

## Why Sanitation and Water Supply are Important to Growth and Development in the Republic of Uganda

This briefing note for the Ugandan Ministry of Finance, Planning and Economic Development shows that **water supply and sanitation (WSS) need urgent attention**. Failure to finance water and sanitation is costing the country a notable portion of its GDP. Scientific studies show that access to **water and sanitation not only improve quality of life, but also bring tangible health, environmental and economic benefits, and contribute to poverty reduction**. The rate of return of spending on water and sanitation can exceed other public investments such as in infrastructure, transport, health or education. While data are still incomplete, it is proven that even a little **spending on water supply and sanitation reaps enormous rewards**.

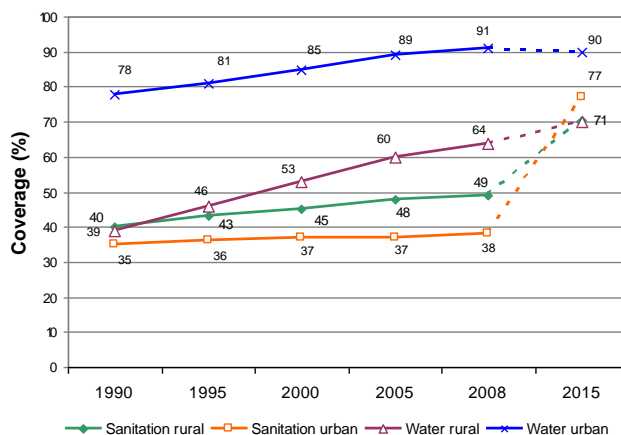
### Sanitation and water supply coverage in Uganda requires attention

According to data compiled by the WHO/UNICEF Joint Monitoring Program (JMP)<sup>a</sup>, progress to achieve the sanitation target in Uganda is off-track. Based on the most recent coverage data in 2008, Uganda has seven years to raise sanitation coverage from 38% to 77% in urban areas, and from 49% to 71% in rural areas<sup>b</sup>. National monitoring and targets are different, with coverage needing to increase from 68% to 77% in rural areas and from 73% to 100% in urban areas over the same time period. The JMP does not count 'shared facilities' towards achievement even if they are of an acceptable technology. If shared facilities in Uganda are assumed to provide safe, convenient access to sanitation, thus a further 56% of the urban population and 22% of rural are covered, and thus Uganda would have achieved the MDG sanitation target.

However, **even if Uganda meets the MDG target in both rural and urban areas, 29% of the rural population and 23% of the urban population would still be without access to improved sanitation**.

Access to drinking water, on the other hand, is on-track to meet the MDG target in rural areas, and has already been achieved in urban areas. However, even if Uganda meets its MDG target, it will still have 29% of its rural population without improved drinking water. Therefore, continued investments are needed in water supply to maintain existing facilities and increase coverage.

*Uganda's progress towards the sanitation and water MDGs 1990-2008 and progress required to achieve the MDGs.*



### Money spent on sanitation and water pays dividends

Based on the average cost of a latrine and water supply, it is estimated that Uganda requires a **total expenditure of UGX 3.6 trillion (US\$1.8 billion) to meet the water and sanitation MDG targets, of which UGX 3.1 trillion (US\$ 1.5 billion) is for sanitation**. This equates with roughly UGX 125,000 (US\$ 62) per capita over a 10 year period, or UGX 12,000 (US\$ 6) per capita annually<sup>c</sup>.

<sup>a</sup> JMP data are presented as it reflects global monitoring of the MDGs and standardized definitions, while it is recognized that each country has its own targets and data.

<sup>b</sup> The rural – urban **target** breakdowns presented here are not official JMP, but are used to indicate what progress is needed in rural and urban areas separately to meet the overall MDG target.

<sup>c</sup> This sum will be met from a mixture of sources which include households as well as the government and donor budgets. Also, budgeting has to take into account program costs (program establishment, population sensitization, monitoring, evaluation) which can be significant, but have been excluded here due to lack of data.

**A significant investment increase is required in Uganda in order to achieve the WSS MDGs.**

Investment needs in Uganda are sizable, especially compared to current spending<sup>a</sup>. Current rates of increased access is failing to keep up with population growth. Uganda will need to increase investments in order to improve water and sanitation. However, **investment in water and sanitation not only provides basic services, but also reaps benefits well beyond the water and sanitation sector**. Investments in water and sanitation in fact are investments in health, education, the environment and poverty reduction.

### **Failure to invest can be costly in the long-run**

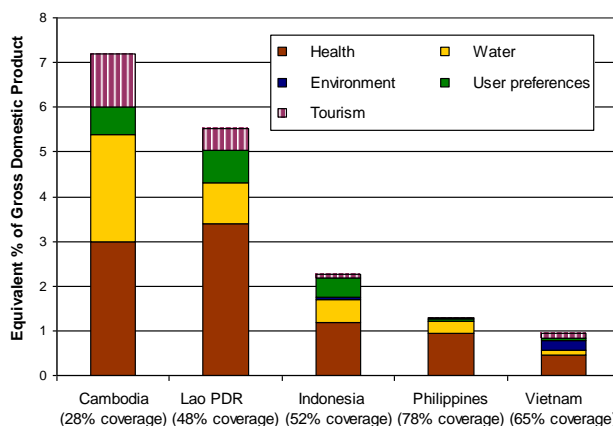
Economic research on water supply and sanitation is not commonly done, therefore findings must be borrowed from other countries. A World Bank country environmental analysis conducted in Ghana has shown that health costs resulting from poor water, sanitation and hygiene cost the country the equivalent of **2.1% of annual Gross Domestic Product (GDP)**. The indirect effects of malnutrition – to which poor water, sanitation and hygiene contribute 50%, according to WHO - cost even more than the direct effects, taking the total health cost to **5.2% of annual GDP in Ghana**. An important contributor to these figure is child mortality: in Uganda WHO estimates 26,300 deaths of children under five caused by diarrheal disease in the year 2004. Further, studies demonstrate that poor water, sanitation and hygiene significantly contribute to malnutrition which leads to lower school productivity and work productivity from impaired cognitive function and learning capacity. Rates of moderate and severe stunting and underweight are high in children under five in Uganda, at 38% and 16%, respectively.

As well as valuing health-related productivity and loss of life associated with inadequate WSS, other economic impacts have been valued for countries other than Uganda. These costs include treatment seeking for illness; time to access unimproved drinking water and sanitation; and water pollution. The latter includes the cost of water treatment to ensure the safety of hauled and piped water, or access to safer but more distant water sources.

Not every country has the luxury of a full economic impact study on poor sanitation. World Bank studies from Southeast Asia show the non-health costs of poor sanitation are comparable with the health costs, contributing UGX 40,000 (US\$ 20) of the total annual UGX 64,000 (US\$ 32) per capita losses in Cambodia, and UGX 30,000 (US\$ 15) of the total annual UGX 68,000 (US\$ 34) per capita losses in Lao PDR (see figure). **The results are indeed alarming: the total economic losses associated with poor sanitation are equivalent to 7.2% of annual GDP in Cambodia and 5.4% of annual GDP in Lao PDR.**

***The graphic shows the equivalent cost, as a proportion of annual GDP, of not investing in improved sanitation in 5 countries of Southeast Asia. (in brackets, sanitation coverage in 2006)***

Source: World Bank



As well as the direct household effects of poor sanitation, poor water and sanitation can also have larger scale effects. First, it can impact on **foreign tourists** choosing Uganda as their holiday destination. Second, it can affect business and play an influential role in where **foreign businesses** invest their money. Emerging evidence from Asia suggests that a country's reputation of poor environment, polluted water and an unhealthy workforce can affect the earning power of foreign currencies, and hence hinder economic growth. Furthermore, as the effects of **climate change** are felt – with increased predictions of extremes such as flooding and droughts – it will become even more important to invest in resilient WSS systems to ensure the availability and safety of the water supply, as well appropriate sanitation options that do not further stress water supplies nor pollute dwindling water resources.

<sup>d</sup> Water and environment have received a falling share of the government budget from 4.9% in 2004/05 to 2.4% in 2008/09. The Water and Sanitation Sector Strategic Investment Plan (SSIP) identifies significant funding gaps, of 7% for FY 2009/10 and 19% for FY 2010/11 compared to available sector finance. The funding gap is identified mainly in the urban water and sewerage component in the earlier years of the SSIP and in the rural and water for production components in later years of the SSIP (as the urban component is projected to become progressively more self-financing).

**The cost of WSS investment is off-set by the benefits that accrue in other sectors.**

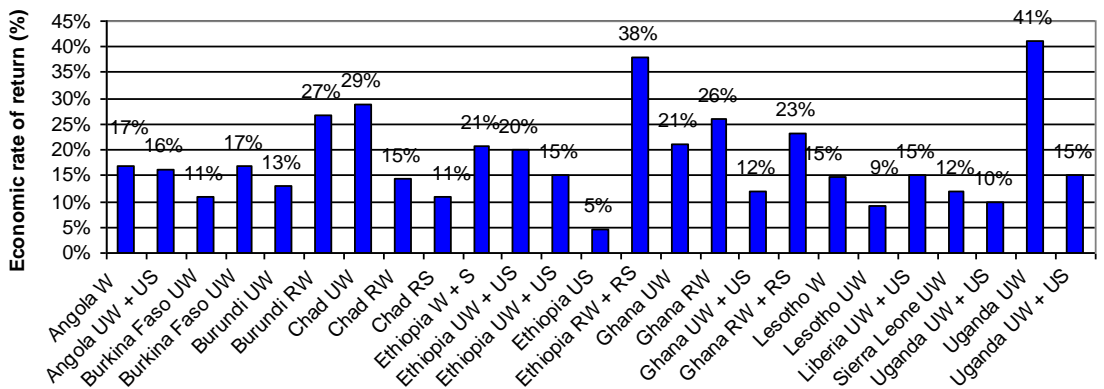
## Sanitation and water services can yield a major return on investment

**Sanitation and water projects in Uganda have a 10-41% economic rate of return.**

Economic returns on water and sanitation projects are highly favourable. For 2 project appraisal of small towns water supply and sanitation projects carried out by the World Bank and African Development Funds in Uganda, the **economic rate of return** varied from **10-15%**. A World Bank project in Kampala focusing on providing water connections for the poor using an output-based aid method, the economic return was estimated to be **41%**. Other project appraisals across Africa have also shown rural sanitation projects to be highly cost-beneficial, measuring a rate of return of **10-40%** (see Figure).

Global **benefit-cost studies** on water supply and sanitation for Africa, including the value of health improvements and time savings, estimated the benefit per currency unit invested was estimated at a return of **5.5** currency units or **6.6** for sanitation alone. While the results of these studies demonstrate a strong case for increased investment in water and sanitation, in fact, **these studies actually underestimate economic benefit as they include diarrheal disease only, thus excluding other positive health effects of improved water and sanitation.**

*The graphic shows a high Economic Rate of Return on sanitation and drinking water projects.*



Key: W – Water; S – Sanitation; R – Rural; U - Urban

Source: Development banks

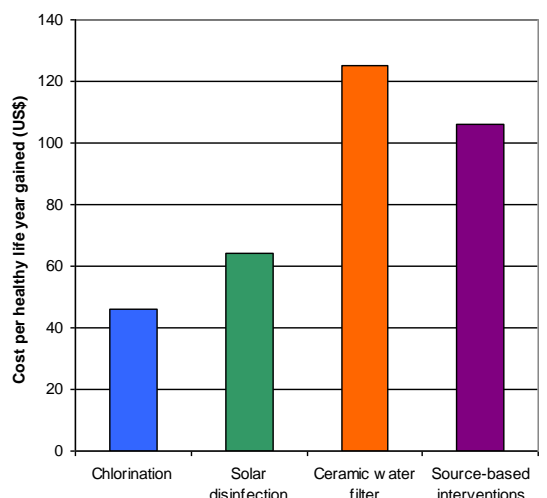
**Investing in sanitation and water can help Uganda tackle its basic economic challenges as well as improve health.**

## The health returns on investment in WSS are considerable

If health impacts are valued in units of Healthy Life Years (HLY) – defined as ‘a year of life lived in full health’ – they can be compared with other health interventions. In Africa, the cost of basic water and sanitation was estimated at US\$ 510 per Healthy Life Year gained. Add ‘water treatment at the point-of-use’ and the cost reduces to US\$ 208 per HLY gained. When a cost per Healthy Life Year is below the GDP per capita of a country, **the intervention is deemed a cost-effective use of health budgets. In Uganda, where GNI per capita is UGX 840,000 (US\$ 420), the cost per Healthy Life Year of UGX 1.1 million (US\$ 534) is a strong argument for investing in basic water and sanitation,**

considering they bring many more benefits than just health benefits. Even stronger arguments can be made for including point-of-use treatment, which reduces the cost per HLY to UGX 500,000 (US\$ 242).

In another Africa study (see graphic) rates of health return on different interventions to improve water quality were measured and cost per HLY ranges from UGX 90,000 (US\$ 46) to UGX 250,000 (US\$ 125). These rates of health return are similar to other preventive health interventions such as for malaria and HIV/AIDS.



## **Households are willing to pay for services when they see a benefit**

An important role of government is to catalyze private investment.

Economic research indicates that households, even poor ones, are willing to pay for reliable and quality WSS services. World Bank studies in Ghana in the early 1990s estimated the average willingness to pay per month per household was roughly UGX 3,000 (US\$1.50) for each of water and sanitation services, which equates to a combined **annual willingness to pay of UGX 140,000 (US\$ 70)** in today's values. Furthermore, willingness to pay is enhanced when water supply has benefits beyond general household uses, in revenue-generating activities such as a small-scale household business or agriculture (irrigation). **Evidence from willingness-to-pay studies demonstrate that government investments can play a key role in leveraging household investments. When reliable services are available, households are willing to invest themselves.**

## **Intangible aspects of water and sanitation are crucial in household decision making**

Other benefits of improved water and sanitation rarely captured in economic studies are 'intangible' impacts, so-called because they are difficult to measure. These aspects may include dignity, comfort, privacy, security, and social acceptance. An undeniable basic need is to have a near-by, safe and private place to defecate, and this is especially true for women, the elderly, the sick and also children. As well as facilities at home, water and sanitation at schools can improve school enrolment, attendance and completion, and at the workplace can increase female participation in the urban workforce. **Hence water and sanitation promote human dignity, social equality and economic growth.** Improved hygiene, water and sanitation also helps prevent opportunistic infections for people living with HIV/AIDS, and provides quality of life and dignity to those people and their families.

## **Conclusions and recommendations**

**Spending on water and sanitation** is not only politically popular and socially beneficial, but it **makes good economic sense and is necessary.** Economic evidence supports that meeting and going beyond MDG targets to achieve universal water and sanitation coverage not only improves quality of life, but also bring tangible health, environmental and economic benefits. Improving access to sanitation and water **contribute importantly to the achievement of other MDG targets.**

**Sanitation and water interventions deliver economic returns of at least 5 times on investment, commonly with an annual rate of return of 20% or more.** Furthermore, **WSS services are basic services that are demanded by the population, with often strong willingness to pay for these services -- when services are reliable.** As decisions are made to increase investments, an efficiency comparison of alternative water and sanitation policies, programs and technologies can assist the government to respond better to the needs of its population. Going forward, policy makers are recommended to address:

- **POLICY:** Implement **policies that lead to increased public and private spending** on water and sanitation services, especially sanitation, where progress is slowest. **Government spending on WSS should climb back to 5% of the National Budget.** This includes a focus on increased population demand through sensitization and marketing campaigns, which will result in increased household investments.
- **SUSTAINABILITY:** Ensure funds and mechanisms for **adequate operations and maintenance** in order to sustain services and maximize cost-effectiveness of investments. Urgently addressing spare parts and supply management issues, community based management systems of water sources
- **SCALING-UP:** Focus scaling-up efforts on the **most affordable and sustainable services** that are demanded by the population and those that have proven health and environmental benefits. Improve WSS delivery to the population and seek to maximize **efficiency gains through large scale implementation.**
- **TARGETING:** Provide additional support to increase **access to the poorest and most vulnerable households.**