

Cost Recovery in Water and Sanitation

Challenges and Opportunities from a Development Bank's Perspective

Stefan Zeeb, Amman, 06.12.2010

Die Zukunftsförderer



1. **KfW Development Bank**
2. Setting the stage: Cost Recovery and Development Finance
3. Examples of Good Practice from German Financial Cooperation
4. Conclusions

60 Years of KfW

Financing with a Public Mission



- Promotional bank of the Federal Republic of Germany
- Founded in 1948 as Kreditanstalt für Wiederaufbau
- Shareholders: 80% Federal Republic, 20% federal states
- Headquarters: Frankfurt am Main
Branches: Berlin and Bonn
- Representative offices: about 60 offices and representations worldwide
- Balance sheet total at end-2009: EUR 400 billion
- 4,265 employees (2009)
- Rating: AAA/Aaa/AAA

A Bank with a Wide Array of Functions



Domestic promotional activities				
Promotion of SMEs, entrepreneurs, environmental and climate protection business start-ups	Promotion of housing, education, infrastructure and social development	Financing of municipal infrastructure projects and promotion in Europe	International project and export finance	Promotion of developing and transition countries

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Cost Recovery and success of water projects

Key findings of KfW's Evaluation Department

Conclusions of ex-post evaluations:

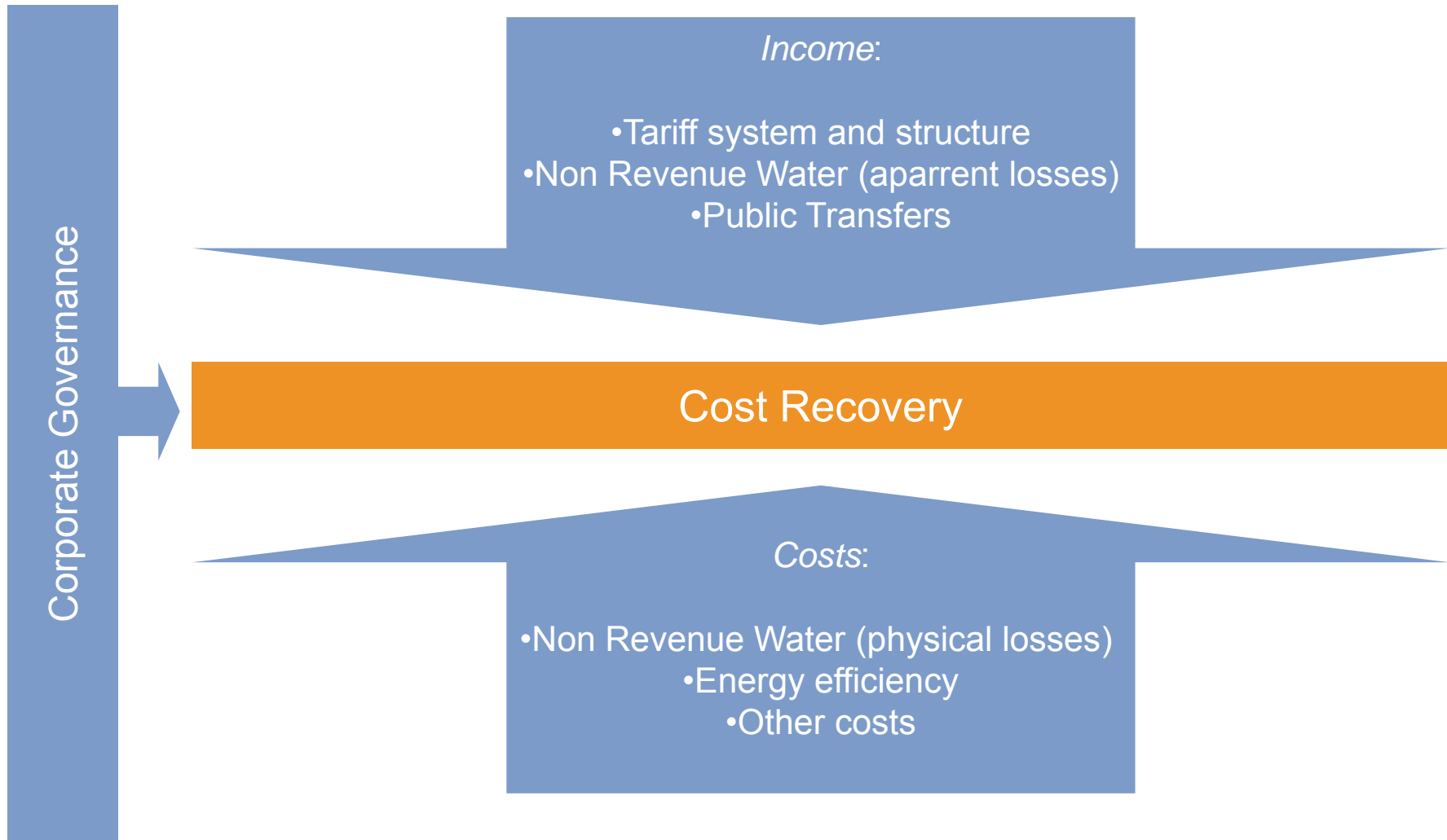
- Coverage of (at least) O+M costs is crucial for sustainable achievement of project objectives
- Cost coverage by direct contributions of customers shows better results than by public transfers
- Absence of cost coverage often results in lack of adequate maintenance of systems and need to frequent and cost intensive rehabilitation



Basis:

Results of Ex-post evaluations of German Financial Cooperation projects carried out by independent Evaluation Department 3-5 years after start of operation.

Cost Recovery in Water and Sanitation

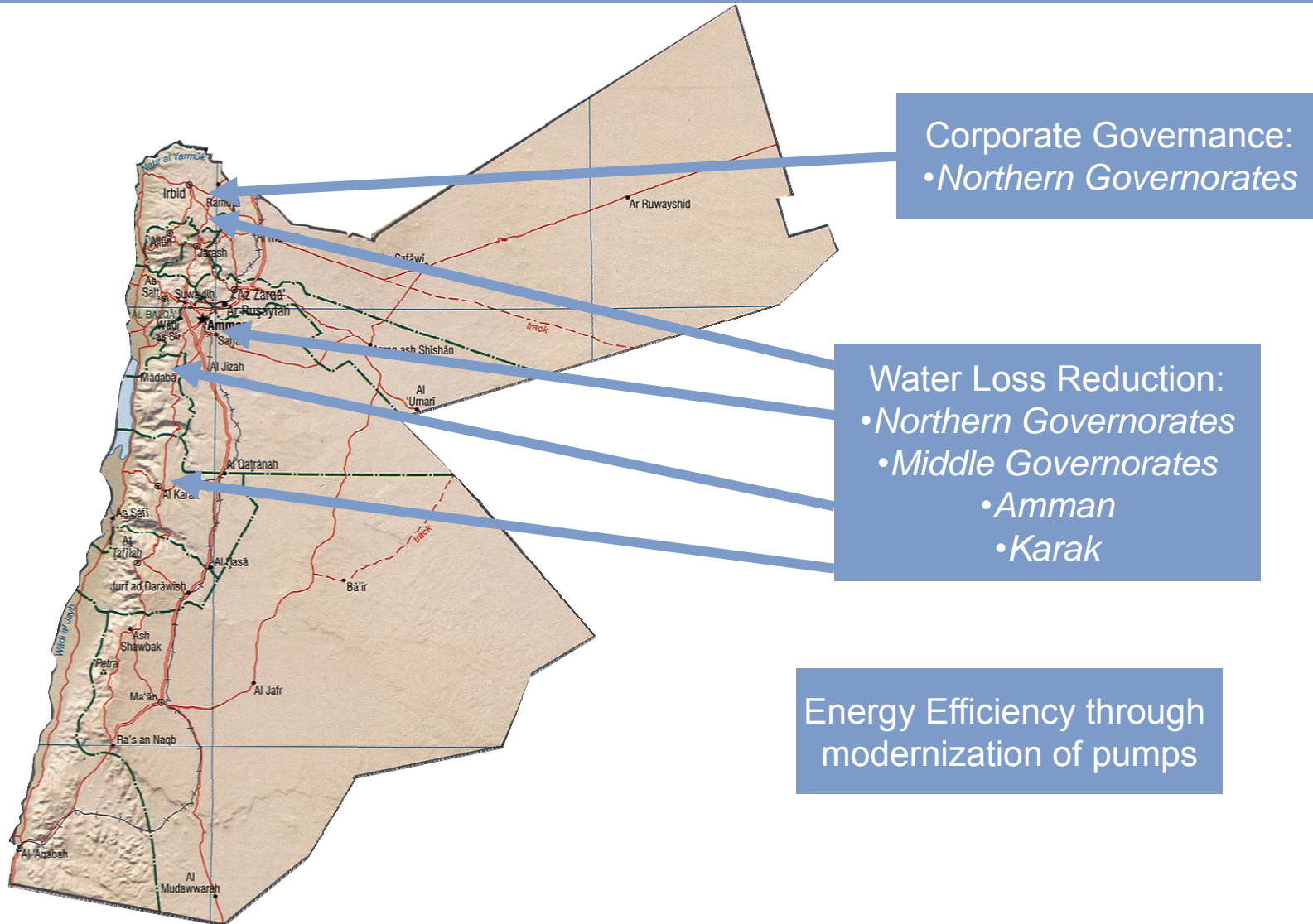


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- Challenges:
 - Lack of cost recovery and equity
 - No common tariff structure among municipal service providers
- Measures:
 - Introduction of Optimized Master Plans for the calculation of adequate water and sewer rates
 - Reorganization of rate structure into categories (social, residential, commercial, industrial, government)
 - Regulations for inflation rate adjustments
 - Implementation of transparent subsidy system
- Outcomes:
 - Tariffs based on actual costs
 - Efficient subsidy system
 - In the long term: Financial self-sufficiency



KfW supporting cost recovery in Jordan



Karak: Water Loss Reduction

- Challenges:
 - Strong water scarcity in the Governorate of Karak
 - Water losses estimated at 59%
- Measures:
 - Improvement of Customer Services
 - GIS-based Water Loss Reduction Monitoring
 - Restructuring of the existing system (conversion of pure pumping supply to gravity supply out reservoir)
 - Rehabilitation of distribution networks
 - Exchange of broken house connections and water meters
- Outcomes:
 - Contribution to an efficient and sustainable management of scarce water resources
 - Cost-efficient supply of clean drinking water



- Challenges:
 - The largest power consumer in Jordan is the Water Authority of Jordan (WAJ)
 - Technical inefficiency in operation of pumps, which convey water up to 1.400m in height to the customer
 - Appraisals indicate potential savings in operating of individual pumping stations between 25% and 50% of used energy
- Measures:
 - Countrywide energy audits (pumping stations, well fields)
 - Rehabilitation
 - Private incentive based operation
- Outcomes:
 - Savings of about 55 million KWh/a
 - Reduction of Greenhouse Gas Emissions by about 40,000 tons of CO₂ per year



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- Cost recovery remains an important challenge
- Water demand management through water pricing is essential, in particular in water scarce regions
- Efficient subsidy systems can substantially contribute to improved cost recovery
- High potential to reduce costs for water and sanitation

Thank you for your attention!



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Backup



KfW Development Bank: Key Figures 2009



Staff count	507
Ongoing projects	1,911 in over 110 countries
Offices abroad	60
Commitments	EUR 3.5 billion
➤ of which KfW's own funds	EUR 1.9 billion
Disbursements	EUR 2.7 billion (of which EUR 1.3 billion in budget funds)
Loans outstanding	EUR 18.5 billion
➤ of which budget funds	EUR 14.5 billion
➤ of which KfW funds	EUR 4.0 billion

Average water tariffs by region (US\$ per m³, 2004)

	<i>Mean</i>	<i>Median</i>
OECD	1.04	1.00
Latin America and Caribbean	0.41	0.39
Middle East and North Africa	0.37	0.15
East Asia and Pacific	0.25	0.20
Europe and Central Asia	0.13	0.16
South Asia	0.09	0.06

Sources: ADB 2004; ADERASA 2005; GWI 2004; NIUA 1999

Water Tariffs in the MENA region

