FROM REGULATORS TO ENABLERS – 
ROLE OF CITY GOVERNMENTS IN ECONOMIC DEVELOPMENT OF GREATER KAMPALA

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I’ll discuss three things today:

1. Important role Kampala plays through **urban-rural linkages**

2. Kampala’s **informal sector** and what we’ve learnt through recent research

3. Urgent need for further **subnational government coordination**
This work is part of ongoing commitment from the World Bank on the economic performance of African cities.

These findings are from a report that was produced in partnership with KCCA.

Report is a synthesis of 9 separate studies commissioned for the work. These studies covered areas from business constraints, urban profile, informal sector and institutional barriers.
1. Kampala’s role in Urban-Rural linkages
Kampala is a city that is growing and will continue to grow

Kampala population is set to accelerate

Uganda’s largest cities. Kampala is by far the largest
Kampala is the cornerstone of the Ugandan economy

Economic activity focused in Greater Kampala

31.2% of national GDP

9.5% of national employment

Economic growth calculated using night light imagery (DMSP-OLS)
Investment in Kampala benefits the rest of Uganda

Modelling the impact of investment in Kampala
- Using a Social Accounting Model, research estimated the effect of investments in Kampala has on the rest of Uganda’s economy
- This research found that investment in Kampala not only has benefits for citizens in the capital city but also consumption gains in Uganda’s other towns and rural areas.
- In particular, investing in Kampala’s food processing sector has some of the strongest positive consumption gains for Ugandans outside of Kampala
- This reflects the large number of agricultural inputs used by Kampala’s food processing sector, most of which are produced by rural farmers.

Dollar consumption gain per dollar investment in Kampala (by sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Kampala</th>
<th>Rest of the Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food processing</td>
<td>0.58</td>
<td>0.63</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.88</td>
<td>0.4</td>
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<tr>
<td>Services</td>
<td>1.48</td>
<td>0.32</td>
</tr>
<tr>
<td>Industry</td>
<td>0.91</td>
<td>0.36</td>
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Bottom Line
A strong Kampala economy = a strong Ugandan economy
INVESTMENT IN SECTORS WILL HAVE VARYING SHORT TERM EFFECTS ON THE CITY’S ECONOMY

Structural change
- Clothing
- Machinery
- Business services
- Construction
- Wood & paper

Job growth
- Footwear
- Food processing
- Hospitality
- Transportation

BOTH
- Grain milling
- Chemicals
- Finance
- Other food
2. KAMPALA’S INFORMAL SECTOR AND WHAT WE’VE LEARNT
INFORMAL SECTOR SURVEY DESIGN

- Informal sector analysis is drawn from data from UBOS’ 2016 Informal Sector Survey
- Survey interviewed firm owners from three main strata: Kampala, Wakiso and Mukono
- Used a definition which did not exclude enterprises with a fixed location if they employed 5 less persons or had no VAT registration.
- Survey took a mixed approach approaching households with informal businesses and non-household enterprises directly.
- Survey collected responses from over 2243 firms
- Survey collected a range of information including location, demographics, employment, main operating sector, and perspectives on business constraints.
Greater Kampala’s informal sector is largely concentrated in non-tradeable services (e.g. retail trade, transportation, or restaurants)

Breakdown of informal sector activities
Informal sector is largely made up of micro-firms who are below the minimum threshold for small business income tax.

**Informal sector annual turnover**

- Below 10UGX annual turnover: 69%
- Above 10UGX annual turnover: 31%

**Vast majority of informal firms are micro (less than 5 employees)**

- Number of people engaged in firm:
  - 1: 59.3%
  - 2 to 5: 38.5%
  - 6 to 10: 1.9%
  - 11+: 0.3%
FIRMS IN THE INFORMAL SECTOR PROVIDE A SUBSISTENCE INCOME FOR OWNERS, WHO ENTERED THE SECTOR OUT OF NECESSITY

93% of micro informal firms are estimated to be below the poverty line.

24% of informal firms started their business due to a lack of alternative employment.

Most micro firm owners are women.

Most firm owners are youths.
LOCATION MATTERS FOR THE INFORMAL SECTOR

- Three identifiable clusters of informal firms (Katwe, Kasubi and Masaka road)
- Clusters closely situated near CBD and low income housing
- Proximity matters: 97% sell to individuals or households, 84% of firms sell to customers within a 30-minute walk
Some policy options

- Serviced premises for micro-enterprises throughout the city. (markets and artisanal parks)

- Business mentorship and coaching.
  - To improve internal business management (record keeping etc), and but also on competing in their external environment: through better understanding customers, competitors and suppliers.
POLICY LESSONS FOR THE INFORMAL SECTOR

1. Informal sector provides important incomes to some of the poorest and vulnerable citizens in Kampala.

2. Little evidence that the informal sector is driven by tax avoidance. Increased tax collection, not expected to yield many gains and likely will increase urban poverty.

3. Location matters for informal firms. Policies focused on re-locating firms without proper consultation may increase poverty levels and destabilise the city.
Examples of what other cities have done

Going from rigid law-enforcers to facilitators

Medellin government changed it’s relationship with its informal sector through:
- Increased budget transparency;
- Public campaigns (e.g. “Here are your taxes”)
- Changing the law so informal micro firms weren’t “illegal”;
- Focused urban investment in poor neighborhoods;
- Created business centres.
Examples of what other cities have done

City Innovators

Durban has one of the oldest and most innovative approaches to the informal sector in Africa. Some successful interventions include:
- Creating clear responsibilities by establishing a department dedicated to street vendor management;
- Adopting a metropolitan-wide policy on informal trading;
- Enhancing their messaging through an informal economy forum;
- Providing the informal economy with business support, tourism and market assistance and demand-orientated capacity building services.
The urgent need for further subnational government coordination
Kampala City is only part of the puzzle. Greater Kampala— including parts of Wakiso, Mukono and Mpigi—play a role in the metropolitan’s future development.
Vast array of institutions with overlapping mandates

Greater Kampala’s institutional landscape in the past has suffered from:

• Overlapping mandates
• Unclear holistic strategy
• Uncoordinated planning and urban interventions
• No single financing mechanism
Greater Kampala Economic Strategy
- United Together

- KCCA and Greater Kampala local governments are in the process of developing an economic strategy for the whole of Greater Kampala region

- The strategy process has been co-led by NPA, MoLG and Ministry of Kampala

- Common financial mechanisms would be the best incentive for further encouraging this kind of subnational coordination.
RECAP

1. URBAN-RURAL LINKAGES – INVESTMENT IN KAMPALA WILL HAVE POSITIVE SPILL OVER AFFECTS FOR RURAL AND URBAN AREAS OUTSIDE OF KAMPALA

2. INFORMAL SECTOR – PRIORITISE INVESTMENTS IN INFRASTRUCTURE FOR THE INFORMAL SECTOR THROUGH CLOSE CONSULTATION WITH INFORMAL SECTOR REPS

3. SUBNATIONAL COORDINATION – FURTHER ENCOURAGE COORDINATION BY CREATING A COMMON FINANCING MECHANISM FOR GREATER KAMPALA.