

Portrait Saidachtam Rustamov

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Saidachtam Rustamov is the chief physician at Tajikistan's Matcheton Hospital. What was once a rather dilapidated facility has become a National Tuberculosis Centre thanks to funding from Germany's Ministry for Economic Cooperation and Development (BMZ).

Dr. Rustamov is satisfied that his patient Bibigul Norowa is getting better. This 30-year-old mother of four was hospitalised with a multi-resistant form of TB five months ago. Today, she is no longer infectious, and Rustamov has allowed her to go for walks outside for a few hours every day.

Rustamov is 61 years old. He is the medical leader of the Matcheton Hospital, which is located close to Tajikistan's capital city of Dushanbe. It is known as the nation's national TB centre, and has saved many people's lives. Today, the

doctors here are in a position to fight even the toughest forms of TB. In 2010, some 1000 patients received up-to-date medical treatment.

When Rustamov took over in 2002, the hospital was a mess. Opposition forces had moved into it during the civil war. The walls were marked by bullet holes. The building was half destroyed, lacking windows, water and electric power. It was impossible to hospitalise people here. Though many people would have needed such care, Rustamov could only run an outpatient clinic. He was used to tough

working conditions, however, because he had previously been a surgeon in a region that was ravaged by the civil war and had to treat patients who were wounded by gunfire.

Rustamov made the best of a challenging situation at the Matcheton Hospital. He isolated windows with polyethylene tape and made sure that at least a few rooms would serve to accommodate patients. When the first X-ray machine was installed thanks to KfW support in 2002, he per-

sonally renovated the rooms with help from his sons and friends. Step by step, matters improved due to foreign financial assistance.

Today, the Hospital is playing a leading role in fighting TB in Tajikistan. It has been completely remodelled. All equipment is new. When Rustamov started working here, he was the youngest of nine physicians; today he leads a team of 28. Some envy him, and he was certainly proud to tell colleagues from other Central Asian countries about the progress made in Tajikistan at a recent regional TB conference. This conference is held almost every year, and Central Asian countries take turns hosting it.

Rustamov has not had an easy life. He was initially trained as a metal worker, but he fell ill and suffered from partial paralysis. Physicians helped him to fight for his health and he eventually recovered. Full of gratitude and eager to help other people, he began to study medicine.

Today, his patient Bibigul is grateful. In another six weeks, her therapy will be over and she will be able to return home to her children – thanks to the medical care provided by Dr. Rustamov and his colleagues.

Vera Dicke //



Dr. Rustamov can be proud of his clinic, which is meeting modern standards.



Inheritance of the Soviet Union

Imprint

Responsible: Michael Seyler, KfW Bankengruppe
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Georgia's electric
power future
looks promising

Cooperating with
the WWF to
protect nature

ProCredit promotes
Energy efficiency
in Ukraine

In the bear's shadow

Since the Soviet Union collapsed 20 years ago, its successor states have developed along different lines. The Baltic states are now EU members while Russia, a G8 partner, needs to modernise its economy. The Caucasus and Central Asia, however, are beset by sustained conflicts. In these transition economies, financial cooperation is geared to the specific needs of each partner.

The implosion of the Soviet Union marked a turning point in the political life of the region. The economic impact was equally dramatic. The economies of nearly every country in the former Eastern Bloc were brought to their knees. GDP fell by as much as 70%, as products could not compete in the international market. Without Moscow's "regulating hand", the finely tuned division of labour and the exchange of commodities between Soviet republics – such as water for energy – broke down. Many countries witnessed high unemployment and poverty. On the road to democracy, governments faced major po-

litical challenges as well as economic and social ones.

Twenty years on, the Soviet Union's successors look back on very different development trajectories. The Baltic states succeeded in joining the EU, but other countries are only slowly adapting to geopolitical changes and new international relationships. With a mandate from Germany's Federal Government, KfW Entwicklungsbank has supported the transition process in Eastern Europe, the Caucasus and Central Asia from the outset – taking account of partner countries' level of development and their specific needs.

"Initially, we mainly provided emergency relief and goods," says Uwe Ohls, a department director at KfW Entwicklungsbank. Power generators, machinery and spare parts were among the consignments financed. The first KfW project was highly

“Kyrgyzstan and Tajikistan are still on a par with developing countries”

political: financing homes for former Soviet military personnel who returned home from East Germany (see interview).

Generally speaking, support for economies in transition is not standard development work. The countries concerned already had functioning economic institutions and public utilities. However, many were oversized, did not fit their purposes and could not be maintained after the Soviet Union's collapse. Therefore the aim is now to make enterprises and administrative bodies more efficient, implement overdue investments, and take sustainability issues into account. "We support the countries on the way from a centrally planned economy to an environmentally sustainable social market economy," says Ohls. "But that takes patience and perseverance."

The Federal Government launched the TRANSFORM programme in 1993 to help formerly communist countries in Central and Eastern Europe switch to democracy and market economies. The lead ministries were the Federal Ministry of Economics and the Federal Ministry of Finance. KfW Entwicklungsbank was also

commissioned by the Federal Ministry for Economic Cooperation and Development (BMZ) to engage in the former Soviet republics in the Caucasus and Central Asia as well as in Ukraine and Moldavia.

In the region, the German development bank's main efforts are focused on achieving economic and political progress for the people at large, especially the poorer sections, raising living standards and protecting nature and climate. It supports programmes in the health sector, in the area of sustainable energy and water supply, in nature conservation, education and in the financial sector.

Of course, Financial Cooperation is shaped by political developments. As a result of the eastward expansion of the EU, many members are now developing closer ties with Central Europe. EU attention is increasingly focussing on the transition economy for a host of strategic reasons. First the Caucasus, then Ukraine were included in the EU's New Neighbours initiative. Later, attention spread to Central Asia, to the "EU neighbours' essential neighbours".

Unemployment and poverty levels are still high, especially in Central Asia. The region is haunted by conflict and corruption. Three countries – Kazakhstan, Uzbekistan and Turkmenistan – are richly endowed with oil and gas. They are increasingly becoming reluctant to keep supplying neighbours with cut-price energy. As they bring their prices into line with the world market, their neighbours suffer. "In contrast to their resource-rich neighbours, Kyrgyzstan and Tajikistan are still on a par with developing countries, even 20 years after independence," writes Andrea Schmitz in "Resource scarcity – A global security threat?", a research paper

“Draw the right conclusions for reforms”

published by the German Institute for International and Security Affairs. Many people want to migrate from poor regions,



Three questions

for Uwe Ohls, KfW Entwicklungsbank' director for Europe and Asia.

Mr Ohls, when did KfW start operations in the former Soviet republics?

We began working there in 1991 when nearly 500,000 Soviet military personnel and their families needed to be repatriated from East Germany. A programme with the volume of DM 8 million was set up to build more than 45,000 homes in Russia, Ukraine and Belarus. A little later, we were supporting a retraining programme for demobilised soldiers who had returned home. It was funded by Germany's Foreign Office. We also invested in the TRANSFORM programme for democratic and economic structural reforms.

What makes the region different from others?

The word "transition" sums it up. Unlike in Africa or Asia, there had been institutions for education and healthcare as well as an operational infrastructure in the Soviet Union. Not all countries were equally hard hit by the Soviet Union's collapse, when Russia's financial transfers were discontinued and the established division of labour ended. Resource-rich countries like Kazakhstan were able to get onto their own feet faster than others.

How do you see the future of cooperation?

Climate protection and resource conservation will certainly remain a common interest. Peace and economic development on Europe's doorstep will also stay on the agenda. In Central Asia, the focus will be on continued support for the transition process, which is proceeding slowly and haltingly in some places. (ph)



KfW-Bildarchiv/Thomas Klewar

and development programmes are needed to offer them prospects.

Restarting proved specifically difficult in the Southern Caucasus. In some places, state building was flanked by war. There are still deep divides between Armenia, Azerbaijan and Georgia. While Azerbaijan relies heavily on its resource wealth, the two other countries are betting on free-market policies to create prosperity.

There is certainly a need for action. These countries require infrastructures that are fit for the future. Dilapidated supply systems from Soviet times need to be modernised to provide clean water and electricity 24 hours a day. Because the Caucasian countries' economies are growing, however, they need less and less non-repayable development aid. In-

creasingly, they require support in the form of favourable loans. KfW frequently deploys its own funds for such purposes, supplementing funds from Germany's federal budget and boosting the investment volume.

Even 20 years after the Soviet Union disintegrated, the transition is not yet complete. The financial crisis that is gripping the world obviously affects the transition economies. Poverty is rising once again. Recent events in North Africa provide a striking example of the frustration that can be unleashed when democracy is not delivered and people feel they have no chance of a job or a future. Some governments in the region are sure to have viewed those events with considerable unease. It is to be hoped that they will draw the right conclusions for reforming their own countries. Peter Hauff //



Looking to Moscow: Lenin statue in Tajikistan.

Determined reforms ensure success

Financial Cooperation achieves most when a partner government is willing to implement reforms. Privatised electricity supply in Georgia is a striking example.

Anyone who ever flew to Georgia's capital Tiflis by night 10 years ago will immediately notice the difference. Today, travellers don't arrive in darkness; they are welcomed by brightly lit windows of homes and shops. Germany is one of the countries, which have been involved in Georgia's social and economic development since the collapse of the Eastern Bloc. The power sector has been the focus of Financial Cooperation (FC) in the home country of Eduard Shevardnadze, the former foreign minister of the Soviet Union who later became Georgia's president.

Right after independence from the Soviet Union, Georgia's electricity sector was in a desperate state. The Soviet Union's electricity supply system had been centralised and integrated. It had to be adapted to the needs of the successor states. Power generation, distribution and transmission



Inguri dam between Georgia and Abkhazia.

i Energy-rich Georgia

- Georgia has an enormous potential for hydroelectric power, but only 20% is currently used. Every spring, approximately 1,500 GWh is lost due to spilling of water. The figure corresponds to 20.5 million 100 watt bulbs running continuously.
- The Georgian government plans to export 6,000 GWh of clean hydro power to Turkey from 2016 on. That should allow Turkey, a partner in the Black Sea Transmission Network, which is supported by KfW and other donor agencies, to avoid an annual one million tonnes of carbon emissions.
- On top of KfW and Germany's Development Ministry (BMZ), other donor institutions involved in the Black Sea Transmission Network include the Austrian Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development and the European Union. The Network will improve electricity supply and boost regional integration. (ph)

were formerly handled in a single utility had to be unbundled. Georgia's new government's privatisation policy, however, did not bear fruit until the unbundling was completed after Shevardnadze's presidency ended in 2004.

Today success is most evident in what is no longer needed. Emergency generators used to buzz outside major stores, but they have disappeared. Nowadays, washing machines and computers last longer because voltage has been stabilised. In the past two years, Georgia only had two blackouts. In 2004, there were 15.

Thanks to German development funds, the nation between Asia and Europe has caught up with the west faster than many expected. Under Shevardnadze, govern-

15
nationwide blackouts
as recently as in 2004

mental revenue collectors still accepted bribes and then allowed invoices to remain unpaid or only partly paid. Before the Rose Revolution, the bill collection rate – the percentage of invoices for which the Georgian government actually collected money – was a modest 22%.

Tiflis decided to eliminate the mafia-like networks and rely on foreign aid. Officials were forced to retire. New meters were introduced. Within two years, the bill collection rate increased to 100 per cent. "The KfW Development Bank thought it would take three years to reach 70%," says KfW Project Manager Peter Brinkmann. "The Georgian government's determination achieved more than the meters we provided with German funding".

Previously, the government subsidised prices, so a kilowatt-hour cost less than two Euro cents. Today tariffs of five to seven cents allow a large part of the costs to be covered. Of course, this means that customers pay more, but their electricity supply is reliable, and they use power more sparingly. (ph) //

Learning from one another

Nature conservation and development are closely inter-related. Eberhard Brandes, the chief executive of the German section of the World Wide Fund for Nature (WWF) says that, when nature parks are established, there should always be a development component to the people's benefit. The WWF and KfW Entwicklungsbank have been working together for many years – for instance in the former Soviet Union.

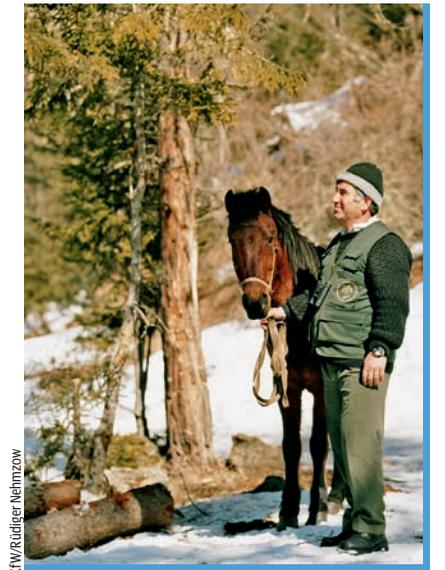
Since 1999, the WWF has been cooperating with KfW Entwicklungsbank, Germany's development bank. What are your motives?

For a long time, the WWF has mainly taken regionally based approaches to protect biodiversity. We need strong partners, including governmental development agencies. KfW is one such partner. The specialised knowledge and political vision of KfW and WWF are complementary. We have many years of experience in biodiversity protection, lobbying, sustainable farming, establishing nature reserves and managing buffer zones. We have permanent programme offices in relevant countries, and their engagement expands beyond individual projects. KfW, in turn, has decades of experience in designing, funding and implementing financial cooperation geared to developmental progress. Local people need to benefit directly from conservation measures. The financial resources KfW makes available on behalf of Germany's Development Ministry, the BMZ, matter too, of course. We are not only cooperating successfully in former Soviet republics, but also in Brazil, for example, where WWF and the KfW are joining hands with the national government in the Amazon Region Protected Area (ARPA) programme.

Is your cooperation helpful for tackling cross-border issues?

Yes, it is. The WWF network is international by definition, and so is our

understanding of eco-regions. We appreciate it when our partners have a similar understanding. Consider the Caucasus, for example. The WWF is taking a long term approach to protect biodiversity there, involving all countries concerned. KfW's commitment, on the other hand, is embedded in the BMZ's Caucasus Initiative, the goal of which is to strengthen regional cooperation, even when countries are in armed conflict with one another. Large-scale protection of biodiversity can serve as a lowest common denominator for regional cooperation. Biodiversity measures encourage a sense of trust



Borjomi National Park in Georgia.

between countries and peoples. Whenever diplomatic difficulties arise, we find cooperation with the KfW particularly useful.

What kind of difficulties are you thinking of?

One example is when we have to make national agencies aware of undesired developments that threaten our projects'

i Policy objectives: Democracy, peace and health

- Germany's Federal Ministry for Economic Cooperation and Development (BMZ) has been active in Ukraine since 2002. Ukraine is an important partner for the EU's Neighbourhood Initiative, which is designed to court Central and East European governments. Focus areas for BMZ include sustainable business promotion, energy and energy efficiency, health and fighting HIV/AIDS.
- In the context of the Caucasus Initiative, BMZ is cooperating with Armenia, Azerbaijan and Georgia. Focus areas are sustainable business promotion, energy, environment and democracy.
- In Central Asia, several factors are contributing to the destabilisation of countries. They include autocratic regimes, poverty, drug trafficking from Afghanistan, nationalism and regional disputes over water and energy. BMZ believes it is its duty to promote democracy and peaceful development in the region.

www.bmz.de/en

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

success. In Georgia, for instance, the jurisdiction over forest management was recently transferred from the Environment Ministry to the Energy Ministry. The practical effects are not clear yet, but they may hurt sustainable forest management. When KfW staff conveys that kind of message to officials, they listen. Each partner benefits from the other one's good reputation. In the Caucasus, we have seen that close cooperation of a government agency with a non-government organisation can lead to success, even in challenging circumstances.

The WWF has been active in the former Soviet Union since 1993. What has changed in that time?

At first, the top priority was to establish and expand nature reserves. Part of the job was forest certification. After the Soviet Union collapsed, management systems changed, so there were opportunities to press ahead with new projects. At the same time, everything achieved in terms of nature conservation up to that point was at risk. In 2000, Russia's governmental environment committees were dissolved and the national forest authority was integrated into the Ministry of Natural Resources. Our emphasis was on checking whether nature reserves met international standards. Let me mention just three points: management plans are needed, poaching must be prevented, and tourists need good guides. The problems grew and controls were relaxed when the republics were put in charge of forest management. This affected the granting of tree felling licences, for example. Investments were not made to fight and prevent forest fires. Our political lobbying intensified over the years. On top of that, climate protection has recently been getting more attention. A particularly good example of our successful cooperation with the BMZ and KfW is in the species-rich forests of the Bikin valley. Both governments involved consider this project in Russia's far east a "lighthouse project".



Pristine nature in the Borjomi National Park.

Is the link between nature conservation and finance becoming more evident?

Yes, absolutely. Establishing and protecting nature reserves are just one side of the coin, and the financial sector has great influence on investment decisions in the private and public sectors. In the worst-case scenario, it can thwart nature conservation and environmental protection. The goal must be to design investments in an environmentally and socially responsible manner. In this regard, KfW policies set the right examples. At the international level, standards have been improving considerably in recent years, but that is not enough. The real challenge is to mainstream standards in financial institution's global operations. To improve matters in the private sector, the WWF is cooperating with the German Investment and Development Company (DEG), the division of the KfW banking group that finances private enterprise in developing countries.

What do you tell your members about this kind of cooperation?

From the outset, we have informed our

members and sponsors. They are entitled to know how we use their donations. Some critics warned that the WWF might become financially and even politically dependent on government funding, but in general, the feedback we get is quite positive. I think it makes sense to tell people that our partnership with the KfW is one of two independent agencies which see eye to eye and will achieve more for humanity and nature by cooperating. Obviously, both sides have comparative strengths. Our colleagues at KfW understand the refined, professional instruments of Financial Cooperation. We have learned a lot ourselves over the years, and that points to an important reason for success: we learn from one another, to the benefit of both sides as well as the environment. *Interview: Peter Hauff //*



Thomas Macholz/WWF

Eberhard Brandes is managing director of WWF Germany since 2006. www.wwf.de

Access to credit

A fully operational financial sector that provides the loans that companies need for investing is the backbone of any economy. In Ukraine, the ProCredit Bank helps private sector companies get started.

In the small town of Komarovo in western Ukraine, Bohdan Sluka and his wife Halyna worked their way up. They started with a sweet shop. "Our children and nephews ate the sweets, and other kids tried them and then they wanted to get candy and popcorn too," Sluka says. The business went well; the couple proved to be good entrepreneurs. With loans from the ProCredit Bank, they expanded their commercial activities. Today, they run a hotel, a restaurant and two grocery stores.

Appropriate financial support was rare in their area for a long time. The private sector had a hard time before and directly after the Soviet Union collapsed. Especially small and mid-sized enterprises (SMEs) suffered. Back in Soviet days, state-run banks would give loans to strategically important state-run companies. After 1991, new private sector banks specialised primarily on large corporations. Because banks were not financing startup projects, SMEs had to borrow money from relatives, friends and informal lenders.

A bank focussing on SMEs was obviously needed. In a greenfielding approach in 2000, KfW Entwicklungsbank worked with other international donor agencies and the precursor of the current ProCredit Holding to found the ProCredit Bank of Ukraine. This bank is still setting standards – for instance in terms of advice to customers, designing banking products to demand, analysing credits to prevent excess debt and ensuring the transparency of terms and contracts. When it comes to responsible financing, ProCredit practices what it preaches.

Since 2005, moreover, the European Fund for Southeast Europe (EFSE), of which the KfW is a shareholder, has made

funds available to local financial institutions that serve SMEs in Eastern Europe and the southern Caucasus. Thanks to EFSE, innovative products such as long term microloans have become available to grassroots entrepreneurs.

In 2008, the ProCredit Bank began to make energy efficiency one of its speciality areas. Energy consumption remains high in Ukraine in spite of rising costs. ProCredit offers loans to firms and fami-

only to explain financing schemes, they must also tell customers how to save energy." Loans for investing in energy efficiency are still rare in the Ukraine, but ProCredit is paving the way for other Ukrainian banks to follow.

Bohdan Sluka and his wife Halyna have benefited from this service. They put a solar heat system on the roof of their hotel. It provides hot water for showers and the swimming pool and was financed



A loan from ProCredit helped Sluka Bohdan to build up a solar system on the roof of his hotel.

lies so they can invest in energy efficiency. KfW Entwicklungsbank provided € 22 million for refinancing and training purposes to ProCredit. Some of the money came from Germany's Development Ministry (BMZ), and some was raised by KfW on the capital market.

Training of staff and clients is essential, says Lorenz Gessner, a KfW project manager: "We expect loan officers not

by a ProCredit loan. "In four years, I have already recovered 80% of the costs," the hotel owner reports. In his view, the investment in the solar panels made business sense – and on top of that, it helped to protect the environment and climate.

Michael Ruffert //



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