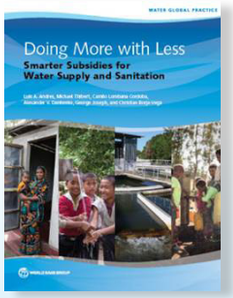

Doing More with Less – Smarter Subsidies for Water Supply and Sanitation

Q & A

How was the global cost of subsidies calculated?

Our estimation focuses only on networked water and sewered services. Not only is data on non-networked services especially scarce, but networked services receive the vast majority of subsidies in the sector. This is illustrated by the fact that more than three-quarters of all official development assistance to the sector in 2015 went to networked services (2017 Global Analysis and Assessment of Sanitation and Water report).

The World Bank's International Benchmarking Network for Water and Sanitation Utilities (IBNET) database has utility-specific data for over 1,500 utilities globally, including more than half of the households served in developing countries but excluding India and China. This is a data source in which we have a high degree of confidence.

Our model – designed especially for this report – first uses IBNET data to estimate the costs for operations, maintenance, and infrastructure rehabilitation or replacement assuming efficient operations. These estimates are based on a model developed by the Chilean regulator, which are extrapolated to the specific conditions found within utilities in other countries. Our model further adjusts these costs for each utility's actual inefficiencies in staffing and water losses to provide the most accurate picture possible

The total revenue collected by a given utility through user tariffs is then subtracted from the model-generated total costs of providing water and sanitation services to obtain an estimate of subsidies at the utility level. Estimates can then be obtained at country and regional levels through aggregation, and when necessary, extrapolation.

A 2015 IMF estimate of global WSS subsidies by Kochhar et al. used a comparable approach and obtained similar numbers ($347 billion excluding China and India.)

How did you decide what data to include?

Our analysis focuses exclusively on networked WSS services, as the non-networked WSS sector is especially lacking in quality data. A focus on networked services is nonetheless warranted since the vast majority of water and sanitation subsidies go to networked areas.

Due to a lack of data, the model excludes capital expenditure for infrastructure expansion. That is to say: although it includes all costs related to the maintenance and replacement of *existing* infrastructure, it does not include costs for *new* infrastructure required to reach underserved populations. It is important to highlight the importance of including required maintenance costs in our estimate of subsidies, even when such maintenance is not currently being paid for and performed. This reflects the reality that any maintenance that is not performed today will need to be paid for by future generations of users in the form of higher infrastructure rehabilitation and replacement costs. The longer the delays in maintenance, the higher the costs.

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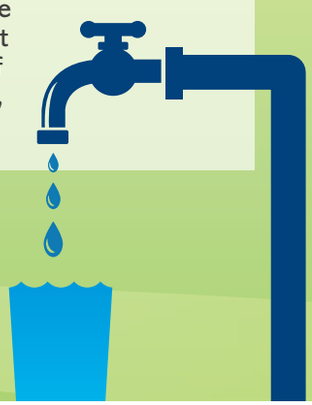

China and India are excluded due to extremely low representation in IBNET. The significant singularity and size of both countries preclude us from comfortably extrapolating their circumstances from data in other countries.

Therefore, if we were to include non-networked subsidies, capital expenditure for infrastructure expansion, as well as estimates for both India and China, our figures would certainly be much higher.

Q&A What other interesting trends are you seeing in this analysis?

This research also reveals that, on average, across the 10 low and middle-income countries examined, 56% of subsidies end up in the pockets of the richest 20% but only 6% of subsidies find their way to the poorest 20%. So instead of acting as an equalizer, subsidies are instead exacerbating existing inequalities.

Q&A How and why were the 10 countries chosen?

The 10 countries were chosen due to their reliable level of data coverage and to ensure representation from low-income and middle-income countries across the major developing regions of: East Asia and Pacific, Latin America and the Caribbean, South Asia, and sub-Saharan Africa.

Q&A Does this research conclude that subsidies are helpful or unhelpful?

This research concludes that subsidies can be both. The utility of a subsidy depends upon its design. A well-designed subsidy that is well-targeted, transparent, and non-distortionary is an incredibly useful tool in the policy maker's toolkit to advance equitable access to affordable and sustainable WSS services.

Throughout our operations, the World Bank is committed to assisting governments in attaining universal and equitable access to safe and sustainable water and sanitation services, with well-designed subsidies as a key part of the toolkit.

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