



»» From the idea through
to utilisation
The project cycle in Financial
Cooperation

Financial Cooperation

The role of KfW Development Bank

KfW Development Bank has been helping the German federal government achieve its goals with respect to development policy and international development cooperation for over 50 years. We help partner countries in Africa, Asia, Latin America and South-East Europe to create better living conditions, while at the same time protecting the climate and the environment. With money from the German federal budget and our own funds, we finance investments and reform projects in a range of sectors including health, education, water supply, energy, rural development and financial system development. Our role in the field of German development cooperation is that of an experienced bank as well as an institution specialising in development policy. On behalf of the German federal government, primarily the Federal Ministry for Economic Cooperation and Development (BMZ), we promote and support programmes and projects that mainly involve public sector players in developing and emerging economies — from their conception and execution through to monitoring their success.

Would you like to find out more?

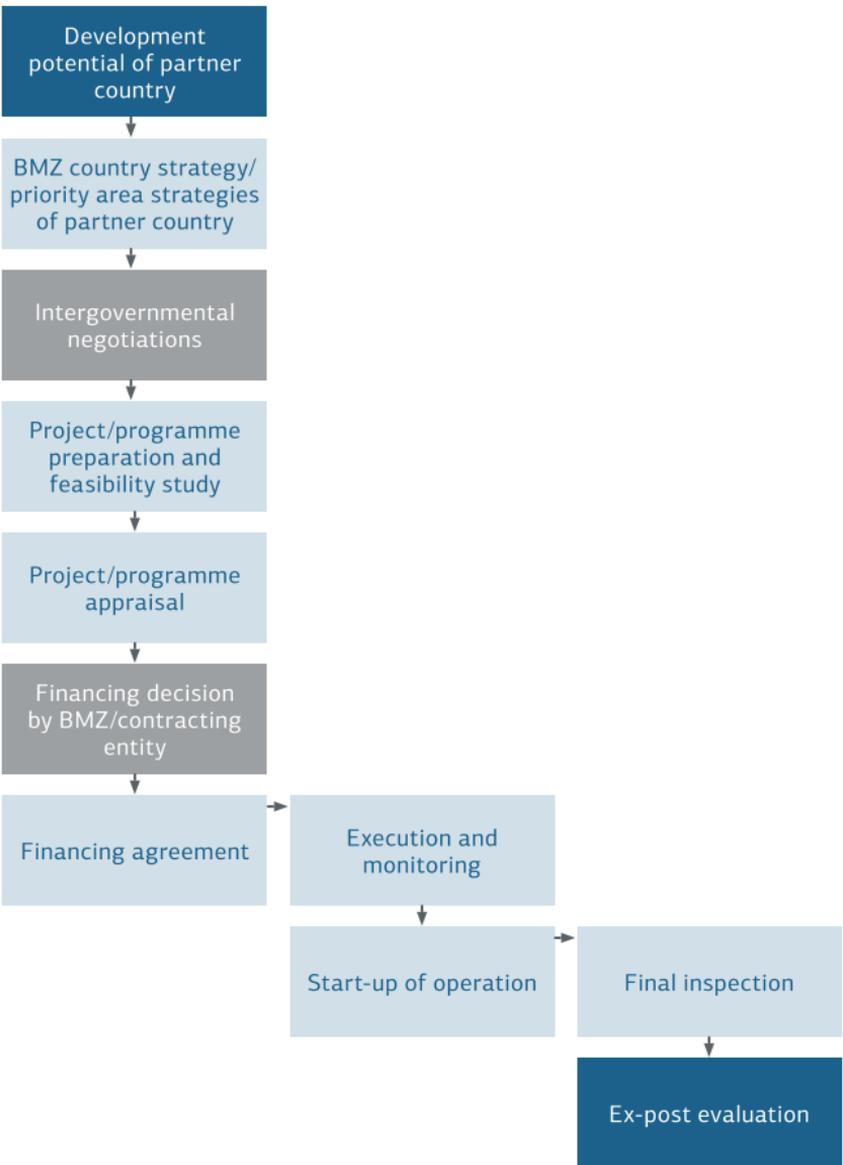
Our website www.kfw-entwicklungsbank.de offers up-to-date background information on development policy topics and our projects, as well as standard contracts and our guidelines on subjects such as the procurement of supply and work contracts, the assignment of consultants and fighting corruption.

The **KfW electronic newsletter “Development in Focus”** regularly offers information in German and English on the current focus of activities, events and publications on development funding by KfW. You can subscribe to “Development in Focus” at the following address:

www.kfw-entwicklungsbank.de/newsletter

The project cycle

All projects and programmes that are promoted by KfW Development Bank, both financially and in terms of ideas, follow the same project cycle — from conception through to evaluation. Quality is carefully assured at each stage of this cycle. In doing so KfW Development Bank aims to ensure that the projects generate both specific and structural changes.



The preparation phase

Analysis and conception

The Financial Cooperation is aligned with the country strategies of the BMZ and the development strategies of the partner country. In bilateral intergovernmental negotiations it is agreed how much funding the German government will provide and under what conditions. Through these agreements the German federal government and the respective partner country usually conclude an intergovernmental agreement.

Once the partner country has proposed a project approach, KfW Development Bank checks, first of all through a brief assessment, whether the project is appropriate in terms of development policy and whether it is feasible. The brief assessment for the contracting entity, such as the BMZ, provides an initial assessment and the basis for further discussion. For this purpose, in most cases the project-executing agencies, for example water or electricity suppliers, complete a feasibility study together with experts. This study contains an analysis of all the key aspects of a project — from economic efficiency through to developmental impacts and potential risks. Social, cultural and ecological factors are extremely important in this respect. Our experts and consultants support the partner country with all issues that arise during the preparation phase of a project.



On-site audit

Once sufficient information is available, the employees of KfW Development Bank check the conditions on-site. The following criteria are of paramount importance:

- Legal, institutional and macroeconomic conditions;
- Developmental goals and indicators;
- Impact on the fight against poverty, the social and cultural environment, conflicts, environmental protection and gender equality;
- Economic performance capacity and management capacities of the project-executing agency;
- Economic and technical appropriateness of the programme or project;
- Risks with regard to the sustainability of the programme or project.

KfW Development Bank summarises the results of the audit in a report for the BMZ or other contracting entity. This shows whether the planned project meets the development policy criteria. The report also includes a recommendation regarding the extent to which the funds should be provided and under what conditions. On the basis of this report, the BMZ instructs KfW Development Bank to enter into contract negotiations.

The execution phase

Financing agreement

The conditions of the financing as well as the rights and obligations of the contracting parties are defined in a contract. Usually the partner country makes its own contribution towards the financing. The contract also governs how the projects are to be operated in the future and who will be responsible for the system that has been financed, such as a water supply works, once it is complete.

Execution

As soon as the financing agreement has been signed, the project can be executed. One of the principles of Financial Cooperation is that the ownership by the partner country should be strengthened. Therefore, in each case the local project-executing agency is responsible for all activities during the execution phase, for example the awarding of contracts for supplies, the monitoring of investment activities, the adherence to contracts and the training and further education of the project personnel. Experienced international experts usually support the project-executing agency.

KfW Development Bank supports and advises the project-executing agency throughout the entire duration of the project. It also monitors the proper use of funds and regularly informs the BMZ of the project progress and the development of the sector. The execution phase draws to a close once all the agreed activities have been completed.

The inspection phase

Final inspection

Approximately one year after the successful execution of the project, KfW Development Bank closely re-examines the project: are the specifications being adhered to and have the funds been used as intended? Are local people using the healthcare facilities, for example? Are the services of the new microfinance institutions being utilised? Occasionally the final inspection also reveals that the partner still requires support in order to ensure long-term developmental success.

Ex-post evaluation

Our evaluation department, which is an independent administrative department, checks around half of the projects financed by KfW three to five years after completion by means of a random sample. In the evaluation, the entire project cycle is examined, from conception through to the determined need and specific activity, in order to establish the impact that has been achieved. The experts obtain a clear picture of the project in each case. They conduct interviews on-site with the project-executing agency's representatives, analyse data and statistics, evaluate the statements of other donors and contributors and finally evaluate the project.

Transparent information

Through our transparency portal <http://transparenz.kfw-entwicklungsbank.de> we provide information about the origin, use and impact of the funds that KfW Development Bank provides for development purposes.

Responsible banking

KfW is one of the world's leading promotional banks. It applies its decades of experience to improve the economic, social and ecological living conditions at home and abroad on behalf of the German federal government and the federal states.

KfW Development Bank is responsible for part of KfW's international business, in which both of its subsidiaries KfW IPEX-Bank and DEG are also involved. While KfW IPEX-Bank is active in international project and export finance, DEG provides financing and consulting to private companies investing in developing and emerging economies.

Photos

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