal Republic of Germany		Share of the Federal Republic of Germany in percent	
	1998	1999	1998	1999	1998	1999
Mechanical Engineering	452.5	284.6	404.1	277.5	89.3	97.5
of which tracked vehicle manufacturing	127.1	51.4	119.5	48.8	94.0	95.0
Construction industry	198.8	245.2	123.1	139.0	61.9	56.7
Electronics	390.0	304.7	363.6	286.0	93.2	93.9
Vehicle manufacturing	18.3	31.4	6.5	27.6	35.7	87.8
of which						
road vehicle manufacturing	12.4	18.4	0.6	14.8	5.2	80.5
shipbuilding	5.4	13.0	5.4	12.7	100.0	98.1
aerospace industry	0.5	0.0	0.5	0.0	100.0	x
Chemical industry, petroleum processing, synthetics, rubber processing	97.2	95.4	52.2	61.4	53.6	64.4
of which						
chemical industry	4.2	1.5	2.6	0.9	61.6	58.8
petroleum & petroleum products	5.6	20.0				
primary chemical products and compounds	15.1	8.0	15.1	8.0	99.9	100.0
chemical fertilizers	31.7	38.1	31.7	38.1	5.5	77.8
medical & pharmaceut. products	29.6	16.6	1.6	12.9	5.5	77.8
production of rubber articles	10.8	8.8	1.0	1.5	9.3	17.0
synthetics	0.3	2.4	0.1		47.2	
Consulting services	242.1	227.0	215.4	211.6	88.9	93.2
Iron and non-ferrous metals production, foundries and steel forming	14.5	12.6	11.7	10.7	80.6	85.2
steel and light metal engineering	9.8	0.2	7.8	0.2	79.5	100.0
fine mechanics, optics, iron, sheet metal, metal articles	–6.2	4.7	–6.7	4.3	X	89.9
non-metallic minerals, fine ceramics	1.2	0.2	1.2		100.0	
paper and cardboard processing	1.8	1.9	1.7	1.9	95.7	96.6
agriculture, fishery	0.7	1.3	0.7	1.3	100.0	100.0
other supplier industries/groups of goods	1.7	2.3	0.0	2.2	0.2	94.3
apportionable by industries	1,422.4	1,211.6	1,181.2	1,023.6	83.0	84.5
not apportionable by industries	0.3	36.3	0.3	10.3	100.0	28.3
Total	1,422.7	1,247.8	1,181.5	1,033.9	83.0	82,9

8. FC Conditions

The financing conditions for the FC funds are determined by the German Federal Government. They are set according to the economic situation of the individual developing country, in particular the stage of development, the external economic position and the debt situation. Between KfW and the direct recipient of the FC funds, that is, the agency acting on behalf ot the government of the recipient country, three sets of conditions have applied since January 1, 1989 (so-called “transfer conditions“):

- The countries classified by the United Nations as “least developed“ (LDCs) receive grants. Grants may also be given to other developing countries for self-help-oriented measures to combat poverty, for credit guarantee funds for small and medium-sized enterprises and for projects in social infrastructure and environmental protection.
- All developing countries that fall under the World Bank category for particularly favourable IDA lending conditions generally receive loans at 0.75% interest with maturities of 40 years including ten repayment-free years (grace years).
- The remaining developing countries receive loans at 2% interest with terms of 30 years including ten grace years.

Studies and consulting assignments as well as training for project personnel are usually financed with grants.

In economically stronger developing countries these funds can also be combined with market funds. This makes it possible to provide a greater financing volume for specific developmentally sound operations than would be possible merely with funds from development assistance. The funds can be combined in the desired proportions, permitting a flexible adjustment of the financing conditions to the specific situation of the recipient country and the commercial viability of the project. Depending on the assumption of the country risks for the commercial part of the financing, a distinction is made between:

- mixed financing, in which German supplies are covered by guarantees from Hermes, the official German export credit insurance agency, and
- composite financing, in which the German Federal Government assumes the country risk regardless of the origin of the supplies.

Overview

Commitments of KfW (in DM billion)

	1998	1999
Promotion of the German economy	61.4	81.6
Promotion of the developing countries	2.7	3.2
Advisory and other services	0.6	0.2
Total	64.7	84.9

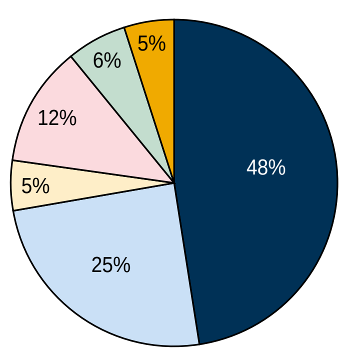
Promotion of the Developing Countries
Key figures (in DM billion)*

	1998	1999
Commitments of KfW unter Financial Cooperation (FC)	2.7	3.2
Federal budget funds	2.7	2.5
Market share of Composite and Mixed Finance	0.1	0.7
Disbursements to developing countries (budget funds only)	2.5	2.3
Net transfer (disbursement from budget funds minus debt service)	0.8	0.8

* Figures may not add up to totals due to rounding

Project-related commitments of KfW by Areas of Assistance
(in %)

1999



Economic infrastructure	48%
Social infrastructure	25%
Production and Trade	5%
Financial sector	12%
Multi-sectoral operations	6%
Commodity Aid and Structural Aid	5%

ABBREVIATIONS:

ACP	Africa, the Caribbean, Pacific
AFD	Agence Française de Développement
BiH	Bosnia and Herzegovina
BMF	German Ministry of Finance (Bundesministerium der Finanzen)
BMZ	German Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung)
CM	Complementary measure
DC	development cooperation
DED	German Development Service (Deutscher Entwicklungs-dienst)
DEG	German Agency for Investment and Development (Deutsche Investitions- und Entwicklungsgesellschaft)
DEM	Deutsche Mark
DIE	German Institute for Development Policy (Deutsches Institut für Entwicklungspolitik)
EUR	Euro
FC	Financial Cooperation
FCFA	Franc de la Communauté Financière de l'Afrique
GDP	Gross domestic product
GEF	Global Environmental Facility
GNP	Gross national product
GTZ	German Agency for Technical Cooperation (Deutsche Gesellschaft für Technische Zusammenarbeit)
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
NGO	Non-governmental organization
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public-Private Partnership
SSA	Sub-Saharan Africa
TC	Technical Cooperation
USD	US dollar
WWF	World Wide Fund for Nature

Organization Chart (as from May 2000)

(FC-relevant departments are shown in detail.)

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