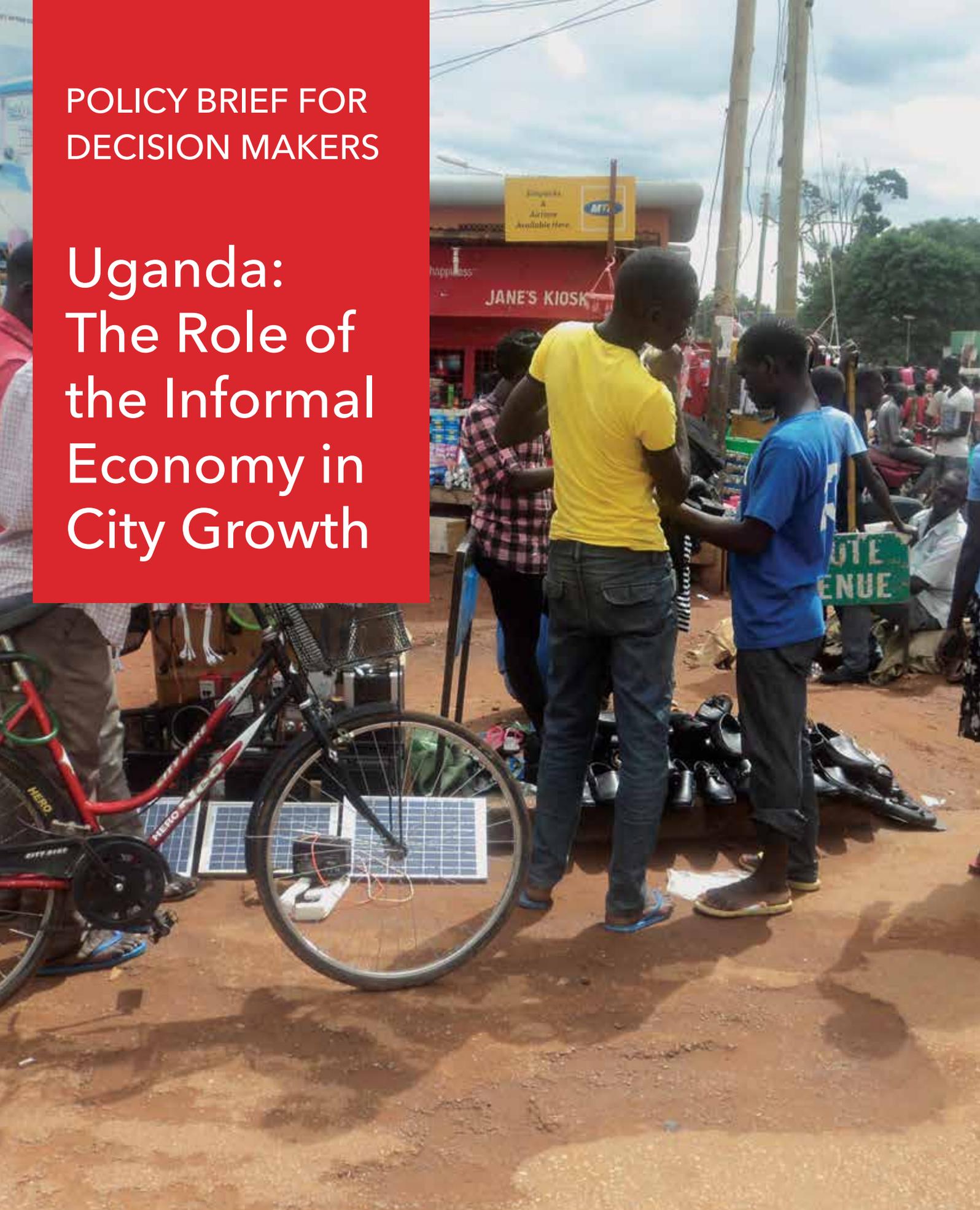


POLICY BRIEF FOR  
DECISION MAKERS

# Uganda: The Role of the Informal Economy in City Growth



# UGANDA

## INCLUSIVE, RESILIENT AND SUSTAINABLE URBAN GROWTH

### Facts:

Area: 241,038 km<sup>2</sup>

Population: 37,873,253

GDP per capita: US\$648

GDP growth: 5.5% (2010/15)

GINI: 44.11 (medium)

HDI: 164th (low)

# 33M

urban dwellers in Uganda by 2050. Eastern Africa is by far the world's most rapidly urbanising region

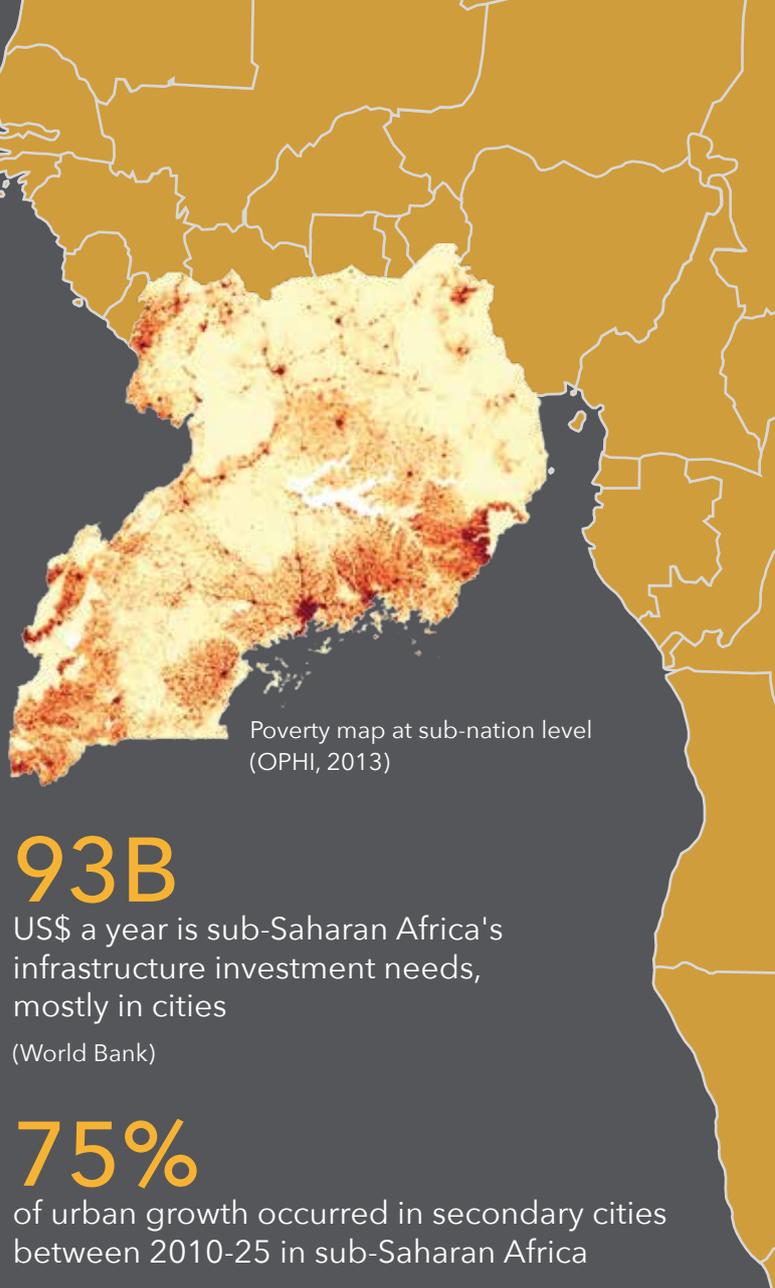
# 60%

of urban population living in slums in Uganda

# 200M

of urban population living in slums in sub-Saharan Africa by 2020

### URBAN AND RURAL POPULATION CHANGE, 1950-2050



Poverty map at sub-nation level (OPHI, 2013)

# 93B

US\$ a year is sub-Saharan Africa's infrastructure investment needs, mostly in cities

(World Bank)

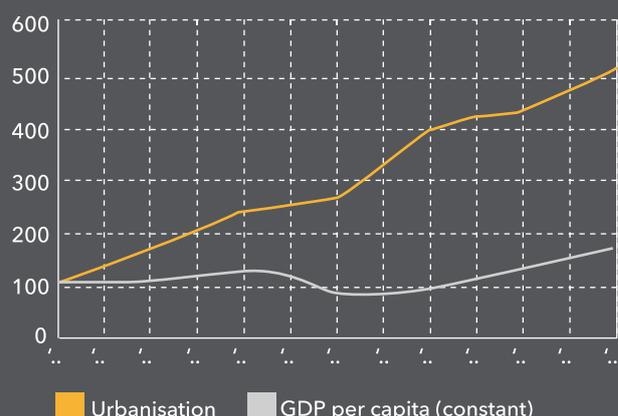
# 75%

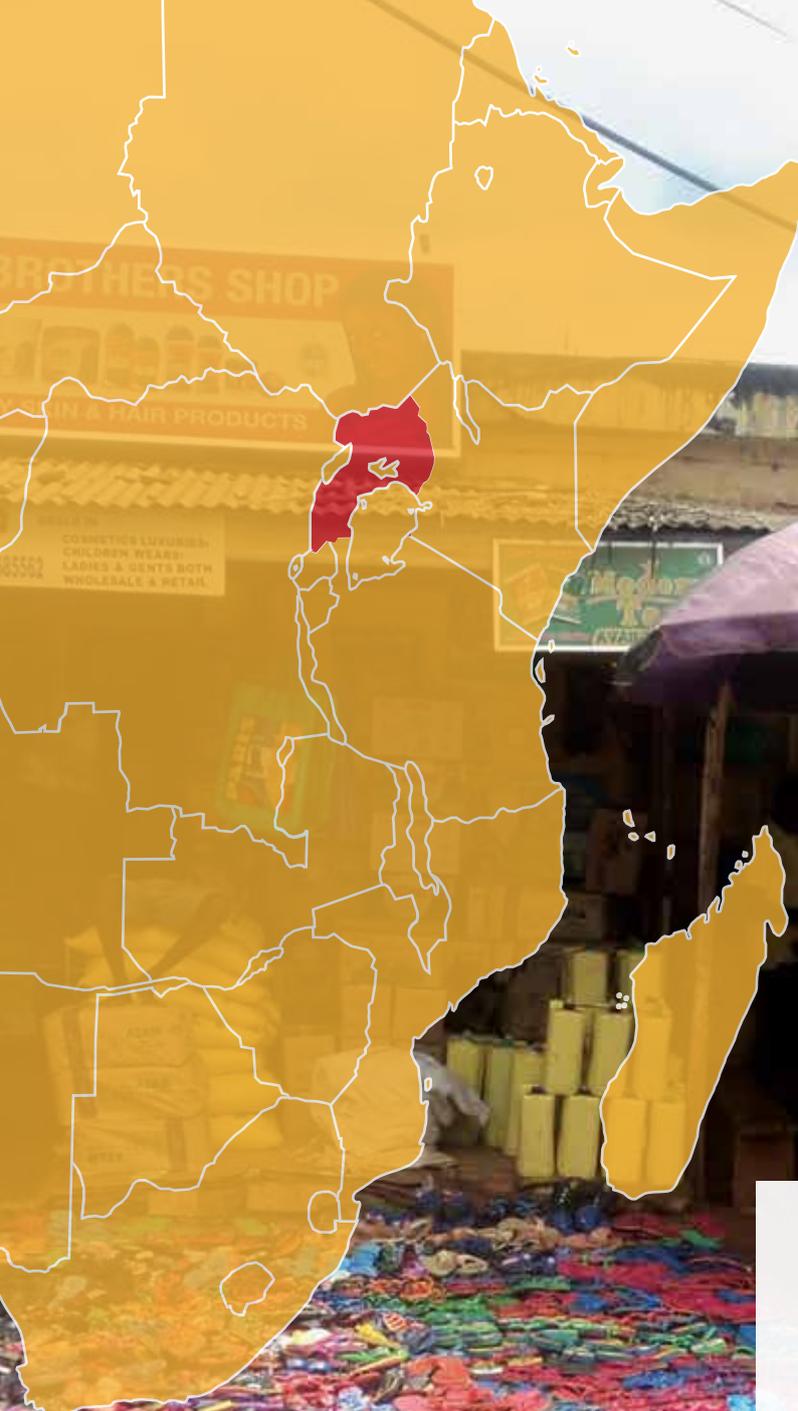
of urban growth occurred in secondary cities between 2010-25 in sub-Saharan Africa



The urban sector in Africa faces a time-bound window of opportunity to design and implement policies that promote inclusive and resilient growth in which the informal sector can play a central role

### UGANDA - PER CAPITA GDP AND URBANISATION 1950-2010 (INDEXED)





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# A. POLICY BRIEF

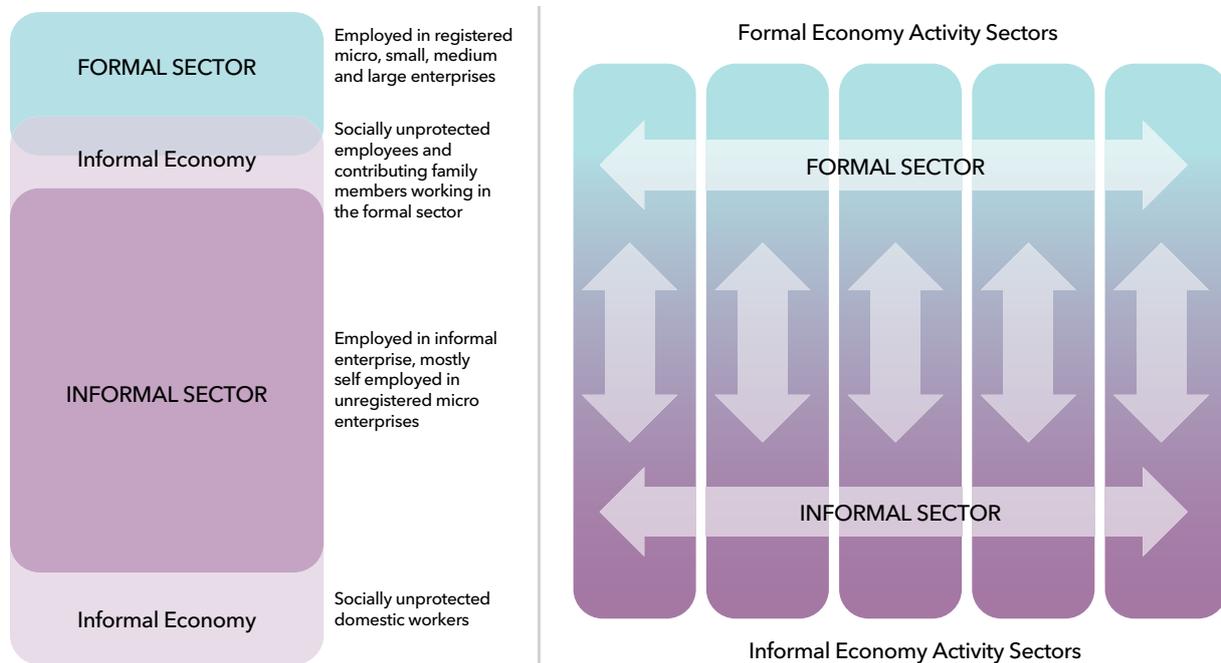
The Uganda case study research indicates that the idea of the economy as divided simply into formal and informal 'sectors' is no longer workable. It limits the scope for a more holistic approach to urban economic growth and development of appropriate policies that can have a transformative impact. Support to informal operators within a formal-informal continuum and a 'hybrid economy' is likely to offer a much more effective route to positive transformation.

This requires a rupture with the established political economy and a new political agenda that encompasses a more flexible, affordable, accessible and enforceable regulatory framework, a wider range of business and social support to local enterprises, and supportive urban planning.

## BOX 1 THE FORMAL-INFORMAL CONTINUUM AND 'HYBRID ECONOMY'

Current thinking on the informal sector and economy is deficient and new concepts are needed. The line drawn between informal and formal sectors based on whether they are registered does not begin to tell the full story. Although informal enterprises are predominantly very small with low market entry costs, some of these businesses may have some form of registration or another. However, they may not necessarily be registered to pay tax, and can be part of an industry as a whole that is largely unregulated, lacking regulated services, procedures or processes that conform to legal requirements and standards. Formality is a matter of degree.

### TWO CONCEPTS OF THE INFORMAL ECONOMY



# 1. Reconceptualising Informality in the Hybrid Economy – Policy Implications

**As a consequence of the current dualistic approach, across sub-Saharan African cities, institutional and policy constraints are limiting the necessary progress.** Institutional neglect, disdain for the poor and women, and an absence of a pro-poor perspective at all levels of government, together with the additional pressure on local governments by donor agencies to generate more revenue, are reinforcing the traditional orthodoxy and policies directed towards registering informal business units without providing matching social or economic benefits.

**The hybrid economy should be regarded as potentially transformative.** While in the long term the hybrid economy, dominated in employment terms by informal sectors, could be transitional, it is very likely to characterise the city economy for decades. The hybrid economy should, however, be seen as ‘transformative’ and part of the process of moving low-income nations towards middle-income status, where they can be more resilient and self-reliant than they are at present.

**For cities in Africa to become engines of growth the urban economic continuum as a whole must be strengthened, promoting a form of growth that is increasingly socially inclusive and economically resilient.** As well as ‘filling the

missing middle’ (see below), to achieve their full potential for growth, productivity improvements must be secured for many of the activities located in the bottom half of the continuum. Growth channelled solely through the modern industrial sector is likely to make the informal economy an even more important space for those with limited resources. The business needs of the lower segments of the informal economy should be acknowledged.

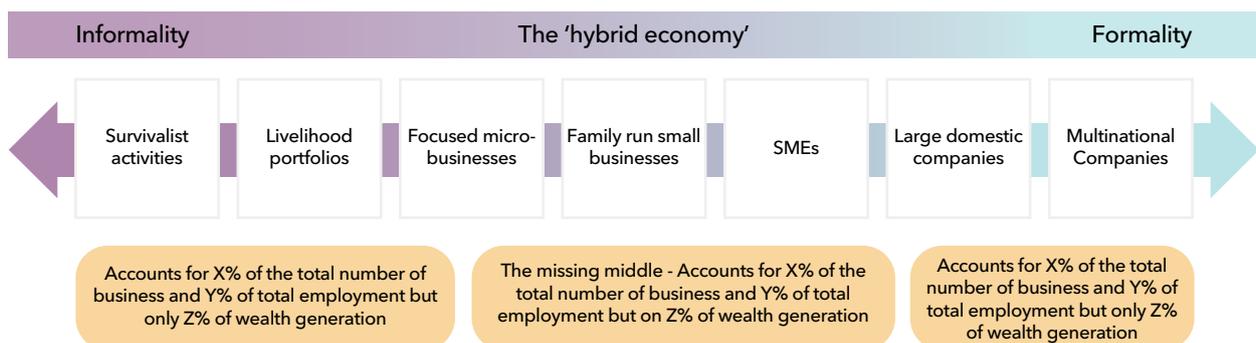
**Effective support requires integration of informal economy enterprises into the value chains currently dominated by formal enterprises so they can expand, become more productive and benefit from ‘spill over effects.’** The gradual but steady integration of the informal and formal sectors will enhance overall factor productivity, promote increasing product differentiation and sophistication, and encourage increasing social inclusiveness. The main mechanism for this will be the development of value chains in which informal activities work with others within the informal sector and those in the formal sector to provide goods and services for both domestic and export markets. This requires targeted interventions, training and skills development and innovations in the value chains currently dominated by informal enterprises and strengthening of their ‘value networks’ (see Box 2).

## BOX 2

### NEW APPROACHES TO TARGETING VALUE CHAINS OF LOW INCOME ENTERPRISES

Policies targeting value chain interventions involving poor households often assume that poor households: 1) have sufficient resources to effectively participate in value chain development; 2) do not face substantial trade-offs when using these resources; and 3) are able to assume higher risks when reinvesting capital and labour. Value chain development with poor and vulnerable populations requires additional conceptual frameworks, analyses, and interventions. This includes a better understanding of poverty risk profiles, adopting an asset-based approach to the design, implementation, and assessment of target value chains and identifying the non-market interventions needed for enabling particularly disenfranchised groups to meet the minimum asset thresholds for their successful participation in value chain initiatives. A wider perspective beyond conventional value chain analysis through mapping value networks could be beneficial in looking at the often-complex livelihood strategies and portfolios employed by poor households. (Source: Stoian et al, 2012)<sup>1</sup>

### THE HYBRID ECONOMY AS A SPECTRUM OF BUSINESS UNITS



<sup>1</sup> Stoian et al., 2012. Value chain development for rural poverty reduction: a reality check and a warning.

### Three main groups need to be targeted by policy:

1. Top performers within the informal segment of the hybrid economy or closely linked to it;
2. A group of constrained entrepreneurs who are not yet successful, but share several characteristics with the first group; and
3. A group of 'survival enterprises' with fundamentally different characteristics.

These need to sit within a spectrum of business units operating in the hybrid economy according to degrees of formality, generally related to size. (In general, only larger firms can afford, and benefit from, formality).

### Well-targeted policy at the local government level can help address many of the business challenges of those operating in the informal economy, especially in accessing affordable finance.

Supporting ways of improving access to finance that is cheaper than that currently available in the informal sector is key. Lack of a permanent or acknowledged address makes it difficult to access credit from banks. This is part of a wider demand for improved and secure business premises. Activities of those operating in uncovered spaces are disrupted in the rainy season. The lack of refrigeration facilities is an issue for the majority of traders who market perishable produce. Ultimately, however, issues of low demand and high operational costs still have to be addressed.

**Policy reforms, especially registration, should work to strengthen the potential benefits, increase security, and focus on opening up new opportunities.** A majority of informal traders see benefits accruing from registration, giving access to cheaper bank credit, improved premises, and better scope for growing their business. If policy is designed to address some of the constraints noted in the research, it could be a win-win situation.

**A 'missing middle' needs to be filled by targeted policy measures.** Uganda is a country with a 'missing middle' in its economy, a feature common to most sub-Saharan African countries. There are large numbers of very small and informal operations, and a few medium-to-large companies.

### BOX 3

#### FILLING THE MISSING MIDDLE

Uganda needs more professionally managed and adequately financed firms employing between 30 and 100 people and focused on producing and exporting value-added products based on the comparative advantages of the country. Informal micro and small enterprises need to mutate into formal medium or large-scale companies as they rarely do now. Many of these businesses would operate within a value chain involving both smaller firms and larger system integrator type operations. For accelerated, inclusive, and sustainable growth this form of structural transformation must occur.

As is typical of resource-based economies, value extraction is dominated by large firms holding a monopolistic or oligopolistic position, and owned, managed or linked to political and social elites. The remaining, mainly informal, economy is numerically dominated by low productivity personal services and basic manufacturing activities. Top performers and constrained entrepreneurs are the likely targets for these measures.

#### Supporting the development of relevant technologies.

Uganda's Vision 2040 recognises the need to support and encourage the adoption, adaption and development of technology by indigenous businesses. There is an awareness that the processes of technological change and innovation primarily takes place in developing countries like Uganda through enterprises learning to master, adapt and improve technologies that already exist, although there is room for innovation (see Box 4).

**Promote social impact funds.** A number of social impact funds operating in Africa are investing in the missing middle, namely assisting formal and informal SMEs operating in priority sectors but without the technology and business models required for expansion. These need further development, support and scaled up programmes.

### BOX 4

#### SUPPORTING THE RIGHT KIND OF TECHNOLOGY

Technologies that are practical and proven, and innovations that are incremental and augmentative, commonly drive growth in developing countries. These technologies and innovations add value to existing production and service activities, and allow 'business stretch', the development of higher value added businesses related to existing activities, and so the product composition of output becomes more sophisticated and valuable.

This process can lead to innovations being developed, and not just in domestic markets. Recent experience does include 'trickle-up' innovations; those proven in countries like Uganda and Kenya and then used in more mature markets. The mobile banking and information service, M-PESA, is the most notable illustrative case. A step from lower middle income status to higher middle income status, involving successful structural transformation, may be necessary before trickle-up can characterise an economy as innovative products emanating from China, India and South Africa exemplify.



Image: Eminence Advisory (2016)

# Economy, Poverty and Informal Economy



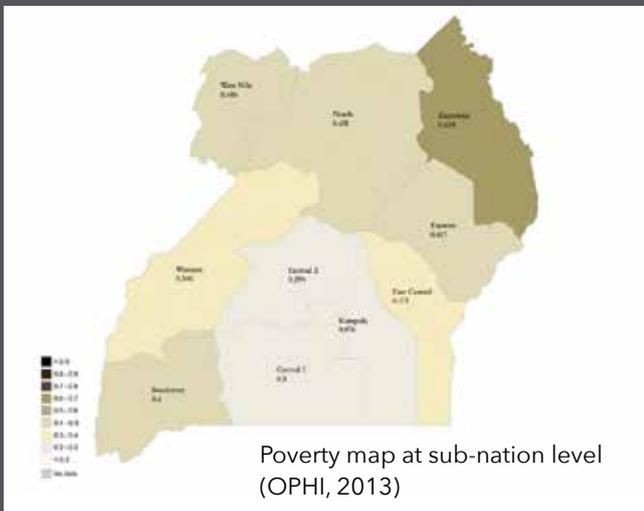
64% of the working population is engaged in subsistence agriculture.

"Uganda continues to export largely unprocessed primary products. This should be a major concern given that agricultural practices in Uganda remain overwhelmingly subsistence-focused providing little impetus for stimulating the growth of value-added manufacturing." (AfDB, 2014)

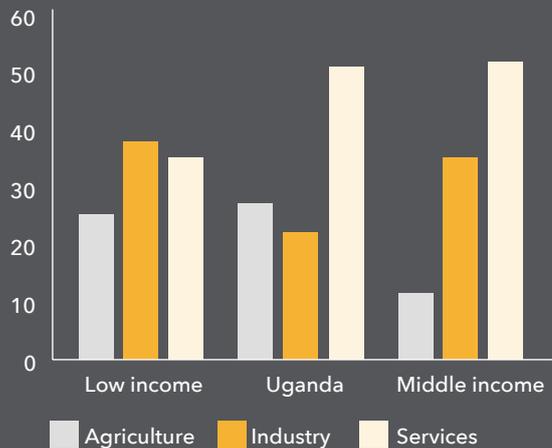


70% of population is poor in Uganda.

"Regional economic disparities arise mostly from unevenly distributed socio-economic infrastructure such as road networks, good access to markets, health and educational facilities and private sector investments". (AfDB, 2015)



## SHARE OF GDP (UGANDA VS LOW/ MIDDLE INCOME COUNTRIES)



## Informal Economy

With its low market entry conditions, the informal economy is widely recognised as structurally integral to the urban system in growing economies in developing countries and a major force in African economies, contributing significantly to both Gross National Product and employment

### AFRICA

55% of GDP

80% labour force

### UGANDA

43% of GDP

70% labour force

The informal sector is not only large: it is the fastest growing sector in Uganda



## Missing middle

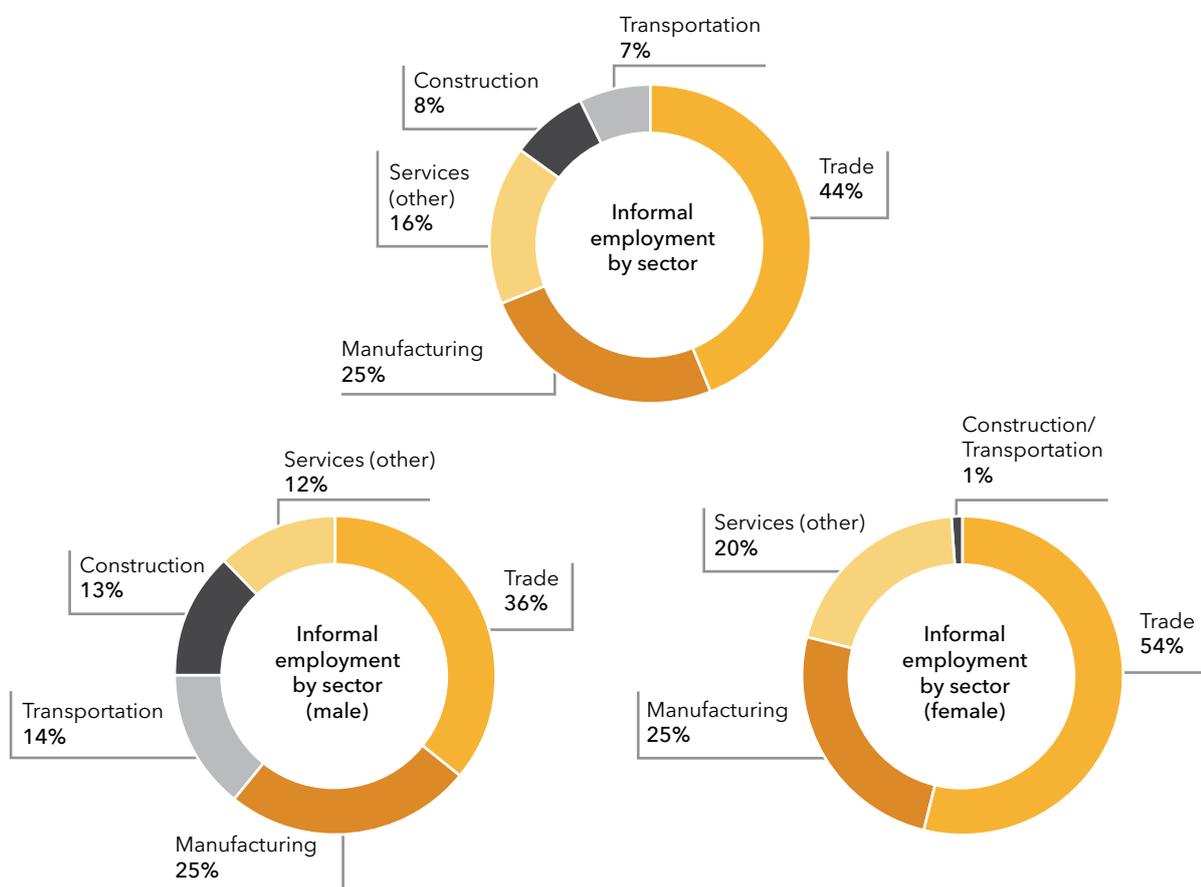
There are a few medium-to-large companies and large numbers of very small and informal operations, mainly informal. Uganda's economy is dominated by low productivity personal services and basic manufacturing activities.

## 2. Heterogeneity and Inclusivity

**In moving towards a wider programme for resilient and inclusive development, policy needs to be based on a sound understanding of the poverty-risk profiles found in different elements of urban activity.** This will be essential to shape and design any major urban development programme that also works for the poor and disadvantaged groups. Meanwhile, analytical groups to be targeted will differ, according to the objectives of the development programme. They could provide the policy entry points. This study provides both the tools for analysis and the necessary conceptual framework.

**Gender concerns should be mainstreamed.** Since the resource-intensive industrial growth policy is disadvantaging educated women, it is important to mainstream gender in other growth areas, for example, in communications and the information technology industry. While, in Uganda, women are more heavily represented in the main informal sector - trading - in other sectors, such as construction and transportation, they are severely under-represented.

### INFORMAL EMPLOYMENT BY TYPE OF ACTIVITY AND GENDER



### 3. Key Governance Policy Implications

**Giving appropriate support to informal enterprises will require a radical change of policy direction.** Changing the mind-set of policy makers and of local government officials will be fundamental to developing and implementing pro-poor policies. It is important for donor agencies to appreciate the negative cross-sectoral impacts of their policies that push for greater revenue generation by local governments. There is a need to address the tensions that arise from conflicting policy aims of donor agencies; otherwise it could be difficult to develop an enabling policy focusing on the urban poor.

**A more flexible, affordable, accessible and enforceable regulatory framework is required.** The evidence suggests that regulation, in itself, is not the problem if it can be more flexible and the positive benefits that it can bring to informal enterprises given more emphasis.

**Policy needs to encompass and institutionalise 'informal governance.'** This refers to the complex and diverse forms of associations and networks in which informal urban groups organise, recognising how these impact on their trading activities, their linkages to the state, and their overall recognition as key actors within the urban economy.

**Co-operation and capacity building is crucial at all levels, including in national and local government and informal organisations.** Policy efforts should promote long-term and strategic engagement through building capacity and co-operative association rather than linkages based on clientelistic relationships with short-term benefits for the parties concerned. Moreover, institutionalisation can help change the negative perceptions that remain common in administrative and political authorities, as well as public spheres.

### 4. Spatial, Infrastructural and Sectoral Recommendations

**Issues of low demand and high operational costs can only be resolved by improved infrastructure provision.** A supportive strategic policy framework needs to be put in place urgently to address the growing urban infrastructure deficit, improve access to basic services, and ensure that African cities can begin to realise their economic development potential.

**The variable growth experienced in the different geographical sub regions of the national economy need to be taken on board in the new policy agenda.** The different consumption and demand patterns of a slow-growing or stagnating city and a more economically dynamic city are also reflected in the informal economy.

**New policies are needed to address the lack of basic services and infrastructure in informal settlements.** Rapid urbanisation is contributing to the development and expansion of slums - environmentally precarious, unplanned informal settlements where many in the informal economy live and/or base their business activities. There are many effective international policies and models of community-based good practice to draw upon.

**The growth of slums presents key urban resilience policy concerns but also opens up potential 'green growth' development opportunities for informal economic sectors and the hybrid economy.** Informal settlements are vulnerable to a range of climate-related hazards, including flooding and mudslides. Secondary impacts of climate change that informal settlement residents potentially face include increased competition and higher prices for clean drinking water, and increased food prices. Developing green growth and urban resilience-related policy interventions involving informal economy sectors and enterprises should be a priority.

**Physical, economic and environmental planning and effective management of land use and development is required at the city-region scale.** As currently weakly resourced as they are, local authorities need to

look beyond the existing administrative boundaries that separate urban from rural areas and develop physical planning and local economic development policies that encompass the rural catchment areas of the fast growing cities.

**A strategic approach to planning and managing traffic and movement in Africa's cities is urgently required.**

Public mass transit schemes are popular among donors but often difficult and costly to implement successfully. Interventions in the transport sector will require careful prior investigation and extensive consultations.

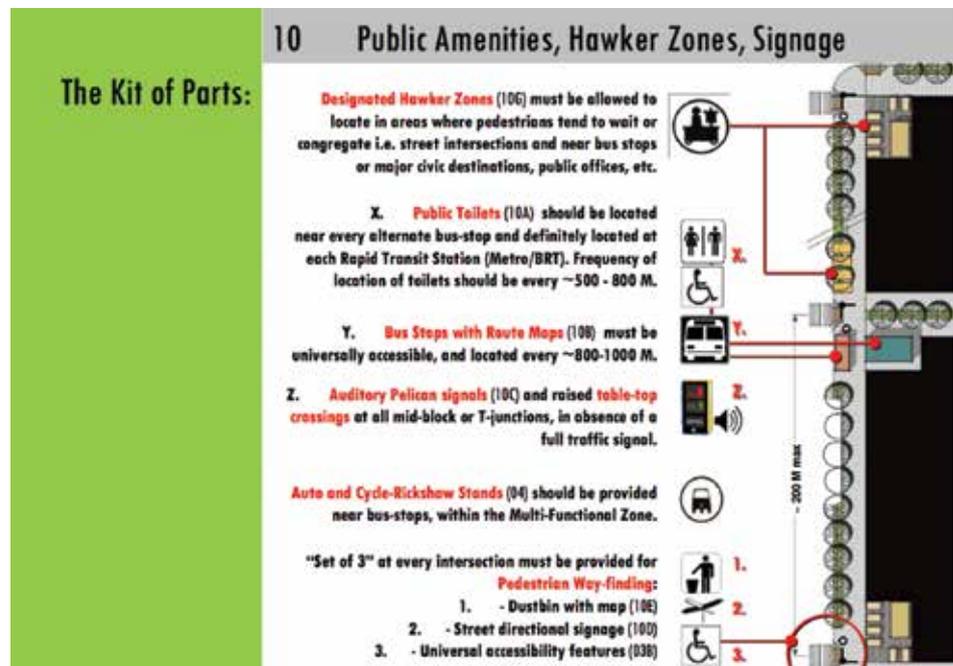
**Policy should be informed by a wider systematic analytical approach to understanding where and how different types of informal economic activity are clustered and distributed in cities.** This includes in informal settlements and their near regions and the related patterns of movement, short and long term. A better understanding of the movement patterns of informal economy operators and employees is needed, including the positive impacts of increasing use of phones to aid mobility, accessibility, access to livelihood opportunities and business development.

**The spatial needs of informal street stalls and mobile 'hawkers' and their integration into street design in the context of Africa cities needs to be addressed in new approaches to street design.** Street trading and markets constitute a significant component of the informal economy in cities and traders deal in many different types of goods and services. There are significant knowledge gaps and critical policy deficiencies. Attention needs to be paid to market access by both motorised and non-motorised transport, to provisions for storage and arrangements for the disposal of solid waste. Security, sanitation, lighting and child-care are also important facilities, and where further research is required to develop appropriate types and standards of provision. Context specific guidance is needed for Ugandan secondary cities as they urbanise.

## BOX 5 GUIDELINES FOR STREET DESIGN INCORPORATING TRADERS

(Source: UTTIPEC 2009:103)

New concepts of, and international guidelines for, urban street design are being promoted that prioritise the needs of pedestrians and where streets are considered as places which combine vehicular movement with the pedestrian-based social spaces of the city, including spaces for informal trading.



**Urban and transport planning policies need to be urgently implemented and supported with necessary resources and institutional capacity development.** An expanded and enhanced professional training programme for planners and built environment professionals needs to challenge

ingrained rigid and negative attitudes towards slums and their inhabitants. The regulatory framework needs to be more flexible and accommodate 'intermediate' solutions with less rigid standards but with the means of being properly enforced.

## 5. Addressing Knowledge and Data Gaps and Facilitating Community-Based Approaches

**Community-based approaches may have a major impact on the informal economy, but, as with other policy agendas, is short on basic evidence.** Better information systems and local data collection is essential to the pursuit of resilient, sustainable and inclusive urban economic development and positive support to the hybrid economy at all levels. Addressing these knowledge gaps can provide an evidence base for developing policy interventions that can:

- Provide targeted advice and support to enterprises and industry associations to enable them to take measures that improve their productivity and improve their understanding of the needs and economic potential of women and other relatively disadvantaged social groups;
- Unlock the potential for sustainable practices and realisation of green growth opportunities based on the circular economy;
- Assist the informal construction sector to realise its significant growth potential more sustainably, including entrepreneurial roles for women;
- Suggest ways in which the regulatory framework can reduce workplace hazards whilst providing a more facilitating and less restrictive and punitive role so that urban planners can engage more proactively with the informal economy;
- Support informal enterprises by working with the communities in which they are located to improve the understanding of environmental and climate change and undertake risk mitigation measures to improve community-based resilience; and
- Offer technical advice and micro-finance support to informal homebuilders to facilitate incremental improvements over time through tenure regularisation, infrastructure upgrading, and self-help improvement and construction.

# B KEY POLICY RECOMMENDATIONS



## Registration

Policy reforms to emphasise potential benefits, increase security of tenure and focus on opening up new opportunities



## Governance

Government to work cooperatively with informal trade associations, networks and stakeholders



## Heterogeneity and inclusivity

Positive support at all levels recognising heterogeneity; targeted support for disadvantaged groups including training and skills development and integration into wider value chains and networks



## Gender

Mainstream gender in growth areas to counter current exclusion



## Technology and innovation

Support the adoption, adaptation and development of appropriate technology and business innovation



## Infrastructure and basic services

Strategic policy to address a growing urban infrastructure deficit and improve access to basic services in workplaces and informal settlements



## Transportation

A strategic approach to managing traffic and movement; support improved connectivity and improve public transport services incorporating informal transport providers



## Regulation

A more flexible, affordable, accessible and enforceable regulatory framework



## Capacity building

Build capacity at all levels, including in national and particularly local government and informal organisations



## The 'missing middle'

Target advice and business support at promising enterprises and industry associations to improve their productivity in growth and export potential areas; promote social impact funds



## Access to finance

Support access to finance that is cheaper than that currently available for informal businesses



## Green growth and climate resilience

Develop green growth and urban resilience-related policy interventions involving informal economy sectors and enterprises



## Urban planning

Less restrictive, more supportive (and better supported) urban planning including inclusive approaches to accommodate street traders and addressing rural-urban linkages



## Knowledge/data gaps - facilitating community based approaches

Improved understanding of poverty-risk profiles in different informal sectors, spatial distribution of informal activities and ways of engaging local communities



# **Cities Alliance**

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**Cities Without Slums**