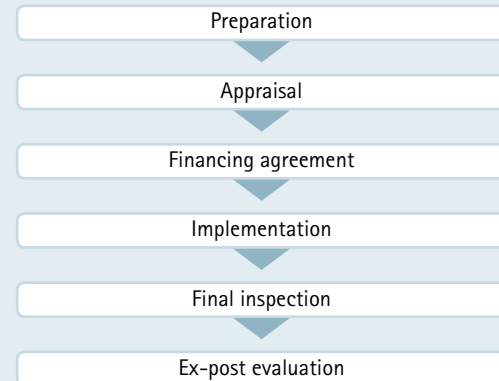


THE PROCEDURES OF FINANCIAL COOPERATION.

The fundamental principles of Financial Cooperation include enhancing the partner countries' sense of responsibility and ownership and aligning operations with their national development strategies and structures. The partner countries propose the FC projects and programmes and are responsible for their preparation and implementation.

All projects and programmes in the partner countries that receive financial support from KfW Entwicklungsbank go through the same cycle. All stages are monitored by a comprehensive quality assurance system.



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June 2006

From the idea to operation.



The project cycle.

OUR PROFILE.

KfW Entwicklungsbank (KfW development bank) finances investments, structural reform and complementary consulting services in developing countries. It also participates in joint financing operations with other development organisations. This way it contributes to meeting the Millennium Development Goals and acknowledges the need for efficient development cooperation.

KfW Entwicklungsbank works on behalf of the German government, represented by the Federal Ministry for Economic Cooperation and Development (BMZ). It is committed to the primary goal of German development cooperation, which is to sustainably improve the economic and social conditions of the people in developing countries. With its Financial Cooperation (FC) it contributes to poverty reduction, securing peace around the world, promoting democracy, shaping globalisation and protecting the environment.



PREPARATION.

Our cooperation is based on the country strategies of the Federal Ministry for Economic Cooperation and Development (BMZ) and the priority strategies elaborated jointly with our partner countries.

When a partner country proposes a project or programme on these bases KfW Entwicklungsbank examines in an initial brief statement of opinion whether it is developmentally sound and feasible and whether any necessary additional preparations need to be made that would require support by experts from KfW Entwicklungsbank and external consultants. The brief statement of opinion usually forms the basis for discussion in the government negotiations between representatives of the partner country and the BMZ. The government agreement which is then signed by both parties sets forth the financial commitments made by the German federal government for the proposed projects.

In most cases a feasibility study made by experts is used as a central instrument for further project preparation. It examines all important aspects of the project from its economic viability to its developmental impacts and possible risks. It places special emphasis on social, cultural and ecological concerns.

ON-SITE APPRAISAL.

The actual project appraisal is carried out on-site on the basis of the available information. Among other things, it examines

- legal, institutional and macroeconomic conditions,
- developmental objectives and indicators,
- impacts on poverty reduction, the social and cultural setting, conflict relevance, environmental protection and gender equality,
- the financial strength and management capacities of the project-executing agency,
- the economic and technical appropriateness of the project or programme,
- risks to sustainability.

KfW Entwicklungsbank compiles the results in an appraisal report which it submits to the German federal government. It contains a recommendation as to the volume of funds which the federal government should provide and under which terms and conditions. On the basis of the appraisal report the BMZ commissions KfW Entwicklungsbank to initiate contract negotiations.

CONCLUSION OF THE FINANCING AGREEMENT.

The financing agreement specifies the components of the financing and, in the case of loans, stipulates the repayment and interest details. It also includes details on project implementation and future operation as well as measures agreed with the partners during the appraisal. Examples include adjustments of tariffs and fees needed to cover future operating costs. Usually the partner country makes a reasonable counterpart contribution to the financing of the project or programme.

PROJECT IMPLEMENTATION.

Once the financing agreement has been signed the actual project implementation can begin. The project-executing agency is responsible for all activities involved in project implementation. These include, for example, the international competitive bidding process and the award of contracts for supplies and services, the supervision of construction and performance of agreements, and initial and advanced training for the project personnel. The project-executing agency is usually supported by experienced international experts.

KfW Entwicklungsbank accompanies the project-executing agency and prepares regular progress reports for the federal government. These reports describe how the project or programme operates within the sector and how it relates to the priority strategy paper. Project implementation ends when the investment measures are completed and the new facilities are operated by the local people.

FINAL INSPECTION.

Approximately one year after the successful realisation of the project KfW Entwicklungsbank carries out a final inspection to determine whether the newly created facilities are functioning, whether the project was implemented in accordance with the conception and whether the funds have been used appropriately, among other aspects. The final inspection might reveal the need for follow-up support measures – such as training – in order to ensure the developmental success of the project.

EX-POST EVALUATION.

Three to five years after the completion of a project KfW Entwicklungsbank's independent evaluation unit conducts an ex-post evaluation with the support of external experts. Its purpose is to answer the following questions and others: How have the living conditions changed for the local people? Have the expected positive developmental impacts actually occurred? Can the new facilities be used as planned? Is efficient operation ensured in the long term?

The experiences it gathers flow back into ongoing project work. KfW Entwicklungsbank publishes the results of these ex-post evaluations on a regular basis.