Secondary Cities: Engines of Job Creation in Uganda

Summary Recommendations

- Enact policies that safeguard poor peoples’ access to informal work opportunities, and promote their access to city infrastructure and vending locations.
- Take measures to support long-term formal job creation.
- Continue to prioritize development of secondary cities, and prioritize investment in secondary cities identified to have high potential for job creation.
- Pursue policies to encourage creation of wage employment in secondary cities—for example by supporting entrepreneurs that hire others—to increase incomes and reduce poverty.
- Enact policies to improve the private sector enabling environment in secondary cities and to support local firms to increase scale and create jobs.
- Invest in infrastructure to support job creation, especially in food processing, manufacturing, and tourism-related infrastructure.
- Alleviate constraints that firms face in the higher value-added sectors of food processing, manufacturing, and tourism to create better quality jobs.
- Empower the Ministry of Lands, Housing and Urban Development (MoLHUD) to lead the land repurposing process, using the Korean Land Corporation as an example.
- Inclusive infrastructure for informal enterprises in development plans.
- Invest in labor-intensive infrastructure through public works.
- Elevate the role of Municipal Commercial Offices, and increase their budgets, to support local firms, including informal fabrication and cottage industries.
- Support local firms by easing the business environment and help firms increase scale and specialization.
- Improve firms’ access to finance, modern technology, skills, and market information to upgrade their products and increase scale.
- Provide Business Development Services (BDS) to help firms develop bankable business plans for upgrading machinery and production technologies.
- Establish business incubation centers to help firms upgrade quality and modernize.

1 This note was prepared by Emma Wadie, Senior Urban Development Specialist, GP SUR
• Deliver aftercare services to help firms establish themselves after start-up.

• Facilitate local-level public-private dialogue to better understand firms’ constraints and how to eliminate them.

• Increase central government financial transfers to local governments to implement economic development investments and activities.

This policy note focuses on the role of secondary cities as engines of job creation in Uganda and on the key actions and investments that the Government of Uganda (GoU) could take to strengthen this role. The note will examine why secondary cities are important for creation of more and better jobs, where the cities with the most potential are, how Government can contribute, and finally who the actors involved should be.

We define secondary cities as those with a population of over 50,000 people, which we consider more important for policy making compared to towns too small to achieve agglomeration economies.

WHY? Secondary cities provide opportunities for creating more and better jobs

 Tradable and higher value-added jobs

Middle-income and developed countries increasingly created better quality jobs through gradually specializing in higher value-added and tradable sectors. High productivity, tradable sectors, like industry and higher-value services, enabled countries like Korea, Vietnam, and Turkey to improve quality of jobs in the long term through higher wages and incomes. Tradable sectors offer the prospect of increasing returns by selling outside the local market, to other cities, regions, or countries. Non-tradable sectors—for example, retail, hairdressers, and street vending—encounter diminishing returns because they are limited by the purchasing power of the local market. The World Bank’s Competitive Cities report found that tradable sector employment growth outstripped non-traded sector growth in cities that experienced the highest GDP and job growth. Specializing in non-tradable services is still likely to generate jobs and economic growth, but is not likely to result in long-term improvement in jobs quality with higher productivity and wages.

While tradable sectors are still very small in Uganda, they tend to locate more in urban areas where they benefit from agglomeration economies. Figure 1 below, derived from a census of business establishments with fixed premises, shows that the share of tradable and higher value-added sectors, like food processing and manufacturing, is still very low across all locations in Uganda. Most employment remains in non-tradable or lower value-added sectors such as hotels, restaurants, retail, and wholesale. To the extent that tradable sectors exist, they tend to agglomerate in Greater Kampala and secondary cities.

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2 We define small towns as those with a population above 5,000 and density of over 300 people per square kilometer.

3 Agglomeration benefits are productivity benefits that accrue from firms locating near each other. International evidence shows that when there is a high density of firms locating near each other this allows them to increase their scale and productivity as they benefit from a pool of labor, specialized suppliers, access to consumers and the transfer of knowledge and technology between them.

4 Tradable sectors are those that can be traded outside the locality — i.e. with other cities, regions and countries e.g. agriculture, industry and services like tourism or financial services.

As Figure 2 shows, Greater Kampala has a relative advantage in manufacturing compared with other locations, while secondary cities have a relative advantage in food processing. Policy responses to support growth in tradable and higher value-added sectors in Ugandan cities are therefore important, given the current very low level of employment in these sectors, and their potential for higher incomes and wages.

Figure 1: Sector share of employment across locations in Uganda

![Graph showing sector share of employment across locations in Uganda]

Data source: Uganda Census of Business Establishments (COBE) 2011

Figure 2: Sectoral specialization across locations in Uganda
Data source: COBE 2011. A location quotient (LQ) greater than 1 indicates relative specialization in a sector in that location compared with the national economy⁶.

Off-farm jobs

Cities also provide off-farm job opportunities near to rural areas, which increases resilience. Various “push” factors—including declining plot sizes, climate change-related stresses, and low agricultural incomes—are leading people, particularly youth, to seek alternative livelihoods to agriculture. As Figure 3 below shows, cities provide a broader range of diversified livelihood alternatives to subsistence farming compared with small towns and rural areas. Given this, recent research on secondary cities’ importance as vehicles for poverty reduction found that rural migrants experienced the biggest welfare gains by moving to big cities, like Kampala. However, since a larger number of migrants move to secondary cities and towns than to big cities, as they find them more accessible, this leads to secondary cities and towns having more overall beneficial influence on poverty reduction⁷.

Figure 3: Share of employment in main sectors across locations

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⁶ Location quotient analysis compares an industry’s share of regional employment to its share of national employment.
Poverty reducing jobs

Low value-added, often informal, activities create more short-term jobs in the absence of more formal jobs. Many of the off-farm jobs in urban areas mentioned above are informal jobs or self-employment in petty trading or the service sector: 58 percent of the Ugandans working outside agriculture are employed in the informal sector. While low-productivity and low-quality, they do create more jobs in the short term. For example, a Bank analysis looked at sectoral job multipliers for Greater Kampala found that sub-sectors like trade, hotels, and restaurants created more jobs in the short term, though these were low-productivity jobs, while higher value-added sub-sectors like textiles and metals contributed more to productivity and longer-term job quality but created lower numbers of jobs in the short term. Some subsectors identified created both large numbers of jobs as well as increased productivity including food processing, grain milling, chemical manufacturing, and financial services.

Informal employment is important for poverty reduction. Informal employment provides work opportunities to poor and vulnerable populations in the absence of more formal jobs. Our analysis indicates that the poorer sub-counties in Uganda experienced increased informal employment between 2002-2014, but that this was associated

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with poverty reduction in those sub-counties\textsuperscript{10}. This finding is consistent with other evidence that the informal sector is important for poverty reduction, albeit not for increased productivity. Nonetheless, as Figure 4 shows, formal job creation, or at least more formalization of employment, is accelerating with the ratio of informal to formal employment significantly declining across all locations in Uganda between 2002-2014.

**Figure 4: Uganda is experiencing increased employment formalization**

![Graph showing ratio of informal vs formal employment in 2002 and 2014 across various location types in Uganda.](image)


Policy responses that safeguard poor peoples’ access to informal work opportunities and promote their access to city infrastructure and vending locations, are therefore important. Meanwhile, is also important to take measures to support long-term formal job creation.

**Waged jobs**

International evidence also shows that wage employment is important for higher incomes and poverty reduction. International research has shown that wage employment, not self-employment, leads to the emergence of a middle class in developing countries. This is because wage employment is associated with higher and more stable incomes\textsuperscript{11}. Research in Africa has also shown that poverty is lower in cities that have a higher share of the population in wage employment than self-employment\textsuperscript{12}.

Again, while wage employment rates are low in Uganda compared to self-employment, wage employment opportunities concentrate in cities. As Figure 5 shows, the bigger the city, the higher the share of waged jobs – with the share of waged employment highest in Kampala at 52 percent of total employment, while the lowest share

\textsuperscript{10} These results are only relevant at the subcounty level though, as there is no pattern emerging at the secondary city level.


\textsuperscript{12} Hill, Mehta and Sohnesen, *Cities and Poverty in Ethiopia* (2014).
is in rural Uganda where only 12% of total employment was in wage jobs in 2014. Pointing to another positive development, wage employment rates between 2002 and 2014 increased across Uganda as a whole.

**Figure 5: Wage employment across locations**


Policy responses that encourage increasing wage employment in secondary cities—for example by supporting entrepreneurs that hire others rather than subsistence entrepreneurs—are likely to help increase incomes and reduce poverty.

**Jobs in firms that have economies of scale**

Finally, while most firms in Uganda do not enjoy economies of scale, Greater Kampala and secondary cities seem to be providing a more conducive environment for firm growth. Across Uganda, very few firms have more than five employees. Only nine percent of firms in Kampala have over five employees, seven percent in secondary cities, and only five percent in secondary towns and rural areas. As Figure 6 shows, Greater Kampala and secondary cities have seen more growth in firms with more than five employees compared to secondary towns or rural areas. This is particularly the case for firms in the mining, retail and wholesale, transport, and manufacturing sectors.

**Figure 6: High growth of firms with over five employees in secondary cities**
Data source: COBE 2002, 2011

In recognition of their contribution to economic growth and job creation, the Government of Uganda (GoU) is prioritizing development in secondary cities. Uganda’s Second National Development Plan (NDP II) and the NRM Manifesto (2016-2021) both set out important commitments for urban development, particularly physical planning and infrastructure investments. To strengthen the role of cities in economic development, the GoU plans to elevate the status of four municipalities—Arua, Gulu, Mbale, and Mbarara—to regional cities; and to elevate another five towns to strategic cities focused on key economic sectors: Fort Portal (tourism), Hoima (oil and gas), Jinja (industry), Nakasongola (industry), and Moroto (mining). These new cities will be expected to prepare and implement physical plans in line with their economic role. Developing sub-regional Physical Development Plans for key growth corridors is also expected\(^\text{13}\). Uganda’s National Urban Policy, which emphasizes development of urban areas to promote the transformation of rural economies, includes as one of its objectives the promotion of urban competitiveness and productivity for employment creation.

WHERE? Priority cities for investment

Given limited investment resources, particularly in the GoU budget, there may be a need to prioritize investment in secondary cities with high potential for job creation. In this section, we rank Uganda’s secondary cities based on factors likely to be associated with creation of more and better jobs such as the ones discussed above.

World Bank (WB) staff constructed a City Economic Potential Index to rank all Ugandan secondary cities with population over 50,000 across the following three components:

1. **Agglomeration potential**: Awarding higher scores to cities and surrounding areas with a larger population and to increases in population density between 2002-2014.

\(^{13}\) Namely, the Kampala-Jinja corridor, Karuma-Lira-Gulu corridor, and others along the Northern Corridor Infrastructure Projects – in order to identify and plan development nodes such as industrial hubs and tourism towns (NRM Manifesto, p. 278).
2. **Agro-processing potential**: Awarding higher scores to cities with higher average vegetation levels (Net density of vegetation index (NDVI)) between 2009-2017 and higher yearly percentage increases in cropland, given the importance of the agro-processing sector to structural transformation as well as job creation in Uganda.

3. **Economic dynamism**: Awarding higher scores to cities with higher wage employment rates, higher increases in wage employment, growth in number of manufacturing and food processing firms, and growth in size of firms.

The economic dynamism component is weighted higher at 0.6 of the index with the other two components weighted at 0.2. This is because the economic dynamism component reflects the most dynamic cities that have recently created better jobs and contributed more to structural transformation, and are therefore likely the best choices for investment.

Figure 7 and Table 1 below show the overall ranking of all Ugandan secondary cities with population above 50,000 based on the City Economic Potential index.

**The Eastern region has the most cities with economic potential followed by the Central region.** As Figure 7 and Table 1 show, the eastern region has the most high-potential cities in Uganda’s top ten cities: Mbale, Jinja, Busia, and Iganga. This is followed by the Central region, which has Greater Kampala, Lugazi, and Kampala City within the top ten. Next is the Western region with Mbarara and Fort Portal. Finally, the Northern region with Lira. Uganda’s top twenty cities with potential also include Njeru, Masaka, Entebbe, Soroti, Bugembe, Gulu, Nakaloke, Kasese, Arua, and Mityana.

**Among Uganda’s top twenty cities with economic potential, some could be targeted specifically for their agro-processing potential.** Table 1 shows the cities that scored highest on agro-processing potential within the top twenty: Greater Kampala, Lugazi, Busia, Fort Portal, Njeru, Masaka, Bugembe, and Mityana.

**Several other cities have high overall economic potential, but do not score high for agro-processing potential.** These include Mbale, Jinja, Kampala City, Mbarara, Iganga, Lira, Entebbe, Soroti, Gulu, Kasese, and Arua. While these cities currently have food processing activities, they are not situated in areas with higher than average vegetation, indicating their competitive advantage is likely in other sectors.

**Figure 7: Ranking of Ugandan Cities on the City Economic Potential Index**

Table 1: Detailed ranking of Ugandan cities on the City Economic Potential Index
<table>
<thead>
<tr>
<th>City Name</th>
<th>Overall (weighted)</th>
<th>Agglomeration</th>
<th>Ag Potential</th>
<th>Economic Dynamism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Kampala</td>
<td>1</td>
<td>1</td>
<td>11</td>
<td>3</td>
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<tr>
<td>Lugazi</td>
<td>2</td>
<td>8</td>
<td>4</td>
<td>7</td>
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<tr>
<td>Mbale</td>
<td>3</td>
<td>2</td>
<td>27.5</td>
<td>1.5</td>
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<tr>
<td>Jinja</td>
<td>4</td>
<td>9</td>
<td>30</td>
<td>1.5</td>
</tr>
<tr>
<td>Kampala City</td>
<td>5</td>
<td>3</td>
<td>31</td>
<td>4</td>
</tr>
<tr>
<td>Mbarara</td>
<td>6</td>
<td>5</td>
<td>20</td>
<td>9</td>
</tr>
<tr>
<td>Busia</td>
<td>7</td>
<td>16</td>
<td>7</td>
<td>10</td>
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<tr>
<td>Fort Portal</td>
<td>8</td>
<td>21</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Iganga</td>
<td>9</td>
<td>7</td>
<td>17</td>
<td>11.5</td>
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<tr>
<td>Lira</td>
<td>10</td>
<td>15</td>
<td>29</td>
<td>6</td>
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<tr>
<td>Njeru</td>
<td>11</td>
<td>10.5</td>
<td>6</td>
<td>17</td>
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<tr>
<td>Masaka</td>
<td>12</td>
<td>14</td>
<td>10</td>
<td>15</td>
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<tr>
<td>Entebbe</td>
<td>13</td>
<td>18</td>
<td>18.5</td>
<td>11.5</td>
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<tr>
<td>Soroti</td>
<td>14</td>
<td>30</td>
<td>27.5</td>
<td>5</td>
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<tr>
<td>Bugembe</td>
<td>15</td>
<td>4</td>
<td>13</td>
<td>20</td>
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<tr>
<td>Gulu</td>
<td>16</td>
<td>17</td>
<td>25</td>
<td>13</td>
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<tr>
<td>Nakaloke</td>
<td>17</td>
<td>6</td>
<td>15</td>
<td>21</td>
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<tr>
<td>Kasese area</td>
<td>18</td>
<td>10.5</td>
<td>22</td>
<td>19</td>
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<tr>
<td>Arua</td>
<td>19</td>
<td>13</td>
<td>32</td>
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<td>Kitgum</td>
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<td>14</td>
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<tr>
<td>Mpondwe</td>
<td>22</td>
<td>26</td>
<td>23</td>
<td>18</td>
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<tr>
<td>Bubandi</td>
<td>23.5</td>
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<td>2</td>
<td>26</td>
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<tr>
<td>Koboko</td>
<td>23.5</td>
<td>22.5</td>
<td>18.5</td>
<td>22</td>
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<tr>
<td>Lodonga</td>
<td>25</td>
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<td>23</td>
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<tr>
<td>Kabwohe</td>
<td>26</td>
<td>25</td>
<td>16</td>
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<tr>
<td>Kangulumira</td>
<td>27</td>
<td>29</td>
<td>3</td>
<td>28</td>
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<tr>
<td>Namwenda</td>
<td>28</td>
<td>24</td>
<td>9</td>
<td>29</td>
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<tr>
<td>Malongo</td>
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<td>20</td>
<td>8</td>
<td>31</td>
</tr>
<tr>
<td>Nebbi</td>
<td>30.5</td>
<td>28</td>
<td>14</td>
<td>27</td>
</tr>
<tr>
<td>Kachumbala</td>
<td>30.5</td>
<td>12</td>
<td>21</td>
<td>30</td>
</tr>
<tr>
<td>Busana</td>
<td>32</td>
<td>31</td>
<td>5</td>
<td>32</td>
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</table>


Further analysis indicates that several secondary cities may be experiencing economic stagnation. As Figure 8 shows, while most secondary cities are growing in population, Njeru, Jinja, and Entebbe lost population between 2002 and 2014. Jinja—along with the larger cities of Greater Kampala, Gulu, Mbale, and Iganga—suffered increased unemployment and poverty (except in Greater Kampala). On the other hand, other thriving secondary cities experienced reductions in unemployment. These include Kasese, Njeru, Masaka, Lira, Arua, Busia, Koboko and Mpondwe.⁴

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⁴ These cities, where unemployed reduced, had more of a mixed performance on poverty, some seeing increased poverty and others reducing poverty.
Some economic sectors are also performing better than others within particular cities. Our analysis also showed that the food processing sector was a growing sector in terms of job creation in all secondary cities studied, apart from Jinja where it was declining. Employment in this sector also declined in Kampala city but increased in Greater Kampala. Manufacturing was a declining sector in various cities, particularly Jinja, Bugembe, Mbale, Gulu, and Entebbe. Kampala was the only place where the manufacturing sector was significantly growing. Hotels and restaurants grew in terms of employment in Mpondwe, Arua, Entebbe, Busia, and Greater Kampala. While employment declined in Kampala city, where over 9,000 jobs were lost in this sector between 2002-2011, Jinja, Masaka, Lira, Gulu, and Bugembe.

HOW? Priority Government actions

Enact policies to improve the private sector enabling environment in secondary cities and to support local firms to increase scale and create jobs. To do this, local policy makers need to better understand constraints holding back local firms from achieving increased scale and productivity. They also need to work closely with the private sector to alleviate these constraints. To better inform policy makers, the World Bank undertook a study with the Ministry of Local Government involving focus group discussions with over 115 firms in prominent sectors and 89 government and other stakeholders. The study also analysis also included a review of economic data. This policy note draws primarily on evidence from the study to make the recommendations below.

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15 Analysis on sectors that are growing or declining in terms of employment in a given locality, is based on Shift-share analysis, which decomposes regional growth in employment by calculating how much can be attributed to national, industry, and regional factors.

There are three main channels through which local government can support job creation in secondary cities:

1) Invest in infrastructure to support job creation

Alleviate constraints that firms in higher value-added sectors such as food processing, manufacturing, and tourism face to create better quality jobs. Infrastructure deficits are one critical obstacle for firms. For example, the UBOS Investor Survey (2011) found that 78.9 percent of firms mentioned poor infrastructure, particularly electricity and transport, as a factor constraining their business operations and growth\(^{17}\).

**Invest in infrastructure for food processing.** Food processing firms that participated in focus group discussions highlighted the importance of infrastructure, for instance feeder roads, that connects agriculture producing areas with markets in urban areas. Poor road infrastructure increases transport and vehicle maintenance costs for agribusinesses and inhibits farmers from accessing markets and better prices for their products. Establishing additional markets and storage facilities at sub-county levels would also reduce losses in the livestock and crop sectors and enable smallholders to obtain better prices. Finally, a good strategic intervention would be allocating serviced land for food processing hubs and storage areas. This would increase value-added to local products and benefit local producers by linking them as out-growers to agribusiness firms. Many agro-processors report being limited in operational scale due to lack of access to sufficient land, suitable premises, reliable electricity, water, and road transportation.

**Invest in infrastructure for manufacturing.** Similarly, other manufacturing firms again highlighted the lack of appropriate business premises or zones that are serviced with the necessary amenities, particularly electricity, as a key constraint. Local government investment in servicing industrial land and the establishment of parks for manufacturing and cottage industries is a desirable policy response to alleviate the difficulties that firms face in accessing land, due to Uganda’s complex land tenure system, and in accessing reliable electricity.

**The Ministry of Lands, Housing and Urban Development (MoLHUD) is in a good position to lead the land repurposing process.** MoLHUD can identify land that can be serviced for rental or sale to food processing and manufacturing firms, in collaboration with local governments and other relevant ministries. MoLHUD—which already has the mandate for land management as well as urban infrastructure development—implements large scale, World Bank-funded projects on both these areas, and could play a role like that of the Korean Land Corporation in collaboration with municipalities.

**Box 1: International example: Korean Land Corporation (KLC)**\(^{18}\)

KLC, formed in 1975, is a national-level entity that works with municipalities to equip land with infrastructure and release it on the market for industrial and logistics properties, as well as housing construction. The process is twofold: 1) Establishing a long-term vision or roadmap: KLC and municipalities establish urban readjustment and local development plans jointly to coordinate a variety of development initiatives; and 2) Short-term project plans and investment schemes: municipalities establish urban master plans and urban renovation plans and solicit endorsement of residents while KLC supports planning and execution and reinvests development gains. The project owner, project strategy, and the funding and cost-sharing scheme are determined in implementation agreements with municipalities.

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\(^{17}\) With other major factors being the high cost of credit (83%), limited access to credit (77 %) and low demand (40%).

Industrial Estates are developed for rent or sale, both under national government sponsorship as well as local industrial estates, to boost a province’s competitiveness for attracting new business investment. Preference is given to start-up companies and small and medium enterprises (SMEs). KLC also supports industry through “logistics centers”, which include coordinated supporting services for its tenant businesses such as freight terminals, warehouses, cargo collection and delivery sites, shops and wholesale agriculture markets; as well as financial, insurance, and medical facilities and other workers’ amenities.

**Invest in infrastructure for tourism.** Firms in the tourism sector also emphasized infrastructure constraints including poor roads to many existing and undeveloped tourist sites, and the need for site development and provision of space for craft markets, among other things. Hotels emphasized the need for better water treatment, sanitation services, and electricity, as tourists complain about these issues in some towns. Local governments alone do not, however, have the knowledge and capacity to determine the most strategic investments, and the Ministry of tourism and the private sector should be involved in prioritizing both cities on which to and the investments in them. The Box on the partnership between Mexico’s Ministry of Tourism and municipalities to improving tourism infrastructure.

**Box 2: International example: Mexico’s Regional Program for Sustainable Tourism Development and Magic Towns (PRODERMAGICO)**

The Ministry of Tourism in Mexico established this program to help improve tourism infrastructure in priority municipalities and localities throughout the country. The Federal Sectoral Program for Tourism 2013-18 provides the policy framework for state and municipal-level tourism plans and programs. Institutions can apply for funding for projects emanating from their tourism plans in the following areas:

- **Infrastructure:** including public lighting in tourist areas; illumination of monuments and historic buildings; sidewalks and fittings; kiosks, fountains, and squares; urban furniture; public parks.
- **Tourist equipment:** projects that directly support and strengthen local tourism activity and tourist sites, such as walking circuits and lookouts for nice views.
- **Technical assistance:** preparation of technical feasibility studies to execute works.

Local governments are responsible for project implementation and must provide match funding towards the project from their own budgets.

**Develop inclusive infrastructure for informal enterprises.** Providing inclusive infrastructure for informal service sector firms is also important to protect access to jobs and contribute to poverty reduction in the short term. City governments are often hostile to informal vendors, seeing them as disturbing traffic flow, outcompeting formal enterprises, and decreasing revenue collection. Recent WB research on Greater Kampala included a survey of informal sector enterprises and showed that while most informal enterprises do not have growth potential, the sector employs most of the local population, particularly the poor. Protecting livelihoods of informal enterprises

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and promoting more dialogue between local government and informal sector representatives is therefore important from an employment and poverty-reduction perspective. Municipalities have an important role in providing inclusive infrastructure, like markets and vending spaces, that protect informal enterprises market access and foot traffic. For example, investments in bus, taxi, and lorry parks could be complemented with market stalls in the same locations to help local producers and vendors to sell to consumers. Given that all Ugandan cities have a large informal services and trade sector, these measures apply to all secondary cities.

**African example: Providing inclusive vending infrastructure for informal firms in the City of Durban**

Durban (eThekwini) stands out as a municipality taking an innovative approach towards the informal economy. Since the 1990s, the municipality has invested ZAR 150 million (10.4 million US dollars) in infrastructure and services for traders, including for water, electricity, ablution facilities, storage, shelters, kiosks, business unit/support centers, container parks, markets, flea markets, refuse collection, cleaning, and security services. Durban’s approach is considered innovative particularly with regards to the following:

- Establishing a department dedicated to street trader management and allocating financial resources for infrastructure development that benefits traders.
- Adoption of a metropolitan-wide Informal Trade Policy at the end of the 1990s.
- Establishing the eThekwini Municipality Informal Economy Forum (EMIEF) to dialogue with informal traders in 2005.
- Offering demand-oriented capacity building services to informal economy workers through the Business Support, Tourism, and Markets Unit of the Municipality.

2) Invest in labor-intensive infrastructure through public works

**Implement labor-intensive infrastructure works to create short and even medium-term jobs.** Infrastructure works require short-term labor and can have important benefits for local employment and incomes. While it would not be appropriate to require all municipal infrastructure investments to be labor-intensive, or to favor local micro and small enterprises (MSEs) as suppliers of building materials, such measures could be included as a portion of municipalities’ infrastructure investments. For example, smaller-scale infrastructure works and supplies—such as sidewalks, drainage clearance, and urban greenery—could be allocated to local MSEs and unemployed youth.

**Box 3: African example: Job creation in Ethiopia’s Urban Local Government Development Program (ULGDP) II**

Like the Uganda Support to Municipal Infrastructure Development program in Uganda, ULGDP II is a World Bank-funded, government-implemented, development and infrastructure investment program for 44 Ethiopian municipalities. A review of job creation under the program found that it has created thousands of short-term local jobs in cobblestone road construction. It has also acted as a “boot camp” for many unemployed youth who establish self-employed businesses bidding for contracts as cobblestones suppliers and saving seed capital for future entrepreneurship. After graduating from the program, many of these youth were able to establish other businesses, such as brick-making, welding, driving minibus, retail shops, and urban agriculture.

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21 For more information, see Dobson and others (2009) Working in Warwick: including informal traders in urban plans http://www.wiego.org/wiego/working-in-warwick-street-traders
Local governments advertise opportunities in the Program to registered unemployed youth, further screened for unemployment status in consultation with the community. Priority is reserved for vulnerable groups, including people with moderate disabilities, returning refugees, “poorest of the poor”, and military retirees, and women. Local residency is required. Participants then form cooperatives to bid for cobblestone contracts under the program. Local Technical Vocational Education and Training (TVET) colleges provide participants with technical training on paving as well as business planning training on entrepreneurship before they start bidding for road construction contracts. Participants undertake the cobblestone work and usually graduate after one to five years. Many of them moved on to self-employment with MSE offices’ support, including free land or working premises, linkage to credit and markets, and periodical follow-ups. Others moved on to education or returned to being unemployed.

3) Activate the role of Municipal Commercial Offices to support local firms

In addition to infrastructure, provide accompaniment and support to local firms to ease the business environment and help firms increase scale and specialization. Focus group discussions with local firms highlighted their lack of access to finance, modern technology, skills, and market information to be able to upgrade their products and increase scale. Firms requested Business Development Services (BDS) to help them develop bankable business plans for upgrading machinery and production technologies, and business incubation centers to help them with upgrade quality and modernize. Activating the role of the Commercial Office to support informal fabrication and cottage industries is therefore critical. Local governments also currently do not provide investment aftercare services to alleviate business establishment bottlenecks. Again, the Commercial Office could play a role in providing aftercare together with the Office of the Mayor.

Activating the role of the Commercial Office will, however, require an increase in their budget allocation. While the Production Office is responsible for supporting local agricultural enterprises and MSMEs, their budget is minuscule, representing only around 1 percent of local government expenditure. This prevents staff, such as the Agricultural or Commercial Officer, from undertaking outreach activities for farmers, agribusinesses, or MSMEs, due to the lack of budget for fuel to undertake outreach activities, for example. With increased budget, Commercial Officer activities could include provision of BDS support such as financial literacy training, business plan development, cooperative establishment, collective bargaining, and quality upgrading advice. For food processing cooperatives and producers, encouraging bulk marketing, for example, is important so farmers to increase their bargaining power on sale prices. For artisans, such as blacksmiths and carpenters, and other cottage industries, supporting aggregation and market linkages is also important so that they can fill bigger orders and increase scale.

WHO? Roles of local government and private sector

Conduct more public-private dialogue

23 The BDS field has grown out of the desire to support small and medium enterprises and usually entails non-financial services to enhance management practices and performance of firms.
Facilitate local-level Public-Private Dialogue (PPD), which is critical to understand firms’ constraints and how to eliminate them. Such a dialogue should be based on a changed attitude towards the private sector: local governments tend to view private firms as a source of financial resources rather than actors that should be supported to generate local economic growth and jobs. Firms highlighted that local governments focus on tax collection and extracting donations from the private sector. This is one reason why PPD fora established by local governments have met with mixed success: PPDs have been relatively successful in Nwoya, dormant in Arua, and face resistance in Jinja. To get started, PPD forums could rely on dialogue existing local private sector associations rather than creating new forums. Firms in the tourism and agribusiness sectors recommended a cluster approach to PPD for regular and meaningful dialogue with local government to focus on relevant issues for each sector and to increase the chances of practical “quick win” actions being implemented.

**International example: PPD in Gaziantep, Turkey**

Gaziantep, in southern Turkey, is an example of a secondary city where collaboration between public and private sectors has been a key driver of extraordinary manufacturing, export-led growth. PPD and partnership were key to the city’s success. Gaziantep’s City Council represents a diverse set of actors who work together in a sort of parliamentary kind of structure. The Council’s Assembly consists of 225 members from the private sector (80 percent of members), academia, and NGOs and government agencies (20 percent of members). There are also various sub-committees, drawn from assembly members that makes recommendations to an Executive Board, which meets once a month for decision making.

City Council Chairs are influential local figures, such as the Dean of the local University, who could rise above party politics. The Council was instrumental in lobbying the central government to investment in transport and industrial zones in Gaziantep. In addition, successive mayors and business leaders have worked together to streamline bureaucracy, reduce the administrative burden on companies, and provide adequate infrastructure for production and market access.

Provide financial resources for local government to invest in local economic development

**Increase central government financial transfers to local governments to implement investments and activities.** While local governments in Uganda have the mandate for local economic development, they do not have the financial resources needed to execute. Local governments have four main sources of financing: 1) Conditional grants from central government, representing 90 percent of local government financing, which are earmarked especially for delivery of basic services; 2) Unconditional grants, representing 7 percent of local government financing, are overwhelmingly spent on wages for technical and political officials, and other recurrent costs; 3) Equalization grants are earmarked for Districts lagging in social indicators and service delivery, but which are minuscule, representing only 0.1 percent of central government transfers, 4) Own-source revenues, representing less than three percent of all financing despite continuing local revenue enhancement efforts. The weak capacity of the local private sector, and the narrow tax resource base, means that central-level resources are needed in the medium term to invest in economic infrastructure and enterprise support. Conditional transfer or competitive calls for proposals for local governments local economic development could help provide financing. Technical support from central ministries and development partners will also be critical for quality implementation, given that this is a new area for local governments.

International example: United States Economic Development Administration (EDA) Grants

EDA grants are yearly competitive calls for proposals for local institutions, administered by the United States Federal Department of Commerce. Between FY 2012-2016, EDA invested nearly $1.4 billion in 3,244 projects to help communities and regions build capacity for economic development. Projects include construction-related infrastructure projects as well as enterprise support and programs providing access to finance.

Based on historical averages of program results, every $1 of EDA construction project funding helps generate approximately $15 in private investment. For example, construction projects awarded in FY 2007 were found to have helped create or retain 22,471 jobs and to have generated close to $2.6 billion in private investment. EDA revolving fund enterprise support to small businesses have also made more than 37,500 loans and leveraged more than $16 billion in grantee matching funds, contributing to creation or retention of more than 662,000 jobs.

26 https://www.eda.gov/funding-opportunities/
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