

# Financing Development

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Rio+20

## Responsibility for sustainable development

**Uganda**  
Electricity supply  
in rural areas

**Ecuador**  
Local participation in  
forest conservation

**Bangladesh**  
Climate change as  
urban challenge

# The road to the green economy

The international community needs to rise to global environmental challenges. The implementation of UN conventions must become more forceful and determined.



Florena Miesen

*Forests matter as carbon sinks and havens of biodiversity.*

The United Nations Conference on Environment and Development – also known as the Earth Summit – was held in Rio de Janeiro in 1992. It was a turning point in international affairs because the international community officially subscribed to the principle of sustainability. This term means that future generations must have at least the same opportunities as people today. Natural resources, therefore, must be handled with care and the environment must be protected. The summit, moreover, agreed that poor countries must develop and fight poverty. The consensus was that rich and poor nations must cooperate on sustainability.

The Earth Summit did not only affirm a lasting principle. It also laid the foundations for a global environment regime by passing several agreements. The most prominent ones were the UN Framework Convention on Climate Change (UNFCCC) and the Convention on Biological Diversity (CBD), designed to stem global warming and genetic erosion, respectively. The Earth Summit paid particular attention to forests because they matter in many ways. Rain forests, for instance, are home to a great variety of species, the diversity of which has not even been fully researched yet. At the same time, forests are carbon sinks, so they contribute to climate protection.

The Earth Summit took account of the specific needs of developing countries, agreeing that sustainability is a “common but differentiated responsibility” of all nations.

The idea is that the rich world must support the poor world’s progress, for instance by pioneering environmental protection and making eco-friendly technology available.

Germany’s Federal Government played an active role in Rio. Chancellor Helmut Kohl personally made efforts to bring the more hesitant governments of the USA, Japan and other countries on board. The summit results, moreover, were considered a major success for Klaus Töpfer, who was then Germany’s environment minister and later headed the UN Environment Programme (UNEP).

Twenty years on, however, the global climate is still heating up, and biodiversity continues to be eroded. This sad truth does not mean that the Earth Summit was useless; it proves that the conventions’ implementation has to become more forceful and determined. Indeed, the challenges have grown as humankind must now adapt to the impacts of climate change, which are most acutely felt in many developing countries that are struggling with poverty. No doubt, social and environmental issues are inter-related and need to be tackled coherently.

**Sustainability is a “common but differentiated responsibility” of all nations.**

This month, the UN is hosting a follow-up conference in Rio. The goal is to speed up the global transition to a green economy. The European Union, including Germany, is in favour of strong agreements.

The transition to an inclusive green economy will obviously require massive investments. The members of the International Development Finance Club (IDFC), an umbrella organisation of development finance institutions, are keenly aware of this need. They will play their role – at the Rio+20 conference and afterwards. The current head of the IDFC is Ulrich Schröder, the chief executive of KfW. He will personally attend the summit (see interview next page).

*Hans Dembowski //*



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<http://www.kfw.de/en>  
**International Development  
Finance Club**  
<http://www.idfc.org>

# “We assume responsibility”

Dr Ulrich Schröder, chief executive officer of KfW, elaborates on the activities of Germany's leading promotional bank.

The Rio+20 conference will take stock of the progress made since the Earth Summit of 1992. Even back then, Germany's Federal Government was promoting sustainability. What does the concept of sustainability

and Germany's political commitment to it mean for you as head of a public-sector bank?

Sustainability is an important basis for our work. The concept has a long tradition at KfW and is crucial for our

*Germany is implementing the “energy switch”.*



Bohling/Agenda

promotional mission. Sustainability, as we understand it, means environmentally sound, socially just and economically productive development. We are committed to improving the prospects for present and future generations. We work at national and international levels to promote the protection of the climate and the environment in general. At the same time, we pursue social objectives such as education, healthcare and social security. In developing countries and emerging markets, our projects and programmes help to fight poverty and improve people's standard of life. On behalf of the Federal Government, we are supporting sustainable development in partner countries.

**Why does KfW's new corporate claim stress the bank's sense of responsibility?**

The idea is to emphasise how we differ from primarily profit-maximising enterprises. We provide lasting support for sustainable economic, environmental and social change. KfW assumes responsibility in society and helps to keep the balance between economy and ecology.

**In Rio, energy will be high on the agenda because the consumption of fossil fuels is one of the drivers of climate change. What is KfW's mission in this area?**

Energy is absolutely vital for sustainable growth and development. Without energy, people in developing countries and emerging markets will not escape poverty, and their living conditions will not be sustainably improved. So we need to make more economical and efficient use of energy, and we must generate it in the most environmentally and climate-friendly way possible. Accordingly, KfW emphasises energy efficiency and renewable energies, both domestically and in international cooperation. Last year, energy-efficiency projects accounted for € 10.1 billion of the



## Sustainability as a policy objective

Since the first Earth Summit in Rio 20 years ago, every German chancellor has been committed to the principle of sustainability – and so were the party coalitions the chancellors depended on in the Bundestag. The Federal Ministry for Economic Cooperation and Development spells out on its website, for instance, that sustainability needs to be “the basis” for every policy decision.

**Federal Ministry for Economic Cooperation and Development:**

<http://www.bmz.de/en>

**Federal Ministry for Environment, Nature Conservation and Nuclear Safety:**

<http://www.bmu.de/english>

**The Federal Government's sustainability strategy :**

[http://www.bundesregierung.de/Webs/Breg/EN/Issues/Sustainability/\\_node.html](http://www.bundesregierung.de/Webs/Breg/EN/Issues/Sustainability/_node.html)

€ 22.8 billion we committed to environmental purposes and climate protection, and renewable energy sources accounted for another € 9.4 billion.

**Germany is increasingly switching to renewable energy sources. At the same time, it is still consuming a lot of energy. Are we really a good role model for developing and newly industrialising countries?**

Greenhouse gas emissions still remain much too high. Global warming has not been stopped. So far, international talks are geared to deliver a global climate treaty taking force by 2020. No doubt, the advanced economies must play a pioneering role in climate protection. Germany's Federal Government is pursuing a policy of “energy switch” with ambitious targets: carbon emissions are to be reduced by 80 % to 95 % by 2050, for instance. According to the Federal Ministry for Environment, Nature Conservation and Nuclear Safety, the amount of total energy consumption met by renewable energy sources in Germany has risen to about 12 %. The comparative figure for 1990 was only 1.9 %. We need to continue along that road. Germany can set an example by proving that a rich industrial nation can keep on producing and consuming – and still reduce carbon emissions. KfW is helping to implement our government's energy-switch policy.

**In international talks, the focus has been on climate change. Are environmental protection and nature conservation being put on the back burner?**

That certainly doesn't apply to KfW. We are working hard to protect biodiversity and tropical forests, and we have the Federal Government's mandate for doing so. We have supported relevant projects in more than 50 countries since 1990. To stop the overexploitation of rainforests, we are helping to create more nature conservation areas. Worldwide, we support more than 300 conservation areas in 39 countries, including 18 UNESCO Natural World Heritage Sites. Altogether, that support helps to protect about 64 million hectares of forest – an area twice the size of Germany. What is more, we are stepping up our involvement in the protection of coral reefs, mangroves and savannas.

**For many developing countries and emerging markets, forest use is an important source of income. How do you persuade partners that protection is necessary?**

There is nothing wrong with forest use if it is sustainable. So prudent forest management includes protection and reforestation. REDD – the acronym stands for Reducing Emissions from Deforestation and Forest Degradation – can make an important contribution.

REDD is about donors paying for development programmes only if partner countries prove they are reducing greenhouse gas emissions through forest conservation. Meaningful REDD programmes are in place in Brazil and Ecuador.

**Do you have allies among financial institutions for activities in the fields of global climate protection and sustainable development?**

In 2011, KfW helped to establish the International Development Finance Club (IDFC), a global network of 19 leading national and multi-state development banks. Members pool resources and benefit from shared experience. First of all, we are focussing on promoting climate protection and building environmentally friendly infrastructure. At the climate summit in Durban, South Africa, the IDFC announced that it would deploy its own funds to augment financing for the UN's innovative Green Climate Fund.

**The impact of climate change is already being felt in some parts of the world. In poor countries, in particular, people suffer from droughts and floods. What must be done?**

Where the consequences of climate change are already causing suffering, the people affected certainly deserve help. In areas affected by drought, moreover, adaptation to climate change must involve improving irrigation methods and making crops more drought-resistant. Where floods are a real threat, defence systems are needed. At the same time, climate protection must not be neglected. We want to contribute to stemming climate change, and we have ample expertise and years of experience to guide us. //



Dr Ulrich Schröder, chief executive officer of KfW.

# Electricity for north-western Uganda

In Sub-Saharan Africa only 30 % of households are supplied with electricity. Expanding the energy sector is an important contribution to reducing poverty.

Many families, particularly in rural areas in Africa, have no electricity. It is still a luxury to be supplied with electricity. "Without energy there is no escape from poverty," says Florian Ziegler from KfW Entwicklungsbank. One example is the West Nile region in north-western Uganda. The electrification rate in the region is only about one percent. Electricity is supplied by the private West Nile Rural Electrification Company (WENRECO) through an isolated grid. However, it is inadequate and susceptible to interruptions. The region needs reliable infrastructure in order to be capable of developing sustainably in line with the Rio Conference.

**2000**  
additional applications  
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been submitted.

On behalf of the German federal government, KfW is helping to improve the energy supply through a range of investments in generation, transmission and distribution. Overall investments of more than € 40 million are planned, with KfW contributing € 24.6 million. The Ugandan government and WENRECO will contribute the rest. Among others, plans include the construction of two small hydropower plants on the Nyagak River with a total installed capacity of nearly 8 megawatt. After some construction delays, the first hydropower plant will start test operations in July. In addition, the existing supply network will be expand-

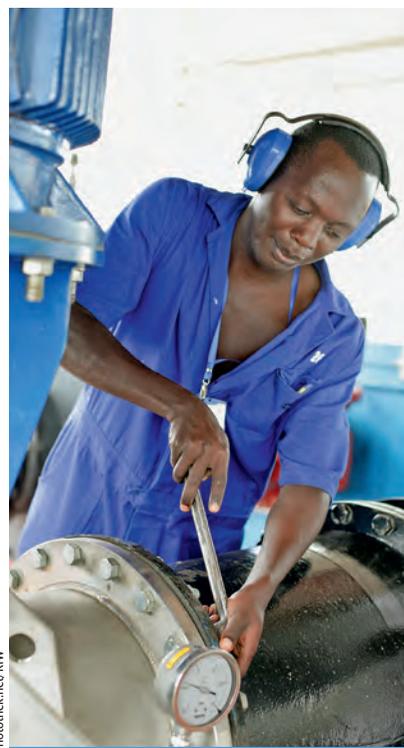
ed to provide more people with an electricity connection.

"If we want to help achieve the UN Millennium Development Goals to reduce poverty in Africa, we must invest heavily in the energy sector," emphasizes Ziegler. Along with expanding the grid and constructing the power plant, prepaid meters are being introduced in West Nile. The people will then have to pay for their electricity in advance, leading to lower consumption that helps to protect the environment.

The project will supply electricity to about 6,000 private households, 30 health stations and 60 schools in the region. The new power plants replace the operation of an old heavy oil power plant, which in the future will only be used during periods of peak demand. Moreover, hydropower does not cause any greenhouse gases and can be used in the long-term. It is also economical because no expensive fuel is required.

"The concept has a sustainable impact," says Jan Martin Witte, the KfW project manager on site. When the work on the power plant Nyagak I is completed, then construction of a second hydropower plant will begin (4.4 megawatt). The plan is to connect the region to the national grid by about 2025.

Once the project in north-western Uganda has been implemented, there will be enough electricity in the medium term for the people in the West Nile region. In this way farmers will be able to adequately irrigate their cotton and to-



A power plant employee in Uganda.

bacco fields and maybe even produce enough for export. The private operator, a subsidiary of the global Aga Khan development network, currently supplies about 3,000 customers. Already almost 2,000 additional applications for connection to the electric grid have been submitted – many from small enterprises. Reliable electricity supply improves their market opportunities and contributes to reducing poverty.

In Witte's opinion, the projects in Uganda serve as an example. Other African countries will also have to improve and expand their electric grid in an environmentally sound manner – they are facing the same challenges as Uganda. (loi) //

# Forest partners

The tropical rainforest of the Amazon Basin seems to extend forever, but this planetary lung is under threat. In Ecuador, a government programme is making forest conservation economically attractive to local people.

In 2005, a group of developing countries launched a new initiative that put rainforest conservation on the international agenda. It came to be known by the acronym REDD, which stands for “Reducing Emissions from Deforestation and Forest Degradation”. The idea is to make forest conservation lucrative for local communities. Globally speaking, forests make a low-cost contribution to climate protection because they bind carbon. Nonetheless, woodlands continue to be cleared for farming and other purposes because the people of poor countries do not derive benefits from the forests’ ecological value.

To stem deforestation, the Government of Ecuador launched a programme called Socio Bosque (Partner Forest) in 2008, paying indigenous communities and private forest owners for protecting nature. Depending on the quality of the forest, they get \$50 to \$60 for each hectare that is conserved, not cleared. The sums may not be large, but Lutz Horn-Haacke of KfW Entwicklungsbank says they contribute to “improving the socio-economic circumstances of indigenous and Afro-Ecuadorian communities”.

Whether the terms of the Socio Bosque agreements are observed is verified annually. The contracts are signed for 20 years. On behalf of Germany’s Federal Ministry for Economic Cooperation and Development (BMZ), KfW Entwicklungsbank contributes nearly €12 million to support this governmental forest protection programme.

Another important goal is to safeguard biodiversity. Tropical rainforests are extremely rich in flora and fauna. Sadly, Ecuador has one of the highest deforestation rates in Latin America. Only a few years ago, it was 1.5%. More recently, the woods

have been shrinking by 0.63% or 62,000 hectares a year. From 1990 to 2010, 30,000 square kilometres of forest was lost – that is equivalent to 10% of the country’s territory. The government wants to protect 4 million hectares of forest, its regulations only protect 1 million to date.

Some 40% of Ecuador is still woodland, but overexploitation continues. Illegal loggers are active, and land suffers from the impact of miners and farmers. It would make sense to extend the Socio Bosque model. To make it a nation-wide success, more monitoring stations are needed, and so are more opportunities to make money with sustainable forestry.

Evidence that forest protection is viable in Latin America is furnished by Brazil’s Amazonia Fund, which KfW Entwicklungsbank supports of behalf of BMZ. From 2004 to 2011, the rate of deforestation in Brazil fell by more than three-quar-

ters. Last year, only 6,300 square kilometres were cleared – the lowest figure since Brazil started systematically monitoring its forests in 1988. (loi) //



There needs to be money in forest protection for local communities in Ecuador.



## Global challenge

Forests are a core topic of Rio+20. KfW Entwicklungsbank sees itself as a pioneer in this field and has been involved in the protection of tropical rainforests since the early 1990s with a mandate from the Federal Government. States need to define land use rights, ensure that laws are observed and create specially protected zones. The need for action is global and not limited to tropical regions. KfW Entwicklungsbank is not only involved in forest programmes in Amazonia, but active in Indonesia, Russia, the Democratic Republic of Congo and other countries as well. Pledges for forest programmes over the past two decades totalled € 1.4 billion. The territory thus protected has twice the size of Germany. (loi)

# Need for urban action

**Khulna is a fast-growing city in Bangladesh with a population of currently 1.5 million. It is located in the Ganges Delta, north of the mangrove forests of the Sundarbans. In the rainy season, Khulna is prone to flooding – with growing frequency. Such trends will be high on the Rio+20 agenda.**

Pessimists and optimists agree that global warming will hit low-lying Bangladesh particularly hard. Because of rising sea levels, many experts reckon that nearly a fifth of the country will be permanently flooded by 2050. With an average of around 1,000 people per square kilometre, however, Bangladesh already is one of the most densely populated countries on Earth. Most of its people are very poor. The average per capita income amounts to less than \$ 1,700.

Because of climate change, Bangladesh is forecast to experience more storms, heavier rains and more frequent tidal flooding. Indeed, people are already moving from the coastal regions to the cities, which is one of the reasons why about 20% of Khulna's population currently lives in slums. During the monsoon, Khulna is regularly flooded. Many homes are under water for weeks because informal settlements have no drainage infrastructure.

There is an urgent need for action. In the future, the wet season will bring even more precipitation, and rivers will flow even slower. Therefore, KfW Entwicklungsbank and the Asian Development Bank are supporting a national project designed to rise to these challenges. The measures will provide drainage for homes and streets as well as paved roads to link slums to the formal transport network all year round. "In Bangladesh, roads typically do not only serve transport purposes," says KfW project manager Christian Schönhofen, "many serve as flood protection too". The reason is that they are built on levees.

Improving slums' transport infrastructure will have positive impacts on busi-

nesses and livelihoods. When residential areas do not become inundated, people can go about their work undisturbed. At the same time, good roads make schools and healthcare facilities more easily accessible.

Around 200,000 residents of Khulna will be immediate beneficiaries, and one

in two of them live below the poverty line. "The project will contribute to raising per capita income and reducing poverty," Schönhofen explains.

KfW is contributing nearly € 11 million to the € 134 million venture. The aid is conditional upon improvements in local governance: the municipal council has promised to improve tax collection and boost its revenues. It also needs to employ more urban planners. "We are contributing to a better infrastructure and to better governance at the same time," says Schönhofen. (loi) //



Roads are built on levees and serve flood protection purposes too.



## Climate change adaptation

The countries that will be worst affected by global warming tend to be poor. To mitigate the damage to their economies, they need to adapt fast to changing environmental conditions. KfW Entwicklungsbank is therefore stepping up related investments, funding groundwater monitoring equipment as well as higher levees and erosion protection projects. In 2010, it supported adaptation projects to the tune of around € 150 million. Last year, the respective figure rose to € 450 million. (loi)

# Portrait Immaculata Raphael

The Hai District Water Supply Project is providing safe drinking water to rural people. It was made possible by German-Tanzanian development cooperation.

Immaculata Raphael radiates confidence. Apparently, it does not intimidate her at all that her audience consists of colleagues, superiors, a group of foreign journalists and high-ranking KfW officers, including Chief Executive Ulrich Schröder. Raphael is the district water engineer and knows all the details of the local water supply system. She also knows that it is well-designed.

The district is located on the slopes of the Kilimanjaro, Africa's highest mountain. The people who live here are poor. Most depend on farming. "They have what they need to survive, but nothing more," says a tour operator who knows the country well. Unlike many disadvantaged rural communities in Africa, however, more than 80% of the people here have reliable access to safe drinking water, thanks to the Hai District Water Supply Project. So far, more than € 33 million have been invested, of which some 80% were provided by KfW Entwicklungsbank on behalf of Germany's Federal Ministry for Economic Cooperation and Development (BMZ).

Success is convincing. Raphael points out that the project has prevented "the outbreak of cholera, something that used to happen every year." The workload of women has been reduced too. Formerly they spent a lot of time fetching water. Moreover, water supply has improved economic opportunities in the district's two

small towns, so people from other districts have begun moving here.

The natural environment is favourable, Raphael explains. The project sources water from streams in the Kilimanjaro National Park above the villages. The people know their welfare depends on the health of the rainforest there, which helps to protect the park's biodiversity, an important Rio+20 topic. The water is treated and distributed in pipes that lead downhill. No pumps are needed. Raphael, however, realises that a healthy environment depends on global trends too. She worries about the impact of climate change on the mountain's water resources. Its ice cap has already become much smaller.

The socio-political aspects of water supply require attention too, Raphael tells her audience. Today, village-based water trusts are in charge of distribution: "They hire and fire staff, they supervise the technical personnel and the management, and they set the tariffs." All water consumption is metered. Some households have a pipe connection; others buy water at kiosks run by the trusts.

Raphael confesses a fondness for former President Julius Nyerere's vision of a



*Competent and confident.*

nation living in solidarity. She points out that local water supply today relies on a "tradition of communal self-help typical of the Kilimanjaro region". A commercial sense of ownership matters too, however. "Ninety percent of the water trust bills are paid," Raphael emphasises. Earlier water supply projects failed in the district, not least because of insufficient funding arrangements.

Raphael studied in Dar es Salaam two decades ago. Does she feel homesick for the big city? "No, I don't," she says, and her smile grows wider, "I'm doing meaningful work here."

*Hans Dembowski //*

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