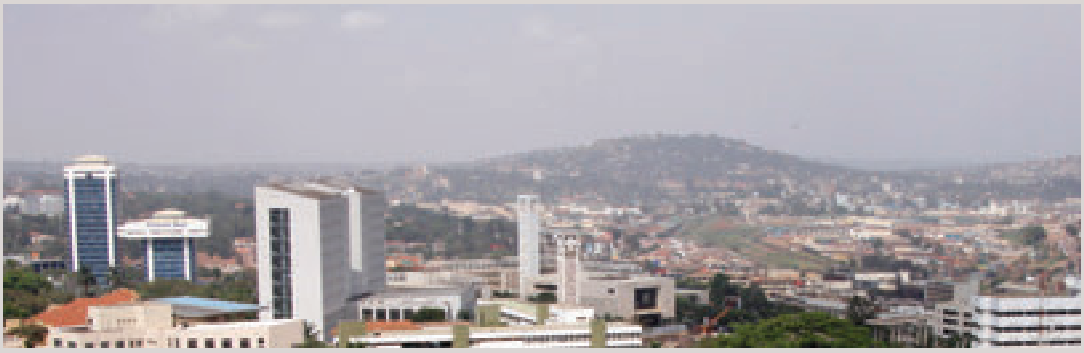
FROM REGULATORS TO ENABLERS:

THE ROLE OF CITY GOVERNMENTS IN ECONOMIC DEVELOPMENT OF GREATER KAMPALA



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Role of City Governments in Economic Development of Greater Kampala

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This report was written by Angus Kathage (Consultant, GSURR) and Emma Wadie Hobson (TTL, GSURR) based on background papers produced for the project by various prominent researchers and World Bank staff:

- Economic Policy Research Centre (2017) Barriers to Firm Expansion and Transition in Greater Kampala, Kampala
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- Anderson, S,J, Lazicky, C, Titley, J. (2017) Growth Constraints of Small Businesses in Greater Kampala, Uganda Stanford University
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- Tingting Zhu, J. Mundua, J. (2017) Greater Kampala Institutional Analysis, Washington DC
- Uganda Bureau of Statistics (2017) National Manpower Survey, Government of Uganda
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[1] *Social, Urban, Rural and Resilience Global Practice at the World Bank.*

Contents

Acronyms

B2B	Business to Business
BRT	Bus Rapid Transport
CBD	Central Business District
CCKB	World Bank's City Competitiveness Knowledge Base
CGE	Computable General Equilibrium
COBE	Census of Business Establishments
EG	Ellison-Glaesar
GDP	Gross Domestic Product
GIS	Geographic Information Systems
GKMA	Greater Kampala Metropolitan Area
GMCA	Greater Manchester Combined Authority
GoU	Government of Uganda
GSURR	Social, Urban, Rural and Resilience Global Practice at the World Bank
ICT	Information Communications Technology
KCCA	Kampala Capital City Authority
KCC	Act Kampala Capital City Act (2010)
LED	Local Economic Development
LGs	Local Governments
LIS	Land Information Systems
LQ	Location Quotient
MDAs	Ministries, Departments and Agencies
MoESTS	Ministry of Education, Science, Technology and Sports
MoK	Ministry of Kampala and Metropolitan Affairs
MoLG	Ministry of Local Government
MoLHUD	Ministry of Lands, Housing and Urban Development
MSMEs	Micro, Small and Medium Enterprises
NDPII	National Development Plan
NLTA	Non-Lending Technical Assistance
NPA	National Planning Authority
NTMP	Uganda National Transport Master Plan (2008-2023)
OP	Uganda Office of the President
SAM	Social Accounting Matrix
SMEs	Small and Medium Enterprises
TREP	Tax Register Expansion Project
TTL	Task Team Leader at the World Bank
UBOS	Uganda Bureau of Statistics
UGX	Ugandan Shilling
UIA	Uganda Investment Authority
UMA	Uganda Manufacturers Association
UN	United Nations
UNBS	Uganda National Bureau of Standards
UNHS	Uganda National Household Survey
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
USD	American Dollar
UTODA	Uganda Taxi Owners and Drivers Association
VAT	Value Added Tax
WBES	World Bank Enterprise Survey

Executive Summary

Uganda's *Vision 2040* aims to transform the economy through industrialization. The Greater Kampala Metropolitan Area (GKMA) is well positioned to be the engine to drive this positive structural transformation. The capital city region is the main urban area in Uganda capable of delivering scale economies in terms of concentrated demand, specialization, diversity and depth of skills and innovation. Greater Kampala is currently following a broad economic development strategy set out in both the Kampala Capital City Authority (KCCA) strategy and the GKMA Development Framework. Under the economic growth theme, KCCA is seeking to develop a more specific city economic development strategy that will provide a framework for sustained economic growth driven by an efficient infrastructure network[2]. Also, the Government of Uganda (GoU), recognizing the need for a coordinated effort toward economic growth in the Greater Kampala Metropolitan Area (GKMA), has tasked the Ministry of Lands, Housing and Urban Development, Office of the Prime Minister, KCCA and relevant Local Governments to develop an integrated framework for the development of GKMA[3].

To assist KCCA's and other GKMA stakeholder's efforts, this report aims to do three things. Firstly, it seeks to profile Greater Kampala's economy, emphasizing its importance to Uganda's development and goals outlined in Vision 2040 [4]. Secondly, the report identifies the key constraints and opportunities to growth and competitiveness for Kampala's firms. Finally, the report provides policy makers with practical actions to unlock the city's economic potential.

These recommendations focus specifically on what local governments can do but also addresses complementary national-level actions[5].

1. Greater Kampala's economic role, challenges and potential

The GKMA is the main centre of economic activity within Uganda. The city represents 10% of the country's population[6], a third of the Gross Domestic Product (GDP) and hosts 46% of all formal employment in the country[7]. Moreover, Kampala is the heart of Ugandan industry. 70% of the country's manufacturing plants are clustered in the city and subsequently produces a third of Uganda's manufacturing GDP[8].

Kampala's economy has been performing well, but underemployment and informality are major issues, as formal job creation is not keeping pace with population increases. While Kampala's overall GDP growth rate (6.7%) is modest compared to other similar cities[9], it's per capita GDP growth is on par and better than other cities with similar per capita income. However, the city's formal employment creation is not keeping up with its accelerating population. While Kampala's outright unemployment, currently at 10%[10], although concerning, is not considered high relative to comparator cities in East Africa, underemployment and informality are the

2 *KCCA (2009). Strategic Plan 2014-2019*
3 *Government of Uganda, (2015) National Development Plan II 2015 - 2020*
4 *The primary unit of analysis in the report is the Greater Kampala Metropolitan area which includes Kampala city as well as Mukono and Wakiso Districts. Any reference to "Kampala city" refers specifically to the Kampala city administrative unit*
5 *This report is part of the Economic Performance of African Cities project. Within this technical assistance project, the Kampala Capital City Authority (KCCA) requested the World Bank to support the development of an Economic Development and Job Creation strategy for the city. This report presents analysis targeted at Greater Kampala to address knowledge gaps and assist the development of this strategy.*
6 *UBOS 2014*
7 *Ibid*
8 *Lall, Schroeder and Schmidt 2008*
9 *Oxford Economics 2012*
10 *Uganda Household Survey 2013*

primary concern. Underemployment is currently estimated at 23% and informal firms account for 57% of the city's employment[11].

Understanding Kampala's informal sector[12]

The evidence in this report counters three common notions prevalent in the usual discourse around the informal sector in Uganda: i) that the majority of informal firms are evading taxation and therefore depriving formal firms of their hard-earned profits, ii) that the informal sector could be an untapped reservoir of entrepreneurial energy[13], and that iii) informal enterprises should locate themselves outside the city to reduce congestion.

Firstly, the majority of people working in the informal sector are poor, rather than evading taxation. Nearly all (97%) of the firms in the informal sector employ 5 or less people and 59% are self-employed. Our analysis estimates that 93% of microenterprise owners would be beneath the World Bank's poverty line of $1.90/day, in purchasing power parity, if the business were their only source of income. This is consistent with the informal sector being primarily a source of livelihood for the urban poor, rather than a substantial generator of value added. Indeed, when asked why owners had chosen to start their businesses, 24% of owners responded it was because they lacked alternative opportunities to generate income. Importantly, 69% of firms generate UGX10 million or less in annual turnover and are below the minimum tax threshold for small business income tax[14]. This suggests that efforts to formalize informal firms are unlikely to lead to substantial tax revenue gains.

Secondly, it is unlikely that the majority of informal firms will be able to grow and generate jobs for others. Policy makers are often interested in the question of how to support the informal sector to grow and become more productive. However, using a range of indicators, our analysis indicated that only 18% of firms have potential to grow and expand. Moreover, international experience suggests that it is difficult to identify these firms ex-ante. The analysis also suggests that informal firms are facing increasing competition due to the lack of viable markets and competitive business models. When asked about the biggest constraints to expanding their business, 45% of respondents reported that it was a lack of customers, competition or the profitability of their business model. If formal employment is not generated to keep pace with population growth, this competition is likely to intensify as those without other opportunities increasingly join the informal sector.

Thirdly, location and access to customers is important for informal businesses. Kampala's informal sector clusters in three locations in close proximity to the central business district, indicating that location and access to customers is critical for informal firms. Furthermore, 97% of informal businesses were found to sell to other households or individual customers (as opposed to other businesses). 84% of businesses sell to customers within a 30-minute walk. As such, close proximity to population densities is essential for the livelihoods of those operating in the informal sector – this is particular true for those firms working in street trading and retail. Consequently, polices aimed at re-locating informal firms away from population densities, without communicating with them to find alternative marketing locations, may negatively affect people's livelihoods.

11 *Uganda Urban Labor Force Survey 2009.*
12 *Given the paucity of data on the informal sector, the team commissioned the 2017 Uganda Bureau of Statistics (UBOS) informal sector survey to provide relevant statistics for analysis and decision making. Unless otherwise indicated, this is the data source for the remainder of this section.*
13 *De Soto 2000*
14 *GoU Income Tax Act (2014)*

Generating higher productivity jobs

To keep pace with its population growth and satisfy the expectations of its population for better quality jobs, Kampala must create jobs in sectors which will encourage industrialization and economies of scale. To reach its potential, Greater Kampala needs to generate more jobs but also the right kind of jobs. To ensure growth is sustainable, employment in sectors which produce goods and services tradable outside the local market (such as manufacturing) will accelerate the city's transition from a market town to a production centre.

Investment in manufacturing and tradable service sub-sectors can increase productivity and stimulate structural transformation. Our analysis, using an econometric model of the Kampala economy, show that while investments in manufacturing and tradable service subsectors create fewer jobs than local service sub-sectors in the short term, they lead to larger increases in economy-wide labor productivity. Such a shift from lower to higher productivity activities in East Asian countries, for example, led to higher levels of growth (and higher earnings at the individual level), which in the long term compensated for lower labor intensity. So, despite creating fewer jobs in the short term, manufacturing and tradable service sub-sectors are likely to stimulate job generating growth in the longer term. The analysis also revealed several win-win subsectors which generate above-average job creation as well as labour productivity gains. Grain milling, chemical manufacturing, other food manufacturing, and financial services all have both above average returns to job creation and productivity[15].

Greater Kampala is more specialized than the national economy in a number of tradable sub-sectors, yet the share of labour employed in these activities remains negligible and some sub-sectors are declining. Of the sub-sectors in which Greater Kampala is highly specialized, nearly half are in manufacturing[16] . However, not all sub-sectors that the city is specialized in have been growing. Most concerning are those large sub-sectors including manufacturing in structural and fabricated metal products, manufacturing in basic iron and steel, and manufacturing in plastics, where employment has been declining [17] . Additionally, employment growth in large and medium firms has been reducing. In particular, large firms in the tradable sector have lost five thousand jobs during 2001-2011 in Greater Kampala (four times more than that in the non-tradable sector)18. This is a cause for concern given that medium and large firms are not fulfilling their potential for creating higher value added jobs and the majority of people seem to be forced to engage in survival activities, whether or not there is a market for them. The city's ability to gradually develop alternative subsectors of specialization will be important to avoid a worsening in unemployment and informality levels.

2. Binding constraints to firm growth and job creation and recommendations for action by subnational governments

For Greater Kampala to accelerate its transition to a production centre and lead Uganda's structural transformation, its local governments will need to better understand the constraints to firm growth and job creation. The research undertaken identified three major areas of constraints: **i)** the built environment is disconnected and costly for business, **ii)** enterprises face a myriad of constraints, internal and external to their business, and **iii)** there is no institutional and financing mechanism for coordinated investment across Greater Kampala.

This calls for a deliberate policy transition of the role of subnational government, from merely being a regulator of businesses to a facilitator of private sector growth and job creation.

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[15] *Randriamamonjy, Thurlow (2016)*
[16] *See Annex 2 for full table*
[17] *COBE 2001-2011*
[18] *WB calculations based of COBE 2001-2011*

Currently, subnational governments main relationship with the private sector is one of taxation and regulation. And yet, the private sector faces major constraints in their ability to grow and create jobs, many of which could be alleviated by subnational and national government. The report therefore makes three main recommendations to the subnational governments of Greater Kampala, to play a greater role as a facilitator of private sector success in the city: a) Invest in coordinated transport and economic infrastructure together with land use management, b) Empower domestic firms to improve productivity and c) Capacitate institutions & coordination structures.

a) <u>INVEST in coordinated transport and economic infrastructure together with land use management,</u>

Greater Kampala's built environment is disconnected and costly for business. Kampala's urban form does not encourage economic density and poor infrastructure makes production activities expensive. As the city has expanded, firms and employment have dispersed further from the urban core in a non-uniform fashion reducing economic density and creating a more fragmented city. In general, firm concentration in Kampala's Central Business District (CBD) has declined from 65% of firms in 2002 to 55% in 2011[19]. Beyond this, leapfrog development[20] has more than doubled from the 1990s to 2000s, leaving patches of land within the city underdeveloped[21]. Such development inhibits density and disconnects people living in Kampala from opportunities. Moreover, while clustering of firms within similar industries is a factor proven to be important to their productivity, there are low levels of firm clustering in Kampala[22].

***Transport:* improve mobility within the city to encourage increased economic densities and agglomeration effects.** Investment in transport infrastructure has been shown to decrease the cost of motorized transport in Kampala, which would reduce costs for business. A primary issue for transportation in Kampala is road congestion, with the number of vehicles on the roads in Greater Kampala increasing faster than infrastructure investment can keep up. Kampala's lack of systematic and reliable public transport is a key and underlining reason for the level of road congestion. The only affordable transport is offered by the 'matatus' or local taxis. However, the lack of coordination of their routes and stops—as well as their small capacity—means that the number of times a taxi has to stop in order to collect or drop-off passengers is high[23]. This slows down the speed of the service and has knock-on effects on other forms of motorized transport.

One quick win is to strengthen the regulation of the current minibus taxi system - Before Kampala is ready to make new public transport investments, such as Bus Rapid Transit (BRT) or rapid rail systems, the current transport system and regulatory environment needs to be further strengthened. A complete and sudden phasing out of taxis will not be feasible in the short run. As KCCA has taken over more control of the taxi industry's regulation since 2015, this provides an opportunity to better regulate and coordinating taxi routes and stops, hopefully leading to less congestion and better traffic management.

Strategic roads and public transport investment to better connect people with jobs - Road investment is strongly associated with density increases and economic activity. KCCA and Local Governments have made significant progress in increasing paved roads in the city but further investments are needed, particularly those of a cross GKMA nature, which would have a bigger impact on better connecting where people live with where they work. Research suggests that road improvements of the northern bypass around the city would enhance the connectivity of east and west parts of the city and improve city mobility. The feasibility of Bus Rapid Transit.

[19] *Jones et al 2016*
[20] *Areas of development interspersed with vacant land.*
[21] *Baruah 2015*
[22] *See Annex 2 for top industries by Ellison Glaesar (EG) Index*
[23] *MoWT 2013.*

To support access to markets for informal enterprises, taxi stops could also be coordinated with investments in markets and premises for them[24]. Finally, providing a conducive environment for non-motorized modes of transport (such as cycling and walking) will also be important.

Land: facilitate better access to land for investment. Two main constraints in relation to land were highlighted by firms in Kampala; the price of land (which is a particular constraint for small and medium firms) and the complex land tenure regime. Uganda's land price index has more than tripled in the past decade[25] and firms explained that the high cost of procuring land constrains their capital supply and reduces their ability to invest in machinery or raw materials, etc. In addition, the majority of the land in Kampala operates under a complex land tenure regime — giving rise to legal disputes and blocking investment. Subnational governments do not, however, have control over land management in the city and must therefore coordinate with the other land management institutions to facilitate better access to land for investment.

Piloting affordable housing schemes that also release land for mixed use development in the city's core - KCCA should re-attempt to pilot a high density affordable housing scheme in one slum area, that also frees up land for economically productive investments[26]. The idea would be to work in collaboration with landowning institutions such as the Church or the Buganda Kingdom as well as an affordable housing mortgage finance provider which would finance the upfront cost of housing construction and mortgage provision to dwellers. KCCA would provide supporting infrastructure and facilitate the partnership between stakeholders.

Land use zoning and land purchasing. Land zoning and city planning is crucial to encourage the efficient use of space in the city. KCCA and local governments are unable to effectively zone and plan given the lack of land which local governments control and the multitude of large land owners that city that local governments need to work with to secure land. As an initial step, vacant and underdeveloped land should be first identified through GIS mapping. KCCA and local governments will also need to work closely with current major landowning institutions (such as the Church and the Buganda Land Board) to jointly collaborate on land zoning. Furthermore, the potential for land swaps can be further explored with landowning institutions in order to facilitate land development of essential city locations. In order to finance land purchasing it is recommended that KCCA and local governments begin to coordinate purchasing vacant and underdeveloped land through a land banking mechanism, using financing from the GoU's existing Land Fund.

b) EMPOWER domestic firms to improve productivity

Enterprises in Kampala face many constraints – internal and external to their business. Cities are not limited to their built environment. The role of a city authority and local government lies in creating a conducive environment to support enterprise growth, through understanding the constraints they face and acting to alleviate them. Firms in Greater Kampala (formal and informal) face a number of constraints including access to finance, labour skills, business skills and tax administration. In terms of skills, skilled labor appeared to only be a constraint for medium and large sized firms, some of which mentioned difficulties in finding and recruiting technically skilled employees. Whilst for small and micro or informal enterprises, the evidence indicates that behaviours focused on external factors such as market research, experimentation of new approaches, and researching competition were strongly correlated with performance indicators. Underlying these issues were firms' mistrust of the Kampala Capital City Authority (KCCA) and local governments, which makes public private cooperation difficult.

24 E.g. Artisan parks, vendor markets, etc.
25 Bank of Uganda (2016)
26 This was attempted before with Development Partner support but was not able to get off the ground as the negotiations with the landowners (in this case, the Church), were not concluded within the timeframe that the donor funding was available.

Local tax collection by KCCA and local governments was considered more aggressive and heavy handed than income tax and VAT collection by the Uganda Revenue Authority (URA). Practices such as locking-up businesses' machinery or premises due to payment delays were perceived as draconian and unnecessarily leading to loss of livelihoods[27]. The fact that the assessment of local tax payment level and band relies on observation of the business by a tax collector (compared to self-assessment for national taxes with URA), was felt to be introducing major avenues for corruption.

Business services: **Establish business engagement and support centres at a subnational level.** Providing improved support and business engagement is both within local government's remit and strategic plans, however currently very limited enterprise support services are being provided (some micro-enterprise development programs and business licensing centres) due to limited funding and capacity. KCCA and Local Governments have an opportunity to develop business engagement centres within their administrations which could engage in a range of activities:

- **Tax education** - work with URA in producing tax advice print and radio communication materials as a way of further disseminating key taxation information. If demand for tax advice is large enough, a taxation helpline could also be trialed for firms in Kampala.
- **Assisting firms to developing bankable business plans** – provide firms with business plan development advice to increase their chances of accessing finance.
- **Providing information on skill gaps** – improve public dissemination of information regarding skill gaps in the Greater Kampala economy to encourage a better matching of skills to local business needs.
- **Trial mentorship programs focused on increasing firms' understanding of their markets and customers.** The evidence shows that the effectiveness of mentorship programs in Uganda could be enhanced if programs focused on helping business owners focus not only on their internal business management (record keeping etc), but also on their external environment: customers, competitors and suppliers. This is particularly relevant for informal sector enterprises to help them better develop products that have market potential.
- **Improve public private dialogue** - hold town hall meetings to disseminate the kinds of business services which KCCA and local governments can provide and are looking to provide in the future and listen to the issues and constraints facing the private sector. This could help decrease the distrust between local government and the business community.
- **Investment promotion.** The business centre could play a leading role by promoting Kampala as an attractive investment location. Additionally, the centre could identify potential areas for public private partnerships (PPPs).

Partner with business associations to provide engagement centre services – in order to provide the above mentioned services, KCCA and local governments can partner with business associations like the Uganda Manufacturers Association (UMA), The Uganda Small Scale Industries Association (USSIA), and the Private sector foundation (PSFU), among others, which enjoy strong engagement with firms and are key stakeholders in the provision of business training.

[27] *Bouasba (2016)*

Cascading e-governance tax administration systems to all local governments of KGMA is an important quick win. Given the above findings regarding the current tax administration opening avenues for corruption, there is a need to further reduce the human element in the process and provide the services online. KCCA has already introduced e-governance for a significant proportion of the process and this successful experience can be further cascaded to the other local governments.

Protect the livelihoods of informal enterprises. As our analysis on the informal sector showed, this sector mainly provides a livelihood for the city's poorest and most disadvantaged people who work in it out of necessity. But given the small percentage of firms that have a potential to grow and the difficulty in identifying them, the most impactful policies are likely to be those aiming at encouraging investment and job creation in the formal sector and worker mobility to these new opportunities. At the same time, to protect the livelihoods of informal sector workers and help increase their incomes, subnational governments should work with representatives of the informal sector to identify viable locations for their markets and access points to consumers. Any re-location of informal sector vendors and enterprises should be done in consultation with them, while giving them viable alternative locations that take population densities and access to transport into account.

Provide infrastructure that increases access to markets and suitable working premises for informal enterprises. Research shows that firms with permanent establishments are more likely to see increased performance and to formalize. KCCA and local governments could therefore increase access to serviced premises and market infrastructure for micro-enterprises throughout the city.

c) <u>CAPACITATE institutions & coordination structures.</u>

Currently KCCA and Greater Kampala's other local governments lack crucial institutional mechanisms to coordinate investments across the metropolitan area, for more impact. The multiplicity of agencies and lack of coordinated framework for development within the GKMA, compounded by weak coordination between these agencies have resulted in confusion and lack of clear cut leadership for the development of the GKMA. It will be imperative for these institutions to work collaboratively in order to manage the future growth of the city.

A quick win would be to put in place the Greater Kampala Working Group as provided for in the NDPII. This would bring the various agencies together on a voluntary basis to coordinate urban and economic development plans as well as marshal political support and traction for the continual urban development of Greater Kampala. The experience of the Greater Manchester Combined Authority is a relevant example for the GKMA to learn from.

Put in place common financing mechanisms for pooled funding on metropolitan wide projects. The Ministry of Kampala and Metropolitan Affairs (MoK), The Ministry of Lands Housing and Urban Development and the Ministry of Local Government (MoLG) could also design a common financing mechanism that both KCCA as well as surrounding local governments can jointly draw from in order to finance common infrastructure projects across Greater Kampala. This mechanism would provide a key incentive for increased coordination. It is also recommended that the Ministry of Lands, Housing and Urban Development fast tracks the ratification of an Urban Development policy that clearly provides for the GKMA. Given the special provisions for the GKMA in the Vision 2040 and its declaration as a special planning area, Government needs to streamline the operations and build the capacity of the Ministry of Kampala Capital City and Metropolitan Affairs to be able to coordinate and enhance economic development in the GKMA.

3. National policy levers and the role of the private sector

Some significant business constraints are outside the remit of local government and require policy leadership from the central government. Chief among these constraints are Uganda's complex land tenure system, the high cost of finance and the reliability and cost of electricity.

Addressing Uganda's complex land tenure system – One of the most crippling constraints facing capital expenditure and firms in Greater Kampala is Uganda's complex land tenure system. In the longer term, the central government needs to prioritize significant land policy reforms that improve access to land and reduce tenure disputes. In the meantime, further collaboration between local governments and the various official and customary land management institutions will be required so that Greater Kampala's urban development is managed in the most efficient form possible. Central to this will be the effective implementation of a transparent land information system. Evidence suggests that increased transparency will also foster competition in the land market and drive down prices.

Lowering the cost of finance – The high cost of finance is a concern for businesses across Uganda, but is felt severely in Kampala given the higher concentration of industrial firms, with higher financing needs. For large and medium size businesses, high interest rates have curtailed their ability to make long term investments and to compete regionally. For small businesses, high interest rates directly affected their ability to not only expand but to run their daily operations. For informal firms, access to finance was linked to increased likelihood of formalisation and increased profitability. However, lowering the cost of finance is clearly outside the remit of local government and demands central government leadership to address. As briefly mentioned in this report and more compressively in World Bank Ugandan financial sector reviews, there are a number of causes for high lending rates outside of macroeconomic pressure. These additional causes include, the high cost of due diligence, the banks' lack of capital reserves to lend to domestic clients, and the level of Government borrowing. These issues will require serious work from the Bank of Uganda together with private sector associations particularly the Uganda Bankers Association.

Reducing the cost and reliability of electricity - Greater Kampala's industry suffers from high input costs. Central to these costs is the reliability and price of electricity. Due to the frequency of power outages and surges, a number of the firms interviewed had resorted to running their machines on generators to avoid damaging machinery, making their production costs more expensive and thus less competitive in the region. Despite continued difficulties, the electrical network in Uganda and Kampala has improved greatly over the past decade. This challenge is a responsibility for central government and has been publicly acknowledged by President Museveni[28]. The central government is already making large investments in new hydroelectric facilities (Karuma and Isimba Falls projects) which are hoped to reduce the cost of electricity.

The private sector is an essential stakeholder in the future development of Greater Kampala. In the above recommendations, involving the private sector will be an important step for KCCA and Local Governments. The potential for PPPs should be further explored for all infrastructure options. This may require further institutional development for KCCA and Local Governments to develop the required expertise. It will also be important for the private sector to be consulted in regards to identifying labor skill shortages and designing training programs to meet skills gaps. Finally, KCCA and local governments future physical and integrated plans should consult heavily with private sector associations to ensure that public plans align with private development. A crucial link with the private sector for KCCA and local governments will be the various business associations which represent the private sector in Uganda. Further strengthening the relationship between local governments and associations will be a crucial first step in further involving the private sector.

[28] *Ibid*

Summary of recommendations

	Local Governments (incl. KCCA)	Central Government	Private Sector
Infrastructure	Regulate transport system, specifically local taxi routes and stops Further road improvement and public transportation investments	Increase electric generation through planned hydro-electric power investments	Invest in potential PPPs related with infrastructure investment
Skills & Business services	Partner with business associations to provide training and other business services for local firms. Establish a business engagement and support center to provide services – including through egovernance	Improve the rate of lending for domestic firms through current financial sector reform agenda	Engage with government and assist with identifying labor skill shortages and designing training curricula.
Land	Re-attempt pilot of high density affordable housing scheme. Increase coordination with large land owners towards better zoning and release of land for mixed use development Increase access to serviced premises and markets for informal firms	Implement land policy reform with a focus to improve dispute resolution, land price information and strengthening the ability of local governments to acquire land for infrastructure improvement and investment facilitation	Work with local governments to assist with zoning and effective release of land.
Institutional co-ordination	Actively participate in the GKMA technical group to design interventions and strategies for the Greater Kampala area Establish alongside national ministries, the GKMA working group to provide policy oversight and planning leadership for GKMA	The Ministry of Kampala in partnership with the NPA, MoLHUD, MOLG and OP to establish the Greater Kampala Working Group and technical group to facilitate coordination within the Greater Kampala. Establish a common financing mechanism for infrastructure development across GKMA jurisdictions	Participate in the GKMA working group to provide advice and guidance for Greater Kampala's development strategy.

01

Background and Subnational Government Scope and Capacity within Greater Kampala

The purpose of this report[29] is to provide Ugandan policymakers with economic analyses on the role of Greater Kampala in achieving Uganda's economic goals outlined in Vision 2040 and the actions needed to unlock the city's economic potential. The report is part of the World Bank's Technical Assistance project on Enhancing Economic Performance of African Cities. The project aims to apply the learning from the World Bank's global report on Competitive Cities[30] to support policy makers in selected African cities, including Kampala, to plan reforms and investments that would alleviate constraints to the city's productivity and employment creation performance. The project was launched in February 2016 and has, so far, provided support to the city governments of Kampala and Addis Ababa in the two areas of **(i)** economic analyses that fill knowledge gaps that policy makers face, and **(ii)** institutional support and capacity development to strengthen their ability to plan and implement relevant reforms[31].

Uganda is urbanizing rapidly. If not proactively managed, Uganda will miss a major opportunity for structural transformation.

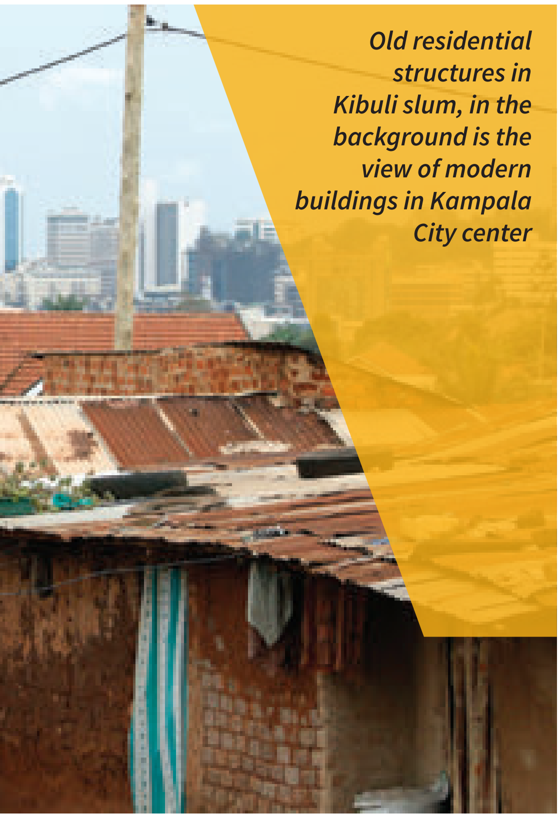
The latest World Bank Uganda Economic Update, "The Growth Challenge: Can Ugandan Cities get to Work?" shows that between 2002 and 2010, Uganda's urban population grew by 5.6%, almost twice as fast as the rural population. As is the case in many other developing countries, the prospects of good jobs, higher incomes and better living conditions in the cities continue to attract Ugandans from rural areas. With 70 percent of Uganda's nonagricultural GDP being generated in these urban areas, the prospect of higher productivity jobs is considerably better than in the countryside. Going by global experience, urbanization is likely to accelerate with economic development. As a result, Kampala is projected to become a mega-city of more than 10 million by 2040, and other Ugandan cities will also see a

demographic explosion. Currently, the opportunity presents itself for Uganda to leverage urbanization to benefit a large proportion of the population. However, the achievement of these goals will require a comprehensive set of actions that will establish

29 *In addition to the analytical part of the project, culminating in this policy report, the project is supporting capacity development efforts for various departments in KCCA and LGs. These have included Executive Training on City Competitiveness for city leaders; Doing Business indicator reform agenda and the Construction Permit Office; and technical support in the areas of investment promotion, cluster development and public private dialogue.*

30 *World Bank (2015). Competitive Cities for Jobs and Growth: What, Who and How? Washington D.C. June 2015, p. 9-10.*

31 *In addition to the analytical part of the project, culminating in this policy report, the project is supporting capacity development efforts for various Bureaus of the Addis Ababa City Administration. These have included Executive Training on City Competitiveness for city leaders; Doing Business indicator reform agenda with the Land Development and Management Bureau and the Construction Permit Office; and technical support in the areas of investment promotion, cluster development and public private dialogue.*



Old residential structures in Kibuli slum, in the background is the view of modern buildings in Kampala City center

the necessary business and regulatory environment. Appropriate investments in the development of the country's cities are therefore vital if Uganda is to prevent urbanization from resulting in dysfunctionality and diseconomies of scale.

Cities are drivers of economic development and structural transformation. 80% of global economic activity is generated in cities[32] and cities generated 58% of all new private sector jobs, despite being collectively home to only a quarter of total private sector employment[33]. International evidence has shown how agglomeration in cities improves economic productivity[34]. As economic activity agglomerates, firms are able to; mix and match their requirements for inputs; access a wider range of shared services and infrastructure; and spark innovation by the sharing and receiving of ideas. Growing agglomeration in cities leads to economies of scale, raising productivity in non-agricultural sectors and contributing to economic growth. Hence, all industrialized countries have gone through a process or urbanization[35].

> ***Cities are drivers of economic development and structural transformation.***

The link between urbanization and economic development and structural transformation in Africa has been less direct. The population in African cities is expanding on average by 3.5% per year and some cities will double their population in the next 15 years[36]. By 2040 Africa will on average have more than 50% of its population living in cities[37]. However, this high rate of urbanization has not been matched with the anticipated economic development as seen in other urbanizing regions in the world including East Asia and Latin America. Africa's manufacturing and service sectors have remained small and unproductive[38]. The only structural change has been a reduction in agriculture's share of output and a commensurate rise in services[39]. This is resulting in African countries becoming (low value added) service economies, even before they have industrialized, or in other words, experiencing premature deindustrialization[40]. Cities in Africa are not delivering agglomeration economies or reaping the expected urban productivity benefits.

32 *World Bank (2013).*
33 *Fikri, K. and T.J. Zhu (2015)*
34 *For a compendium of developing country evidence, see Overman, H.G. and A.J. Venables (2005). Cities in the Developing World. CEP Discussion Paper No. 695. London, July 2005.*
35 *OECD (2016).*
36 *UNECA (2014).*
37 *World Bank (2013).*
38 *McMillian, M., Rodrik ,D., Verduzco-Gallo, I. (2011)*
39 *Fox, L., Haines, C., Huerta Muñoz, J. and A. Thomas (2013). Prospects in the New Century. IMF Working Paper 13/201*

There is need for improved urban planning to keep pace with population and needs of business community in the city and the Greater Kampala Metropolitan Area.

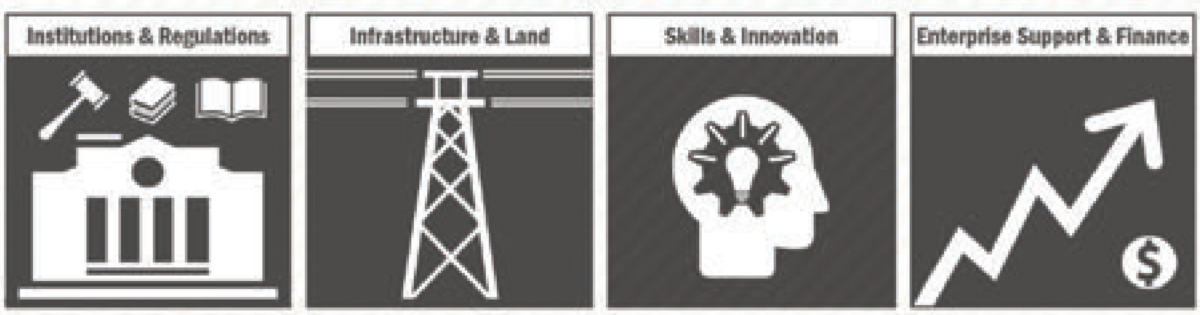
The World Bank's recent research on the spatial development of African Cities shows that African cities' development is constrained because they are more crowded, disconnected and costly[41]. The study finds that African cities are not economically dense and that investments in infrastructure, industrial and commercial structures have not kept pace with the concentration of people. Cities have developed as collections of small and fragmented neighborhoods limiting workers' job opportunities and preventing firms from reaping scale and agglomeration benefits. And that African cities are expensive - 55% of African households face higher costs relative to other countries with comparable per capita GDP. This high cost of living raises nominal wages and transaction costs, making African industries less competitive both regionally and internationally. In order for African cities to grow economically as they have grown in size, they must create productive environments to attract investment, increase economic efficiency and create livable environments that prevent urban costs from rising with increased population densification. For African cities to take advantage of agglomeration forces, policy makers will need to resolve central structural problems and improve conditions for both people and businesses.

Learning from competitive cities worldwide, their improved economic performance has not been by accident. It typically involves a strategic vision and critical action from both national as well as local Governments.

The World Bank's global research on competitive cities[42] shows that job creation and economic growth in cities are clearly linked to the cities' success in facilitating all three sources of private sector growth, **(i)** expansion of existing firms, **(ii)** creation of new firms, and **(iii)** attraction of investors. The review of successful cities worldwide identified four drivers of competitiveness, that cities need to invest in improving: **(1)** institutions and regulations, **(2)** infrastructure and land, **(3)** skills and innovation, and **(4)** enterprise support and finance (see figure 1). Successful cities were also found to have strong political leadership that spearheads a collective effort towards economic development, in partnership with the private sector, and sets a clear vision for the success of prominent economic subsectors[43].

40 Rodrik, D. (2015).
41 Lall, S., Henderson, J.V. and Venables, A (2016)
42 World Bank (2015)
43 See Annex 1 for practical actions on local economic development for Local Governments

Figure 1: Four categories of interventions



Source: Competitive Cities for Jobs and Growth 2015

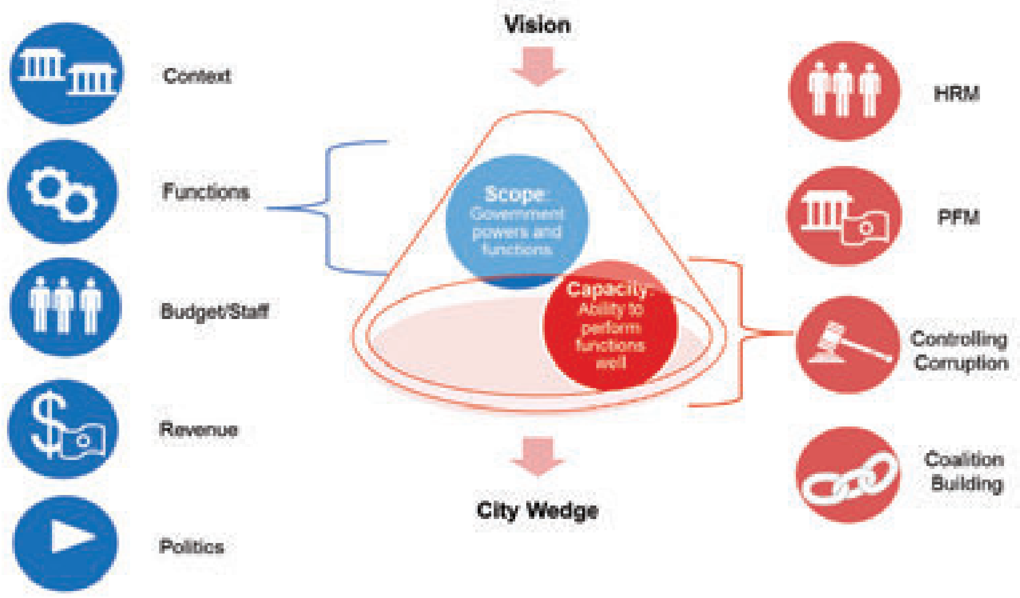
1.1 Greater Kampala's scope and capacity

City governments around the world have taken on increasing responsibilities to deliver service and facilitate economic growth through various program and policy interventions.

Several factors have contributed to this, including the decentralization of administrative, political and fiscal powers to local governments, providing cities with an increasingly expanding 'wedge'.

The City Wedge framework outlines how policy reforms and interventions at the city level are channelled through a city government's operational scope and capacity – that is, the powers at the government's disposal and the ability to effectively and efficiently carry out those powers. The framework includes city scope components of institutional and economic development context, functional assignments, budget and staffing discretion and expenditures, revenue discretion and political system. A city's capacity is further disaggregated in terms of human resource management; public financial management; controlling corruption; and building "growth coalitions" (See Figure 2 below). Importantly, aspects of both scope and capacity need to be aligned to the city's overall vision for development.

Figure 2: City Wedge Framework



Source: World Bank (2015). Competitive Cities for Jobs and Growth: What, Who and How? Washington D.C.

Greater Kampala is currently following a broad economic development strategy set out in both the KCCA strategy and the Greater Kampala Metropolitan Area (GKMA) Development Framework.

One of the four themes of KCCA's strategy is economic growth. Under this theme, KCCA is seeking to develop a more specific city economic development strategy that will provide a framework for sustained economic growth driven by an efficient infrastructure network[44]. The Government of Uganda (GoU), recognizing the need for a coordinated effort toward economic growth in the Greater Kampala Metropolitan Area (GKMA), has tasked the Ministry of Lands, Housing and Urban Development, Office of the Prime Minister, KCCA and relevant Local Governments to develop an integrated framework for the development of GKMA[45]. To assist KCCA's and other GKMA stakeholder's efforts, this report seeks to provide detailed recommendations on policies and investments which would help stimulate structural transformation, job creation and economic growth in Greater Kampala.

Greater Kampala contains a variety of local governments with varying jurisdictions and accountabilities.

GKMA includes Kampala city which is governed by KCCA as well as portions of Mukono, Entebbe, Wakiso and Mpigi, all of which are governed by their respective local governments[46]. Uganda has a high level of administrative decentralization. Local governments have executive and legislative powers and are responsible for key service delivery and implementing local development plans. Local governments are overseen by the Ministry of Local Government[47]. Kampala city on the other hand is administered by KCCA which in 2010 was elevated to legal authority under the central government and reports to its own MoK[48]. The Authority consists of both democratically appointed members[49] as well as members appointed to represent professional bodies[50]. KCCA reports directly to the cabinet Minister for Greater Kampala. KCCA's administration is headed by the Executive Director who manages ten directorates. For an organizational chart explaining KCCA's reporting structure, see figure 3. This current institutional framework means that no one single government entity has planning authority or service delivery responsibilities over Greater Kampala. For these reasons, this report's audience encompasses the range of stakeholders (KCCA, central government and relevant local governments) in Greater Kampala. A breakdown of roles and responsibilities between local and central government in Uganda is outlined in Table 1.

44 KCCA (2009). Strategic Plan 2014-2019
45 Government of Uganda, (2015) National Development Plan II 2015 - 2020
46 Government of Uganda, (2010) KCCA Act
47 Government of Uganda, (1995) Local Government Act
48 Government of Uganda, (2010) KCCA Act
49 The authority includes: The Lord Mayor, Deputy Lord Mayor, one councilor per electoral areas in Kampala city, two councilors representing the youth and two councilors representing persons with disabilities
50 The Uganda Institution of Profession Engineers, Uganda Society of Architects, Uganda Medical Association, and Uganda Law Society

Table1: Roles and responsibilities of local and national government in Uganda[51]

	Institutions & Regulations	Infrastructure & land	Skills & Innovation Enterprise	Support & Finance
National Government	- Business Name Registration & Company Registration - Issuing Investment License - Secondary Licenses and permits for some sectors before UIA issues a permit - Tax Registration and issuance of TIN - Registration with NSSF[52] - Issuance of Certificate of Approval for Non-Citizens - Work permit issuance - Quality certification	- Industrial Parks - Land leases for foreign Investors - Application for water supply - Electricity supply - Strategic catalytic Investments by UDC - Road Infrastructure	- Skills development and capacity Building. - Uganda Industrial Research Institute is a platform for value addition; product development; process design as well as sourcing technologies and business incubation.	- Business assistance and Information provision - Grants and Loans for Investment promotion. - Export promotion services
	Institutions & Regulations	**Infrastructure & land**	**Skills & Innovation Enterprise**	**Support & Finance**
KCCA/local governments in Greater Kampala	- Trading License Issuance. - Impose and collect fees and taxes (rent, rates, royalties, stamp duties, trading licenses, fees from registration and other fees and taxes, Local service tax, property Tax and hotel tax - Public Safety and Law enforcement in areas of the city - Provision of construction permits and Control of development – enforcement of building rules	- Carry out physical planning and development control - Improving Road Networks[53] - Water supplies outside the jurisdiction of the National Water and Sewerage Corporation; - Ensuring Sanitation, health and safety - Investment Land - creation of urban growth centers in the peri-urban - Tourism infrastructure - Resolving local land issues	- Extension services - Investments in the education and its workforce.	- Agro input provision Re-tooling of city artisans, promotion of MSMEs, networking

Five years since its inception, KCCA has made significant progress in generating increased revenues and moving closer toward financial independence. Since 2011 to the 2015/16 financial year KCCA has been able to increase its internal revenue collection by 250% (table 2). A great deal of this growth has been through reforms

[51] *Tingting Zhu, Mundua (2017)*

[52] *Under the NSSF Act Cap 222, a compulsory saving scheme for private-sector employees, all employers with more than 5 employees are obliged to pay an NSSF contribution of 10% to their employees.*

[53] *KCCA 2014/15- 2018/19, Mukono, Wakiso, 2014/15- 2018/19) Strategic Plans*

in the efficiency of taxation collection. The primary growth in revenue has come from property rates, licenses and parking fees. KCCA has also managed costs well, leading to large surpluses in the 2015 and 2016 financial years. Prudent financial management has also encouraged confidence from the central government with transfers increasing by 20% in 2015[54]. KCCA's performance has also engendered external confidence, as grants from international agencies doubled from 2014 and 2015. Additionally, in 2014, Global Credit Ratings (GCR), a South African credit analysis agency, gave Kampala an "A" rating, a rating which has since been maintained[55]. KCCA is currently limited from borrowing by national legislation however there is growing interest in lifting this constraint to allow the city government to access commercial debt for further financial flexibility[56]. While starting form a modest base, KCCA in a short period has been able to improve its governmental efficiencies and drive growth in its revenue. Further budget surpluses and potential access to commercial credit will enable KCCA to increase its investment and service delivery in the city.

Table 2: KCCA's local revenue has increased dramatically (UGX Billions)

Year	Local Revenue KCCA	Total Revenue	% of Own Revenue of Total budget
2011/12	44.4		
2012/13	75.7	187.2	40.44
2013/14	68.2	199.2	34.24
2014/15	94.5	268.8	35.16
2015/16	111.08	359.83	30.87

Source: KCCA Revenue Department 2016

Budget constraints and the ad-hoc organization structure of KCCA and Local Governments has meant they have been unable to staff their organizations with adequate technical focus on local economic development. KCCA has 10 directorates with an approved total of 1,428 technical staff. But as at December 2015, only 415 (29%) positions[57] had been filled. Similarly, staffing levels in Local Governments[58] is only 56% due to limited budgets. This directly affects subnational governments' ability to deliver their mandates in economic development or even their basic service delivery mandates. Analysis of KCCA and Local Government organizations shows that economic development talents are scattered across different departments which makes integrated economic development solutions next to impossible, and only ad-hoc efforts in specific sectors are being carried out. The economic development functions as detailed in the KCCA five-year strategic plan (2015/16-2019/20) are anchored in the Gender, Social Services and Production Directorate, under the Deputy Director of Production and Marketing at KCCA. On the other hand, the tourism portfolio is under the Directorate of Education. Similarly, within the Local Government structure, commercial officers, gender officers and production offices all have a role to play in economic development functions.[59] Due to varied capabilities among these officers in different line functions, some departments might receive more support on a specific topic/ sector depending on the expertise of the officers located in that specific location. Thus, economic development expertise in KCCA and Local Government has been spread thin and inconsistent support for local firms.

[54] *KCCA Treasury Department 2016*
[55] *GCR 2017*
[56] *Ibid*
[57] *KCCA 2016/17 Ministerial Policy Statement*
[58] *Ministry of Local Government Ministerial Policy Statement, 2016/17*
[59] *Most of the Commercial Officers are former staff of the Cooperative Department.*

Affordable housing

Providing quality affordable housing in high growth population centers will help prevent the sprawling slums that plague the Greater Kampala Metropolitan Area.

Slums

The rapid growth of population and employment in Greater Kampala is forecasted at 10 million residents

10 million

50% Residents in the Greater Kampala Metropolitan Area **live in slums**, which comprise **16%** Land

62 informal settlements in Kampala City, with an estimated population of 560,000

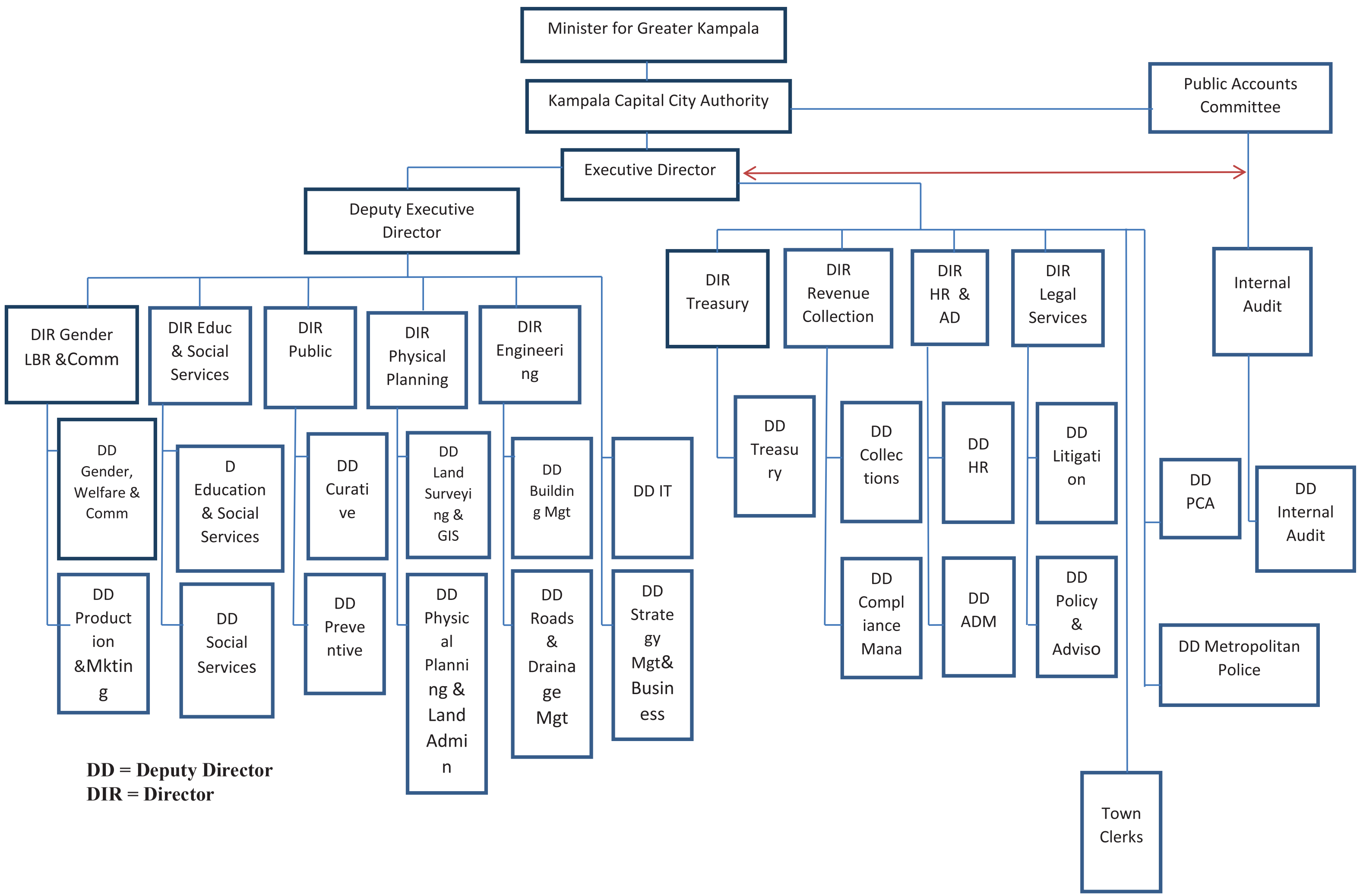
more than 1500 tons of solid waste are **generated per day** in Kampala yet KCCA only has **50%** capacity to dispose of it.

Construction is still going on at the Toll road facility on the Kampala - Entebbe Express Highway in Kajjansi.

Outline of the report

Based on these international frameworks and background information, this report drills down into the case of Greater Kampala and outlines the metropolitan's main challenges to promoting economic development and recommending areas for government action. Following this introductory section, Section 2 profiles Greater Kampala's economic strengths and weaknesses as well as outlines the vital role it plays in Uganda's economy. The section will show that Greater Kampala is not generating enough jobs in the value-added sectors, like manufacturing, for sustained economic development and concludes by identifying promising sectors which have the greatest potential to create productive jobs. This report then argues that there are three focus areas which are crucial to Greater Kampala's future economic development: i) Built environment and; ii) Business constraints affecting the tradable sector. Section 2 evaluates Greater Kampala's built environment, assessing the city's urban form and infrastructure and how they impact on firm competitiveness. This section concludes with practical suggestions for the GKMA stakeholders and identifies opportunities to better manage Greater Kampala's urbanization. Section 3 addresses the business constraints which Kampala's formal firms face. This section discusses how governments can best engage businesses to address barriers to firm growth including access to finance, taxation and skills. The report concludes by outlining all recommendations in a sequenced plan.

Figure 3: KCCA REPORTING STRUCTURE



DD = Deputy Director
DIR = Director

02

Greater Kampala’s Importance and Recent Economic Performance

Vision 2040 sets the ambitious goal of transforming Uganda from a low-income country to a competitive upper middle-income country by 2040. To achieve this goal, the strategy identifies Uganda's low competitiveness and low industrialization as key challenges for the country to overcome. Subsequently, the strategy aims to triple industry's share of the labor force by 2040 and increase the percentage of manufactured exports by 45%[60]. To achieve faster socioeconomic transformation, the strategy seeks to invest in better urban systems to enhance productivity, livability, and sustainability. Greater Kampala is the economic engine of Uganda. It's the country's center of economic activity and the heart of the country's burgeoning industrial sector. Consequently, Greater Kampala will play a central role in Uganda achieving Vision 2040 targets. However, the city faces a number of challenges which it will need to overcome to realize its growth potential. This section outlines Greater Kampala's important economic role, some of the challenges it faces and identifies key sectors to help Kampala and Uganda grow and prosper.

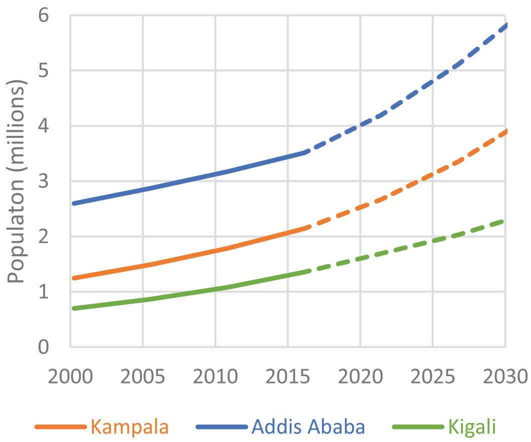
2.1 Greater Kampala's economic role and performance

Kampala is by far Uganda's largest city. Kampala is one of the fastest growing African cities, with an annual growth rate of 3.9%[61]. Greater Kampala hosts approximately 4 million people, with Kampala city housing over 2 million people[62] in 2016. The UN projects that Kampala city's population growth will accelerate to 4.8% and will reach 4 million people by 2030 (figure 4).

Moreover, Kampala is larger than any other Ugandan city. As figure 5 shows, the next largest cities all have a population below 400,000 people. The next largest urban center is Nansana, followed by Kiira and then Makindye Ssabagabo which are all within Greater Kampala. It is clear that Greater Kampala, is central to Uganda even in simple demographic terms.

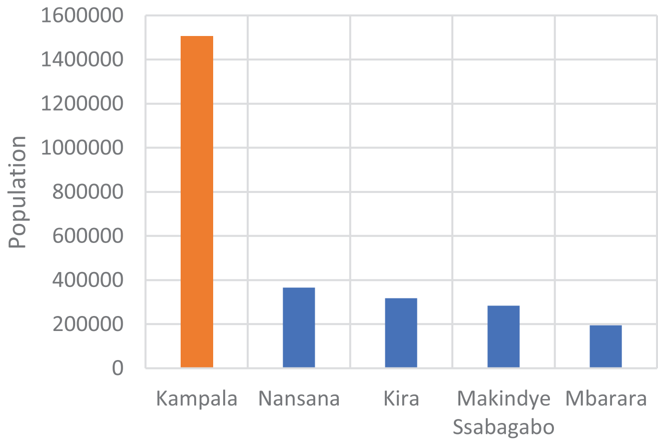
accelerate

Figure 4: Kampala population is set to



the largest

Figure 5: Uganda's largest cities. Kampala is by far



Source: UN Urban futures 2016 Source: UBOS 2014

60 *Vision 2040*
61 *UN World Urbanization Prospects*
62 *World Urbanization Prospects Database 2014.*

Table 3. Kampala in the National Economy

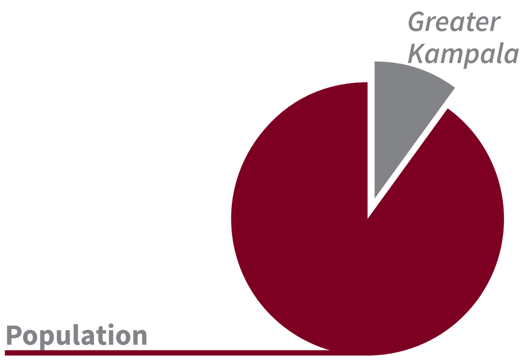
	Greater Kampala	Rest of country	National
Total GDP ($ billion)	7.3	16.1	23.4
Share of national (%)	31.2	68.8	100.0
Total employment (million)	2.2	21.3	23.6
Share of national (%)	9.5	90.5	100.0
Private consumption ($ billion)	5.5	13.0	18.6
Share of national (%)	29.8	70.2	100.0
GDP per capita ($)	1,832	482	626
GDP per worker ($)	3,257	753	991
Consumption per capita ($)	1,391	391	498

Source:* *2012/13 Uganda National Household Survey (UBOS 2014); 2013 Social Accounting Matrix (SAM) (Randriamamonjy and Thurlow 2016).

Greater Kampala also makes a huge contribution to the Ugandan economy.

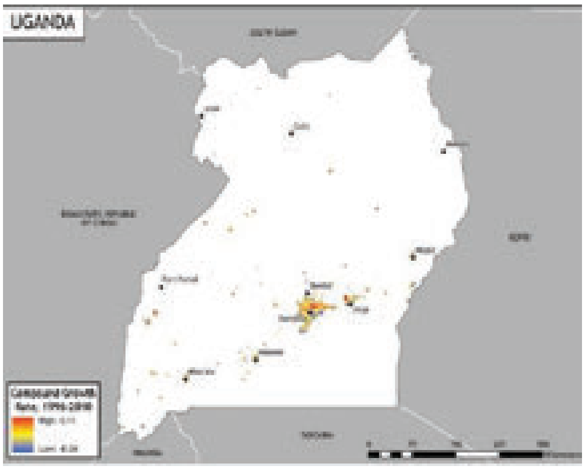
While Greater Kampala represents over 10% of Uganda's population[63], it contributes over a third of the national GDP. Greater Kampala is the main center of economic activity within the country, hosting 9.5% of all jobs in the country (Table 3). Moreover, Kampala is the heart of Ugandan industry. Kampala accounts for approximately a third of manufacturing GDP in Uganda, especially non-agriculture-related manufacturing, such as chemicals and machinery[64].

Further, it's estimated that 70% of the country's manufacturing plants were clustered in Greater Kampala[65]. Figures 6 and 7 show how economic growth and firm clustering is highly concentrated in the Greater Kampala area, respectively.



63 *UBOS 2014*
64 *Ibid*
65 *Lall, Schroeder and Schmidt (2008)*

Figure 6: Economic growth has been concentrated in Kampala



Source: World Bank (2015)66

Figure 7: Manufacturing firms are concentrated in Kampala

Source: Lall, Schroeder and Schmidt (2008)

While Growth has been slowing, per capita GDP growth remains steady. Kampala's overall GDP growth rate (6.7%) is modest compared to other comparator cities[67]. However, Kampala's per capita GDP growth, is on par or better than other comparator cities with similar per capita income. In a simple model of economic growth, one expects the growth rate in per capita income to slow as per capita income rises. Productivity in poorer cities grows faster, because they start at a lower base. We see this pattern within Africa when comparing per capita GDP growth rates of 5.6% and 10.3% in Kigali and Addis Ababa respectively, which have the lowest incomes per capita, to those of 3.1% and 1.9% in Dar es Salaam and Nairobi respectively, which have higher incomes (table 4). It is therefore appropriate to benchmark Uganda's per capita growth rate to cities with income per capita near its own, $2,918 per person[68]. Here we see that it's growth rate of 2.7%, out performs Nairobi, which has similar income, and is even on par with Hanoi, which has a substantially higher GDP per capita, at $4,721 (figure 8). Though Kampala is performing well, faster growth is still possible: Coimbatore, which has similar income, has achieved more than double the growth rate in per capita GDP, at 6.5%.

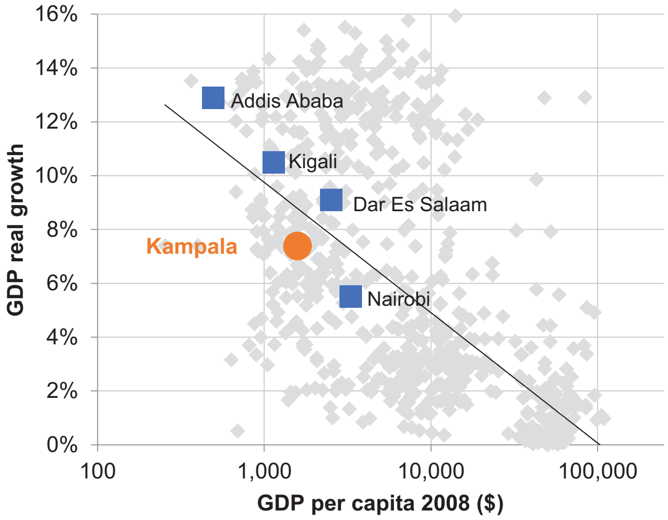
66 *Economic growth calculated using night light imagery (DMSP-OLS)*
67 *Oxford Economics 2012*
68 *Ibid*

Table 4: Benchmarking Kampala's economic performance

City	Population Growth CAGR, % 2008-2012	GDP Growth CAGR, % 2008-2012	GDP per Capita Growth CAGR, % 2010-2012	Forecast Population Growth CAGR, % 2017-2030	Population Millions 2017	GDP per Capita USD 2012
Kampala, UGA	4.0	6.7	2.7	5.0	2.1	2,516
Dar es Salaam, TZA	5.7	8.8	3.1	5.0	5.7	2,918
Kigali, RWA	4.0	9.7	5.6	4.2	1.3	1,295
Nairobi, KEN	3.9	5.7	1.9	4.1	4.2	2,624
Johannesburg, ZAF	3.5	2.6	-1.0	1.3	9.8	11,006
Addis Ababa, ETH	2.1	12.4	10.3	4.2	3.4	732
Hanoi, VNM	5.4	8.2	2.8	2.6	3.9	4,721
Coimbatore, IND	4.1	10.5	6.5	2.5	2.7	2,957
Wenzhou, CHN	4.0	9.2	5.2	1.8	3.4	20,163

Source: WB staff calculations using Oxford Economics 2012

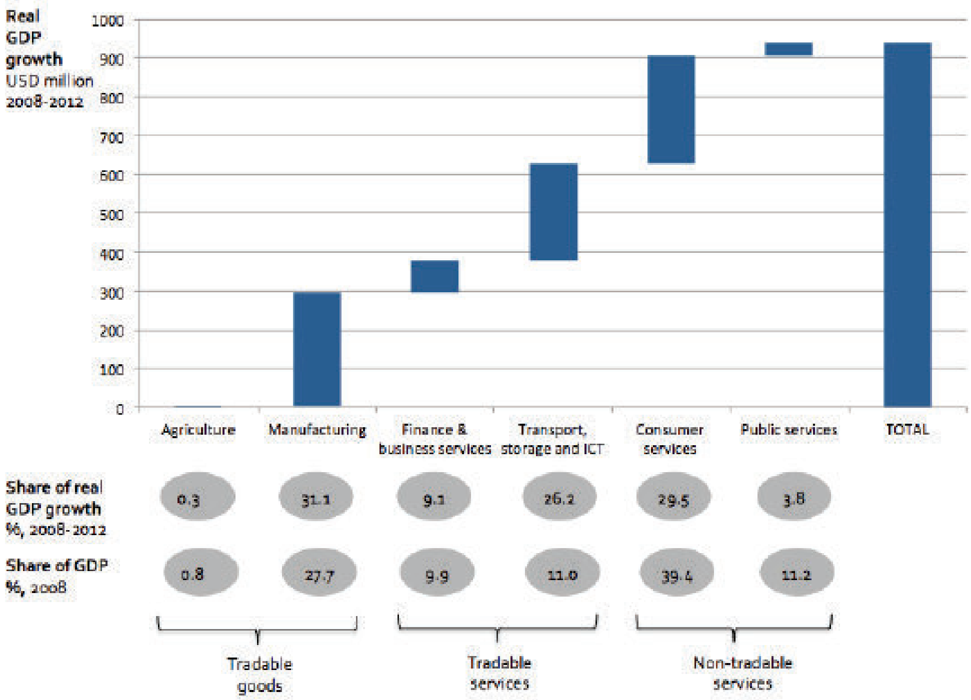
Figure 8: Kampala's GDP growth vs regional comparators



Source: Oxford Economics 2012

Kampala's GDP growth is being driven by its manufacturing and other tradable goods and services sector. Figure 9 breaks down by sector Kampala's 6.7% cumulative annual real GDP growth between 2008 and 2012. The main observation that emerges is that tradable goods and services drove two thirds of GDP growth, indicating that Kampala is on the way to transitioning from a "market town" producing local services towards being a "production center" which produces tradable goods and services. Manufacturing's contribution to growth, 31.1%, was greater than its share of GDP in 2008, 27.7%, indicating an expansion of the sector. This pattern was similar for transportation, storage and ICT, which drove 26.2% of growth, off a base of only 11% of GDP, indicating a rapid expansion of the wholesale trading sector. Non-tradable services contracted as a share of GDP, indicating a decreasing reliance on local demand. Consumer services, for instance, which includes mostly retail trade, comprised 39.4% of GDP in 2008 fell to 29.5% of growth between 2008 and 2012.

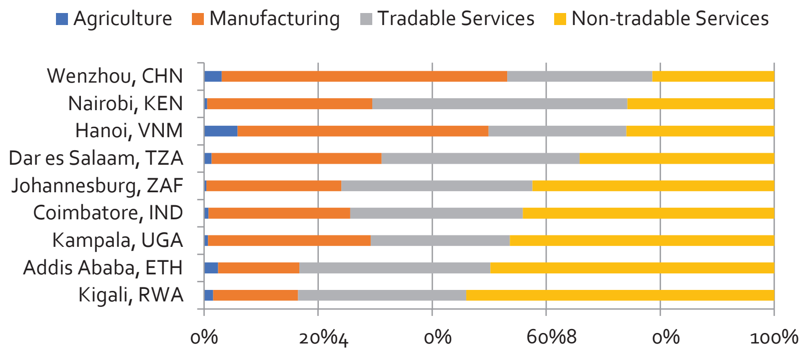
Figure 9: Sectoral Decomposition of GDP growth in Greater Kampala



Source: World Bank staff calculations using Oxford Economics 2012

Nonetheless, this structural transformation is still at an early stage. Figure 10, shows the composition of GDP for each comparator city and Kampala, breaking GDP in to four categories, manufacturing, tradable services, non-tradable services and agriculture. This figure emphasizes that Kampala has the third lowest share of output in tradable goods: agriculture, manufacturing or tradable services. It is thus at the beginning of its transition away from a “market town,” to a “production center,” with a higher share of tradable, high value-added output. The only two cities below it in structural transformation, Addis Ababa and Kigali, have much lower per capita income, as shown in Table 4.

Figure 10: Sectoral composition of GDP



Source: Oxford Economics 2012

23% ***of residents in the GKMA with high skills and post secondary education are working in relatively low-skilled and low-wage jobs***

Moreover, job creation in formal employment is not keeping pace with Kampala’s growing population. Uganda has the third fastest growing population in Africa, with the population doubling around every twenty years.[69] Young people are entering the workforce at a rate of 4 million people per year, which is forecasted to increase to over 8 million by 2040[70]. Current evidence suggests that formal job creation in Kampala is not keeping up with the rise in population. Kampala’s outright unemployment is currently 10%, which while concerning, is not considered high relative to comparator cities in East Africa[71]. Underemployment and informality is the primary concern for the Greater Kampala. Currently underemployment is estimated at 23% and informal firms account for 57% of the city’s employment[72]. The majority of Kampala’s employment is in micro or small firms. As figure 11 shows, employment growth has dramatically increased in micro firms and actually reduced in large and medium firms. In particular, large firms in the tradable sector have lost five thousand jobs during 2001-2011 in Greater Kampala (four times more than that in the non-tradable sector). Kampala will not be able to keep pace with its population growth and satisfy the expectations of its population for better quality jobs unless it is able to create more formal jobs in sectors which will encourage further industrialization and economies of scale.

[69] *USAID (2015). Frederick S. Pardee Center for International Futures.*
[70] *Ibid.*
[71] *Uganda Urban Labor Force Survey 2009*
[72] *Ibid*

Jobs especially in the **informal sector**

46%
of all formal workers are **employed in Kampala**

57%
businesses in Kampala are **informal**

46% of the **informal businesses employ** 5 or less people, of which **57%** **are self employed.**

24%
workers in the informal sector **derive** their **primary source of income from their businesses**

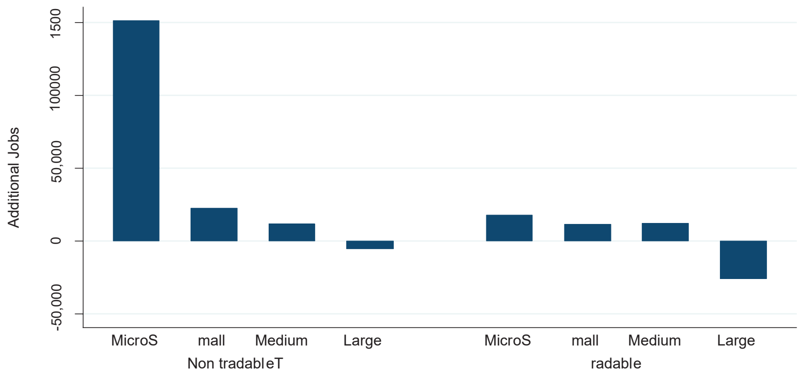
60%
of the **informal firms generate less than** UGX **10 million annually** hence are **not taxable**

Only **18%**
of the informal firms have the **potential to grow, expand** and **create jobs**

84%
of informal businesses **sell** to **customers** within a **30-minute walk**

97%
of informal businesses have a **limited market** for their goods and services and can only trade among other households and individual customers.

Figure 11: Change in Employment by Firms Size and Sector in Kampala



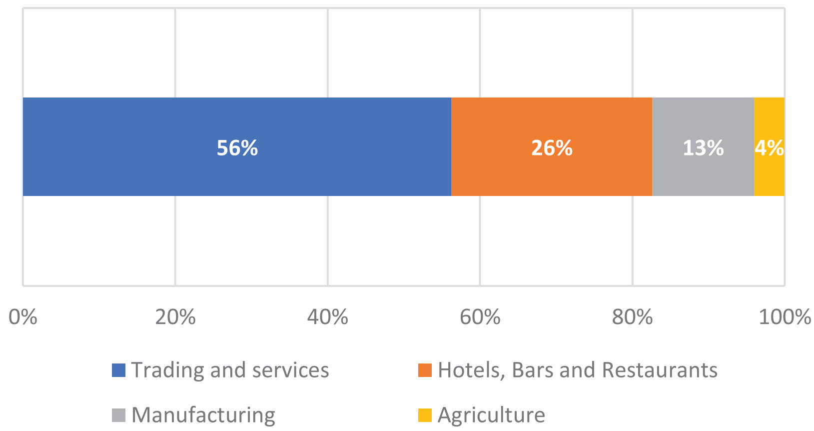
Source: COBE 2001 - 2011

2.2 Understanding Greater Kampala's Informal Sector

A large unregulated informal sector focused in low productivity sectors presents a significant barrier to Kampala's structural transformation. However, policies aimed at reducing the informal sector's dominance needs to be informed by an understanding of the kind of firms and people working within it. This report synthesizes findings from the 2017 UBOS informal sector survey to shed light on the composition of Kampala's informal sector[73].

Greater Kampala's informal sector is largely concentrated in non-tradeable services (e.g. retail trade, transportation, or restaurants). Figure 12 shows the distribution of informal firms by main activity. Most firms (56%) are primarily engaged in trading and services within which the most common occupation is shopkeeper or street vendor. The next sector, hotels, bars and restaurants, comprises 26%. Manufacturing, which includes primarily tailoring and woodwork, comprises just 13%. Not surprisingly for an urban area, agriculture comprises only 4% of firms.

Figure 12: Main activities in Greater Kampala's informal sector



Source: World Bank staff calculations based off UBOS 2017

[73] *Further analysis of this data will be conducted by the World Bank following this report.*

The informal sector is largely made up of micro-firms who are not required to pay taxes. Uganda defines micro-enterprises as businesses employing five or less staff, or having assets below UGX10million[74]. According to survey data, 70% of the informal sector is made up of microfirms. Significantly, 69% of informal firms generate an annual turnover of UGX10million which is the lowest company income tax threshold as defined by the Income Tax Act (Figure 13). Importantly, this means that the majority of the informal sector are not avoiding tax responsibilities but are rather under the size revenue threshold required to pay tax. In terms of employment, the informal sector is largely made up of self-employment. Figure 14 shows the breakdown of firm sizes in the informal sector. The vast majority of people in the sector are selfemployed (59.3%) or employ less than 5 people (38%). Only a very small number of firms (2.2%) could be considered a small business in terms of employment.

Figure 13: Annual turnover in the informal sector

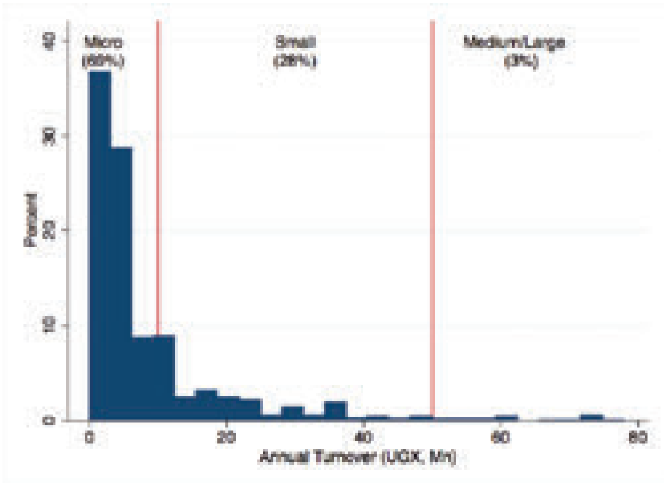
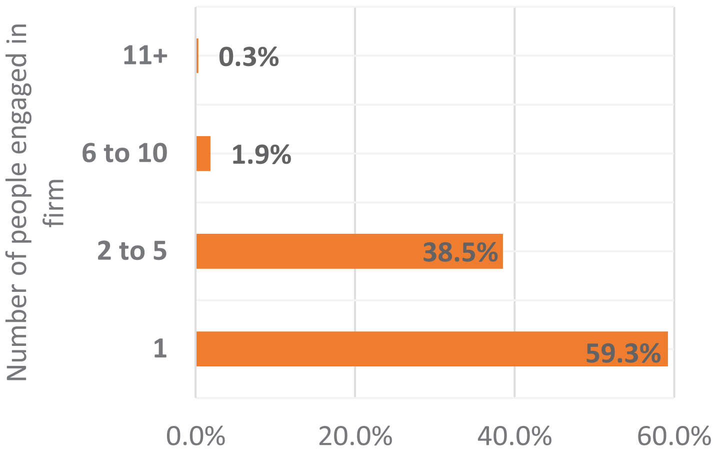


Figure 14: Firm sizes in the informal sector



Source: World Bank staff calculations based off UBOS 2017

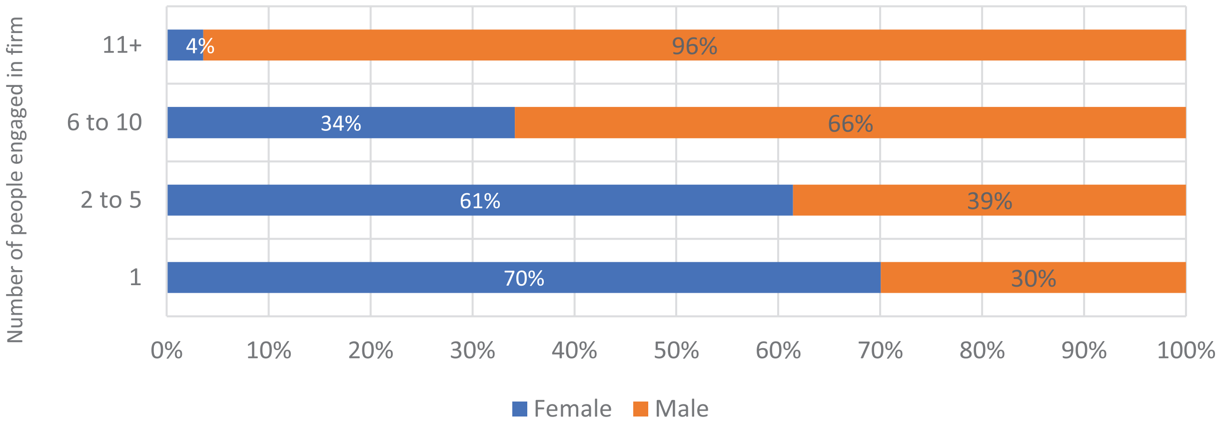
The majority of people employed in the informal sector are poor, rather than evading taxes

The majority of people in the informal sector are women. Women account for 66% of firm owners in the informal sector and for the vast majority of those employed by informal firms. Further, as shown in Figure 15, women are largely concentrated in self-employment or firms with less than 5 employees. Female owned firms experience lower performance compared to maleowned firms. Male-owned firms outdo their female counterparts in three important outcomes: firm size, Business-to-Business (B2B) customers and market reach. Possible reasons for this could be that retail businesses are targeting individual customers (hence

[74] *MTIC 2015*

fewer B2B customers); and that females, who are responsible for looking after the household, are more constrained in their ability to travel away from the city to build and serve different markets (thus less market reach). By contrast, a statistically larger proportion of female business owners accessed credit in the past year, particularly formal credit from savings groups, MFIs and banks. This could be because female business owners have less capital of their own (as suggested by their having fewer assets), which would make them more reliant on credit to start and run a business.

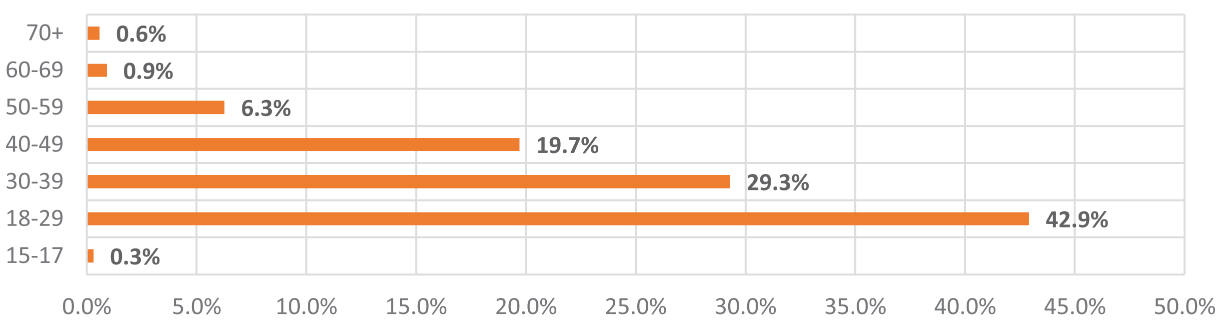
Figure 15: Employee size comparison for female and male owned firms



Source: World Bank staff calculations using UBOS 2017

The informal sector is made up of youth, and people with lower levels of education. The informal sector is also made up largely of young people (figure 16). Business owners under 29 years old account for 43% of informal sector business and over half of the employees. The level of education in the informal sector is also much lower than compared to Greater Kampala's broader labor force. 70% of Kampala's labor force has secondary education or higher. In the informal sector, the share of workers with secondary education or higher is 56% with the most common level of education being primary school (36%).

Figure 16: Majority of Kampala's informal sector are youths



Source: World Bank staff calculations using UBOS 2017

Firms in the informal sector provide a subsistence income for owners, who entered the sector out of necessity, using their own resources. While the total income of firm owners is not reported in the UBOS survey, one can provide a rough estimate of the incidence of poverty among informal firm owners by applying a profit margin to annual turnover. Assuming this margin is 10%[75], then 93% of micro firm owners would be beneath the international poverty line of $1.90/day in purchasing power parity, if the business were their only source of income. If the margin is lower, as is likely particularly in petty trading businesses, owners of small firms, in addition to micro, could also be in poverty. This is consistent with the informal sector being primarily a source of livelihood for the urban poor, rather than a substantial generator of value added. Indeed, when asked why owners had chosen to start their businesses, 24% of owners responded it was because they lacked alternative opportunities to generate income. This response was higher among those in self-employment. The majority of firms have used their own savings to start their businesses, typically money generated through previous work in the private sector (65%).

Location and access to customers is important for informal businesses. Kampala's informal sector is concentrated in three major clusters in close proximity to the central business district. Figure 17 shows a heat map of informal firm location density. Figure 18 shows a zoomed in map of three main clusters in Katwe, Kasubi and along Masaka road. Each cluster shares a number of features. Firstly, the clusters are in low income residential areas with large informal settlements. This is unsurprising given that a large proportion of informal firms are household based, suggesting that those who live in informal settlements are likely to run informal businesses. Secondly, the clusters are close to high population densities and the city center. Being close to customers is essential for informal firms. 97% of informal businesses sell to other households or individual customers and 84% of businesses sell to customers within a 30-minute walk[75]. The Income Tax Act applies a 3% tax to turnover for small firms, and a 30% tax to the profit of medium/large firms. If the tax rate of profit were constant for both groups of firms, the implied profit margin on turnover would be 10%.

Figure 17: Informal Firm Density in Greater Kampala

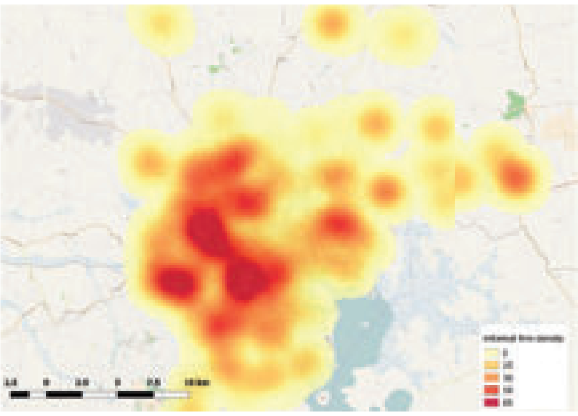
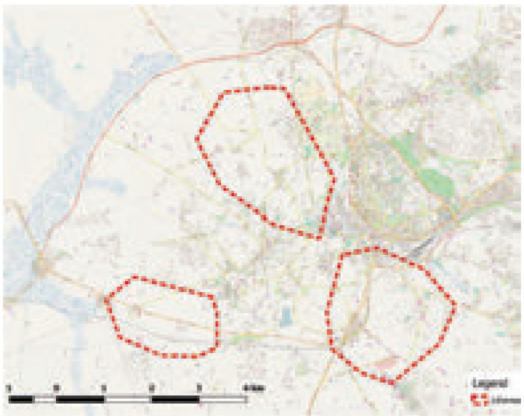


Figure 18: Three informal firm clusters close to Kampala CBD

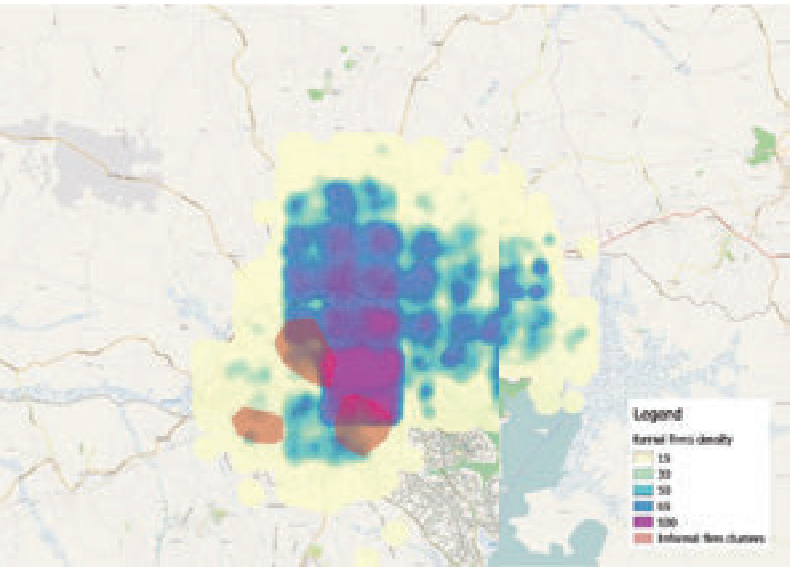


Source: World Bank staff calculations based off UBOS 2017

[75] *The Income Tax Act applies a 3% tax to turnover for small firms, and a 30% tax to the profit of medium/large firms. If the tax rate of profit were constant for both groups of firms, the implied profit margin on turnover would be 10%.*

There appears to be little co-agglomeration between formal and informal firms in Kampala. Figure 19 maps formal firm density with the informal firm clusters overlaid. As to be expected formal firms show an even spread throughout the city with particular concentration in the CBD and greater density in the northern parts of the city. While the Katwe cluster has the greatest overlap with formal firm location, the clusters in general do not share much space with formal firms. The spatial separation between informal and formal firms suggests little economic integration and possible economic exclusion of those working in the informal sector. This is further corroborated in the survey, which found only 8.5% of firms trading with medium and large firms. For the majority of informal firms, which are in service and retail sector, a lack coagglomeration with formal firms may have little effect. As noted above, for these firms, proximity to markets and populations densities (i.e. customers) may dictate location choice as opposed to positive externalities related to agglomeration economies. However, for the few manufacturing firms in the informal sector, co-agglomeration with other manufacturing formal firms may be advantageous. It is reasonable to assume that informal activity does not benefit in the same way formal firms do from agglomeration economies, either through the sharing of sector specific inputs, labor and/or knowledge. Moreover, informal manufacturing firms' co-agglomeration with formal firms may bring unique advantages as a number of studies have found the interaction between formal and informal manufacturing firms are beneficial for both sectors[76].

Figure 19: Formal firm location density with informal firm clusters overlay



Source: World Bank staff calculations based off UB0S 2017

RECOMMENDATION:

ENSURE THE PROTECTION OF LIVELIHOODS OF INFORMAL ENTERPRISES

Close proximity to markets and customers is crucial for the viability of informal sector firms. Given the sector's important role in providing the poorest in the city a livelihood, policies to re-locate informal sector enterprises away from the CBD will have negative results. Importantly, policies seeking to encourage informal firms to move from their current location are unlikely to succeed, as any move away from a large number of customers and foot traffic will affect firm profitability. It is recommended that KCCA along with other Greater Kampala local governments work closely with vendors to zone land specifically for trading.

[76] *Duranton (2008), Venables and Overman (2005); Arimah (2001); House (1984)*

Kajjansi Market
Locations of any new markets should take into account population density and foot traffic

Locations of any new markets should take into account population density and foot traffic for them to be an attractive option for informal firms. It would be ideal to coordinate these demarcated trading areas with newly regulated matatu routes and stops.

Informal firms face major constraints related to increased competition and the profitability of their business model – in addition to access to finance. When asked what was the biggest problem in potentially expanding their business, 45% of respondents reported that it was a lack of customers, competition or the profitability of their business model and 40% reported that it was access to finance. Other items such as access to inputs such as capital equipment, land, utilities, labor or skills were not ranked highly at all. When asked the biggest problem in running their business at its current scale, again, 35% reported it was a lack of customers, competition or the profitability of their business model, and 22% reported access to finance was the issue. Again, access to inputs was not ranked by many.

It is unlikely that many informal firms will be able to grow and generate more jobs in their businesses. This is particularly true for self-employed and micro-firms. A key question to ask about the informal sector is what share of its firms, if constraints were removed, or if supported with additional capital or resources, could potentially grow, become formal and create jobs. While it is impossible to forecast growth rates with any certainty for a single firm, one can examine the incidence among the informal sector of indicators typically used by investors to assess the likelihood of future growth. Table 5 presents 9 such indicators, as well as an overall growth potential score derived from the indicators. The indicators cover owner's ambition and ability, past growth, resources available and age of the business. Age, or whether a firm was established within the last year, 2016, is considered an indicator of potential growth because older firms have shown themselves to have remained small for more than a year, and are thus plausibly less likely to grow in the future. Looking at Table 5, only 61% of firms have plans to grow, placing an upper bound on the share that might expand. Further, while larger firms are more likely than small and micro firms to have an owner with a post-secondary school degree, only 16% of micro firms do, suggesting that the smallest firms may be less likely to have the human capital required to expand. A similar pattern is seen for record keeping. Finally, though 33.5% of large firms started because they saw an opportunity in the market, just 9.9% of micro firms did so. Overall, only 13.5% of informal firms in general started for this reason, indicating that they may not be in the highest potential markets. This is consistent with the observation above that most sell local services to nearby residents—their output is limited by the size of the local economy, and is unlikely to become widely traded. Overall, using the most generous overall growth potential score---whether a firm has at least 4 of the 9 indicators – just 18% of firms have potential. Restricting the score to those with 5 or more indicators, this share drops to 4%.

RECOMMENDATION:

FOCUS ON LIVELIHOODS AND LABOR MOBILITY FOR THOSE IN THE INFORMAL SECTOR WITH LOW GROWTH POTENTIAL.

The informal sector in Kampala provides essential livelihoods for the city's poorest in the absence of more formal jobs in the city. As discussed above, only a small portion (18%) of informal firms are estimated to have the potential to grow. For the remaining informal firms, they provide essential livelihoods for those in the city without formal job opportunities. For the city to assist this large group of poor people, KCCA and local governments need to focus on generating more employment in the formal sector. However, it is also crucial to assist those in the informal sector to attain those jobs once they are available. Instead of trying to stimulate growth in informal firms which do not have much growth potential, local governments should focus attention on labor mobility for those at the bottom quintile of the informal sector so that they are more able to transition to formal employment. Training and labor matching will be important to improve labor mobility. Local governments can work closely with business associations to identify key skills in growing industries in order to design these interventions.

Table: 5 Informal Sector Growth Potential

Firm Size Category *Annual Turnover (UGX)*	**Micro** *<10 Mn*	**Small** *10-50*	**Medium/ Large** *Mn >50 Mn*	**All**
Owner ambition and ability				
Owner has concrete plan to expand	55.5%	77.5%	52.7%	61.5%
Owner keeps written records	31.2%	58.4%	81.2%	39.8%
Owner has post-secondary school degree	16.4%	14.2%	28.2%	16.0%
Primary reason to start firm was the market size	9.9%	21.2%	33.5%	13.5%
Past growth				
More than one employee	31.6%	61.8%	69.4%	40.7%
Primary customers are outside Uganda	4.4%	6.1%	2.3%	4.8%
Resources Available				
Firm received loan from financial institution in last year	8.0%	9.4%	7.1%	8.4%
Firm has multiple shareholders	3.4%	4.4%	3.7%	3.7%
Age				
Firm established in 2016	33.9%	13.7%	18.2%	27.9%
Growth Potential Score				
At least 4 of the above	12.3%	32.8%	9.2%	17.8%
At least 5 of the above	4.3%	3.1%	5.2%	4.0%
At least 6 of the above	1.0%	1.1%	1.7%	1.0%
At least 7 of the above	0.0%	0.4%	0.7%	0.1%
Number of observations	1,623	447	143	2,213

2.3 Generating jobs in high productivity sectors

Enabling Greater Kampala's industry sector and other priority sectors will be key to delivering on Uganda's goals of further industrialization. A key objective of the NDPII and Vision 2040 is to promote growth with "positive structural change". The latter occurs when workers migrate from less to more productive sectors, thereby increasing economy-wide labor productivity. The NDPII prioritizes a number of high productivity sectors which are primarily located in Greater Kampala. However, the majority of jobs in the city are still in low-productivity sectors.

Long-term job growth in cities is usually driven by tradable sectors (like manufacturing). Non-tradable sectors (like retail, hairdressers and street vending) encounter diminishing returns because they are limited by their size of the local markets. Tradable sector (such as manufacturing) on the other hand offer the prospect of increasing returns by selling outside the local market both regionally and globally. The World Bank's Competitive Cities report found that the most competitive cities exhibit a particular emphasis on the production of tradable goods and services as a way to boost economic growth and job creation. The study found that for those cities that grew the fastest, tradable sector employment growth outstripped nontraded sector growth.

Further growth in Kampala's high-productivity sectors will be key to delivering on Uganda's goals of further industrialization and formal employment generation. Over the last ten years, tradable sectors in Greater Kampala are overrepresented in the top 20 sectors creating new jobs. Greater Kampala unsurprisingly has a comparative advantage in tradable sectors, yet the share of labor employed in these activities remains negligible. Conducting location quotient[77] and shift share[78] analyses shows which sub-sectors Greater Kampala has a comparative advantage in and which industries have been growing compared to the rest of the economy[79]. The subsectors where Kampala has a comparative advantage over the national economy are mainly tradable industries and services. While non-tradable activities on the other hand are overrepresented in the sectors that have lost most jobs. Micro-enterprises are also overrepresented in the economic activities losing jobs.

To assist policy makers' future efforts to understand the subsectors most important to job creation and structural transformation, a sectoral job multiplier analysis was commissioned for Greater Kampala. The analysis estimates the size and economic structure of Greater Kampala's economy, develops an economic model for Greater Kampala that captures the structural linkages between sectors and households within the local economy, and between the city and the rest of the country. We use the model to assess the economy-wide impact of investing in each of Kampala's economic sectors, including industries and services and, given the structural characteristics of the local economy, the analysis indicates which sectors are most likely to stimulate local job creation and income growth in Greater Kampala as well as in the rest of the country. The model also included the assumption of limited supply of resources such as skilled workers or scarce land and capital in order to realistically assess which kinds of economic activities are likely to be the most effective at stimulating local (and national) economic development[80].

Investment in higher value sub-sectors, particularly in manufacturing, have a greater contribution to productivity.

Using an econometric model of the Kampala economy, investments in higher value manufacturing and service sub-sectors creates fewer jobs than lower value added sub-sectors but leads to larger increases in economy-wide labor productivity[81]. Importantly shifting from lower to higher productivity activities leads to higher overall growth (and higher earnings at the individual level), which compensates for lower labor intensity. So, despite creating fewer jobs in the short term, manufacturing and tradable service sub-sectors have the potential to stimulate job generating growth in the longer term. The model also revealed several win-win subsectors which generate above-average job creation as well as labor productivity gains (figure 20). Grain milling, chemical manufacturing, other food manufacturing, and financial services all have both above average returns to job creation and productivity[82]. It is clear from this analysis that future development of industry and tradable services can encourage increased productivity and stimulate structural transformation in Uganda.

77 Location quotient analysis compares a region's industry share of employment with its share of national employment and helps determine which industries make the regional economy unique, but at the same time could increase the vulnerability of the city economy, if in decline.

78 Shift-share analysis, identifies industries where a regional economy has competitive advantage over the larger economy by decomposing regional growth in employment and calculating how much can be attributed to national, industry and regional factors.

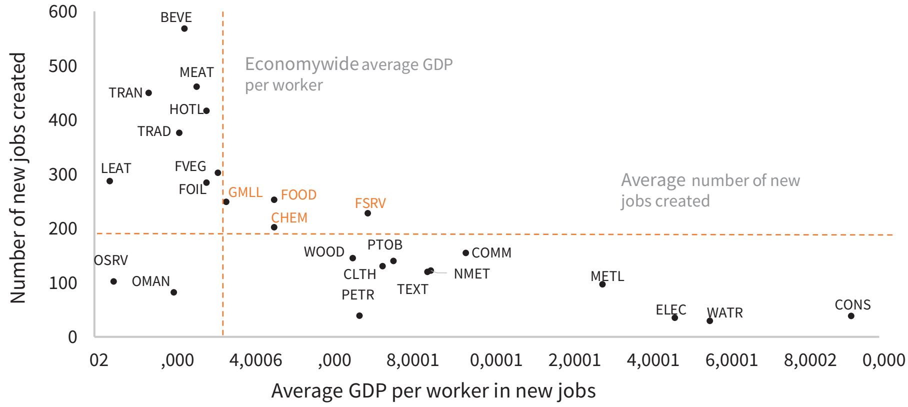
79 See Annex 2 for complete list

80 Randriamamonjy, Thurlow (2016)

81 Randriamamonjy, Thurlow (2016)

82 Ibid

Figure 20: Trade-Offs Between Job Creation and Structural Change in Kampala



[83]

Source: Randriamamonjy, Thurlow (2016)

There are also several win-win subsectors which generate above-average job creation as well as labor productivity gains. As Figure 18 shows, grain milling, chemical manufacturing, other food manufacturing, and financial services (highlighted) all have both above average returns to job creation and productivity. In addition to these, investment in a number of sectors generates above average returns in job creation, structural change or poverty alleviation. These sectors are summarized in table 6 It is clear from this analysis that future development of these sub-sectors will encourage increased productivity and stimulate structural transformation in Uganda. However, local service sectors will remain important for job creation.

Table 6. Investment Sectors with Above-Average Contributions to Job Creation, Poverty Reduction and Structural Change (Constrained Supply of Better-Educated Workers)

Areas with above-average returns	Targeted investment sector
Jobs, poverty & structural change	Chemicals.
Jobs & structural change	Finance and insurance; Grain milling; Other foods.
Poverty & structural change	Clothing; Communication; Machinery & vehicles; Metal products; Non-metal minerals; Real estate activities; Tobacco; Wood & paper.
Jobs & poverty	Beverages; Footwear; Hotels & catering; Transportation & storage; Wholesale & retail trade.
Jobs only	Fats & oils; Fruits & vegetables; Meat, fish & dairy.
Structural change only	Construction; Business services; Electricity, gas & steam; Petroleum; Textiles; Water supply & sewage.

Source: Randriamamonjy, Thurlow (2016)

[83] *MEAT = Meat, fish & dairy; FVEG = Fruits & vegetables; FOIL = Fats & oils; GMLL = Grain milling; SREF = Sugar refining; FOOD = Other foods; BEVE = Beverages; PTOB = Tobacco; TEXT = Textiles; CLTH = Clothing; LEAT = Footwear; WOOD = Wood & paper; PETR = Petroleum; CHEM = Chemicals; NMET = Non-metal minerals; METL = Metal products; MACH = Machinery & vehicles; OMAN = Other manufacturing; ELEC = Electricity, gas & steam; WATR = Water supply & sewage; CONS = Construction; TRAD = Wholesale & retail trade; TRAN = Transportation & storage; HOTL = Hotels & catering; COMM = Communication; FSRV = Finance and insurance; REAL = Real estate activities; BSRV = Business services; OSRV = Other services.*

While greater Kampala is specialized in manufacturing sub-sectors, not all of these subsectors have been growing. Of the sub-sectors which Greater Kampala is highly specialized (LQ>1.7) nearly half are in manufacturing. When restricting for those sub-sectors that Greater Kampala is specialized in and employ at least one thousand workers and have created jobs in the last decade, four manufacturing sub-sectors appear, along with sub-sectors in wholesale and services. These subsectors appear to be promising areas within Greater Kampala (Table 7).

However not all sub-sectors have been growing. Most concerning are those large sub-sectors including manufacturing in structural and fabricated metal products, manufacturing in basic iron and steel, and manufacturing in plastics where employment has declined despite being highly specialized in Greater Kampala. Developing alternative subsectors of specialization will be critical to avoid a deterioration in unemployment and informality.

Table 7: Promising sub-sectors in Greater Kampala

	Sector	Sub-sector	Share of Labor	Location Quotient	Regional Share
Tradable	Manufacturing	Soap and detergents	0.40%	1.79	196
		Soft drinks	0.22%	1.99	46
		Pharmaceuticals	0.22%	2.02	378
		Other Manufacturing	0.71%	2.07	657
	Wholesale	Textiles, clothing and footwear	0.60%	1.75	3132
		Household goods	0.89%	1.02	1428
		Real estate	0.62%	2.03	155
Non-tradable	Services	Cargo handling	0.24%	1.99	188

Source: COBE 2011

Uganda's manufactured exports, as a whole, have recently declined but market opportunities continue to exist. City level export data does not exist. But an analysis of Uganda's exports shows that, while food and raw commodities make up the majority of Uganda's export basket, the share of non-food exports had been growing over past decades[84]. However, Uganda's manufacturing sector has recently been performing poorly. Figure 21 shows the declining export performance of three subsectors that Greater Kampala is specialised in – machinery, beverages and textiles. Additionally, Uganda's merchandise exports have stagnated in stark comparison to 84 IGC 2016 neighbouring comparator countries (figure 22). Key factors explaining this decline in manufactured exports include primarily the consequence of the reduced level of demand from South Sudan and Eastern DRC which have been affected by instability) and in Europe, where recovery from the recession has been slow[85].

84 *IGC 2016*
85 *WB 2015*

Figure 21: Exports in key sectors in which Kampala is specialized have been declining since 2012

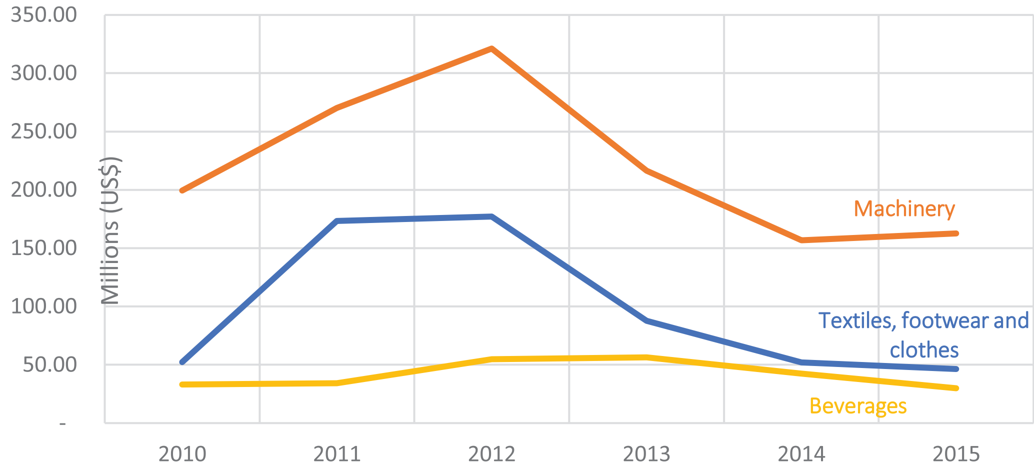
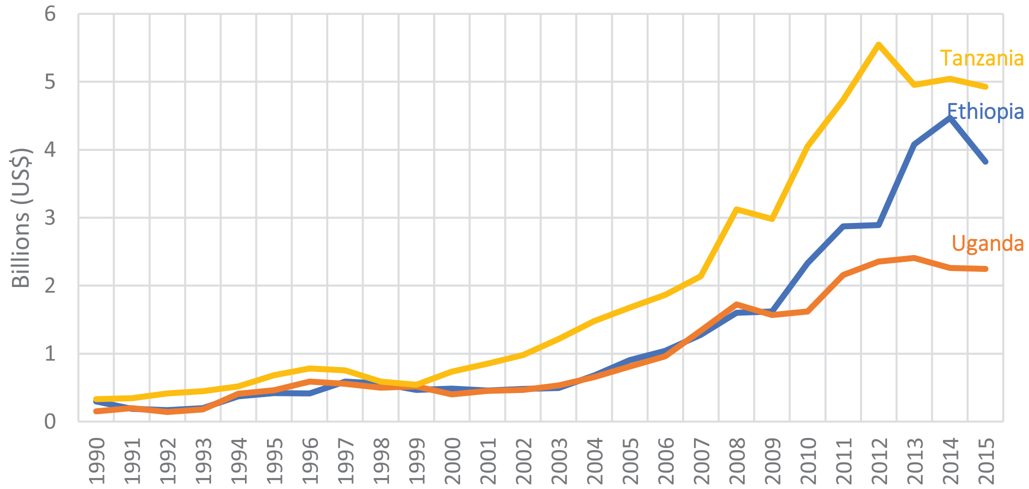


Figure 22: Uganda's Merchandise export have stagnated compared to its neighbours



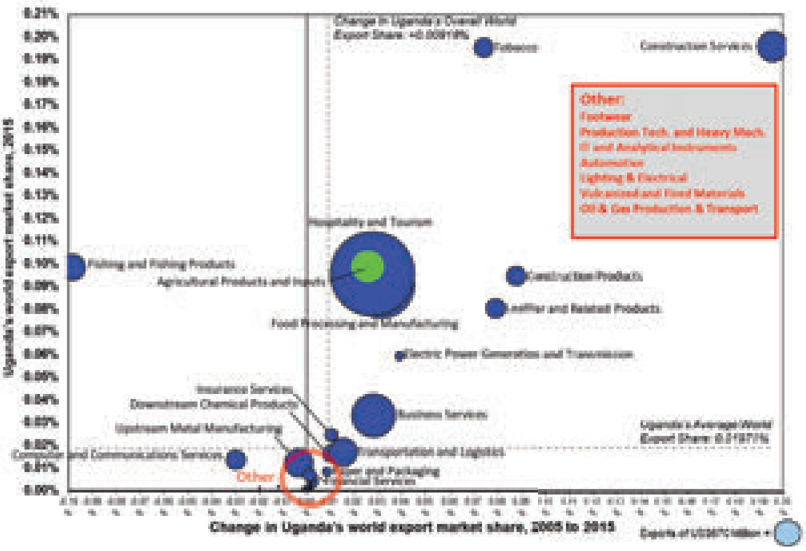
Source: UN Comtrade

Despite recent events disrupting Uganda's manufacturing trade, it is important to note that export markets for manufactured goods exist and have potential for growth.

When disaggregating Uganda's export data further we see that only three sectors have decreased in their world export market share between 2005 and 2015 - computer and communications services; fishing and fishing products; and upstream metal manufacturing (see figure 23). Further, while Uganda's exports are dominated by primary commodities and food processing, a number of smaller manufacturing sectors have been growing in their world market share.

These sectors include footwear, production of heavy machinery, IT and analytical instruments and automotive. This suggests that there is indeed a market for Uganda's manufactured goods to be exported.

Figure 23: Uganda's world export market share



Source: Porter, Michael International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School

2.4 Challenges Greater Kampala faces to build its productive sectors.

For Greater Kampala to transition to a production centre and lead Uganda's structural transformation, its local governments will need to better understand the constraints to firm growth in order to support job and productivity growth.

This section has highlighted the importance of Greater Kampala to the Ugandan economy and the central role in which the city will play in Uganda's future industrialisation. However, the city faces a number of challenges. Economic growth is slowing and the city faces accelerated population growth amidst pervasive underemployment and a dominant informal sector. To reach its economic potential the city must generate more wage employment in tradable sectors that can benefit from scale economies. Greater Kampala has a comparative advantage in the tradable sector, in particular manufacturing. However, a number of promising tradable subsectors have been shrinking, whilst the number of micro enterprises have grown considerably. The following sections report findings on key constraints for Greater Kampala's subnational Governments to address to ensure future growth of the metropolitan's productive sectors:

I. A disconnected and costly environment (section 3) – Greater Kampala's urban form does not encourage economic density and poor infrastructure makes production activities expensive. The spatial configuration of a city affects the location and density of infrastructure, which in turns affects economic competitiveness.

[86] *Lall, Schroeder and Schmidt 2008*

High production costs has a direct impact on firm competitiveness. As regional integration accelerates in East Africa, Kampala is increasingly placed in direct competition with other regional cities, particularly Nairobi and Dar es Salaam. Uganda's burgeoning industrial sector is located in Greater Kampala[86]. For Uganda to meet the industrialisation targets set out in Vision 2040 and National Development Plan (NDPII), Kampala's industrial sector will need to become more cost competitive.

II. Lack of enterprise services and support (section 4) – Cities are not limited to their built environment. The role of a city authority and local government lies in creating a conducive environment to support enterprise growth. In practice, this translates into understanding and acting to alleviate the constraints which businesses face in the city. Firms in Greater Kampala face a number of constraints which relate to their business environment and human capital. These included constraints with access to finance, labour skills, business skills and tax administration. Underlying these issues were firms' mistrust of the Kampala Capital City Authority (KCCA) and local governments, which makes public private cooperation difficult. The key to any successful enterprise support, is to understand the particular barriers in depth and how they affect firms of varying types and sizes.

Crucially, while city governments are important stakeholders in promoting their city's firm competitiveness through coordination, engagement and investment, the report highlights a number of key constraints which requires central government leadership. Chief among these constraints are Uganda's complex land tenure system, the high cost of finance and the reliability and cost of electricity. These constraints are outside the remit of local governments and are currently being addressed by a number of national projects and as such have not been the focus of this program. However, local governments still have a role to play in lobbying the central government for swift and effective reform and investment. Without these national constraints being addressed, Greater Kampala's growth potential, and Uganda's economic development, will be significantly hampered.

86 *Lall, Schroeder and Schmidt 2008*

03

Building a competitive city – Greater Kampala's urban environment

How a city is spatially configured and the infrastructure it offers are key determinants as to whether a city is able to generate and promote competitive industries.

The World Bank's recent research on the Spatial Development of African Cities shows that African Cities are crowded, disconnected and costly, and that this is likely inhibiting their ability to take advantage of the benefits of agglomeration. This section evaluates Kampala's built environment, assessing the city's urban form and infrastructure, and how these may be impacting firm competitiveness. The section argues that Greater Kampala is currently disconnected, which curtails mobility and inhibits economic agglomeration.

And secondly that Greater Kampala's urban form and poor infrastructure makes production expensive. Underlying these issues and making potential remedies difficult, is a complex land tenure system which slows the effectiveness of future investments. However, Greater Kampala is still in its early stages of urbanization. Local Governments working together can contribute to a well-managed city which supports clusters of houses and firms, and allows transport to connect people to jobs, making the city more livable for its residents and reducing the cost of living and production. The section concludes with practical suggestions for the Greater Kampala local governments to coordinate Kampala's urban investments.

Well managed cities can have large benefits to firm productivity. Cities allow firms to access and find suitable skills and labor quickly, they also provide common resources and infrastructure, such as airports, markets and electricity. Cities and urban density also provide increased knowledge spill overs which makes it easier for information to be shared and innovation to be generated. Recent evidence suggests that Kampala's workers have a higher wage than rural counterparts, and that this in part is driven by higher productivity affects generated by the city[87].

Within the city, studies have shown that firms within the tradable sector - specifically manufacturing - benefit most from agglomeration and scale economies[88]. Additionally, empirical evidence suggests that Kampala's land tenure also plays an effect on firms' productivity[89] – these findings are further discussed throughout the report. Cities are crucial for generating improved productivity. However, if not managed well, cities can impede firm productivity through congestion, lack of services and weak economic density.

3.1 Moving from a disconnected toward a connected city

Kampala has expanded rapidly, but expansion has left the city with low population density. Kampala is not a dense city. The city over time has spread out, tripling its built-up area over the past 40 years (Figure 24 & 25). Growth in the city's built environment has spread east towards Mukono, west towards Entebbe, north towards Luwero, Wakiso and north-west towards Mpigi. As the city has expanded, firms and employment have dispersed further from the urban core. Employment densities around the CBD of Kampala are between 5,000 and 10,000 workers per square kilometer[90]. This is low compared to other cities. For example, in Kigali's downtown, employment density is 25,000 workers per square kilometer, and in 1990s downtown London and Seoul, employment density was 42,000 and 58,000 workers respectively[91].

[87] *Jones, D'Aoust and Bernard 2016*
[88] *Lall et al 2009*
[89] *Venables et al 2015*
[90] *Jones et al. 2016; Grover and Lall, 2016*

Figure 24: Greater Kampala's built-up environment 1974

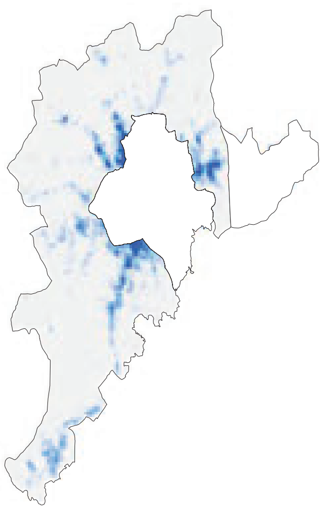
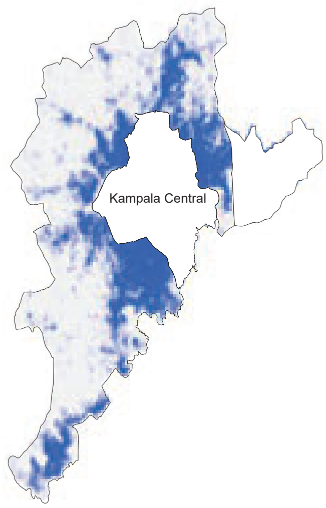


Figure 25: Greater Kampala's built-up environment 2014



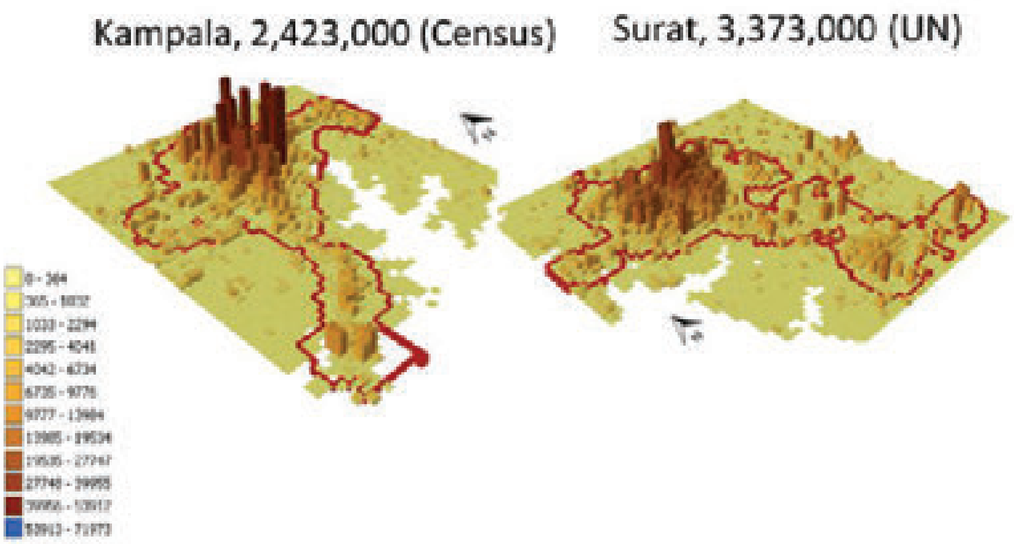
Source: Global Human Settlement Layers

Kampala's urban development has not been uniform, leading to scattered population density peaks instead of clustered density which can enhance scale economies. Recent research has found that Kampala's population densities are fragmented in its core. Figure 26 compares the population densities of Kampala and Surat, India. The Surat population shows a compact form, with contiguous spikes of population. While Kampala's population spikes are larger they are separated by gaps. And this trend is increasing, the share of new development happening in leapfrog has more than doubled from the 1990s to the 2000s[92]. Such development put a break on density and disconnect people from opportunities.

[91] *Ibid*

[92] *Baruah 2015*

Figure 26: Population Density Patterns of Cities in Kampala ad Surat



Source: Henderson and Nigmatulina, 2016

Kampala's fragmented form also has an effect on businesses. Businesses within cities benefit from dense economic activity. However, Kampala lacks any clear industry clusters. Greater density allows firms to access a wider market of inputs and buyers while reducing the Kampala Central Kampala Central cost of production thanks to scale economies. In particular, empirical evidence suggests that firms in Kampala within the tradable sector - specifically manufacturing - benefit most from agglomeration and scale economies.[93] This is unsurprising given that the vast majority of Kampala's employment is concentrated in local services which have less to gain from clustering than other sectors. Using the Ellison Glaesar (EG) index on Kampala's industries, shows that most of Kampala's labor force is scattered[94]. Those industries which are most spatially concentrated are largely tradable activities such as manufacturing and food processing. Kampala's urban form is currently not facilitating industrial clusters and, in general, the EG index shows there are low levels of firm clustering by industry in Kampala[95].

[93] *Lall et al 2009*
[94] *WB staff calculations based of COBE 2011*
[95] *See annex 2 for complete EG index table*

RECOMMENDATION:

PRIORITIZE ZONING AND DEVELOPMENT OF VACANT LAND

Further land zoning and city planning is crucial to encourage the efficient use of space in the city.

There are powerful agglomeration incentives for firms, particularly in manufacturing sectors to cluster with one another. A lack of industrial clustering suggests coordination failures within the city. Given the high cost of land and land tenure issues, it appears unlikely that firms will be able to harmonize locations and generate industrial clustering without some government assistance. KCCA and local governments can address this coordination failure by facilitating increased firm clustering for key sectors, through increased zoning and infrastructure provision. However, KCCA and local governments are unable to effectively zone and plan given the lack of land which local governments control and the multitude of large land owners city and local governments need to work with to secure land.

As an initial step, vacant and underdeveloped land should be first identified through GIS mapping. KCCA and local governments will also need to work closely with current major landowning institutions (such as the Church and the Buganda Land Board) to jointly collaborate on land zoning. Furthermore, the potential for land swaps can be further explored with landowning institutions in order to facilitate land development in essential city locations. In order to finance land purchasing it is recommended that KCCA and local governments begin to coordinate purchasing vacant and underdeveloped land through a land banking mechanism, which could potentially make use of the GoU's Land Fund. The efficient purchasing and reallocating of underused or vacant land would increase land supply for mixed uses, including commercial and industrial activities. Crucially, in order to discourage further speculation and corruption, land should be earmarked and reallocated in a transparent process that benefits a large number of firms or citizens.

Outside of Kampala's core, secondary points of employment have emerged. However, these secondary centers' density remains low given the high commuting costs. In general, firm concentration in Kampala's CBD has declined from 65% of firms in 2002 to 55% in 2011[96]. As firm concentration in Kampala's CBD has declined, secondary employment concentrations have emerged, the most significant of which is in Entebbe. However, employment densities in these areas are still low, representing only about 10% of those in the urban core[97]. Outside of the CBD, high commuting costs to new potential sub-centers are preventing their growth. When commuting is cheap, various localized centers of production and employment emerge. Decreasing transport costs can therefore encouraging the concentration and clustering of firms and lead to increased job creation in other secondary clusters outside downtown Kampala.[98]

To encourage increased economic densities which lead to agglomeration effects, it is crucial for Greater Kampala to further develop its transportation system and improve mobility within the city.

[96] *Jones et al (2016)*
[97] *Grover, Lall (2016)*
[98] *Ibid*

Economic activities, especially those in the tradable sector, benefit from agglomeration effects resulting from improved connectivity and economic density. Investment in transport infrastructure is therefore critical and has been shown to decrease the transport cost of motorized transport in Kampala. Indeed, other residents also benefit through decreased prices, translating in lower costs of living. With time, people relocate: the rich can move further from their job as commuting times have decreased, lowering the pressure on land close to the city center and allowing the poorer to settle close to their job, reducing their share of transport costs.[99]

Greater Kampala's fragmented urban form and inefficient transportation system is a barrier to firms. The World Bank Enterprise Survey found that 15% of firms in Greater Kampala considered transportation a major or severe constraint to their businesses. This was reiterated in firm interviews[100] which highlighted the debilitating effect of congestion. One firm interviewed[101] explained:

KCCA currently estimates that 24,000 man hours a day are lost by commuters due to traffic jams.[102] Congestion is particularly troublesome for medium and large firms in the tradable sector, who rely on the transportation of goods around and outside of the city. Road congestion is an increasing problem in Kampala, and road infrastructure cannot keep pace. As the economy grows, the number of vehicles on the roads in Greater Kampala has been increasing at a faster rate than infrastructure investment can keep up. Motor vehicle ownership is on the rise, a trend which will only accelerate as incomes rise and cost of vehicles reduce. The existing roads in Kampala were constructed in the 1960s for 100,000 vehicles per day; today 400,000 vehicles use the roads every day.[103] Compounding the issues of increased use is that 73% of roads in Kampala are unpaved, which slows traffic and increases the likelihood of accidents.[104] Kampala's road system is radial and has most traffic running through the city center.

While the northern ring road system, which was completed in 2009, has reduced traffic in the city, it now too suffers from heavy congestion. Currently, Greater Kampala's road infrastructure cannot keep pace with the rise of vehicles on its roads. Kampala's lack of public transport is a key underlining reason for the level of road congestion. Kampala's roads are dominated by private motorcycle taxis (boda bodas) and private cars (private cars estimated to be growing at 11% per year)[105]. Boda bodas have become increasingly popular due to the poor state of the road infrastructure and high level of congestion. While they are highly prone to accidents, they provide their customers with fast and flexible transport. However, boda bodas are not the most efficient use of public roads. Table 8 shows that while boda bodas represent the largest share of vehicles in the city, they only carry under 10% of.

> ***"Because of the traffic jams, it takes 6 hours for a 30km round journey, this means I can't make multiple deliveries in a day and can't promise that deliveries will arrive on time."*** – Medium manufacturing firm passengers.

On the other hand, the informal mini-bus taxis (matatu) transport the largest portion of people despite making up the smallest group of vehicles using the road. However, according to a study by MoWT, 64% of congestion

99 Bernard, Bird and Venables, 2016
100 76 Firm interviews were conducted in 2016 in collaboration with the London School of Economics and the Economic Policy Research Centre
101 Iddawela 2016
102 KCCA 2012
103 KCCA 2016
104 Ibid
105 KCCA 2012

problems are due to frequently stopping taxis. The lack of coordinated routes and stops—as well as their small capacity—means that the number of times a taxi has to stop in order to pick-up or put-down passengers is high.[106] This slows down the speed of the service and has knock-on effects to other forms of motorized transport.

Table 8: Boda Boda's dominate the roads but matatu's transport more people

Type of vehicle	% trips	% persons
Motorcycle taxis (boda boda	42	9
Private cars	37	9
Mini buses (matatu)	21	82

Source: KCCA 2012

Reducing congestion will be key to lowering commuting costs for workers and firms, however little in the way of public transportation reform has been made. The National Transport Master Plan (NTMP) 2009-2023 outlined a plan to develop a high-quality public transport network. However, there has been little progress in terms of reforming the public transport system in Kampala. In 2012, a private company – Pioneer Bus Company – began operating conventional single decker buses on allocated routes. However, one year after operating, the bus company' services were suspended for tax reasons. While the company has repaid the tax debt and services have resumed, it is still faced with the challenge of accessing the areas within the other metro local governments, since the agreement was signed with KCCA who have no jurisdiction beyond Kampala City. Introducing a Bus Rapid Transit (BRT) system has also been suggested and feasibility study conducted. However, work implementing this system has yet to begin and there are doubts regarding the feasibility of such a system in a low income and low density city setting. There is a need, therefore, to ensure that the Multi-modal urban transport masterplan for Greater Kampala currently being designed under the Kampala Institutional and Infrastructure Development Program (KIIDP) gives rise to a more tightly focused Public Transport Policy for Kampala.

Providing a conducive environment for non-motorized modes of transport (such as cycling and walking) can improve city mobility

RECOMMENDATION:

TRANSPORT – IMPROVING CONNECTIVITY AND REDUCING CONGESTION IN GREATER KAMPALA

Regulate current transportation system - Before Kampala is ready to invest in a new public transport system, the current transport system and regulatory environment needs to be prepared. While the National Transport Master Plan (NTMP) outlines a broad transport plan for the Greater Kampala, there is need to ensure that the Multi-modal urban transport masterplan for Greater Kampala currently being designed gives rise to a more tightly focused Public Transport Policy for Kampala. A central task of this policy will be to address the regulatory framework for local taxis. For decades, the Uganda Taxi Owners and Drivers Association (UTODA) and rival associations assigned routes and prices to its members – in essence the industry was informally self-regulating with a number of governance issues. However, since early 2015, KCCA has taken over more control of the taxi industry's regulation.

A complete and sudden phasing out of taxis will not be feasible in the short run. Instead, increased

106 *KCCA 2012*

structuring of the local taxis system can enhance labor mobility in the city and reduce congestion quickly. Key to improving congestion in the city will be to coordinate taxi routes and stops to ensure that traffic is not slowed down by taxis constantly stopping to pick up and drop off passengers. It will be imperative for taxi stops and routes to be planned to accommodate where city workers live and the main areas of employment – including informal sector hubs. As an initial step, maps of the taxi system should be updated and plans should be made in line to connect current high density residential area and employment hubs. Once immediate steps are taken to regulate the current informal transport system, investments can be made to further upgrade the system to higher capacity vans, light rail or a bus system. The private sector could be further involved in future transport upgrading could be financed through a Public-Private Partnership (PPP).

Improve non-motorized transport - Attention should also be given to providing improved conditions for non-motorized transportation. For the poorest urban residents, the cost of vehicle transport is prohibitive. Data reported in the Uganda National Household Survey (UNHS) suggest 70% in Kampala's population walk to work. Typically, transport choice is determined by incomes, with the mode and number of trips increasing with incomes. As Kampala has expanded, market opportunities for people who have to walk to their employment has been diminishing. This may also even exacerbate slum formation as many people will trade off housing quality to be close to jobs. While it is crucial to ensure affordable vehicle transportation systems, improving the safety for pedestrians and cyclists should not be ignored. Furthermore, consultation with the poor in regards to transportation is often an area which is neglected in policy formation.

Further road improvement and public transport investments. Road investment is strongly associated with density increases and economic activity. KCCA and Local Governments have made significant progress in increasing paved roads in the city but further investments are needed, particularly those of a cross GKMA nature, which would have a bigger impact on better connecting where people live with where they work. Research suggests that road improvements of the northern bypass around the city would enhance the connectivity of east and west parts of the city and improve city mobility. The feasibility of Bus Rapid Transit (BRT) and light rail investments are also being considered. To support access to markets for informal enterprises, taxi stops could also be coordinated with investments in markets and premises for them[107].

Improved transport infrastructure can decrease the cost of motorized transport in Kampala, which would reduce costs for business

[107] *E.g. Artisan parks, vendor markets, etc.*

Rift Valley Railways (RVR) passenger train transporting people to Kireka from the Central Business District, Kampala.

Pioneer buses destined for Bweyogerere wait for passengers in Kampala

Boat transportation on Lake Victoria.

Water transport has potential to decongest the city's road networks and boost mobility and trade within the Greater Kampala Area

Infrastructure Improvement on the Landing sites (Bule-butebo, Ggaba, Kigungu, Kasenyi, Entebbe Zoo, Nakiwogo, Busabala, Nakabugo and Kyanvubu) and developments on the inland ports such as Bukasa and Port bell would contribute to the city's economy, particularly in tourism, recreation, transportation and fishing.

Lake Victoria's shoreline, its islands, and the associated resources are unique to Greater Kampala and play a key role in the city's economy, particularly in tourism and recreation, transportation and fishing.

3.2 An expensive urban environment for business

High production costs and the price of land all have a direct impact on firm competitiveness. As regional integration accelerates in East Africa, Kampala is increasingly placed in direct competition with other regional cities, particularly Nairobi and Dar es Salaam. As outlined in section one of this report, Uganda's burgeoning industrial sector is located in Greater Kampala. For Uganda to meet the industrialization targets set out in Vision 2040 and NDPII, Kampala's industrial sector will need to become more cost competitive.

Greater Kampala's industry suffers from high input costs. Central to these costs is the reliability and price of electricity. While the electricity system has shown signs of improvement, the cost and reliability of electricity were identified as a key business constraint in enterprise survey and firm level interviews. Due to the frequency of power outages and surges a number of firms interviewed[108] had resorted to running their machines on generators to avoid damaging machinery, which makes their production costs more expensive. In response to the continued unreliable service, there has been an increase in the investment in generators. The cost of purchasing industrial sized generators is substantial. One business owner stated the cost of their generator was UGX400 million.

> ***"We had a power surge once, which caused a fire that incinerated our machinery and damaged the factory. From then onwards, we made a decision to run all the machines on generators, which had greatly increased our production costs"*** – medium sized manufacturing firm

This is particularly damaging for smaller businesses who struggle with tight cash flows, limited savings and expensive finance[109].

> ***"people can import goods from China and Kenya, even after being taxed, they are cheaper. The cost of production here is so high"*** – small sized manufacturing firm

RECOMMENDATION:

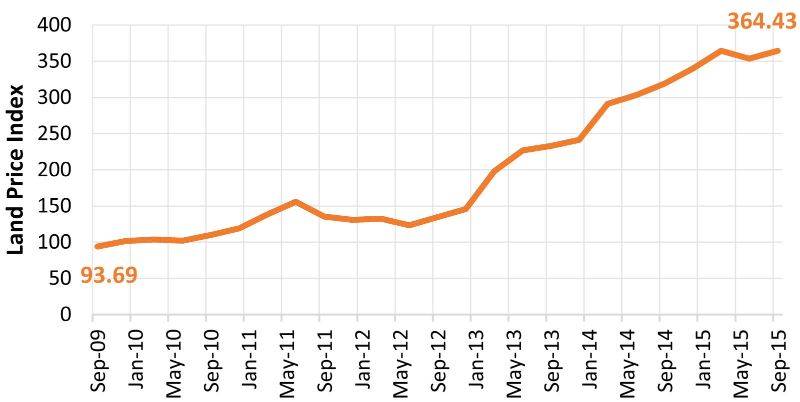
COORDINATION WITH POWER UTILITY MANAGEMENT

It is recommended that local governments and KCCA are involved in advocacy and lobbying for improved electricity in strategic areas where there are more firms clustered together. Uganda's electricity network is managed by power utility firm Umeme, which won a 20-year lease on the power network and is responsible for most distribution of electricity in Uganda. However, it is essential that local urban planning is aligned with system improvements planned by Umeme. As an initial step, KCCA and local governments will need to meet with Umeme planning teams to ensure that the city's industrial clusters are provided with commercial grade electricity access to prevent system degradation and reduced outages.

The price of land was seen as a central constraint particularly for medium and small firms.
Figure 27 shows that Uganda's land price index has more than tripled in the past decade.

108 *Iddawela 2016*
109 *Ibid*

Figure 27: Uganda's Land Price Index has tripled



Source: Bank of Uganda (2016)

Many firms explained that the high cost of procuring land constrains their capital supply[110]. This reduces their ability to invest in machinery or raw materials, consequently stunting firm growth. One firm noted that:

> ***"land prices have gone up very fast – it is overvalued because there's a scramble for land with the influx of migrants and corrupt officials who have a lot of cash and need to put it somewhere".***

Small firms in particular found land prices one of the biggest issues they face. Consequently, most firms interviewed were renting property as they were unable to purchase it themselves[111]. One metal fabrication firm stated that:

> ***"it is impossible for me to buy land, because of the price, it's very expensive. I want to expand my business, but to do that I require more land".***

For informal firms, only 18% operated from an established store or building for at least a year[112]. It was found that those businesses without an established and stable operating location were less likely to formalize and had reduced profits and productivity. On the other hand, large firms interviewed did not express concern regarding the cost of land as most had access to rent free space in industrial parks or had the means to pay the costs required[113].

A number of factors have been identified as contributing to the increase in land prices in Kampala. Firstly, Kampala's population increase has increased the demand and competition for prime real estate[114]. Land speculation has also been identified as a factor contributing to the sharp increases in land value[115]. Some have argued that Kampala's land speculation has been driven by a lack of alternative investments, given that interest on bank deposits is low and the stock market underdeveloped. As a result, investors turn to land to make easy profits by holding onto it for a few years before selling it on and without having to develop

110 *Ibid*
111 *Ibid*
112 *Anderson et al 2016*
113 *Ibid*
114 *Makita et al 2010: 891*
115 *Giddings (2009); Lawsa (2010:135)*

the land in any significant way. Land speculation is particularly severe in conjunction with the announcement of government physical construction. It's been suggested that individuals will hoard land when they hear that large-scale public projects (e.g. roads) will be commissioned as this would require the central/local government to buy private land in order to physically construct the project[116]. Corruption also is said to have an impact on land transaction, elevating land prices. Due to the current lack of systematic land titles and ownership database, opportunities for corruption have been created[117]. Bribes to land officials may thus inflate land values.

Informal settlements located in city center locations and suffering from substandard housing are using large tracts of land.

Approximately 16% of land in central Kampala is an informal settlement[118], while nearly half of the city's population live in a slum.[119] These settlements typically suffer from poor services, high population densities, and low quality and shanty housing which horizontally takes up a large amount of land. The prominence of informal settlements in Kampala suggests that urban planning and housing provision has not been able to keep pace with the influx of rural migrants into the city. Despite poor living standards, migrants will choose to crowd into these settlements in order to be close to jobs.

RECOMMENDATION:

PRIORITIZING AFFORDABLE HOUSING SCHEMES THAT ALSO RELEASE LAND FOR MIXED USE DEVELOPMENT AND INCREASE INFORMAL FIRMS' ACCESS TO PREMISES

KCCA should re-attempt to pilot a high density affordable housing scheme within one slum area, that also frees up land for economically productive investments in the city's core. This would have the twin objectives of improving living conditions for people in slum dwellings as well as better access to jobs through the release of land for more economically productive uses. This was attempted before with Development Partner support but was not able to get off the ground as the negotiations with the landowners (in this case, the Church), were not concluded within the timeframe that the donor funding was available. The idea would be to work in collaboration with landowning institutions such as the Church or the Buganda Land Board as well as an affordable housing mortgage finance provider which would finance the upfront cost of housing construction and mortgage provision to dwellers. KCCA would provide supporting infrastructure and facilitate the partnership between stakeholders. As an initial step, KCCA should identify potential areas for the affordable housing pilot and begin initial discussion with key landowners to begin the design processes. Furthermore, the private sector could be leveraged through a PPP to assist local governments financing affordable housing.

Increasing informal firms' access to serviced premises. As the study suggests those firms with permanent establishments are more likely to see increased performance and formalize, KCCA could further investigate areas in the city where firms could be assisted to gain established locations for their business – particularly through public private partnerships.

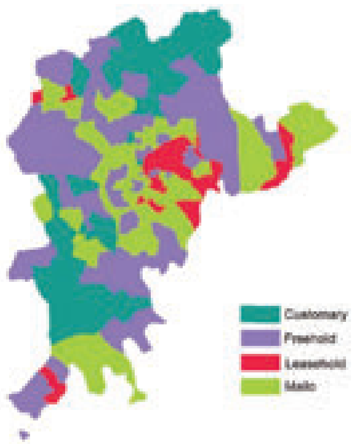
116 *Ibid*
117 *Deininger & Ali, (2008); Irumba, (2015); Obaikol, (2014)*
118 *UN Habitat 2010*
119 *Ibid*

3.3 An Underlying issue - Complex land tenure Greater Kampala has multiple and complex land tenures which constrain both public investment and firm's ability to grow.

Clear land rights are a requirement for organized and efficient urban development. The majority of the land in Kampala operates under a complex land tenure regime that recognizes independent rights over land and structures — giving rise to legal disputes and blocking investment. The 1995 Constitution and 1998 Land Act, transferred all land from the central government to the Buganda Kingdom, local governments (e.g. District Land Boards) and private landowners (including tribes).

Consequently, the Central Government must now purchase land from these landowners if it wishes to use land for development purposes (such as building infrastructure). Article 237(3) of the 1995 Constitution re-instituted Uganda's four land tenures, as outlined in the below table 9. The majority of land in Kampala city is Mailo and Leasehold (figure 28). The large share of Mailo land and subsequent private land compensation, has meant the construction of each urban road is expensive and land is released for development in an uneven manner.

Figure 28: Multiple Land Tenures in Greater Kampala



Source: Bernard, Bird, and Venables 2016.

Table 9: Uganda's Land Tenure Systems

Type of Ugandan land tenure	Description	Owner of land	Percentage of Kampala city[120]
Freehold Owner has full rights to the land,	and can sell or develop the land at will.	The purchaser, typically an individual.	3% - 7%
Leasehold	Leaseholder has the rights to the land for a long period, usually 49 years.	Local government authorities e.g. KCCA.	26% - 30%
Mailo	A dual ownership structure - the tenants own the structures on each plot, while the landowner owns the land itself.	Typically the Buganda Kingdom.	52% - 75%
Customary	Tenants on customary land who, by virtue of being long term residents on public land, have acquired rights.	Owned by tribes/clans, but difficult to establish because of no formal zoning	0% - 7%[121]

Compiled by author from Jones et al. (2016), Nkurunziza (2006), Irumba (2015), Lwasa (2010), Porter (2001).

Uganda's land tenure system is also seen to be a large barrier to large-scale investments. Mailo land tenure, in particular is beset by overlapping land rights between those who are registered owners and the lawful or bona fide occupants. The tenure system has become an even greater barrier since the implementation of the 2010 Land Amendment Act, which increased the powers of tenants over landlords[122]. Tenant- land lord's conflicts continue due to the overlapping land rights and speculation on land thus making land acquisition not only costly but risky for firms.

According to recent research[123], leasehold land has been found to be the most productive in Kampala. The research used a Spatial Computable General Equilibrium (CGE) Model to analyze to what extent the variation in productivity in different areas of the city can be explained by the variation in land tenure systems. Preliminary results indicate that leasehold land was found to be particularly productive, leading to higher economic activity in certain areas of the city across all sectors. In comparison, customary land and Mailo land reduce economic activity while increasing residential densities, with the former particularly leading to high density low-income neighborhoods. Freehold and Mailo land systems also negatively impact local service activities in particular, primarily because of the predominance of overlapping and conflicting rights of registered owners on one hand and the lawful and bona fide occupants on the other. These results highlight the need for action to address overlapping and conflicting land rights (between registered owners and lawful and bona fide occupants) often found on Mailo and freehold tenure in Kampala.

Interviews with medium and large firms revealed that businesses have taken a number of measures to avoid land tenure issues. Some of the large businesses interviewed were located in industrial parks and therefore did not have difficulty with land tenure. The rest of the large firms interviewed had obtained land through a personal contact and increased due diligence[124]. This was seen as a method of circumventing fraudulent owners, overlapping title claims, and unfair land prices. However, there were instances

Uganda's land tenure system is also seen to be a large barrier to large-scale investments.

where this had still not worked out for firms. In one instance, a firm discovered squatters on their land, which they had to compensate (as is required under the Constitution and National Land Policy), leading to a delay of the firm's planned expansion. Another large company had a neighbor who began to dispute land boundaries after the land purchased had been finalized. Similarly, two other firms experienced overlapping ownership claims on small secondary pieces of land they had purchased[125]. In one instance, the Buganda Kingdom had disputed the registered title and claimed the land rightfully belonged to them, while in the other instance an individual had claimed the land and built a restaurant on the disputed plot. In all these cases, land tenure disputes cost businesses in terms of legal fees and lost revenue resulting from an inability to develop and utilize

120 *Estimates from Muinde (2013), Gibbons (2009) and KCCA development plan (2009)*
121 *Customary land doesn't constitute much of the land tenure within Kampala but is more widespread in the rest of Uganda.*
122 *Bernard, Bird, Venables (2016)*
123 *Ibid*
124 *Iddawela (2016)*
125 *Ibid*

the land until the claims became resolved. There is concern that current efforts towards establishing a land registry for Kampala is not expected to address issues around over lapping tenure. Firms interviewed believed land tenure issues could be resolved by setting up a better, more effective centralized online land system than the one currently in place[126]. Current efforts are underway by the Central government, with the support of the World Bank, to encourage formal registration of land and to digitize land titles through the Land Information System. However, according to key informants, this system will not significantly reduce instances of multi-tenure. Another key informant, working closely with the Land Information System explained that the process of computerizing land titles was about achieving faster and cheaper transactions rather than addressing problems of multi-tenure.

RECOMMENDATION:

STRENGTHEN LAND ADMINISTRATION

Overall land policy reform, which would alleviate the above issues, is within the remit of the national government. In addition, land administration needs to be strengthened and improved coordination among the various land management institutions.

Land management falls under the mandate of a number of different institutions in Kampala. Coordination between these stakeholders needs to be strengthened with the focus to improve dispute resolutions, improve land information databases and strengthen the local government's ability to acquire land for infrastructure improvement.

3.4 Effective Institutional Coordination will be key to better urban planning and infrastructure provision across the GKMA

Currently Greater Kampala lacks strategic planning and infrastructure investment across the metropolitan area. Assigning responsibilities to address urban challenges and is difficult due to unclear and sometimes conflicting mandates among various sub-national government agencies in Greater Kampala. Uganda's current institutional framework is guided by the 1995 Constitution operationalized by various Acts, Ordinances, and Policies. From 1995 when GoU started the devolution process[127], to 2010 when GoU elevated the status of KCCA to administer the capital city area on behalf of the central government[128], many of the laws/Acts/Polices that concern the roles and mandates of sub national governments are not fully aligned.[129] For example, the 2010 KCCA Act, provides for the development of the Greater Kampala Metropolitan Development Plan under a metropolitan physical development authority, to enable uniform planning across greater Kampala. However, the plan's development has stalled and suffers from unclear institutional

126 *Ibid*

127 *Local Government Act CAP, 243*

128 *KCCA Act (2010)*

129 *Subnational governments in Greater Kampala are governed by two different Acts: Local Government Act for the 3 surrounding LGs, and KCCA Act for KCCA. On one hand, the 1995 Constitution of the Republic of Uganda (as amended), and the Local Government Act (CAP 243), devolved service delivery mandates to the sub national governments, the local governments thus play a key role in the implementation of Government's policies and programmes. The local governments are governed by the LG Act (CAP 243). On the other hand, the Central Government transformed Kampala City from a Local Government into a Government Entity directly under the Central Government. Kampala Capital City Authority (KCCA), a corporate legal entity was established in 2010 to serve as the governing body and administers the Capital City on behalf of the central government.*

leadership. KCCA who draws its authority through the Minister for Kampala and Metropolitan Affairs has no jurisdiction in surrounding local government areas within the GKMA. Local Governments are governed by their respective councils and answer to the Minister of Local Government. Different jurisdictions within the Greater Kampala region have meant a lack of clear leadership in developing the GKMA development plan. Besides, KCCA and the Local Governments, the other Ministries, Departments and Agencies (MDAs) by law are supposed to provide guidelines, standards and support the local authorities in implementation, however, they are also faced with overlapping and conflicting mandates and there is limited coordination among them, sometimes leading to conflicting policies.

The lack of a comprehensive policy framework for the GKMA is a critical issue. The current institutional framework for GKMA urban development has resulted in a multiplicity of agencies in urban development posing numerous coordination problems. The Ministry of Kampala and Metropolitan affairs, as well as the Ministry of Lands, Housing and Urban Development do not have direct jurisdiction over the numerous agencies and institutions in the GKMA and thus oversight and coordination functions are weak. This is compounded by the fact that the Ministry of Kampala metropolitan affairs is a young ministry and is inadequately staffed. It is critical for a comprehensive planning framework for the GKMA to assist agencies coordinate and offer policy guidance. Given the special provisions for the GKMA in the Vision 2040 and its declaration as a special planning area, Government needs to streamline the operations and build capacity of the Ministry of Kampala Capital City and Metropolitan Affairs to be able to coordinate and development across the GKMA.

Box 1

Best practice example: Greater Manchester Combined Authority (GMCA)

In 2011, Greater Manchester city created the first combined authority in the UK, the GMCA. The GMCA is made up of ten Greater Manchester councils who work closely with one another to provide local services and improve the city-region. The GMCA has been identified as a stable and accountable platform for local government and a best practice example of local government coordination.

The GMCA was the outcome of a long time of consistency of aspiration which developed trust, credibility and capacity necessary for a highly collaborative and "bottom up" governance arrangement. While technical capacity was important in the process, buy in from a wide range of participants was essential. One way of developing trust among stakeholders was the inclusive process of narrative-building which each local authority could support. The City of Manchester was unique in opening the city strategy process to surrounding local authorities to contribute and promote a regional identity based on the economic reality of the city as opposed to the administrative borders. The collaborative strategy also sparked a number of cross-district planning and joint-initiatives (including the Manchester Airport and the Manchester Growth Company) which not only increased planning efficiencies but developed local government technical capacities.

RECOMMENDATION:

GREATER KAMPALA WORKING GROUP.

It is recommended that future coordination of the GKMA development plan should be led by a national level government agency with mandate to operate across the Greater Kampala. Given Kampala's significance to Uganda's economy and structural transformation, it's recommended that the governmental coordination on the GKMA development plan be represented in cabinet, to ensure high level buy in and harness the required unified political support for this agenda.

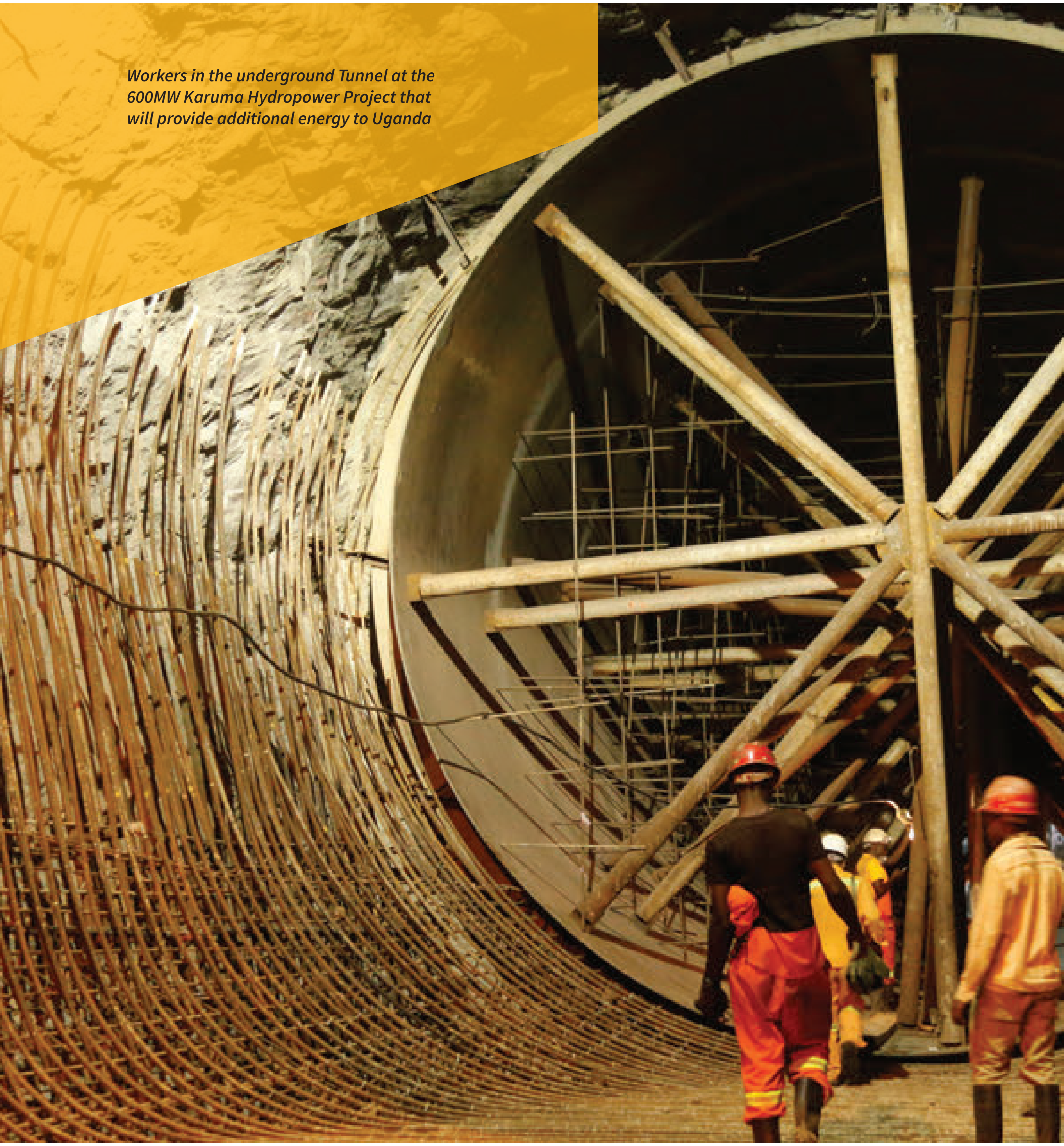
Coordination does not develop spontaneously but develops over time. Government stakeholders during consultative forums proposed a phased approach to introduce coordination mechanisms. It's proposed that the coordination mechanism for the GKMA development plan be structured as follows:

i) **Greater Kampala Development Technical Group for Planning, Implementation and Monitoring.** The working group will include personnel from local governments and KCCA and would be hosted by NPA. The group would be made up of economic and physical planners whose responsibilities would be to design interventions for Greater Kampala. This would include responsibility for coordination and harmonization of interventions, developing strategies and drafting policy notes for an inter-ministerial working group.

ii) **Greater Kampala Development Inter-Ministerial Working Group as provided for in the NDPII and Vision 2040. for Policy decisions and Problem solving.** This working group would form a coalition of stakeholders from relevant national ministries, local governments, KCCA the private sector and civil society organisations. The working group, would provide policy oversight as well as guide the development and implementation of the GKMA development plan.

iii) **Long term institutional arrangement for GKMA development.** Governmental stakeholders repeatedly emphasized the need for a long-term institutional arrangement with a clear mandate, legal status and budget. It's proposed that the above two temporary structure should eventually lead to a more permanent one.

A key incentive for increased coordination will be the establishment of a common financing mechanism which both KCCA as well as surrounding local governments can draw on for capital expenditure across the GKMA. Local Governments are considerably budget constrained and are unable to provide large capital expenditure. While KCCA is in a relatively stronger budgetary position, it however, does not have jurisdiction over the surrounding local government areas. Once an agreed infrastructure plan for the GKMA has been put together by stakeholders, a key deliverable for the inter-ministerial committee will be an MOU between Ministries to delegate a sole Ministry in charge of increased coordination among GKMA stakeholders. This MoU should also establish a single funding mechanism which can be used jointly by Local Governments and KCCA for the provision of infrastructure investments across the GKMA.



Workers in the underground Tunnel at the 600MW Karuma Hydropower Project that will provide additional energy to Uganda

Enabling business growth – Enterprise Support in Greater Kampala

Cities are not only limited to their built environment. The role of a city authority and local governments lies in creating a conducive environment to support enterprise growth. In practice, this translates into understanding and acting to alleviate the constraints which businesses face in the city. Firms in Greater Kampala face a number of constraints which relate to their business environment and human capital. The 2013 enterprise survey identified access to finance and taxation as two key constraints facing firms in Greater Kampala. Firm level interviews reiterated this as well as finding labor skills, business skills and tax administration common constraints for firms. Underlying these constraints were firm's mistrust of KCCA and local governments making cooperation difficult. Institutional analysis found that currently KCCA and local governments provide only minor enterprise support, which could be strengthened to assist local firms and industries. Key to any successful enterprise support is understanding the particular barriers in depth and how they affect firms of varying types and sizes. This section outlines these constraints and how they affect firms and offers practical solutions which are within the remit of KCCA and local governments as well as highlighting those that fall within the remit of national government.

4.1 Cost of finance – too high and prohibitive to growth

Uganda's high cost of finance is a significant barrier to firm growth of all sizes. The cost of finance in Uganda is high – the lending rate is currently 23.5%[130]. For large and medium size businesses, high interest rates have curtailed their ability to make long term investments and compete regionally. Given the high interest rates, banks are inclined only to provide short term loans. For firms in Kampala, roughly 50% of loan durations are under one year[131]. Interviews revealed that for medium and large sized businesses, loans were required for long term, capital investment which would require decades to pay off. Moreover, a number of business owners noted that regional competition was difficult as their international competitors had access to cheaper credit. For small businesses, high interest rates directly affected their ability to not only expand but to run their daily operations. Only 13% of small businesses in Kampala have a loan or a line of credit[132]. For informal firms, access to finance was linked to increased likelihood of formalization and increased profitability. From those firms which did access formal credit, the largest proportion (6%) received a loan a microfinance institute. When asked why they did not have a line of credit, small and micro businesses either responded that they had no need or that the interest rates were unfavorable. For those micro and small businesses that do use loans, the vast majority of their credit was used to finance materials or working capital. High interest rates in turn reduced firms' ability to purchase large quantities of materials to grow their businesses. Moreover, business owners showed hesitation to enter into large contracts or fill large orders as they would be required to obtain larger loans in order to meet the contract requirements. For many of these businesses, obtaining financing was seen as too dangerous (see box 2).

130 *BoU 2016*
131 *WBES 2013*
132 *WBES 2013*

Box 2

Stories from firms: A fear of finance

One firm interviewed explained that the cost of finance has nearly made him go bankrupt. The owner had started a small carpentry business. After modernizing his operations, the owner won a lucrative contract with a large telecommunication firm. Subsequently the business grew dramatically, employing over one hundred staff. To manage this expansion the owner took out a number of business loans. However, following delays in contract payments, balancing loan repayments with purchasing materials became difficult. The bank increased the interest rates due to these delays and the business was forced to sell much of its machinery and lay off most of its staff to manage the repayments. Given this experience the owner vowed to never to take out a business loan again in fear of losing his business.

A number of factors explain Uganda's high interest rate, all of which are outside local governments' remit. Uganda's lending rate appears to be delinked from both inflation and the Bank of Uganda set interest rate. Research suggests that, apart from macroeconomic factors, banks' high overheads are a factor in Uganda's inflated lending rates[133]. In particular, the cost of due diligence for banks which target small and micro enterprises is high. Another reason for the high interest rates is related to the share of bank loans that are taken up by the Ugandan Government.

RECOMMENDATION

– LOWER THE COST OF FINANCE

The high cost of finance is a concern for businesses across Uganda, but is felt severely in Kampala given its central role in Ugandan industry. However, lowering the cost of finance is clearly outside the remit of local government and demands central government leadership to address. As briefly mentioned in this report and more compressively in World Bank Ugandan financial sector reviews, there are a number of causes for high lending rates outside of macroeconomic pressure. The high cost of due diligence, the banks' lack of capital reserves to lend to domestic clients, and the level of Government borrowing will require serious work from the Bank of Uganda and private sector associations particular the Uganda Bankers Association.

While cost of credit is a constraining factor for firms, the demand side of finance in Kampala also plays an important role. Interviews with bank officials found that there is a lack of "bankable" projects which prevents lenders from further increasing private sector credit. There is an opportunity for KCCA and Local Governments to support firms to develop bankable business plans. These services could be provided through business associations which have good connections with and trust of the private sector.

[133] *World Bank 2015*

4.2 Labour skills – lack of coordination

According to firm level interviews, technical skills in the labor market appeared to only be a constraint for medium and large sized firms. A number of firms had difficulties in finding and recruiting technically skilled employees. To address inadequate skills in the labor market, businesses typically allocated resources to training employees. Between 2006 and 2013, the percentage of firms offering formal training increased by 10%[134] . This, however, has led to problems of high employee turnover as other businesses tend to poach trained workers[135]: Despite this, many medium-sized firms acknowledged that when they have managed to find and hire skilled workers, this was crucial in enabling them to grow.

> ***"we became a breeding place for other businesses because competitors prefer to poach our trained workers than training up their own workforce"*** – Medium sized firm

There appear to be two reasons for skill shortages; a lack of supply and labor matching issues. Uganda's education systems appear to not be training enough people[136]. The Central Government determined that only 5% of Uganda's workforce have completed secondary education, while only 35% of the urban workforce reported possessing a technical skill or trade[137]. Furthermore, of the people who do possess a technical skill, most are trained informally through families and friends (53% of the time) or through on-the-job training (16% of the time)[138].

The National Government has recognized the importance of technical training in helping businesses grow. The ambitious 'Skilling Uganda' program aims to shift Uganda's skills training industry from supply to demand driven by involving the private sector in policy implementation[139]. However, since its inception, Skilling Uganda has been slow to implement reforms and has been heavily criticized[140]. Another issue highlighted in the interviews was the lack of awareness of what technical training programs were available to businesses. Structural transformation goes hand-in-hand with available human capital. For Kampala to generate jobs for the future, it will need to ensure that its young population has training in skills in higher value sectors.

RECOMMENDATION:

CONNECT LOCAL FIRMS AND WORKERS TO TRAINING OPPORTUNITIES.

Local government can play a coordinating role to connect businesses and workers to training opportunities. Local governments could create a dashboard to increase public information on the areas where Uganda has a surplus of skilled workers, a deficit of skilled workers, and industries which employ the most people. Having a publicly shared dashboard of Kampala's employment trends would enable future students to identify areas which have the most demand for skilled workers. It could also help training providers better tailor their courses to local business needs. Such initiatives would need to be implemented in close partnership with the local private sector and academic and vocational institutions.

134 *WBES 2013*
135 *Iddawela 2016*
136 *GoU, 2006, 2011; KCCA, 2015*
137 *GoU, 2014b:12*
138 *Ibid*
139 *MoESTS 2011*
140 *Okurut 2016; Alip Oyoo 2014*

Qualitative interviews also indicated that the lack of business skills was a constraint to the growth of small enterprises. Interviews with small firm owners identified that they had difficulty with costings, book keeping, marketing and business strategy. While the qualitative study cannot establish a causal link, business owners who had taken advantage of business training or had a good level of business skills seemed to have more dynamic businesses. A number of key informants also highlighted the importance of business training for micro and small businesses. For example, a key informant from a financial institution noted that professionally kept records were crucial for businesses to be awarded finance[141]. A number of firm owners noted that access to training sessions conducted by business associations were the most persuasive reasons for joining, demonstrating a demand from owners to develop their skills in these areas[142]. In particular, informal firms, the study found that behaviors focused on external factors such as marketing research, experimentation of new approaches, and researching competition were strongly correlated with performance indicators[143]. Additionally, it was found that keeping records of assets, transactions and debts is associated with good firm performance. However very few firms were found to collect any financial information. This could be due to a lack of sufficient time or a lack of appreciation of the importance of financial tracking on their business growth.

Both national and local governments have recognized the importance of business training in helping small and micro-enterprises grow, but current interventions have several shortcomings. While the Skilling Uganda program has supported some business training institutes, it is largely focused on the provision of technical training. KCCA is also involved with the provision of some business training for small and micro-enterprises. This training includes short courses on financial literacy, marketing and product packaging. However, these programs remain minimal and focused exclusively on micro-enterprises.

RECOMMENDATION:

LOCAL GOVERNMENT TO PARTNER WITH ASSOCIATIONS TO PROVIDE BUSINESS TRAINING

Local Government could partner with business associations in order to provide high quality business training to firms. Business associations are key stakeholders in the provision of business training. The majority of the firms interviewed, which had received business training, had been trained through business associations. These training sessions were either paid for by international donors or covered by the associations themselves. While not all firms interviewed saw value in joining business associations, many of the firms highlighted these business training sessions as an important way to build their skills. Business associations enjoyed stronger engagement with firms than government agencies. However, the relationship between government and these associations is currently weak. Business associations can play an important role in bridging the gap between enterprises and government services, particularly due to the current mistrust between enterprises and local governments.

141 *Kathage 2016*
142 *Ibid*
143 *Ibid*

4.3 Tax system – too complex

The tax rate was a major concern of all firm sizes in Kampala. However, interviews revealed that firms had an unclear understanding of tax regulations and exemptions. The primary tax which firms felt was too high was the Value-Added Tax (VAT). Large firms were concerned that the VAT was much higher than in neighboring countries and in turn reduced their ability to compete regionally. However, while Uganda's VAT rate (18%) is indeed higher than both Kenya (16%) and Ethiopia (15%), 18% is the standard VAT rate for most other East African countries[144]. More importantly, the VAT is zero rated on all goods or services exported from Uganda. Similarly, small businesses complained that the VAT was unfair. However, this may be driven by a misunderstanding of the VAT requirements, which recently changed. A common concern for small business owners was that the non-registration of suppliers made it difficult to "claim back" their tax but this is not technically correct. In 2015, the Ugandan VAT registration threshold was increased from a UGX50 million annual turnover to UGX150 million[145]. Consequently, all small businesses in Kampala should now not be VAT registered. If a business is not registered but pays VAT on a supply product, then they must absorb the cost as a business expense and thus are not entitled to a tax refund. However, small businesses appeared confused as to what refunds they were entitled to or indeed if they were VAT registered or not. This was exacerbated by their lack of resources to be able to afford accountancy services in order to access the information[146].

> ***"We assess ourselves for tax but at times this becomes a challenge if you're not knowledgeable about the tax system so you end up assessing yourself incorrectly."*** – small business

RECOMMENDATION:

TAX ADVICE AND ASSISTANCE

While not strictly within the remit of Greater Kampala's local governments, increased understanding of the national taxation system will assist firms in avoiding unnecessary tax burdens. The VAT is a central government tax and is the responsibility of the Ugandan Revenue Authority (URA) to administer. However, interviews made it clear that businesses require assistance with taxation advice. Moreover, the enterprise survey results show that more firms in Kampala see tax rates as a major barrier than anywhere else in the country. Local governments in the Greater Kampala region can play a facilitation role, assisting firms by providing taxation training and linking queries with the proper services within the URA. As an initial step, KCCA and local governments can work with URA in producing tax advice and radio commercial materials as a way of further disseminating key taxation information. If demand for tax advice is large enough, a taxation helpline could also be trialed for firms in Kampala, firstly as a way of providing free advice but also to collect data on which taxation issues firms find most difficult.

144 *WB Doing Business Report 2016*
145 *URA 2015*
146 *Bouasba 2016*

4.4 An underlying issue -Tax administration and a lack of business engagement

Currently, the primary interaction local businesses have with local governments is through the tax collection process. Local tax collection was considered heavy handed, souring the relationship between business and government. National level taxes (such as VAT and income tax) involve self-assessment and then payment to URA through an online platform. Local taxes, on the other hand, involve 1) an assessment of tax category and payment band through local government officials' visits to firm premises, and then 2) tax payments made through local bank branches or KCCA's online platform. Businesses expressed concerns about KCCA's tax collectors aggressive methods[147]. Practices such as locking-up businesses' machinery or premises due to payment delays were perceived as draconian and unnecessarily leading to loss of livelihoods. Moreover, when asked to describe the efficiency and general approach adopted by tax collectors, most business owners clearly differentiated between KCCA agents' attitude and approach, often described it as aggressive, and between URA's approach which was preferred for ensuring business compliance in a more objective and reasonable manner. Also, the fact that the assessment for local tax payment relies on observation of the business by a tax collector (compared to self-assessment for national taxes with URA), was also felt to be introducing avenues for corruption[148].

KCCA's recently developed online platform to collect local taxes, should be expanded to include assessments and all other procedures and avoid visits by officials to firm premises. Online tax collection systems should also be replicated in the surrounding local governments. Originally designed for collecting tax revenue from taxis, e-CITIE, is an online system which will allow businesses to pay their local taxes online without having local officials visit. This online process will remove the need for local tax collectors to carry out random and on the spot audits and assessments and should reduce avenues for corruption and improve the relationship between government and the private sector.

RECOMMENDATION:

IMPROVE PRIVATE SECTOR ENGAGEMENT

While a weak relationship between local government and the business community is not a direct constraint on firm growth, government is best able to facilitate an enabling environment for firm growth and competitiveness if there is a positive relationship with the local private sector. Despite the uneasy relationship between the private sector and local government, business owners were interested in a new and more positive kind of engagement suggesting that local Government create a specific department or desk, which is responsible for business engagement and public private dialogue.

To implement initiatives which will assist business development in Greater Kampala, local governments should start by working toward creating a more positive relationship with the local private sector through active public private dialogue and a business engagement desk or one stop shop. As an initial step, town hall meetings could be held as a way of disseminating the kinds of business services which KCCA and local governments can provide and are looking to provide in the future. Working closely with business associations will also be key in further strengthening the dialogue between local governments and the private sector. Eventually, a business advisor panel, made up of key business leaders from varying industries, and firm sizes (micro to large), could be convened to advise local governments on key services and investments needed. This forum could also provide opportunities to discuss public private partnerships.

147 Ibid
148 Ibid

4.5 Enterprise support services – A role for Local Governments

Local governments are responsible for delivering the information, skills and capacities to allow firms to succeed. A common theme in enterprise support literature is that SMEs often have difficulty accessing information and business services relevant to their growth. This creates asymmetric information and thus public intervention should seek to overcome this market failure, since strong information availability is an important pre-requisite for efficient markets. Regular and clear communication between the private sector and government is crucial for enterprise support services being sufficiently tailored to business needs. Providing improved support and business engagement is within local government's remit and strategic plans, however currently enterprise support services are limited to microenterprises. KCCA's five-year strategic plan identifies 'Economic Growth' as central theme. Under this theme, the strategy seeks to promote an enabling environment that can support business establishment and growth. However, currently there is only a modest budget allocated for business service activities.

Within KCCA, these activities fall under the 'Gender, Social Services and Production' Directorate. Activities so far have been limited to engagements largely focused on micro-enterprises. Staff have not yet undertaken any outreach support activities to the wider private sector. In surrounding Local Governments, economic development functions are housed within the 'production and marketing' directorate and typically do not receive a significant level of budget.

Box 3

What works in enterprise support?

The UK's what works center for local economic growth did a review of 23 evaluations to better understand which interventions were most effective in enhancing business performance. They found the following interventions were effective:

Public Advisory/Mentoring – These involve experienced business mentors providing advice to SMEs or entrepreneurs. Evidence suggests a positive effect on employment, firm survival and firm creation. However, effects on other measures, such as sales, productivity and profits are mixed. Evidence also suggests that these methods are cost effective way to promote employment and firm creation

Subsidized Consultancy – Involves subsidizing consultancy programmes for firms. Evidence is mixed for this type of intervention. Costs can also vary significantly

Training – Involves publicly funded courses for firms. For entrepreneurs, training was found to lead to increased likelihood of new businesses. For existing firms, evidence suggests a positive effect on profits and employment. Again, costs vary, however evidence suggests training costs were in line with other interventions apart from tailored support.

Tailored Support – Involves the provision of business advice tailored to the requirements of the specific firm and entrepreneur. Tailored support was found to increase employment and productivity. However, this type of intervention was found to be the most expensive intervention reviewed.

RECOMMENDATION:

– BUSINESS ENGAGEMENT CENTRE

KCCA and LGs have an opportunity to develop business engagement centres within their administrations which would provide enterprise support services to firms in Greater Kampala. Once set up, business engagement centres could engage in a range of activities to address firm constraints:

- **Tax education -** work with URA in producing tax advice print and radio communication materials as a way of further disseminating key taxation information. If demand for tax advice is large enough, a taxation helpline could also be trialed for firms in Kampala.
- **Grievance mechanism –** provide a mechanism in which firms can raise concerns over government behavior, with particular regards to tax collection, and report instances of corruption.
- **Assist firms to develop bankable business plans –** provide firms developing business plans with necessary skills in project management and risk assessments.
- **Link citizens with training providers and disseminate information on the skill needs of local businesses -** create a dashboard to publicly demonstrate the areas where Uganda has a surplus of skilled workers, a deficit of skilled workers, and industries which employ the most people. Link citizens to training providers and disseminate information on skill needs of local businesses.
- **Improve business engagement -** Disseminate the kinds of business services which KCCA and local governments can provide and are looking to provide in the future.
- **Trial mentorship programs focused on increasing firms' understanding of their markets and customers.** The evidence shows that the effectiveness of mentorship programs in Uganda could be enhanced if programs focused on helping business owners focus not only on their internal business management (record keeping etc), but also on their external environment: customers, competitors and suppliers.
- **Investment attraction.** The business centre could play a leading role by promoting Kampala as an attractive investment location though business engagement and marketing. Additionally, the centre could identify potential areas where private financing could be involved. For instance an PPP to renew tourist amenities around Lake Victoria.

Box 4

Sao Paulo's Centre for Innovation, Entrepreneurship and Technology (CIETEC)

Cietec is an enterprise incubator, established in 1998 through a partnership between the Sao Paulo State government and the Sao Paulo University and SME support organizations. Cietec provides a range of services to support firms aimed at addressing specific market failures including a lack of: information; finance, physical infrastructure, management skills, and networks.

Cietec has achieved significant results. When it first began in 1998, there were only 7 incubated companies. By the close of 2015, the center had 109 associated companies. Additionally, Cietec's support lead to the creation of 850 skilled jobs in 2015. The Sao Paulo enterprise failure rate is 75% within the first three years, while Cietec's firms have a 30% failure rate over the same period of time.

Summary of major recommendations

Given the significance of Greater Kampala to national development, it is a national priority to alleviate these constraints facing firms in order to increase the city's productivity and encourage positive structural transformation more generally in Uganda. This calls for a deliberate policy transition for the role of Local Government, from merely being *a regulator of businesses to an enabler or facilitator for private sector growth and jobs creation*. Based on the above findings, it's recommended that KCCA and Greater Kampala local governments focus on the below three principles:

INVEST in coordinated transport & economic infrastructure together with land use management. Greater Kampala's disconnected and costly urban form is hampering the competitiveness of its firms. To address this, investments should be made in affordable housing in the city which would also free up land for mixed uses. City authorities also need to encourage further industrial clusters by priority zoning and subsidies. However, for these measures to be effective it is important to address Greater Kampala's suffocating congestion by further managing its transportation system. A longer-term priority for the city will be the need to provide an affordable public transport system for its citizens. Finally, one of the most binding constraint face capital expenditure in the city Kampala's complex land tenure system. Further collaboration between local governments and land administrations will be required so that Greater Kampala urban development is managed in the most efficient form possible.

EMPOWER domestic firms to improve productivity. Findings demonstrated that firms in Greater Kampala face numerous obstacles to grow their businesses. KCCA and local governments can play an important role through the provision of enterprise services and support. Local governments are also in a unique position to provide the business community with information on affordable finance and taxation guidance. These business services may be implemented through dedicated units within KCCA and local government administrations. While the vast majority of informal firms do not have great potential to grow, they provide many of Kampala's poorest a livelihood. Importantly, reducing the size of the informal sector will rely on the creation of more formal jobs in tradable sectors of the economy and supporting informal workers to find opportunities for formal wage employment if they want to. A further barrier to the provision of business support is the poor relationship local governments have with the private sector. Improved engagement will be a key enabling factor for any future work in this field.

CAPACITATE institutions & coordination structures. The Greater Kampala economic region encompasses several jurisdictions and local governments. It will be imperative for these institutions to work collabouratively in order to manage the future growth of the city. This report calls on Government to put in place the Greater Kampala Working Group as provided for in NDPII and Vision 2040. This working group would coordinate urban and economic development plans as well as marshal political support and traction for continual urban development. Alongside this, it is recommended that a technical committee be established to facilitate technical support for the working group and Greater Kampala stakeholders. There is also a need for a single financing mechanism that KCCA and local governments can draw on to finance infrastructure investment for Greater Kampala. Finally, capacity enhancements within subnational governments are needed to put in place efficient systems for service delivery, particularly to the private sector.

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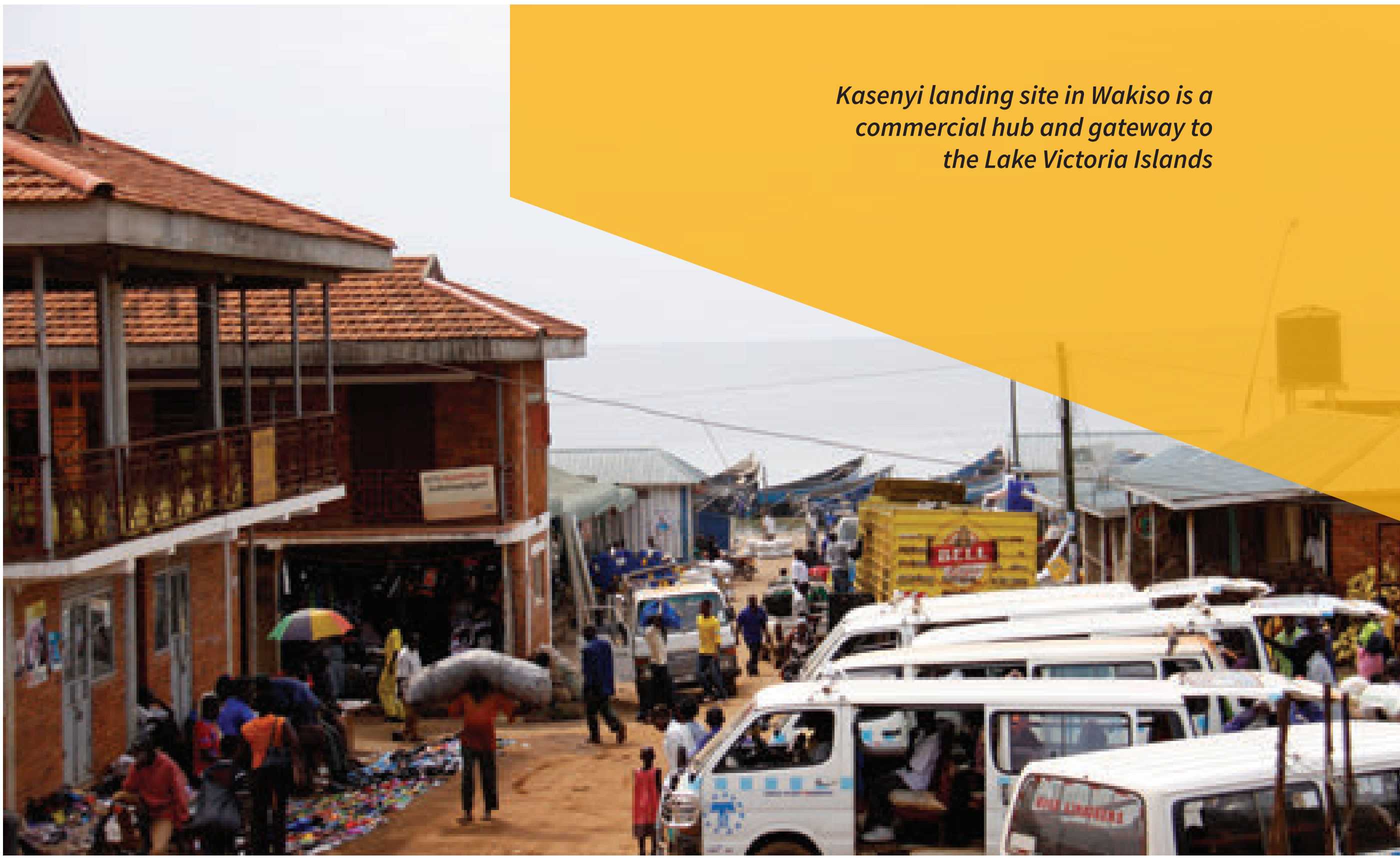

Kasenyi landing site in Wakiso is a commercial hub and gateway to the Lake Victoria Islands

Annexes

Annex 1: Examples of Practical LED Actions that LGs internationally undertake

While it is impossible to list here all the policy reform and investment possibilities that could be undertaken, various toolkits have documented the wide variety of interventions that can and have been implemented by cities to improve their economic competitiveness [149]. Illustrative examples of actions that may be relevant to the African city context include:

1) Institutions and regulations
   - Improving the regulatory environment for businesses and investors through: reducing the time it takes to process business registration applications; reducing business costs for MSEs through lowering municipal taxes and local charges; reducing the complexity of legislation imposed on businesses and investors; introducing e-governance, One Stop Shops and other means for providing information and simplifying procedures
   - Encouraging cluster development through tax incentives and zoning regulations that encourage firms to cluster in one area
   - Marketing and promotion of the locality as a good place to start a business, location for investment or tourism, etc. through actions such as city or local area brochures and economic profiles, producing information packages for potential investors, direct mailing to potential investors in relevant economic sectors, promotion via media outlets, organising local festivals, exhibitions and community events to promote the area and its products as well as participating in international fairs and exhibitions
   - Provision of land, utilities, investment facilitation and "after care" services targeted at new or higher value added sectors

2) Infrastructure
   - Improving transport infrastructures such as roads and multi-modal public transport (road, rail, sea port and airports)
   - Improving infrastructure necessary for economic production including gas, electricity, telecommunications and water supply
   - Town centre enhancement or beautification schemes using local labour
   - Ensuring there is enough land for business needs – e.g. supporting the clearing and preparation of sites for economic activity, putting together a land and property database, etc.
   - Establishing industrial, business parks or incubators in partnership with the private sector
   - Investing in infrastructure that supports certain economic sectors – e.g. renovation of sites that could attract tourists, or creation of a market area for informal firms, etc.

3) Skills and innovation
   - Establishing local skill development partnerships between local industries, businesses, and training providers, to improve information on the type of skills needed and the design of skill development courses

149 See: World Bank (2015). Competitive Cities for Jobs and Growth: What, Who and How? Washington D.C. June 2015; Wadie Hobson, E. (2011) LED Investment Actions: A Guidance Note for Local Government, Available at http://ledna.org/system/files/LED%20 Actions%20Guidance%20Note.pdf; UNHABITAT Manual 'Promoting Local Economic Development through Strategic Planning', Volume 4 Action Guide, available at http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=2319;

- Setting up internship, apprenticeship and training in the work place schemes through partnering with local businesses
- Implementing Diaspora attraction initiatives
- Encouraging partnerships between research institutions and businesses towards better R&D for business needs

4) Enterprise support and finance.
- Increasing access to finance, through providing information to local firms on credit availability, or providing incentives to finance providers to better serve certain types of firms, including credit guarantee schemes, etc.
- Increasing access to Business Development Services (BDS) and knowledge on financial management, business plan development, export product standards, etc. in partnership with private BDS providers
- Establishment of incubators for start-ups in new sectors, in partnership with the private sector, supporting enterprises with office space at below market rents, MSE financing, BDS, support in navigating registration and licensing etc. to help companies through the first years of their operation
- Awards to innovative and diversifying companies through annual prize ceremonies for successful companies and individuals, in cooperation with local Chambers of Commerce

Kiteezi landfill
It is the only landfill site at which Kampala's solid waste is disposed

Annex 2: Sub-sectors that are more concentrated in Kampala and employ the largest share of labour

Description	Share of labor	Location quotient	Shift share
Restaurants and mobile food service activities	7.51%	1.02	
Hairdressing and other beauty treatment	4.82%	1.09	12
Retail sale via stalls and markets of food, beverages and tobacco products	3.98%	1.13	-995
Short term accommodation activities	2.63%	1.02	
Other retail sale of new goods in specialized stores	2.50%	1.36	
Private security activities	2.38%	1.64	1056
Construction of buildings	2.03%	1.98	
Sale of motor vehicle parts and accessories	1.92%	1.59	188
Retail sale of hardware, paints and glass in specialized stores	1.77%	1.24	
Manufacture of structural metal products	1.62%	1.11	-43
Maintenance and repair of motor vehicles	1.61%	1.36	-336
Retail sale of electrical household appliances, furniture, lighting equipment and other household articles in specialized stores	1.43%	1.37	-4
Retail sale via stalls and markets of second hand clothes, textiles, shoes	1.40%	1.35	
Other monetary intermediation	1.21%	1.22	-43
Other social work activities without accommodation	1.13%	1.26	-69
Manufacture of bakery products	1.08%	1.33	
Retail sale of second-hand goods	0.92%	1.13	
Wholesale of other household goods	0.89%	1.85	
Retail sale of automotive fuel in specialized stores	0.86%	1.02	
Retail sale of computers, peripheral units, software and telecommunications equipment in specialized stores	0.85%	1.18	0
Pre-primary and primary education	0.83%	1.16	0
Super Market	0.76%	1.54	-181
Other manufacturing n.e.c.	0.71%	2.07	-269
Washing and (dry-) cleaning of textile and fur products	0.69%	1.53	
Retail sale of beverages in specialized stores	0.67%	1.19	-4
Renting of video tapes and disks	0.63%	1.34	
Real estate activities on a fee or contract basis	0.62%	2.03	-221
Wholesale of textiles, clothing and footwear	0.60%	1.75	-355
Car Washing Bays	0.56%	1.61	
Real estate activities with own or leased property	0.54%	2.05	
Photocopying, document preparation and other specialized office support activities	0.51%	1.04	
Printing	0.45%	1.84	119

Growing of Flowers	0.41%	2.03	10
Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations	0.40%	1.79	
Retail sale of Milk	0.40%	1.24	
Service activities incidental to land transportation	0.39%	1.69	
Architectural and engineering activities and related technical consultancy	0.39%	1.40	-1243
Wireless telecommunications activities	0.38%	1.69	
Legal activities	0.37%	1.60	
Construction of roads and railways	0.36%	1.78	
Repair of footwear and leather goods	0.35%	1.45	-303
Manufacture of plastics products	0.35%	1.87	-3
Quarrying of stone, sand and clay	0.32%	1.60	
Wholesale of construction materials, hardware, plumbing and heating equipment and supplies	0.30%	1.60	657
Photographic activities	0.30%	1.08	-15
Processing and preserving of fish, crustaceans and molluscs	0.30%	1.42	-1311
Wholesale of waste and scrap and other products n.e.c.	0.29%	1.46	116
Other amusement and recreation activities n.e.c.	0.29%	1.10	
Repair of consumer electronics	0.28%	1.01	28
Other transportation support activities	0.28%	1.44	
Other passenger land transport	0.25%	1.32	66
Cargo handling	0.24%	1.99	
Urban and suburban passenger land transport	0.23%	1.54	
Manufacture of soft drinks; production of mineral waters and other bottled waters	0.22%	1.99	
Manufacture of basic iron and steel	0.22%	1.01	
Manufacture of pharmaceuticals, medicinal chemical and botanical products	0.22%	2.02	8
Retail sale of textiles in specialized stores	0.22%	1.02	
Other telecommunications activities	0.22%	1.55	-427
Service activities related to printing	0.21%	1.85	
Manufacture of footwear	0.21%	1.43	
Activities of other membership organizations n.e.c.	0.21%	1.13	
Accounting, bookkeeping and auditing activities; tax consultancy	0.20%	1.71	

Annex 3: Kampala Production and Employment 2013

	Share of national GDP (%)	Kampala GDP share (%)	Kampala employment share (%)	Ratio to average GDP per worker
All sectors	31.2	100.0	100.0	1.00
Agriculture	2.0	1.8	5.7	0.31
Industry	30.6	21.4	18.0	1.19
Mining	20.5	0.6	1.3	0.46
Manufacturing	30.4	10.2	9.8	1.04
Food processing	20.0	1.7	2.4	0.72
Beverages & tobacco	30.0	1.4	1.8	0.76
Textiles & leather	24.0	0.9	1.1	0.77
Wood & paper	27.1	0.5	0.4	1.29
Chemicals	47.4	2.8	2.2	1.25
Non-metallic minerals	26.6	0.8	0.6	1.33
Metals & products	34.0	1.1	0.4	3.07
Machinery & vehicles	42.0	0.5	0.1	3.53
Other manufacturing	33.0	0.5	0.7	0.66
Electricity & water	44.1	3.9	1.9	2.02
Construction	27.1	6.6	4.9	1.35
Services	46.9	76.8	76.3	1.01
Wholesale & retail trade	42.3	19.3	34.5	0.56
Transport & storage	53.9	4.9	10.5	0.47
Hotels & catering	45.4	4.8	6.5	0.75
Communication	65.8	8.9	2.1	4.28
Finance	40.0	2.9	1.6	1.86
Real estate activities	43.0	6.6	0.4	15.18
Businesses	58.1	9.1	5.0	1.84
Public administration	62.4	6.2	2.2	2.78
Education	37.1	7.1	5.0	1.43
Health & social work	37.3	4.1	2.7	1.53
Other services	44.3	2.9	6.0	0.49

Source: 2013 Social Accounting Matrix (SAM) (Randriamamonjy and Thurlow 2016)

Note: Labor productivity ratio is the sectoral average GDP per worker divided by the average Kampala-wide GDP per worker.

Annex 4: Employment Results for Detailed Investment Sectors

	New jobs created per million $ investment in targeted sector									
	Total jobs created in Kampala	Direct versus indirect		By education level				By sector of employment		
		Within sector	Outside sector	No schooling	Primary schoo ling	Secondary schoo ling	Tertiary educ ation	Agric ulture	Indu stry	Servi ces
Meat, fish & dairy	1,259	236	1,023	196	667	323	73	184	314	762
Fruits & vegetables	811	229	582	122	436	202	51	55	280	476
Fats & oils	712	226	486	110	390	170	42	50	254	408
Grain milling	654	191	463	99	353	161	41	45	243	366
Sugar refining	70	41	29	9	38	17	6	1	47	22
Other foods	810	210	600	114	418	216	62	44	292	474
Beverages	1,325	557	768	257	688	299	81	60	626	638
Tobacco	465	132	333	78	225	125	37	13	175	277
Textiles	531	264	267	49	279	184	18	32	252	247
Clothing	691	268	423	65	349	238	40	25	331	335
Footwear	1,557	887	670	118	812	570	58	45	920	592
Wood & paper	510	249	261	65	263	143	39	18	289	202
Petroleum	125	11	114	17	65	34	8	13	28	84
Chemicals	542	282	260	91	280	120	51	12	320	210
Non-metal minerals	424	240	185	79	196	129	20	6	296	122
Metal products	405	95	310	64	187	124	29	15	138	251
Machinery & vehicles	198	88	110	34	85	65	14	6	112	81
Other manufacturing	846	505	341	93	374	312	67	29	550	267
Electricity, gas & steam	502	183	319	53	213	151	84	21	242	239
Water supply & sewage	481	191	290	50	203	145	83	19	238	223
Construction	362	248	114	28	174	134	27	2	269	90
Wholesale & retail trade	770	561	209	130	414	195	31	16	60	694
Transportation & storage	1,376	960	416	114	785	409	68	35	70	1,271
Hotels & catering	837	555	282	151	464	198	25	61	24	752
Communication	650	65	584	85	313	196	56	33	92	524
Finance and insurance	1,142	411	731	232	447	296	167	63	117	962
Real estate activities	233	20	212	33	105	70	25	9	39	184
Business services	437	220	217	59	159	142	77	17	43	377
Other services	1,047	737	310	143	435	431	38	24	52	971

Annex 5: Regression summaries of informal sector growth and business practice constraints

SUMMARY OF 'GROWTH POTENTIAL' CONSTRAINTS & OUTCOMES

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Percent Constrained (of 3,936)	**Firm Size**	**Registration Status**	**Accessed Credt**	**B2B Customers**	**Market Reach**	**Profits**	**Sales**	**Total Assets**	**Productivity**	**Margins**
Growth Potential Constraints											
GPI: Total Score		✔	✔	✔	✔	✔	✔	✔	✔	–	✔
GPI: Low Group		✔	✔	✔	✔	✔	✔	✔	✔	–	✔
GPI1: Endowment	70.4 %	✔	✔	–	✔	✔	✔	✔	✔	✔	✔
GPI2: Established	72.4 %	✔	✔	–	✔	✔	✔	✔	–	✔	–
GPI3: Employee	62.3 %	✔	✔	✔	✔	✔	✔	✔	✔	✔	–
GPI4: Effective	62.5 %	✔	✔	–	✔	✔	–	–	✔	–	–
GPI5: Experiment	80.0 %	✔	✔	✔	✔	✔	✔	✔	✔	–	–
GPI6: Education	71.5 %	✔	✔	✔	✔	✔	–	–	✔	–	–
GPI7: Experience	63.7 %	✔	✔	✔	✔	✔	–	✔	✔	✔	–
GPI8: Exposure	87.5 %	✔	✔	–	✔	–	–	–	✔	–	–
GPI9: External	40.0 %	✔	✔	✔	✔	✔	–	✔	✔	✔	–

This table presents a summary of the individual regression results, highlighting the relationship between each constraint and the five formalization outcomes and five performance outcomes.
Statistically significant correlations (between a constraint and an outcome) are highlighted by: ✔ (significant, p<0.10); and – (not significant, p>0.10).

SUMMARY OF 'BUSINESS PRACTICE' CONSTRAINTS & OUTCOMES

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Percent Constrained (of 3,936)	Firm Size	Registration Status	Accessed Credt	B2B Customers	Market Reach	Profits	Sales	Total Assets	Productivity	Margins
Business Practice Constraints											
BPI: Total Score		✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
BPI: Low Group		✔	✔	–	✔	✔	✔	✔	✔	✔	✔
BPI1: People Resource	81.3 %	✔	✔	✔	✔	✔	✔	✔	✔	–	✔
BPI2: Physical Resource	60.6 %	✔	✔	–	✔	✔	–	–	✔	–	–
BPI3: Processes	92.1 %	–	–	✔	–	–	–	–	✔	–	–
BPI4: Market Research	60.9 %	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
BPI5: Marketing Tactics	87.1 %	✔	✔	–	–	–	–	–	✔	–	–
BPI6: Sales Tactics	69.0 %	✔	✔	–	✔	✔	–	–	✔	–	✔
BPI7: Financial Tracking	65.3 %	✔	✔	✔	✔	–	✔	✔	✔	✔	✔
BPI8: Financial Analyzing	84.3 %	✔	✔	–	✔	–	✔	✔	✔	✔	✔
BPI9: Financial Planning	97.2 %	✔	–	–	–	–	✔	✔	✔	–	–

This table presents a summary of the individual regression results, highlighting the relationship between each constraint and the five formalization outcomes and five performance outcomes. Statistically significant correlations (between a constraint and an outcome) are highlighted by: ✔ (significant, $p<0.10$); and – (not significant, $p>0.10$).

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