



The Link Between Investment in Water and Sanitation and Economic Development

What link is there, if any, between economic growth and investment in water and sanitation? It is generally assumed that improved provision of water and sanitation automatically stimulates economic growth. However, UN-HABITAT's new report *Achieving Global Goals in Small Urban Centres: Water and Sanitation in the World's Cities (2006)* cautions against this assumption.

Numerous case studies are presented that demonstrate the linkages between economic development and improved supply of these services. On the one hand, the studies show that economic growth provides the context that allows for better provision. On the other hand, they demonstrate that though improved provision is essential, it is however not the only determining factor for economic development.

Much more important is the competence and capacity of local governments including their accountability to residents within their jurisdiction and their willingness to support appropriate solutions. The report concludes that what is needed in all instances is a local government that supports what is possible and appropriate to local circumstances.

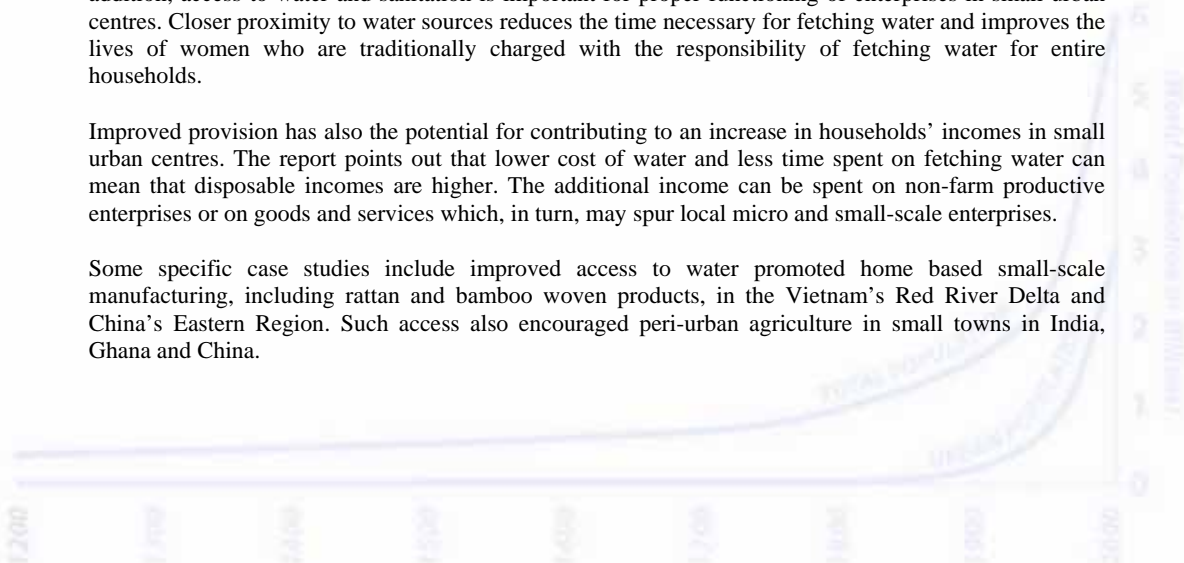
Infrastructure development and economic growth

The report emphasises the link between infrastructure development and economic growth in small urban centres. It cites many examples where urban centres have developed thriving economies and become instrumental in the growth of outlying areas.

In general, the contribution that improved water and sanitation provision makes to economic development has to do with uplifting users' health and hence their capacity to engage in productive activities. In addition, access to water and sanitation is important for proper functioning of enterprises in small urban centres. Closer proximity to water sources reduces the time necessary for fetching water and improves the lives of women who are traditionally charged with the responsibility of fetching water for entire households.

Improved provision has also the potential for contributing to an increase in households' incomes in small urban centres. The report points out that lower cost of water and less time spent on fetching water can mean that disposable incomes are higher. The additional income can be spent on non-farm productive enterprises or on goods and services which, in turn, may spur local micro and small-scale enterprises.

Some specific case studies include improved access to water promoted home based small-scale manufacturing, including rattan and bamboo woven products, in the Vietnam's Red River Delta and China's Eastern Region. Such access also encouraged peri-urban agriculture in small towns in India, Ghana and China.





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MEETING DEVELOPMENT GOALS IN SMALL URBAN CENTRES



A cautionary tale

As a cautionary tale, the report details a comparative study of two urban centers in Uganda that shows that economic development requires more than investment in the water and sanitation sector: It requires a comprehensive urban development strategy organized by a far sighted local authority.

Wolubenzi and Lugazi, two small urban centers in Uganda, are similar in most respects. Both have resident populations of about 20,000; are approximately 50 kilometres from the country's capital, Kampala, and have a similar economic base which is dominated by small and micro-enterprises (SMEs).

However, this is as far as the similarities go. Whereas Wolubenzi had a recently installed piped water system, Lugazi had not. In addition, with concessional funding from the World Bank, Wolubenzi has been able to subsidize water supply from ground sources thus making it cheaper for its residents. In contrast, Lugazi residents fetch water from springs or from enterprises run by vendors at a much higher price than what kiosks in Wolubenzi charge.

The report says that as a result, water supply is no longer a concern of SMEs in Wolubenzi. However, water quality and quantity is still a constraint in the development of SMEs in Lugazi. However, apart from reducing constraints, the studies found no evidence that improved water provision in Wolubenzi has stimulated economic growth.

These Ugandan cases indicate that other factors –e.g. the level of governance, investments in general infrastructure development linking urban centers to markets- are also instrumental to economic growth in small urban centres.

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RURAL	Rural-urban interface	URBAN
Livelihoods drawn from crop cultivation, livestock, forestry or fishing (i.e. key for livelihood is access to natural capital)		Livelihoods drawn from labour markets within non-agricultural production or making/selling goods or services
Access to land for housing and building materials not generally a problem		Access to land for housing very difficult; housing and land markets highly commercialized
More distant from government as regulator and provider of services		More vulnerable to 'bad' governance
Access to infrastructure and services limited (largely because of distance, low density and limited capacity to pay)		Access to infrastructure and services difficult for low-income groups because of high prices, illegal nature of their homes (for many) and poor governance
Less opportunities for earning cash, more for self-provisioning; greater reliance on favourable weather conditions		Greater reliance on cash for access to food, water, sanitation, employment, garbage disposal
Access to natural capital as the key asset and basis for livelihood		Greater reliance on house as an economic resource (space for production, access to income-earning opportunities; asset and income earner for owners – including de facto owners)
Urban characteristics in rural locations (e.g. prosperous tourist areas, mining areas, areas with high value crops and many local multiplier links, rural areas with diverse non-agricultural production and strong links to cities)		Rural characteristics in urban locations (urban agriculture, 'village' enclaves, access to land for housing through non-monetary traditional forms)

Figure 2.3

The rural-urban continuum

Source: Satterthwaite, D. and Tacoli, C. (2003) The Urban Part of Rural Development: The Role of Small and Intermediate Urban Centres in Rural and Regional Development and Poverty Reduction, Rural-urban working papers series, no. 9, IED, London, 64 pages.