

# FINANCING DEVELOPMENT

June 2010

Published in cooperation  
with Germany's  
development bank



## Crisis intervention

### [ Starting anew ]

Haiti's earthquake and  
Banda Aceh's tsunami

### [ Afghanistan ]

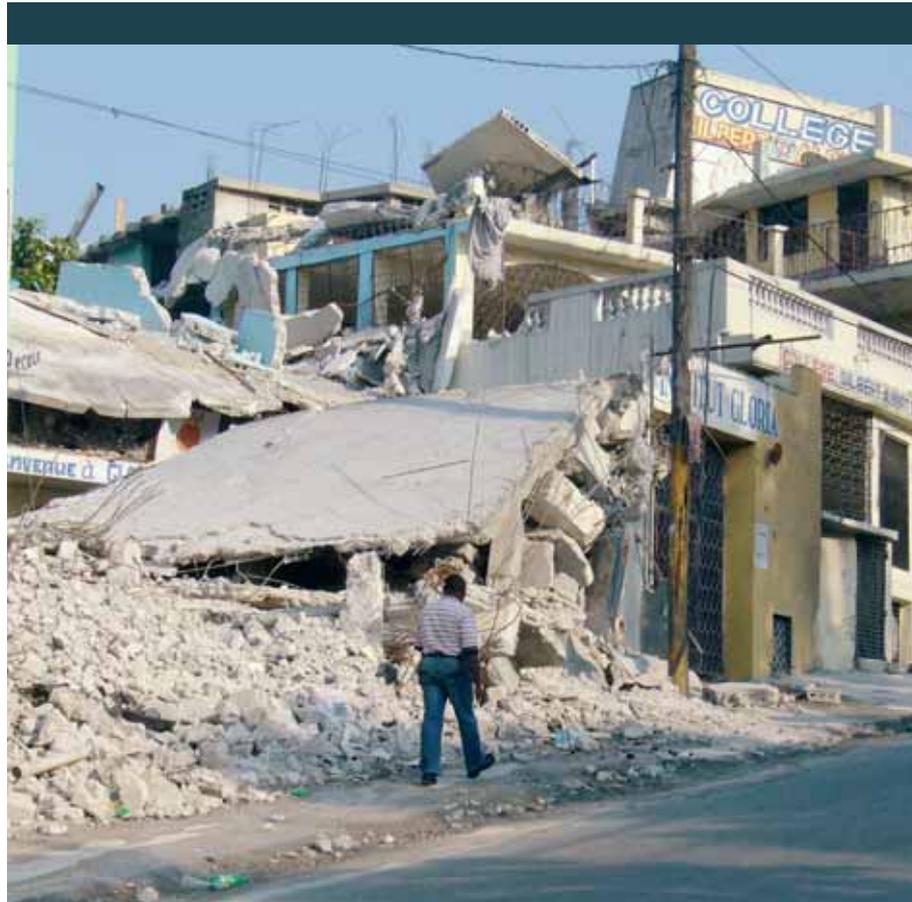
The progress made  
in reconstruction

### [ DR Congo ]

Victims are the  
culprits' neighbours

# Starting anew

In fragile states, development cooperation can contribute to peace and stability. KfW Entwicklungsbank facilitates reconstruction - for example in Haiti.



Earthquake damage in Port au Prince.

After the earthquake, KfW Entwicklungsbank on behalf of the German Government was on the ground in Haiti, providing effective assistance. The bank is participating in joint damage analysis performed by the Haitian government and its development partners. At the same time, preparations are underway to help with Haiti's reconstruction. With KfW support, the Haitian Fonds d'Assistance Economique et Sociale (FAES) is about to rebuild schools, health centres and other facilities, for instance in the small town of Léogâne. FAES enjoys support from several donors.

An urgently needed hydropower station will also be rehabilitated with KfW support. This project was planned before the earthquake struck, but implementation will now be fast-tracked. Reliable power supply is essential for the public administration to operate and for economic development to take root.

Haiti is generally considered a fragile state that could fail due to violent conflict. Accordingly, it is hard to score development success. UN troops have been deployed on the island for years to prevent riots and ensure stability. But for the government to gain legitimacy, tangible development results are needed – something that was not achieved by the country's political leaders in the past.

Typically, fragile and crisis-prone states are marked by authoritarianism and corruption, so people barely trust in institutions. Until a new order is established and people gain new perspectives, violence can flare up at any moment and culminate in another crisis.

Experts agree: what matters is

- that people see progress quickly once the worst is over,
- that they are involved in decisions and assume responsibility for the new beginning and
- that they participate in reconstruction, find jobs and earn money.

If all this is achieved, local communities discover something new: it pays to cooperate. It is essential to break the vicious circle of distrust, violence and stagnation for a peaceful, society-wide restart to work.

Donor agencies can focus their support on such processes. Carla Berke, Division Chief of KfW's Governance Competence Centre, says: "Basic needs have to be taken care of first." Parents all over the world, for example, want their children to go to school because "that is a clear signal that a better future is possible". Other priorities are income and jobs, water and power supply as well as transport infrastructure. Unless these matters are handled, there is little scope for productive economic activity and the growth of broad-based prosperity. KfW's experiences also show that working together on reconstruction helps to establish trust and resolve conflicts.

An economic upswing creates political stability and even legitimacy, as the KfW Banking Group knows from long experience. Its history goes back to the early years after the Second World War. KfW was established to handle the recon-

struction of vital infrastructure in West Germany. After the "Wirtschaftswunder" – the country's "economic miracle" – the next step was obvious: KfW was given an important role in development cooperation.

For a long time, policymakers thought that peacebuilding and reconstruction could not start until a conflict was definitely over. Today, however, it is generally acknowledged that a lot of things have to happen at the same time and that support is needed early on. Accordingly, KfW contributes to efforts in areas such as

- maintaining basic services,
- assisting victims and rehabilitating refugees,
- reintegration of ex-combatants,
- conflict-sensitive reconstruction,
- jump-starting the economy and
- reducing the disparities that fed the conflict, for instance by making sure formerly disadvantaged people get access to vital resources.

Political disasters cause immense suffering. So do natural catastrophes. But it is also understood that deep cuts may offer opportunities for a new start in a fragile state. The Indonesian province of Aceh in Sumatra is an example of a crisis area finding peace in the course of a natural disaster.

When the tsunami rolled over the island's coast in 2004, international attention first focused on immediately affected areas. KfW Entwicklungsbank made sure that communities scarred by ongoing conflicts in the hinterland also benefited from healthcare and housing projects. The reconstruction programme thus contributed to evening out existing disparities – and addressed the important task of restoring basic public services.

At the provincial hospital of Banda Aceh, Germany's Bundeswehr (army) and THW (technical relief organisation) teamed up with international partners for the purpose of humanitarian assistance. Later, however, a modern earthquake-proof hospital was built with financial support from KfW on behalf of Germany's Federal Government.

In retrospect, the tsunami marked the end of an era of conflict. Eight months after the seaquake, the parties involved in the conflict signed a memorandum of understanding. In December 2006, peaceful regional elections took place, leading to a degree of autonomy from the central government.

In Haiti, people are hoping for a similar chance after the quake. KfW Entwicklungsbank has learned to move fast in order to take advantage of long-term opportunities. Swift engagement pays off – especially in crisis areas.

*Hans Dembowski*

### Policy objective: peace and social stability

Germany's Federal Government has a comprehensive or "network" understanding of security. The coalition agreement of Christian Democrats and Liberals spells out

- that military security is only possible where the socio-political environment is conducive, but
- that the rule of law and human rights need to be protected by military means if necessary.

Accordingly, German development policy is geared towards paving the way for political stability and long-term growth in crisis areas.

Improving life for the people of Haiti after the earthquake and laying foundations for the country's reconstruction will take more than just immediate humanitarian aid. Dirk Niebel, Germany's Minister for Economic Cooperation and Development, said in January: "It is important to get more assistance to the people of Haiti fast."

Of course, the German government embraces the principle of networked security in other crisis areas too. Examples include Afghanistan and Eastern Congo. Therefore, Minister Niebel considers development success in Afghanistan a contribution to improving security.

Thanks to support from the international community after the overthrow of the Taliban, for example, 900,000 people in Afghanistan got access to electricity and safe drinking water – for the first time ever. Thanks to German development assistance, 100,000 additional teachers have been appointed and around 60,000 microloans have been issued (see box, page V).

<http://www.bmz.de>



### Imprint

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**Design:** Joern Rossberg  
**Publisher and printer:**  
Frankfurter Societät,  
Postfach D-60268 Frankfurt

# "A two-pronged strategy"

**The reconstruction of Afghanistan is progressing in many respects, contrary to the impression the Western public has. KfW Entwicklungsbank has adopted a two-pronged approach for all its projects: they must lead to results fast, but they must also be geared to long-term success.**



**Michael Gruber**  
is director of the Afghanistan office  
of KfW Entwicklungsbank

## **Is your daily life in Kabul dangerous?**

No, I am not directly threatened. There is – as anywhere else – a hypothetical chance of something happening to me. An accident or an attack in Afghanistan would affect the public differently than, for example, a traffic accident in Germany. But it is not as if we have to wear bullet-proof vests all the time. Our daily life here is quite normal, though perhaps somewhat restricted. We go to the office; we meet business partners; we go to restaurants. We do not need body guards in Kabul or when we visit our projects.

## **Do specific security measures apply, such as not always taking the same road at the same time?**

Our everyday work is varied so the risk of kidnapping is limited. Sometimes we go directly to the ministry; sometimes we have meetings with representatives of other donors; sometimes all our work takes place at the office. I don't wake up every morning thinking about what I must beware of during the day. Of course, there are some basic rules and general principles that have become habits. Sometimes there are warning signs in Kabul and then we are told to avoid particular streets, for example. Sometimes Kabul is declared a "white city", which means that all people should stay where they are because public streets and squares are always the most dangerous places in case of attacks.

## **How many people work for KfW in Afghanistan? Who protects your office?**

We are two expatriates and four local staff in Kabul. We also have another expat working in the north of the country. He is stationed in Kunduz with two local staff. Our office is located in a "German House" where GTZ and DED are also located. The building is guarded by a private security firm.

**The Taliban were driven out in 2001. Since then, reconstruc-**

**tion has barely progressed – but the security situation seems to be deteriorating.**

Opinions differ as to whether the Taliban were really driven out or whether they simply went underground. You also need to keep in mind that, in 2001, the country was completely devastated. It wasn't simply about starting at point zero; we had to start from way below zero. The Ministry for Urban Development, for example, only had one heated room with a window. It lacked printers, phones and electric power. The infrastructure was destroyed; competent staff had fled. One must remember this situation to assess accomplishments. And it is clear that we have accomplished a lot in crucial sectors such as energy, water, education and economic development.

## **Please give some examples.**

In the energy sector, we are working on several power plants. Among other things, KfW Entwicklungsbank has revamped two old plants near Kabul on behalf of Germany's Federal Government. For a while, these power stations supplied Kabul with about 40 % of its electricity. Improving the distribution network and transformer stations was also necessary. KfW has also significantly contributed to setting up a power line from Uzbekistan. Many donors participated in this project worth billions of dollars. As a result, the capital and other cities have enjoyed almost 24-hour electricity supply for the past year. Before, people only had three to four hours of electricity every third evening, if they were lucky.

## **What results can you show in the water sector?**

Success is visible. Nearly all inhabitants of the city of Herat, with the exception of refugees, now have access to clean drinking water. The refugee camps will soon be connected to the pipes too. There has also been progress in Kunduz, where there now is safe drinking water for about a third of the people. This progress was made possible by a KfW project. It matters that users pay fees for the service, because the sustainability of the system depends on funding. In Kabul, the groundwork has been laid to supply

1.4 million people with water. The system can be completed within a few years if investments continue. And as I said before: we had to start from below zero. We had to do everything: drill wells, install sewerage systems and so on.

**What have you achieved in terms of education?**

We are laying the foundations for structural change. Good education means people have perspectives and are not easily recruited by terrorists. We are particularly interested in girls going to school and in training female teachers. Nonetheless, still too few girls go to school. And a few model schools do not change the overall situation much. The country needs several thousand new schools. But we have taken the first steps; model schools can be copied. By pooling funds with other donors, moreover, Germany is contributing to the construction of schools across the country. We are also substantially strengthening our commitment in the field of vocational training. Rising school enrolments, after all, raise the question of what to do with graduates. Right now the Ministry of Education offers vocational training for 19,000 young people. But there are far more than 100,000 school graduates without any prospects. Thanks to money from the German Development Ministry and our work, Afghanistan will soon have seven more vocational-training schools.

**But the economy needs to pick up for education to be worth anything. Otherwise there are no new jobs.**



KfW Entwicklungsbank

*“The country needs several thousand new schools. We have taken the first steps.”*

For the economy to pick up, the necessary infrastructure must be in place: roads, bridges, markets, power plants, airports, the financial sector and so on. So far, the traffic infrastructure remains bad and unsafe. Therefore, transportation is slow and expensive. Private-sector companies hardly have access to credit. But matters are improving, and we are contributing to making that happen.

**What kind of goods could serve as the basis for economic recovery?**

There is no shortage of interesting products. There are many natural resources. Afghanistan has many high-value products. The sale of even relatively small quantities can generate substantial revenues – consider nut oil or rose oil, for example. That is why the

**Capital for small and medium sized enterprises**

*Capital for small and medium sized enterprises*

Since 2002, the DEG (Deutsche Investitions- und Entwicklungsgesellschaft) has provided support for the economic reconstruction of Afghanistan. KfW Entwicklungsbank works on behalf of the German Ministry for Economic Cooperation and Development (BMZ) to provide loans to entrepreneurs as well as small and medium sized enterprises (SMEs).

Afghan banks lack the necessary trained staff, modern technologies or organisational structures, which is why the DEG has helped entrepreneurs

by granting equity capital and providing advisory services. In 2005, it established the Credit Guarantee Facility (CGF) to give Afghan banks incentives to extend loans to SMEs. This programme is funded by USAID and the BMZ. An experienced official represents the DEG in Kabul. Its project office, the Afghan Credit Support Program (ACSP), now counts 18 local staff; among them are six credit specialists, specifically trained by the DEG.

Through the CGF, the DEG helps Afghan banks grant credits of 3,000

to 300,000 dollars to SMEs. The CGF has so far collaborated with the First Micro Finance Bank (FMFB) and the Afghan International Bank (AIB). Beyond providing financial security, it also offers advisory and training services. In 2009 alone, it guaranteed 529 credits worth \$ 17.6 million combined. By the end of 2009, both partner banks had extended over 1,300 credits for just under \$ 40 million. The loans helped create employment for about 20,000 people. The partner banks employ about 40 people in their own SME departments. *(alh)*



KfW Entwicklungsbank

**“We had to do everything: drill wells, install sewerage systems and so on.”**

expansion of the Mazar-i-Sharif airport in line with international standards is so important. KfW Entwicklungsbank, on behalf of Germany's Foreign Office, is contributing funds to that project.

**There has been a lot of talk about the need for the West to win the hearts and minds of the Afghan people in order to prevail over the Taliban. What do you think?**

First of all, it is up to Afghanistan's government to win the hearts and minds. If it cannot convince the people throughout the country that it is establishing the appropriate environment for progress and providing services, schools, hospitals and so on, society will find neither peace nor stability. That is why the country's ministries as-

sume ownership, implementing the projects we fund. As a development bank, we have a supporting role.

**But you too are expected to show visible success – and as quickly as possible.**

KfW Entwicklungsbank has a healthy approach. Right from the start, we adopt a two-pronged strategy. On the one hand, our interventions must make sense in the long run; otherwise there will be no return on investment. We use feasibility studies and thoroughly consider concepts. The process must be clean, moreover, so nobody will say after a tender that someone else's cousin or friend received unfair advantage. It requires time but when one starts from scratch, as I just said, patience is necessary. On the other hand, progress must also be visible. That's why we fast-track some things that have to be done anyway.

**Please give an example.**

Take the airport in Mazar-i-Sharif: some elements of the overall project, such as paving the access road, would have had to be carried out sooner or later. We do it as soon as possible. Engineers would normally only tackle these matters once the overall plans were finalised, but in Mazar we decided to move a canal that was in the way right in the beginning. As a result, there was visible activity soon after the project was approved. Moreover, there was paid work for some people. Local residents became involved. We want that to happen as often as possible: the more sweat people put into something, the more they will consider it their own and be ready to defend it. When people identify with something because they regard it as their property, their behaviour changes. This is just as true in Afghanistan as anywhere else.

**In the international development debate, the emphasis is on “ownership” – on responsibility of the respective governments and people. Afghan politicians have repeatedly complained that donor agencies and aid organisations hardly involve them. Do you find this criticism justified?**

Not in our case. We put the Afghan partners in charge. You see, Afghan institutions are responsible for planning and implementing the projects we fund. Obviously that means that negotiations are laborious and protracted – not least because we need to pay special attention that no resources are siphoned off. But the effort pays. It contributes to help building capacities in the partner country, capacities that are needed long term.

# New ways

**After the end of a devastating civil war, the people of Eastern Congo are hoping for a better future. KfW Entwicklungsbank is making sure that swift progress is made and peaceful coexistence of victims and perpetrators becomes possible.**

It started with a road. It runs from Walikale via Lubutu to Obokote along the lakes of the East African Rift in the Democratic Republic of Congo. This region is very fertile – but hardly anything has been cultivated here since 1996. That is when rebels in this mineral-rich area took up arms against the regime of dictator Joseph Mobutu. For many years, civil war made farming impossible. Roads degenerated into footpaths.

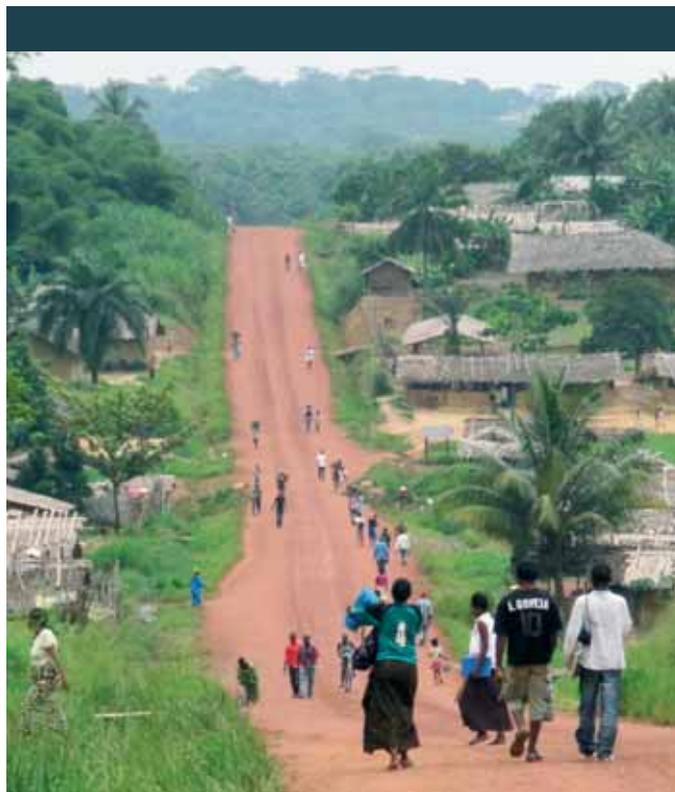
A few months ago, trucks started plying the route from Walikale to Obokote once again. Farmers take their produce to markets across the region. And people who were displaced find the way back to their villages. Thanks to the repaired road, economic and social life is picking up again, as Claudia Bürkin, project manager with KfW Entwicklungsbank, reports. The bank funded the rehabilitation of the road after the end of the war in 2005.

Once again open to civilian traffic, the road has made 109 villages accessible – along with 11 markets, 22 health centres and 94 schools. Bürkin quotes such data from an impact study, which also shows that 14,500 households are benefiting from farming being viable again. New houses have been built, more and more displaced persons have returned to the villages, markets are better stocked and transportation costs have gone down considerably.

The programme was funded by KfW Entwicklungsbank on behalf of Germany's Federal Ministry for Economic Cooperation and Development (BMZ). It was set up with partners on the ground in DR Congo. The purpose was not just to upgrade the regional infrastructure; the programme was also designed to facilitate the social reintegration of ex-combatants. A quarter of the construction workers were former rebels and demobilised soldiers. For five years, 619 ex-fighters earned between two and four dollars a day – start-up money for a peaceful future. "Demobilisation of combatants and their return home raised the question of how they could be reintegrated," Bürkin explains. "We had to give them jobs." The KfW programme of 14.4 million euro also helped to enable some 4,500 former child soldiers to return to school or, in some cases, even to attend school for the first time.

Anyone helping former perpetrators return to a peaceful way of life must not neglect the victims. After the end of the civil war, members of the two groups often live side by side as neighbours. Thus KfW Entwicklungsbank is also engaged in financing medical and psychosocial support for rape victims. As Bürkin points out, victims of sexualised violence often become "social outcasts" because of a traditionally "distorted sense of justice". However, a new path is opening up for the women concerned (see box, next page).

"We want to involve the whole community in reconstruction," Bürkin stresses. KfW is cooperating with partners such as the Welthungerhilfe, a German NGO, and Heal Africa, a Goma-based NGO, and Caritas Congo, a Catholic outfit. Together, they have helped more than 21,000 families establish farms again, financed the repair of rural roads and equipment for health centres, and provided small loans. "None of this was – or is – easy in a country where there were practically no public services even before the



KfW Entwicklungsbank

Transport routes are indispensable for economic development.

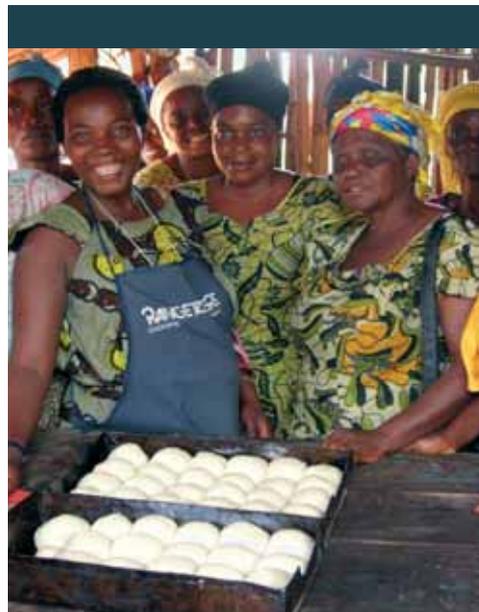
civil war," Bürkin says. A lot still needs to be done. There is no land register, for instance, showing who owns what land, and there is no properly functioning judiciary either. Eastern Congo is still politically unstable.

Many UN peacekeepers are stationed here. KfW is using a two-pronged approach, project manager Bürkin explains. KfW involvement also serves the purpose of contributing to the establishment of a government and its agencies in the DRC. It is important to improve people's lives fast, she says, so communities see an immediate "peace dividend".

On behalf of the DR Congo's Ministry of Finance and Germany's Federal Government, KfW launched a peace fund worth almost 50 million euros. To avoid polarisation, money is earmarked for four different regions of the country. The idea is to find jobs and thus generate incomes for as many people as possible in the course of reconstruction. At the same time, however, it is important to create sustainable institutions. KfW is paying attention to a set of diverse issues such as water supply, the financial sector and environmental protection. These are agreed focus areas of German-Congolese cooperation.

As Claudia Bürkin knows from regular visits, the people of Eastern Congo have "great expectations of peace". They are used to coping – se débrouiller. But Bürkin senses a change: many now want things to finally get better.

*Stephan Loichinger*



KfW Entwicklungsbank

Being productive enhances people's self-esteem.

## ***"Distorted sense of justice"***

The scale of violence and suffering is evident in the figures: after the end of the civil war in DR Congo, around 9,600 women in the eastern region of Maniema/North Kivu received medical treatment or surgery and nearly 10,000 were given psychosocial support funded by Germany. "Rapists in the Congo are particularly brutal," says Claudia Bürkin of KfW Entwicklungsbank. Some women had to be flown to the district hospital for surgery, many will never again be able to do hard physical work.

First and foremost, the women need medical treatment that they cannot afford themselves and that many local health centres in the region cannot provide without assistance. But that is not all. Many victims suffer acute feelings of guilt. KfW's project manager Bürkin speaks of a "distorted sense of justice", pointing out

that "in the Congo, it does not go without saying that a woman is not to blame if she is raped". In many cases, families reject victims of sexualised violence; often mothers lose contact with their children.

To help traumatised victims in this difficult environment, KfW Entwicklungsbank teamed up with the independent organisation HEAL Africa. Together, they developed a model for providing medical and psychosocial support to victims of sexualised violence. Village women play a crucial role; 240 women were trained as conseillères, local counselors. "They know the reality of the victims' lives and they will still be here when the project ends," Bürkin reports.

The conseillères have better access to the women concerned than experts from abroad or from the re-

mote capital Kinshasa. The conseillères talk to the victims, their husbands and their relatives. They also contribute to raising public awareness. By now, 740,000 women and men have been addressed in village squares. The message is that rape is not the victim's fault. Moreover, people are told where sexually violated women can find help and how sexual violence can be prevented.

It is important for victims to take part in economic life. Therefore, the participants of this programme in Eastern Congo are assisted in marketing products from cooperative farms as well as garments and soap they make themselves. There are around 100 such groups in Maniema at present. "The business component boosts women's self-esteem and is important for them to resume their rightful place in society," Bürkin stresses. (10)