

Promotion of the Developing Countries

Frankfurt, February 2008

Water - a vital and scarce resource

Around the world, 1.1 billion people live without access to clean drinking water and over 2.6 billion people lack adequate sanitation. The health consequences are disastrous. Every day 6,000 children die as a result of dirty drinking water and poor hygiene, which also cause an estimated 80% of all illnesses in developing countries.



Kenya - Everyday life in a slum near Nairobi

• Goals of Development Cooperation

By setting itself the Millennium Development Goals (MDGs) the international community aims amongst others to halve global poverty by 2015. Indicators have been assigned to the various MDGs in order to measure progress. The goals include providing access to drinking water and basic sanitary facilities.

Supporting water supply and sanitation projects has a long tradition and plays an important role in German development cooperation activities. After Japan, Germany is the second-largest bilateral donor in this field. The partner countries of German development cooperation benefit from annual commitments totalling EUR 350 million. The key development-policy goals of the German federal government here are **poverty reduction**

as well as **environmental protection and resource conservation.**

• “Water” and Poverty

Nearly one out of five inhabitants of our Earth lack access to a minimum daily amount of 20 litres of drinking water from a source located within one kilometre of where they live. These people are the poorest of the poor. They live in urban slums or in rural areas. These are places where fetching water is frequently either very difficult or costly. Slum dwellers often depend on private water sellers, who offer water from dubious sources at high prices. Rivers, pools and wells are also used, although their water is frequently polluted by sewage and faeces.

For many families, improving the water supply and the hygiene situation lays the groundwork for alleviating key “poverty woes.” Here, indirect impacts also play a vital role; in fact, they are often the actual objective of the support. Health impacts are the most important. Improving the health situation benefits mainly women and children.

The *most frequent water-induced diseases* are diarrhoea, Ascariasis, worm diseases, Schistosomiasis and Trachoma (an infectious eye disease).

More than 2 million children die every year of the consequences of polluted water and contaminated food.

Over half of the *hospital beds* in developing countries are occupied by patients suffering from water-induced diseases.

Source: UN/WWAP 2003 and WHO 2004

At the same time, reliable water supply and better hygienic conditions improve the social situation of women, who carry a heavy burden as they fetch and store water, do the cleaning, or care for sick family members. Once these tasks become easier, women can concentrate more on raising their children, farming or pursuing commercial activities.

A cost-benefit analysis performed by the WHO revealed that every US dollar invested in the water sector generates an economic profit of 3 to 34 US dollars, depending on the region in which it is invested.

At first glance the correlation between good water supply and school attendance by children seems rather implausible, yet it has since been proven many times over. This affects girls in particular, who are often obliged to help their mothers fetch water, a difficult task that often takes several hours. Sometimes they are even fully responsible for fetching water for their families. Reducing the time required will enable girls to attend school more regularly. Installing private toilets on school grounds also encourages more girls to go to class.

The concrete situation and the cultural context determine which of the diverse effects are ultimately achieved.

- **“Water” and the environment**

A good 70 % of the Earth's surface is covered with water. However, most of it is salt water. Only 2.5 % of the water is drinkable and usable freshwater, yet two-thirds of this are frozen in glaciers and ice. This means that only a relatively small portion is available as usable and potable water, and it is very unevenly distributed - the available and "renewable water supply" in Yemen is less than one tenth the quantity an inhabitant of Germany has at their disposal in a year. This is an extreme example, and yet the number of countries and regions suffering from severe water scarcity is rising steadily.

In addition, in arid regions a large portion of water (as much as 80 % - 90 %) is used for irrigation,

and industrial water requirements are also growing all over the world. This leaves little scope for expanding drinking water supplies. Water consumption and contamination are increasing rapidly, particularly in the booming urban agglomerations in developing countries. If rising needs cannot be met by resources that are regularly renewed by the water cycle, either the groundwater is overused (excessively in some cases) or 'non-renewable,' that is, fossil water resources are used up. Surface water bodies like rivers, lakes and coastal waters are becoming increasingly polluted.



Women are in charge of fetching water in Mali

The often irreversible contamination of groundwater reserves through sewage or other chemical pollutants is a particularly serious problem.

Careful management of freshwater reserves and extensive investment in their protection are necessary to ensure that future generations will have sufficient water of acceptable quality.

- **KfW's Contribution**

KfW Entwicklungsbank (KfW development bank) has many years of experience in water management, irrigation farming and, in particular, in improving water supply and sanitary infrastructure. Commitments for projects in the area of "residential water management" account for a good 15 % of overall commitments (around EUR 200 million to EUR 300 million), which is a relatively high share in comparison with other sectors. Currently the KfW development bank is supporting around 250 projects with an overall commitment volume of around EUR 4 billion. In

view of the growing environmental problems, sewage disposal is becoming increasingly important. Today a good 80 million people benefit from German Financial Cooperation projects, and every year KfW development bank reaches another five to nine million people in this sector.

Although there is no norm we place high demands on the design of Financial Cooperation (FC) projects. Each measure has to be adapted to the specific setting. Socio-economic, economic and ecological conditions play a decisive role.

- **Assuring impacts: from a project to a long-term promotional strategy**

KfW development bank focuses on financing investment in water and sanitation infrastructure and necessary preparatory studies, as well as advisory and training measures. The aim is always to ensure the long-term use and results of the project. We know that good construction work, a well-organised operator and trained personnel are indispensable to achieve this but often are not enough. Rather, what is crucial to long-term success is the institutional, organisational and legal framework in which a project is embedded. For example, a water or wastewater utility has to have not only trained staff but also the funds to pay them adequately. Not only does it have to know its costs, but it also has to generate sufficient tariff revenues to be able to cover them. In the reality of developing countries, often this is not the case where there is a high degree of centralisation or strong political influence.

This is why KfW development bank proposes and promotes the formulation of a national sector policy by its partners and implementation of corresponding reforms – in coordination with the German federal government and often in concert with the GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) and other major donors. Individual projects are embedded into such a national strategy under a long-term commitment, and their implementation is increasingly tied to the achievement of certain milestones. In many cases, lasting progress in the

sector's environment cannot be achieved until there is close cooperation across several projects. This includes mutual trust and tenacity. Setbacks that may spoil progress already achieved cannot always be avoided. Finally, an important lesson is that sustainable development takes time.

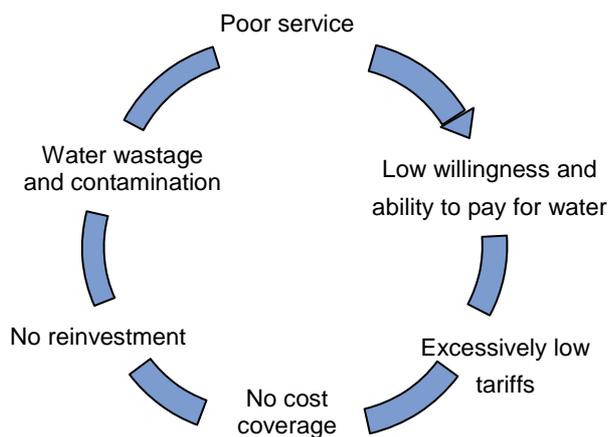
- **Water supply in cities**

Around two-thirds of the FC promotional volume benefits urban water supply and sewage disposal systems. Most of them are in small to medium-sized cities with pre-existing poor infrastructure. These projects enable us to reach some 60 million people.



Lake Victoria - important for fishing, trade and tourism

The operators of these systems are mainly state-owned or municipal agencies that often are not sufficiently qualified to accomplish their task. Before cooperation starts the development in the project region is very often caught in a disastrous downward spiral:



The challenge is to stop the downward trend. This can be achieved by investing in water supply systems and through improvements in the technical and commercial management of the utilities. Clear improvements in customer relations and overall service orientation frequently play a significant role as well. What is decisive for long-term success is that the utility has legitimacy, a vested economic interest and sufficient scope for action. In many cases suppliers with bureaucratic structures will have to evolve into companies with own accounting and supervisory bodies whose members include representatives from the supply area. Companies must be able to make decisions on the planning and performance of investments, staff selection and payment, and on tariff structures. Key state agencies should restrict their activities to monitoring compliance with regulations and standards.

Improving corporate governance and control of water supply and waste water utilities in this way is a core element and objective of German development cooperation in the water sector and an important goal of good governance policy. It is fundamental to improving the quality and efficiency of service, raising the coverage rate and improving customer relations.

Such processes, which are often time-consuming and are not foreign to Germany either, require a great deal of effort. Decentralisation, regulation and corporate governance refer to these processes in development cooperation.

Pre-existing structures in diverse regions call for a diversity of development cooperation measures. For example, central utilities are being supported

in Tunisia just as much as municipal associations in Palestine and decentralised solutions in Jordan.

• ... and in rural areas

In sparsely populated areas there are fewer undersupplied people overall even though the connection rate is lower in villages than in towns and cities. Roughly one-fourth of the FC funding volume benefits projects in rural areas. They reach around 15 million people. The focus is on investing in standpipe systems and on supporting latrine programmes. Measures to involve the target group and awareness campaigns are often key project elements.

Rural regions often have no institutionalised supply structures. For this reason local water consumers are involved as much as possible in the planning, selection and implementation of projects. This is essential for ensuring the operation of the system – which is usually the task of user groups – once all external aid comes to an end.

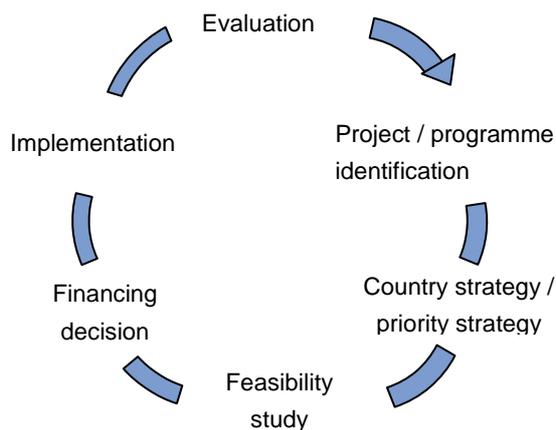


Morocco - Drinking water for a brighter future

Some questions that may also arise that seem unimportant yet are decisive to the success of a project are, for example, what to do with reserves where banks are few and far between, how to deal with the risk of misappropriation of funds, how to deal with currency depreciation, where to get spare parts, who is in charge of repairs, who pays for repairs, and how to structure the tariffs where users do not have sufficient income. Because of these many problems, projects in rural areas are often difficult to prepare and to manage, and the share of 'hard' investments is far lower than for urban projects.

Independent evaluation of project outcomes

Every project we support undergoes an independent evaluation. This evaluation is carried out several years after the external support ceases. The results of the evaluations continually flow into our country strategies and priority area concepts.



The evaluations show that water and sanitation projects are exposed to slightly above average sustainability risks. The highest sector-specific risks result from the above showed sector conditions, especially from excessive political influence on the daily business of utilities.

• Success factors for the future

A number of factors determine whether the activities of KfW development bank in the water sector have sustainable impacts. For example, two aspects that will be important in the sector dialogue and in the design of future projects or programmes are:

- Agreement with partner country governments and organisations on clear and binding concepts to strengthen the autonomy and legitimacy of local and regional suppliers (action plans or milestone concepts including time frame and indicators). Such a strategy should gradually include measures ranging from individual projects to budget finance and be coordinated as closely as possible with other donors.
- Careful selection of technical standards with regard for both socio-cultural acceptance and financial capacities, as well as environmental policy requirements. In practice these criteria are often mutually exclusive. The art is to strike a balance that is acceptable to all stakeholders.

Further information:

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