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Public-Private Partnerships:

What are public-private partnerships? The PPP report provides practical answers to this question. Every three months the new German-language publication of the GTZ Centre for Cooperation with the Private Sector informs its readers about how joint projects are progressing and how individual partners are benefiting from them.

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PPP
Value Added All Around

GTZ has for two years successfully sought out partners for development in the German private sector. More than 150 joint projects have been launched. Small and medium-sized enterprises avail themselves, first and foremost, of the program’s opportunities, which have been tuned to harmonize with developing- and transition-country interests.

For and From the Experts

Women workers in the Romanian hemp factory Carin Să Araid
Dear Reader,

With the increasing flow of capital into developing countries and emerging economies, the private sector is coming to play a new and important role in development cooperation. Direct investment in these countries markedly increased during the second half of the 1990s. From 1988 to 1993 it was still only about $50 billion per year, but now it has risen above the $200 billion mark. Direct private-sector investment in developing countries and emerging economies has thus come to be four times greater than public funding.

The prognosis is that this trend will continue. Even if not all of this investment generates employment to the same extent, it remains an important motor of development in our partner countries. Because of this, the private sector has emerged as an interesting strategic partner for development cooperation. The German Federal Ministry for Economic Cooperation and Development (BMZ) has launched a new approach over the past two years, employing the promotional instrument known as “development partnerships with the private sector”. Internationally these are known as public-private partnerships, or PPPs.

The aim of such partnerships is to link the interests of private enterprises and public development institutions together in a manner that enables both sides to achieve their goals more quickly, more economically and more effectively. Investing profitably and ensuring development benefits to developing countries are by no means incompatible aims. On the contrary, each partner stands to gain from this form of cooperation. Many PPP projects are still essentially models, yet experience has been promising so far: it has clearly demonstrated that the German government’s major development goals and the business interests of German companies can be made to harmonize with one another.

The long-term objective of making public-private partnerships integral components of German development cooperation can only be achieved if private companies, industrial associations, chambers of commerce and governments all pull in the same direction. Social standards, for instance, cannot be negotiated with individual companies: such issues must be taken up by industrial associations and adopted as part of each country’s national social policy. Only then can the term “sustainable solution” have any real meaning.

We are still just at the starting stage. But we are convinced that we are on the right track. The examples of PPPs cited in this edition of Akzente show where this track is leading – for public and private partners, both.

Sincerely,

Bernd Eisenblätter,
GTZ Director General
The Strands of Development

One branch of industry, two problems: TreuHanf AG needs more hemp fibre for industrial purposes yet German hemp farms cannot meet this demand; the Romanian hemp industry has always had great potential yet cannot manoeuvre itself into a competitive position. When the German company TreuHanf AG bought the century-old Romanian hemp factory Carin Sa Arad, a solution to both problems seemed to be in sight. An industrial upswing would be just the thing to spur the development of this Eastern European transition country.

Malte Kessler
Public-Private Partnerships

Just couldn’t have imagined that we would ever be working here – so many members of our family together,” exclaims Elena Levitchi. Nine Levitchi relatives now work at the Carin Sa Arad hemp factory; Elena’s husband as a company fireman, their eldest son Florin as locksmith, his brothers Doru and Radu as watchmen and hemp “retters.” Daniela, one of the two sisters, plaits the cord that is used to bind fibre bundles together. The son-in-law Liviu is a crane operator: he gets the bundles moved to their next destination. The first Levitchi to arrive was Elena, who in 1971 came all by herself from Radauti in Romania’s northeast, looking for a job. Now 51, she is sorting fibres according to quality. She glances down at the long fibres in her hand and smiles. The worst seems finally to be past.

Just three years ago Elena found almost nothing to smile about. The 100-year-old hemp factory at Iratosu near the western Romanian city of Arad was on the verge of closing for good. More than 100 employees lived in permanent fear of losing their jobs, and with them their whole way of life. Their apartments belonged to the company. It was the 1989 political and economic change in Eastern Europe – the Wende – that had triggered all this woe: with that shift, hemp production lost its traditional position of importance in the Romanian economy.

Romania’s socialist planned economy had systematically promoted hemp cultivation and processing throughout the 1960s and 1970s. There had been a whole chain of industries and activities involved in textile manufacture: hemp farming, retting (the partial decomposition of the fibres), scutching (shaking, brushing and combing the fibres), fine and coarse spinning, weaving, and clothing manufacture. At that time, more than 50,000 hectares of land were yielding 24,000 tons of hemp each year. The processing sector employed 50,000 people. But these times are gone for good. After more than ten years of a market economy, only about 2000 hectares are used to grow hemp today. Most of the retting and scutching facilities have had to close. Capacity has dwindled to 5000 tons, of which Carin Sa Arad alone processes 2000.

But things began to look up for the company in 1998. With support from GTZ and the integrated advisory services (IBD) it promotes in Bucharest, the German firm TreuHanf AG entered the Romanian hemp sector. The German company bought 96 percent of holdings in the hemp scutching plant Carin Sa Arad, which had been released for privatisation. The public-private partnership (PPP) project with TreuHanf was expanded over the course of the past year, so that it now includes cooperation to promote the Romanian hemp sector as a whole. The starting situation for the PPP project was fraught with complications, true, but it was promising nevertheless.

Sensible thinking

“TreuHanf and GTZ did what we couldn’t seem to manage all these years,” says Director Liviu Buta, 44. He goes on, “Finally we’re sitting down together and doing some sensible thinking about the future of this sector.” Liviu Buta is a pragmatist. He has his operation well in hand and delegates responsibility ably. He discusses operational issues calmly and rationally. Nonetheless, this engineer identifies strongly with Carin Sa Arad. He received his doctor’s degree in agriculture at the university of Timeswar, where he wrote his thesis on “Integrated Production, Industrialization and Utilization of Fibre Hemp in the Carin Agricultural Region.”

“The things you can do with hemp!” says Liviu Buta, going through the golden-yellow bundles of hemp that have been stood on end to dry – little yellow-gold pyramids as far as the eye can see. Now and then he calls out to one of the workers who are loading hemp onto a trailer truck. About 40 percent of it will be turned into long fibres for textile manufacturing. The remain-

Know-how for the fibre industry

Starting situation: As a lucrative and autonomous sub-sector, linen and hemp play an important role in Romania’s national strategy to develop the textiles industry.

Goal: To introduce new technologies and lines of products to the industrial exploitation of hemp and linen fibres.

Concept: A development partnership with TreuHanf AG in Berlin, which has an interest in expanding the Romanian hemp and linen sector, promotes the direct consolidation of the Romanian fibre industry.

Partners: The Carin Sa Arad factory and the Romanian General Linen and Hemp Association (UCIC)

Financing: The German Federal Ministry for Economic Cooperation and Development (BMZ) is promoting the PPP project until December 2002 with DM 340,000 in funding.
Two generations: The director of the hemp factory at Carin Sa Arad with worker Elena Levitchi (left-hand photo). A thermal spring on the company grounds supplies water at 43 degrees Celsius, filling vast tanks in which the bundles of hemp are immersed for retting.

Two generations: The director of the hemp factory at Carin Sa Arad with worker Elena Levitchi (left-hand photo). A thermal spring on the company grounds supplies water at 43 degrees Celsius, filling vast tanks in which the bundles of hemp are immersed for retting.

ing 60 percent will be processed into short fibres and shipped in that form to Yugoslavia and Hungary.

With the right equipment, Carin Sa Arad could also use the short fibres to manufacture textiles. Short fibre threads, when produced under competitive conditions, would have good potential for export. Instead of stopping at retting, breaking and shaking the hemp, the company could produce rough-spun hemp itself. Carin could also press the hurds, the woody part of the hemp straw, into pressboard. A one-hectare stand of pine needs a full ten years to produce as much as one hectare’s annual output of the woody substance from the hemp.

In reckoning the ecological advantages of hemp farming and utilization, the director waxes enthusiastic. Hemp thrives even without herbicides and pesticides. The traces of pollutants found in the plants come from polluted soil or ground water. And hemp remains virtually pollutant-free even after processing. The reason is that at Carin, as everywhere in Romania, the hemp is retted solely with water – unlike in China, for example, where chemicals are used. The bundles of hemp are immersed in water in retting tanks. Director Buta notes that the water temperature is decisive for good retting. At Carin the water is drawn from a depth of 800 meters. On cool autumn and winter evenings, the local children tumble about happily in the company’s effervescent, 43-degree thermal springs.

Stimulating the hemp industry

TreuHanf is taking advantage of the potential for hemp, the “wonder plant”. Carin’s owner wants to invest some DM 3 million in the Romanian fibre industry by 2002, above all in new production lines and technical and business know-how. Market opportunities must be carefully analysed in advance if the investment is to be sound, and sure to pay in the end. An overall concept for the development and diversification of hemp farming in Romania is needed as well.

This concept is being cleared with the General Linen and Hemp Association (UCIC), which began operations the same year that TreuHanf took over as majority shareholder of Carin Sa Arad. With the support of the PPP project, the UCIC is seeking to become the voice of the industry and a motor for better coordination and cooperation among all enterprises within the processing chain.

Slowly but surely the PPP project is arousing new interest in the hemp and linen sector within the Romanian Ministry of Industry and Commerce. The country has a long tradition in the uses of long fibres. But it is the short fibres that really offer a number of as yet unexploited opportunities. These short fibres can easily be put to industrial use – for example, in the construction and automotive industries. TreuHanf sees in hemp a highly attractive, competitive, and ecologically sound alternative to the glass and mineral fibres now being used as insulation and for fibre-composite materials.

German farms are not coming up with enough hemp to meet industrial demand. (Even though TreuHanf did pursue and eventually win, in 1996, a court case in Germany contesting the existing ban on planting hemp fibre.) TreuHanf thus has an entrepreneurial interest in turning to Romania. In Romania there is a solid and historical basis for knowledge in this field, for one thing, and, besides, TreuHanf believes that the cost involved in renovating the out-dated facilities there would be relatively low.

It is in the interests of development cooperation with Romania as a transition country that this undertaking succeed, and that it benefit all parties. This is the reason why GTZ, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), entered into one of its numerous PPP projects with TreuHanf. The factory Carin Sa Arad has a future once more in the Romanian hemp sector. In the more than two years since the TreuHanf takeover, much has been achieved. The company has received a dust extraction unit, the roof no longer leaks, electricity consumption has been reduced, and work processes have been more efficiently organized. All of the machinery has been put in top running order and has been set up centrally in a large hall. And what is particularly important from a business point of view is that operating capital is available once again. Elena Levitchi has only one wish left: “I’d like to just stay and work here until I get my pension, please.”

The author works as a freelance journalist in Bucharest, for, among others, the German public television channel ZDF.
Pairing Up under New Standards

The Indian leather industry has mud on its shoes. Small manufacturers blatantly pollute the environment and subject their employees to unhealthy working conditions. In such circumstances, it is difficult for German importers to work with Indian suppliers. Improving environmental and social standards makes prospects for their cooperation much brighter.

Rainer Hörig
When Bhairu Lal Dhangi pumps the hand pump in his farmyard, it spits out a blood-red witches’ brew. His harvest has shrunk to a fifth of what it was before the chemical factory near his farm poisoned the groundwater. The lives of people in his home village, Bichri, in the desert state of Rajasthan, are in danger. Safe drinking water has to be brought in by lorry. According to environmentalists, hundreds of “little Bhopals” happen in India every year.

The Bhopal poison gas catastrophe, which has so far claimed more than 15,000 human lives, first brought the shocking conditions in the Indian chemical industry to the world’s attention. But the environmental sins that do not make the international headlines are just about as bad. In the arid Ankleshwar/Baroda region in the state of Gujarat, for example, where hundreds of large and small chemical companies are concentrated, lack of water forces farmers to irrigate their fields with industrial effluent – and their children suffer from skin rashes and respiratory infections. In Vannivedu, a village in the southern state of Tamil Nadu, poisonous saline waste water from nearby tanneries makes the rice fields infertile.

In New Delhi, too, the groundwater is polluted. Indian chemical factories routinely discharge evil-smelling gases and toxic fluids. Many pump their liquid waste through boreholes into the groundwater. Public authorities such as the pollution control boards are supposed to monitor observance of legal regulations, but their equipment is inadequate and technically out of date.

One of the greatest environmental polluters is India’s booming leather industry. Employing two million people, the sector is concentrated in the regions of Agra/Kanpur, Calcutta, Jallandhar/Punjab, and Tamil Nadu. There is no lack of the raw material, leather. No country has more livestock than India: 500 million cattle, buffalo, goats and sheep. The waxing demand at home and abroad for leather products has brought the industry a growth rate of more than ten per cent in recent years. Leather and leather products are India’s fourth-largest source of foreign exchange. Almost one quarter of these exports, worth about 70 billion rupees or DM 3.9 billion, go to Germany.

In the country itself, 600 million pairs of shoes are turned out annually by a multitude of small manufacturers who produce them cheaply. It is these small enterprises which have besmirched the industry’s international reputation, says Monali Zeya from the Centre for Science and Environment in New Delhi. “Their working conditions are miserable and ‘environmental protection’ isn’t part of their vocabulary.”

Workers in these companies handle corrosive chemicals without benefit of protective clothing. Untreated waste water, high in saline and chrome content, flows into streams, rivers and ponds. In the rainy season, these substances are washed into the fields. But the way the industry is structured, with its many small enterprises, makes it hard for monitoring authorities to enforce environmental requirements and work regulations. True, the courts have been more active in recent years, and the threat of being closed down has compelled companies to adhere more closely to the law. The Indian leather industry is better today than its reputation. But, according to Monali Zeya, “The companies need financial support and technical advice.” Only with help of this kind will they be able to modernise their production.

Ethical production as a market factor

The main plant of Lakhani Shoes in Faridabad near New Delhi, one of the largest Indian shoe manufacturers, has already accomplished much in regard to more ethical production. This business places great emphasis on health-oriented and environmentally friendly shoe production. The brightly-lit production hall, almost as large as a football
field, makes a pleasant contrast to the dim and dusty production facilities elsewhere in the country. The employees of Lakhani Shoes make sports and men’s shoes for German brand names. “We have been working for four years with Deichmann, the German footwear retailer,” says Ashok Kalra, the general manager, and goes on: “Deichmann is one of our best customers. We have to go along with their wishes.”

The people who buy from Germany’s large leather goods retailers are increasingly on the alert. More and more of them are attaching importance to the manufacture of leather goods under ecologically and socially acceptable working conditions. “Besides price and quality, a third market factor has appeared: ethical production,” says a German export consultant in New Delhi. Some large German companies are now making sure that their Indian suppliers live up to their responsibilities by making future contracts contingent upon social and ecological improvements in the company.

Accordingly, the Deichmann company requires its Indian suppliers to observe international norms for work safety and environmental protection in their production process. A workshop held in November 1999 introduced the requirements to those Indian shoe manufacturers who were prepared to cooperate. Inspectors examined the companies and listed their shortcomings. “Lakhani Shoes already met 95 percent of the requirements at that time,” says General Manager Ashok Kalra. But there were problems with waste disposal. Now waste no longer is tossed helter-skelter on the dump, but is sorted and separated for recycling. Fire extinguishers hang on the walls in plain view, and emergency escape routes are marked on the floor.

Expertise for better standards

On its own, Deichmann’s would probably not have succeeded in basing the export business with its Indian suppliers on reliable ecological and social standards. A public-private partnership (PPP) project with GTZ paved the way. The joint project suits the business interests of the German importer, and at the same time it serves the social and environmental protection purposes of German technical cooperation in India. GTZ staff in the Indian-German export promotion project IGEP in New Delhi possess the requisite knowledge of Indian industry. The Deichmann company has put the development cooperation organization’s expertise to work.

“The Deichmann company asked if we could help to introduce environmental and social standards,” says Ernst Sykora from the GTZ Head Office in Eschborn. Dietrich Kebschull, head of the GTZ team in the IGEP project, adds: “We were able to draw on our extensive experience with the Rugmark seal, the sign of Indian carpets that have been manufactured without child labour.” With the cooperation of leading carpet dealers in Germany and India, the Rugmark Foundation was set up. It now monitors hundreds of carpet manufacturers in India, Nepal and Pakistan. Today the Rugmark certificate is attached to every second Indian carpet exported, assuring the buyer: no child labour here. “This shows what this new kind of project – a development partnership between the private sector and a public institution – can accomplish,” says Dietrich Kebschull. PPPs, he feels, could be set up in many sectors: for social issues, environmental protection, vocational training, in the introduction of new technology, in organic farming, or in wind and solar energy.

Together with its public partner, GTZ, Deichmann drew up a catalogue of social standards modelled on the American norm for social accountability, SA 8000 for short. “A realistic accommodation must be reached, though, between ambitious German standards and actual Indian production conditions,” says Ernst Sykora. The extent to which Indian industrialists are prepared to make the necessary changes, he goes on, needs to be determined through circumspect discussions. An economic incentive is also required. IGEP director Dietrich Kebschull: “The Deichmann company held out the prospect of doubling its medium-term purchases in India if business is good.”

The catalogue lists eleven criteria for cooperation with Indian suppliers. They must pledge, among other things, to bar child labour, to obey labour laws strictly and to respect the rights of workers, including the right to belong to labour unions. In the spring of 2000, Ernst Sykora and his co-auditor, Alok Sharma, subjected coop-
Public-Private Partnerships

erating enterprises to an envi-
ronmental and social audit, checking up on conditions at the suppliers and testing the readiness of management to make improvements. In the course of such inspections, Sykora also chats with workers.

Working scenes at Lakhani Shoes: Deichmann’s Indian shoe supplier meets key social and environmental standards.

His method: “I remain anonymous and ask questions indirectly to avoid setting up a conflict with company loyalties.” Alok Sharma takes this opportunity to check lighting and ventilation conditions in the workplace and to ask about working hours and overtime pay. In his audit report, the IGEP staff member suggests improvements, for which a timetable is agreed on with management and put in writing. The result is verified in further audits. At the end, the company receives a certificate.

“Tanneries are always pigsties,” a German leather expert says bluntly, and points to the high water consumption and use of poisonous chemicals. But some of the excesses of the industry in India amount to sheer laxity. “The leather industry has shamelessly violated existing environmental standards and work norms” is the verdict pronounced by the Indian news magazine Outlook. Complaints by neighbours and environmentalists led in 1995 to a far-reaching Supreme Court judgement. The judges ordered tanneries to be shut down if they failed to meet government specifications for environmental protection and work safety. Several hundred small enterprises had to close their doors as a result. In some tanning centres, wastewater treatment plants were then built.

“In Tamil Nadu today, nearly all tanneries are connected to municipal waste treatment plants,” says Ramasami, director of the Central Leather Research Institute in Chennai, Madras. Scientists here are developing new tanning and dying processes to reduce environmental damage, an effort supported by German organizations such as the Centrum für internationale Migration und Entwicklung (CIM), a human resource provider. According to CIM expert Jürgen Hannak, the Institute has developed a method of recovering 99% of the harmful chrome from waste water, but pollution by common salt remains a serious problem.

The public-private partnership between GTZ and Deichmann points the way to innovation for the Indian leather industry. At present, improved social and environmental standards are still restricted to a few large and mostly modernised enterprises which produce for export. Lonely islands in a sea of negligence toward humans and the environment?

IGEP director Dietrich Kebischull waves this idea aside: “The big companies act as multipliers in the industry.” Already, he adds, around 25 companies not associated with Deichmann have inquired about the Indian-German export promotion project and expressed interest in undergoing a social audit.

“A step in the direction of world markets

Starting situation: Poor social and environmental conditions in the Indian shoe and leather industry often obstruct international trade and delivery connections in this sector.

Goal: Selected shoe manufacturers gear their social and environmental standards to the conventions of the International Labor Organization.

Concept: A development partnership with Deichmann International-Holding GmbH in Essen, Germany – Europe’s largest shoe import-export company.

Partners: Indian companies, the Indo-German Export Promotion Project (IGEP), government authorities and NGOs

Financing: The German Federal Ministry for Economic Cooperation and Development (BMZ) is promoting this PPP project until September 2001 with DM 390,000 in funding.

The author is a freelance journalist working in Bonn and Pune.
A Bitter Business

Falling prices, decreasing exports, and diminishing profit: the bad news for Peru’s coffee growers just never stops.

The best path to a market breakthrough is better quality coffee. Now GTZ and Jacobs Coffee in Bremen are joining forces to help producers meet this challenge.

Ulrich Achermann

What was that rule about acidity, aroma and flavour: which one was it that influences the other two? It’s early in the morning, only nine, in the Peruvian Chamber of Coffee auditorium, and the class can’t seem to wake up. Coffee expert Rainer Becker regards his students critically over the top of his glasses. It’s so simple, yet nobody knows the answer: what they need now is a little cup of coffee!

For days the young Peruvians have been studying coffee, tasting coffee, and trading coffee shoptalk. The black beverage is tasted and then spat out – but not drunk. Anyone who has ever ordered a pot of black coffee, a cappuchino or a café au lait in the cafes of Lima can understand why the craving for coffee here is limited, even among fledgling coffee experts. Nowhere do you get a worse cup of coffee than in the coffee-producing countries themselves. They always export the best grades of coffee, while the undiscriminating local market gets the rejects, their worst defects covered up by roasting them much too long and intensively. Result: what local coffee-lovers find in their cups is less than appetizing. The widespread indifference to how a cup of coffee tastes goes hand in hand with an underdeveloped awareness of quality. Since Peru lacks officially established and internationally recognized quality standards, inferior lots constantly find their way into the international market, resulting in lasting damage to the image of Peruvian coffee abroad.

The quality problems plaguing Peruvian coffee inspired GTZ and the large German roasting company, Jacobs Coffee, to team up in Peru. The specialist in technical cooperation and the specialist in coffee – now in the hands of an American cigarette and beverage multinational – formed a development partnership. Through a public-private partnership (PPP), they hope to raise the quality of the coffee and introduce a quality assurance program as well as a reliable certification process.

A knowledge gap

Farmers and middlemen often know little about proper processing of coffee after it is harvested or about storage or marketing. They know even less about quality demands on the international market. No quality standards are applied to coffee...
fee for the domestic market, nor is it inspected according to recognized criteria. There is no price incentive to spur concern about quality. Because inferior lots are exported again and again, Peruvian coffee is penalized by a price reduction of from 4 to 18 cents per pound on the New York exchange, costing the coffee sector at least DM 20 million in annual losses. Yet this state of affairs could be turned around. Peru’s climate, soil and high-altitude growing sites could produce an Arabica coffee that can hold its own against the best Latin American grades.

The development policy dimension of this is obvious. If Peru’s coffee producers, mostly small farmers, want to maintain and expand their share of exports in the world market, product quality is the only way. For reliable quality monitoring and assessment, the export sector needs two things: a quality standards system and a differentiated pricing system. Jacobs Coffee has its own – partly complementary – reasons for entering into a partnership with GTZ in the underdeveloped Peruvian coffee market. “Peruvian coffee is harvested from April to June: a season when there is otherwise hardly any high-quality fresh merchandise on the world market,” says Rainer Becker. A biologist, he works for the Peruvian Chamber of Coffee as an integrated expert from the Centrum für internationale Migration (CIM), and for Jacobs Coffee as a freelance consultant. “When we discovered Peru as a potential producer of good Arabica, we broadened our supply base.”

The large commercial coffee companies are also seeking to meet the challenge posed by fair trade in coffee. Although the Fair Trade initiative originally launched by church and developing-world groups does not offer – with only about one per cent of the world trade volume – much commercial competition, it did considerably tarnish the image of large traditional coffee importers and distributors like Jacobs. They are vulnerable to being stigmatised in the eyes of the public as proponents of unfair trade structures, exploiting small farmers in the developing world. Partnership with a major player in technical cooperation such as GTZ could help them to solve this image problem. Is it only a coincidence that, at Jacobs, the PPP concepts are developed in the PR department? Other departments are far less concerned with them. Asked how much support the American mother firm accords the German daughter’s excursion into development cooperation, Rainer Becker says: “So far, none. But the first signs of support for such projects are just now starting to appear.”

The quality required

Rainer Becker is an old hand in the coffee business. He believes in the dictum “price for quality”, and thus in trading within established...
coffee market structures, which the PPP project does not call into question. He does not think much of the “alternative trade” practice of always paying premium prices, because it “rewards poor quality rather than good.”

In Lima, Rainer Becker developed a system of quality standards for the Peruvian Institute for the Defence of Competition and Protection of Intellectual Property, INDECOPI, dividing the country’s coffee production into five classes, from exportable goods to rejects. The Peruvian Chamber of Coffee, an association of exporters, could use this system to certify the product according to fine gradations determined by laboratory tests. It is true that the quality assurance strategy does not always meet with approval among local authorities and certain segments of the coffee sector. So the standards authority, INDECOPI, made a counterproposal that defined only three grades of coffee, a plan which betrays an inclination to continue palming off inferior merchandise on the world market. In the long run, only one thing will help small producers and the sector as a whole: insistence on quality.

Rainer Becker’s second task at the Chamber of Coffee in Lima is to train local staff in quality discrimination. The chamber conducts courses on a regular basis. About two hundred local people from various segments of the domestic coffee industry have already signed up, paying the chamber a fee of $150. Courses last five days and the subject matter is up to “the Germans.” The continuing keen interest in the courses can be taken as a sign of the rising awareness of problems in the Peruvian coffee sector.

Rainer Becker gives his students an insight into the sort of post-harvest manipulation and sharp practices customary in Peru: for instance, the raw coffee is often inadequately dried after it is washed. Sun-dried coffee tends to residual dampness – bad for quality. Mechanical drying is more reliable but expensive, and few producers have the facilities. Many of them are in any case quite willing to accept a higher water content, despite the loss in quality. The damper the coffee is, the more it weighs. And that boosts profits – in the short term, at least.

Another mistake: over-fermentation of the hulled coffee beans to free them from sticky pulp residue. If fermentation goes on too long, the coffee tastes sour or even rotten, as if it had “gone off.” In the laboratory, the students sharpen their ability to detect this. The first commandment of tasting is: Recognise such faults with certainty – every time and without exception.

Beginners don’t always succeed. Between coffee cup and spittoon, the class in the laboratory has agreed on the verdict “too little acidity” – thus missing the mark completely. After a quick taste, the instructor explains that this coffee has been over-fermented. Then Rainer Becker asks, for a change, a business management question: how great are the losses involved in hulling, sorting, classifying and, if necessary, re-drying enough of a particular coffee to fill one exportable sack? The resulting figure is, in Peru, frequently too large. Worse yet: since producers and coffee dealers are as a rule not even aware of this, nothing is done about it.

Jorge Luis Montero of the Catholic University of Lima is happy to be able to learn more about coffee. With the support of CIM expert Fritz Räuchle, he heads up a coffee project initiated by the university in the tropical lowlands of Puno Department (province). Many gaps still exist in what these two know about post-harvest coffee processing. “But we really must know exactly what we are doing in order to be able to market a first-class and exportable product,” says Montero. Others taking the course are employed by export firms, buyers, producer cooperatives, and Peruvian storage companies and coffee roasters. For the United Nations, Verena Adler markets coffee intended to provide Peru with an alternative to cocoa-growing as a source of income. She too values the opportunity to gain the experience that this course affords: “There is no other way in Peru to learn about coffee.”

The verdict of the market

Eduardo Montauban, manager of the Peruvian Chamber of Coffee, is satisfied. Although GTZ and Jacobs have been development partners in Peru for only about two years, he believes that the quality of Peruvian coffee has improved noticeably. The market proves it: discounts on coffee from Peru on the New York exchange are to be sharply reduced as of July. At an export volume of about 1.8 million sacks annually, that could reap several million additional dollars for the Peruvian coffee sector.

Jacobs has made a major contribution in Peru to raising coffee quality. Naturally that makes coffee more expensive for the company, which now buys 250,00 sacks per year. But the company is able to put these losses in perspective. “With coffee, the long term profit from insisting on quality more than outweighs what might be gained in the short term by buying inferior grades,” says Rainer Becker. Besides, money isn’t everything. “The work we are doing in Peru has real public relations potential.”

The author is a freelance journalist in Santiago de Chile.
A Solid Foundation for the Construction Industry

Ethiopia is in the grip of a housing shortage. The country’s construction sector is not equipped to meet the demand. A program to build low-cost but solid housing is relieving some of the pressure: in association with private development partners, this program is laying a firm foundation for the construction industry and for local engineers and architects.

Christoph Link

Thirty-year-old Yewoubsefer Abate unlocks the door to the house. “It is a very pretty house,” she comments with satisfaction and sets about arranging the furniture in her mind. “This is where the bed should go, and there, in the livingroom, I’ll hang up the pictures of my baby.” There is a nice view from the window – of fields, where donkeys and cattle graze peacefully.

The young administrative assistant would like to move in next week. For the first time in her life she has enough room. The little house – in the new housing development on the edge of the Ethiopian city of Nazret – has two-and-a-half rooms in 36 square metres of living space. One look at Yewoubsefer Abate’s old apartment would show what a step up this house is for her. The old place was no more than a dark little cubby hole of a room in the courtyard of a well-to-do land-owner. There was only one window – about two handbreadths from the next wall. A curtain separated the cooking area from the rest of the room. The family’s personal belongings were hung up under the roof for lack of a better place. For 80 Birr a month – a little over DM 20 – Abate can now have this fine new home, with an electrical outlet – the first she has ever had within her own four walls. If she wishes, she can even sublet one room, which has a separate outside door. Only a few meters away is her own little bath-house, with a toilet, shower and taps with hot and cold running water.

“It was very important to everybody to have their own private WC,” says Ralph Trosse, the GTZ technical expert for the Ethiopian-German Low-Cost Housing Project. Together he and his local partner had looked carefully into prospective residents’ priorities for the new housing to be built in Nazret. Project staff are distributing notices about the opportunity for new housing in other towns, too. On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), GTZ is supporting the construction of inexpensive but solidly built private houses in a number of locations throughout the country. In Nazret, 112 low-cost houses have been built; in Bahir-Dar, 48. In cities with a particularly acute housing shortage more are to follow: 1200 in Mekele, 1200 in Dire Dawa, 300 in Dessi, 100 in Jijiga and 200 in Addis Ababa.

Back-up projects

The low-cost housing project is supported by five development partnerships that GTZ has formed with private German firms. These public-private partnerships (PPPs) are giving the Ethiopian construction industry a boost to get it firmly on its feet. The Munich-based engineering office GFM sees a clear long-term business opportunity in the training of engineers and architects in Ethiopia. Since involvement in this field also pays dividends in terms of development co-operation, it only made sense that GTZ and the German engineering office enter into a PPP project together. GTZ is active in the interests of both sides and opens doors for GFM in Ethiopia. Staff seconded by the German engineering firm hold seminars on structural engineering and structural control engineering for the Ethiopian association of construction engineers and architects (ECEAA) in Addis Ababa.

“There are a number of contracts just waiting for German firms in the Ethiopian market, and this is one way for them to get a foothold here,” says Amha Yesus Metaferia from ECEAA. With assistance from the engineering office, the first thing he wants to do is see that structural control engineers achieve a professional standard. They are now
Input for the construction Industry

Starting situation: Training for the Ethiopian construction industry is too theoretical. There is no professional association of engineers or architects, and only 1 percent of skilled workers have had formal training in the field.

Goal: Training for engineering and architectural offices, particularly in urban planning; establishment of a professional association; further training for skilled construction workers; construction and operation of environmentally-friendly sewage purification plants.

Concept: Five development partnerships: two with the Munich-based company Gerhart Fuchs Mitsdörfer, one with Nixdorf-Consult, one with the architects association of Baden-Württemberg and one with the training centre for construction crafts and trades in Krefeld.

Partners: The Ethiopian Consulting Engineers & Architects Association, the Association of Architects and the Association of Engineers, various private engineering and architectural offices, the Ministry of Construction and Urban Development and the Low-Cost Housing Project.

Financing: The German Federal Ministry for Economic Cooperation and Development (BMZ) is promoting the five PPP projects with DM 1.6 million in funding. The industrial partners are contributing DM 638,400.

to be assigned to examine public buildings on behalf of the Ethiopian government. “In fact, many high-rise buildings in Ethiopia have never been checked,” says Metaferia.

The Baden-Württemberg association of architects is supporting – also as part of the PPP project – Ethiopian architects and engineers in setting up their own association. It informs them about the various ways they could organize themselves internally. Worade Emlaelu, spokesperson of the Ethiopian association of contractors, is enthusiastic about yet another development partnership: his association works with the training centre for the construction trade (BZB) in Krefeld, Germany. “We simply are not getting enough offers for construction worker training,” says Emlaelu. For these workers, training traditionally ends once they finish school. But this is to change now, and ten young people are soon to be sent to
Krefeld, Germany, for training. Here, too, cooperation with Ethiopia could be a plus from the German point of view. “Joint ventures might grow out of this, or Ethiopian contractors might purchase German machinery,” says Emlaelu. Whatever eventuates, the private partners would have “gained an advantage in Ethiopian markets simply by already being known here.”

But the main attraction of the project promoting the Ethiopian construction industry is low-cost housing. There are kudos for the Ethiopian-German team from all sides – from local inhabitants, the participating bank, the ministry. The concept is as plain as it is effective. Simple technical procedures lower construction costs, construction drawings are standardized, and wood, which is expensive in Ethiopia, is not used for formwork (for the pouring of concrete) here. Trained local construction workers also learn the ABC’s of stonemasonry. The real secret of success is, however, that the people moving into the new houses do not pay rent. Instead, they take out a housing loan or mortgage from the Ethiopian Construction and Business Bank, on which they make monthly payments at favourable rates. In other words, Yewoubsefer Abate and other residents will be house owners within the foreseeable future – and without all of the problems the builders from the Low-Cost Housing Project have had to cope with.

Paying a mortgage instead of paying rent

“The Ethiopian construction code is somewhat out of date,” says construction engineer and architect Ralph Trosse. He gives an example: “Too much reinforcing steel is required.” The “Iron of Angst,” as he calls the densely-set iron reinforcing rods, is what pushes construction prices up. Wherever possible the project has tried to do without them. With their good contacts to the ministry, project staff have also managed to acquire the odd excavator or bulldozer from time to time from the roads authority – on favourable terms. But these instances are not the main point.

The first task for Ruth Erlbeck, head of the project’s German development team, was to get the cities, government, construction firms and banks all to sit down together at one table. The crucial question was whether the state-owned Construction and Business Bank in Nazret would go along with the project or not. Until then, this bank had refused to offer construction mortgages for less than Birr 20,000 – DM 5500. The way the bankers saw it was that a house that cost less than that was not really a house at all. But then the “technical cooperation houses” came along. Made of stone and with a solid tin roof, these houses still cost only DM 3500 – a price that even Ethiopians with low incomes can pay. Finally the bank gave in, and Bank Director Teshome Tolcha has been pleasantly surprised in the end. “The demand for the housing construction program is overwhelming,” he comments with some satisfaction. The program in the city of Nazret, with its 137,000 inhabitants, is being financed solely through the local system. As Ruth Erlbeck puts it, “This was a breakthrough for the entire project.”

The mortgages are offered at a fixed rate of 10.5 percent per year for 15 years. Payments begin half-a-year after occupation of the house. “The people who take advantage of this program mostly have low- to medium incomes of around 200 or 300 Birr (about DM 50-75) a month,” says the bank director. This group includes teachers, traffic police and low- to middle-level civil servants. GTZ has opened local offices in the city halls of those cities willing to undertake construction. These offices review the applications for the low-cost housing. “We had more than 1000 inquiries about our 112 houses,” says Seyoum Assefa, head of the office in Nazret. Every other house will be occupied by a woman living either alone or with children. The population of Nazret includes a large number of singles and single parents.

No stones on this path

The project had first to locate sites that were suitable for construction – with infrastructure. “This is a dream for many people,” says Seyoum Assefa. During the period of the left-wing military dictatorship after the fall of Emperor Haile Selassie, house- and property-owners were permitted to own only one piece of property in Ethiopia – all others were appropriated. Today, privatisation is still not really building up steam under Premier Meles Zenawi’s regime. Unresolved questions about land ownership are stalling plans for construction. People who know this sector from the inside reveal in confidence that there is considerable corruption involved in the allocation of land for construction. Members of the ruling party were lining their own pockets. One popular trick was to post announcements of construction sites for auction late on Friday afternoons and to hold the auction Monday morning. But no such stones were strewn in the path of the Low-Cost Housing Project. The Ministry of Construction and Urban Development gave the green light, and the towns and municipalities came up with generous amounts of land. The minimum area required for such a site –

Public-Private Partnerships
A solid alternative: The demand for housing in Ethiopia is rising rapidly. In the coming year the country will be 924,000 housing units short. Technical cooperation would like to provide as many people as possible with an alternative to substandard living conditions in earthen buildings (above). The Low-Cost Housing Project is promoting the construction of simple, solid houses. PPP projects also play a part in training people who are active in the Ethiopian construction industry.

6000 square metres – was often far exceeded.

A new housing model by the Ethiopian-German project also looks like a winner: the “house that grows”. As families become larger, this house can be expanded from 36 to 86 square metres of living area. “The project staff do good work. We are very much satisfied,” says Berhanu Tamrat, Deputy Minister for Construction and Urban development, in praise of the advisory team. In order to keep the chain of decision-making as short as possible, the GTZ experts have set up their office right next door to the ministry.

The demand for apartments in Ethiopia is rapidly rising as the population grows at a steady 3.1 percent a year. A joint analysis conducted by the Ministry for Construction and Urban Development and GTZ showed that in the coming year the country will be around 924,000 housing units short. By 2003 this number could hit the one million mark for the first time. Urbanization is progressing rapidly. Today 85 percent of the 62 million Ethiopians still live in rural areas, but an annual rural exodus rate of 4.5 percent is making the problem in the cities ever more acute. In the capital, Addis Ababa, with its 2.5 million inhabitants, 85 percent of housing has already had to be renovated.

The Ethiopian construction industry is still not strong enough to cope with the demand for housing construction. Simple, solid buildings are what is needed. Low-cost housing and the PPP projects that support it have laid the foundation for an exemplary construction program, one that is also networked on a number of levels.

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Value Added All Around

GTZ has been sounding out the German private sector for development partners over the past two years. As a result, more than 150 joint projects are now underway. Small- and medium-sized enterprises are making good use of the GTZ program, which harmonizes their own interests with those of developing countries.

Albrecht Graf von Hardenberg

“A medium-sized business often doesn’t know where to turn outside of Germany, or just what factors must be taken into account in realizing projects abroad.” This is how Thomas Roess, Managing Director of Twistringer RMB, sums up a common dilemma. His company imports coconut palm fibres from Sri Lanka. Now business has reached a point where he would like to set up his own production facility there – at the same time creating jobs and opening up new sources of income to local workers. But without experience with such projects, businessmen face obstacles that they cannot easily overcome on their own.

Many companies that want to extend their business outside of Germany encounter this kind of difficulty. Public-Private Partnership (PPP) projects are GTZ’s answer to their problems. GTZ support means that when their business projects also make sense in development policy terms, they get a helping hand. And GTZ help means ripple effects for their investment, and greater sustainability.

PPP projects are planned, financed and implemented jointly. A good example of this kind of project is cooperation with the association of German retail and international flower trade. The problem facing German flower importers is that they may be called to account for poor production conditions in developing countries. Consumers have become more critical: these days they often want proof that the flowers they buy are grown under environmentally sound and socially responsible conditions. So GTZ now works side by side with flower importers to introduce modern environmental and social flower cultivation standards in five African countries. Flower farms must go through a certification process to receive the Flower Label. Members in the Flower Label program commit themselves to maintaining certain ecological standards, eliminating child labour, granting maternity leave, introducing permanent employment contracts and paying at least minimum wages. Thirty-six importers now order cut flowers from this Flower Label program – a win-win situation all around.

More than 600 applications have been submitted in the past few years to the PPP program at the GTZ Head Office in Eschborn, Germany. More than 150 of these applications have led to active development partnerships with private companies. Many more projects are currently in the process of preparation. Forty percent have had to be rejected. Especially during the starting phase of the PPP program, many companies were still more interested in subsidies and selective financing than in long-term partnerships. But this has changed. More and more businesspeople and business associations now integrate development policy issues into their own strategies. The German government has supplied only 40 percent of the nearly DM 120 million that has been set aside for PPP projects so far. The remainder has come from the project applicants themselves. This means every German mark’s worth of public spending is matched by at least one German mark in private capital.

Four rules for partners in development

It is not altogether surprising that some enterprises seek to exploit the PPP program strictly to their own advantage, glossing over or ignoring development goals in the process. Cooperation proposals from industry are therefore closely assessed and decided according to four criteria:

■ GTZ does not enter into development partnerships with companies that are already required to conduct the business activity in question, for example due to its legal mandate or because it is part of the company’s regular business. In other words, PPP projects do not subsidize German industry. The subsidiarity principle is the determining factor for cooperation.

■ German companies are expected to contribute both financial and human resources to the projects on a significant scale, usually assuming about 50 percent of all costs.

■ The project must fundamentally conform to the main development goals, country concepts, and sectoral promotion principles of the Federal Republic of Germany. That is, the projects must be environmentally sound, socially responsible and clearly relevant in development policy terms.
Public and private contributions must complement one another in such a way that both sides achieve their goals more economically, more effectively and more quickly than they otherwise would.

These principles still permit a number of interfaces for cooperation between GTZ and the private sector, however. GTZ decides within two weeks whether or not it will cooperate in a project proposed by a German company. In many cases the development policy goals of the German government and the commercial interests of the private firms overlap. The PPP office in Eschborn, Germany, also provides companies at no extra cost with consulting services on how to plan effective projects on the basis of their initial ideas.

**Mutual interests**

GTZ is one of three large development organizations assigned by the German Federal Ministry for Economic Cooperation and Development (BMZ) to implement PPP projects. The other two, the Kreditanstalt für Wiederaufbau (KfW) and the German Investment and Development Company (DEG), are primarily responsible for financial cooperation. They finance, for example, venture capital, favourable loans, advance work, and studies. GTZ relies on its own tried and tested knowledge and experience in technical cooperation. It brings to its partnerships the contacts and experience it has established over more than 25 years of cooperation in nearly 130 developing and transition countries. GTZ joint operation partner CIM, the Centrum für internationale Migration und Entwicklung, now also supplies experts for assignments in PPP projects.

For a number of companies, GTZ's expert insight into a given culture and national framework is the determining factor in risking the leap to a developing country. And support for German companies in expanding their business outside of Germany can be geared to result in significant value added for partner countries.

The problems that German companies repeatedly encounter in developing countries are reflected in their proposals to GTZ. But such typical and recurring problems can readily be solved within the context of a public-private partnership. Years of occupation with issues that seem to crop up repeatedly gave rise at GTZ to a series of special focuses within the PPP program. For instance, measures are taken to train skilled workers, specialists and managers in the developing country, to certify suppliers in line with acceptable standards, and to expand infrastructure in accord with project needs. PPP projects also promote the marketing of technical and technological innovations, agricultural production, improvements in logistics and marketing, and the introduction of modern environmental and social standards.

GTZ approaches problems on three levels. On the corporate level, it supports specific projects involving German enterprises and their partners abroad. On the level of industrial associations and chambers of commerce, it improves the partners' institutional environment. And on the governmental level it is engaged in helping to promote improved frame conditions within the partner country. Thus the kind of private sector investments that are promoted and secured may be expected to improve the living conditions of people in partner countries sustainably and to conserve the natural resource base on which their lives depend. Investments like these add value all around.

**Expanding the dialogue**

Development partnerships with industry are a relatively new concept, one which has yet to ripen fully. Yet PPP projects have multiplied remarkably. A major task for the future will be not only to promote them in the private sector but also to bring them to the attention of the general public. Despite the demonstrable success of the PPP program, there is still great potential for further direct cooperation. Thus the PPP office is not only in constant contact with individual firms but is cooperating more actively with industrial associations and chambers of commerce. One example is the cooperation agreement already signed by GTZ with the Association of German Chambers of Industry and Commerce (DIHT), which is already bearing fruit in the form of new PPP projects.

Public-private partnership amounts to an open offer to all companies and associations wishing to become permanently engaged in developing countries. The PPP program does not focus solely on the transition countries and emerging economies, as was assumed at the beginning. One characteristic of the program is that it is regionally relatively well balanced. This shows that companies are more than ready to take up activities in the world’s poor countries. Public-private partnership is in this way slowly but surely evolving into a new paradigm for German development cooperation, one which has a multitude of uses and a sound future.

*The author is head of GTZ’s PPP office.*
GTZ in step with business

More and more German private enterprises are becoming active within the sphere of development policy. They invest in developing countries, transfer modern technologies to them, offer training for local employees, raise quality standards and contribute to solving environmental problems. Such companies value GTZ as a strong partner.

Two years after launching its Centre for Cooperation with the Private Sector (PPP office), GTZ is working on projects with some 150 German companies in more than 50 countries. These public-private partnerships or PPPs have achieved a high profile and have proved their significance as a factor in German development policy. “There is clear overlapping between business interests abroad and development policy goals,” says Albrecht Graf von Hardenberg, head of the GTZ PPP office in Eschborn, Germany. He adds, “PPPs allow sufficient latitude for innovative forms of development cooperation, and it is surprising how many German industrialists are open to linking development tasks to their investment interests.”

The enterprises that generally qualify for a public-private partnership with GTZ are those in a position to contribute to a partner country’s development – for instance, daughter companies or joint ventures with import-export or other commercial connections with one or more companies in the partner country. GTZ can offer support for:

- certifying local products or production processes
- private companies that have been contracted to establish or build up public infrastructure
- pilot solutions for environmental protection in industry
- the privatisation of former state or service institutions
- project components that particularly promote a country’s development
- training technical and management staff

All projects must conform to the development policy goals of the Federal Republic of Germany and must as a rule be at least 50 percent privately financed. It is small and medium-sized German companies, first and foremost, that seek to cooperate with GTZ – companies that often lack essential information about the various sectors or legal framework in developing countries. “This is where GTZ can lend a hand. We smooth the way for investments that make a positive contribution to the people in our partner countries,” von Hardenberg says. In terms of PPPs, Asia is the leader, followed by Africa, Latin America, Eastern Europe and the Balkans, and the Middle East.

GTZ and its German partner companies have invested DM 120 million in PPP projects so far. The state contribution is 40 percent. “In this way every German mark of public spending mobilizes at least one additional mark’s worth of private capital,” von Hardenberg points out. State financing issues from a special fund set up by the German Federal Ministry for Economic Cooperation and Development (BMZ).
Contact:

Companies interested in a public-private partnership are kindly requested to contact GTZ’s PPP office in Eschborn, Germany: the Centre for Cooperation with the Private Sector

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