



Research Monograph

# Transformational Change in Sub-Saharan Cities

The Role of Informality in the Hybrid Economy  
of Uganda



**Cities Alliance**  
Cities Without Slums

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### **Acknowledgments:**

We are grateful for all the assistance in facilitating this study provided by the Cities Alliance, Makerere University, the Municipal Councils and informal business associations of Arua, Jinja, Mbale and Mbarara and all those in the informal economy who participated in the surveys carried out in the case study cities.

# Transformational Change in Sub-Saharan Cities: The Role of Informality in the Hybrid Economy of Uganda

## Executive Summary

*“In today’s global economy, not enough formal jobs are being created and many existing formal jobs are being informalized. Informal employment is here to stay in the short, medium, and probably long term. It is the main source of employment and income for the majority of the work force and population in the developing world.....”*

*What is needed, most fundamentally, is a new economic paradigm: a model of a hybrid economy that embraces the traditional and the modern, the small scale and the large scale, and the informal and the formal. What is needed is an economic model that allows the smallest units and the least powerful workers to operate alongside the largest units and most powerful economic players – on fair and equitable terms; that allows home-based producers in global value chains to be able to bargain with dominant players in those chains for their rightful share of value added; that allows street vendors to operate alongside retailers and wholesalers – alongside shops, wholesale markets, and malls – in central business districts; that allows waste pickers to access waste and to bid for solid waste management contracts alongside large corporations; that allows informal construction workers to gain some of the protections and benefits of formal construction workers; that allows informal transport workers to be integrated on equitable terms in public and private transport systems; that allows smallholder farmers to compete on equitable terms with largeholder farmers and corporate farms.*

*Some years ago, the world embraced bio diversity – and still does. Today, the world needs to embrace economic diversity. Both are needed for sustainable and inclusive development.”*

*Martha Chen, 2016: The Future of Informality*

The aim of this project has been “to fill crucial theoretical and evidence gaps, by collecting and analysing data on the informal economy and cities growth in Uganda, testing the relevant theories/models/hypotheses and methods of analysis and feeding the results into current academic and policy debates at national and international levels.”

Based on evidence from reviews of relevant literature, analysis of the secondary data from various official sources and primary research in the fieldwork in Uganda, the theoretical argument presented in this research monograph rests on the need to move from the dualistic concepts of the urban economy, to notions that present urban economic activities on a continuum. The study builds on the concept of the ‘hybrid economy’ (Chen, 2012) and the recent efforts of other researchers in challenging the dualistic concept of formal and informal sectors. The monograph provides an initial guide to this body of research, and identifies a number of key researchable issues.

It provides the basis for further theoretical debate and innovative analytical concepts that can guide future studies. It aims to contribute to the framing of new policy approaches – ‘new ways of thinking’ – about the informal economy and its potentially positive contribution to the inclusive, resilient and sustainable economic development of Africa’s cities.

The monograph argues that the dualistic approach limits the scope for a more holistic analysis of urban economic growth and development of appropriate policies that can have a transformative impact through positive support to informal operators within a hybrid economy. This, in turn, requires a rupture with the established political economy and a new political agenda that encompasses a more flexible and adaptive regulatory framework, a wider range of business and social support to local economic development and supportive urban planning.

The various issues are analysed from both larger sub-Saharan and Uganda-specific perspectives. There is reference to secondary sources, while also drawing on the primary research for local in-depth case studies. The analysis highlights the urgent need for further research and data collection, to contribute to setting out a future agenda for engaging the local and regional research community as required in the terms of reference. The study suggests that multiple methods will need to be employed to provide a better theoretical understanding of what, in reality, is a much more complex socio-economic phenomenon than previously assumed. This opens up, potentially, a very large area of future research where current evidence remains thin on the ground.

The research evidence indicates that the informal economy is not a single sector but comprises many sectors and sub sectors or segments that shares linkages with corresponding formal enterprises. In the short time available to carry out the study, the team focused primarily on three key sectors of informal economic activity in the field-based and theoretical research – trading (more specifically street trading), transportation and construction. In Uganda, together these sectors account for nearly 60% of all informal employment, including 63% of male employment and 55% of female employment, the latter concentrated almost wholly in the trading sector (UBOS 2014).

The principal findings of the research are as follows:

## **1. Informal and hybrid economy – general findings and policy implications**

### **a) The informal economy plays a significant role in the economies of sub-Saharan African and is likely to persist:**

Given the global pressures on resource-extractive, low employment generating economies in Africa, the study evidences the argument that the informal economy will very likely persist and possibly grow for decades to come. Sub-Saharan African economies are unlikely, for the foreseeable future, to benefit in most respects from the value-chain transformation open to developed world economies, based on technology and skills intensive home-based production and off-shoring of low skilled operations to low wage economies.

Across sub-Saharan Africa, micro and small enterprises predominate, in large part informally operated. The informal economy accounts for 55% of GDP in sub-Saharan Africa and 80% of its labour force (AfDB, 2013). In Uganda, the informal economy contributes 43% to the total economy and around 70% of employment (UBOS, 2012). It is not only large; it is the fastest growing sector.

### **b) Currently, across sub-Saharan African cities, institutional and policy constraints are limiting the necessary progress:**

Widespread urban poverty and the growth of the informal economy relates to the “institutional failures that perpetuate exclusion and inequalities between urban poor and non-poor” (Kessides 2005). Institutional neglect, the disdain for the poor and women, and an absence of a pro-poor perspective at all levels of government, is a drag on developing pro-poor policy; and, additionally,

the pressure on local governments by donor agencies to generate more revenue is reinforcing the traditional orthodoxy and policies directed towards registering informal business units without offering any matching social or economic benefits.

**c) A radical change of policy direction is needed to support the hybrid economy:**

National and local government policy needs to recognise and re-focus on the concept of the hybrid economy. 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 cross-sectoral impacts of their policies pushing for greater revenue generation by local governments. In Uganda it is reinforcing the traditional legalistic stance towards the informal economy. 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.

**d) Policy needs to encompass and institutionalise ‘informal governance’, 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:**

In policy terms there is a need to go beyond legal rights, and establish institutionalised processes of participation and negotiation that address the lack of recognition of those employed in the informal economy, particularly marginalised groups, and that build on the social capital and local knowledge embedded in processes of informal governance. Institutionalisation is key to strengthening and building capacity within associations so they can negotiate and demonstrate benefits, skills and capacities.

Political will and support - not interference - at high level is vital to promote more integrated solutions that work both ways. This includes addressing the shortcomings within informal governance practices - such as corruption, lack of capacity in finances, management and tender bidding - as well as the high-level championing needed to support the positive contribution of these processes, particularly the lack of political acceptance and recognition of informal economy associations as legitimate actors.

**e) Co-operation and capacity building is crucial at all levels, including state, 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 both parties. Moreover, institutionalisation can help change the negative perceptions that remain common in administrative and political authorities, as well as public spheres.

The Ugandan case studies, particularly within the public transport and informal trading sectors, show there is a crucial need for integrated governance solutions that work both ways. This involves building competent policy frameworks for effective regulation and promoting adequate enforcement and coordination among institutional actors while, in parallel, recognising and building the capacity of associations as legitimate actors within city economies and urban management.

In parallel to institutionalisation and legitimacy, there is also the need to strengthen the links between informal governance structures and other actors beyond the trade unions and monopoly local associations, including other civil society organisations, particularly from the formal economy, international and transnational organisations, as well as higher levels of government.

**f) Current definitions of the informal sector(s) and economy are lacking and new definitions are needed to deal with the reality of the hybrid economy and an economic continuum encompassing the formal and informal:**

Currently, a line is drawn between informal and formal sectors based on whether they are registered or not and, by implication, whether they are liable for taxation or not. While this can be taken as a starting point, it doesn't begin to tell the whole story. Other characteristic features include size of enterprise: the informal economy, for the large part, is dominated by small and micro enterprises, with low market entry cost, and barriers to access to capital.

In some areas of activity, the business units may have some form of registration or another, but industry as whole is largely unregulated, lacking regulated services, procedures or processes that conform to legal requirements and standards. Informal public transport services are a case in point. In a survey of micro, small and medium enterprises in Uganda in 2015, just 20% of the firms interviewed lacked 'some form of registration' registration' (Nathan Associates *et al.*, 2015), but, on the other hand, 75% did not have a tax identification number that would make them eligible to pay tax if due. Formality, therefore, is relative and a matter of degree.

This study has adopted the following working definition, subject to further debate on its wider operationalization:

*The informal economy represents those individuals, enterprises or business units operating in the lower (less or unregulated, micro enterprise dominated) part of an economic continuum of interlinked business operations that can be characterised as a 'hybrid economy.'* The informal economy is comprised of industry-specific 'informal economic sectors' within which the identifiable business units operate. Together with persons employed informally outside these units, these make up the informal economy as a whole.

**g) A more supportive, incremental, adaptive and flexible 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. This is recognised by the operators but less so by the authorities who see it largely in terms of 'enforcing the rules' (while usually lacking the means to effectively do so). Hazards and bad working practices can be limited; certified goods and services can reach wider markets, particularly export markets. Critically, traders can access finance. The real constraints on the regulatory framework as it currently exists need to be acknowledged, and transitional, less restrictive, more supportive, and ultimately *enforceable* modes of regulation introduced.

**h) Sustainable livelihoods approaches and community-based resilience assessment frameworks can provide useful theoretical perspectives for understanding the systems, networks and dynamic relationships involved:**

The informal economy secures sustainable livelihoods through an adaptive approach to niches in the local economy, multiple business linkages and associative networks. A sustainable livelihoods approach, and its recent embodiment in community-based resilience assessment frameworks, places an emphasis on identifying adaptive livelihood strategies and sustainably managing the assets available to poor households and communities, in rural and urban areas. It therefore offers a

promising theoretical basis for developing analytical tools to better understand the set of dynamic relationships involved.

Social capital originating from informal associations, particularly those that work at the local level, does not necessarily translate into popular empowerment or inform pro-poor governance in urban Africa (Meagher, 2011:67). This suggests a need to understand the complexity of livelihood strategies attached to informal economies, the skills and capacities within, that can be used to engage in effective and mutually-beneficial ways with state actors and subsequently enhance pro-poor governance that also benefits the cities.

**i) The hybrid economy can be transformative – if effectively supported, the informal economy can help underpin the necessary economic transformation across sub-Saharan Africa:**

While, in the long term, the hybrid economy could be transitional, it is likely to characterise the city economy for decades. The hybrid economy should, however, also 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. Effective support requires augmenting the 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’.

**j) However, economic resilience will be required, harnessing the inherent adaptability and flexibility of the informal economy:**

While cities can lead the process of greater integration into the global economy, attention is needed to the contribution of domestic supply and demand, where the informal sector can play a central role. The process of improving the productivity of the hybrid economy will need to draw on the inherent adaptability and flexibility of the informal sector in building the necessary economic resilience to weather (sometimes extended) periods of economic stress.

More localised production, reducing dependence on imported consumer goods to supply a growing urban middle class, is already becoming evident in some parts of the African sub-continent. These factors can play a significant part both in contributing to economic growth and improved productivity, and in providing resilience in the face of turbulence in global markets affecting production for export.

**k) Economic transformation requires bridging the ‘missing middle’.**

Uganda is a country with a ‘missing middle’ in its industrial economy, a feature common to most sub-Saharan African countries. It is characterized by a very large number of small firms, some large and few medium size firms. The informal economy is the largest and fastest growing part of the economy in Uganda, currently accounting for some 43% of total economic output (UBOS, 2012). Informal enterprises, however, generally do not become formal operations and Uganda’s MSMEs rarely mutate into medium or large-scale companies.

This is a firm structure typical of a resource-based economy where value extraction is dominated by large firms holding monopolistic or oligopolistic positions, owned, managed or linked to political and social elites: in business unit terms, numerically dominated by low productivity personal services and basic manufacturing activities inhabiting the informal sector space.

Uganda, clearly needs an increasing number of professionally managed and adequately financed firms employing, say, between 20 and 100 people (in Uganda ‘large companies’ are defined as those with more than 20 employees) and focused on producing and exporting value-added products based on the comparative advantages of the country. Most likely many of these businesses would operate within a value chain involving both smaller firms and larger system integrator type operations.

For accelerated, increasingly inclusive, and sustainable growth to characterise Uganda this form of structural transformation must occur. An important research issue is to identify the pathways whereby this transformation could occur, so that the missing middle is filled, specifying under what conditions, and how those conditions can be created, defended and maintained.

**l) The appropriate use of existing and innovative technologies can play a key role in the transformation; social funds can provide a supportive business framework:**

Processes of technological change and innovation primarily takes place in developing countries such as Uganda through enterprises learning to master, adapt and improve technologies that already exist. Technologies that are practical and proven, and innovations that are incremental and augmentative, commonly drive economic growth.

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.

Mobile telephones have had a dramatic take-up in the informal economy and are a ‘game changer’ in sub-Saharan Africa. Recent experience includes ‘trickle-up’ innovations; those proven in countries like Uganda and Kenya and then used in more mature markets (notably mobile banking and information services). Indications are that a step from lower middle income status to higher middle income status, involving successful structural transformation, is necessary before trickle-up can characterise an economy.

A number of social impact funds operating in Africa are investing in the missing middle, namely assisting formal and informal MSMEs operating in priority sectors but without the technology and business models required for expansion.

**m) Strategic policies to support industrialisation should be accompanied/balanced by targeted policy to manage, and build on the potential in the informal economy:**

Economic growth channelled only through the modern industrial sector will not reduce the informal economy; on the contrary it is likely to make it an even more important economic space for those with limited resources. There is equally a requirement to identify the potential for growth, but also recognise the policy needs of the poorer segments of the informal economy.

**n) Key constraints on informal enterprises can be addressed by well-targeted policies but issues of low demand and high operational costs can only be resolved by improved infrastructure provision and overall economic growth**

The research identifies several key business constraints inherently associated with informality. The lack of a permanent or acknowledged address makes it difficult to access credit from banks, which means borrowing at a much higher rate of interest from informal lenders. These two issues are

closely linked and have been identified as key constraints in both Ugandan case study cities where questionnaire surveys were carried out.

For those who have to operate in uncovered spaces, the rainy season severely affects their business. The issue of space is also a wider problem. The largest street trading activity is in fresh produce, which is perishable. If the quality degrades, the stock has to be sold at a lower price or hawked, as one of our interviewees noted. The lack of refrigeration facilities is thus seen as a major impediment. Harassment by local authorities is also noted as an issue.

Well-targeted policy at local government level can address most of these constraints. But ultimately, issues of low demand and high operational costs can only be resolved by improved infrastructure provision and overall economic growth.

The major constraints also influence their attitude to the issue of registration. The analysis shows that more than half the owners see benefits accruing from registration. For them, being a registered unit means access to cheaper credit (by far the most important factor), improved premises, and better scope for growing their business. Policy reforms, especially registration, should work to strengthen these potential benefits.

- o) Poverty-risk profiles found in different sectors of urban informal activity need to be better understood to contribute to a wider programme for resilient and inclusive development.**

It will be essential to shape and design any major urban development programme so that it also works for the poor. On the other hand, analytical groups to be targeted would differ with the objective of the development programme. They could provide the policy entry points. This study provides the tools for analysis and a conceptual framework to begin to do this.

- p) There is a need to address the heterogeneity of the informal economy and the diversity created by different economic and socio-demographic groups, ‘vertical heterogeneity’, needs to be contextualised by type of activity:**

The study proposes a systematic approach to the analysis of the internal diversity of the informal economy. One of its main aims has been to identify socio-economic and demographic based analytical groups for developing policy options and a future research agenda.

Building on the findings of the study’s initial empirical work, there needs to be a focus on unpacking the vertical heterogeneity, created by differential incomes, risks and vulnerability; insights on who joins and the reasons for entry; the types of activities in the two cities (disaggregated by income, gender, age and education); the resources that different groups bring to their business, in terms of start-up capital, time and labour inputs, household resources; and by gender.

- q) In the future research agenda, gender analysis of urban micro-enterprises should be contextualised in the wider urban and economic circumstances.**

Gender-poverty-risk profiles vary with the nature of activity, as do the nature of linkages established by business. Women predominate in the bottom strata of the poverty-income pyramid. As they often cannot inherit land and property, many women migrate from rural areas to urban informal settlements, where they are confronted with high levels of unemployment, the predominance of low-paying jobs and unstable sources of income. A significant proportion of all households in informal

settlements are headed by women, who are typically poorer than men, contributing to the ‘feminisation of poverty.’

The predominance of women in many categories of informal activities suggest there may be fewer opportunities for women with the same educational qualifications as men in the expanding modern industrial sector. This implies that the socio-economic mobility of women is limited, whereas men with the same levels of educational attainment find alternative opportunities more easily. 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.

## 2. Key data and knowledge gaps

- a) **In order to influence the institutional perspective of the informal economy, it is essential to demonstrate the viable role played by informality in the urban economy. Data on, and analysis and knowledge of, the hybrid economy is lacking; existing value chains and networks involving informal formal and informal enterprises have to be better understood and their economic contribution evaluated:**

Evidence from the fieldwork establishes that the informal economy in the secondary cities of Uganda is providing sustainable means of livelihood for the majority engaged in informal activities; and the business units have multiple business links which cross the urban economy. The urban informal economy is likely to grow under conditions of both economic growth (as evidenced in the case study city of Mbarara) and economic stagnation (as in Mbale). However, more evidence is required to shift hearts and minds.

In this context, future research should address the current huge knowledge gaps regarding informal activity, while public policy needs to recognise its likely persistence, take on board the concept of the hybrid economy and re-focus improving its overall productivity, including its informal elements. While a differentiated policy response is required and needs to be developed, the very first step is to secure the evidence so that the potential value that is already inherent in informal economy and its place within a hybrid entity is recognised.

- b) **There is an urgent requirement for further research and data collection at the city level with land use, traffic, business and household surveys needed to help map out how the informal and wider hybrid economy works and the necessary urban economic transformation can be achieved:**

The research and policy agendas are very short on basic empirical evidence. There is sufficient analytical evidence at the national level to broadly frame the issues and research questions. There are also opportunities for further analysis of national household survey data and interrogation of population and housing census data at the micro, enumeration/small area levels. (This is the only current source of spatially disaggregated micro level data at present assuming it can be accessed – and that is most commonly not the case. Moreover, it is only gathered at 10-year intervals, so often out of date).

In general there is a dearth of data at the local city level across most of sub-Saharan Africa. This suggests an urgent need for more surveys. Business surveys are required to map out the local economic development requirements, taking on board the reality of the hybrid economy and the need for positive support to the informal economy. Social surveys at the local level can help fill the

knowledge gaps and are essential to inform urban planning and service delivery policy. Traffic surveys are required to inform transport planning, land use surveys to determine the requirement for urban physical development and local government and civil society surveys to determine capacity and capability requirements.

Given the abundance of reasonably well-educated but underemployed young people in African cities, basic data collection can be carried out very cheaply and effectively if properly supervised and with appropriate training and with effective use of ITC. This can contribute to development of a new professionally-trained technical cadre. At the local, informal settlement level, in Uganda, as elsewhere in Africa, this can build on the participatory survey efforts of the slum dwellers associations.

### **3. Spatial and sectoral findings:**

#### **a) With continuing rapid urbanisation, the focus will be increasingly on cities as engines of inclusive growth:**

With the World Bank seeing industrial growth as an essential driver of economic growth in Africa, the role of the urban hybrid economy will be key in putting manufacturing and industrialisation in urban Africa on a high productivity trajectory.

The report notes that, however, if the current perceptions of the informality persist, the cities of Uganda, and particularly the secondary cities, are unlikely be ‘engines of growth’; rather many will stagnate. Much depends on the global economic environment but, at worse, the urban economy will decline and national development efforts will be severely compromised.

If unsuccessful, many cities will be overwhelmed by poverty, unemployment and social despair and discontent. It is crucially important to find ways to promote growth and in a manner which encompasses the vast majority of those living in urban areas. A basic proposition of this paper is that, assuming that the informal economy is likely to persist for the foreseeable future, one very important pathway to inclusive development is through support given to the informal sector.

#### **b) However, rapid urbanisation in Uganda and other African countries is having a major impact in terms of the urbanisation of poverty with implications for the growth of the informal economy and the heterogeneity of its workforce and the un- and underemployment of youth.**

The rapid demographic change that Uganda and other African countries are undergoing has a powerful impact on the vertical heterogeneity, affecting the entry of multiple demographic groups into the informal sector. Although this needs further research, the majority of urban population growth is now ascribed to natural increase or reclassification of rural areas. Nevertheless, migration from rural areas evidently continues to fuel the demand for jobs in urban areas.

Rural poverty leads to men, women and youth moving to urban areas in search of economic opportunities, thus contributing to the urbanisation of poverty as many migrants join the ranks of the unemployed and under-employed in the informal sector. Here, the informal economy has acted as an, often inadequate, sink for the unemployed, often educated young job seekers. This path to urban livelihood creation is of growing importance as youth unemployment rises in Uganda and elsewhere in the region.

- c) 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 and a more economically dynamic city are also reflected in the informal economy:**

Uganda and most other African countries exhibit a high degree of ‘urban primacy’ and regional backwardness, with, in the case of Uganda, a heavy concentration of population and economic development in the capital, Kampala. However, more rapid population growth is generally occurring in the secondary cities and smaller towns. Among the smaller urban centres there are varying economic fortunes.

In the Ugandan cities investigated, for example, the average income of traders in Mbarara is 60% higher than those in Mbale. Higher start-up capital is brought to all the activities in Mbarara, reflecting not only the different consumption and demand patterns and positive urbanisation externalities, but also the different resource capabilities of the owners/entrepreneurs in the two different cities. Policy needs to address the varying contexts – how to focus on a city like Mbarara, with a pool of successful entrepreneurs and mobile, young job seekers; or on a town like Mbale, subject to relative economic decline, to reduce regional disparities and stimulate growth.

- d) The rapidly growing urban population in Uganda and elsewhere is having a major impact on the informal economy in terms of the demand for new housing which is largely being met by the informal construction sector.**

According to the World Bank (2015), typically, across sub Saharan Africa, 90% of housing is provided informally, with each house built creating 5 jobs. This is an area where policy can assist, through technical advice and micro-finance support to informal homebuilders to facilitate incremental improvements over time, and through tenure regularisation, infrastructure upgrading and self-help improvement and construction.

The construction industry makes a significant contribution to the economy of Uganda at nearly 8% of GDP according to the World Bank (2015b) and up to 15% by other estimates (Obwana *et al*, 2014). One source puts the contribution of the informal economy to all construction in Uganda at 70%. (Irumba 2015). The construction industry in Africa is employment intensive, with informally constructed dwellings creating 20% more employment than those constructed by formal enterprises. Construction accounts for 7.4% of informal employment, while 76% of all, mostly male employees in the construction industry in Uganda work in the informal economy (UBOS 2010).

- e) Rapid urbanisation is contributing to the development and expansion of slums – environmentally precarious, unplanned informal settlements, lacking basic urban services; existing government policies and action plans need to be implemented to address the related concerns.**

Urbanisation is giving rise to the emergence of slum-type informal settlements, suffering from an almost complete lack of basic infrastructure and services and a range of environmental and public health threats. The majority of the world’s slum dwellers, more than 200 million people will live in slums in sub-Saharan Africa cities by 2020 (UN-Habitat 2014), with slum populations growing at 4.5% per annum.

According to the *Millennium Development Goals Report for Uganda*, the share of the urban population living in slum-like conditions rose from 34% in 2002/03 to 43% in 2012/13. However,

other estimates suggest that 60% of the 6.3 million urban population lives in slums and informal settlements. The 2008 *National Slum Upgrading Strategy and Action Plan* and 2013 Uganda National Land Policy (GoU, 2008) commit the Government to “take measures to ensure security of tenure to informal sector activities and provide basic and affordable infrastructure for informal sector development and self-improvement for the urban poor.”

These 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

**f) The growth of slums presents key urban resilience policy concerns but also open up potential ‘green growth’ development opportunities for informal economic sectors and the hybrid economy.**

Economic growth will continue to put pressure on natural resources in rural areas in particular and increase emissions from urban-based activities, transportation and domestic and business fuel use. 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 increases food prices.

Pursuing efficient food production and distribution, water resource management, sustainable urban drainage and infrastructure and energy solutions to support this growth can contribute to sustainable and resilient urban development. Using appropriate technologies and properly managed activities, the informal economy has potentially an important role to play in generating ‘green growth’ solutions.

The housing demands created by the massive growth of informal settlements arising out of Africa’s rapid urbanisation are currently being met by the informal construction sector. This offers not only plentiful employment opportunities but also a strong potential for ‘green growth’ in the form of more intensive use of natural environment and climate friendly designs and construction technologies using locally sourced materials in the provision of both building and services. Waste disposal and management, both solid and liquid, are areas for future research to address the current knowledge gaps and address the urgent need for appropriate policy interventions.

**g) Addressing the knowledge gaps identified in this research can provide an evidence base for developing green growth and urban resilience-related policy interventions involving informal economy sectors and enterprises.**

This can facilitate targeting advice and support to enterprises and industry associations to take measures improve their productivity and improve the understanding of the needs and economic potential of women and other relatively disadvantaged social groups.

It can help unlock the potential for sustainable practices and realising green growth opportunities based on the circular economy, assisting the informal construction, transport and waste management industries to realise their significant growth potential more sustainably including developing entrepreneurial roles for women;

It can suggest ways in which the regulatory framework can reduce workplace and residential hazards whilst providing more of a facilitating and less restrictive and punitive role and urban planners can engage more proactively with the informal economy. It can support informal enterprises working with the communities in which they located to improve the understanding of environmental and climate change and undertake risk mitigation measures to improve community-based resilience;

**h) A supportive strategic policy framework needs to urgently be in place to address the growing urban infrastructure deficit to improve access to basic services and ensure that African cities can begin to realise the economic development potential.**

A well thought-through, strategic approach guiding public and private investment in basic urban infrastructure in Africa's cities is essential and pressing, along with increased support for local economic development that encompasses positive support to the informal economy. This has to be matched by parallel institutional strengthening and capacity building particularly at the local and sub national government levels, to ensure the sustainability of such investment, that it is properly managed and maintained. Population pressures and deficits in infrastructure and services are particularly evident in secondary and smaller towns and cities and national policies need to address the common problem of skewed and unbalanced regional development.

**i) The hybrid economy is an economic space of formal and informal linkages and interactions that extends, continuously over urban and rural areas, with growing 'urbanisation of rural areas'. A systematic review of existing evidence, development of relevant conceptual frameworks and new primary research is required inform a better understanding of this phenomenon.**

This study provides evidence that the informal economy is part of a wider hybrid economy that cannot be simply geographically isolated into urban and rural components but is part of a rural-urban continuum. The informal economy is embedded in strong rural-urban linkages and varying patterns of short and long-term migration and commuting to central towns and cities from wide rural catchment areas around them. Increasing reliance on service- and cash-based economic activity, the closer that people live to towns, is evident. There has been a strong shift in employment from agricultural to non-agricultural sectors, associated with urbanisation and the growth of employment opportunities, notably in the informal economy in both towns and cities and rural areas.

The study aims to demonstrate that the economic changes in the rural areas, particularly in the proximity of the cities, may be significant as those going on in the cities with which they are closely interwoven, informality being a feature of both. A better appreciation of the rural-urban continuum is critical as urban influence extend well beyond the administrative boundaries of the officially-defined urban areas. For example, the urban agglomeration index (using the methodology explained in the World Development report of 2009) for Uganda in 2006 was 25%. There is no data to indicate what proportion of this population can be said to be 'urban', in the sense of engaging directly in the urban economy (as opposed to being involved in intensive farming which is also common in the wider city region). Density and distance alone cannot be taken as determining factors. However, it is more than double the UN's estimate of Uganda's level of 12% urbanisation at the time.

These processes have been subject to wide ranging research in developing countries in recent decades and suggest the need for a more systematic review of the literature, including the

considerable range of rural and agricultural development studies that have been carried out, than has been possible in this short scoping study. There are opportunities to take forward the theoretical and analytical conceptualisation of the rural-urban economic continuum. As noted, the sustainable livelihoods approach and its recent embodiment in community-based resilience assessment frameworks can provide a basis for developing appropriate analytical tools.

**j) Physical, economic and environmental planning and effective management of land use and development is required at the city regional scale:**

As currently weakly resourced as they are, local authorities need to look beyond the existing administrative boundaries that separate urban from rural and develop physical planning and local economic development policies that encompass the rural catchment areas of the fast growing cities. The dangers are that densifying areas on the rural-urban interface can metamorphose rapidly into under-serviced peri-urban sprawl that eat up productive farmland and nature vegetation cover. At the same time, as noted, there are opportunities for innovative policies to build on this particularly dynamic element of the informal economy to encourage more sustainable and resilient forms of green growth.

**k) Informal settlements play a key role in the urban physical and economic development in sub-Saharan Africa in providing access to affordable housing and job opportunities for the low-income majority in Uganda.**

Slums and informal settlements act as the locii of informal economic activity, serving both the local and wider urban economy, and as affordable residential areas for those commuting to work in informal sectors located in the city centres and elsewhere. The limited research in other parts of sub-Saharan Africa that has been carried out thus far suggests that the informal economy is highly localised, with as many as 80% of informal employees working in the districts in which they live (Lloyd-Jones *et al*, 2016). While historical research has been carried out on home-based enterprises there is a continuing need for the local, regional and international research community to build on this existing body of research.

**l) Improving the general level of accessibility in cities is a key factor in realising their economic development potential, as well making cities work for people, in general and those particularly dependent on the informal economy.**

Poor connectivity is placing severe constraints on Africa's urban economic development (Collier 2016). Creating more accessible cities by improving their street networks and public transport systems is a key challenge for urban and transport planning, in order to promote urban economic development and better living conditions for all urban residents. The research suggests that more in-depth work needs to be carried out to understand the movement patterns of informal economy operators and employees.

This could encompass a better understanding of the positive impacts of the new connectivities associated with the increasing use of mobile phones to aid mobility, accessibility, access to livelihood opportunities and business development. At present, non-motorised transport accounts for more than 70% of trips in some African cities (Floater and Rode, 2013). In Uganda, 64% of urban population walk to work and up to 70% in Kampala according to the World Bank (Lall, 2012). The limited reach of walking trips severely limits labour market opportunities for people who live away from economic centres.

**m) The informal transport sector is a major and growing employer offering flexible but limited and ultimately unsustainable services:**

The evidence from the limited research that has been carried out suggests that the informal transport sector plays a significant role as a source of employment for the poor, less educated people with its ease of entry and reasonably well developed supporting social infrastructure. The sector is often reasonably well-organised and self-regulated under the guidance of the drivers' associations and transport workers' unions. Under the best circumstances, the operators' associations work collectively and co-operatively with the local authorities. A better understanding of the business organisation, capacity and capabilities and practices of the various informal transport sector operations and their contribution, actual and potential, to meeting travel and accessibility demands, however, is clearly required.

Informal transit offers an affordable and flexible service for the low-income residents of Africa's cities. However, the informal transport sector faces growing challenges – poor levels of service, limited accessibility, slow movement, extended waiting times, old and poorly maintained and highly polluting vehicles, undisciplined and dangerous use of the city streets. The findings of the primary research carried out in this Uganda case study suggest that the informal transport sector should be supported and more effectively regulated, in order to improve its efficiency for the public interest, providing a more reliable, safe transport system; and also to ensure an acceptable level of employment and working conditions for its employees.

**n) 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. Interventions in the transport sector will require careful prior investigation and extensive consultations:**

The issue of growing traffic congestion in cities requires an urgent strategic traffic management response. While radical, public mass transit-based solutions may appear attractive, the complexities of integration with local informal transit operations suggest the importance of detailed participatory research prior to any intervention. The substantial deficit of investment in urban road and street networks also needs to be addressed in order to give better access to the population as a whole.

Given the current on-going importance of employment in the informal transport sector, public transport policy interventions are highly sensitive. If mass transit approaches are considered, these will need to employ a hybrid approach involving existing informal transit operators being offered a share of ownership, jobs and/or providing feeder services, or parallel integrated services. Intelligent use of signalling and use of information technologies should provide a growing contribution to better traffic and transport management.

With both the wider traffic management issues and any implementation of mass transit reforms, an appropriate institutional and regulatory framework has to be in place to secure the essential preconditions for successful outcomes. Alongside institutional reform and policy and improved policy and regulatory frameworks, strategic and integrated land use and transport planning, capacity building and data collection are essential.

**o) Street trading and markets constitute a significant component of the informal economy in sub Saharan Africa and traders deal in many different types of goods and services though there are significant knowledge gaps and critical policy deficiencies.**

The research points to the continued significance of trading which accounts for 44% of employment in Uganda's informal economy and larger proportions in other African countries. Informal trading suffers from many disadvantages, in Uganda as much as elsewhere, and roadside trading is generally not regarded as a legitimate activity. However, 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

A future research agenda should systematically review the spatial configurations of different types of markets, their functions, locations and relationship to their urban context. Specifically, attention needs to be paid to market access by both motorised and non-motorised transport, to their provisions for storage and arrangements for the disposal of solid waste. Security, sanitation lighting and childcare are also important facilities. Further research is required on the spatial needs of informal street stalls and mobile 'hawkers' and their integration into street design in the context of sub Saharan Africa. Context specific guidance is needed for Ugandan secondary cities as they urbanise.

# CHAPTER 1: INTRODUCTION AND METHODOLOGICAL APPROACH

## 1.1 Context and purpose of the research monograph

This monograph is the main output of the study and presents all the results of the research on the Uganda case study, including the fieldwork studies of secondary cities, and the related analysis. As per the Terms of Reference, this study has identified and analysed the important theoretical and evidence gaps in the approaches, understandings and analyses of urban informal activities in the sub-Saharan Africa, and more specifically in Uganda.

The study argues that formal-informal divide is a socio-economic construct with few explanatory powers. Furthermore, this study has taken the debate forward and posited, that to achieve sustainable and equitable development, the informal business units need to be assisted to strengthen their value networks along the urban continuum of economic activities. However, much of this understanding has been informed by the exploratory fieldwork undertaken. This field research also initiated a bottom-up understanding to informality; a perspective that has evidently been missing in Uganda.

The purpose of this report is to consolidate the findings of the desk-based research and empirical work undertaken, and put forward a future research agenda to assist policy development on informality. To achieve this overall aim, the research objectives have focused in how best to achieve a better understanding the following dimensions:

- The role of informality in the urban economy, and its contribution to sustainable, inclusive and resilient national economic development, generally and particularly in Uganda;
- The role of the informality in the urban development process, generally and particularly in Uganda
- The structure of the informal economy in terms of demography; activity type and size of enterprise; inter- and intra-sector business linkages; links between income and poverty; gender related issues of wage differential, vulnerability and discrimination;
- The nature and structure of the linkages with the rural economy;
- The economic logic for the persistence of the informal economy;
- The political economy of changing institutional attitude to the informality; and
- How other cities in developing and emerging economies have developed strategies and mechanisms to support the informal economy.

This monograph will:

- Set out the logic and rationale for the research design and the methodology developed;
- Provide a summary of previous theorisation of the different themes; review the international and global debates, and briefly discuss the key issues and theories highlighted in the previous reports;
- Relate the findings of the secondary and primary research to the key theoretical sectoral and spatial issues identified in Uganda;

- Identify knowledge gaps;
- Note the implications for theory and for future research approaches to the subject area;
- Provide a brief for a future research agenda; and
- Set out the initial implications for public policy.

## 1.2 Structure and contents of the monograph

**Chapter 2: Transformational change in a hybrid economy: a theoretical framework** describes the theoretical approach adopted in the study of informality and economic growth in the secondary cities of Uganda.

**Chapter 3: The Macro-Economic Context** contextualises the place of the informal activities in the national economy of Uganda.

**Chapter 4: City-Level Analysis of Informality in a Hybrid Economy** focuses on analysing the data, both quantitative and qualitative, gathered in the field study visits to the case study cities in Uganda.

**Chapter 5: Heterogeneity, Linkages and Vulnerability, micro-level analysis** presents an analysis of the vertical and horizontal diversities found in the economy of the two secondary cities of Uganda; and how this fits into the wider debate on urban informality.

**Chapter 6: Urbanisation, economic development and informality** explores the factors driving rapid urbanisation in Uganda and sub-Saharan Africa, the impacts on economic development and welfare, and the role of the informal economy.

**Chapter 7: Rural-Urban Linkages and Livelihoods** examines the concept of the hybrid economy as an economic space of formal and informal linkages and interactions that extends, continuously over urban and rural areas.

**Chapter 8: Informal Settlements, Housing and Informal Construction** analyses the importance of informal settlements in providing access to affordable housing and job opportunities for the low income majority in Uganda.

**Chapter 9: Transport and Communications** addresses the challenges and opportunities for the informal economy that arise out issues of accessibility relating to transportation and communications systems in Africa's cities and the role informal public transport sector in facilitating, this together with regulated mass transit solutions. The impacts of mobile phone technology on the informal economy are also addressed.

**Chapter 10: Informal Retail Trading & Spatiality** reviews informal retail trading in the context of urbanisation, and considers the spatial and governance implications of supporting the sector.

**Chapter 11: Government and governance** examines examples of informal governance and the role played by informal trade associations and unions in different cities in Africa, with a focus on the specific case of Ugandan cities and the informal governance within the urban transport and informal trading sectors.

## **1.3 Research design and methodology**

### **1.3.1 Introduction**

The research design and the more detailed methodology developed in this project is essentially tailored to achieve the aims and objectives set out in the Terms of Reference. Section 1.3.2 sets out the overall research design, its rationale and the staged approach adopted by this study. Section 1.3.3 discusses the desk-based research techniques used; and section 1.3.4 notes the different field-based research techniques employed to develop a methodology to map, enumerate and generate primary data on the informal economy. It is important to note that, any field work undertaken so far is viewed as a pilot study, as a pre-cursor to any future work, as considerable more time, resource and field exploration are required for a survey that would provide data for rigorous statistical analysis.

In particular, the research that has been carried out provides the initial evidence in support of the argument that the informal economy is likely to persist, that it is already an integral and potentially productive part of a larger hybrid economy, and that new policy initiatives and a shift in the attitudes of government is required to help realise this potential.

Secondary and primary research have provided both initial evidence in support of this proposition as well as pinpointed key knowledge gaps. In the fieldwork in the case study cities, methodologies have been piloted that can help inform future studies by the wider research community to bridge the knowledge gaps and to examine ways in which public policy can best support the development of the hybrid economy in sub-Saharan African cities.

### **1.3.2 Research design**

The research design was shaped by aims, the principal arguments postulated by the research team, and the required deliverables of this study.

The over-arching aims of this research as per the Terms of Reference were to:

1. Obtain an overview of informality and the role it is playing in the growth and economies of secondary towns of Uganda;
2. Re-conceptualise the notions of informality in the light of new theoretical and empirical evidence;
3. To develop an understanding of the role of informal activities in the lives of the urban poor in the secondary towns of Uganda, and the wider sub-Saharan urban context, so as to develop a research agenda that would contribute to pro-poor planning and policy responses;
4. In order to achieve the above, design a methodology to generate primary data to fill the theoretical and evidence gaps; and provide the basis for future research methodology and agenda; and
5. To provide empirical evidence (secondary and primary), that informal activities are part of the urban economic continuum of relations of production, distribution and employment, where the forward and backward linkages stretch across the continuum; and where majority of owners are able to establish viable businesses; in order to identify pathways to incorporate them.

The mixed methods approach, developed for this research, is based on the contention that the literature review, grounded research and analysis should occur concurrently. These processes have dialectic relations as they constantly inform and feed-off each other, raise further research questions to be investigated and drive the overall process of research.

This approach was operationalised through extensive review of secondary material (academics and grey literature); interviews with government official, participatory discussions with informal worker; questionnaire based surveys, and qualitative case studies based on one-to-one and group discussions with owners in the informal economy. Additionally, a GPS survey was conducted to develop a spatial picture of informal economy; followed by a rough enumeration of the street trading activities in the two cities of Mbale and Mbarara, identified for the questionnaire-based survey.

The research was carried out in several stages.

1. Initial background research led to the Inception Report. This was essentially a desk-based review. Additionally, consultations with the Cities Alliance team and our colleagues in Uganda, facilitated the selection of the five secondary towns for in-depth study.
2. Further detailed desk-based research was undertaken in conjunction with a rapid participatory survey in February 2016 of the four, out to five, secondary towns that had been selected for this study. Hoima could not be covered because of logistical reasons. This phase of fieldwork identified the clusters of informal activities, including home-based processing and other activities in all four towns visited. Interviews were conducted with the local government officials, owners and informal workers. This led to the production of the Concept Note and the State of the Art Paper.
3. Based on the information garnered so far, a small questionnaire based survey was designed and implemented in Mbale and Mbarara, in April 2016. Initial analyses showed a clear need for generating primary data. These are noted below.
  - a) As FCA notes, research in Uganda has been narrowly focused on informal productive activities based in informal housing. Our initial fieldwork underscored this; informality is far more pervasive in the urban economy and has multiple linkages. In Uganda specifically, little or no data has been generated on informality, except in relation to “jobs in the slums”; unlike Ghana and Kenya where there is substantial city-level information on informal activities.
  - b) The discussions with local government officials in the secondary town, showed that majority of informal workers do not live in the urban area. In every city visited, the day population was double the night population. Furthermore, most of these daily migrants were engaged in informal activities in the municipality. It was therefore, important to capture these dynamics and this group of workers.
  - c) There are insufficient data and understanding of informality, which constrained the development of pro-poor planning and policy responses.

This pilot survey was preceded by a GPS survey to provide a spatial perspective of the spread and location of informal activities. At the same time a rough enumeration was done of informal operators on the streets. Thus, this package, consisting of the spatial mapping, enumeration and the pilot survey, provides an important basis for developing a methodology for any future

research agenda on informality in Uganda. It also provides a bottom-up perspective of informal activities in Uganda, hitherto missing. It should be noted, that though the pilot survey comes with limitations that are imposed by limited time and resource, it is the first step to designing a larger survey.

The survey focused on street trading. Several studies have shown that street trading accounts for a major share of the informal economy. Ligthelm (2006) had estimated that street trading accounted for 70% of informal activities in most African cities. Studies in Ghana estimated it be around 50%. The data for Uganda (UBOS 2010) suggest that this trade accounts for 44% of non-agricultural employment in the informal economy. Thus, the size of the street trading sector would be reflective of the size of the informal economy. Given the limited resources, the focus was on street trading.

The findings of this stage, and of all previous research inform this monograph. Further meta-analysis was carried out in the preparation of this report. The aim here is to crystallise the theoretical and empirical insights and further refine and inform our conceptual framework. A spatial picture of the informal economy in Mbale and Mbarara will also be generated based on the GPS mapping using ArcGIS.

### 1.3.3 Desk-based research methods

**Desk-based research:** The desk-based research in this study drew on a wide range of sources. These include academic literature, government reports, publications by international organisations like the World Bank, OECD, among others; and journals and reports by NGOs. Statistical data were obtained from a wide range of sources. These are noted in Appendix 1.

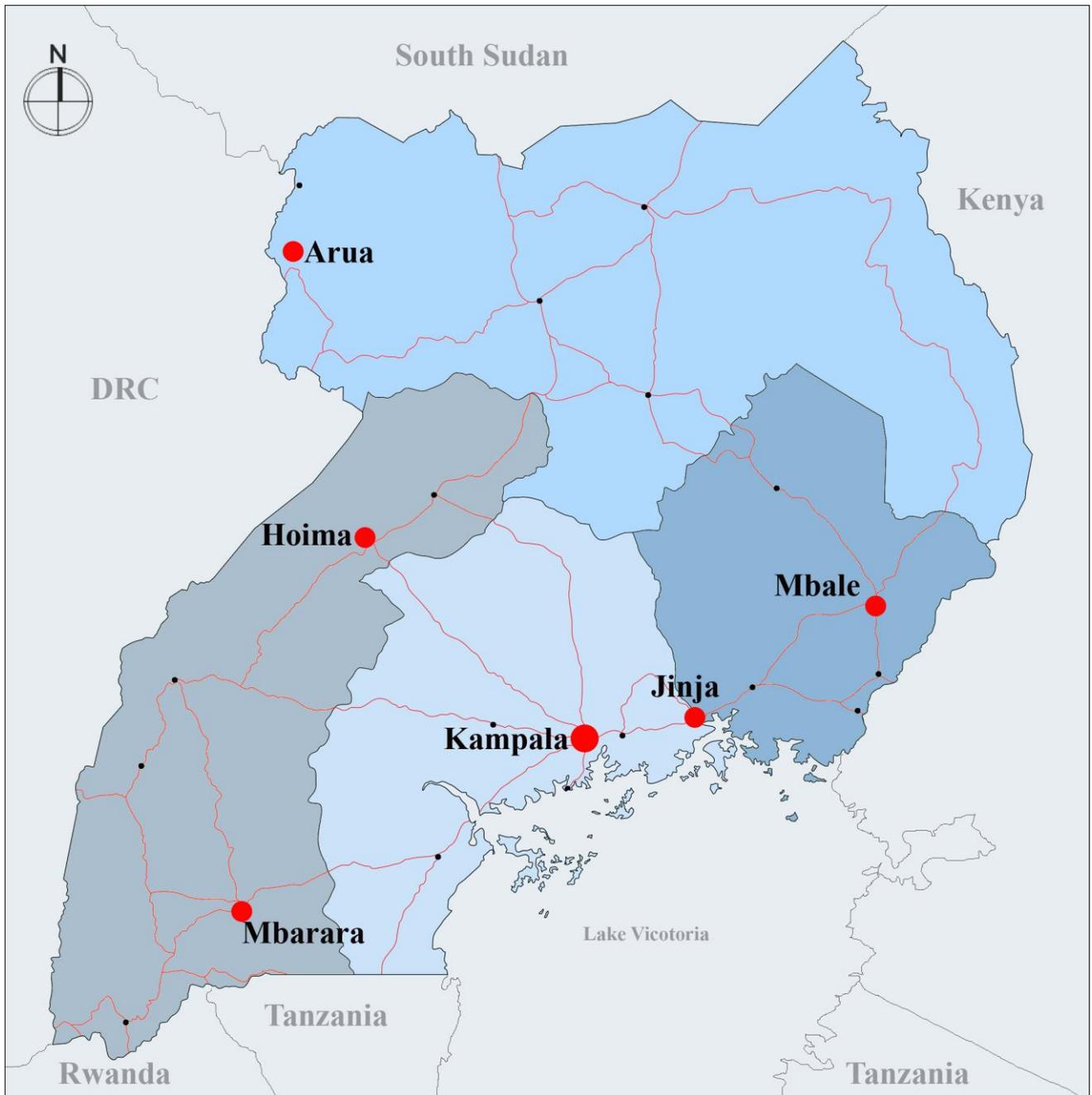
**Selection of five secondary towns:** The selection of the secondary towns for in-depth study is crucial to ensuring that this study captures the different contexts in which the informal economy is growing, the variable impacts of urban and economic growth, the importance ascribed to some of the secondary towns in Vision 2040, and the different linkages of the informal economy with the city and regional economies. Based on team discussions and a review of the Vision 2040 (GoU, 2013a), ten criteria were identified. These were discussed with the FCA team who recommended the inclusion of Mbarara, given the potential for development of the tourism sector and the on-going government support. Several cities were considered and five cities were selected. The characteristics of these five cities are shown against the criteria in Table 1.1.

Town	Geographic location within Uganda	Regional/ Strategic City	Population Census (2014)	Population growth rate 2002-2014 (%)	Municipal area (Sq. km)	Population density (Sq. km)	Regional hub and linkages	Growing faster than other STs	Importance of informal economy in the urban economy	Dominant trade types
Mbarara Trade hub, tourism	Western	Regional and strategic	195,013	8.6	51.5	3,787	Regional, administrative and civic centre for the western region		Majority of pop. engaged in informal activities	Businesses; social services sector; trade; industry.

Town	Geographic location within Uganda	Regional/ Strategic City	Population Census (2014)	Population growth rate 2002-2014 (%)	Municipal area (Sq. km)	Population density (Sq. km)	Regional hub and linkages	Growing faster than other STs	Importance of informal economy in the urban economy	Dominant trade types
<b>Mbale</b>	Eastern	Regional	96,189	2.5	TBC	TBC	Regional, administrative and civic centre for the eastern region	No	Administrative and commercial centre, informal economy important	Small agro-processing activities; religious educational institutions
<b>Hoima</b> Oil and gas industry	Western	Strategic	100,625	10.7	228	441	Both regional and national hub.		Cross border, informal trade	Agriculture; trade, wholesale and retail; construction transport
<b>Arua</b> Trade hub	North	Regional	62,657	3.0	10	6,266	Increasing importance as commercial supply centre & transport route		Cross border informal trade (foodstuffs, merchandise)	Merchandise and tobacco
<b>Jinja</b> Industry, Tourism	Central	Strategic	72,931	0.2	88	829	Jinja Regional Referral Hospital	No	Fisheries	Tourism, manufacturing and sugar-cane farming

**Table 1.1: Criteria for Selecting Secondary Towns for this Study**

As shown in Figure 1.1, the selected secondary towns are geographically located across different regions. There are two regional cities, Arua and Mbale; two strategic cities, Hoima and Jinja; and an additional secondary city, Mbarara, for its growth potential and regional importance.



**Figure 1.1: Selected cities**

**Jinja:** This is the slowest growing of the 20 largest urban centres, showing only marginal growth between 2002 and 2014. It is only about 80 km away from Kampala, consequently many live in Jinja and commute to work, in “taxis” (informal minibuses) to work in the informal and formal economies in Kampala. It has a small industrial base and relies on tourism. The city forms part of the emerging Entebbe-Kampala-Namataba-Jinja corridor

**Mbale:** Mbale is located in the Eastern Region of Uganda, about 245km northeast from Kampala. It has a fairly dormant local economy following the exit of most agro-processing plants

following the SAP. It was previously an important industrial centre based on coffee processing and the textile industry. These state-owned enterprises (SOEs) were sold to the private sector under the Structural Adjustment Programme (SAP: 1989-93) with private capital later moving to Kampala. There has been a surge in informal activities following this decline of industrial activities. Furthermore, its proximity to the Kenya-Uganda border attracts a high number of Kenyan migrants looking for work in the town. It has a large number of religious educational institutions.

**Arua:** A border town in north-west Uganda, has a booming illegal trade with DRC and South Sudan. Trade between Arua and Ariwara, in eastern Congo, is at the heart of the wider regional trade. Arua is located in the Northern Region of Uganda, approximately 440km northwest of Kampala. Since electricity arrived in Arua three years ago, a small scale production base is emerging.

**Mbarara:** A trade hub with potential for growth under Vision 2020. It has already seen significant government and private investments in the surrounding rural economy and in modern processing plants. Mbarara: is one of the four regional cities to be established over the Uganda Vision 2040 period. In January 2016, President Museveni promised to grant Mbarara city status. Mbarara is the business hub of western Uganda, located 290 kilometres southwest of Kampala. Mbarara population has been growing at 8.09% per year during the 2002-2016 period.

**Hoima:** It is the focus of government's growth strategy for oil and gas industry and is one of the fastest growing secondary towns.

#### **1.3.4 Field research techniques**

There is very limited on-the-ground information available on the informal activities in secondary towns of Uganda. Some isolated studies have been undertaken (informal fishing in Jinja), and local NGOs like ACTogether, who work on informal housing. International funding has focused on aiding the informal operators in the rural areas and in the rural markets. The urban local governments are detached from the functioning of this sector and do not hold any systematic data on the informal economy. On the other hand, there is a growing international concern that the informal economy is becoming the mainstay, not only of the urban poor but of the educated unemployed in urban Uganda. This study is located in this wider context of concern. It was therefore essential to redress the issue of limited information, to some extent by selective field research, though limited by time and resource.

The research techniques used here are unstructured interviews; rapid participatory assessments, structured, questionnaire-based stratified random sample survey; mapping and enumeration of some of the street activities and qualitative interviews to develop in-depth case studies.

##### **(i) Unstructured interviews with local government officials**

In February 2016, the first field visits were made to the four cities of Arua, Jinja, Mbale and Mbarara (for logistical reasons, the team could not cover Hoima). Meeting with, and interviewing local government officials in the four towns were the first steps in carrying out any information gathering activity. There are two principal reasons. One, no survey or interviews with the public are possible in Uganda unless it is cleared by the local government and the team is accompanied by a government official; and two, it was important to establish contact with the local official and obtain their views and policies on the informal economy in their city. To facilitate these interviews, the central Ministry of Land, Housing and Urban Development informed the Town Clerks in all four cities visited, and

additionally, provided the team with supporting documents. FCA team for Uganda was led by the lead international researcher.

The Town Clerk is the most senior administrative person in the municipality. In all four cities, the Town Clerk invited his official to the meetings. The issues explored with the teams in the four cities related to: (i) the importance, and the share of the informal activities in their municipality; (ii) the nature and rate of growth of informal activities; (iii) the governments' perception of the poor and informality; (iv) whether their policies are helping or hindering informal economy; and (v) the initiatives the local government may have taken to help the local unemployed youths.

Once contact had been established, the Town Clerks provided support to the team to carry out the participatory assessment in urban areas and facilitated visits to the informal housing clusters. The list of officials interviewed is provided in Appendix 1.

### (ii) **Participatory Assessment**

In each city, the participatory assessments were undertaken in the second stage of this study in February 2016, following the interview with the local government officials. Reason and Bradbury-Huang (2008) describe participatory methodology as a research style, "an orientation to inquiry". There are various modes of participatory enquiry. Here participatory research is regarded as a methodology that argues the significance and the usefulness of involving research partners in the knowledge-production process (*ibid.*). The main research partners in this study are the operators in the informal economy.

Four cities of Arua, Jinja, Mbale and Mbarara were covered in the period of two weeks. Research on informal activities in Asia and Africa has shown that street trading in fresh produce and cooked food is concentrated in proximity to the main areas where there is high footfall. Other forms of trading in general merchandise and small scale processing are more scattered. Home based activities; and recycling and processing units are generally found in areas of informal housing. The team first identified main areas of concentration of informal activities in each of these cities, and then fanned out to cover the other activities and home-based processing.

A common and simple method for selecting these participants is called "purposive" or "convenience" sampling. This means selecting those members of the community one thinks will provide the best information. It is not random selection, but a purposive selection. In all four cities, lengthy discussions were carried out with individuals selected from different sub-sectors of activities in the municipality and in areas of informal housing. The aim of these discussions were to obtain an insight into reasons for entry; the resources that enabled them to enter into business; choice of activity; the backward and forward business linkages; their individual and household portfolio of income and enterprise; the constraints and potential; and the future plans. Equally, important was to assess their relationship with the local authorities and how government policy, or lack of it, was affecting their business prospects.

These discussions enhanced our knowledge base on how the informal economy functions in these small towns; helped to develop illustrative case studies; and provided the basis for designing the mapping exercise and questionnaire-based, random sample pilot surveys carried out in Mbale and Mbarara.

The decision to focus on these two towns were based on the following understanding:

- Mbarara is a fast growing town with significant central government and private investments. This would imply a clear potential to develop a thriving urban economy based on tourism, international and regional trade and the expansion of the agro-processing and other industries. An in-depth look at this city would provide an understanding of relationships between, and impacts of, a dynamic urban centre and its informal economy.
- Mbale, is a town growing very slowly, more due to natural population growth rather than any economic stimulus. The survey would enable an understanding of the impact of slow growth on the informal activities, and provide a basis for comparative analysis with Mbarara.
- Aura and Hoima were difficult to cover for logistical reasons. Jinja, falls between Mbarara and Mbale, in that it is a sleepy town, but it has an established tourist-based economy around the source of the White Nile; fishing off the coast of Lake Victoria and a large-scale brewery and a sugar producing plant.

### (iii) GPS mapping and enumeration

The mapping activity in the municipal areas was undertaken to enable the team to develop a spatial picture of the informal activities in the selected towns. This was based on the lists of the main locations for informal activities in Mbale and Mbarara, which were created during the visit in February. These lists were also the starting point for enumeration of street trading units. While the enumeration was being conducted, the team also noted the activities by type (See Annex 1A). This enabled the study to identify strata for the random sample survey. The summary results of the enumeration are given Annex 1B.

### (iv) Questionnaire based random sample survey

There are several stages to this activity which are defined below.

**Questionnaire design:** This survey questionnaire was informed by the research questions, theories and the need to fill gaps in information available. The main aim was to develop an overall understanding of informality in the secondary towns. As explained the survey focused on street trading.

Issues examined through the questionnaire were:

- The demographic composition in terms of gender, age, level of education and skills;
- The resource base of the operators in terms of invested capital and human and social capital;
- Reasons for entry and how long the interviewee had been in business;
- Income from the informal business and other sources of income; portfolio of household income and their strategies.
- The fee and payment structure for these informal operators in terms of municipal fees, tax, protection money; storage costs, fees to the local ‘tender’, membership fees paid to Associations and ‘stage’ money paid by *boda boda* drivers;
- Business links the units have in terms of forward and backward linkages; types of customers; their main buyer group; whether they are able to obtain credit from the middleman/trader; and the use of mobile money for business purposes;
- The main constraints and challenges faced by the informal businesses; and their future plans; and

- Whether, if any, help has been provided by the government or by any NGO.

**Sampling frame and size:** The sampling frame was based on the data collected by the enumerators. Ideally, a proportionate sample selection should have been undertaken. However, two issues needed to be considered: one, the constraints of limited time and resources; and two, the need to cover and capture the wide range of activities within these limitations. In these circumstances it was not feasible to do a rigorous sampling exercise. On balance, it was considered more important to capture the variety of trades, even though this meant only descriptive statistics could be used to analyse the data. Hence, purposive sample selection procedures were used. The sample, thus indicates the vast array of activities found on the urban streets and their **relative** occurrence.

Given the time-frame, a sample of 90 was drawn from each city. This given, the team used their judgement for a purposive sample selection to assign the numbers to be interviewed from each activity (strata).

**Random selection:** A rule of the thumb procedure was used to select the interviewees at random. In street based activities there is a tendency for operators vending the same service or product tend to cluster. Walking through such clusters, the interviewer selected every third person till they reached their target number.

**Implementation:** The surveys were implemented by the Ugandan team of this project, in Mbale and Mbarara in the second half of April. Each questionnaire-based interview took about 30 minutes to complete.

#### (v) Qualitative case studies

These studies were based on one-to-one or group interviews. The informal economy is more than street trading. It holds a large variety of activities. Since the survey focused on street based activities, it was important to cover other processing and trading activities. Additionally, the discussions with local entrepreneurs enabled a much deeper understanding of the linkages, constraints and challenges faced by them.

Several qualitative case studies were undertaken. These are:

In Mbale:

- A lorry driver who brings in vegetable to the main market in Mbale, and
- Second-hand shoe and garment seller.

In Mbarara:

- Two brothers who run a small carpentry workshop to make furniture which they sell at their showroom; and
- Informal brick makers.

In Jinja:

- The home-based jewelry making from re-cycled paper by women based in informal housing; and
- Fishermen, who operate small boats that can only ply along the coast, as against trawlers which can go into deep waters of the lake.

In Arua:

- A second-hand shoe seller who is also a farmer.

#### **1.4 Contributions to theory and methodology**

The desk-based research was in-depth, substantial and methodologically sound and has enabled detailed findings. However, the study identified a clear need to generate primary data. The local governments, while acknowledging the role of informality in their municipality, do not collect any information on informal activities. Research on informality has so far focused on “jobs in the slums”, and much of the official debate in Uganda, in the absence of relevant data, is on registering the informal activities is based on a deterrence rather than an enabling approach.

The methodology developed by this study has enabled an understanding of the role of informality in city growth; the importance as a source of livelihood; its demography and linkages, and has contributed to the theoretical debates and helped to identify different analytical groups in the two cities

Furthermore, the package of techniques-mapping-enumeration-survey- forms the basis of a methodology for an expanded research agenda. In order to develop pro-poor planning and policy responses in the fourteen secondary cities identified by FCA, it will be necessary to identify the dynamics, linkages, demography and the pervasiveness of the informal economy, in these cities. Generating primary, in-depth information will be fundamental to this. This methodology is the first step towards an analysis that will enhance understanding of the role of informality in city growth and identify pathways to incorporate it in the wider urban economy.

## **CHAPTER 2: TRANSFORMATIONAL CHANGE IN A HYBRID ECONOMY:**

### **A THEORETICAL FRAMEWORK**

#### **2.1 Introduction**

The stated aim in the Terms of Reference at the project level is ‘to fill crucial theoretical and evidence gaps, by collecting and analysing data on the informal economy and cities’ growth in Uganda, testing the relevant theories/models/hypotheses and methods of analysis and feeding the results into current academic and policy debates at national and international levels.’ Drawing on relevant policy documents and an extensive review of the academic and scientific literature (cited in the text and listed at the end of the chapter), which is broadly summarised here, this chapter describes the theoretical concepts and approach adopted in the study of informality and economic growth in the secondary cities of Uganda outlined in the remainder of this monograph. The chapter is structured as follows:

- Section 2.2 presents the basic argument and elaborates the issues;
- Section 2.3 briefly summarises the political economy context and the national policy framework of Uganda;
- Section 2.4 unpacks the key issues for the informal economy in Uganda;
- Section 2.5 examines the implications of the proposed approach;
- Section 2.6 presents a new and extended definition of the informal economy;
- Section 2.7 provides a reconceptualization of the urban informal economy;
- Section 2.8 looks at working towards transformational change through the hybrid economy approach and the need for policy to address the issue of the ‘missing middle’ in the economies of Uganda and other sub-Saharan African countries; it raises some question regarding structural change which are more fully explored in Chapter 3 as well as some theoretical implications for value chain analysis;
- Section 2.9 explores the implication for a multi-level approach;
- Section 2.10 examines linkages within the informal economy; while
- Section 2.11 analyses the concept of heterogeneity and the implications for multiple methods of analysis;
- Section 2.12 provides some brief conclusions and sets the direction for the analysis presented in the remaining chapters of this report.

#### **2.2 The argument and issues**

##### **2.2.1 Main research hypothesis:**

It is contended that informal economy will persist as an important space for the urban poor and not so poor, driven by rapid and on going urbanisation, and the challenges of overcoming the barriers to entry to formal markets in an impoverished urban environment. Globalisation is likely only to reinforce the processes and reinforce the persistence of informality whilst technological innovation presents both opportunities and constraints.

This persistence implies that the current linear and dualistic conceptualizations of informality should be replaced as it can be argued that these have held back the development of appropriate policies for the informal economy and its place in the wider economy as a whole. It is

important to understand what may need to be addressed beyond a simple legalistic approach to engagement with the informal economy where the main aim is to register informal activities.

This study proposes a re-conceptualization of the informal economy as the lower part of an economic continuum of what can be characterised as a 'hybrid economy'. In this continuum, heterogeneous business units are characterised by degrees of informality or formality, with complex inter-linkages apparent between the different elements operating at the same or different levels in the continuum. If this hybrid economy is likely to persist, then a more supportive stance is essential for the development of African cities.

### **2.2.2 Persistence of the informal economy**

The informal economy is widely recognised as a major force in African economies, contributing significantly to both Gross National Product and employment. It accounts for 55% of the GDP in sub-Saharan Africa and 80% of its labour force (AfDB, 2013). In Ghana, nearly 90% of the labour force comes from the informal economy (*ibid.*) In Uganda, the informal economy contributes 43% to the total economy and around 70% of employment (UBOS, 2012).

It has been remarked since the 1970s that the growth of cities in Africa, and more widely in developing countries, has been characterised by a twin development process where formal and informal 'sectors' grow in parallel. Explanations of this process range from modes of production (Mabogunje, 1965) and dependency theorist (Frank, 1972; Cardoso, 1972) who argued that such dichotomous growth was inevitable in a capitalist system and noted the exploitative nature of the formal-informal relationships, but offered few policy options; to the critics of 'modernisation' process who argued that the processes of industrialisation and investment in urban infrastructure, at the cost of the rural areas, led to strong rural-urban migration, swelling the informal economy.

The informal economy has become structurally integral to the urban system in growing economies in developing countries. With its low market entry conditions, it has provided opportunities to those with limited financial resources and skills. It has become the critical economic space that enables the poor and low-income households to construct enterprises and generate income and employment. It is estimated that the urban population in Africa will rise to about 700 million by 2030 (AfDB, 2014a) and it is expected that as the informal economy grows with urbanisation, it will become increasingly complex and critically important to manage and support.

The literature provides evidence from Africa to show the slow pace of industrialisation in moving labour from high-productivity sectors to low productivity sectors. The case of India, on the other hand, shows that growth in modern industrial activities has also increased the extent and dynamism of the informal manufacturing units. Clearly, the macro-economic growth does not translate into shrinking the informal economy (Chambwera *et al.*, 2011). India's growth rate has been around 6.5% for much of the last decade, but informal activities still account for almost 50% of India's GDP.

Mukherjee (2004), after reviewing the performance of informal manufacturing units in terms of growth, increased productivity and dynamism, in the context of pre-reform and post-reform periods, argues that informal activities can now be seen as the next engine of growth for the Indian economy. Informal activities, albeit at the lower end of the continuum, have a key role to play in creating a stronger urban economy as it provides access to livelihood opportunities for those with limited resources; and delivers cheaper goods and services to a wide range of customers.

The 2009/10 Uganda National Household Survey Socio-Economic Module report (UBOS, 2010) notes a substantial fall in the proportion of the workforce employed in the informal economy in Uganda between 2005/6 and 2009/10. However, on the basis of the average inter-census urban population growth rate, the estimated urban population in the 2005/6 survey was substantially higher than the census figures would indicate, so these data are questionable.

The ILO 2013 report notes the lack of available and consistent data internationally for tracking the proportion of people working in the informal sector or in informal employment over time. It notes a slight downward trend in the very small sample of countries available but with major variations. In Zambia, for example, the only sub-Saharan example given in the ILO report, the proportion in informal employment grew between 2005 and 2008, when the GDP per capita was growing at a rate of 3.5% per annum according to World Bank figures.[<http://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG>]

In Mexico, which experienced little or no average GDP per capita growth over the period, the share remained constant. This was similarly the case with India (apart from an anomalous spike in 2009-10) where, by contrast, the growth rate in GDP per capita averaged 4.7% over the decade from 2001 to 2010. Without sufficient data, the best that might be said is that substantial economic growth globally over this period has had no major impact on the share of the informal employment in the overall employment and certainly cannot be relied on to automatically replace informal with formal employment.

Empirical studies from the 1980s (Dasgupta, 1992; Moser and Marsie-Hazen, 1984; Bromley, 1978a, 1978b, 1984; Bunster, 1983) related the low national economic growth rates and consequent high youth unemployment and showed that the informal economy was a sink for the large number of these youths. A more recent explanation has come from Verbrugge (2015) who argues that the formal sector has a vested interest in maintaining the informality. In this respect, there are commonalities with labour market changes that are becoming evident in the more development parts of the global economy with the growth of the so-called 'gig' or 'sharing' economy and 'zero-hours contracts' in many cases serving to drive down labour costs. This suggests that future research might place stronger emphasis on examining the risk and insecurity aspects of economic informality.

The current development debate recognises the need to incorporate the new conceptions of informal economic development and the impacts of the new growth strategies on the trajectory of economic and social change. However, a review of the documents published by the Government of Uganda (GoU, 2013a) shows that the main thrust of their economic policy is focused on the development of the information technology sector and oil industry based on highly skilled workers. However, resource-intensive growth models, focusing on the expansion of the information and technology sector and technology-intensive industrialisation (e.g., the oil and gas sector), will only go to re-enforcing the processes that have created the polarisation of policy around the formal-informal sector division.

Internally generated urban population growth is likely to become an increasingly important factor over time with the ranks of the urban poor increasingly drawn from those born and bought up in urban areas. However, rural-urban migration remains the most important factor contributing to rapid urbanisation in countries with a relatively low level of urbanisation like Uganda. Strengthening of rural-urban links through the urban informal economy will remain an important livelihood option for the small agricultural households in the foreseeable future. Furthermore, as the case of the city of

Hoima illustrates, investment in the oil industry has attracted many more rural job-seekers, than work available. Most have joined the informal sectors of the local economy.

The informal economy is the space within the larger hybrid economy that enables the urban poor and low-income households to construct enterprises and generate income and employment. Given the lack of safety nets and social support system, these households have few options other than to enter the hybrid economy at the lower end with small market stalls, or operating from home. This is particularly true for women who are constrained by cultural and labour market discriminations; the need to balance productive and re-productive responsibilities and absence of family support.

The unemployment rate in Uganda has risen from 1.9% in 2005-06 to 4.2% in 2009-10 (UBOS, 2012); and the share of unemployed youth (18-30 years) stands at 64% (UBOS, 2012; cited in Ahabiwe and Mbowa, 2014). Sub-Saharan countries are facing a similar problem, as youth (aged 15 to 24) were twice as likely to be unemployed in 2013 compared to the adult rate (ILO, 2013a). Evidence shows that some of these youths have moved, and are moving, into the informal economy.

The main hypothesis drawing on this analysis, is thus that these principal processes will continue to swell the informal economy in sub-Saharan Africa and in Ugandan cities in the near future. It will remain an integral part of the larger urban economy providing employment and income to the vast majority of the urban population.

In well-functioning national state and local governance, policy makers need to be informed about and grasp the problems of the informal economy. If the aim is to generate inclusive, equitable and sustainable change, it will be fundamental for national and local governments to address the issues arising out of informality directly in a constructive manner. Continued neglect could lead to a decline in the living and working conditions of the majority of the urban poor; deteriorating urban environment and increasing economic disparities.

The current positivist approach focuses only on modern sector growth, in the belief that the informal economy will disappear with economic and industrial growth. This will reinforce the economic disparity, strengthen the elitist control of the economy, encourage poor governance and low accountability; and urge informal development and exploitation of the poor. Such exploitation will further exacerbate inequalities amongst the poor'. (Peake and Rieker, 2013)

### **2.2.3 Increasing heterogeneity**

It is argued in the study that the informal economy is getting progressively more heterogeneous in terms of demographic groups entering the sector, in types of linkages (including many cross linkages to the formal sector) and in the variety of economic enterprises. Each group brings different knowledge and skill sets leading to an increasing variety of enterprises in type and size. Small and medium size enterprises (SMEs) and micro enterprises provide goods and services to consumers and businesses alike and can be important links in the supply chain to larger, formal sector enterprises. The growing heterogeneity makes the informal economy dynamic, but it also limits cohesion and collective representation in urban politics. *Any future research agenda directed towards policy measures to enable better management of, and support to the informal sector will need to take on board this growing complexity and heterogeneity.*

One of the sources of heterogeneity, as noted above, is the entry of multiple demographic groups. The initial review of the literature underscores the argument that formal economic and regulatory frameworks have not been responsive to demand for jobs. This trend is generally

attributed to the nature of economic growth which is technology driven and is creating inadequate employment for the youth. Here, the informal economy has acted as an, often inadequate, sink for the unemployed, educated young job seekers. This path to urban livelihood creation is of growing importance as educated youth unemployment rises in Uganda.

According to an ILO's report (2013b; cited in CSD and CRPM, 2014), 'Informal workers face lower earnings and higher risks, are less likely to enjoy economic opportunities and legal protections, and are less able to exercise economic rights and collective voice.' Furthermore, the sector is also associated with vulnerability, gender-related wage differentials, often-hazardous working conditions, pollution, limited access to credit and absence of land rights, among others.

However, the informal economy is also an important space for locating enterprises to build and strengthen the rural-urban linkages for new migrants and agriculture-based activities. Furthermore, new investments in resource and technology-intensive industries (like the oil industry in Hoima) attract job-seeking rural migrants with limited skills, most of whom eventually join the informal sector.

Since Hart's (1973) initial perception of the dichotomy of the formal and informal, the debate has moved on towards seeing the informal sector as comprised of a myriad variation in the type of firms and entrepreneurs on a continuum. There are various ways this heterogeneity can be unpacked. However, given the limited time and that the overarching aim is to inform the future research agenda, it is proposed that this project looks to identifying the potential for change in informal economy.

Grimm *et al.* (2012) note that focusing on small group of successful enterprises and a larger group of struggling entrepreneurs, may avoid the one-size-fits all approach, but it inhibits identifying other segments of informal entrepreneurs. They identify three groups:

- a) Top performers;
- b) A group of constrained entrepreneurs who are not yet successful, but share several characteristics with the first group; and
- c) A group of 'survival enterprises' with fundamentally different characteristics.

This approach is unbiased by sector, gender or size of enterprise and would pick up the variety of sub-sectoral units. It is proposed that this approach be a starting point for unpacking the heterogeneity to identify potential for intervention. This raises the question of how to develop criteria for separating out constrained entrepreneurs so that they can benefit from targeted intervention to unlock their potential?

The challenge for research is how to inform strategies to

- Assess and indicate the data needs to develop a representative sample from different cities, which would be multi-sectoral and cross-country.
- Assess data needs to establish and link the relative size of the three groups to the sectoral composition and the macro-economic environment in Uganda; and
- Assess data needs to identify the social, economic and institutional constraints for each group.

By identifying the data available and thus, the gaps, this project provides the baseline information for more in-depth study in the next phase of this FCA programme.

### 2.3 Political economy and the national policy framework in Uganda

Uganda is characterised by a lack of institutional engagement with the informal economy, a feature it shares for the most part with other sub-Saharan countries. The consequences are little understanding of how this part of the economy works and what can be done to assist it. There is little or no appreciation of skills and capabilities that exist, or what could be done to further develop the skills base. Furthermore, it is argued that the Ugandan government's failure to support private sector, small enterprise development has resulted in the 'missing middle' in its industrial economy. South Africa and Kenya have encouraged such development to address the imbalance. The role of informal processing and manufacturing in enhancing growth and creating a more equalised system is exemplified by the case of India.

The informal economy is largely invisible in the national policy agenda. A review of the Vision 2040, finds no reference to it. If the policy objective is to reduce urban poverty and inequality, it is essential to understand the different income-poverty linkages that are found in the urban economy. The policy neglect of this sector can be attributed to Uganda's political economy, with a small, elitist policy community dominating policy-making. Tanaka (2010) argues that this community rarely values the resources and skills of the informal economy while it continues to exploit it. Furthermore, while it is an important vote bank, the informal economy's limited representation in urban politics keeps it nearly voiceless.

The Second National Development Plan 2015/16 – 2019/20 (NDPII) affirms that a draft National Social Protection Policy, which aims to expand the country's social protection system, has been developed; and that key priorities will include expanding direct income support schemes for poor and vulnerable groups; and expanding access to contributory social security schemes for workers in the informal sector

The National Employment Policy for Uganda (2011) notes that informal employment constitutes 67% of the total employment outside agriculture. It further affirms that:

*“The informal sector will continue to be a major employer for some time and more information is required that covers the full range of its activities, as well as trends in its capacity to generate decent wage earning opportunities.”* (GoU, 2011: 9)

The policy expresses the Government's concern with youth unemployment and underemployment in the country—especially because the youth constitute the greater proportion of the labour force and the vast majority of the new entrants into the labour market. Thus, through the policy, the National Action Plan for Youth Employment will be developed and implemented to support young people, particularly women, to transition from informal to formal employment through improved access to training, business development services, and access to affordable microfinance.

The Uganda Government's vision of the Uganda Micro, Small and Medium Enterprise (MSME) Policy (GoU, 2015) is 'A critical mass of viable, dynamic and competitive MSMEs, significantly contributing to the socio-economic development.' MSMEs, as defined in the policy, include all types of enterprises irrespective of their legal form (such as family enterprises, sole proprietorships or cooperatives) or whether they are formal or informal enterprises. There is some question here, in relation to the ILO definition given previously, about the role of contributing family working in family-based enterprises not covered by social protection and this will need clarification in the research.

The policy affirms that the majority of enterprises within the MSME sector operate informally. It further asserts that:

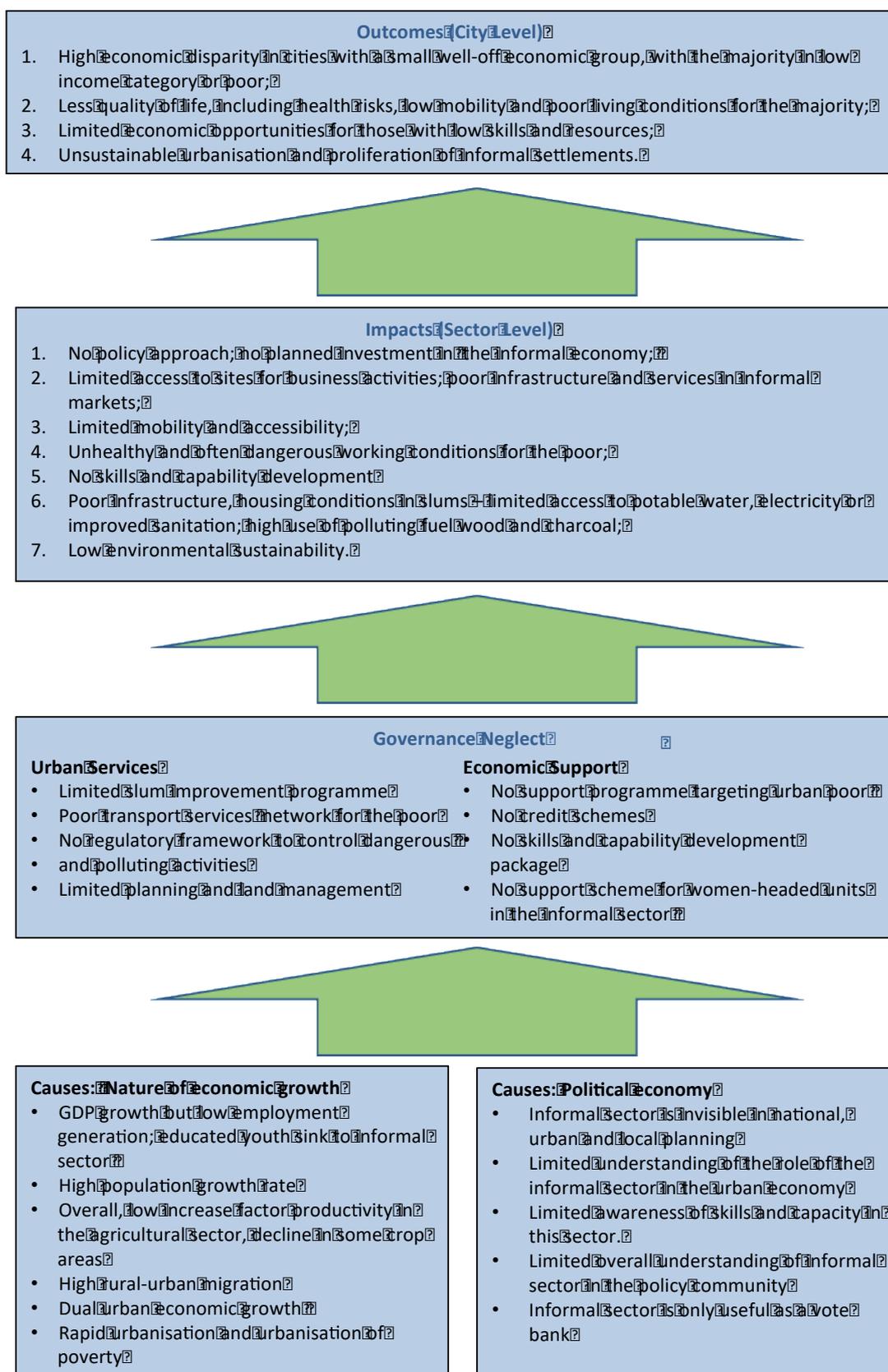
*“This high incidence of the informal economy in all its aspects is a major challenge for the achievement of growth and expansion of the enterprises, enterprise productivity, and working conditions and has a negative impact on the development of sustainable enterprises, public revenues and government’s scope of action, particularly with regard to economic, social and environmental policies, the soundness of institutions and fair competition in national and international markets.” (GoU, 2015b; 6)*

Under the policy, the Government will encourage informal MSMEs to formalize their operations in order to benefit from legitimacy through government protection. “Implementing the benefits of legitimacy”, it is strongly argued in this study, is key to turning the informal economy from a challenge into an opportunity.

## **2.4 Unpacking the issues – the problem tree**

The structural approach to un-packing the issues to be addressed in the urban informal economy is illustrated in the Problem Tree diagram (Figure 2.1). Based on the initial literature review and the understanding of the evidence on the ground, it is argued that the main drivers of the informal economic growth are the nature of economic growth itself which is creating fewer jobs in larger formal enterprises, rapid urbanisation and continuing rural-urban migration, and persistently high levels of urban poverty.

This leads to the argument (discussed in detail below) that these three principal processes will continue to swell the informal economy in Ugandan cities in the near future.



**Figure 2.1: The problem tree**

Informality will remain an integral part of the urban economy providing employment and income to the vast majority of the urban population.

The informal economy has no place in Uganda Vision 2040. It is virtually invisible in national and local planning processes and there is limited institutional engagement at the national level. Furthermore, the heterogeneity in this part of the economy, due to diversity in demographic, socio-economic, size and type of activities, reduces cohesion and limits representation in urban politics and planning priorities.

This leads to limited understanding of how the informal economy works and how to assist it; with little appreciation of skills and capabilities that exist within it; and what could be done to further develop these. Issues of informal land development, growth of un-serviced slums, where most informal units are located, are leading to appalling and often dangerous working conditions. The sector-level impacts are institutional neglect with the outcome of increasing economic disparity, persistence of alarming living and working conditions for the poor, and unsustainable urbanisation.

The Problem Tree encapsulates causes of the persistence of informality, its continuing institutional neglect and the issues of urban and economic governance.

## 2.5 Implications of the proposed approach

Given the re-conceptualization of the informal economy proposed in this study, it is important to understand what may need to be addressed beyond a simple legalistic approach to engagement with the informal sector where the main aim is to register informal activities. If the hybrid economy is likely to persist, then a more supportive stance may be essential for the development of African cities.

This implies that linear and dualistic conceptualizations of informality should be replaced as it can be argued that these have held back the development of appropriate policies for the informal economy and its place in the wider economy as a whole.

**Terminology used:** Moving away from the dualistic approach to a concept based on continuum, has implications for the terminology that is used. The focus is on informality; this study will use the term formal and informal to relate to the activities along the scale, and also to relate to the debates related to these issues. However, it will move away from the notion that informality constitutes a different sector. The governments in Africa, and more specifically in Uganda, define informal units as those not registered with the relevant authorities. This definition is accepted as it will avoid confusion during the policy development stage research supported by Cities Alliance.

**Multiplicity of approaches needed:** Units at all levels of informality need help. However, research has shown that there are different levels of complexities in the way informal activities are conducted. Understanding these difference means developing/using multiple methodologies to unpack these complexities and heterogeneity. Furthermore, making changes, means the poorest and the most vulnerable are most likely to lose out as they do not have the means to participate in the change.

## 2.6 An extended definition of the informal economy

The definition adopted in the Inception Report was based on that employed by the International Labour Organisation (ILO, 2003). The *informal sector* refers to *informal enterprises*; informal employment refers to informal jobs – specifically own account workers, employees and employers, contributing family members and members of producers’ cooperatives working in informal enterprises.

This conceptualisation is based on the resolution of the Fifteenth International Conference of Labour Statisticians (ICLS) in 1993 relating to the definition of the **informal sector** and its statistical measurement. This definition is based on

*“Economic units as observation units, and refers to employment and production that take place in unincorporated small or unregistered enterprises (for example those having less than five employees).”*

The 17th ICLS in 2002 broadened the concept of the informal economy beyond the informal sector to include all informal employment.

*“**Informal employment** now refers to all employment arrangements that do not provide individuals with legal or social protection through their work, thereby leaving them more exposed to economic risk than the others, whether or not the economic units they work for or operate in are formal enterprises, informal enterprises or household.”*

The International Classification of Status in Employment (ICSE-93) is used to further classify workers within formal or informal employment as follows:

*“Persons employed in the informal sector (including those rare persons who are formally employed in the informal sector):*

1. *Employers in informal enterprises;*
2. *Employees in informal enterprises;*
3. *Own-account (self-employed) workers in their own informal enterprises;*
4. *Contributing family workers working in informal enterprises; and*
5. *Members of informal producers’ cooperatives.* <sup>[SEP]</sup>

*Persons in informal employment outside the informal sector, specifically:*

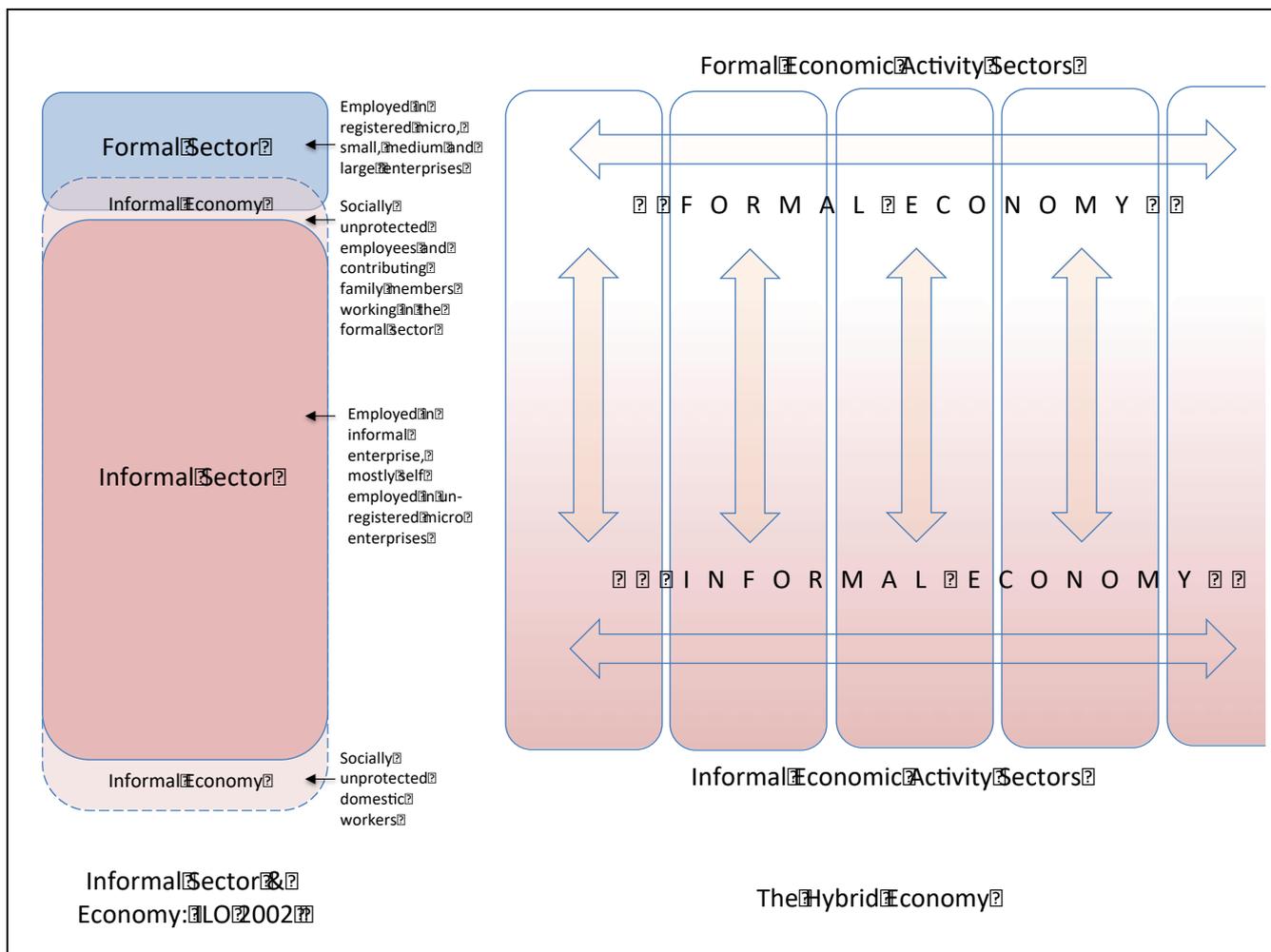
6. *Employees in formal enterprises not covered by social protection through their work;*
7. *Paid domestic workers not covered by social protection through their work; and*
8. *Contributing family workers working in formal enterprises.”* <sup>[SEP]</sup> (ILO, n.d.)

The fieldwork in the study has taken the ILO’s definition of the informal sector as its starting point. However, in line with the wider set of ILO definitions, *The Uganda National Household Survey 2009/2010, Socio-Economic Module, Abridged Report* includes a section on the informal sector and informal employment (pp143-154). These are the most recent official statistics available from the Uganda Bureau of Statistics on the informal economy in Uganda. Some of the key statistics within this part of the survey analysis cover informal employment as defined by the ILO and not the informal sector hence we outline the wider set of ILO definitions here. The 2012/13 UNHS report includes the following definition for employment in informal sector outside agriculture (some data on agriculture are also included in this section):

- *Employees in establishments with less than 5 employees*
- *Employers, own account workers and unpaid persons in household businesses not registered for income tax or value added tax.*

It is assumed that not being registered for tax applies to all self employed people in this category whether employers or sole traders.

According to the ILO’s 2013 definitions, “*the informal economy* comprises diverse workers and entrepreneurs who are not often recognized or protected under national legal and regulatory frameworks. Viewed through the lens of what the ILO defines as Decent Work, the informal economy can be seen to encompass a broad range of vulnerabilities, such as limited access to social protection, denial of labour rights, and lack of organization and representation. On average, informal workers earn far less than formal workers. In other words, most informal workers suffer from significant decent work deficits.”



**Figure 2.2: Two conceptualisations of the informal economy**

The informal economy represents those individuals, enterprises or business units operating in the lower (less or unregulated, micro enterprise dominated) part of an economic continuum of interlinked business operations that can be characterised as a ‘hybrid economy’ (Figure 2.2). The informal economy is comprised of industry-specific ‘informal economic sectors’ within which the identifiable business units operate, Together with persons employed informally outside these units, these make up the informal economy as a whole.

While we use the term ‘informal economy’ in this monograph in reporting on the fieldwork, though more open-ended, this is broadly in line with the ‘informal sector’ as per the ILO definition, as no individuals operating outside of the business units as defined by the ILO were interviewed. Additionally, however, there is a huge diversity of economic activity evident in the informal economy from existing studies and the primary research carried out in the study, with the cross linkages within economic sectors across the continuum of the hybrid economy. Thus, it is more

accurate and useful to refer to ‘informal economic sectors’, part of wider trades or industrial sectors, in which identifiable business units operate as components in of the informal economy, rather a single ‘informal sector’.

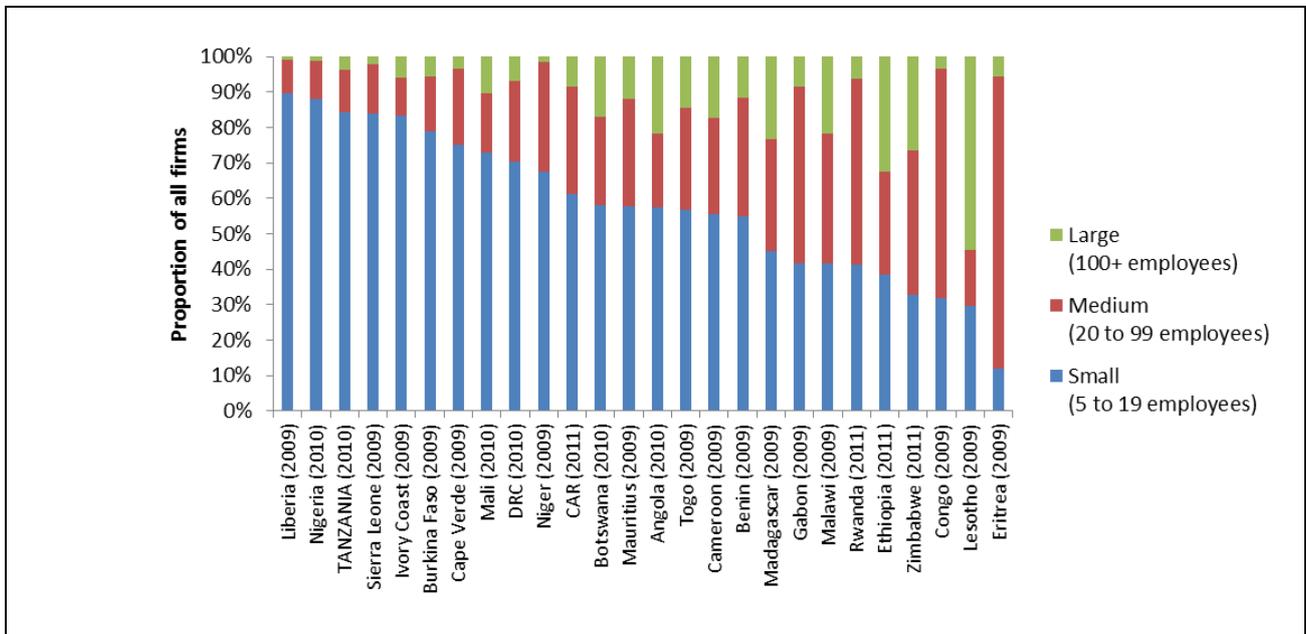
The legalistic definition, as noted, is enterprises that are not registered. While this can be taken as a starting point, it doesn't begin to tell the whole story. Other characteristic features include size of enterprise, informal enterprises are small – captured to some degree by the data on micro, small and occasionally medium size enterprises and low market entry cost. In some areas of activity, the business units may have some form of registration or another, but the industry as whole is largely unregulated. Informal public transport services are a case in point. The fieldwork being undertaken as part of this study is intended to build up a baseline profile or profiles of these low productivity, small enterprise, low-cost market entry economic activities, and how they draw on the diversity of entrants into the informal market sector.

Figure 2.3 gives an indication of the size of firms across sub-Saharan African countries according to World Bank analysis. Uganda is not listed among these and there appears to be no definitive data. The National Small Business Survey of Uganda (2015) carried out a survey of more than 1,800 firms. This is indicative of the size distribution in this segment of the economy and assuming that the proportion of larger firms is far smaller. It is likely that informal enterprises were under-represented in this survey. In the Uganda survey micro businesses are defined as those with four or fewer employees, small businesses those with five to nine employees, while medium-size businesses have ten to twenty employees.<sup>1</sup> 71% of the sample was defined as micro, 18% small and 11% medium.

20% of the firms were not registered at all, with non-registration four times more common among micro than among medium-sized enterprises. Of those that were not registered, 35% said that the business does not make enough money while 21% said that it would cost too much, and almost one in ten admitted they wanted to avoid paying tax. 26% claimed they did not know how to register and 25% that the registration process was too complicated. Enterprises can be registered at different levels. Medium sized businesses tend to be registered at national level, for small businesses the situation is quite balanced between national and local, while for micro businesses district level is far more common. 16% of micro businesses said they are registered in ‘other’ undefined ways.

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<sup>1</sup>Although these terms are in general international use, there is no commonly agreed definition of them. Uganda has a very narrow range of sizes. The European Commission defines medium size enterprises as having between 50 and 250 employees and a turnover of €43m or more, in Canada it includes enterprises with up to 500 employees, in other countries turnover and/or value of assets are key criteria. According to a recent AfDB Report (Calice *et al* 2012) accepting there is no single definition of SMEs, “in both advanced economies and developing countries SMEs contribute on average 60% of total formal employment in the manufacturing sector (Ayyagari *et al*, 2007). For African economies, the contribution of the SME sector to job opportunities is even more important. Taking into account the contribution of the informal sector, SMEs account for about three-quarters of total employment in manufacturing (Ayyagari *et al*, 2007).”



**Figure 2.3: Predominance of small firms in sub Saharan Africa**  
 (Source: World Bank data, Nigeria Urbanization Review, 2013)

However, being registered does not automatically imply a duty to pay tax if due. To be able to pay government taxes, a business is required to have a tax identification number. Among the MSMEs interviewed, only 25% of the businesses said they have a tax identification number. More than half (51%) of the medium sized businesses have a tax identification numbers, compared with only 37% of small and 18% of micro businesses (see also the situation regarding the limited tax liability among informal enterprises in Zambia – footnote 1, p13).

As noted in Chapter 5, the issue of registration is at the top of Uganda’s urban agenda. The over-riding aim of current governments in Africa is to register and then tax informal activities, without offering any social or economic benefits in return, such as permanency of site. There is little interest in poverty reduction and social development, but a pre-occupation with physical planning and increasing the tax base. This approach fails to distinguish between legitimate activities of the poor and vulnerable, from the tax avoidance activities of some.

Nevertheless, our analysis in Chapter 5 has shown that more than half the owners see benefits accruing from registration. Being a registered unit, means access to cheaper credit, improved premises, and better scope for growing their business. Policy reforms relating to registration, therefore, should work to strengthen and demonstrate the potential benefits,

## 2.7 A reconceptualization of the urban informal economy

### 2.7.1 Current understanding

African cities are complex, and each is characterised by a unique set of political, social-economic and environmental circumstances and history. Informal activities are part of this complexity; they vary among cities by size, function and economic importance, and, more particularly, by the nature of their linkages with other sectors of the urban economy.

Informality in urban activities date back to the colonial period, but the recent dramatic growth of these activities can be related to the impact national macro-economic and industrial

policies, in particular the Structural Adjustment Policies (SAPs) of 1980s and 1990s. Informal activities continue to fill the gaps left by the formal sector. While informal economic activities support the largest number of people in urban centres, they are, however, little understood and mostly undervalued by African policy makers.

The current and dominant view held by many city officials is to ‘register’ informal units, and so formalise the informal (Chen, 2007). This view was encountered during the initial field visits to four secondary towns and in discussions with the senior local government and ministry officials. This view most likely indicates:

- i. A lack of understanding of informality and the possibility that it will persist and continue to grow in the near future; a view that has been fed by the dualistic debates surrounding the issue of informality;
- ii. A legalistic approach, where the over-riding aim is to register and then tax informal activities,<sup>2</sup> without offering any social or economic benefits in return, such as permanency of site; and
- iii. Little interest in poverty reduction and social development, but a pre-occupation with physical planning and implementing regulations; a vestige of the view that all sectors must ‘modernise’.

### **2.7.2 The debate over the dualistic concept of informality**

There have been multiple explanations for the *raison d’être* of informal activities, but the most influential was the dualistic concept of urban economies in the developing world, and also the marginal concepts of small-scale activities propagated by Boeke (1953), Lewis (1955), McGee (1971, 1967); in their studies of southeast Asian economies. The ‘formal’ was characterised as the capitalist mode of production, modernising, progressive and capital intensive, while the ‘informal’ as subsistence and peasant sector; the marginal sector characterised by pre-capitalist mode.

These models strongly influenced the formulation of the informal-formal sector concepts by Hart (1971) and ILO (1972); the two-circuit system of Santos (1971); the two juxtaposed systems of production by McGee (1971, 1967) and the Marxist analysis of capitalist mode of production exploiting the pre-capitalist petty commodity sector (Laclau, 1971). Dependency theorist (Cardoso, 1972; Frank, 1972) argued that such dichotomous growth was inevitable in a capitalist system and noted the exploitative nature of the formal-informal relationships.

Peattie (1980) and Portes and Schauffer (1993) note that Hart’s (1971) observation of the notable dynamics of the self-employed entrepreneurs, was lost in ILO’s (1972) definition of the informal sector, which stressed the low barriers to entry in terms of skills and capital requirements; family ownership; outdated technology and unregulated and competitive markets. According to this view, the economic goal of the entrepreneur was to ensure survival, in contrast to goal of the capitalist enterprise which is to generate and accumulate profit (Tokman, 1978). Another important contribution to the debate came from De Soto (De Soto, 1989); who from a legalistic perspective

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<sup>2</sup> It should be noted that this view regarding the lost tax potential of the informal sector may represent a misconception by both the authorities and the informal operators. A recent study in Zambia, for example, indicated that, if all informal businesses were registered, only 8% would actually fall into the tax bracket (Kedia Shah, 2012. *The Informal Sector in Zambia Can it Disappear? Should it Disappear?*)

attributed the growth of the informal economy as a rational response to excessive regulation of the economy. His prescription was to assist the micro-enterprise, a view supported by the World Bank.

According to Rakowski (1994, cited in Mitullah *et al.*, 2013), rooted in this legalistic perspective, neo-liberalists, particularly the World Bank, equally embraced the idea of dualism and location of some economic activities and actors on the economic periphery. This perception was further reinforced, when dualistic ideas segued into modernisation theories (Potts, 2008), which argued that the informal sector would be transformed/diminished by the growth of the modern sector. Empirical studies from the 1980s (Bromley, 1978a, 1978b, 1984; Bunster, 1983; Dasgupta, 1992; Moser and Marsie-Hazen, 1984) emphasised the links of these the two sectors as they related the low national economic growth rates and consequent high youth unemployment, and showed that the informal sector was a sink for the large number of these youths.

The early critics of dualism were Bremen (1976) and Peattie (1987) who argued that this variant of dualism was theoretically weak, because, while it notes two different sectors it fails to define them because of their multiple linkages and associations. They further note that notions of formal-informal became popular with international organisations as it responded to the gap in the working apparatus of development economics. Their influence has been considerable and long lasting. More recently Meagher (2001) and Potts (2008) note these dualistic conceptualisations rested on an exaggerated sense of dis-connection between the sectors.

The main points that emerge from this review are: (i) the emphasis on the negative aspects, i.e., low skill and capital, backward technology, un-regulated activities, over-shadowed the dynamism of the self-employed entrepreneurs which was noted by Hart in 1971; (ii) despite noting the multiple linkages across the urban economy and the inability to define it or draw boundaries, the emphasis by the dualists was on the ‘dis-connect’ between the formal and informal; and (iii) once the dichotomous view was adopted and propagated by the international organisations like the ILO and World Bank, they continued to dominate the debate and influence policy approaches and policy makers.

### **2.7.3 Long term impacts of this dualistic approach**

**Formalising the informal:** The dualistic concepts and the modernisation theories led to the conviction among African policy makers that informality would disappear with the growth of capital and resource intensive industries. This has been taken to imply that there is little the government is required do to directly assist the informal economy. However, the recent pressure from donor agencies to improve local governance and generate more revenue, has led to the current and dominant view held by many city officials to ‘register’ informal units, and so formalise the informal. This view was encountered during the field visits to four secondary towns and in discussions with the senior local government and ministry officials. The provenance of this debate on formalising has its roots in the legalistic approach.

Within the dualistic framework the informal economy was variously defined. Of relevance here, is the distinction between ‘legal’ and ‘illegal’, the latter trying to evade taxation or failing to comply with the state regulations. De Soto (1989), from a legalistic perspective attributed the growth of the informal economy to the rational choices made by entrepreneurs as a reaction to the excessive regulation of the economy. His prescription was to assist the micro-enterprise.

However, subsequent research emphasised the illegality, while ignoring the need to help informal businesses. This included Loayza's (1997) work for the World Bank and the study by Schneider and Enste (2000) for the IMF. Thus, within this legalistic approach, the informal economy is seen purely in terms of tax evasion or avoidance; hence the need to eradicate and/or punish (Sepulveda and Syrett, 2007). This approach is still a strong influence on policy making in Africa, rather one of enabling as had been proposed by De Soto (1989).

The over-riding aim of current governments in Africa is to register and then tax informal activities, without offering any social or economic benefits in return, such as permanency of site. There is little interest in poverty reduction and social development, but a pre-occupation with physical planning and increasing the tax base. This approach fails to distinguish between legitimate activities of the poor and vulnerable, from the tax avoidance activities of some. Furthermore, discussions with local governments officials showed that the pressure on in Uganda by donor agencies to generate more revenue is reinforcing the traditional orthodoxy and their policy to register informal units without offering any social or economic benefits. This approach could be punitive and focuses on only a section of the informal economy and does not lend itself to a holistic, comprehensive and enabling approach proposed by this study. This pervasive view held by researchers and policy makers has implications for developing an enabling policy for the informal economy.

Joshi *et al.* (2013) argues that encouraging tax compliance demands, not only lowering costs but also strengthening the potential benefits of formalisation, from increased security to new economic opportunities. Equally important for successful reform is political support from political leaders, tax administrators and taxpayers alike. This demands greater attention to strengthening political incentives for reform, through strategic policy, administrative and institutional reform. In a similar vein, Chen *et al.* (2006) have argued that the multi-segmented nature of the informal economy, and average earnings and poverty risk associated with working in the different segments require a more nuanced economic approach.

**Dualism and the political economy:** The dualistic notions have also influenced the political economy of the sector. Since it is considered ephemeral, the African policy community continues to ignore it, with hardly any institutional engagement at the national level. Page (in Sy, 2016) notes that the single most important contribution in Africa would be the recognition of this vast sector of low paid jobs. The informal economy is largely invisible in the national, local and urban planning agenda; i.e., Uganda 2040 Vision.

Policy making in Uganda is dominated by a small, elitist policy community. Tanaka (2010) has argued that this community rarely values the resources and skills of the informal sector while it continues to exploit it. Furthermore, while it is an important vote bank, the informal sector's limited and segmented representation in urban politics keeps it nearly voiceless. Brown *et al.* (2014) also noted the weak and fragmented representation in street trading in Senegal, Ghana, Tanzania and Lesotho.

To sum up, the policy context for the informal economy now in Uganda, is either to do nothing, or if any action is taken, it is aimed at deterring rather than enabling.

#### 2.7.4 Reconceptualising informality

Given this, it is important to reconceptualise informality in light of the growing theoretical momentum that has built up over the years arguing for a shift in the way informality is conceptualised. Elsewhere in this report, evidence is presented to show that informality is a feature of the modern capitalist system as it continues to grow with economic slowdown and with rapid economic growth. The further major point argued in this study is that drawing boundaries is arbitrary and has no explanatory power as number and types of linkages between informal activities and the urban, regional and global economies continue to grow.

Chen (2007) first floated the notion of an urban continuum and concluded that the two ends are often dynamically linked. Based on the panel component of the Labour Force Survey (LFS) in South Africa, Valodia & Devey (2012) conclude that there is a high level of interaction between formal and informal work even at the lower end of the labour market. At the household level too, access to stable employment in the formal economy is associated with higher levels of earning in the informal economy. Mitullah *et al.* (2013) also argues that individuals work across sectors depending where employment and enterprise opportunities are available. Our fieldwork (March 2013), discussed below, supports these arguments. Bigstein and Kayizzi-Mugerwa's (1992) work in Kampala revealed government officials engaged in urban agriculture and other informal activities. All this implies that linkages that exist along the continuum can take various forms. These can be as:

1. Individual transactions: where informal enterprises or persons exchange goods and services with formal enterprises, where the more competitive firms control the transaction;
2. Sub-sector of units which produce/process goods to distribute and sell to customers from both formal and informal economy (Chen, 2007); and
3. Informal units which are part of a value chain stretching across the continuum.

Piore and Sabel (1986) in the context of globalisation of production, notes that increase in sweatshop production over the last couple of decades has shaped new links between informal units, the wage workers and formal businesses. Sweatshop production is by workers who are paid by units of output and deprived of minimum wage and basic health and safety standards in informal units. Mitullah *et al.* (2013), argues that these linkages mean that the dividing lines between the formal and informal are getting increasingly blurred.

Furthermore, all so-called 'unregistered' units pay some kind of fee to the local tender (who has access to the use of public land) and pay protection money. This renders the legalist's argument invalid.

Chen (2007) takes this further to note, that it is not only a continuum for employment relations; but that the informal economy is a continuum of economic relations of production, distribution and employment. Here the entrepreneurs and workers, depending on their circumstances, move with varying speed and ease along the continuum, and operate simultaneously at different points in the continuum. Hence, the economy cannot be viewed as marginal or peripheral, but as a basic component of the total economy.

To sum up, recent research and field experience show that rigid dualism is not a useful basis on which to carry out a comprehensive analysis of those parts of the economy that demonstrate informal characteristics to varying degrees. This view is further re-enforced by the growing evidence

of linkages cutting across the formal and informal economies at individual and sub-sector levels; and by value chains which stretch across the urban economic continuum. Additionally, the difficulties of drawing boundaries to carve up a continuum of activities has been increasingly acknowledged.

While accepting the contribution of the dualistic approach to increased understanding of informality, these concepts have resulted in the questionable conviction that the informality would disappear with the growth of capital and resource intensive industries. It is argued that the resurgence of interest in informality is a recognition of its permanence, that it is not short term but is a feature of the modern capitalist system. Furthermore, the economy cannot be viewed as marginal or peripheral, but as a basic component of the total economy (Chen 2007).

### **2.7.5 Locating the continuum within a hybrid economy**

There is growing evidence to support the view that informality will persist in the 21<sup>st</sup> century and that formal and informal are parts of a long continuum of economic activities. As per the generic definition of a continuum, this is something that changes in character gradually or slightly without clear dividing lines. In the urban continuum, there are those with resources (skills, capital and network) who are able to locate at the upper end of the continuum. As the resource pool of the individual and/or a household decline, they find a place lower down in the continuum. They enter the continuum at a point where they can plug into the urban economic space, with their given resources. Under this concept, the urban continuum is an economic space for those with, and for those with fewer resources. This has implications for how the urban economy is perceived.

This leads to the concept of a *hybrid* economy. A hybrid economy is an economic system that involves a more or less equal focus on different economic parts/activities. A hybrid economy will draw on the strengths of each major component while also minimizing the weaknesses inherent in any single approach. Chen (2012: 20) had called for a “new economic paradigm, the hybrid economy which would embrace the traditional and modern, the big and the small scale and formal and the informal.” However, her emphasis was on how this might improve the production and employment relations of informal entrepreneurs and workers.

The vision in this research is broader. It goes beyond just changing employment relation. It has been posited that to achieve sustainable and equitable development, the informal units need to be assisted to strengthen their value networks, so that they can move up the continuum. Strengthening the informal economy will strengthen the whole urban economy. Such a change is only possible when it is accepted that all parts of the urban continuum make a contribution to the overall economy and hence, deserve equal importance.

Figure 2.4 provides a preliminary conceptualisation of the hybrid economy that articulated the conceptual framework outlined in Figure 2.2. Within the limited scope of this study, there is insufficient data to attempt to complete the boxes in the lower part of the diagram and to test the model. A start has been made analysing the returns from the questionnaire surveys and the qualitative research carried out in the case study cities. This is described in chapter 5. The analysis in that chapter employs Chen’s model of vertical heterogeneity that, given further data, provide some basis for correlation with the categories indicated in figure 2.4. The findings of our research indicate a rather different model (figure 5.30- 5.33) than that proposed by Chen although the pyramid model is certainly likely to vary according to context. In general terms, the evidence indicates that sole operators owner-based business model predominates in the informal economy. In Mbale, 87% are sole owners; 8% are in partnership and only 1% claimed to be part of the family business. 4% noted

as other, without specifying. In Mbarara: 93% are sole owners; 2% are in partnership; and 3% are the in family business. (2% are non-respondents).

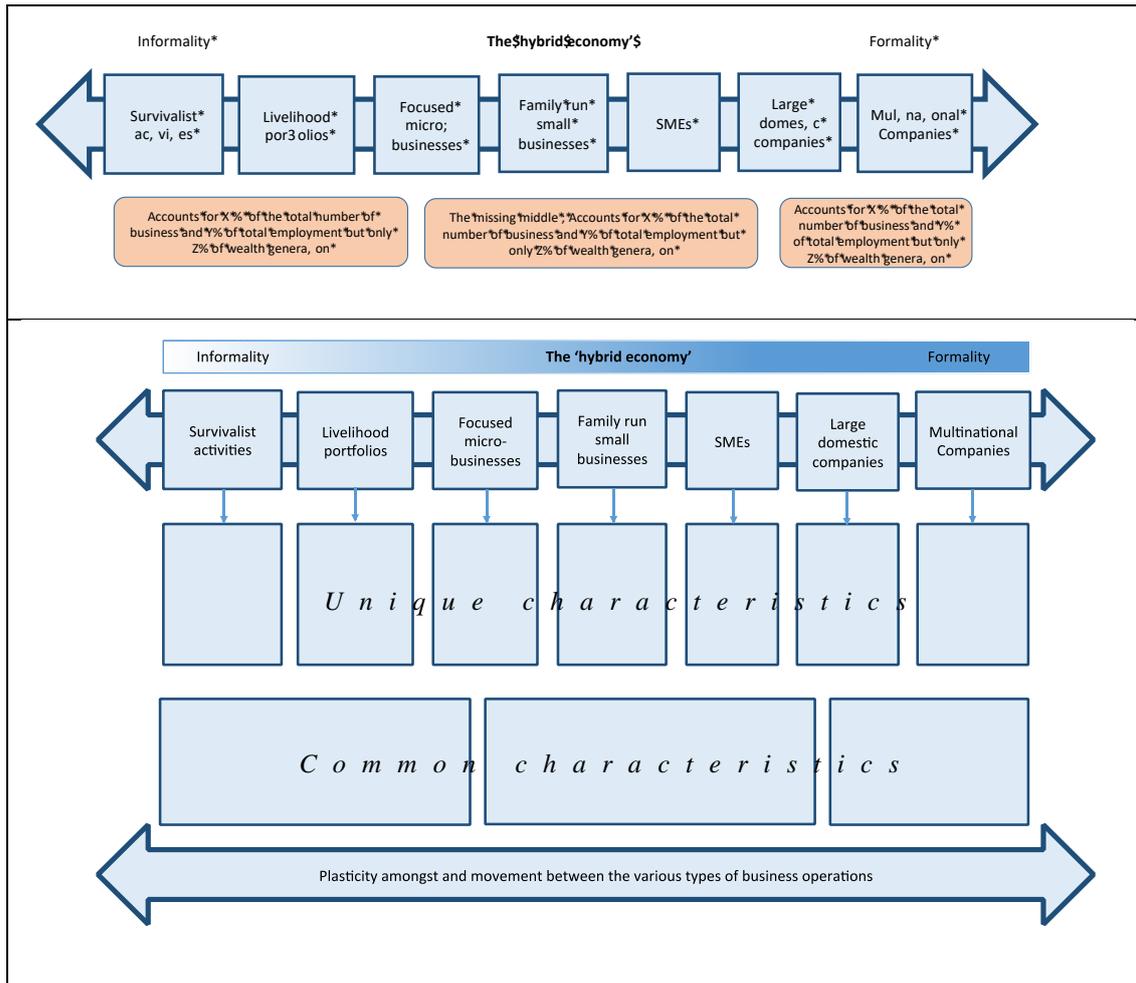


Figure 2.4: The hybrid economy

## 2.8 Working towards transformational change through the hybrid economy

*If the current perceptions of the informality persist, the cities of Uganda, and particularly the secondary cities, are unlikely be 'engines of growth'; rather many will stagnate. Much depends on the global economic environment but, at worse, the urban economy will decline and national development efforts will be severely compromised.*

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. If unsuccessful, many cities will be overwhelmed by poverty, unemployment and social despair and discontent. It is crucially important to find ways to promote growth and in a manner which encompasses the vast majority of those living in urban areas. A basic proposition of this paper is that, assuming that the informal economy is likely to persist for the foreseeable future, one very important pathway to inclusive development is through support given to the informal sector.

As noted, it is essential to move away from the pre-occupation with cleavages within the urban economy and towards a conceptualization of informal activities as part of a continuum of economic activities. This continuum is one characterised by relatively high productivity and product

sophistication at the formal end, and by low productivity and more basic products and services at the lower end of continuum, which is dominated by informality.<sup>3</sup>

Our proposition is that for cities in Africa to become engines of growth *the urban economic continuum as a whole must be strengthened* and, in particular,

- (i) Productivity improvements must be secured for many of the activities located in the bottom half of the continuum through targeted intervention and innovations in their value chains and strengthening of their ‘value networks’ (see section 2.1.iv); and
- (ii) The integration of the formal and informal sectors should be encouraged, as this is the most effective way to promote economic growth and a form of growth that is increasingly socially inclusive and economically resilient. The main mechanism for achieving this integration is through the development of value chains in which informal activities work with others within the informal sector and with those in the formal sector to provide goods and services for both domestic and export markets.

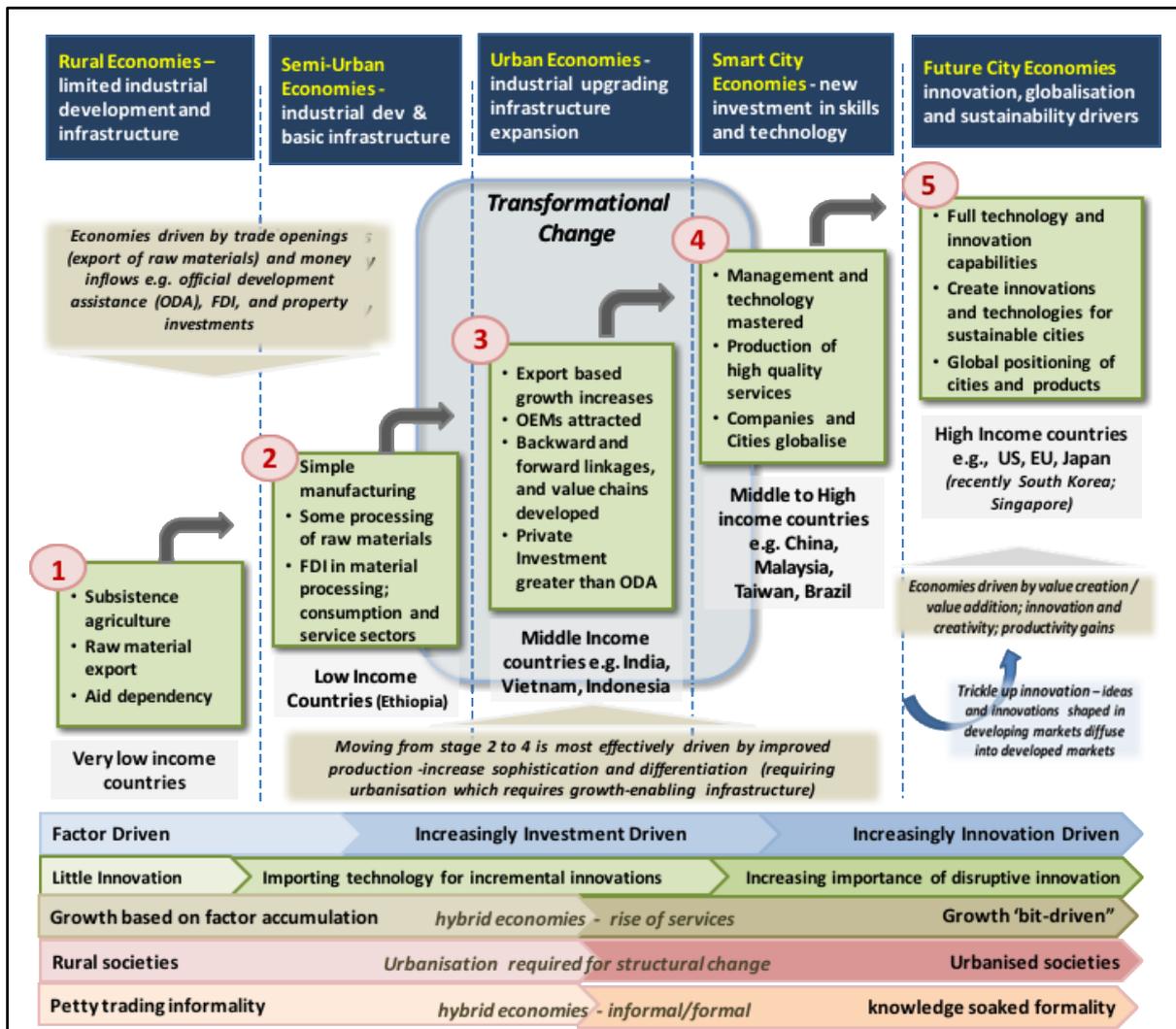
The proposition being explored in the research is that that the urban economy of many cities will be characterised by a dynamic *hybrid economy*; one in which the distinction between informality and formality is increasingly blurred as integration through value chain development deepens and strengthens both the formal and the informal. The gradual but steady integration of the informal and formal will enhance overall factor productivity, promote increasing product differentiation and sophistication, and encourage increasing social inclusiveness.

This hybrid economy may be transitional, but is likely to characterise the city economy for many years, if not decades. The hybrid economy should, however, also be seen as ‘transformative’ and part of the aim of moving low-income nations towards middle-income status, where they can be more resilient and self reliant than they are at present.

Figure 2.5 represents an ‘idealized’ model of such a transformation in the context of urban economic development. Such transformational change, which can only take place over many decades, is unlikely to be a simple linear movement from poor, very low income, mainly rural societies to high income, mainly urban status. Extreme inequalities persist in mainly urban countries, middle or high income, that can limit both the social benefit and the potential for economic growth itself. Equally there are likely to be major ‘bumps in the road’ for those on the path to middle income status such as the two decades of lost growth in sub-Saharan Africa following the adoption of SAPs in the 1980s. The development of some low income countries is constrained by development or poverty traps (Collier, 2007).

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<sup>3</sup> The lower half of the urban-economy continuum is not homogenous. Within the lower half of the urban-economic continuum, characteristically dominated by informality, there are higher-end entrepreneurs, what Fields (1990) calls the “upper tier”, and lower-end entrepreneurs occupying the “easy entry layer” (-Fields, G.S, 1990, Labour Market Modeling and the Urban Informal Sector: Theory and Evidence: <http://digitalcommons.ilr.cornell.edu/articles/464/>)



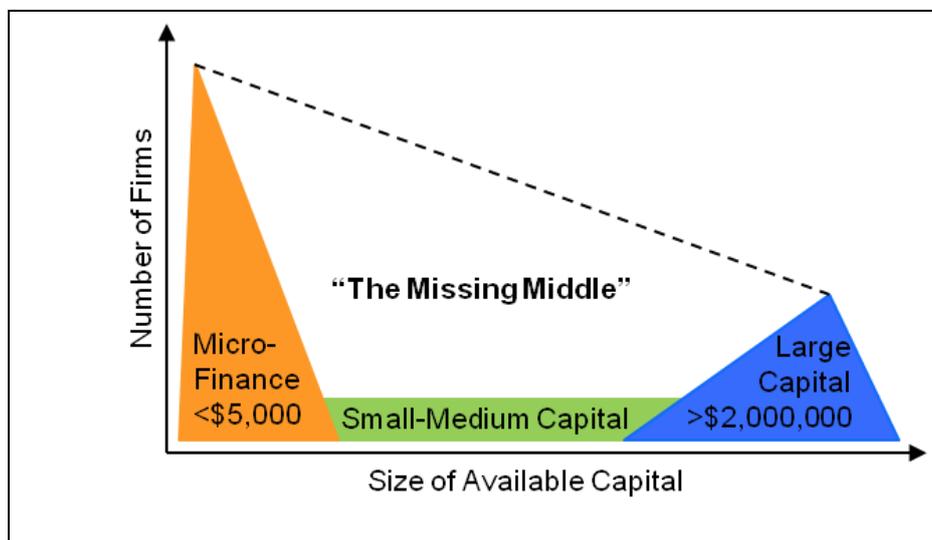
**Figure 2.5: Idealised model of urban economic transformational change – the ‘hybrid economy’ needs to contribute in the ‘space of transformational change.’**

Therefore, the process of improving the productivity of the hybrid economy will need to draw on the inherent adaptability and flexibility of the informal sector in building the necessary economic resilience to weather, sometimes extended, periods of economic stress. Similarly, while Figure 2.5 emphasises the role of cities in leading the process of greater integration into the global economy, close attention is needed to the contribution of domestic supply and demand, where the informal sector can play a central role. More localised production reducing dependence on imported consumer goods to supply a growing urban middle class is already becoming evident in some parts of the African sub-continent. These factors can play a significant part both in contributing to economic growth and improved productivity, and in providing resilience in the face of turbulence in global markets affecting production for export.

### 2.8.1 The ‘missing middle’ in the industrial economy

Uganda is a country with a ‘missing middle’ in its industrial economy, a feature common to most sub-Saharan African countries. The ‘missing middle’ refers to economies (mostly in developing countries) characterized by a bimodal distribution of firms, with a large number of small firms, some large and few medium size firms (Hsieh and Olken, 2014). In Uganda there are large numbers of very

small and informal sector operations, and few medium to large companies (Figure 2.6). The informal sector is not only large; it is the fastest growing sector in Uganda, currently accounting for some 43% of the total economy (according to UBOS, 2014). Informal enterprises, however, generally do not become formal operations and Uganda’s MSMEs rarely mutate into medium or large scale companies. This is a firm structure typical of a resource-based economy from which value extraction is dominated by large firms holding monopolistic or oligopolistic position, owned, managed or linked to political and social elites. This type of economy is numerically dominated by low productivity personal services and basic manufacturing activities inhabiting the informal sector space.



**Figure 2.6: The ‘missing middle’ by size of capital**  
 (Source: [www.changemakers.com/SME-Finance/entries/building-center-missing-middle](http://www.changemakers.com/SME-Finance/entries/building-center-missing-middle))

Uganda, clearly needs an increasing number of professionally managed and adequately financed firms employing, say between 20 and 100 people (optimum size depending on many context-specific factors) and focused on producing and exporting value-added products based on the comparative advantages of the country.

Most likely many of these businesses would operate within a value chain involving both smaller firms and perhaps larger system integrator type operations. For accelerated, increasingly inclusive, and sustainable growth to characterise Uganda this form of structural transformation must occur. Filling the missing middle is essential. An important research issue is to identify the pathways whereby this transformation could occur, whereby the missing middle is filled, and under what conditions, and how those conditions can be created, defended and maintained

### 2.8.2 Bridging the ‘missing middle’

The Government’s vision for the country, expressed in *Uganda Vision 2040*, clearly recognises the importance of industrialisation and structural transformation as related pathways to achieving upper middle income status (GoU, 2013a). The Government envisions the development of industrial clusters and value chains related to agro-industrial products, resource based products such as cement, petro-chemicals and fertilizers, and capital goods such as agricultural implements and products for the construction industry. In order to achieve these stated goals for the industrial economy the removal or mitigation of current constraints needs to take place. Constraints related to infrastructure deficits are to be addressed through an US\$11 billion programme over the next ten years of public

investment in infrastructure and services. Upgrading the transportation network and electricity generating capacity are two of the most important priorities for this large scale infrastructure investment programme.

As fundamental as providing the infrastructure and services required by business is to ensure that the country can acquire the capability to produce an increasing array of value-added products and services, Vision 2040 recognises the need to support and encourage the adoption, adaption and development of technology by indigenous businesses. There is a recognition that the processes of technological change and innovation primarily takes place in developing countries such as Uganda through enterprises learning to master, adapt and improve technologies that already exist. 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, may be an illustrative case; innovative products increasingly emanating from China, India and South Africa are other examples and indicate that a certain level of development is required before trickle-up is commercially feasible; a step from lower middle income status to higher middle income status, involving successful structural transformation, is necessary before trickle-up can characterise an economy).

A number of social impact funds operating in Africa (including the recently established MSINGI based in Nairobi, but operating across East Africa –see Box 2.1) 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

## Box 2.1: Investing in the Missing Middle – Building value chains in priority sectors.

Source: MSINGI Final Report (SWQ and MSC Ltd 2013, The Gatsby Foundation)

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### africaFISH

Use of global best practice and production technology coupled with development of an integrated value chain can catalyse the aquaculture sector in east Africa

#### IMPACT

- Commercially-driven sustainable livelihood development for thousands of outgrowers
- Additional fish protein for well over 1 million people.
- Catalytic impact for aquaculture across east Africa.

#### INNOVATION

africaFISH has partnered with the University of Stirling to bring together global best practice and production technology with an integrated value chain approach for the African context.

#### CHALLENGE

- Fish consumption levels are falling across east Africa because static supply from lakes and rivers cannot match fast rising demand.
- This provides a commercial opportunity and a social imperative to develop commercial aquaculture.



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### Beans to Baby Foods

JKAUT (Jomo Kenyatta University of Agriculture and technology) is working with Leuven University on value addition related to bean production

#### TARGET IMPACT

- Increase incomes for farmers
- Development of Value chain / value addition
- Establish new industry in Kenya – scalable
- Establish high quality Kenya brand

#### INNOVATION

- New forms of processing beans and producing high quality foodstuffs (including baby foods) being explored.

#### CHALLENGE

- Beans traded in raw state
- Need to add value
- Relevant technologies / methods needed to be sourced outside of Kenya



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### Manufacturing high value products from bamboo

UIRI (Uganda) and ISAAA (Kenya) are both – separately - trying to demonstrate commercialisation potential of bamboo

#### TARGET IMPACT

- Increase incomes for farmers – regard bamboo as a commercial product rather than a nuisance
- Establish new industries in EAC – scalable and scope for import substitution

#### INNOVATION

- Introduction of new strains of bamboo for specific applications (e.g. scaffolding) - ISAAA
- Inward tech transfer of processing knowhow and machinery from China - UIRI

#### CHALLENGE

- Bamboo grows wild in much of East Africa, but all bamboo products, from toothpicks to car seats, are imported
- Need to demonstrate commercial potential of bamboo products



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## 2.8.3 The informal sector and structural change

Developing the value chains and industrial clusters envisaged in Uganda Vision 2040 is likely to make a significant contribution towards filling the missing middle and promoting structural change in the economy. The informal sector is a key player in the economy of the country at present, and a supplier of goods and services to the vast majority of the population. Fortunately, as recognised by many researchers and discussed in later sections of this paper, the sector is much more than this

with a significant component characterised by constrained inventiveness and economic determination. The opportunity exists for the informal sector and SMEs (many of which are informal) to play a major role in filling in the missing middle and promoting structural transformation. This opportunity has recently been recognised by the Uganda Investment Authority.<sup>4</sup> It is perhaps the development of the informal-SME-formal sector hybrid economy that will drive the future development of the economy of Uganda.

A number of social impact funds operating in Africa (including the recently established MSINGI based in Nairobi, but operating across East 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 (see Annex 2).

#### **2.8.4 Informality and value chain development: unexplored issues**

In 2001, Arndt (2001) first noted the ‘fragmentation’ in manufacturing production processes and argued that despite the existence of global value chains, the orthodox trade theories still dominated economic thinking. Since then, global value chain analysis has become central to donors and multilateral agencies interested in trade and development (Ravenhill, 2014). Furthermore, following a review of several published documents<sup>5</sup> Ravenhill notes, “despite the repeated assertion that we now inhabit a post-Washington Consensus (WC) world” policy prescriptions fall back on traditional neo-liberal policies.

It is in this context that ILO’s vision, as described by Nutz and Sievers (2015), of how value chain development can lead to “better products, increase job creation and reduce poverty” is located. It is a useful starting point and guide for any initiative undertaking value chain development; however, it is important to remember that its wider and implicit perspective is how best to link into the global chain.

They accept Kaplinsky’s (2004; as cited in Nutz and Sievers, 2015) definition that a value chain “describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production and delivery to final consumers, and final disposal after use.” According to Nutz and Sievers (*ibid.*) whilst competition is the main driver for value chain development, five other key drivers are identified. These are: system efficiency, product quality, product differentiation, social and environmental standards and an enabling business environments. A rationale and five useful steps for selecting a sector for value chain development is also provided. Furthermore, for each of these steps, the ILO guide maps criteria and methodology.

The guide is designed for the development of essentially formal manufacturing and processing units. It notes the *informal networks, but not the informality*, which is the core concern of this paper. Other studies on heterodox economics, like Fuller (2013), also focus on the firms at the upper end of the continuum. For example, entrepreneurs hailing from ethnic Chinese transnational technology networks who have linked up with global capital to create hybrid firms. They are

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<sup>4</sup> The Uganda Investment Authority (UIA), as of early 2016, is assisting some 200 SMEs work with around 70 Private Equity (PEs) and Venture Capital (VCs) firms to build professionally run adequately financed firms with up-graded technologies that can focus on the manufacture of value added products. Source: <http://afkinsider.com/95975/uganda-investment-authority-pairs-200-startups-with-financial-lenders/>

<sup>5</sup> UNCTAD’s flagship World Investment Report (UNCTAD, 2013); the OECD’s Interconnected Economies (Organisation for Economic Cooperation and Development, 2013); and the WTO’s Global Value Chains in a Changing World (Elms and Low, 2013). In addition, the OECD, the WTO and UNCTAD made a submission to the Group of 20 (G-20) St Petersburg summit on the benefits of participating in GVCs (OECD, WTO and UNCTAD, 2013).

generally small scale and scope, work best in sectors exhibiting disaggregated value chains, fast clocks-speeds and high technology-intensity.

### **2.8.5 Some issues in the context of developing value networks of informal units:**

The first objective would be to how best to strengthen its links with the upper end of the continuum. In Uganda, given that industrialisation is slow and the main export market is in commodities, the emphasis is on how to build links within the urban, rural and regional economies.

Also, it is important to note that relationships in a value chain are asymmetrical and the margin of profit increases as we move up the value chain (Yeung, 2014). Any integration and change must not lower the existing profit margin of the informal units.

Value chain codes and regulations are often biased against women workers. Barrientos *et al.* (2003) have argued for more gendered rules and codes. Their study is in the context of horticulture, but the implications here are that dealing with the poverty issues of poor and vulnerable women are different from those of the poor and vulnerable men.

Stoian *et al.* (2015) highlight the dangers of value chain interventions involving poor households. They note that the design of related interventions often assumes 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. They argue that value chain development with poor and vulnerable populations, requires additional conceptual frameworks, analyses, and interventions.

In particular, they urge that donor agencies and development practitioners to adopt an *asset-based approach* to the design, implementation, and assessment of target value chains and to identify the non-market interventions needed for enabling particularly disenfranchised groups to meet the minimum asset thresholds for their successful participation in value chain initiatives. It was also proposed in the Concept Note that 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. These topics are further elaborated in Section 2.9 iv and Section 7.4 in Chapter 7.

Reviewing of the documents how Market System approaches (M4P programmes)<sup>6</sup> are evaluated, has important pointers for the design of value chain interventions in small informal businesses. Monitoring and Results Management (MRM) within the DCED framework is encouraged.

## **2.9 A multi-level approach**

The proposed theoretical approach is constructed around a strategy as to how best to move informal activities to higher levels of productivity and increase value addition. There are four levels at which this approach is constructed:

- (i) ***The need for greater integration along the continuum of urban economic activities:*** based on review of literature and field experiences in Uganda, the main theoretical argument is the

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<sup>6</sup> “Market systems approaches, or Making Markets Work for the Poor (M4P) are approaches to poverty reduction that donors such as DFID, DFAT, Sida and SDC have been supporting over the past few years. The central idea is that the poor are dependent on market systems for their livelihoods. Therefore changing those market systems to work more effectively and sustainably for the poor will improve their livelihoods and consequently reduce poverty.” <http://www.enterprise-development.org/page/m4p>

need to move from the dualistic concepts of the urban economy, to notions which present urban economic activities on a continuum. Continuing the debate on informality within the confines of a dualistic approach limits the scope for a more holistic analysis of the urban economic growth and development, and also limits the scope to think ‘outside the box’.

i. While rejecting the linear and dualistic understandings, the argument for policy intervention to encourage greater integration along the continuum is based on insights provided by many different bodies of research.

ii. These are:

- Limited explanatory powers of the dualistic approach to informality in the current context;
- Industrialisation in the 21st century which creates fewer jobs;
- Government policies and labour and commodity markets change due to globalization; and
- The increase in informal activities despite high industrial and economic in developing economies. These point to the fact that unless the underlying causes of poverty, such as poor infrastructure and lack of access to credit, government and private sector support for up-skilling; poverty and informal activities will persist.

**(ii) *Understanding heterogeneity and linkages within the continuum:*** The informal economy is highly segmented. To take the argument further means, understanding and unpacking this heterogeneity and the nature of diversity; the multiplicity of activities, size of operations and the impact of gender on the choice of business. Furthermore, diverse nature of the linkages already exists along the continuum, particularly between formal and informal enterprises. There is a substantial body of literature that analyses these issues. However, the aim here is to identify policy entry points along the lower half of the continuum. The argument is that the same methodology cannot be valid for analysing the different scales and types of informal activities along the continuum.

As noted and discussed in the Inception Report, it will be important to identify three groups from the lower half of this continuum for policy intervention. These are (a) top performers; (b) a group of constrained entrepreneurs who are not yet successful, but share several characteristics with the first group, and (c) a group of survival enterprises with fundamentally different characteristics. This approach is unbiased by sector, gender or size of enterprise and would pick up a variety of sub-sectoral units. The theoretical framework discussed below, supported by case studies, will demonstrate the need for multiple methods of analyses of informality.

**(iii) *Understanding the socio-spatial context within which the informal sector operates:*** Urbanisation is a spatial phenomenon, which in purely demographic terms, represents a shift in the distribution of population between rural and urban areas. As has been well covered in the research, this is not a simple matter of movement of population from one area to live in another but is a complex and dynamic process involving differential health, development and demographic factors (fertility, general health, child mortality, longevity), political and cultural factors and complex and dynamic economic interactions, linkages and changes (Geschiere and Gugler, 1998; Jedwab *et al.*, 2014).

The urban economy does not end at the boundary of the built up area. The informal economy is embedded in rural-urban linkages, varying patterns, sometimes cyclic, of short and long-term migration and commuting to central towns and cities from wide rural catchment areas around them to work, sell and buy (McGee, 2005; Tacoli, 1998, 2008). A geographical continuum of rural employment diversification, with increasing reliance on service- and cash-based economic activity the closer that people live to towns, is evident.

The poor who come to live in the town, as well as those born and brought up there, for the most part live in burgeoning informal settlements that both house a major source of labour that fuel the informal economic markets and well providing an increasing source of demand for the products that it procures. Understanding where clusters of different types of informal economic activity are located within the cities is important, whether in markets, streets, homes, workshops or industrial sites. Equally analysing patterns of movements, both short and long term, and costs and benefits in terms of time and money or related travel and accommodation will enable a better understanding of some of the features that are particular to the informal economy – the lower part of the hybrid continuum.

- (iv) ***Value networks' and livelihoods strategies of the poor:*** A further aspect, more social than spatial, are the complex collective portfolios of economic activities adopted by poor households in both rural and urban locations. This has been extensively explored in the research on rural livelihood diversification, and in the earlier literature on the Sustainable Livelihood Approach (Conroy and Litvinoff, 2013; Chambers and Conway, 1991; DFID, 1999) and its more recent application (Morse *et al.*, 2009; Morse and McNamara, 2013; Petersen and Pedersen, 2010). The research in the urban context has been more limited (Rakodi and Lloyd-Jones, 2002; Ojong, 2013; Dimanin, 2012). This approach emphasises the range of assets that poor households draw on to reduce their vulnerability to external shocks and stresses and build their resilience, as well as the importance of collective livelihood strategies to maximises the benefits from operating in what is normally a very low value, uncertain and high risk economic environment. With often little regularity and certainty in the flow of employment and income, diversity in the range of economic activities, undertaken both on an individual and collective family basis can overcome the limitations of working in a single informal sub sector. Conventional value chain analysis is ill equipped to capture this particular complexity. Hence the study will adopt a 'value network' approach to mapping these kinds of relationships (see forum for the future, n.d.). This may add value to analysing where the critical points of policy intervention and investment might be to improve the wider operation of the hybrid economy.

## **2.10 Linkages within the hybrid economy**

Through an initial review of the literature, the study has explore the question of what the current understanding is of the demand and supply linkages with the formal sector and the prospects for the informal sector as the formal sector grows in Uganda. Globally, there is a substantial body of research that examines these linkages. On the supply side, factors such a capital market failures and entry barriers have received considerable attention. On the demand side, studies have focused on structure of demand as well as linkages to the formal sector; on overlapping customer base (Sethuraman, 1997) that could reflect complimentary or competitive product markets. Xaba *et al.* (2002) found strong intra-linkages in the final product market which each sector being a strong supply as well as a demand base of the other sector. Laxroix and Montmarquette (2000) note that

working in the informal sector will raise the probability of buying products in the informal sector, limiting demand overlap. Böhme and Thiele (2012) note that rising incomes tend to a lower propensity to consume informal sector good and to use informal distribution channels.

A range of recent research explores the linkages between the formal and informal economy confirming the high level of interaction between formal and informal work even at the lower end of the labour market (see for example: Valodia and Devey, 2012). At the household level too, access to stable employment in the formal economy is associated with higher levels of earning in the informal economy. It is argued that dualism is not a relevant distinction, as individuals work across sectors depending where employment and enterprise opportunities are available (Mitullah *et al.*, 2013). The fieldwork (March 2013) in Arua, Uganda, showed individual traders who purchase second-hand items from wholesalers in Kampala, and sell it to customers in Arua who are working in the formal sector (e.g., civil servants) and to those working in the informal economy.

All this implies that linkages that exist along the continuum can take various forms. These can be:

- i. **Individual transactions:** where informal enterprises exchange goods and services with formal enterprises where the more competitive firms control the transaction;
- ii. **Sub-sector of units** which produce/process goods to distribute and sell to customers from both formal and informal economy. An example will be the informal brick-making units in Mbarara, Uganda, who predominantly sell to customers from the formal economy, but also for informal housing; and
- iii. **Informal units which are part of a value chain** stretching across the continuum. This would include, groups, as seen in Mbale, who collect waste plastic, metal and other recyclables to sell to a local middleman, who grades and segregates the waste, and who then sells to the regional trader, who ultimately sells to the recycling plant.

Furthermore, these linkages mean that the dividing lines between the formal and informal is blurred. Those using a legalist approach use the payment of fees or taxes as the basis for the divide between formal and informal. The initial fieldwork of the study indicated that, while informal units do not pay tax, all the so-called ‘unregistered’ units, whatever their size, pay a fee to the local tender (who has access to the use of public land); and pay protection money. This undermines the legalist argument.

To sum up, recent research and field experience shows that rigid dualism is not a useful basis on which to carry out a comprehensive analysis of those parts of the economy that demonstrate informal characteristics to varying degrees. This view is further re-enforced by the growing evidence of linkages cutting across the formal and informal economies at individual and sub-sector levels; and by value chains which stretch across the urban economic continuum. There is clearly a need for further fieldwork and case study-based research both in Uganda itself and in the wider sub-Saharan African context in order to better understand how such linkages work in practice.

## 2.11 Heterogeneity and multiple methods of analysis

### 2.11.1 Heterogeneity

One of the key characteristics of the informal economy, which has attracted much research and debate, is heterogeneity. There are various ways in which this has been unpacked. Heterogeneity has been analysed both vertically and horizontally:

**Vertically:** this has been in terms of income and size of units; type of entrepreneurs and own account traders; wage workers, home-based producers, among others. Empirical studies include analysis by: Moser and Marsie-Hazen (1984); Bromley (1978a, 1978b, 1984); Bunster (1983); Dasgupta (1992) of linkage, heterogeneity and income determinants in the different sectors of activities. Bigsten and Kayizzi-Mugerwa (1992) showed that there was significant gender-based wage differential in the informal economy in Kampala in the 1990s, with different labour supply and earning functions for men and women.

**Horizontally:** diversity is created by different type of activities or sub-sectors, types of backward and forward linkages; and by location. Globally, there is a substantial body of research which examines these linkages. On the supply side, factors such as capital market failures and entry barriers have received considerable attention. On the demand side, studies have focused on structure of demand as well as linkages to the formal sector; on overlapping customer base which could reflect complimentary or competitive product markets (Sethuraman, 1997).

There are strong intra-linkages in the final product market which each sector being a strong supply as well as a demand base of the other sector (Xaba *et al.*, 2002). Working in the informal sector can raise the probability of buying products in the informal sector, limiting demand overlap. While rising incomes tend to a lower propensity to consume informal sector goods and to use informal distribution channels (See: Laxroix and Montmarquette, 2000, Böhme and Thiele, 2012). As previously noted, there is a high level of interaction between formal and informal work even at the lower end of the labour market in South Africa (Valodia and Devey, 2012).

These different approaches provide useful insights into the complexity of the informal economy. This note builds on these understandings to argue that, it is vital to unpack both vertical and horizontal differentiations that exist in the African cities in order to understand,

Vertically, the income determinants and profiles in relation to the type of work/and or units; gender-based differentials, in relation to the sector of activity; and location; and

Horizontally, the backward and forward linkages, so as to locate the units in the sub-sector and in the continuum of activities; identify their positions in the value chain, (if relevant); note the rural-urban links, the formal-informal links; the dominant partners and how they influence the business links.

It is necessary to understand these differentiations, so that analytical sub-groups can be identified to develop targeted strategies for assistance. It can be argued that considerable effort, for example, by NGOs like SEWA in India, Grameen Bank in Bangladesh and WIEGO in several countries are already targeting specific groups of poor informal traders and producers to empower and raise their capability for income generation. The proposition here is not only to empower and raise income capabilities, but also to create more profitable linkages.

The first round of field visits to the four secondary cities in Uganda showed the obvious manifestations of the informal economy, which are street trading and informal housing. It also showed that informality has penetrated almost all sectors of activities in these cities. The follow up fieldwork explored the predominant informal economic sector – street trading – in depth. This is reported on in depth in Chapter 5 where the theoretical approach to heterogeneity is expanded upon.

### 2.11.2 Implications for multiple methods

As noted above, ‘horizontal’ diversity is created by different type of activities or sub-sectors, and types of linkages within and between such activities. Many of these activities are found in spatial clusters in cities, and these types of activity are more readily identified and studied. Our fieldwork in the two case study cities of Mbale and Mbarara focused on key clusters. Qualitative research carried out in the initial fieldwork visit and subsequently in the case study cities additionally provided a narrative overview of a number of case studies of individual enterprises and further insight into the linkages and operation of value chains and networks

Part of the future agenda for the research community will be to build on studies such as this and test out different methods of analysis to broaden the scope of understanding of specific activities and sectors within informal sector and their characteristics in terms of labour structure, social impacts, spatial location, value chains and networks.

It is clear that cross-cutting horizontal and vertical characteristics have created very different analytical groups, each with their own economic, institutional and social constraints. In order to capture these, Grimm *et al.* (2012) propose identifying three groups from the lower half of this continuum for policy intervention. These are (a) top performers; (b) a group of constrained entrepreneurs who are not yet successful, but share several characteristics with the first group, and (c) a group of survival enterprises with fundamentally different characteristics. This approach is unbiased by sector, gender or size of enterprise and would pick up a variety of sub-sectoral units. However, the problematic is in developing different methods, approaches and criteria to identify these groups along the continuum.

While the above approach could be the starting point for further research, it will be important to explore the other methodologies used by research and on-going projects to identify target groups. Getting the methodology and group selection right is important because

- (i) Each group will need very specific and targeted package of assistance to move them up the value chain;
- (ii) Practice has shown that those with the lowest levels of empowerment (i.e. those who need help most) tend to lose out as they are unable to participate in development programmes; and
- (iii) At the lower end of the continuum, at the easy entry tier, is to crucial to understand informal activities as part of the entrepreneur’s portfolio of livelihood strategies in order develop effective ways to enhance productivity and add value.
- (iv) Those who lose out altogether will need to benefit from reskilling and safety nets

A key researchable issue is to investigate how top performers can be increasingly integrated into value chains that:

- Are associated with priority sectors
- Have the potential to expand (into both domestic and export markets)

- Are characterised by increasing value addition

## **2.12 Conclusions, knowledge gaps and policy implications**

Based on review of literature and field experiences in Uganda, the main theoretical argument presented in this research monograph rests on the need to move from the dualistic concepts of the urban economy, to notions that present urban economic activities on a continuum. This chapter has argued that continuing the theoretical debate on informality within the confines of a dualistic approach limits the scope for a more holistic analysis of the urban economic growth and development. It has suggested that this limits the scope to think ‘outside the box’ and to develop appropriate policies that can have a transformative impact through positive support to informal operators within a hybrid economy, rather than as a sector that should disappear as soon as possible.

This chapter has presented a range of interpretations of the theoretical construct of the hybrid economy that underpin the analysis that is undertaken in the remaining chapters of this monograph and which identifies the knowledge gaps and policy implications for each of the areas that the monograph explores. This exploration is very wide ranging but, within the limited timescale available, obviously by no means exhaustive. The intention has always been to inform a future agenda for the research community to undertake. The chapter suggests that multiple methods will need to be employed to provide a better theoretical understanding of what, in reality, is a much more complex socio-economic phenomenon than previously assumed. This opens up potentially a very large area of future research where evidence remains thin on the ground.

The ideas presented in the chapter build on the considerable efforts of other researchers who have challenged the dualistic concept of formal and informal sectors. The chapter has provided an initial guide to this body of research and identified a number of key researchable issues. It has provided the basis for further theoretical debate and some working analytical concepts that can guide future studies. It has aimed to contribute to the framing of new policy approaches –‘new ways of thinking’ about the informal economy and its potentially positive contribution to the inclusive, resilient and sustainable economic development of Africa’s cities.

## **CHAPTER 3: MACRO ECONOMIC CONTEXT**

### **3.1 Introduction**

This chapter is concerned with Uganda's future national and urban economic development and the place of the informal economy within it. There has been considerable economic growth in Uganda and East Africa in general in recent years, and further growth is anticipated, albeit at not the same pace. However, the chapter notes the structural constraints on sub-Saharan Africa economies given their particular place within an increasingly globalised economy. Given the global pressures on resource-extractive, low employment generating economies in Africa, it remains very likely that the informal economy will persist and likely grow for decades to come. In this context, future research to address the current knowledge gaps regarding informal activity, while public policy needs to recognise this and re-focus on the concept of the hybrid economy and improving its overall productivity, including its informal sectors.

The chapter outlines the theoretical debates in the development literature on globalisation and structural economic change and urbanisation in sub-Saharan Africa. This is followed by an analysis of the economy of Uganda drawing on a range of public statistical data sources including Government of Uganda (2013), GoU and UNDP (2014), UNCTAD (2014), and AfDB (2014a, 2014b) reports, World Bank World Development Indicators, the Population Division of the United Nations Department of Social and Economic Affairs (UN DESA), Harvard Center for International Development, the Uganda Bureau of Statistics (2010, 2014) and the Uganda Investment Authority (UBOS 2015).

### **3.2 Globalisation and structural economic change in sub-Saharan Africa**

Current trends indicate that development in most African economies is unlikely to generate sufficient decent and productive jobs to accommodate the expected significant population increases and promote structural change and modernisation. The issue is of serious concern; many African cities appear to be in danger of being overwhelmed by the expansion of informal settlements and slums, and the steady rise of agglomeration diseconomies, arising from the way in which African economies are structured and 'work'.

The structural change debate in developing countries focuses on productivity drivers, value addition and product differentiation and sophistication. However, the key issue is that African economies are not creating enough jobs in formal employment. There has been and is continuing growth but it is in a form not associated with structural change and transformation and employment creation to the degree required to absorb all those currently un- and underemployed and all those expected to enter the labour force in the future. This is a major contextual factor underlining the importance of supporting the development for the informal sector and particularly the development of the more productive hybrid economy.

According to the original 'post-industrialisation' thesis (Touraine, 1971; Bell, 1976) countries pass through successive phases in which agriculture then industry and finally (primarily knowledge-based) services predominate. However, the UNCTAD Economic Development in Africa report (2014) highlights the unusually high level of employment and growth in the services sector in Africa, relative to its stage of development. It notes that "for this sector to see long-term growth and

adequate job creation, there needs to be big leaps in investment in basic infrastructure” with the potential to raise productivity and income levels in agriculture.

McMillan and Rodrik (2011) argue that, contrary to the ‘post-industrialisation’ thesis that applies mainly to the more industrialised economies, large gaps in labour productivity between the traditional and modern parts of the economy are a fundamental reality of developing societies and that labour flows from low-productivity activities to high-productivity activities are or should be key drivers of development. Their research indicates that since 1990 structural change has resulted in labour moving from low-to high-productivity sectors in Asia, but mainly in the opposite direction in Latin America and sub-Saharan Africa. They note that although agriculture, mining and manufacturing are important, possibly a majority of jobs are being provided by non-tradable service industries, in which the informal economy plays a major role, so domestic growth strategies are significant.

UNCTAD (2014) argues that, because the private sector remains relatively under-developed in Africa, governments need to become more aware of the employment intensity of different types of economic activity and adopt a more prominent role in mobilising investment into job-rich sectors. Davis (2014), co-author of the UNCTAD report, states that, “while the services sector is producing more job opportunities than the extractive sectors there still needs to be more investment directed towards industries such as manufacturing and agriculture.” In those economies of Latin America and sub-Saharan Africa, for the most part with a comparative advantage in natural resources and inheriting an economic dependence on commodity exports since colonial times, the positive contribution of structural change associated with globalisation and participation in international markets has been limited. Commodity export dependence combined with liberalisation associated with structural reforms, has led to import competition causing many industries “to contract and release labour to less-productive activities, such as agriculture and the informal sector” (McMillan and Rodrik, 2011). This underlies the ‘premature de-industrialisation’ thesis (Rodrik, 2014) which it is argued has been evident in many parts of sub-Saharan Africa since the 1980s and 90s.

Asian countries, with plentiful labour but limited natural resources, it is argued, had an advantage. Significantly, governments in Asian countries, including Korea, China and Taiwan, have often given support to and protected import-competing activities. Until the mid-1990s, in China the special economic zones (SEZs) operated under free-trade rules, while domestic firms elsewhere still operated behind high trade barriers and State enterprises continue to receive substantial support. Such import competing firms may not be the most efficient, but provide jobs at productivity levels that exceed the next-best alternative (that is, agriculture or the informal sector).

Structural changes in employment and value added by the different sectors are complicated by the dramatic changes in the level of differentiation and development of value chains within and between sectors. For example, many manufacturing industries and sections of industries are increasingly automated and knowledge driven, but other sections of manufacturing (for example garment production) remain labour intensive.

Globally, the value added by textiles and garments has been falling while that added by IT and electronic goods has risen dramatically (Memedovic and Lapadre, 2009). The contribution of textiles to China’s manufacturing value added fell by two thirds between 1980 and 2006 while the contribution of electronic goods increased fivefold (*ibid.*). With labour costs in China rising, garment production has shifted with other Asian countries with a few African countries, such as Ethiopia, benefitting.

The decline of the share of manufacturing employment in the economies of the West is seen as a consequence of both increasing automation and the movement of industrial manufacturing off shore, predominantly to the East, initially in the post World War 2 era to Japan, Korea and the export focused Asian tiger economies, subsequently to China and now increasingly to South and South East Asia, and to a lesser degree to other emerging economies in the Global South and Eurasia.

However, according to the European Commission (2012), “almost all products are now no longer produced in one place.” EU companies have increased their performance by opening new markets and optimising costs. “This is particular true for firms that are more dependent on intermediate products, such as carmakers”(ibid.) A similar phenomenon is noted in the USA where many firms have become tightly integrated across the southern border with low skilled work moved to Mexico and more complex tasks remaining north of the border, with higher productivity from higher levels of automation, and loss of employment in the United States resulting from both factors.

However, what is going on in developed countries is different from what is going on (and can go on) in developing countries. In developed countries labour and resource saving technologies are increasingly driving growth – in developing countries growth (still) derives mainly from capital investment, and the use of (cheap) labour, natural resources and energy.

The processes of technological change in developed countries, where firms are innovating by pushing the knowledge frontier further, are fundamentally different from such processes in developing countries, where innovation primarily takes place through enterprises learning to master, adapt and improve technologies that already exist. Technologies that are practical and proven, and innovations that are incremental and augmentative, commonly drive growth in developing countries (their form of bit-driven growth, it could be said).

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 (‘moving preferentially towards nearby goods’ according to Hidalgo *et al.*, 2007). In developed nations on the other hand, blue sky research and disruptive innovations take centre-stage more frequently, and when value creation takes place industries can change, dramatically. Once a certain level of development and innovation capabilities is reached a developing country can transition into the realm of disruptive technologies (which is what China and South Africa are doing now).

The implications of the arguments presented above are as follows:

**a) The informal sector will continue to grow:**

In most African economies the opportunity to significantly increase value added and employment are confined to the agro-industrial sector, and more specifically to food processing activities. There are a few niche areas that offer employment opportunities, for example the textile and garment sectors, but these opportunities are limited due to fierce international competition. Other sectors offer the opportunity for value creation, such as mining and natural resource extraction, but these opportunities are rarely associated with significantly employment generation. The development trajectories of most sub-Saharan African countries are thus unlikely to labour-absorbing and most likely will be associated with the continuing growth of the informal sector. It is only this sector which can absorb the expected significant increase in the population of sub-Saharan Africa in the coming years.

**b) The development of informal sectors of the economy can underpin the industrialisation of sub-Saharan Africa:**

Given the slow growth of the industrial and more specifically the formal manufacturing economy of sub-Saharan Africa, the only immediate and viable option to simultaneously promote structural transformation and absorb labour is to develop the informal sector by promoting its integration into value chains currently dominated by formal operations. In this manner a hybrid economy is likely to evolve one in which informal sector businesses become increasingly more productive, commercially stronger, and able to expand as they benefit from spill-over effects associated with the formal sector. The rise of the hybrid economy therefore will contribute to 'putting manufacturing and industrialisation in Africa back on track'.

In the absence of adequate job opportunities in the formal sector, the educated unemployed tend to move into informal activities. Whilst they may not have the skill-sets and experience that is immediately attractive to the formal sector, research has clearly demonstrated that they are often highly capable, motivated and entrepreneurial. With appropriate support many can become the backbone of a steadily expanding hybrid economy. Indeed, research (see, for example, Gurtoo and Williams, 2009) has also shown that many of the new educated entrants to the formal sector quickly develop an appreciation of available market opportunities and carve out market positions in trading, hawking or artisan manufacturing in a relatively short time period.

**c) Differentiated support across the economic continuum of which the hybrid economy is a part, is required.**

Given the above conditions, namely the slow growth of industrialisation impeding structural transformation in sub-Saharan Africa and the potential of the informal sector to simultaneously provide employment and boot-strap development an appropriate and effective policy response would be to provide coordinated support for both informal and formal sector activities to build the hybrid economy as quickly as possible.

In the absence of adequate job opportunities in the formal sector, the educated unemployed tend to move into informal activities. Many can become the backbone of a steadily expanding hybrid economy.

**d) For cities to be engines of inclusive growth a focus on the hybrid economy may be necessary.**

For cities to fully realise their potential as engines of inclusive growth movement to higher productivity, manufacturing and service sector activity is required. This movement can be facilitated by focusing on the development of the hybrid economy related to high priority sectors, namely those sectors characterised by firms with the greatest potential for expansion into both domestic (import-dependence displacing) and export markets.

These sectors are generally agro-industrial processing, light manufacturing, ICT and business services, and tourism (cf. Kenya's 2030 VISION and Uganda's 2040 Vision). These sectors can be developed by strengthening their in-country value chains, particularly by developing the hybrid economy nature of each value chain. This focus is more likely to lead to inclusive and sustainable economic growth than one involving an exclusive focus of support on formal sector activities. The informal sector is a huge resource for the economy a

resource that can apply and so underpin structural transformation if integrated into an urban economic continuum focused on generated high productive, high return market oriented activities.

### 3.3 Policy challenges and the increasing importance of the informal sector

It will not be easy for Uganda to achieve the objectives of greater industrialisation and exports as part of a wider aim of inclusive and sustainable development. There are several difficulties facing this transition:

- i. It remains unlikely that Uganda will be able to accelerate the industrialisation process, increase value-added exports and simultaneously provide increasing and adequate employment opportunities in the absence of a concerted effort to strengthen key firms in the hybrid economy working in the priority sectors.
- ii. Uganda’s Vision 2040 envisages that the country will be growing at a rate of 8.4% by 2025. This rate of growth is intended to be achieved by front loading investment in infrastructure targeting areas of maximum opportunities with focus on oil, energy, transport and ICT and accelerate industrialisation. Much of the investment in the target sector will be associated with formal sector companies. As argued above, this form of development is unlikely to generate significant employment opportunities and lead to an inclusive economy and society.
- iii. Page (2016) notes that several African countries are expected to experience high growth rates in the coming years. However, experience has shown that industrialisation has not (yet) taken off; industry’s share of GDP in Uganda, for example, has recently been stagnating at around 22% (see Table 3.1). Furthermore, a number of researchers and observers fear that in the absence of structural change this stagnation may persist. Page and others have argued that in order to address issues of high unemployment and associated economic exclusion Africa needs to industrialise. The argument presented in this paper is that the most effective way to industrialise and to promote inclusive growth is to support and strengthen the hybrid economy and the informal activities within that economy.

<b>Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Industry: Share of GDP	21.9%	22.8%	22.4%	22.0%

**Table 3.1: Uganda: Industry’s share of GDP**

(Source: World Bank, 2015)

- iv. The World Bank sees industrial growth as essential to overall economic growth and has called for an ‘improved investment climate’ in African countries. However, Collier’s (2007) notes that in a globalised world, Chinese and Indian products dominate many consumer goods market in Africa and it has become difficult for local firms to compete in these markets. The tensions between national interests and exigencies of the global market will not be resolved easily. This, together with the resource-intensive growth in Africa, there is little doubt that informality will remain an essential part of the coping strategies for the low-skilled, the poor and the educated unemployed.

An important argument of this paper is that it is essential to move away from the dualistic understandings of the urban economy and shift towards a conceptualisation of informal activities as part of a continuum of economic activities. Informal activities should be reconceptualised as a very important component of the economic continuum, one that is simultaneously associated with employment generation and structural change within an economy. Informal activities operating with the hybrid economy could be the pathway to inclusive growth, to ‘pulling up’ the lower half of the continuum and accelerating the modernisation of many countries in Africa. Development of the informal sector can help the development of the whole of the continuum and is a potential pathway to the types of structural change that many have talked about as necessary for the development of African nations (and crucial for cities to be engines of growth) but which has been very slow to materialize.

Given the nature of growth that characterises the formal economy and the global pressures supporting the maintenance of resource-extractive, low employment generating economies in Africa, it remains highly likely that the informal economy will persist for decades to come. At present many, if not most, economies in Africa appear unable to change the way their economies works. Osei *et al.* (2015) succinctly dimension the problem in their study of the Ghanaian economy; “the country has not been able to move to a more sophisticated area of product space, where goods and services produced embody more knowledge, command higher value, and provide greater returns from labour.” (Osei *et al.*, 2015)

Osei *et al.* (2015) discuss the way in which those who control the way value is created and extracted in Ghana make deals determining how the economy works. They conclude that: “one could argue therefore that Ghana finds itself in an equilibrium that makes change to a deals space that fosters sustained accelerated growth difficult.” The Ghanaian economy, like many economies in Africa is stuck, the functioning of deals space does not provide sufficient impetus to change the economy, which thus reinforces the strength of the prevailing deals space. A way to upset the prevailing equilibrium that leads to inclusive growth and sustainable development needs to be unearthed. It is the contention of this paper that one key way to do this is to focus on building the hybrid economy through strengthening the informal sector.

### **3.4 Uganda: growth with limited structural transformation**

Uganda is classed as a low-income, sub-Saharan country. Despite the fact that the MDG of halving poverty has been achieved, poverty reduced from 56% in 1992/3 to 24.5% in 2009/10 (GoU, 2013b), overall income levels remain low. Furthermore, the Gini Index of income inequality stands at 42.4% in 2012 (WDI, 2015), indicating that there is a large pool of working-poor households clustered around the Poverty Line, for whom the informal sector could be a vital space for income-generating activities. The relative size of this group is indicated by the proportion of non-poor insecure, which stood at 43.3% in 2012-13 (GoU and UNDP, 2014a).

The economy of Uganda has been steadily expanding for over a decade after the long period of stagnation (Figure 3.1, 3.2) While there was some economic growth in the decades of the last century this did not keep pace with population growth and only by 2000 did GDP per capita reach the level previously seen in 1970 (Figure 3.3). Whilst somewhat ahead in terms of the phasing of its decline and recovery, the pattern in Uganda is much in line with the rest of Africa.

Real gross domestic product (GDP) growth averaged around 7% per year during the 1990s and the 2000s, making it one of the fastest growing countries in Africa. This is an exceptional

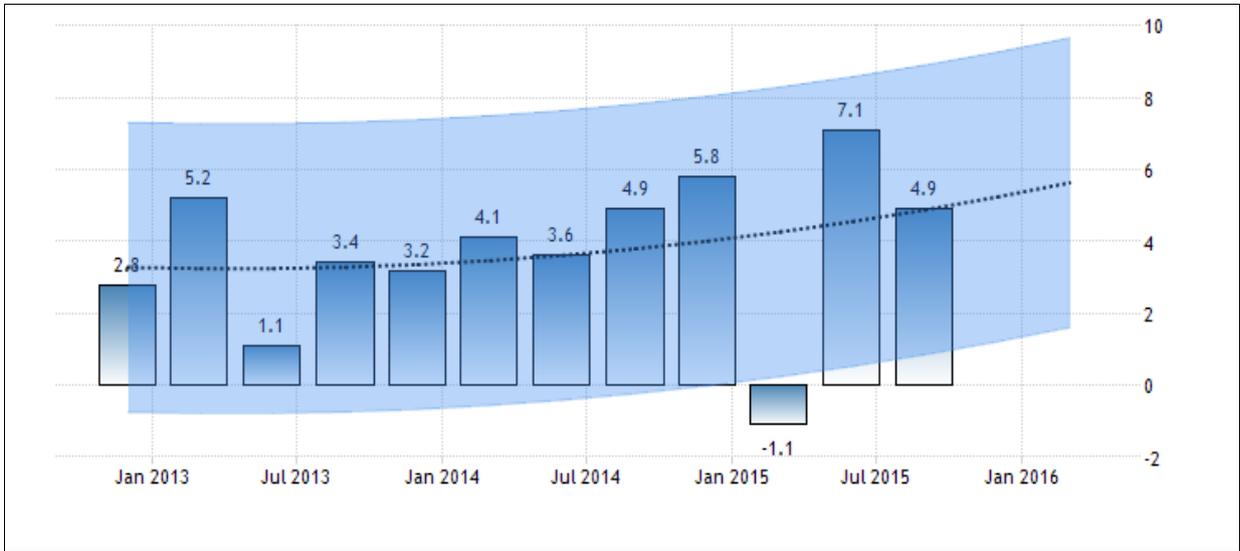
achievement. Expansion was driven by the adoption in the late 1980s of pro-market reforms, a cornerstone of the Government’s Economic Reform Programme (ERP), initiated in 1987. Associated with economic expansion has been a change in the structure of the economy characterised by the marked decline in agriculture’s contribution to GDP from around 72% in 1980 to 27.2% in 2013 (World Bank, 2016a), and a corresponding increase in the share of GDP accounted for by other sectors, particularly the service sector.

However, economic growth is not continuing at the pace recorded in the 2000s, and, perhaps more importantly, the structural change of the economy may not have been as fundamental as first hoped and expected. Average annual GDP growth rates have fallen over the last four years (2012-2015) to an estimated 4.6%% for 2015/16 (World Bank 2016), and structural change appears to have been confined to the product composition of output (increases in the type of products produced). Increases in value addition and product sophistication have been minimal, and while the movement of labour from low productivity sectors such as traditional agriculture, to normally higher productivity sectors, such as manufacturing appears to be happening, the predominance of small and informal business units in the non agricultural sector accounts for the relatively low productivity of industry and services.

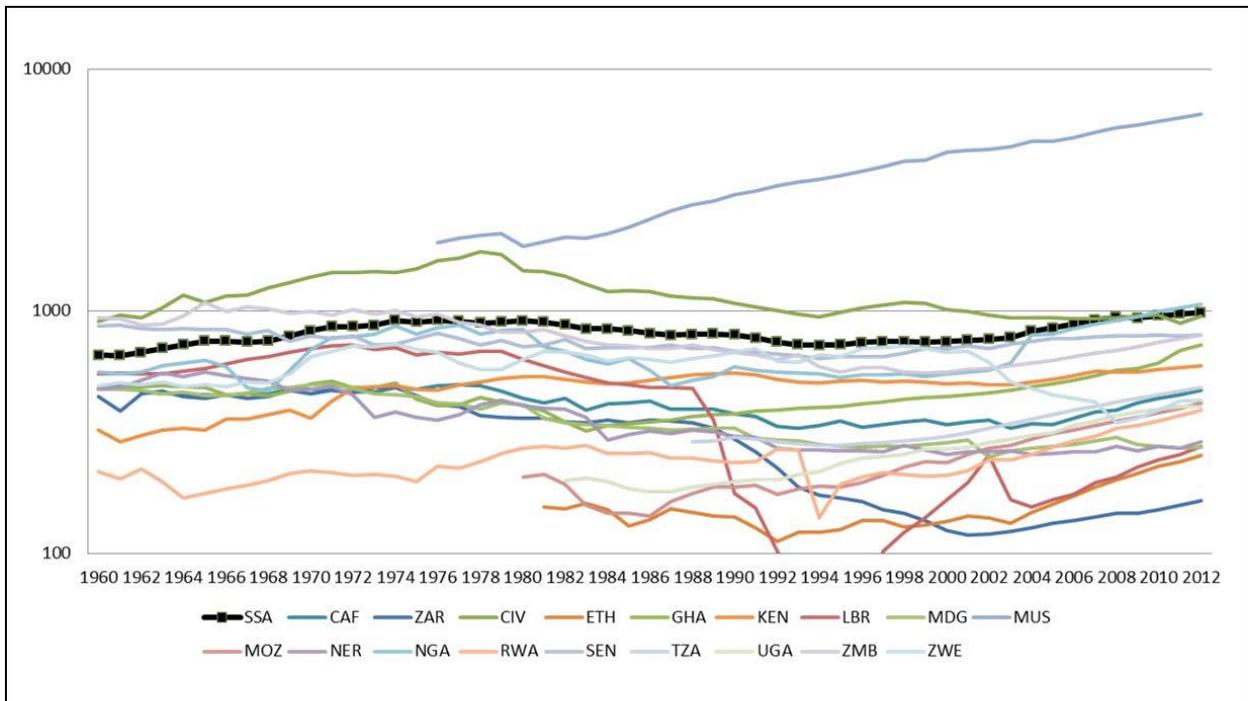


**Figure 3.1: Uganda - per capita GDP change 2006-2014**  
 (Source: www.tradingeconomics.com; World Bank)

The adverse impact of the economic slowdown may be exacerbated by the economic policies that prioritise the development of the resource based economy identified in Vision 2040 which most likely will disproportionately benefit those with skill and resources. The policies advocated through Vision 2040 seem unlikely to provide significant opportunities for those who are resource poor and inadequately skilled.



**Figure 3.2: Uganda GDP annual growth rate 2013-16**  
 (Source: www.tradingeconomics.com; Uganda Bureau of Statistics)



**Figure 3.3: Economic performance in sub-Saharan Africa 1960-2012**  
 (GDP per capita, constant \$US 2005; Source: Rodrik 2014 based on World Development Indicators. World Bank)

### 3.4.1 Sector impacts:

On overview of the published statistics on Uganda shows that economic activities in industry and services have grown in importance between 1992 and 2009/10, as a proportion of GDP, from 38.9% to 71.8%, with a further estimated increase to 72.8% in 2012/13 (World Bank 2016). Such activities are primarily, but not exclusively, urban-based (see Chapter 7). There has been a corresponding increase in total employment in these sectors from 17.4% in 1992 to 34.4% in 2009/10, and to 66.2% in 2012/13, and a corresponding fall in agricultural employment from 82.4% to 33.8% over the same period (see Table 4.2 for references). The recent dramatic increase in non-agricultural employment

can probably be accounted for by a change in the Uganda National Household Survey research design with the 2012/13 sample frame corrected for recent changes in the level of urbanisation, suggesting a degree of error in the 2009/10 data. This requires further research.

According to the Uganda National Population and Housing Census 2014, 64.7% of the working population classify themselves as subsistence agriculture workers (with a further 3.7% classed as market oriented agriculture workers – UBOS, 2016). This variance with the sector breakdown of share of agricultural employment in the 2012/13 National Household Survey suggests that many of those classified by employment status are in actuality working in sectors other than agriculture. One explanation for this could be that, following the latest ILO guidelines for developing countries, the 2012/13 survey distinguishes between those who count themselves in the workforce (and not unemployed) and those in paid employment at the time of the survey. The differences are substantial, particularly in rural areas and are accounted for by the fact that subsistence workers in agriculture are excluded

In 2012/13, 79% of those in the workforce in urban areas were in paid employment. In rural areas it was only 50%. Given the higher proportion of females working on the land only 52.4% were in paid employment. For men the figure was 61%. A further area of research are the times of the year when farmers are not actively engaged on the land, and available for other part-time activities, especially if they live close to urban areas. (The figures do not include those actually in paid employment who are classified as ‘time under employed’ 8.9% of those in employment, 10.3% in rural areas and 5.8% in urban areas). Also UBOS 2010 uses a definition for being in employment based on the 1982 ILO Resolution, “whereby a person who worked for at least one hour in the reference week is regarded as employed, while a person who was ‘without work’, ‘available for work’, or ‘actively seeking work’ is counted as unemployed.” Further research into the data is required to profile those people swelling the numbers of working in the informal sector both within and beyond the urban areas.

Of the non-agricultural employment in 2012/13, 16.5% was in manufacturing industry, and the remainder, just under 50% is working in services, compared to 4.5% and 12.9% in 1992. Over this period employment in industry and services has grown in both sectors nearly fourfold. Slightly more than one third were engaged in agriculture, forestry and fishing, followed by the trade industry which employed 22.7% of workers, with more women unemployed than men (27.4% of all female employment compared to 18.6% for men – see Table 4.3)

The share of manufacturing industry in the GDP has grown from nearly 13.2% in 1992 to 22.4% in 2013, with the increase in share of employment from 4.5% to 16.5% indicating a fairly sharp fall in productivity. The services sector has also seen its level of productivity fall, with about 50% share of both employment and GDP in 2013. Productivity in agriculture, meanwhile, has improved somewhat, with employment having fallen by nearly 60% from 82.4% in 1992 to 33.8% in 2012/13 and the share in the GDP having also fallen, but by just over half from 51.1% to 27.2%. The growing importance of urban-based activities can be mainly attributed to the increase in the value added by the service sector, although the share of manufacturing industry has also grown.

Uganda is still at an early stage in its urban and demographic transition with an urbanisation level estimated at 18.3% in 2014 according to UBOS (2015). The estimates are that by 2050 only 32.1% of the population will live in urban areas (UNDESA 2014). Despite the fall the share of agriculture in the overall economy it will remain of critical importance, both in terms of the contribution to the local food supply, both rural and urban, and its predominant share of exports.

Moreover, there is considerable diversification of employment occurring outside the defined urban areas and growing “urban-type” activities are becoming evident in rural areas, particularly in the vicinity of towns and cities. All these aspects are analysed further in Chapter 7 on rural-urban linkages Suffice to note at this point the importance of the rural economy to cities and rural-urban linkages as critical factors in the study.

Sector	Employment			Share of GDP		
	1992	2010	2013	1992	2010	2013
Agriculture	82.4%	65.5%	33.8%	51.1%	28.2%	27.2%
Industry	4.5%	6%	16.5%	13.2%	19.5%	22.4%
Services	12.9%	28.4%	49.7%	35.7%	52.3%	50.4%

**Table 3.2: Sector breakdown of the Ugandan economy**  
 (Source: For employment column: Fox and Pimhidzai (2011) based on IHS 1992/93 (Statistics Department, 1993); UBOS, 2010; UBOS, 2014; and World Bank-WDI (2016) for Share of GDP)

Sector	Male	Female	Uganda
Agriculture, fishing and forestry	33.9%	33.7%	33.8%
Manufacturing	14.8%	18.6%	16.5%
Construction	8.2%	0.2%	4.6%
Trade	18.7%	27.4%	22.7%
Transportation	7.4%	0.4%	4.2%
Other services	17.1%	19.7%	18.2%

**Table 3.3: Uganda, industry by gender of persons employed**  
 (Source: UBOS 2014)

### 3.4.2 Restricted value addition in manufacturing

Official statistics show that the manufacturing sector is associated with both limited value addition and restricted job generation, and that there has been an *informalisation* of employment as the numbers working in micro-enterprises operating in the retail, hotel and restaurant sectors has increased as a greater rate than the numbers associated with larger firms and SMEs (Ahmed *et al.*, 2015).<sup>7</sup> The economy of Uganda since the introduction of the ERP, has expanded but has not been characterised by a notable movement from low productivity to high productivity economic activities. Indeed, the World Bank has flagged a warning that the form of structural change that has occurred in the economy, “appears to have been *productivity reducing*” (Ahmed *et al.*, 2015. Emphasis added). Productivity in micro-enterprises in many developing and transitional economies, especially in the personal service and consumption sectors, is often low, as is the case in Uganda, and the increase in number of such enterprises in relation to formal sector operations, has dragged downwards aggregate productivity figures for the non-agricultural sector of the economy.

<sup>7</sup> Registered businesses in Uganda, both formal and informal, employed only 1.07 million workers in 2010/11, which is only 8 % of the country’s working population. The rest of the working population are either self-employed (the majority), or working in unregistered businesses, as casual farm labour, or as household labour.

The lack of development of the manufacturing sector is of particular concern, as manufacturing is one of the drivers of structural transformation in developing economies.<sup>8</sup> However, in Uganda manufacturing predominantly consists of last-stage assembly and raw materials processing, a high share of which is food processing. Value addition remains low in the sector, which is dominated by small operators catering to the local and regional markets. Furthermore, formal sector manufacturing businesses employed around 90,000 workers in 2010/11, which is a negligible 0.7% of the working population. The annual growth of employment in formal sector manufacturing businesses between 2001/02 and 2010/11 was only 3%, and did not keep pace with the growth in the overall labour force in this period.

### **3.4.3 Continuing export of un- and semi-processed materials**

What has sustained the economy of Uganda has been the export of raw materials and semi-processed goods; coffee, cocoa and gold in the past, with oil products likely to come on stream in the near future<sup>9</sup>. Although the product composition of outputs has expanded, the economy is lacking high value added activities producing a range of relatively sophisticated products and that this state of affairs has prevailed from 1995 to the near-present (2014). As pointed out by the African Development Bank: “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, 2014b)

Uganda is a classic example of a country that has posted high GDP growth rates based on the export to world markets of un- or semi-processed raw materials and commodities. This form of growth has fuelled consumption, mostly driven by relatively small middle and upper class sections of society, and has not been associated with systemic structural transformation of the economy, a transformation that would increase the economic sophistication of the economy and enabled improved society-wide living standards (AfDB, 2014c; Osei-Assibey, 2014). Doubts thus remain as to whether the economy can continue to growth at a reasonable rate and in a sustained and consistent manner in the absence of structural transformation. Given the Government’s aim to achieve middle income country status, within four years, by 2020, this is a significant concern.<sup>10</sup>

### **3.4.4 Private sector investment deficit**

The Bank of Uganda conducts an annual Private Sector Investment Survey (PSIS), which covers most of the large, and medium scale firms in Uganda. These are the most productive and technologically dynamic firms in the economy. In 2013, fixed capital investment by the 650 firms covered in the PSIS only amounted to 4% of GDP, or about 17% of total private investment (UBOS *et al.*, 2015). This level of investment is not high enough to ensure the systemic structural transformation of the economy.

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<sup>8</sup> The stilted growth of the manufacturing sector is common across Africa; “Between 1970 and 2013.....Africa’s share of global manufacturing output fell from 3% to 2%; as a share of sub-Saharan Africa’s D+GDP, manufacturing has shrunk from almost 20% to about half that. Almost the entire output is for domestic consumption, not export”. Source: The Economist, April 16-22 2016.

<sup>9</sup> Surveys undertaken in 2006 estimate an exploitable reserve of over 6.5 billion barrels of oil. Industrial analysts expect a mini boom in government revenues from the mid-2020s (at around 7% of GDP), as commercial exploitation of the oil reserves is expected to commence in earnest in the early 2020s (and decline from 2030).

<sup>10</sup> *Uganda Vision 2040* is Uganda’s visionary policy document for the coming decades. Its ambition is to transform Uganda from a predominantly agricultural, peasant and low income country to a competitive, industrial, upper middle income country by 2020, in four years’ time.

Another worrying aspect of the nature of change that is characterising the economy of Uganda is that the bulk of private investment, averaging between 21 and 25% of GDP, appears to have been allocated to buildings – residential property, office blocks and shopping malls – rather than to manufacturing, agro-processing or modern farming (*ibid.*) This form of investment often provides only limited formal sector employment and contributes little to productivity growth. Indeed, the paucity of private investment in industry is a major contributor to the current weaknesses in Uganda's external account.

Private investments are expected to be constrained by the uncertainties relating to the inflation pressures as the Shilling continues to depreciate and the effects of a volatile global economy that could even be worsened by the slump in China and Brazil. The general economic slowdown and the increased cost of borrowing could have direct impact on the Government's ability and desire to invest in policy reform to support the informal sector. Furthermore, an economic slowdown could further inflate the informal sector. However, a huge public investment programme is expected to drive growth. Under these circumstances, the Ugandan economy is forecast to grow at a rate of approximately 6.3% per annum in 2016-2020 (The Economist, 2016). A modest upward trajectory into the medium is dependent on efficient implementation of large infrastructure programme as well as take-off of activities related to oil, both of which will boost construction activities (World Bank: 2016).

An integral part of the growth process in Uganda in the last decades has been the high level of fiscal support it has received from donor countries and multilateral agencies. Aid to Uganda has increased year-on-year from 2013. There is a slight decrease for 2015 but it remains substantial. According to Hayman (2011: 769) the fourth generation conditionality behind aid is based on mutual commitments and benchmarks and adherence to a complex set of norms. She argues that provision to budget support is on the back of prior performance and demonstrated commitment to poverty reduction. This, perhaps, explains the Ugandan governments push to improve the poverty indicators.

While this is positive, it raises important questions about the other impacts of aid on Uganda and whether it has become less aid dependent. Bräutigam (2000) notes that there are several ways of defining aid-dependency. If aid accounts for more than 10% of the GNP Bräutigam classes the country as aid dependent. For Uganda, this ratio peaked at 25% in 1992 and declined gradually to near 7% in 2013 (World Bank, 2016a). Even though the amount of actual aid has been increasing, by this indicator, Uganda is no longer aid dependent.

The argument here, however, is that, although private investment has long since overtaken aid the long period of aid dependency and the given trend continues to put a drag on improving institutions and governance. It affects sets of norms, codes of conduct, laws and patterns of behaviour that structure the incentives for cooperation and the setting within which improvements in governance can occur (Bräutigam, 2000). How these issues have feed into the political economy of informal sector and affect government attitudes towards a more positive approach should be subject of further study.

### **3.5 Conclusions, knowledge gaps and policy implications**

This chapter has set out the possible trajectories of Uganda's future economic development within the wider context of globalisation and the recent trends in sub-Saharan Africa and the possible role of the informal economy within it. It has noted that sub-Saharan Africa economies are unlikely, for the foreseeable future, to benefit in most respects from the value-chain transformation open to

developed world economies, based on technology and skills intensive home based production and off shoring of low skilled operations to low wage economies.

While successful Asian economies have had an opportunity to build a substantial manufacturing base and a chance to move up the value chain, many parts of sub-Saharan Africa, meanwhile, have been caught in a poverty trap that spanned the last few decades of the twentieth century, and suffered a spate of ‘premature de-industrialisation’ (Rodrik, 2016) from which many have fully to recover. Given the nature of growth that characterises the formal economy and the global pressures supporting the maintenance of resource-extractive, low employment generating economies in Africa, it remains highly likely that the informal economy will persist and likely grow for decades to come

However, as is increasingly supported by the evidence and argued in this study, the informal economic sectors form part of an economic continuum and an evolving larger hybrid economy which, if given effective support, can help underpin the necessary economic transformation across sub-Saharan Africa. This requires augmenting the 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’.

National and local government policy needs to recognise and re-focus on the concept of the hybrid economy. This is an approach that can be applied across the economy, for example in rural areas in aiding the transition from subsistence agriculture to more market-focused activities within a more diversified rural economy. It needs to shape the linkages between rural and urban areas as explored in chapter 7.

However, with the growing urbanisation, the focus will be increasingly on cities as engines of inclusive growth. With the World Bank seeing industrial growth as an essential driver of economic growth in Africa, the role of the hybrid economy will be key in putting manufacturing and industrialisation in urban Africa on a high productivity trajectory.

Data on, and analysis and knowledge of, the hybrid economy is lacking, especially at the sub national level. As highlighted elsewhere in this report, existing value chains and networks involving informal formal and informal enterprises have to be better understood. While a differentiated policy response is obviously required and needs to be developed, the very first step is to recognise the potential value that is already inherent in informal economy and its place within an apparent hybrid entity.

## **CHAPTER 4: CITY LEVEL ANALYSIS OF INFORMALITY IN A HYBRID ECONOMY**

### **4.1 Introduction**

This chapter draws on empirical evidence to support the argument that the informal economy will persist in stagnating and growing economies. It also establishes that the informal economy in the secondary cities of Uganda is providing sustainable means of livelihood for the majority engaged in informal activities; and the units have multiple business links which across the urban economy.

The chapter employs the analytical concepts outlined and developed in Chapter 2. Secondary evidence is presented from the literature, mainly the publications of the Government and international financial institutions, and the work of researchers who have drawn on this type of evidence and informed these sources. However, the chapter is primarily focused on analysing the data, both quantitative and qualitative, gathered in the field study visits to the case study cities in Uganda, employing the methodology as described in Chapter 1. These studies provide preliminary evidence to support the basic hypothesis and to set out some initial policy implications that can shape the future direction of research to explore current knowledge gaps.

## **4.2 Evidence: Urban growth dynamics and the role of informality in the urban economy**

### **4.2.1 Informal economy: contributions to the national and local economies**

The informal economy is widely recognised as a major force in African economies, contributing significantly to both Gross National Product and employment. It accounts for 55% of the GDP in sub-Saharan Africa and 80% of its labour force (AfDB, 2013). In Uganda, the informal economy contributes 43% to the total economy (UBOS, 2012). In Ghana, nearly 90% of the labour force comes from the informal economy (*ibid.*).

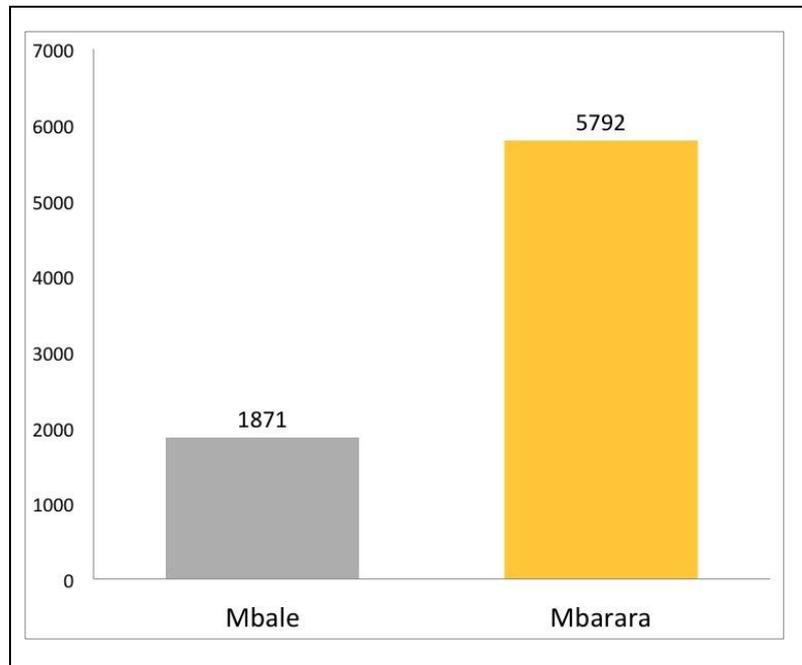
Furthermore, it has been argued in the previous reports, that the Ugandan government's failure to support private sector, small enterprise development has resulted in the 'missing middle' in its industrial economy. South Africa and Kenya have encouraged such development to address the imbalance. The role of informal processing and manufacturing in enhancing growth and creating a more equalised system is exemplified by the case of India (see Chapter 2, p38).

At the city level, all local government officials noted the increase in informal activities in their municipality. In both Mbale and Mbarara, officials estimate that the informal economy accounts for over 60% of the urban economy. Furthermore, in Arua the day population is estimated to be 200,000 as against the night population of 62,000. Similarly, in Mbarara, officials estimate the day population at 250,000, against a night population of 190,000. Most operate in the informal economy. This implies that the city government is benefiting from the increased business in their cities, without the need to provide any services to those who operate in the informal economy.

### **4.2.2 Evidence: role of the informality in the urban economy**

This section, draws on the primary data generated (i) to demonstrate the relationship between urban dynamics and the informal economy; (ii) to show the viability of the micro-enterprises to generate a minimal standard of living; and (iii) use case-studies to illustrate the varied linkages within the urban economy that support informal activities.

**Urban dynamics and the size of the informal economy:** The resurgence of interest in the informal economy is the recognition that it is not a short-term feature, but rather an integral component of 21st century capitalist economy. The analysis here shows that the Mbarara, with a fast growing modern industrial sector, has a bigger informal economy than Mbale, generates more income; and offers a far greater variety, and higher quality of goods and services, than Mbale.



**Figure 4.1: Estimated number of street trading units**

Figure 4.1 is an indication that Mbarara supports a much larger informal economy than Mbale. This needs to be put in the growth context of these two cities.

The quantitative fieldwork that was carried focused on retail trade, the most pervasive entrepreneurial activity in the informal economy of Africa (Rolfe *et al.*, 2010). This implies that the size of the trading sector is suggestive of the overall size of the informal economy in a particular urban centre. In Uganda as a whole, data from the 2009/10 Uganda National Household Survey (UBOS, 2010) indicates that trade represent around 44% of employment in the informal economy, by far the biggest sector. For women, it represents nearly 54%, for men around 36% of total informal employment. In Chapter 7 an estimate of informal employment for the two cities is made on the basis of the national level breakdown. This estimate is entirely indicative and takes no account of different economic structures of the two cities, about which data is lacking. However, it would suggest that the clusters of informal street trading enumerated as a sample frame for the field surveys represented perhaps 20-25% of the total on going informal trading activity in the two cities.

The share of trading activity is likely to vary with location and the level of economic development. Rolfe *et al.* (2010), based on a study of informal micro enterprise in South Africa, suggest that up to 70% of informal activity is concentrated in trading. Analysis of the data from a full citywide survey of more than 11,000 households in Kaduna, Nigeria in 2010 compared with a similar if much smaller scale survey carried out in the city in 1965 indicated that the rise of informal economic activity over time is a prominent feature of the labour market in the city, as indeed in urban centres across sub-Saharan Africa. This is evidenced by the growth in ‘side trading’ or informal trading activities, which rose from 5.5% in 1965 to 35.3% in 2010. That study estimated that the informal sector is represented approximately 50:50 by the self-employed in the trading and non-trading sectors, accounted for 58% of the employed workforce in 2010. Small-scale service employment represented 44% of the workforce in 1965.

In Uganda, Mbale is one of the slowest growing secondary towns at 2.5%, in Uganda. Following the exit of large-scale manufacturing, a result of the Structural Adjustment Programmes adopted in 1990s, it now has only medium- to small-scale agro-processing units. It has several religious educational institutions that attract students and some migrant workers from across the border in Kenya.

Mbarara, on the other hand, is the trade-hub of south-western Uganda with strong trading links with Rwanda and the Democratic Republic of Congo; and has been identified for investment under the Government's 2020 Vision. It is one of the fastest growing cities: grew by 8.6% between 2002 to 2014 (UBOS, 2016). Our field visit showed that it has already attracted private sector investments in large breweries, steel rolling plant, milk processing and bakeries. Coca Cola has a large production unit to supply the regional market. Tourism, supported by the government, is a growing sector, with large number of small hotels springing up to cater for the international tourist trade, though the Municipality has no estimate of this. Dairy farming has been successfully modernised and has achieved high productivity and now supports small-scale retail trade supplying fresh milk in the town and surrounding areas.

Given the recent investment in formal employment, according to the traditional, dualistic explanations, the informal economy should be shrinking in Mbarara, while growing in Mbale. It would appear that the dynamic relationship between economic growth due to the expansion of larger-scale industrial activity and the informal economy may also involve an element of positive feedback. This can be explained by two factors: one, a multiplier effect which could be up to 1.6 in the rest of the economy (Ilzetzi *et al.*, 2013); and two, it attracts a large number of young, partially educated, and low skilled youths. The multiplier effect creates jobs and increases the demand for goods and services at all levels of the urban economic continuum. These demands become a source of livelihood for many different groups. They include survivalists, educated unemployed youths and entrepreneurs (discussed below). On the other hand, the technology-intensive, modern industrial growth creates only a limited number of jobs, but attracts a large pool of job seekers who find themselves unemployed. They join the survivalists and entrepreneurs to meet the increased demand for goods and services in the lower end of the urban continuum, expanding the informal economy. These dynamics will ensure the persistence of informality with economic growth based on technology-intensive industrialisation.

As noted in Chapter 7, and although there is a lack of recent data to explore the matter further, in 2006, the Human Poverty Index for the wider Mbarara District was the highest of the districts of the secondary cities originally considered for further fieldwork. At 35.2%, it was somewhat higher than Mbale District at 28.6%. Mbarara's HPI had fallen since 2000 while that of Mbale had risen. Doubtless this trend has continued in the subsequent decade but it suggests possibly a wider rural-urban gap in Mbarara District and a greater draw of the city for the rural poor.

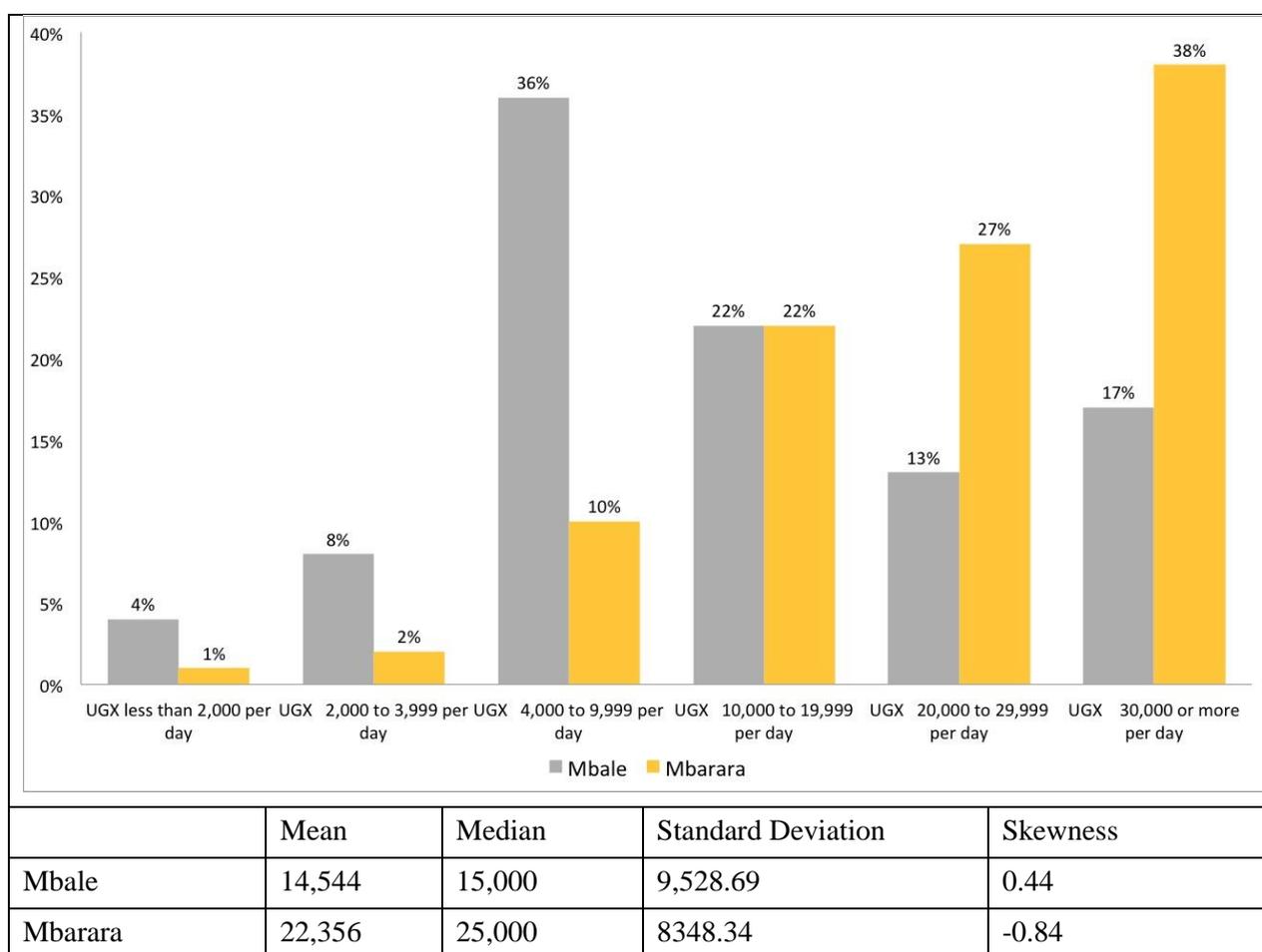
#### **4.2.3 What is the economic viability of the informal activities?**

Definition of viable sustainable livelihood and the income necessary to achieve it, vary with the country. Rolfe *et al.* (2010), used the minimum wage for unskilled workers set by the government for formal businesses, to assess the living standards for informal business in South Africa. It is not so straightforward in Uganda, as there is no stipulated minimum wage. The ILO and the labour unions are pushing for UGX 250,000 per month, however, this has still to be accepted by the Government of

Uganda. Since there is no agreed minimum wage, this study uses the Poverty Line value of UGX 3,170 per day.

Figure 4.2 gives the income profiles of the two cities. Complex and interesting dimensions emerge from these profiles. Each tells a different story.

**Mbale:** The low mean income of UGX 14,544 and a slight positive skewness (0.44) mean that the informal economy in Mbale has a large number of owners who are struggling to survive. With the poverty line at UGX 3,170 per day, 12% of the owners will make ends meet, but only sometimes, and could be said to be in chronic poverty. The 36% earning between UGX 4,000 and UGX 9,999, could drop into poverty due to family illness, death or family wedding, etc., at any time. Hulme and Shepherd (2003) refers to this group as ‘transient poor’ or occasionally poor. According to the World Bank, even if an individual spends twice the poverty line, he/she is still in poverty. The Poverty Status Report on Uganda (GoU and UNDP, 2014a), notes that the average deprivation share among the poor is 49.4% (2012-2013). The proportion of the poverty group (48%) in the informal economy appears to closely mirror the national picture. This leaves 52% of the informal owners making a viable living.



**Figure 4.2: Mbale and Mbarara: income distribution in the informal economy – evidence from the field survey**

**Mbarara:** in Mbarara, on the other hand, the informal economy appears to be flourishing. With a mean income of just over UGX 22,000 and a negatively skewed (-0.84) income distribution means that the informal economy is predominantly populated by successful owners. Here the median income is higher than the mean income. 38% earn more than UGX 30,000 per day; and another 27%

make between UGX 20,000 to UGX 30,000. 3% fall below the poverty line, with 10% vulnerable to occasionally slipping into poverty (the transient poor). This income profile in Mbarara shows a strong divergence from the national profile. The evidence here leads to the argument that:

1. The majority of owners make a viable living;
2. There are greater business and income opportunities in a growing economy, even for informal units; and
3. Returns to informal activities appear to be greater in a thriving urban economy, which also attracts more entrepreneurs than in a slow growing city.

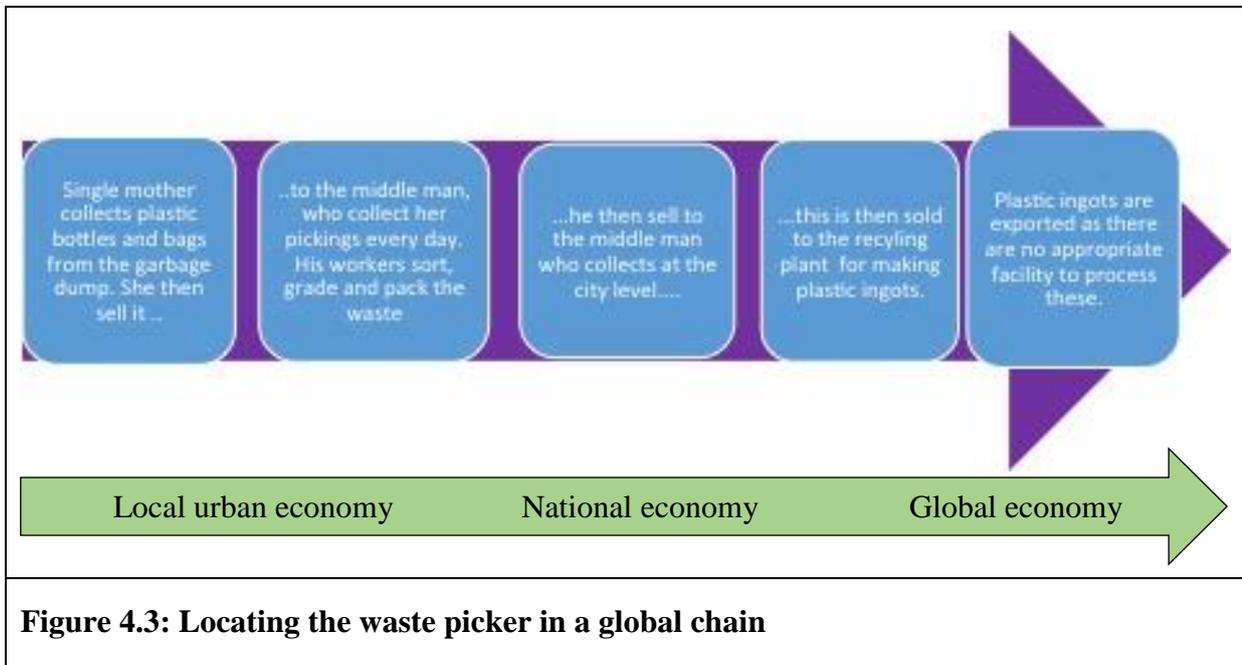
As subsequent analysis will show, the quality and types of goods sold in Mbarara are considerably superior to those sold in Mbale. This reflects the nature of the demand and higher employment levels. This evidence provides an additional reason to conclude that informality will persist with economic growth.

#### **4.2.4 Informality and linkages within the urban and national economies**

This study has discussed linkages from two different perspectives. One, the various forms of linkages of the informal activities that can be found in the urban continuum (section 2 of the State of Art Paper); and two, a tiered approach which categorised linkages at three levels: links with the global economy; links with the formal economy and linkages within the informal economy (section 4 of the same paper). This section shows that all informal activities have some forms of linkages with the urban economy; additionally, the more organised a business unit is, the greater are the number of links it has with the urban and national economies.

The selection of case studies has been guided by two criteria. (i) To demonstrate that informal activities, wherever they are located in the continuum, have linkages to the rest of the economy, and are an important basis for success. These could be at one or several levels (urban, regional, national and/or global); and (ii) since the quantitative analysis focused on retail trading, the qualitative analysis looked at depth at other sub-sectors of activities. This was to ensure that the study reflected the breadth of activities carried out in the informal economy.

**a) The waste picker: At the lowest end of a global chain for recycling plastic:** The waste picker, who offered to tell her story, even though she was being watched by her supervisors, is educated and fluent in English. She is a single mother who works 8-10 hours a day, on a major garbage dump and earns UGX 8,000 to 10,000 per day. The work is back-breaking and dirty, and attracts only scorn from the local community. However, she is saving through mobile money and her aim is to save UGX 1.5m to start a poultry business.



She, and others like her, are an important link in the global chain as illustrated in Figure 4.3. She collects polythene bags, plastic bottle and any other plastic waste. She then puts them in a large net bag, which can hold 20 to 70Kgs of waste. She drags this around as she keeps topping it up. The small trader, who called himself the middleman, comes every day to gather the collection from these waste pickers.

This middleman is called Dramar; he is a young educated man, started this business as he thought it would be profitable. Additionally, he saw no other options. His family invested UGX 5 million to start his business. His sorting centre is located next to the garbage dump and he employs several workers to sort the waste, grade and bag it. A densely packed bag of plastic bottles fetches \$130/kg; plastic bags fetch \$120/k (He preferred to give the rates in US dollars). His earning is UGX 2 million per month. He sells the graded material onward to a middleman who operates at the city level; who in turn sells to a recycling plant for making plastic ingots. As there are no facilities in Uganda to process the ingots, they are exported. Dramar, also has a poultry farm and is saving to go into real estate business.

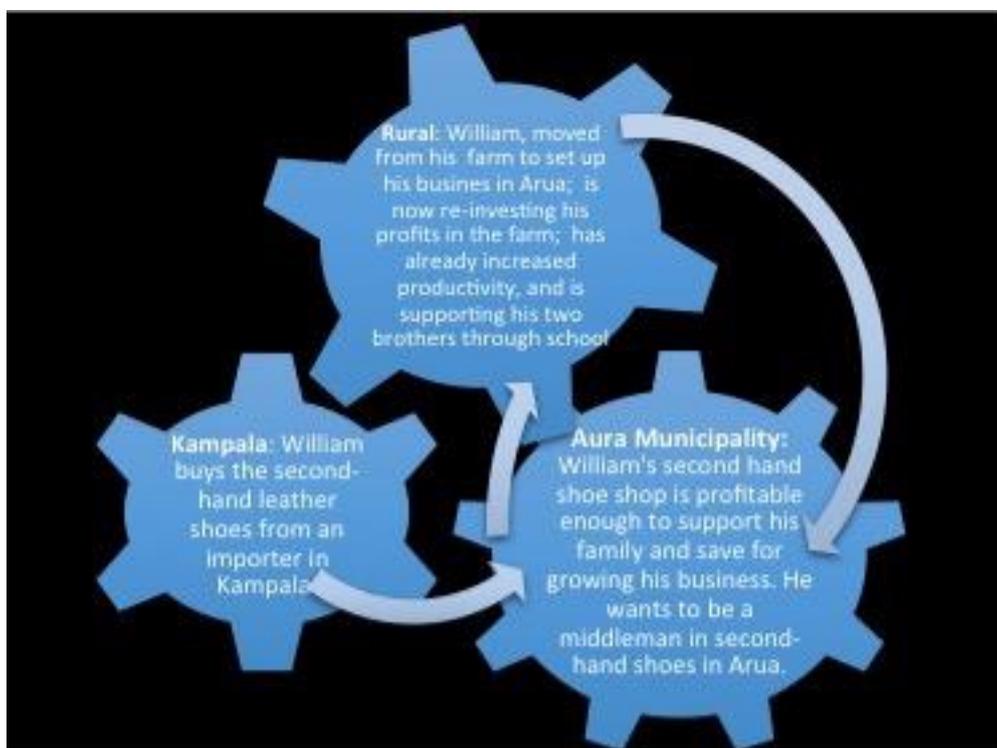
The position and the working condition of the waste picker exemplifies the situation of millions of workers in sweatshops. Piore and Sabel (1986) in the context of globalisation of production, describe three business strategies: sweatshop production, mass production (capital intensive) and flexible production (capital and technology intensive). Of relevance here, is increase in sweatshop production over the last couple of decades. This has shaped new links between informal units, the wage workers and formal businesses. Like the waste picker, workers in sweatshop production are paid by units of output and deprived of minimum wage and basic health and safety standards. *Linkages here enable a very exploitative global relationship.* This also means that, if these workers are unable to work due to illness or family exigencies, they lose their day's earning.

The case of Dramar shows that those with resources (some education, family wealth), are able to join the urban economy with greater control over their business and livelihood links. He appeared satisfied with the price at which he sold the graded waste; but it was difficult to assess the kind of relationship he had with his buyer.

**b) William: Second-hand shoe seller in Arua:** We found William selling shoes on one of the backstreets of Arua; he was one of three such traders. He was fluent in English and agreeable to be interviewed. He is in the informal economy by choice. He comes with family resources and has set up multiple linkages to create a successful business (Figure 4.4).

William is a young man in his late teens or perhaps 20. He is articulate and well-spoken who completed his Senior-6, six years ago. He had to drop out of school because his father could not afford the fees. His family is based in the village of Kamikua, 7 km from Arua. On the small farm, the family used to grow food crops primarily for home consumption. He has three brothers and two sisters. He continues to live on the farm. He commutes to Arua, has his lunch in a local eatery. Sometimes he goes out with his friends after they close shop.

William started his business six years ago. His reasons were, (i) the farm needed more investment to grow cash crops; (ii) he wanted to support his brothers through school; and (iii) he wanted a better life and likes to be in a city.



**Figure 4.4: Multiple inter-locking links with the national and regional economies of an informal retail business**

He realised there was a good market in second-hand leather shoes, which are imported from Europe by wholesalers/importers in Kampala. The new shoes available in Uganda come from China, are made from synthetic material and are considered to be of poor quality and which wears thin very easily. William travels to Kampala every week to pick up his stock. He takes a boda boda to Kampala, but returns by a van.

He buys goods worth UGX 30,000- 45,000 each week. On a good day he makes a profit of UGX 30,000 but generally UGX 25,000. He is constantly growing and diversifying his family business in the village. They now grow bananas and maize as cash crops, and use fertilisers and pesticides to increase productivity. He returns to help the family during the peak agricultural season. He also organises his brothers to make bricks during the month of December-January, when they are

on Christmas holiday. He is putting his two brothers through school. He is saving to buy his own boda boda. He ultimately wants to become the middleman in Arua for second-hand shoes.

The pitch he, and the other traders on the back street occupy, are on land leased by the council to a contractor (called tender) (the city council was not aware of this arrangement). They pay a daily fee to him of about UGX 2,000 and also incur an additional cost for safe storage of goods. Furthermore, they are not allowed to have any permanent structure, and their goods were laid out on plastic sheet on the side of the road (Figure 4.5). These traders are not registered, and they were ambivalent about whether they wanted to register, as they saw no benefit. This irregular and indirect arrangement through the contractor shows that the street operators are willing to pay for the pitch even though, in this instance, no basic facilities come with it. This would imply that if registration offers access to some minimal services, the street traders could be amenable to register.



**Figure 4.5: Shoe sellers in Arua**

Even though William occupies an economic space that would be considered at the lower end of the continuum, he is an example of an entrepreneur with drive, market information and foresight. He has a good level of business organisation. He moves between freely along the continuum of activities as and when necessary. He has established multiple linkages to run his business. Without these interlocking links he would not be able to generate a viable income from his shoe-selling business and for his family. Also, it should be noted that he is in the informal economy by choice; he perceived it as economic space with opportunities.

**c) Brick makers in Ruti, Mbarara:** This case study yielded a vast amount of information (some of which are discussed elsewhere in this report). Of relevance here is the place that brickmaking occupies in the urban continuum and the multiple linkages established by the owners of brick making units, that stretches across the urban continuum and the regional economy.

The Ruti Brick-makers Association was formed in 1984, with 20 members. It is still not a registered organisation. It currently has about 200 members: 30 women and 170 men; and

membership is open to all. As seen in Fig 4.6, the site is large, about three hectares in size. As the land was unused, the group started to excavate the clay soil and produce bricks. The council referred to the brickmaking as an informal activity. They are allowed to use the land ‘free of charge’, and continue to do so until today. The arrangements with the council are fuzzy.

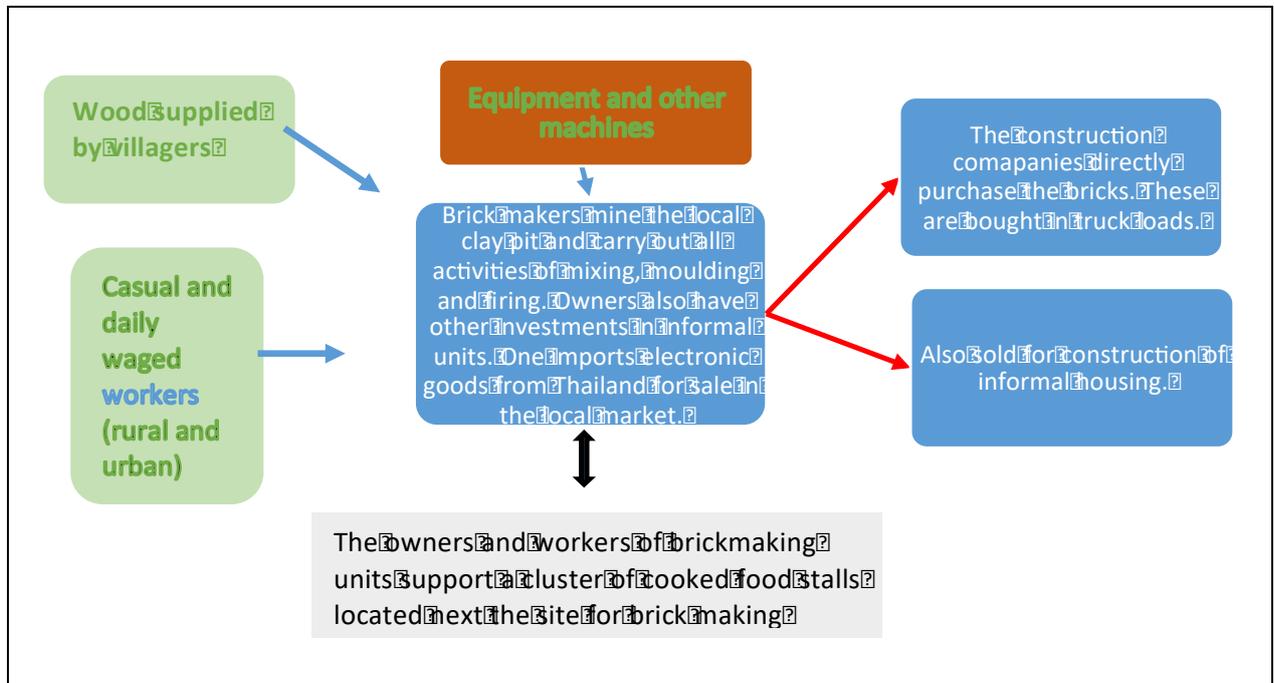


**Figure 4.6: Brick making field. Ruti, Mbarara.**

Two groups can be distinguished within the association: (i) the minority wealthier “owners” who have allocated parcels of land amongst themselves; and some have built kilns to fire the bricks; and (2) the majority of brick makers, who cannot afford to build a kiln, actually make the bricks. They excavate the clay; grind and crush it; then mould; dry; fire and then sort and pack. Some casual workers are also employed; these issues are discussed in the next section.

The main players in this activity is the minority of owners (Fig 4.7) who have access to the land; have built kilns and organised the work, and keep the greatest share of the profit. As the local supply of firewood has been exhausted, they now source the firewood from Kiruhura District, about 40 miles from Mbarara. This has added to the cost, and has a greater carbon footprint: 30,000 bricks require 3 lorries or 14 tonnes of firewood.

All equipment, like moulding machines, and other tools are bought locally in Mbarara. Labour linkages stretch across the rural and urban economy, as some have migrated to work. However, both rural and urban daily waged and casual workers are paid on piece rate and live in informal housing. Both men and women are paid the same piece rate. The owners and workers support the cluster of food stalls that operate adjacent to the site. These are run, predominantly by women.



**Figure 4.7: Forward and backward linkages across the urban economy**

The cost of making 10,000 bricks is UGX 1.5m; they are sold for UGX 2million. The main customer base for bricks is the formal housing and commercial buildings. Bricks are generally pre-ordered and the customer (builder) collects in truck-loads. Bricks sold for informal housing are in smaller quantities and collected by individuals.

This informal activity is well-organised, occupies a relatively large urban space, provides employment and goods to the urban economy. It has well established multiple business links. The minority of rich owners, have diversified into other areas. One owner has appointed a local agent in Thailand and now imports electronic good which he sells through a registered retail outlet. The reasons for diversifying are, one, they are aware that the supply of clay will soon be exhausted; and two, they are entrepreneurs who can identify market opportunities.

They move easily across the urban continuum of activities, setting up multiple links, some of which could be exploitative, others less so. Furthermore, Chen (2007:2) notes that the informal economy is a continuum of economic relations of production, distribution and employment. Here, the entrepreneurs and workers, depending on their circumstances, move with varying speed and ease along the continuum, and operate simultaneously at different points in the continuum. Hence, these businesses with multiple links, cannot be viewed as marginal or peripheral, but as a basic component of the total economy.

**d) Women jewellery makers in Jinja:** Home-based production and processing is an important component of the informal economy, and often supports women workers who could be ‘transient poor’. The story of this group, reflect the wider narrative on women who are forced to enter the production system, as they have very limited choice. Their income is an important part of the household’s livelihood portfolio. The women interviewed had their homes in a cluster of 2,000 informal houses with permanent brick structure; and they had access to a stand-pipe.



**Figure 4.8: Women making necklaces from waste paper**

The reasons for picking up this work are that husband doesn't earn enough; is 'useless', spends the money on alcohol, or abandoned by the husband. A group of 200 women from this slum was trained by an NGO to give them an alternative mode of income. The necklace is made from waste paper which the women collect from different commercial outlets and offices in Jinja. Additionally, they need to buy varnish, string and clasps. Each short necklace sells at UGX 5,000. The shops in Jinja sell it for UGX 10,000.

However, their main challenge is to find a market. Their main market are the tourists visiting Jinja. The demand is unreliable and seasonal. There is apparently little local demand for these items of jewellery. The experience of these women also raises the question, as to why the NGO that trained them, did not consider the marketability of the final product. An alternative skill may have been more lucrative.

The lack of education, capital and skill have forced these women into the lower end of the urban continuum. The case of the waste picker and this group underscore the fact that lower in the continuum you are placed, greater is the possibility that the links which connect you to the market will be exploitative.



This study has so far demonstrated (i) the reasons why the informal economy will persist with growth in the modern industrial economy; (ii) that the returns to business in the informal economy is directly related to growth of the overall urban and regional economies; (iii) that informal activities are found at various points along the continuum depending on their own level of organisation; (iv) the entrepreneurs and workers, depending on their circumstances, move with varying speed and ease along the continuum, and operate simultaneously at different points in the continuum; and (v) lower in the continuum you are placed, greater is the possibility that the links that connect you to the market will be exploitative.

### 4.3 Conclusions: theoretical findings of the city-level analysis and policy implications

Based on the evidence generated by this study, and specifically this chapter, this paper argues that (i) the urban informal economy is likely to grow under conditions of both economic growth (Mbarara) and economic diminution (Mbale); (ii) the institutional neglect (discussed in chapter 2), the disdain for the poor and women, and an absence of a pro-poor perspective at all levels of government, is a drag on developing pro-poor policy; and additionally, (iii) the pressure on local governments by donor agencies to generate more revenue, is reinforcing the traditional orthodoxy and their policy to register informal units without offering any social or economic benefits.

The policy implications of these findings are:

- Economic growth channelled only through the modern industrial sector will not reduce the informal economy, on the contrary it will make it an even more important economic space for those with limited resources;
- Changing the mind-set of policy makers and of local government officials will be fundamental to developing and implementing pro-poor policies; and
- It is important for donor agencies to appreciate the cross-sectoral impacts of their policies pushing for greater revenue generation, by local governments. In Uganda it is reinforcing the traditional legalistic stance towards the informal economy. If not addressed, it will negate the objectives of FCA, focusing on developing a more enabling policy.

(ii) In order to influence the institutional perspective of the informal economy, it was essential to demonstrate the important role played by informality in the urban economy. This section has demonstrated that the majority of entrepreneurs make a viable living and that the informal economy is embedded in the urban, regional and national economies. Furthermore, there are greater business and income opportunities in a growing economy for informal units; with return to informal activities higher in a thriving economy, which also attracts more entrepreneurs than a slow growing city. This, could provide the potential for building some of the 'missing middle'.

The policy implications are:

- It is expected that these findings will be an instrument to change the mind-set of the policy makers at all levels of the government.
- There is a need to address the tensions that arise from conflicting policy aims of donor agencies; otherwise it could difficult to develop an enabling policy focusing on the urban poor.

There is equally a requirement to identify the potential for growth, but also recognise the policy needs of the poorer segments of the informal economy

## CHAPTER 5: MICRO-LEVEL ANALYSIS: HETEROGENEITY, LINKAGES AND VULNERABILITY

### 5.1 Introduction - unpacking heterogeneity

The internal diversity of the informal economy has attracted much research and debate over the years in order to understand factors and relationships behind it, and also to enable policy development. There are various ways this heterogeneity has been unpacked. This study has proposed a systematic approach to this analysis. One of the main aims of this section is to identify socio-economic and demography based analytical groups for developing policy options and a future research agenda.

The proposed approach will be briefly set out in section 5.2 (this has been discussed in greater detail in the State of Art Paper). Section 5.3, will focus on unpacking the vertical heterogeneity, created by differential incomes, risks and vulnerability. It will draw on primary qualitative and quantitative data to provide insights on who joins and the reasons for entry; of the types of activities in the two cities, dis-aggregated by income, gender, age and education. It will also analyse, the resources that different groups bring to their business, in terms of start-up capital, time and labour inputs, household resources; by gender. One of the arguments (as set out in 5.2) in this research is that the diversity found in the informal economy varies with the type of activity. Hence, the understanding of vertical heterogeneity has to be contextualised by activity. Section 5.5, illustrates this by drawing on the qualitative and quantitative analyses in Sections 4 and 5. Section 5.6 summarises the theoretical findings and the policy implications.

### 5.2 A systematic approach

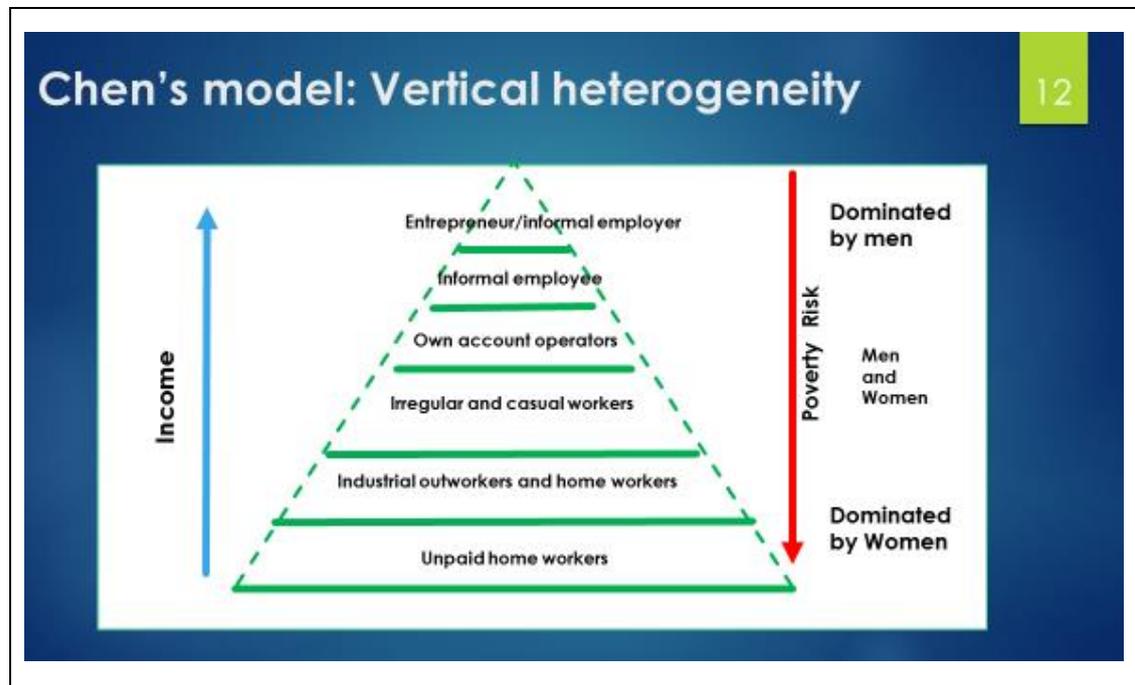
The internally heterogeneous character in the lower half of the urban continuum has been well documented by theorists from different perspectives (dualistic, structuralists, legalists). This has been in terms of income, size of units, types of entrepreneurs, type of work, place of work, among others. The diversity arises as different groups articulate with the urban economy in a way that is most beneficial to them, given their resources, and one that allows them to develop a portfolio of activities. Furthermore, the increased heterogeneity occurs because the strategies adopted are seen to vary with socio-demographic group, and within each group with gender, age, education and location.

The socio-economic differentiations that exist in terms of income, risk and vulnerability give rise a **vertical heterogeneity**. There has been a limited systematic approach to unbundling and structuring these relations. Chen (Chen *et al.*, 2005; Chen, 2012) have developed a hierarchical, conceptual model to locate and relate income, risk and vulnerability, by gender, which this study builds on.

Another dimension is the **horizontal heterogeneity**, attributed to the variety of activities. Studies have distinguished type of activities (waste pickers; garment piece workers; street traders etc.) and have then built up a picture of production relations that exist in that particular sector. These two dimension cannot be studied in isolation of each other. It is argued that an analytical model needs to examine the cross-cutting issues emerging from these two types of diversity. This means different analytical groups are created and should be identified and understood.

WIEGO (Chen *et al.*, 2005), based on empirical evidence from six countries, has developed a model of informal employment. Its pyramid gives the hierarchy of earnings and poverty risk by

employment, status and sex (Figure 5.1). This is a useful way of conceptualising the vertical heterogeneity that is found in the informal economy. Their hierarchy clearly identifies the most vulnerable groups, which form the base of the earning profile and is also the largest group; it highlights the gender-based poverty issues and the nature of work relations. The pyramid indicates that those activities requiring greater capital, skill and market knowledge tend to be dominated by men.



**Figure 5.1: Chen's model of vertical heterogeneity**

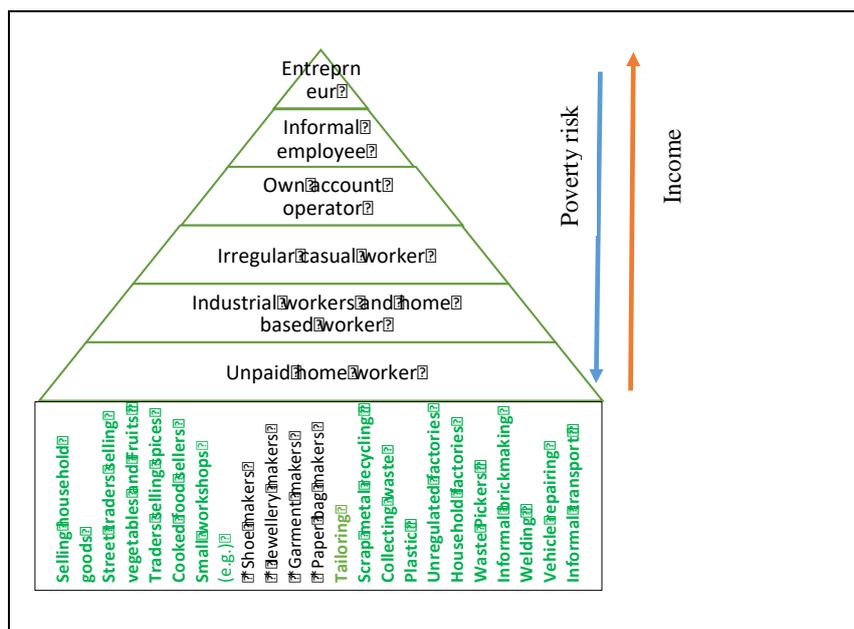
Flipping the argument over, it also means that men have better access to education and resources than women, and can take more informed decisions. For example, in the lower end of the continuum, the young, educated male spice seller, who has market information on profitability and the capital to invest, and the low skilled women with only functional literacy and a small amount of capital sell vegetables rejected by the market trader, with little return. At the higher end of the urban continuum are activities like computer repairing, car and truck garages, boda bodas, welding, brick making, etc., which require capital investment and specific skills, often out of reach of the women. These gender-poverty issues could be due to cultural, social and religious barriers, and the need for women to balance their productive and re-productive commitments.

Each of these horizontal strata would contain workers and owners from multiple sub-sectors of activity, making it difficult to design policy approaches. Hence, each of these layers would need to be contextualised within a sub-sector of activity.

Chen recognises that the pyramid model, by itself, fails to incorporate the horizontal segmentation introduced by different types of work. Chen and WIEGO's model is a generalised model; by implication the norm. In reality, the shape and the constituency of the pyramid will vary with the sector of activity. A simplified, one dimensional approach will not capture the full complexity. It is important that an analysis is able to examine the cross-cutting nature of diversity that is found in the informal economy and the issues emerging from the two types of diversity.

This project takes forward the notions put forward by Chen, to build a more holistic model, illustrated in Figure 5.2. It is contended here, that within each sector of activity, while all categories

of income hierarchy may be present, the group sizes will vary by number and sex. It will be essential to capture the three sided relationship between type of activity, income- poverty risks and the socio-demography.



**Figure 5.2: Our conceptual model of vertical heterogeneity**

For example, if there is policy intervention, to address urban waste recycling, it will be essential to unpack the vertical profile of earning and risks in this sector and relate these to the supply chain that stretches through to the formal recycling plant. Some of the most vulnerable men and women are found in this sector of work. This will be essential for designing an inclusive package of improvements.

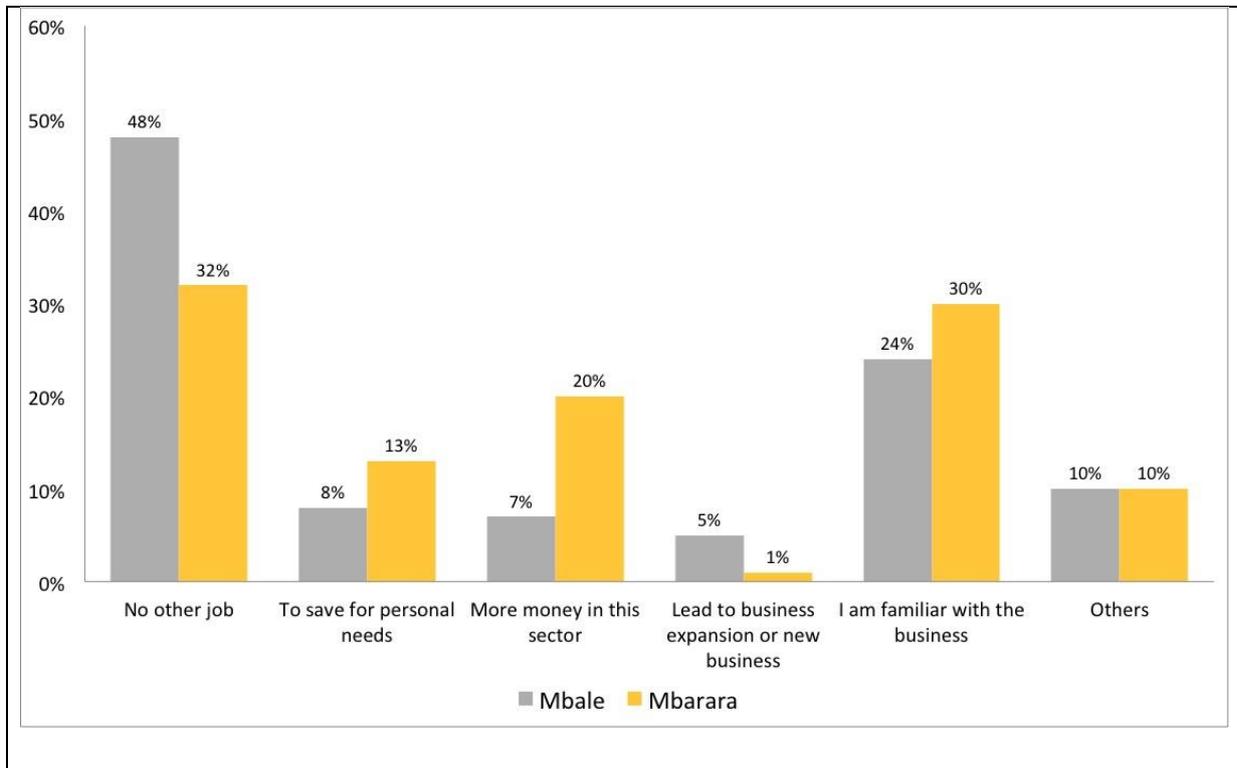
### 5.3 Unpacking vertical heterogeneity

Vertical diversity reflects the income-poverty-risk profile of the informal economy, which is created by the entry of different socio-demographic groups, the resources they bring and the business strategies they are able to employ. It also contributes to the creation of different analytical groups in this economy.

The first step to identifying groups is to understand the reasons for entry and developing a gender-based income-risk profile. It is pertinent to re-iterate that the analyses presented here is based on primary data generated by this study.

#### 5.3.1 Why join the informal economy and who joins?

The reasons for entry are important, as they are indicative of the resources they bring to the business. Figure 5.3 shows that there is considerable difference in the pattern of entry between Mbale and Mbarara. In Mbarara, more owners (63%) seem to have positive reasons for starting the informal business: to save (13%); more money in this sector (20%) and familiar with the business 30%. These reasons account for 44% in Mbale. However, the main reason in both cities is the lack of alternative employment; for nearly half (48%) in Mbale; while it is a third in Mbarara. 10% in both cities cite ease of entry and/or little capital needed.



**Figure 5.3 Reasons for Joining Street Trading**

Given that there are many different reasons for entering the informal economy, any form of generalisation would be reductionist. The income distribution, discussed in Chapter 4, showed there is a wide range of income in street trading. The survivalist, subsistence view of the informal economy had dominated the dualistic framework of analysis following ILO's (1972) interpretation of Hart's work (1971) which emphasised the view that economic goal of the informal owner is survival, with the main reason for joining being 'the low barrier to entry'; that they come with few resources and skills. Subsequent studies emphasised the presence of what has been identified as the poor and transient poor (Hulme *et al.*, 2001). However, this study shows that the poor and transient poor are one of the many demographic groups found in the informal economy.

Todaro's (1969) model of rural-urban migration had argued that it was the waiting place for migrants. Rolfe *et al.* (2010) note that these assertions were not based on empirical evidence; but a need to fill a theoretical gap. Chuta and Sethuraman (1983) conflates the two concepts to assert that rural migrants are survivalists who use the informal economy as a waiting place. While both these notions are still relevant, it is important to separate them.

Our data, below, show the survivalists (poor and transient poor) have very limited resources in terms of education, skills and capital, and can be in the sector long term; 45 years in one instance. They are not necessarily waiting to move on. Additionally, our qualitative survey shows that the group using informal economy as a staging post, is dominated by the young job-seekers, albeit with limited levels of education and skill (This discussed in detail below). They are saving, to either re-enter education, or biding time while looking for work in formal businesses, or to open up other opportunities for themselves. While the notions of survivalist and those 'waiting to move on' are still useful, they do not necessarily overlap.

Additionally, Hart's (1973) work in Kenya had shown that some traders were participating by choice. At the lower end, is the shoe-seller in Arua who preferred to join the informal economy.

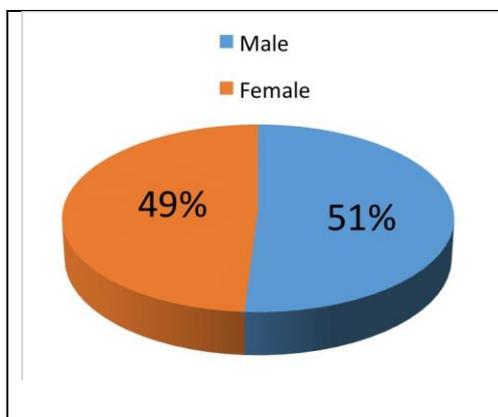
At the higher end of the income profiles in Mbale and Mbarara are the more successful entrepreneurs with business links, networks, market knowledge and capital. They have entered the informal economy by choice and preference, in order to save, or they have identified market opportunities and/or to use the informal economy as a stepping to other areas of business. This has been exemplified in the case studies in Chapter 4.

Clearly, the different reasons for entering the informal economy, mean each bring different forms of capital, and each one tell a different story. This creates sub-groups within the economy, and these need to be understood and appreciated for policy development. This becomes more important in the context of De Soto’s (1989) argument that all participants are making a rational choice, for their given level of resource, in terms of education, skill, capital, ‘who you know’ and market knowledge, among others. The different groups, cognisant of their capabilities and of what the market has to offer, decide where and how they could enter the continuum of urban activities.

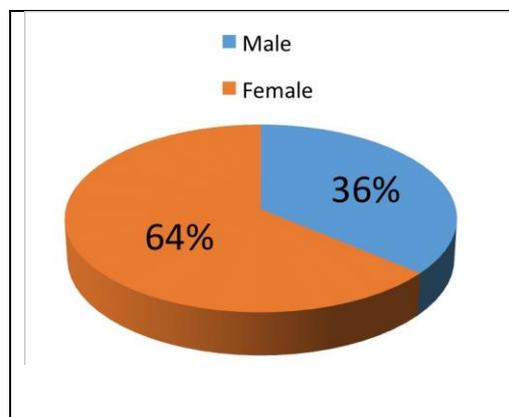
### 5.3.2 Gender, Type of Activity and Income

Street trading is dominated by women as seen in Figures 5.4 and 5.5. Hence, all subsequent analyses are dis-aggregated by gender.

Just over half the owners in Mbale are women, while in Mbarara they account for two-thirds. To develop a profile of the vertical heterogeneity, it will be important to understand the overall hierarchy of earning-poverty-risk, and more specifically of the women. This is done in three steps: (i) the range of activities are noted by percentage share; (ii) the mean daily income for each type of activity is noted; and (iii) combining these, the gender- activity- income profiles are established for the two different cities.



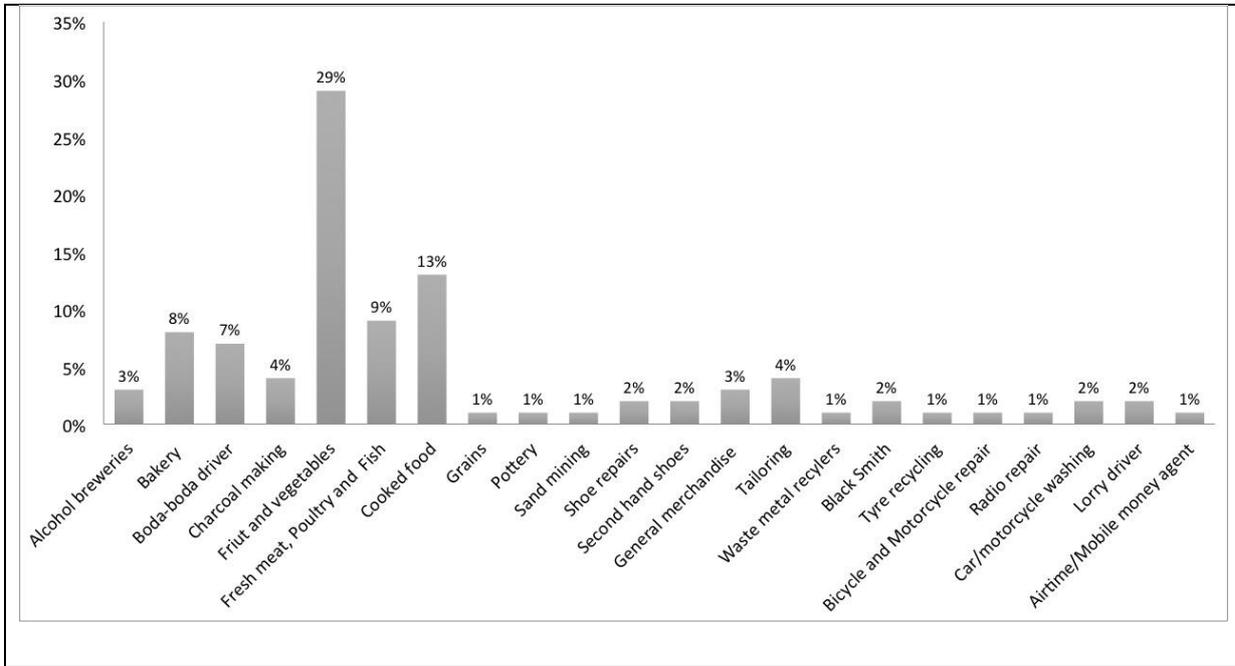
**Figure 5.4: Mbale: Gender composition**



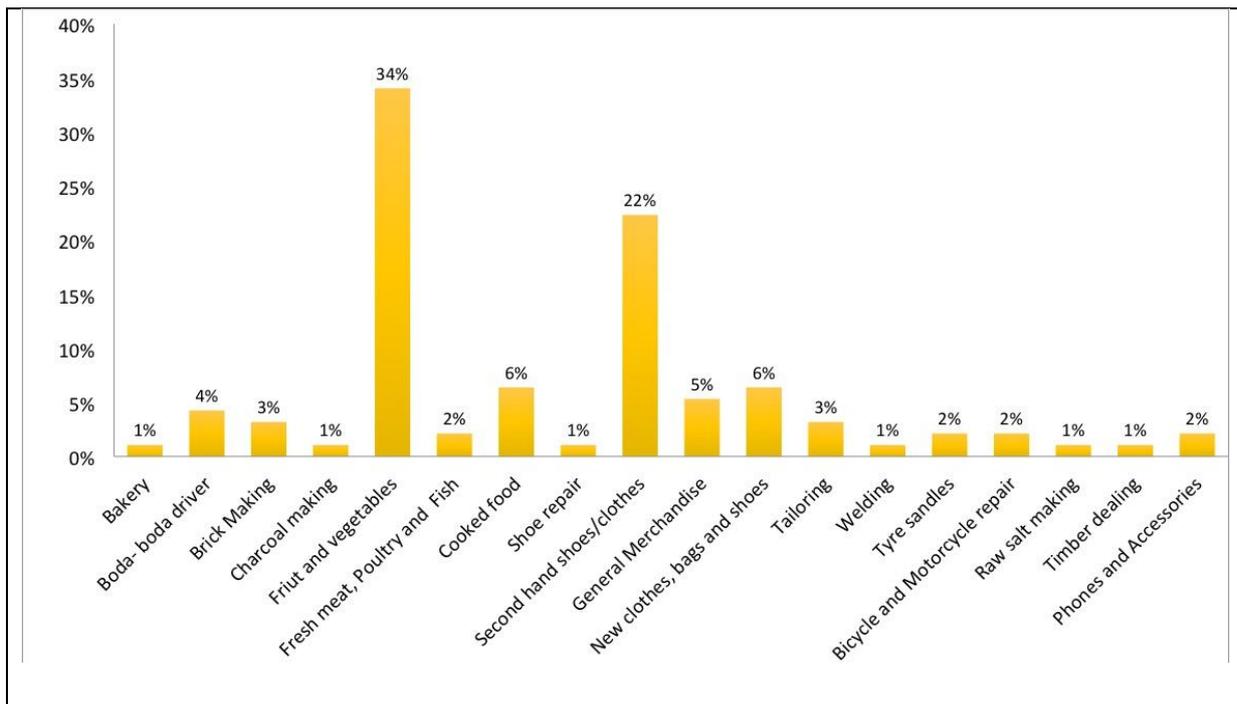
**Figure 5.5: Mbarara: Gender composition**

#### (i) Types of activities in informal trading

Figures 5.6 and 5.7 illustrate the wide range of activities. In both cities trading in fresh fruits and vegetables is the dominant activity. The commonality ends there.



**Figure 5.6: Mbale: Informal activities ranked by percentage share**



**Figure 5.7: Mbarara: Informal activities ranked by percentage share**

In Mbale, trade in basic items like cooked food, fresh meat and poultry, bakery and transport account for much of the street activities. Business in general merchandise, second hand shoes, etc., account for increasingly smaller shares

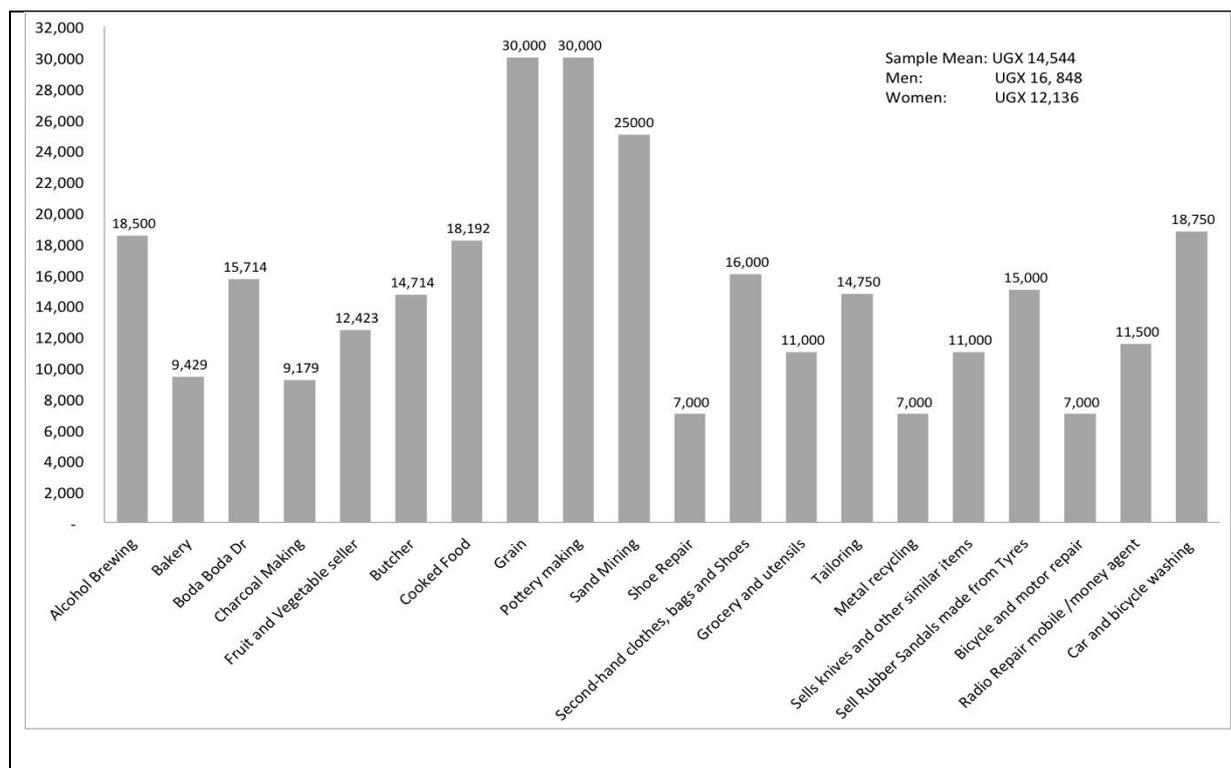
In Mbarara, in addition to selling fruits and vegetables (34%), business in second-hand items and clothes (22%); in new garments (6%) along with sale of cooked food and general merchandise account for much of the informal units. The demand for tailoring also implies demand for new items. Furthermore, our qualitative survey shows that better quality and more expensive fruits and

vegetables are sold in Mbarara, than in Mbale. The trade in second hand goods in Mbale are shirts and shoes for students and migrants, i.e., they are essential, low cost items. In Mbarara, they included linen, curtains and other non-essential items. No new clothes and shoes are sold by informal traders in Mbale. The consumption patterns of a thriving urban economy, not surprisingly, are different from one that is slow growing. However, it is interesting to note that this is reflected in the informal economy.

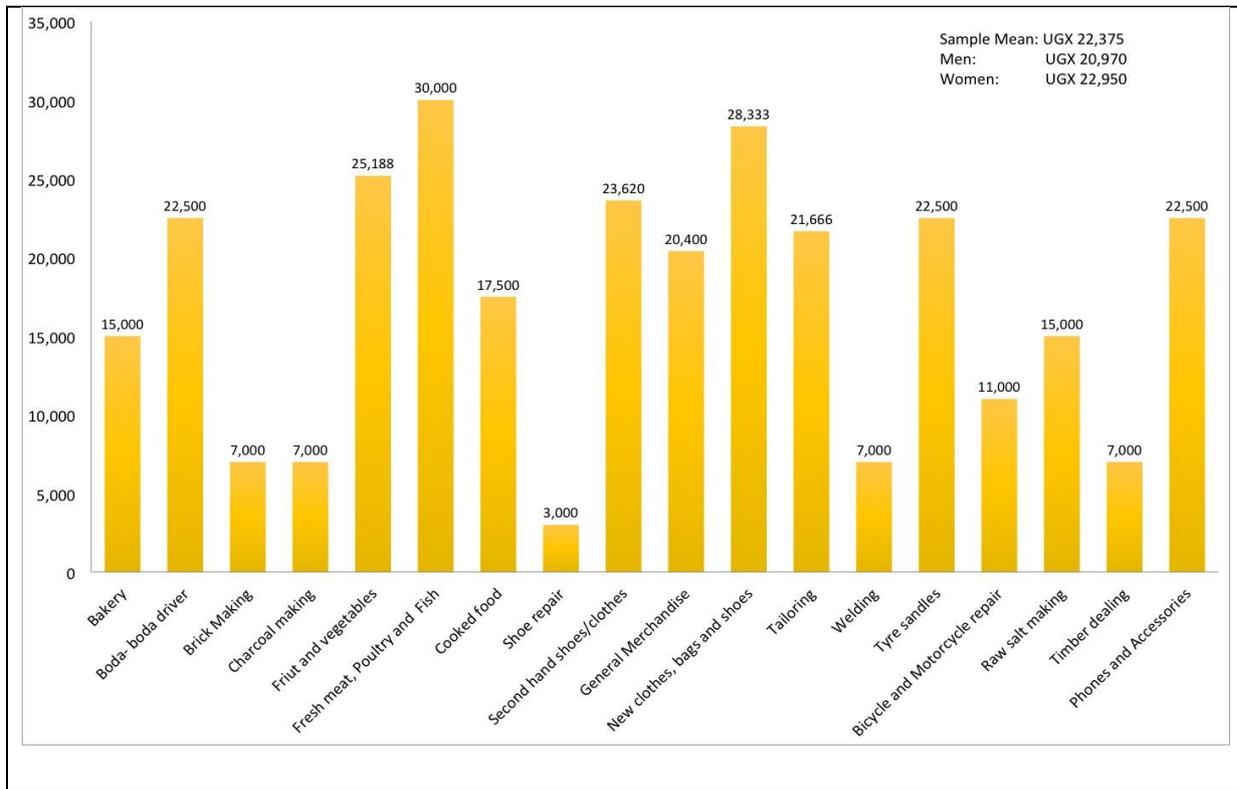
### (ii) Type of Activity and Income

The demand and consumption patterns of the two economies have also influenced the relationship between type of activity and income. The mean daily income for the sample is UGX 14,544 for Mable (Figure 5.8).

The highest income earners are the small number of potters and those trading in grains or staples. As noted above selling fruits and vegetables is the dominant activity, yet the mean daily income accruing is UGX 12,423, which is less than the sample mean. The more profitable activities are, alcohol brewing, selling cooked food, trading in second-hand items, and repair activities. The *boda boda* drivers, mostly young men, have a lucrative trade. Owners involved in bicycle repair, shoe repair, metal recycling, bakery and charcoal making will probably account for most of the poor, and the transient poor (Figures 5.8, 5.9) with their income around UGX 7,000.



**Figure 5.8: Mbale: Mean Daily Income by Type of Activity**



**Figure 5.9: Mbarara: Mean Daily Income by Type of Activity**

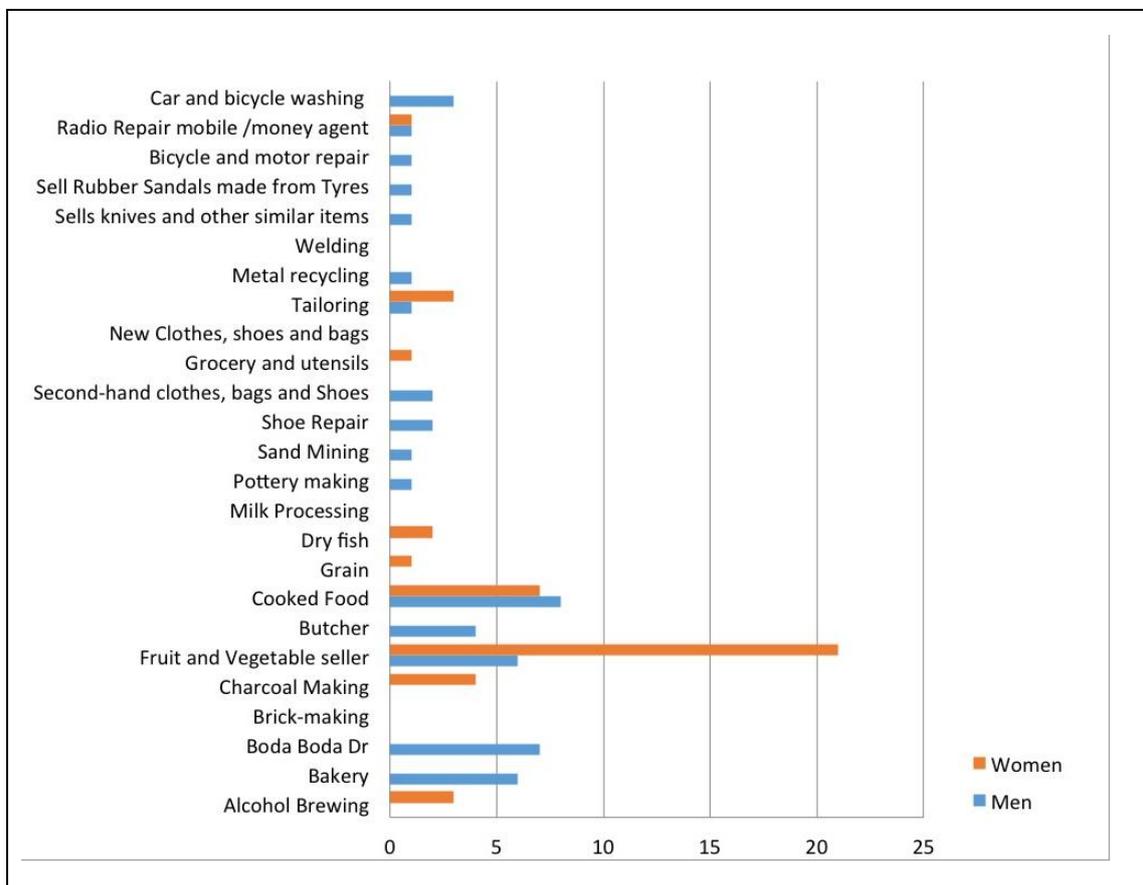
The earnings from informal activities in Mbarara tell a different story. Seven of the activities achieve income more than the sample mean. Traders in fresh food, and fruits and vegetables account for 34% of the units (Figure 5.7), are some of the highest earners. The other high earners are those trading in fresh meat and poultry, second-hand items; new clothes and shoes, rubber sandals. 2% who sell phones and accessories, an activity missing in Mbale informal economy, also run viable businesses. Doing less well are those in welding, selling timber and making charcoal and will probably account for the 13% of the poor and transient poor (Figure 4.2).

Thus, sections (i) and (ii) show that

- in **Mbale** the main trading activities are also those with low daily returns;
- additionally, the majority earn well below the mean average income (the mean is probably skewed by the small number with much higher income).
- The overall demand is for lower quality and cheaper goods.
- **Mbarara**, with a more dynamic urban economy creates a demand for better quality produce and new goods.
- The average income for the informal owners is nearly 60% higher than those in Mbale.
- An interesting and important difference is that the main activities of selling fruits and vegetables, second-hand clothes, etc are also among the higher earners, in contrast to Mbale.

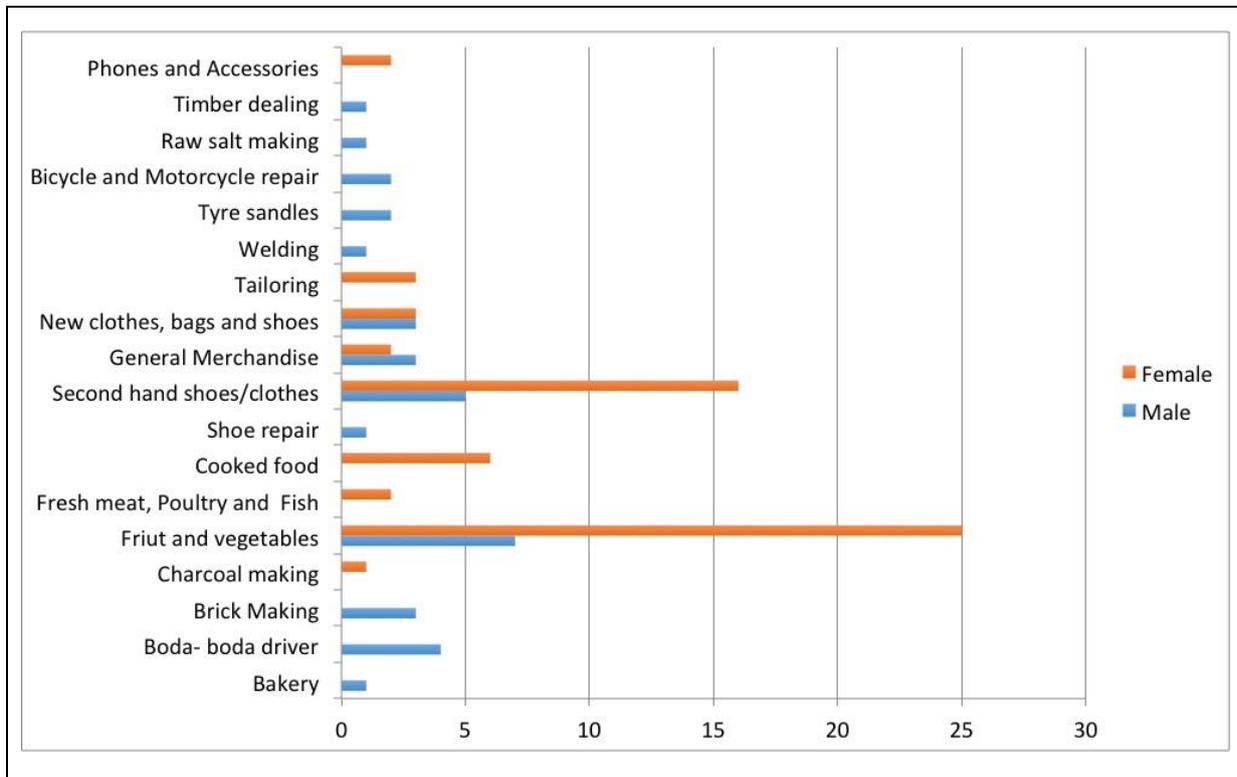
**(iii) Activity, Income and gender**

This section draws together the findings on activity and income with the cross-cutting issue of gender. Two distinct patterns emerge in the two cities. Women dominate street trading in both cities: 54% in Mbale and 64% in Mbarara. Reflecting the wider research findings, women in Mbale have limited choice and are predominantly found in low earning activities (Figure 5.10) of selling fruits and vegetables; cooked food, alcohol brewing etc. Clearly, women are unable to enter the higher income activities like boda boda driving, bakery, pottery and selling higher value items like grain and dried fish.



**Figure 5.10: Mbale: Activity by Gender**

Mbarara (Figure 5.11), women tend to dominate several activities that enable higher earnings. Majority of the fresh fruit and vegetable sellers (34% of street traders) are women, who also trade in some higher value produce. They also had a bigger stock on display than their counterparts in Mbale. They successfully compete with men in trading second-hand goods, and new garments and other items. Women are also the dominant traders in cooked food in Mbarara, whereas in Mbale, the women have to compete with the men.



**Figure 5.11: Mbarara: Activity by Gender**

Table 5.1 pulls together the findings so far, to shows that,

- Women in Mbarara, overall, fare better than their female counterparts in Mbale and compete with the male counterparts in certain activities, within Mbarara. This indicates that these women could incur lower risks and hence be less vulnerable than the women in Mbale.
- In Mbale, women dominate those activities which require low initial investment; i.e., selling produce and alcohol brewing. Tailoring is the exception as it requires skill and investment in sewing machine. This would mean low income-high risk profile.
- Men in both cities dominate activities that require investment and skill, though more so in Mbarara. They sit in the group of high income- low risk. Could some of them be, what World Bank refers to as ‘constrained gazelles’?
- A point of interest, is that women have been able to become mobile money agents and trade in phone accessories. This would indicate that women, if they are given the skills and literacy, they can seize the opportunities in a modern sector.

Mean Daily income (UGX) by Activity, by Gender										
City and Mean Income	Alcohol Brewing	Boda-Boda	Fresh fruit & Veg	Cooked food	Bakery	Butcher / fresh meat...	Second-hand items	New clothes	Tailoring	Mobile money agent
<b>Mbale</b> Mean: UGX 14,544	18,500	15,714	12,423	18,192	9,429	14,715	16,000	X	14,750	11,500
<b>Dominated By</b>	Women	Men	Women	Men	Men only	Men only	Men only		Women	Equal
<b>Mbarara</b> Mean: UGX 22,375	X	22,500	25,188	17,500	15,000	30,000	23,620	28,333	21,666	22,500
<b>Dominated by</b>		Men	Women	Women	Men Only	Men only	Women	Equal	Women	Women

**Table 5.1: Income-Activity-Gender Profile**

To sum up, at the informal economy level, literature has emphasised the higher risks-low income -greater vulnerability of women in the informal economy. This is validated by the findings in Mbale, although, the men are not all that better off than the women and they are both in a struggle to generate income in the face of limited demand and resources. However, they form separate analytical groups as women come with fewer resources.

Mbarara, presents very different dynamics, where the women have taken the opportunities created by an expanding, modern industrial base and built very viable and lucrative businesses. This raises questions like, why is informality becoming a more important economic space for women, in a growing economy? Why are they able to compete more successfully with the men? Are the women coming with more resources? What are their family links with larger businesses?

The analysis so far has indicated the broad analytical groups. Dis-aggregation by types of capital, gender and demography will indicate the sub-groups.

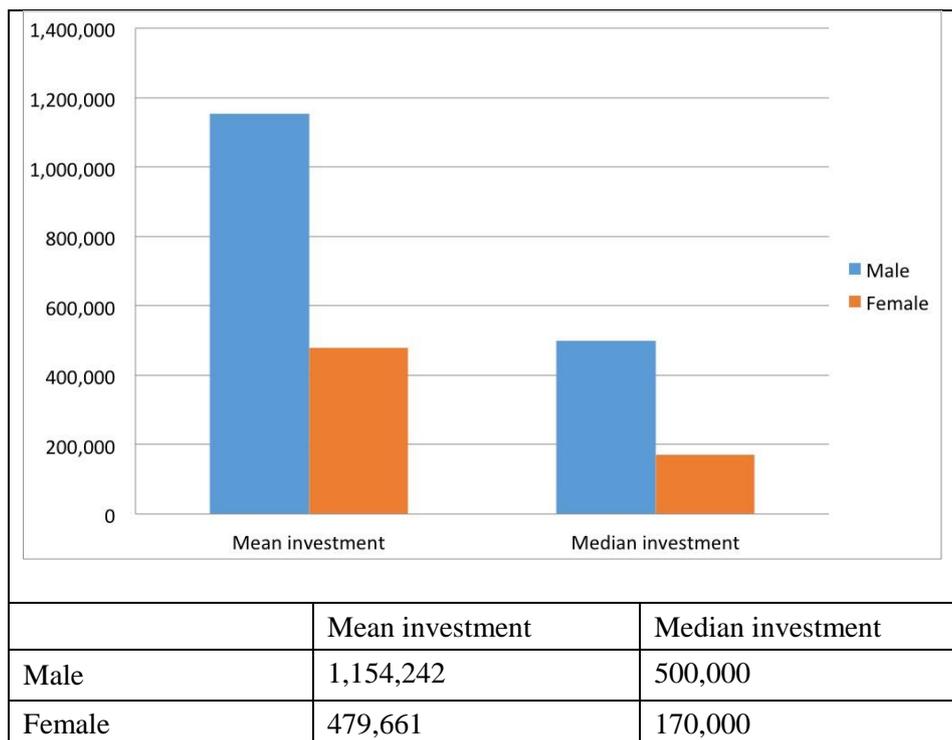
## 5.4 Types of Capital, Gender and Demography

### 5.3.2 Start-up capital

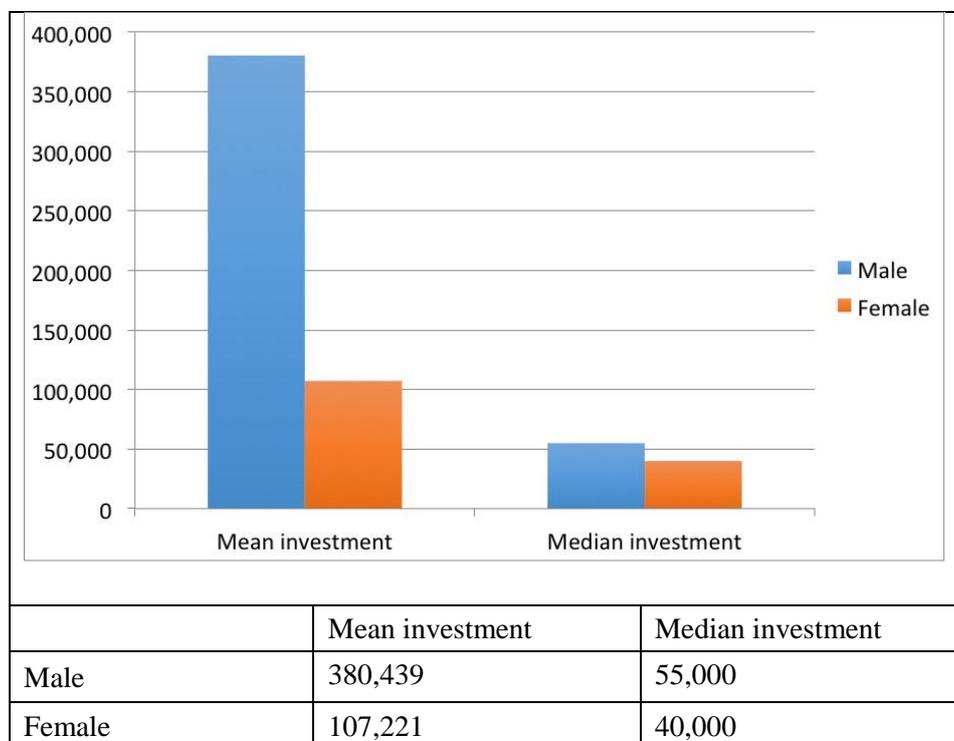
Figures 5.12 and 5.13 confirm that men are able to invest more than women as they have access to a bigger pool of resources than women. With wider network and some education, they are better able to access the credit facilities Women might face cultural and social barriers to access credit. The gender difference in investment, in both cities, means that limited number of women can start an activity, which requires larger up-front payment.

At the city-level, investment by men in Mbarara, is three times higher than in Mbale; and of the women in Mbarara. Rofle *et al.* (2010) had concluded that access to capital has a strong influence on the ability to generate sustainable livelihoods. Putting this in the context of higher income levels among both men and women in Mbarara, it implies the same positive link as noted among South African micro-entrepreneurs. It is important to note, that even though women in Mbarara are

generating equivalent income to men in some activities, the fundamental limitations in their initial ability to invest remain.



**Figure 5.12: Mbarara: Investment by Gender**

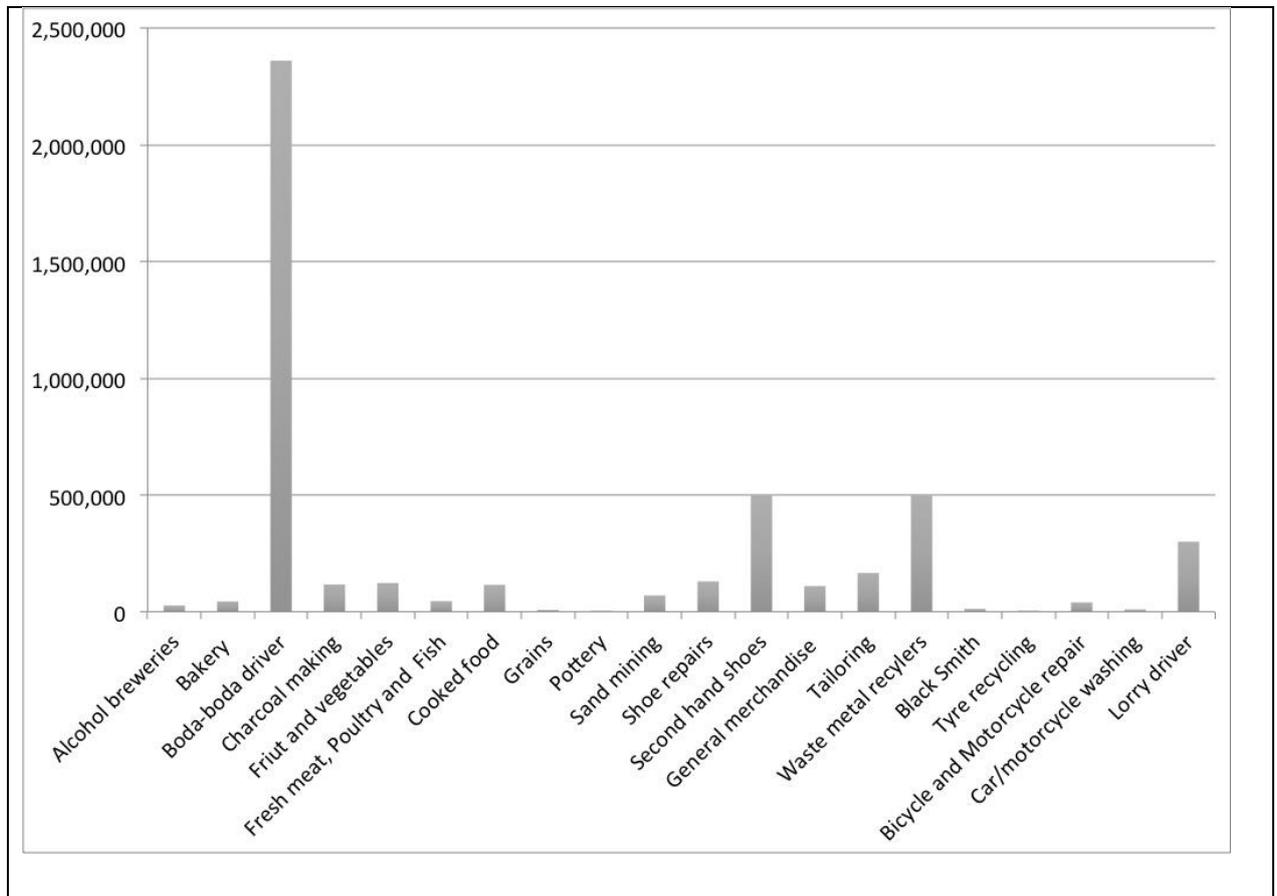


**Figure 5.13: Mbale: Investment by Gender**

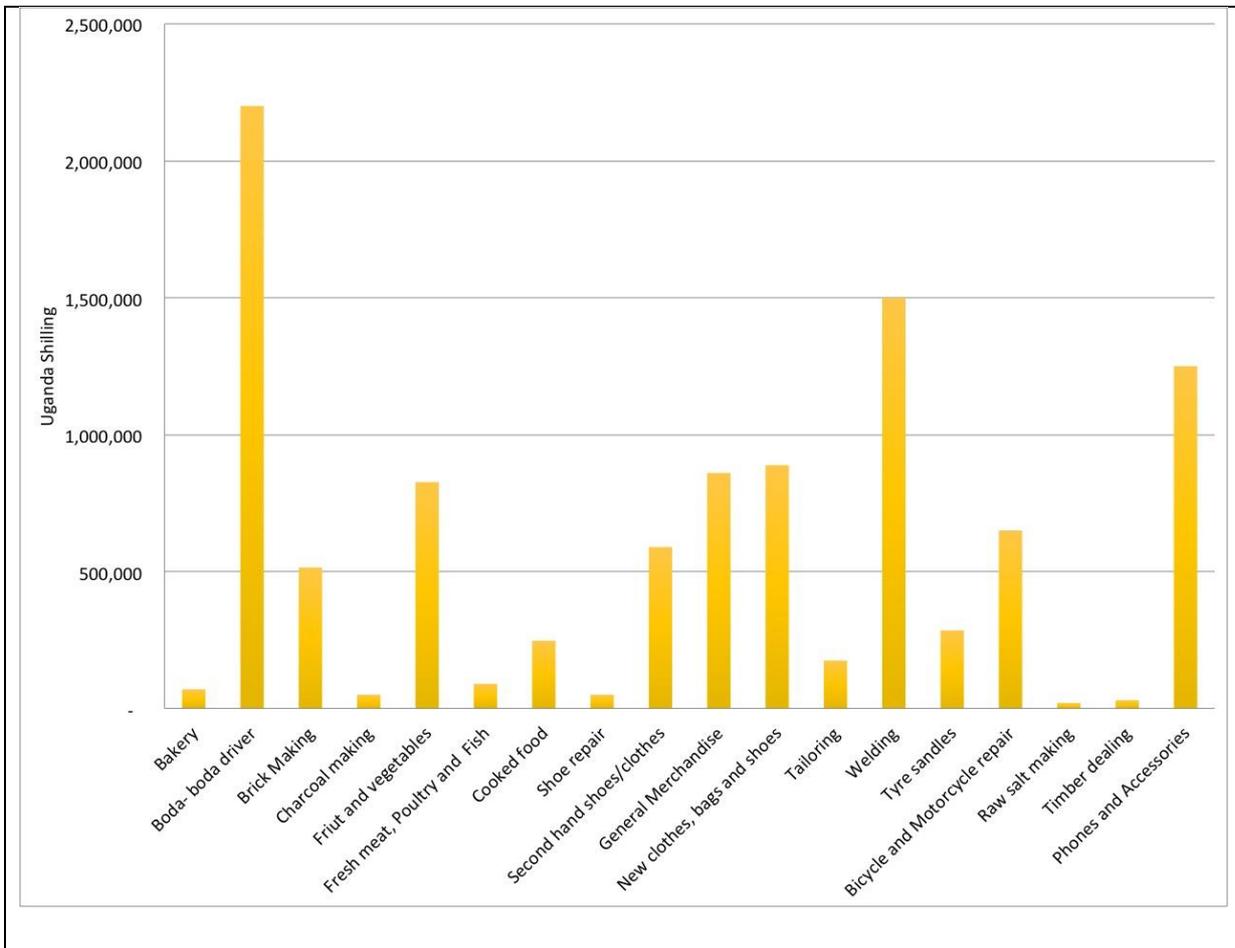
At the activity level, boda boda drivers, overwhelmingly men, are some of the highest investors. They have to purchase the motorbike on loan from the bank, or pay an equivalent amount to the “boss” in instalment. In Mbale, other traders who have to pay up-front are those selling second-

hand items. They purchase the goods from the middleman in Kampala as exemplified by shoe sellers in Arua and Mbale

In Mbarara, entrepreneurs who have access to substantial start-up capital, are in the profitable trades dealing with general merchandise, new items, welding and phones and accessories.



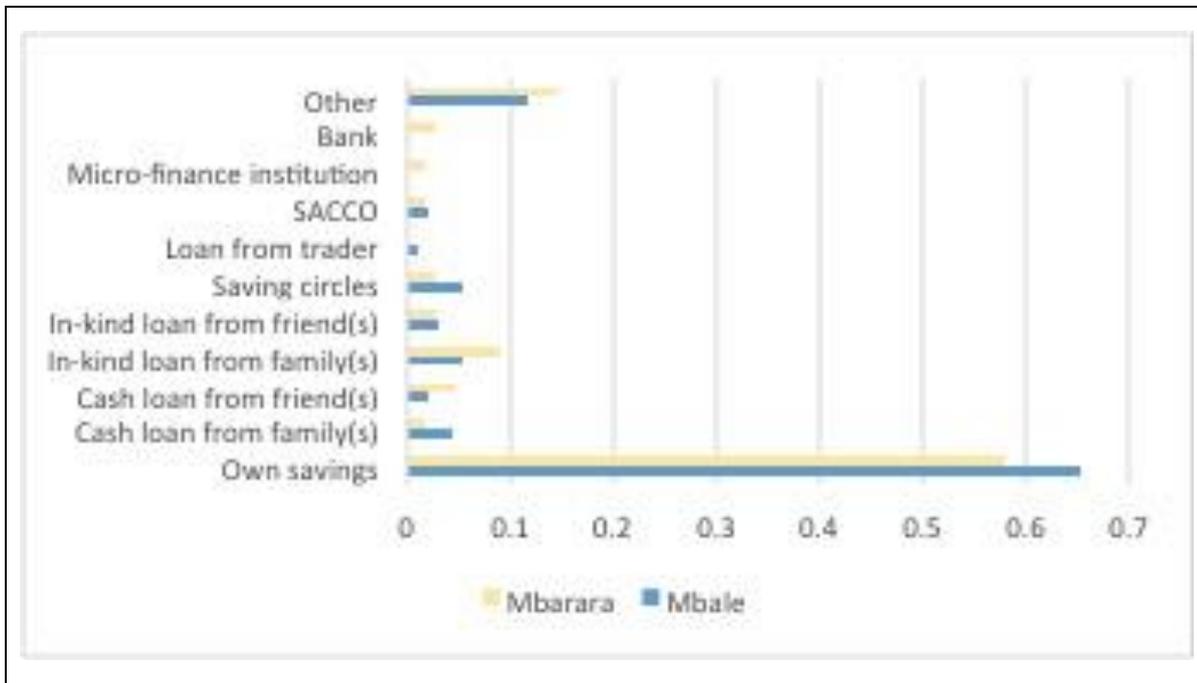
**Figure 5.14: Mbale: Mean Capital investment by Activity**



**Figure 5.15: Mbarara: Mean Capital investment by Activity**

Additionally, there are some women in these sectors who are also in a position to invest, since they are competing successfully, and this is contrary to the findings in South Africa, where women have difficulty generating viable livelihoods. This cautions generalisations.

Furthermore, sources of capital available to the traders, show that they are essentially reliant on informal sources of finance, particularly own savings and loan from friends and family.



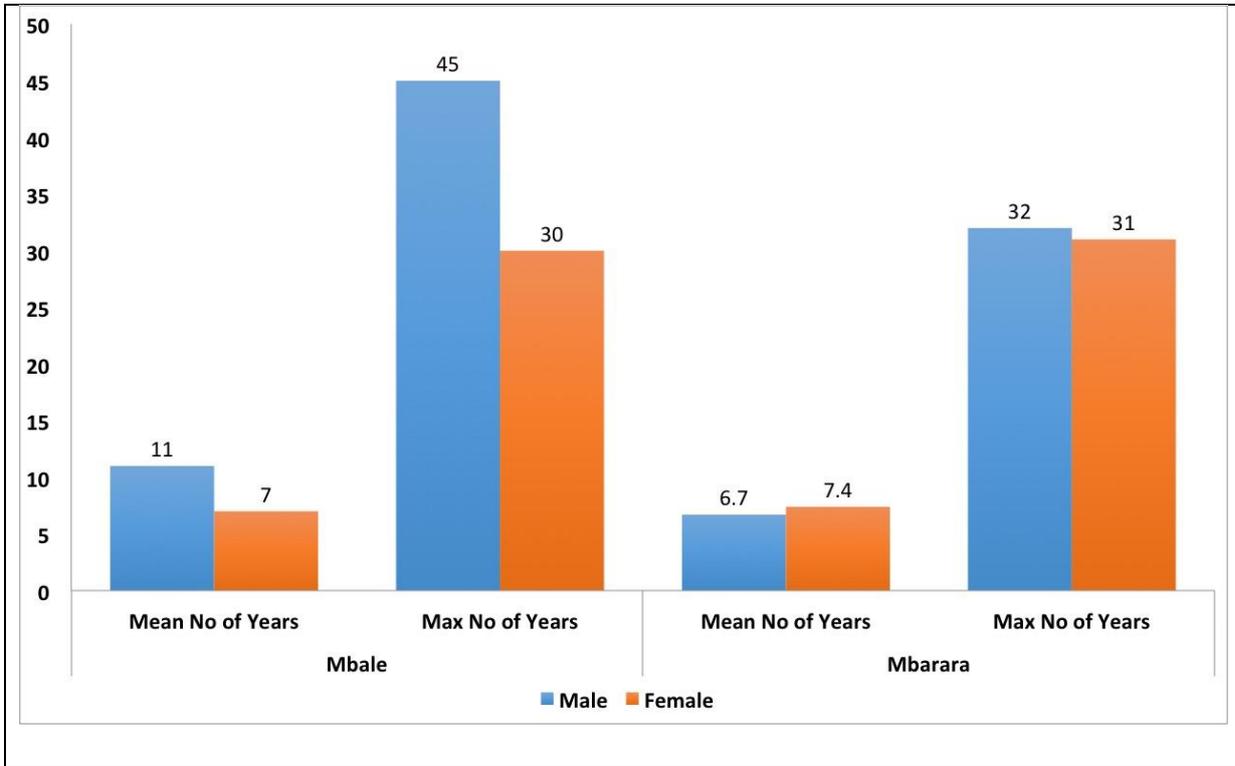
**Fig 5.16 Sources of Capital Available for street Traders in Mbarara and Mbale**

**Overall**, the higher start-up capital brought to all the activities in Mbarara, reflect, not only the different consumption and demand patterns and positive urbanisation externalities, but also the different resource capabilities of the owners in the two different cities. Furthermore, within the city, there are differentiations among women, and between men and women, in their access to resources. The research implication of this, is that gender analysis of micro-enterprises has to be contextualised in the wider urban and economic circumstances.

### 5.3.3 Time invested in business, age, education and income

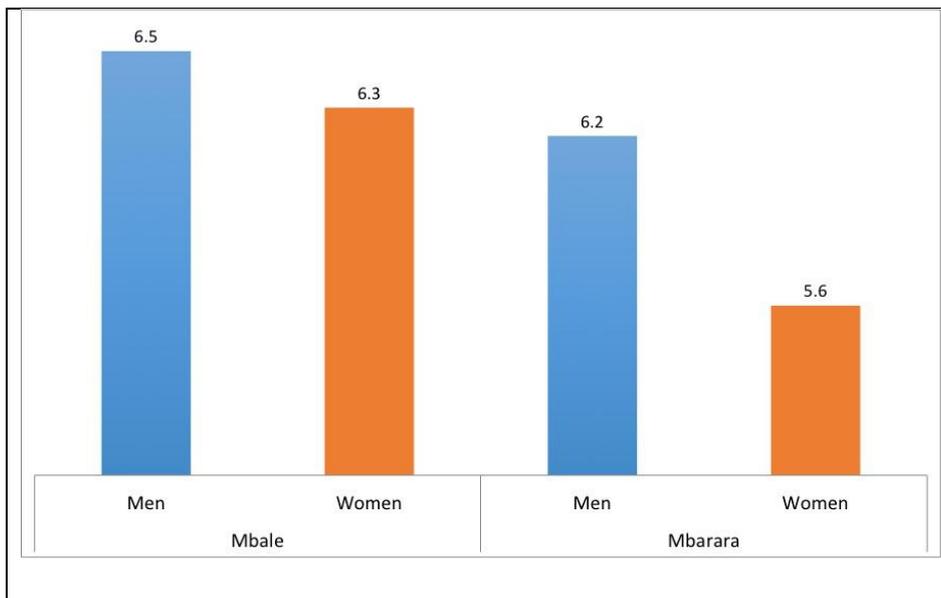
Along with capital, time invested is an important factor in conditioning the viability of the business as Rolfe *et al.*'s (2010) work on informal enterprises in South Africa showed. This study cannot go in-depth to determine the optimum time that needs to be spent, but is able to present an overview of the existing pattern.

In both cities (Figure 5.17), men tend to stay in business longer, in terms of maximum number of years, but only marginally so in Mbarara. In Mbale, the gap is wider. On average, men in Mbale have been in business for around 11 years, whilst it is less than 7 years in Mbarara. However, women, seem to have spent around 7 years in business.

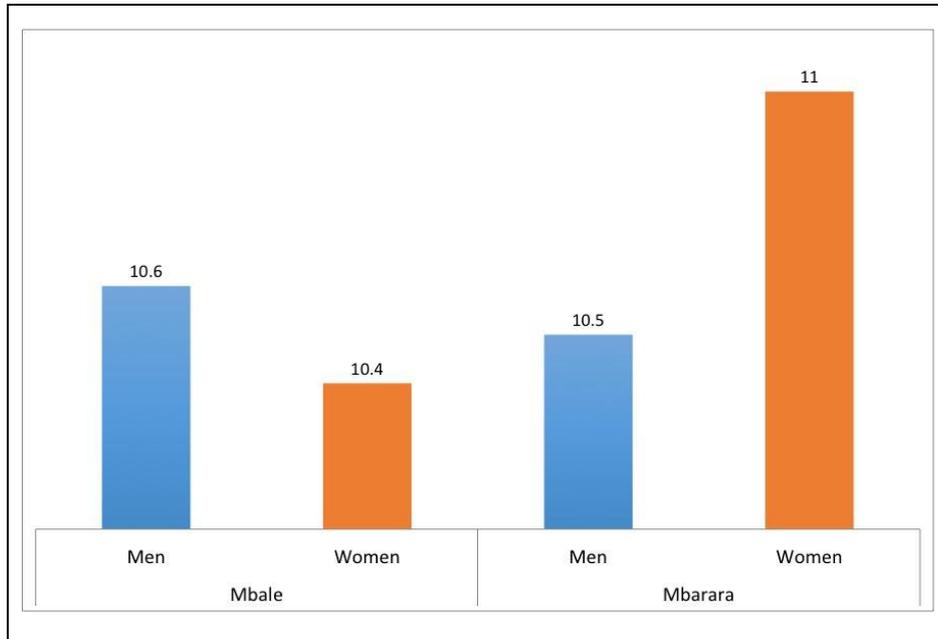


**Figure 5.17: Mbale & Mbarara: Mean No of Years in Business, by Gender**

Both men and women in Mbale tend to work more than 6 days a week (Figure 5.18). Women in Mbarara work, on average less than six days. However, this is compensated by the longer hours they work per day (Figure 5.19). On the other hand, most studies have shown that women tend to work shorter days and fewer hours as they need to balance productive and re-productive work, (e.g., women in Mbale). Thus, the nature of relationships between start-up capital, time invested and income are not straightforward, and needs to be investigated further.

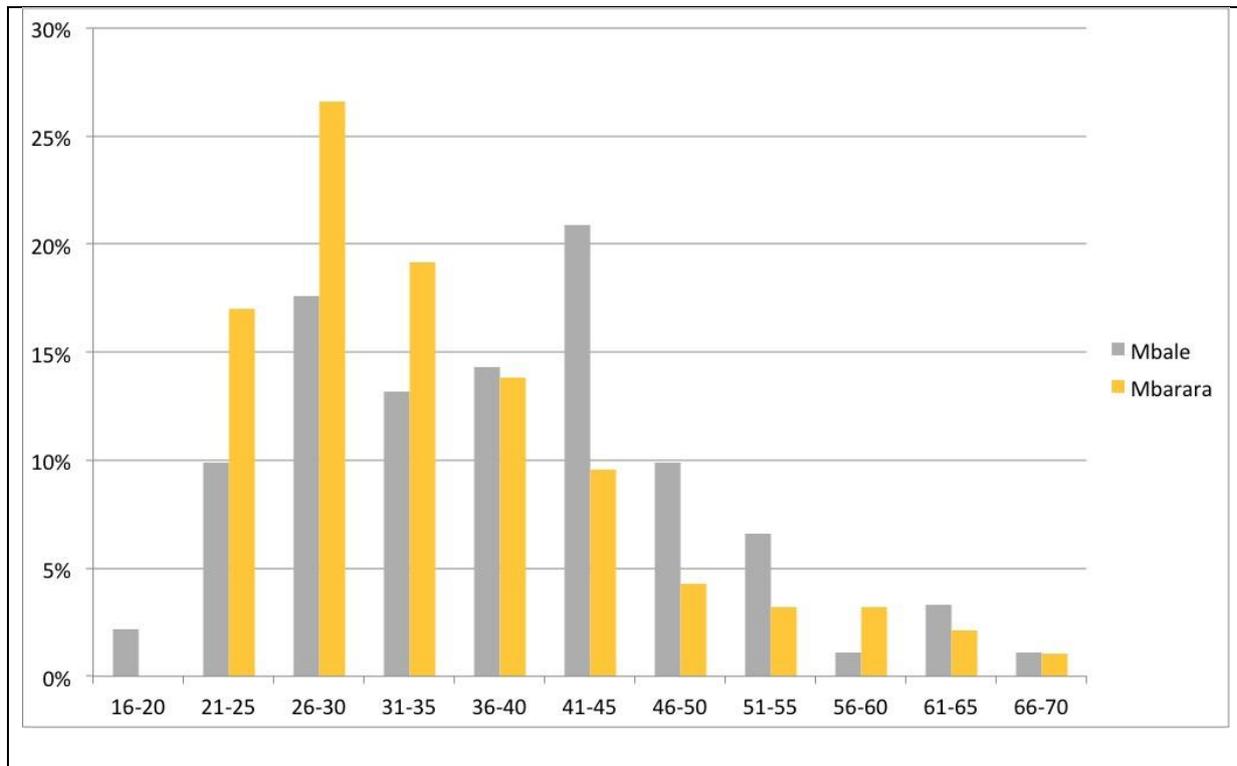


**Figure 5.18: No of Days Worked per Week**

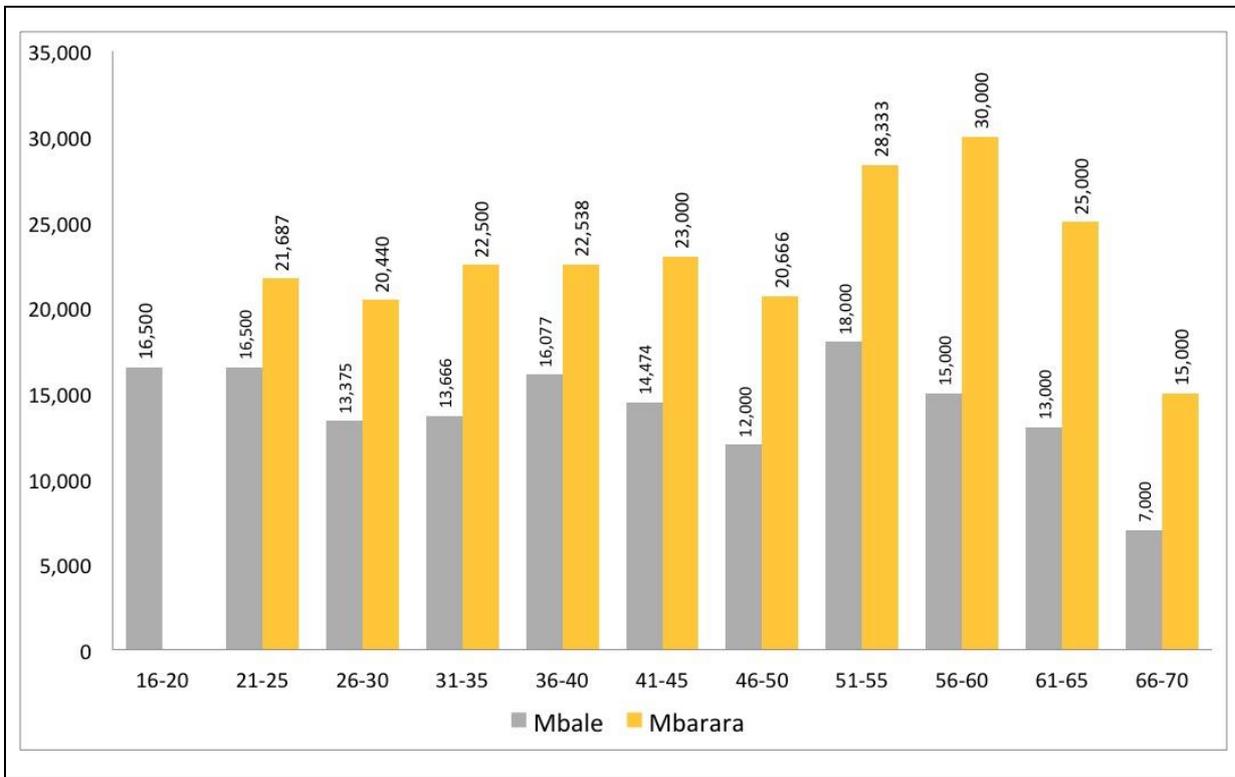


**Figure 5.19: No of Hours Worked per Day**

**Income and Age:** There are interesting difference in the share of demographic groups operating in the informal economy (Figure 5.20). In Mbale, the average age is 39 years, and the dominant group is 41-45 year (21%). It also has a slightly larger group of old owners who appear to be extracting a greater return from their business (Figure 5.21) than their younger counterparts.



**Figure 5.20: Mbale & Mbarara: Age Profiles (% share)**



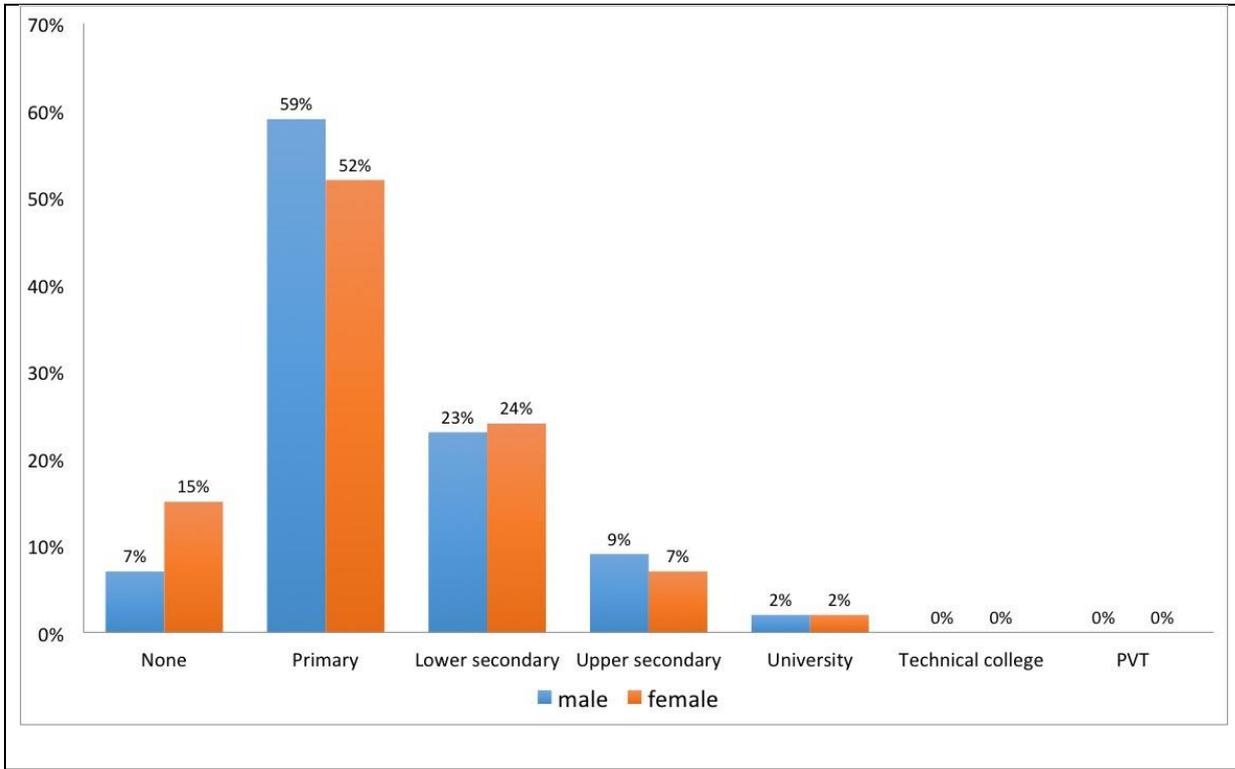
**Figure 5.21: Mbarara and Mbale: Income by Age Groups**

In Mbarara, the average age is 35 years and is dominated by a younger group of 26-30 year olds. However, as in Mbale, some of the highest earners come from the older age groups, though they are fewer in number. Overall, all age groups in Mbarara have higher income levels.

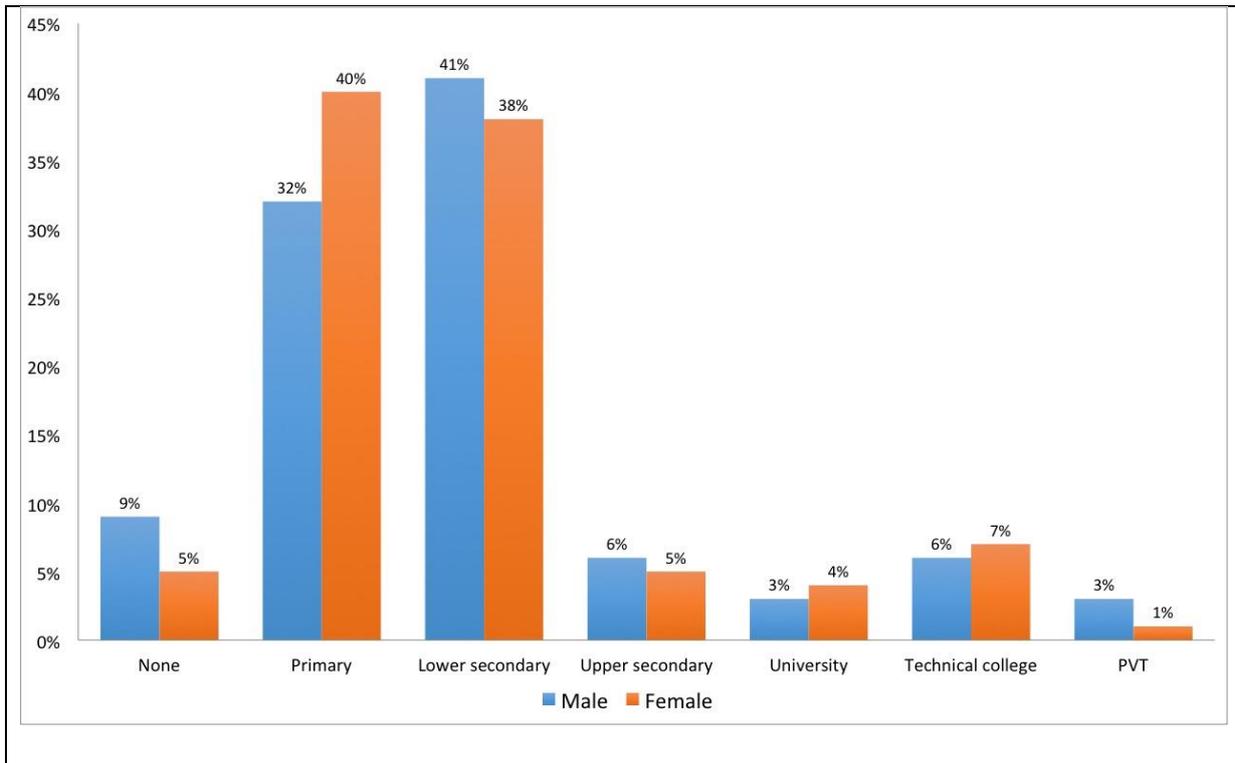
In the context of moving small enterprises up the urban continuum, the questions are, which group would be able to better use the opportunities provided by any intervention: those with higher earnings, even though they are older, or a younger group that dominates the sector, with slight lower earnings, but could be more amenable to change.

### **Education by gender**

Education is an important means to avail a wider portfolio of livelihood opportunities. As seen in Figures 5.22 and 5.23, there are considerable differences in the levels of educational attainment between the women in the two cities. In Mbale, both men and women cluster at low levels of education, with a very small number with post-school/further education. Overall, men have marginally higher attainment levels. This fits in well with the wider research findings. Chen (ibid.) among others, noted that more men have access to education, and can therefore make more informed market decisions. This is also underscored by our qualitative research in Aura and Jinja.



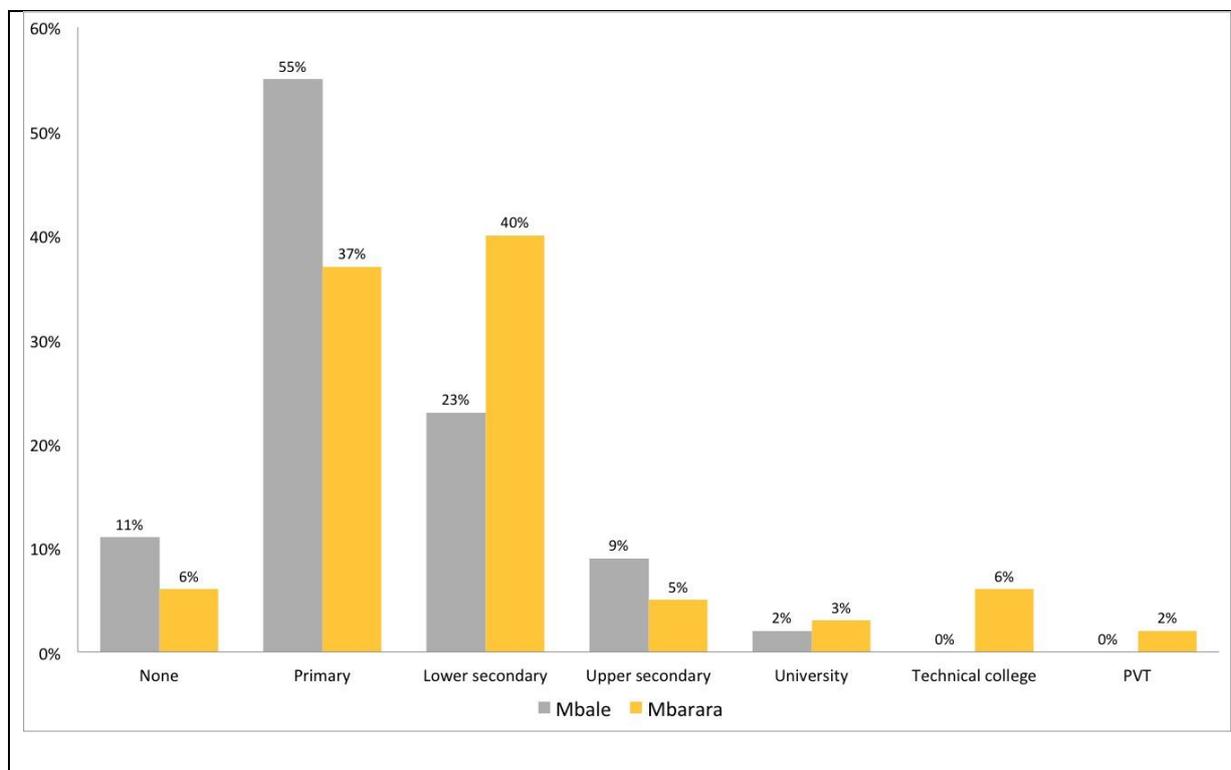
**Figure 5.22: Mbale: Level of Education by Gender by % Share**



**Figure 5.23 Mbarara: Level of Education by Gender by % share**

However, Mbarara shows that more women than men come with higher educational attainments, having completed University or Technical College, and an equal number with PVT qualifications. On the downside, there are more women in the lower learning categories as well.

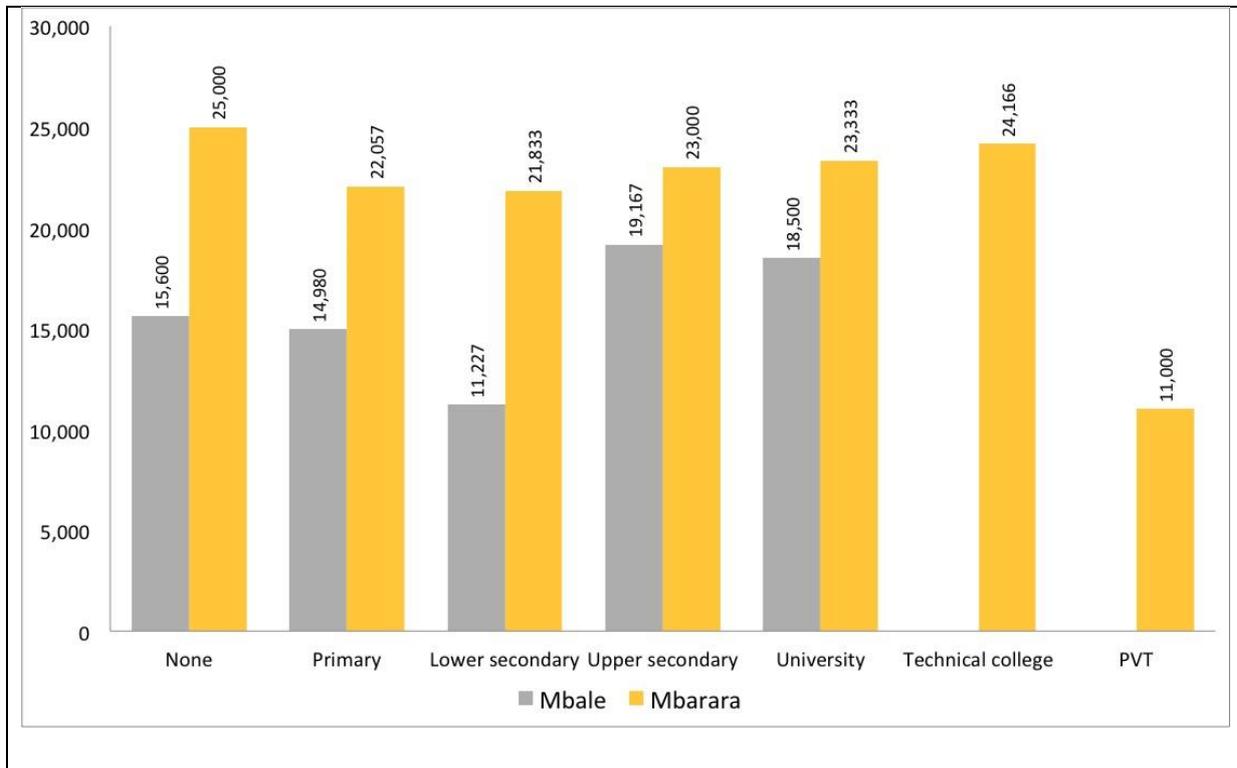
This predominance of women in all categories would mean that there are fewer opportunities for women with the same educational qualifications as men, in the expanding modern industrial sector. This implies that women entrepreneurs with limited education levels, will find it difficult to move on; whereas men will find alternative opportunities more easily. However, this detailed picture is lost in the education profile at city level (Figure 5.24).



**Figure 5.24: Mbale & Mbarara: Education Profile by % Share**

### **Education and Income:**

Figure 5.25 shows that those with no education are some of the highest earners in Mbarara, whilst the highest earners in Mbale are those with further and higher education, showing a direct relationship between education and earning. In Mbarara, the relationship is less straightforward.



**Figure 5.25: Mbarara and Mbale: Mean income by Level of Education**

It can be said that some groups of men and women, with limited educational attainments are able to compete equally with other entrepreneurs in the market with more resources. What enables this group to overcome the constraints and become successful?

To sum up the findings in section 5.4, so far:

- The higher start-up capital brought to all the activities in Mbarara, reflect, not only the different consumption and demand patterns and positive urbanisation externalities, but also the different resource capabilities of the owners in the two different cities.
- The research implication of this is that gender analysis **of micro-enterprises has to be contextualised in the wider urban and economic circumstances.**
- In relation to the amount of time invested in businesses, the question that arises is, are the owners in Mbale having to work longer hours and more days in the week to compensate for their small scale of operation and their limited ability to invest?
- The nature of relationships between start-up capital, time invested and income are not straightforward.
- In the context of moving small enterprises up the urban continuum, which group would be able to better use the opportunities provided by any interventions: those with higher earnings, even though they are older, or a younger group that dominates the sector, with slight lower earnings, but more flexible to change.
- This predominance of women in all categories of trade and education would mean that there are fewer opportunities for women with the same educational qualifications as men, in the expanding modern industrial sector. This would imply that women entrepreneurs with

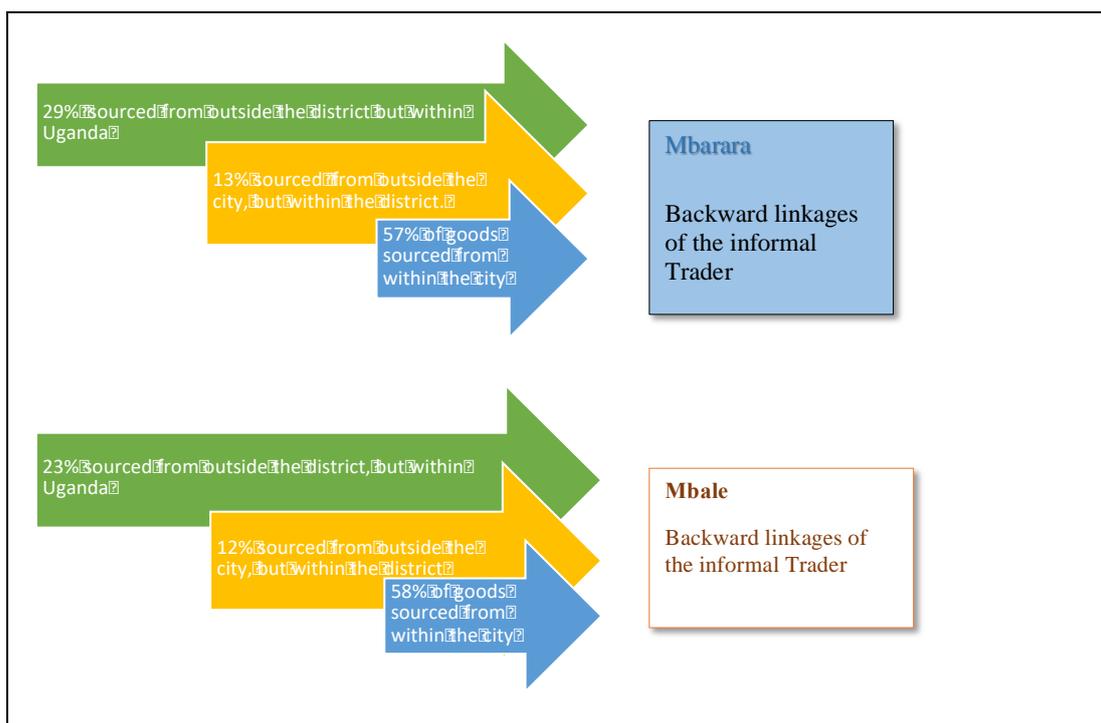
limited education levels, will find it difficult to move on; whereas men will find alternative opportunities more easily. **This highlights the need for mainstreaming gender in urban development and economic growth plans.**

- There are some complex relationships between education and opportunities for women in the informal economy. It is an important economic space for them. This raises the question; will it be more efficacious to assist women entrepreneurs with same level of education as men; since there are other opportunities for men higher up in the urban continuum.
- Some groups of men and women, with limited educational attainments are able to compete equally with more educated and resourced entrepreneurs in the market. What enables this group to overcome the constraints and become successful?
- These emerging issues and questions will shape the design of the future research agenda.
- These findings will influence the methodology to identify the analytical groups.

### 5.4.3 Business Links of the owners

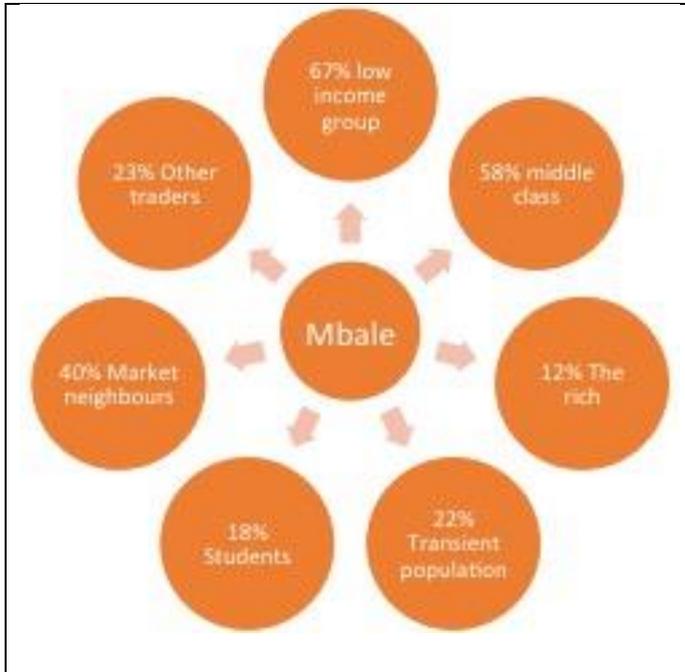
The discussion here is focused on owner-based business model, as they appear to be the dominant group. In Mbale, 87% are sole owners; 8% are in partnership and only 1% claimed to be part of the family business. 4% noted as other, without specifying. In Mbarara: 93% are sole owners; 2% are in partnership; and 3% are the in family business. 2% are non-respondent. In this study, the business links have been discussed in terms of forward and backward linkages to show that these micro-enterprises are fully integrated into the urban, regional and national economies.

**Backward Links:** These are observed at three level; (i) within the urban continuum, (ii) with the district, and (iii) more widely within Ugandan national economy. Though the two cities being studied have shown considerable difference in most characteristic, their linkages to purchase goods are remarkably similar in their percentage share, as illustrated in the Figure 5.26.

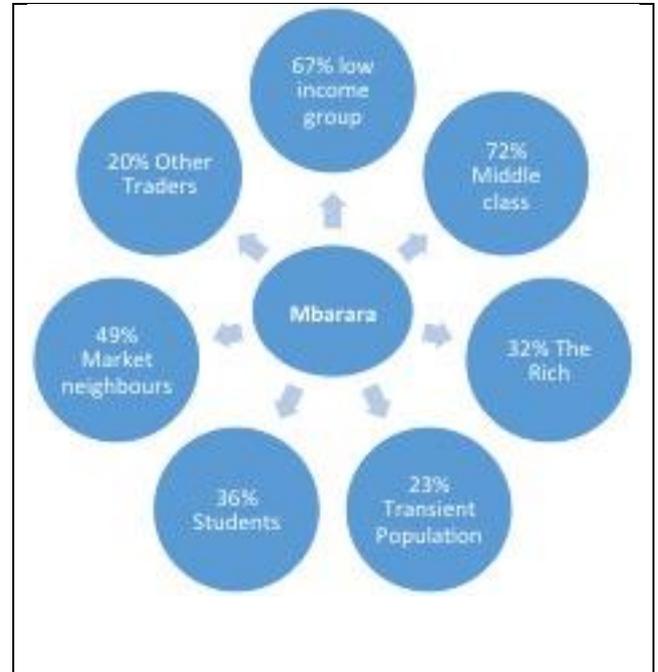


**Figure 5.26: Showing the Backward Linkages of the Informal Economy**

57%-58% of the goods are sourced from the local urban economy, making it their strongest link. The second major source of goods (29% in Mbarara; and 23% in Mbale) is outside the district, indicating that it is widely connected to the national economy. While 12% to 13% of the goods are purchased from within the district, but outside the city.



**Figure 5.27: Mbale: Forward Linkages by customer**



**Figure 5.28: Mbarara: Forward Linkages by type of customer**

**Forward Linkages:** The forward linkages enable the informal units to connect with multiple socio-economic groups in the urban economy (Figures 5.27 and 5.28). As illustrated in these figures, each unit caters to more than one customer group. In Mbale, the lower income group and the middle class form the dominant customer base. There is also substantial cross trading among the units. The well-off group account for a little over a tenth of the sale.

The percentage share of each socio-economic group in Mbarara is very similar to Mbale. The main difference is that the middle class form the dominant customer base, and the rich account for a third of the sale. Again, this reflects the higher income and the nature of demand in a dynamic city.

The similarity in the linkages established by the informal economy of the two cities, implies that whatever, their level of income and dynamism, they are well integrated with urban, regional and national economies. This analysis contributes to the growing body of evidence that informal units establish connections at individual and sub-sectoral levels. Not only are these businesses well integrated into the national and regional economies, they have strong forward and backward linkages along the urban continuum, highlighting the futility of drawing boundaries to carve up the urban continuum.

Further diverse links are established, depending on the mode of purchase, as shown in Table 5.2 and by the payments made to the ‘Tenderer’, even though this is denied by local government authorities (Table 5.3).

Mode of Purchase	Mbale Percentage of Owners		Mbarara Percentage of Owners	
	Men	Women	Men	Women
On Credit	36	64	45	55
Cash	51	49	34	66
Both	44	56	45	55

**Table 5.2: Mode of Purchase, by Gender, by city**

Spaces within the Municipality are contracted out to different persons, referred to as the ‘tenderer’. This contractor allows the informal units to operate for a fee over which he controls. How this fee is shared, is unclear, but the Municipal authorities denied all knowledge of such an arrangement. Table 5.3 shows that in Mbale 51% of owners pay, while it is 46% in Mbarara.

	Mbale Percentage of Owners	Mbarara Percentage of Owners
% of owners who pay	51	46
<b>Type of Payment</b>		
Daily	46	19
Weekly	37	49
Monthly	4	9
Yearly	8	19

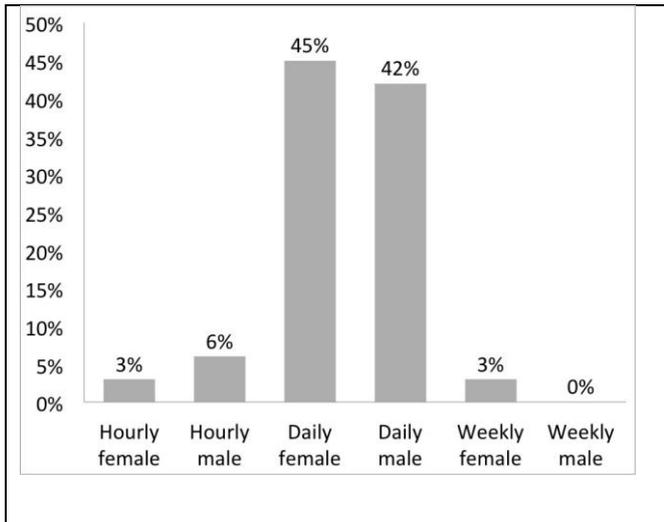
**Table 5.3: Mbale and Mbarara: Payments made to ‘Tenderer’**

It is not clear, the arrangements under which the others, who do not pay, operate.

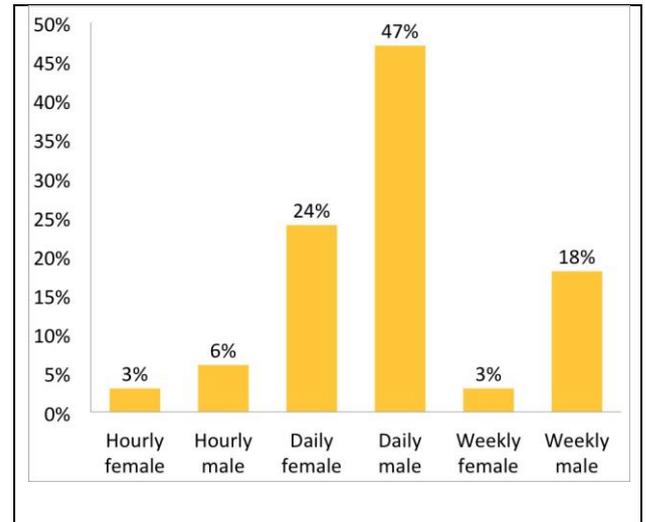
**Employment generated:** Our sample shows that nearly a third of the owners buy in help. In Mbale, they are mainly reliant on daily waged workers; men and women in almost equal shares. Only 9% are hired on hourly basis; weekly wage earners are nearly negligible. Nearly half of the hired help are relatives.

In Mbarara, the owners are also dependent on daily waged help, though it is predominantly male (46%). As in Mbale, 6% are hired on an hourly basis. The main difference between the two cities is the 21% are hired on weekly basis. Only 30% of the hired help are relatives.

As noted in Chapter 2, there is no established minimum wage in Uganda. However, qualitative surveys showed that the current daily wage rate is around UGX 3,000 to 3,500, just above the Poverty Line of UGX 3,175. However, discussions also showed that the more prevalent practice is to hire workers on a job basis with the same rate applying to men and women. For example, to unload a cart or van. The women tend to take longer to do the same job if it is physically demanding, hence dis-advantaged.



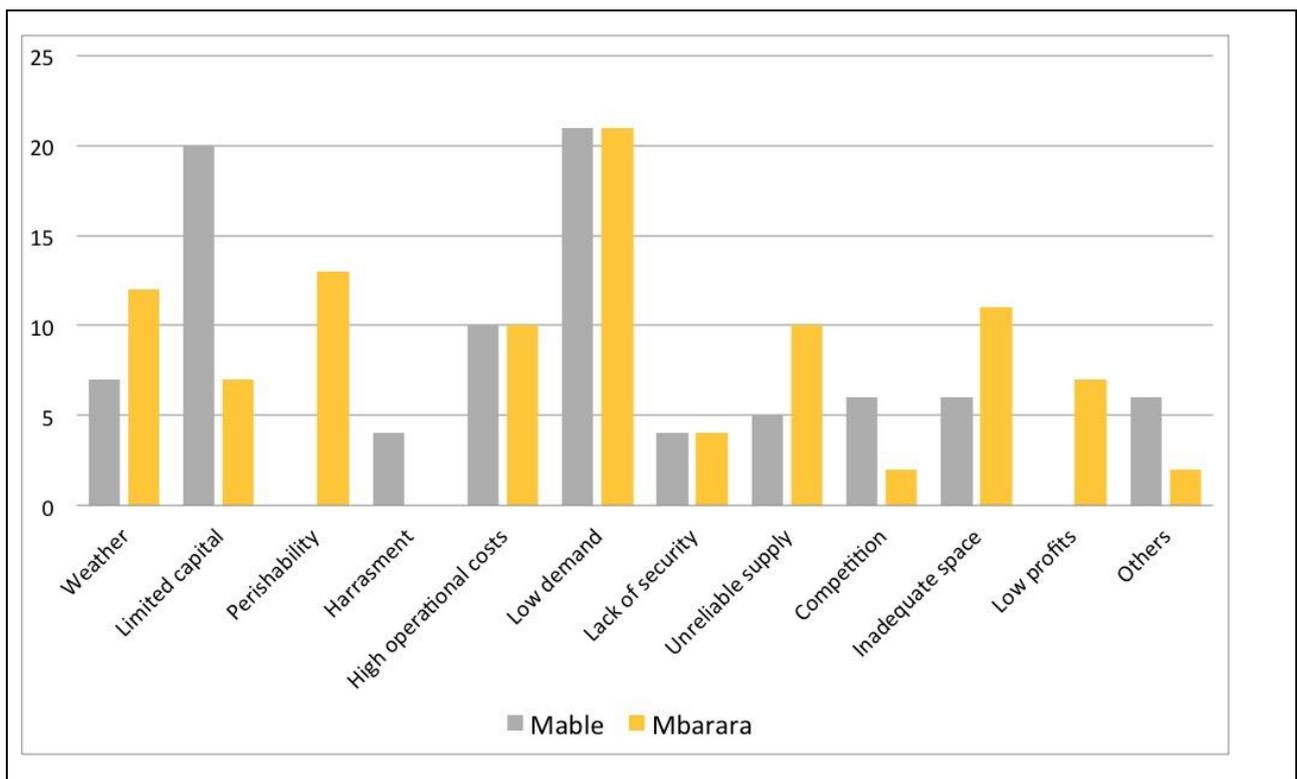
**Figure 5.29: Mbale: Employment by Type and Gender**



**Figure 5.30: Mbarara: Employment by Type and Gender**

### 5.5 Constraints and Challenges

There are some constraints which are inherently associated with informality. The lack of a permanent or acknowledged address makes it difficult to access credit from banks, which means borrowing at a much higher rate of interest from informal lenders. These two issues are closely linked and have been identified as key constraints in both cities (Figure 5.31). Furthermore, for those who have to operate in uncovered spaces, rainy season severely affects their business. The issue of space is also a wider problem.



**Figure 5.31: Single Major Challenge as Identified by the Owners (%)**

The largest street trading activity is in fresh produce, which is perishable. In Mbarara, the demand is for good quality produce. If the quality degrades, the stock has to be sold at a lower price or hawked, as one of our interviewees noted. The lack of refrigeration facilities is thus seen as a major impediment. Harassment by local authorities is noted in Mbale. Well targeted policy at local government level can address most of these constraints. But ultimately, issues of low demand and high operational costs can only be resolved by improved infrastructure provision and overall economic growth.

These major constraints, not only influence (i) what the traders consider would be the catalyst for change for their business, but, (ii) also their attitude to the issue of registration, which are discussed below.

**(i) Catalyst for change**

In Mbarara: 70% want access to cheaper capital, which is with lower interest. This is important as interest rate offered in the informal economy is much higher than the going rates in banks. However, 5% are looking for financial assistance, 13% feel the need for better business premises; 14% would not specify. The rest were ambivalent and had no response.

Mbale had a higher level of non-response, with 58% noting the need for credit facilities; 16% would like to operate in improved business premises. Interestingly, only 3% wanted the Municipal to cooperate and assist them.

The issue of registration is at the top of Uganda’s urban agenda. The over-riding aim of current governments in Africa is to register and then tax informal activities, without offering any social or economic benefits in return, such as permanency of site. There is little interest in poverty reduction and social development, but a pre-occupation with physical planning and increasing the tax base. This approach fails to distinguish between legitimate activities of the poor and vulnerable, from the tax avoidance activities of some. The approach to registration is one of deterrence, rather than enabling.

This analysis (Table 5.4) has shown that more than half the owners see benefits accruing from registration. For them, being a registered unit, means access to cheaper credit, improved premises, and better scope for growing their business. As Joshi *et al.* (2013) noted that policy reforms, especially registration should work to strengthen the potential benefits, increase security and focus on opening up new opportunities. In Uganda, if policy is designed to address some of the constraints noted by the owner, it could be a win-win situation.

**(ii) Attitude to registration**

Reasons to Register			Reasons: Not to Register		
<b>Reasons</b>	<b>Mbarara</b> Yes 54%	<b>Mbale</b> Yes 53%	<b>Reasons</b>	<b>Mbarara</b> No 45%	<b>Mbale</b> No 47%
	% of this group	% of this group		% of this group	O% of this group

Reasons to Register			Reasons: Not to Register		
Reasons	Mbarara Yes 54%	Mbale Yes 53%	Reasons	Mbarara No 45%	Mbale No 47%
Allow access to assistance	10	10	Business is still too small	13	11
Will increase access to financial assistance	20	8	It is expensive	10	11
Attract more customers	14		Need more money first	8	
It will help to expand the business	18	30	Not interested	8	8
If business expands	< 1%		Planning to change business	13	
Enable access to Government support	4		No details provided	33	20
More stability	2	6	Others	18	
To get a permanent place	2	8	Want to avoid paying tax		8
To access insurance	12		Business is Temporary		6
Reduce harassment		8			
No details provided	18				

**Table 5.4: Attitude to Registration by City, by Reason**

## 5.6 Vertical heterogeneity varies with the type of activity

It has been argued in this study, that Chen's model of representing vertical diversity is not the norm. Furthermore, the constituency of the pyramid will vary with the sector. Figure 5.32 represent the vertical diversity observed within street trading Mbale; and Figure 5.33 in Mbarara. They show that not only the do the constituents for the different strata differ from Chen's model, but also between cities in the same activity; i.e. street trading. It was noted in section 5.3.1 that women in Mbarara are running viable units and generating high returns. They successfully compete with their male counterparts. However, in both cities, the older men dominate the pyramid.

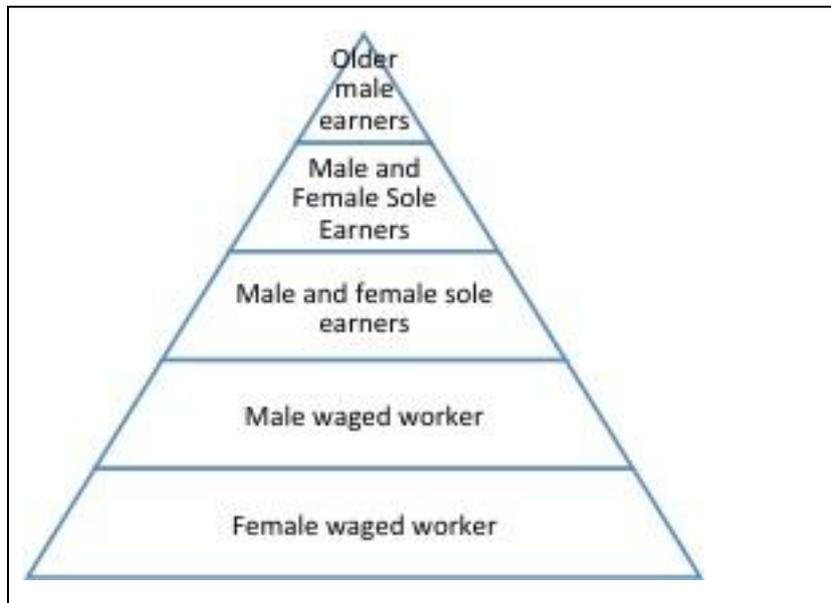


**Figure 5.32: Mbale: Vertical Heterogeneity in Street Trading**



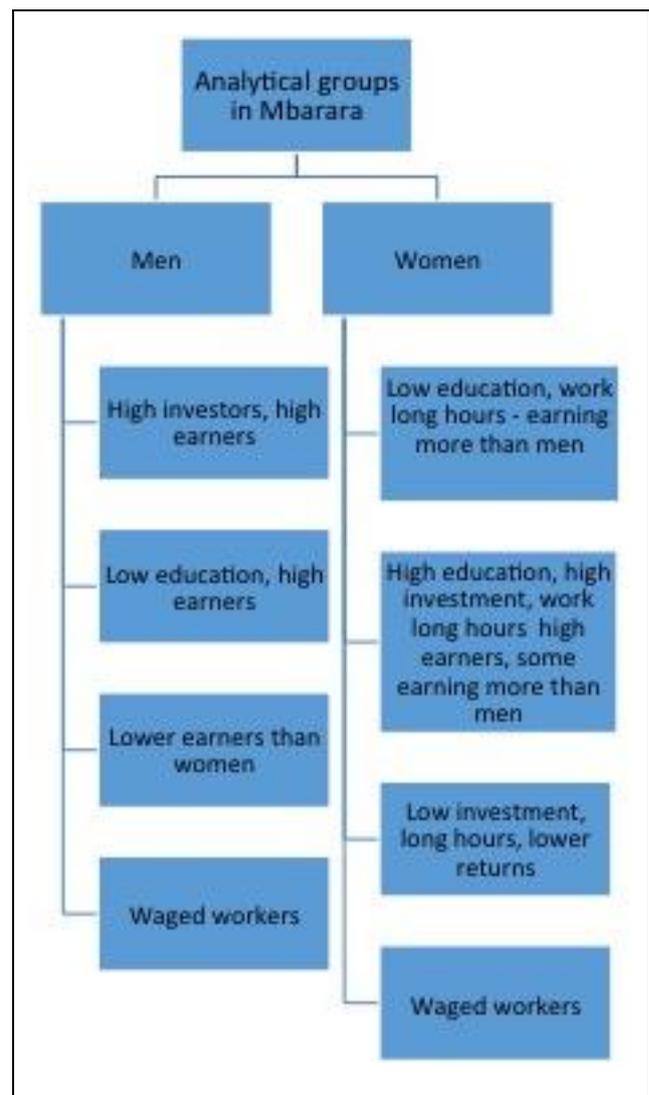
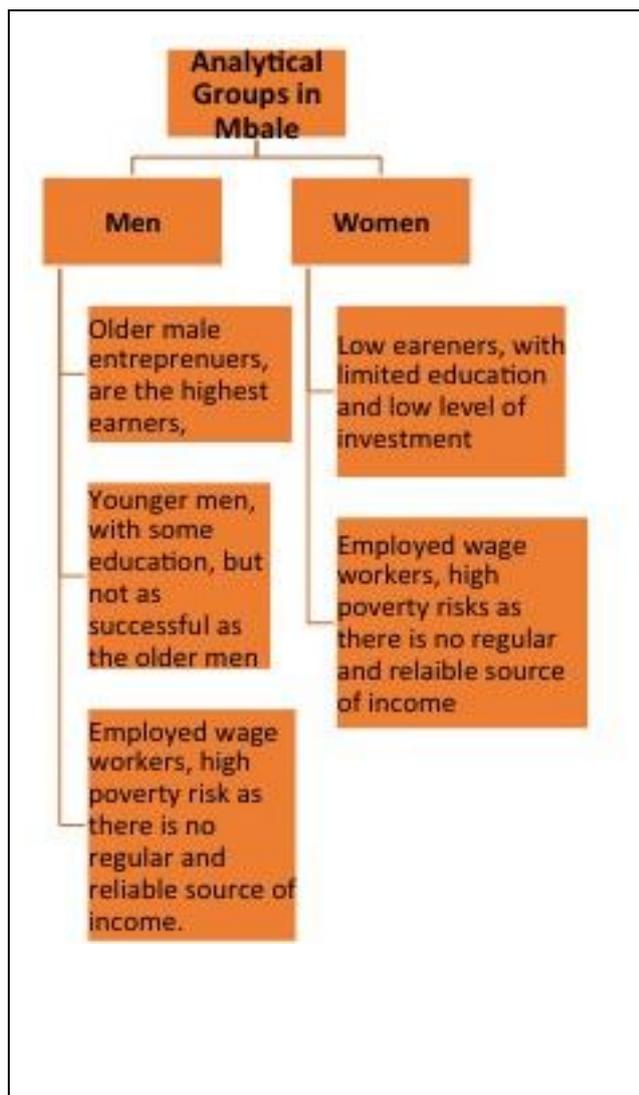
**Figure 5.33: Mbarara: Vertical Heterogeneity in Street Trading**

Figure 5.34 illustrate the diversity in informal brick-making units. It shows that the difference is less gendered. However, the manual work done by daily waged workers is physically demanding. Since the workers are paid on piece rate, the women tend to lose out. However, what is common is that men dominate all three pyramids and women are found in the base strata of all three activities. This supports the argument that given the segmented nature of the informal economy in terms of average earnings and poverty risk, a nuanced approach essential.



**Figure 5.34: Vertical Heterogeneity in Brick Making**

Unpacking the vertical and horizontal diversity of street trading has enabled this study to identify analytical groups for policy research and pro-poor policy development. These are presented in Figures 5.35 and 5.36.



## 5.7 Theoretical findings and Policy Implication

1. The study has shown that the analysis of the diversity created by different economic and socio-demographic groups, i.e., vertical heterogeneity, needs to be contextualised by type of activity. As demonstrated, the gender-poverty-risk profiles vary with the nature of activity, as do the nature of linkages established by business.
2. **The policy implications** for moving towards a wider programme for resilient and inclusive development is the need to appreciate the poverty-risk profiles found in different sectors of urban activities. This will be essential to shape and design any major urban development programme that also works for the poor. On the other hand, analytical groups to be targeted would differ with the objective of the development programme. They could provide the policy entry points. This study also provides the tools for analysis and a conceptual framework to do so.
3. This predominance of women in all categories of activities in Mbarara would mean that there are fewer opportunities for women with the same educational qualifications as men, in the expanding modern industrial sector. This implies that women with the same levels of educational attainment will find it difficult to move on; whereas men will find alternative opportunities more easily. Whilst women in a dynamic urban economy are doing better than their counterparts in a diminutive urban economy, they also predominate the bottom strata of poverty-income pyramid.
4. On a positive finding, women are entering the trade as agents of mobile money transactions and trading in phone accessories.
5. **Policy implications:** Since the resource intensive industrial growth policy is dis-advantaging educated women, it is important to mainstream gender in other growth areas, for example, in communications and the information technology industry.
6. The different consumption and demand patterns of a slow-growing and a more economically dynamic city are also reflected in the informal economy: the average income of traders in Mbarara is 60% higher than those in Mbale. Higher start-up capital is brought to all the activities in Mbarara, reflecting, not only the different consumption and demand patterns and positive urbanisation externalities, but also the different resource capabilities of the owners/entrepreneurs in the two different cities. Additionally, within the city, there are differentiations among women, and between men and women, in their access to resources.

**Research and Policy implications:** This means that for the future research agenda, gender analysis of urban micro-enterprises should be contextualised in the wider urban and economic circumstances. The relationship/links between type and nature of entrepreneurs and uneven urban growth raise policy questions regarding growing the ‘missing middle’. Should policy focus on a city like Mbarara, with a pool of successful entrepreneurs and mobile, young job seekers; or focus on a town like Mbale, to reduce regional disparities and stimulate growth.

The study has raised issues and questions, which unless taken on board, could compromise the success of the wider economic development programmes.



# CHAPTER 6: URBANISATION, ECONOMIC DEVELOPMENT AND INFORMALITY

## 6.1 Introduction

Chapters 6 to 10 deal with the various socio-spatial dimensions of informality at the different geographical scales, from the macro to the micro. Chapter 6 provides a summary of the wider urbanisation context and demographic factors that are impacting on urban economic development, social welfare and the informal economy in sub-Saharan Africa and Uganda.

It examines the drivers of rapid urbanisation drawing on the concepts of the ‘demographic transition.’ Uganda, as with many other sub-Saharan countries, is at an early stage in this transition with the majority of its population living in rural areas and dependent on subsistence farming. It carries the economic weight of high fertility rates and child dependency and is yet to benefit from the demographic premium that occurs when fertility rates fall in line with levels of urbanisation.

Uganda and most other African countries exhibit a high degree of ‘urban primacy’ and regional backwardness, with, in the case of Uganda, a heavy concentration of population and economic development in the capital. Kampala. However, more rapid population growth is generally occurring in the secondary cities and smaller towns. Section 6.4 summarises the recent debate on the so-called ‘premature urbanisation’ thesis, whereby the rapid growth of the urban population in sub-Saharan Africa has not been matched by the kind of economic development seen in other regions.

Section 6.5 notes the socio-economic impacts of urbanisation in Uganda including the urbanisation, and feminisation of poverty, the influence of demography on the growth of the informal economy and the heterogeneity of its workforce, and the implications for the development of informal settlements and the growing urban infrastructure deficit. The argument for a strategic approach to public and private investment in urban infrastructure, parallel institutional strengthening and capacity building and increased support for local economic development including positive support to the informal economy is underscored.

The chapter reviews, in outline, the academic and scientific literature on demographic change and urbanisation in sub-Saharan Africa, and its relationship with social economic development. It draws on a range of recognised official statistical data sources including UN-Habitat, the Population Division of the United Nations Department of Social and Economic Affairs (UN DESA), World Bank Open Data and World Development Indicators, the Uganda National Population and Housing Census 2014, the Uganda Demographic and Health Survey 2011 and the extensive online historical global economic data analysis of the Research Division of the Federal Reserve Bank of St Louis (FRED), in the United States.

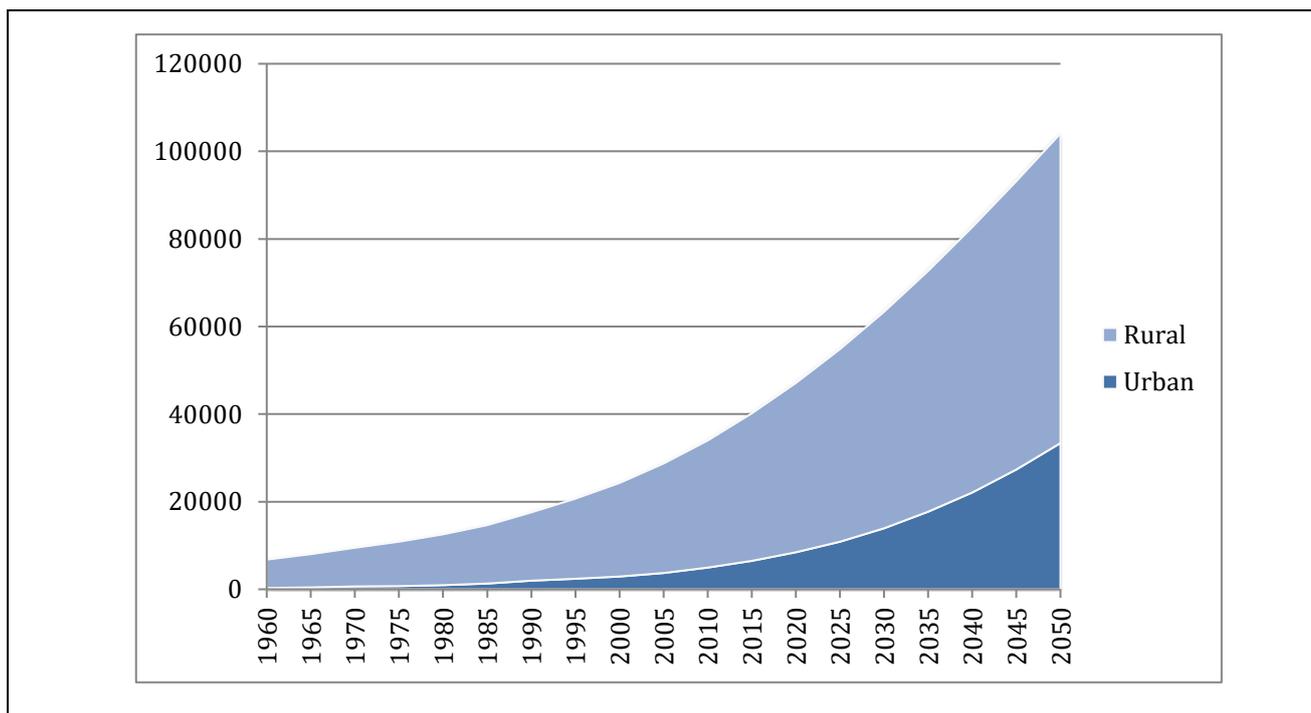
## 6.2 The sub-Saharan African and Ugandan urbanisation context

Sub-Saharan cities are expanding at a very rapid rate. Urban population growth rates in Africa are currently around 3.4% per year, making it the fastest urbanizing continent (Bloch, 2012), although the urban population as a whole is still well below the 50% threshold. With an estimated urban population growth rate of 4.35% over the 2015-20 period (UN DESA, 2016), Eastern Africa remained the world’s least urbanised area according to *The State of African Cities 2014* but by far the world’s most rapidly urbanizing region (UN-Habitat, 2014a). The average annual rate of change of

the proportion of the urban population (rate of urbanisation) for the region is projected at nearly 1.69% over the 2015-20 period, compared with 1.29% for sub-Saharan Africa as a whole, and 1.05% for all less developed regions. Western Africa, with an urbanisation rate of 1.40% still has very high, but decelerating, city growth rates (UN DESA, 2016).

In Uganda the urban population projected to grow at around 5.3% per year over the 2015-20 period, with the urban population growth exceeding the rural population growth by 2.11% over the same period (UN DESA, 2014). Uganda is one of the least urbanised countries in Africa but it is expected to be the second fastest urbanising country in the world over the 2014-2050 period with the level of urbanisation growing at 2% (UN-Habitat, 2014a). The urban population was 7.4 million according to the 2014 Census, 18.3% of the total for Uganda as a whole (UBOS, 2016). The urban population is projected to increase to 33 million in 2050 (with the level of urbanisation rising to 32.1% of the total population) according to UN DESA (2014).

Bloch (2012) identifies three factors as the drivers of urban population growth: natural population increase, rural-to-urban migration and the revision of municipal boundaries as urban spatial expansion occurs, engulfing areas and settlements which were previously not categorised as urban. At the bottom end of the scale this includes small settlements, previously classified as rural, are growing into towns. At the earlier stage of urbanisation, as in Uganda, rural-to-urban migration is a key factor, although there is disagreement as to relative contribution of the different factors and further research is needed (see Chapter 7).



**Figure 6.1: Uganda urban and rural population change, 1960-2050** Population in '000s. (Source: projection data from UN DESA World Urbanisation Prospects 2014 Revision)

Kampala Capital City has remained the primate urban centre throughout the period 1991-2014. However, the share of Kampala to the total urban population has declined steadily from 41% in 1991 to 25% in 2014, indicating that smaller urban areas are growing faster. Given the predictions for rapid urbanisation in Uganda, and particularly in the secondary cities, the focus of this project in this research has been on the latter.

The predictions of more rapid growth of secondary city population are in line with the trend for the continent. The ‘State of African Cities 2010’ notes that smaller and intermediate cities have attracted three quarters of the urban growth between 2005-2010 with the expectation this trend will continue into the next decade (UN-Habitat, 2010).

The 2002 and 2014 census-defined urban areas include gazetted urban centres. In 2016, there were 259 such centres in Uganda, including the Capital City, 33 Municipalities, 163 Town Councils and 62 Town Boards (UBOS, 2016). The smallest of these had a population of just over 2,000 but most of the small towns have a population of more than 5,000. The average size of towns under 10,000 was 5,368. The urban population has increased from about 1.7 million in 1991 to 7.4 million in 2014 due to an increase in the number of urban centres and expansion in the area of already existing urban centres. There are 11 cities with more than 100,000 inhabitants with a combined population of 3,399,837, about 46% of the total urban population. The remaining 54% are located in 248 towns cities with less than 100,000 inhabitants

<b>Population</b>	<b>Number of urban centres</b>	<b>Total Population</b>	<b>Share of the total population (%)</b>
More than 250,000	4	2,473,006	33.3
100,000 - 250,000	7	926,831	12.5
50,000 – 99,999	16	1,164,443	15.7
25,000 – 49,999	24	851,015	11.5
10,000 – 24,999	91	1,382,409	18.6
Less than 10,000	117	628,160	8.5
<b>Total</b>	<b>197</b>	<b>7,425,864</b>	<b>100</b>

**Table 6.1: Distribution of Ugandan Urban Centres by Size, 2014**  
(Source: author replication based on UBOS, 2016: 10)

The current and projected rate of urban population growth and associated urban transformation has profound implications for the way most Ugandans will come to live in the future and in policy terms for urban governance, planning and service delivery. It seems more than likely that the associated growing demand for employment will continue to be met largely by the informal sector for some considerable period hence.

### **6.3 Rapid urbanisation and demographic change**

The informal economy is responding to wider, long-term changes in the social, demographic and economic environment engendered by rapid urbanisation. This is a complex and dynamic process involving differential health, development and demographic factors (fertility, general health, child mortality, lifespan), political and cultural factors and complex and dynamic economic interactions, linkages and changes (Geschiere and Gugler, 1998; Jedwab et al., 2014). This section explores the impacts of sub-Saharan Africa’s ‘demographic transition’ and how rapid urbanisation is likely to shape the particular challenges for urban development in Uganda and the role of the informal economy for the coming decades

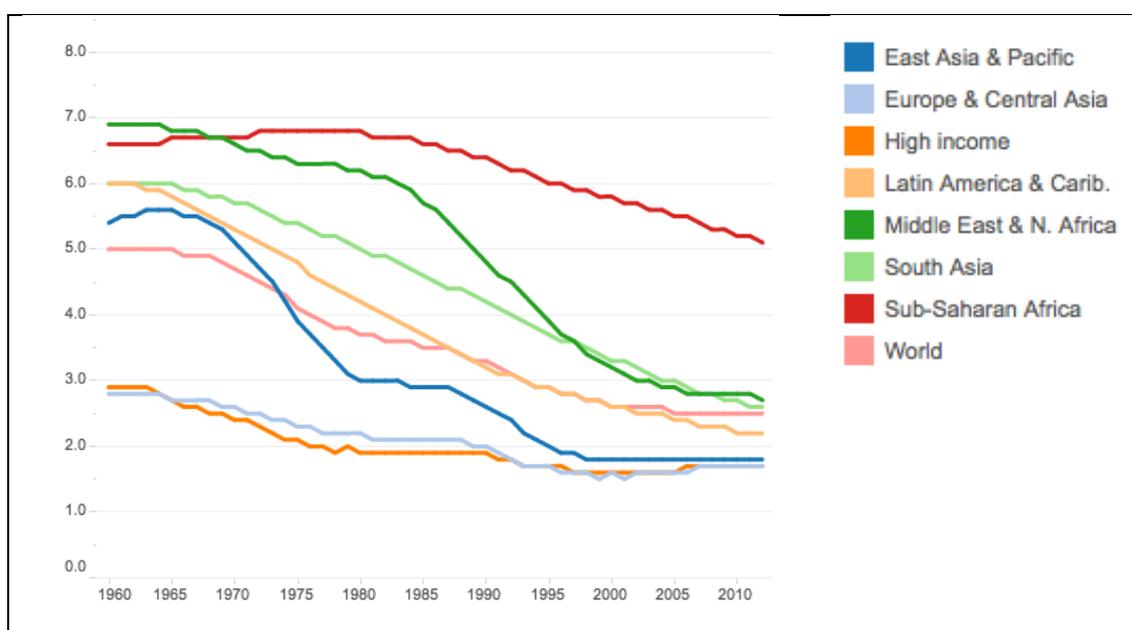
Uganda is still primarily a rural society but one which is undergoing a rapid demographic transformation. Most countries in sub-Saharan Africa, Uganda prominent among them, are at an early stage in this transformation, characterised by rapid population growth, a population age pyramid with a wide base, a high child dependency ratio and rapid urbanisation (Canning et al., 2015). This

‘demographic deficit’ presents social threats as fertility rates and youth dependency rates in most of Sub-Saharan Africa are among the highest in the world “exposing the region to higher poverty rates, smaller investments in children, lower labour productivity, high unemployment or underemployment, and the risk of political instability” (*ibid.*)

Rapid urban population growth and urbanisation, however, also present opportunities. Urban markets for informal sector related goods and services (both those provided directly to consumers and those to formal sector enterprises) are growing in scale and complexity. Moreover, urbanisation itself dampens population growth as fertility rates in urban areas are generally substantially lower than in rural areas.

Fertility rates in Sub-Saharan Africa as a whole are declining following the pattern established across most of the rest of the world, albeit at a lower rate than was anticipated or is desirable (Figure 6.2). The potential economic benefit of declining fertility is that proportion of the population of working age rises and the child dependency ratio falls. Given policies that contribute to the development of human capital and investment in productive employment opportunities, an opportunity to benefit from a ‘demographic dividend’ opens up. As Canning et al. (2015) note:

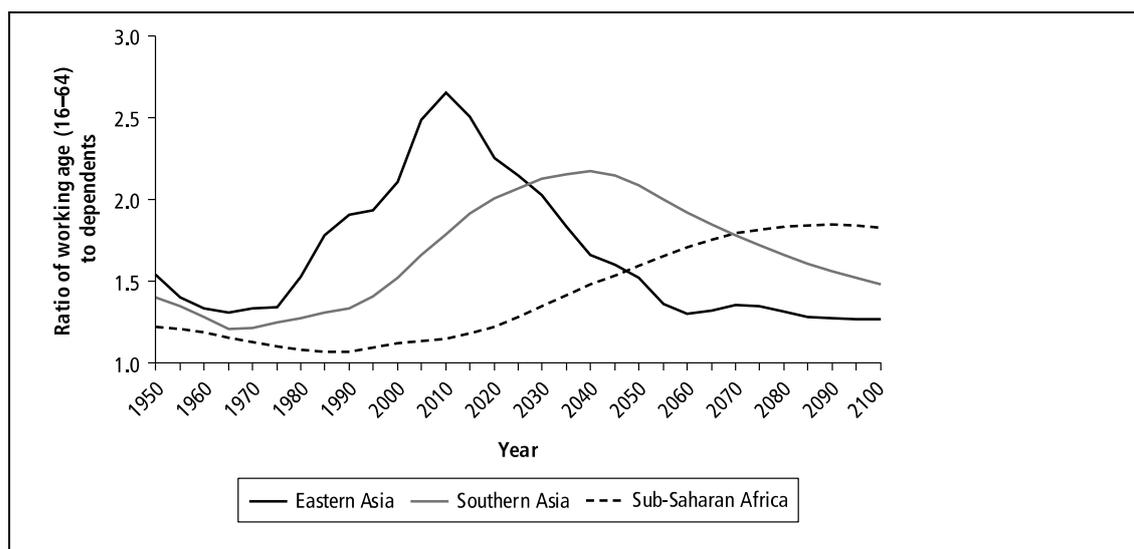
*“Declines in fertility automatically raise income per capita in the short run and have the potential to bring further gains in savings and investments in the long run. With prudent policies, African countries can reap the benefits of this demographic dividend. Policy choices and actions can transform the population of a nation into a healthy, educated, empowered labour force that can contribute to real and sustained economic growth that lifts people out of poverty.”*



**Figure 6.2: Total fertility rates: Africa lags behind other regions**  
 (Source: World Bank opendata <http://blogs.worldbank.org/opendata/between-1960-and-2012-world-average-fertility-rate-halved-25-births-woman>)

The demographic transition in urban areas is occurring more rapidly in line with the pace of change in fertility and declining family size linked to access to better education opportunities for females, better health care and lower child mortality rates reducing the need to ‘insure’ family size

and maintain an agricultural workforce, and the additional costs associated with maintaining large families in urban areas.



**Figure 6.3: Dependency ratio: working-age population 16–64 years of age to dependents in selected World Regions, 1950–2100**  
 (Source: Canning et al. 2015)

In Uganda, for example, according to the 2011 Uganda Demographic and Health survey, the figures for rural and urban areas are 6.8 and 3.8 children per woman respectively (UBOS and ICF International, 2012). Nationally, there has been a gradual decline from 6.9 in 1995 to 6.2 in 2011. However, rates have fallen more rapidly in urban than in rural areas.

#### 6.4 Urbanisation and economic development in sub-Saharan Africa<sup>11</sup>

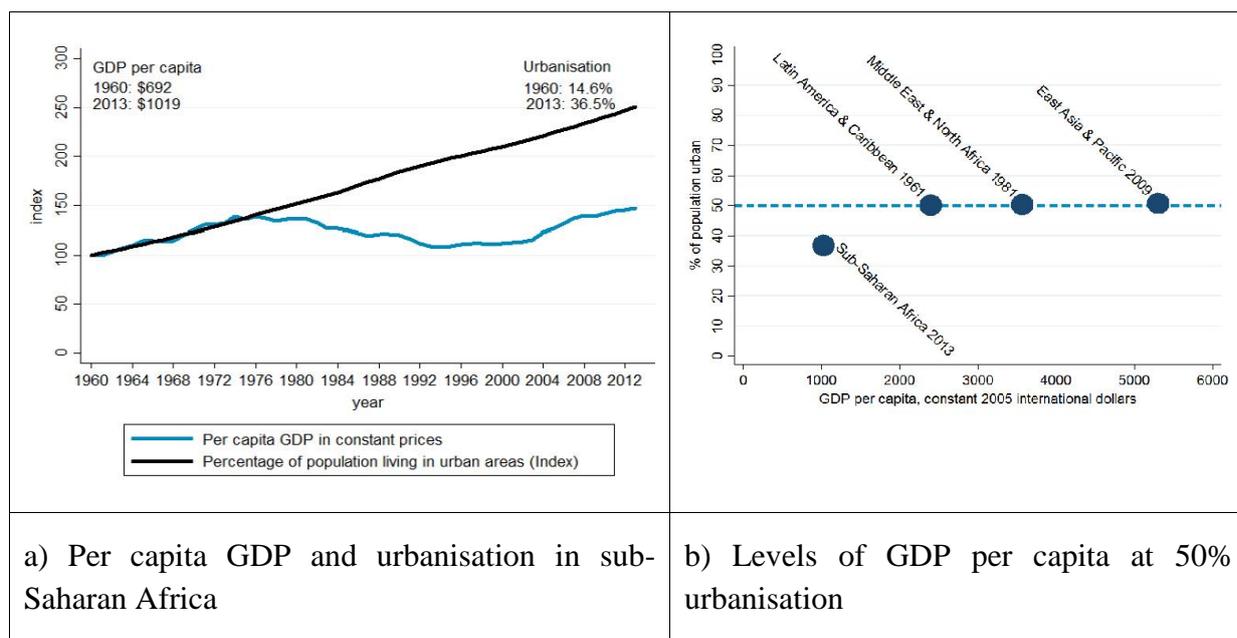
In the period leading up to the earlier years of this century, rapid urbanisation in many sub-Saharan countries, appears to have taken place without economic growth over a prolonged period of around three decades, clearly contributing to the growth of a low value informal sector. According to this view, sub-Saharan Africa countries, including Uganda, diverged significantly from the world trend as it continued to urbanize more rapidly than other regions, even as its economies were collapsing, or at least stagnating, the so-called ‘over urbanisation’ or ‘premature urbanisation’ thesis (World Bank, 1999)<sup>12</sup> (see Figure 6.4c). Given the conventional view and wider historical evidence in favour of a causal link between urbanisation and economic development, this disconnect has generated considerable controversy and debate (Fay and Opal, 2000).

For some observers, the data to support the view that there is a substantial disconnect are lacking or incorrectly interpreted. Kessides (2005) finds that “urbanisation in the region is not excessive or imbalanced relative to the experience of other regions” and “most of the economic growth that has taken place in the past decade derives from mainly urban-based sectors (industry and services).” Her view is that there has been an inadequate institutional response to the major management task presented by the absolute rate of urban growth and although “cities have clearly not lived up to their productive potential” this is due to “widespread neglect and bad management.” Kessides argues that the widespread urban poverty that is evident is not mainly a consequence of the

<sup>11</sup> This section is an adaptation of a literature review originally written as part of research carried out on Urban Change in Nigeria, carried out as part of the DFID-funded Urbanisation Research Nigeria programme.

<sup>12</sup> See Box 6.4, page 130 of World Development Report 1999/2000, cited in Satterthwaite (2002).

failure of the urban economies in Africa. Rather it relates to “institutional failures that perpetuate social exclusion and inequalities between the urban poor and the urban non-poor” (2005, pII)



**Figure 6.4: Changes in levels of urbanization related to GDP per capita** (Source: Murray, n.d.; based on Spence et al., 2009 and World Bank Open Data for 2013)

Potts (2012) argues that the pace of urbanisation in Africa has been greatly overstated and has recently been in steep decline. Very rapid urbanisation in sub-Saharan Africa due to migrants moving from rural to urban settlements, she suggests, is a fallacy and natural growth the “predominant growth factor in most urban populations.” McGranahan et al. (2009) agree that the data show that the rate of urban growth and urbanisation in sub-Saharan Africa has fallen, but that this is in line with trends in other regions, given also the it is generally at an earlier stage of its urban transition.

However, they do not downplay the role of migration, both rural-urban and international. Satterthwaite (2002) agrees that the trends are similar to other regions and the rapid urban population growth rather reflects national population trends than a relative increase in the share of the urban population. Arguing against anti-urban bias in public policy, he claims there is little evidence to support the view that too many people are moving from rural to urban areas (rather a lack of proper urban management and planning to accommodate the population growth) and argues that fears about over-urbanisation are misplaced. Recently published data – both economic and demographic (see for example: the Africapolis report on urbanisation in West Africa, Moriconi-Ebrard et al., 2016) – offer the overdue opportunity to bring this whole debate up to date, taking a longer-term historical perspective.

‘Development’ in the sense of improved health care resulting in lower death rates and particularly lower child mortality was on going in sub-Saharan Africa throughout the decades of economic stagnation at the end of the last century. While life expectancy is markedly lower than other global regions at 58 in 2012, there was a generally steady rise from 40 in 1960 (Roser, 2016) with a temporary decline in the 1990s due to the impact of HIV/AIDS in some countries (GHO, n.d.). Increasing pressures on land from a growing rural population is doubtless a factor driving

urbanisation in many parts of Africa and whilst so much of African farming remains subsistence based, the economic growth opportunities are likely to remain concentrated in the towns and cities.

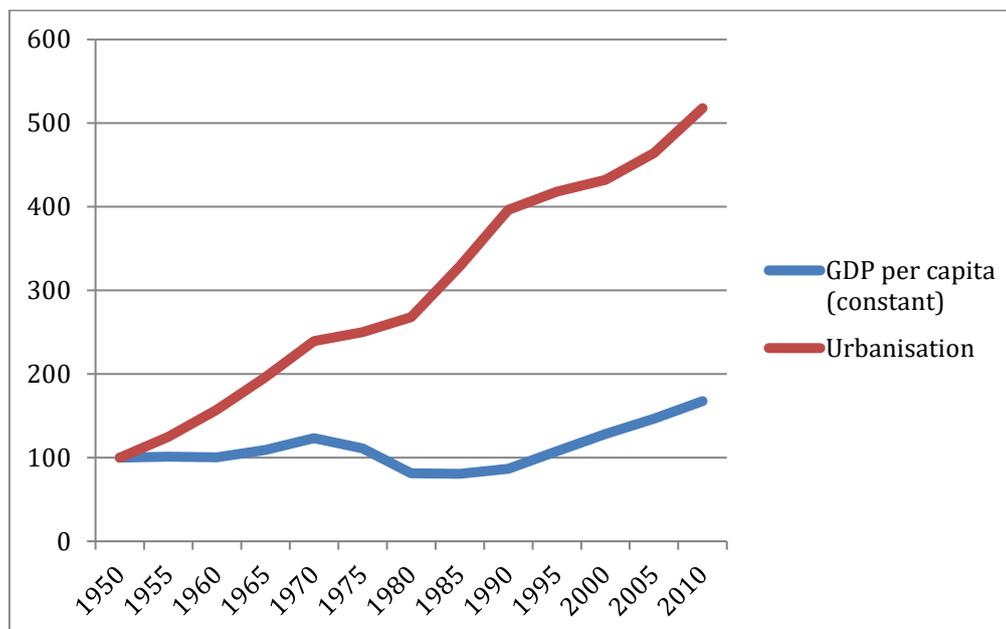
These demographic pressures, combined with impact of global economic and policy factors in the 1980s and 90s discussed in Chapter 3 including ‘premature de-industrialisation’ (Rodrik, 2016) are sufficient enough, perhaps to explain the dislocation between urbanisation and economic growth in sub-Saharan Africa. According to Rodrik (*ibid.*), countries are running out of industrialization opportunities sooner and at much lower levels of income compared to the experience of early (rich world) industrializers.

In many sub-Saharan African countries, industrialization, in terms of overall share of economic output, has yet to progress beyond level last seen more than three decades ago. In this respect, though there have been institutional factors and failures in urban management and governance that Kessides (2005) remarks on, the challenges of very rapid urbanisation have likely remained beyond the financial capacity of governments to cope in the best of circumstances. Recent economic growth has provided the opportunity to turn the tide but structural transformation remains a challenge in which better integration of the informal sector within the urban economy could begin to play a significant role.

Clearly, cities that are doing well economically attract migrants and grow faster. In the case study cities being investigated in this research, Mbarara has grown very much faster than the other cities. Oil-rich Hoima is fast becoming a magnet for migrants from rural areas and other towns and cities. Populations of individual cities can stagnate or decline. The graphs illustrated here, however, suggest that urbanisation as a whole is driven by factors other than simple economic growth. The reasons are contested but both ‘pull’ and ‘push’ factors are both likely to have a role.

The relationship of GDP per capita to the urbanisation trend in Uganda is indicated in Figure 6.5. This exhibits the same pattern evident across sub-Saharan Africa as a whole shown in Figure 6.4c, with growth until the mid 70s followed by a slump that lasted until the early part of this century. Since then Uganda’s growth in GDP per capita has outpaced the average for Africa as a whole, having grown by about 70% from its previous peak in the 1970s.

Whether sub-Saharan Africa is urbanising faster, slower than or at a similar rate to other regions, as evidenced by the demographic data and population projections of the UN’s Population Division and national censuses, urbanisation is generally accepted as an inevitable concomitant of the demographic transition occurring in nearly everywhere in the world.



**Figure 6.5: Uganda - per capita GDP and urbanisation 1950-2010**  
 (Source: Federal Reserve economic data, constant 2005 USD (FRED, 2012) and UNDESA World Urbanisation Prospects 2014 data indexed to 1950)

## 6.5 Impacts of urbanisation in Uganda

Uganda's urban transformation is occurring in a period of particular flux. A changing climate is likely to adversely influence rain-fed agriculture, which will have a bearing on the prospects of small towns that serve as interlocutors with the rural economy. From another perspective, closer economic integration in East Africa will increase the reach of the country's largest metropolis, but place it in direct competition with other metropolises in the region.

Rapid urbanisation in Uganda, particularly the rapid growth of secondary cities and the importance ascribed to them in the Uganda Government's Vision 2040, together with the different linkage of the informal sector with the city and regional economies, informed the selection of towns as case studies for this study. The aim was to explore the different contexts in which the informal economy is growing.

The rapid demographic change that Uganda and other African countries are undergoing has a powerful impact on the vertical heterogeneity, as described in Chapter Three affecting the entry of multiple demographic groups into the informal sector. Whilst the majority of urban population growth is ascribed either to natural increase or reclassification of rural areas, migration from rural areas continues to add fuel to the demand for jobs in urban areas particularly for the youth. Here, the informal sector has acted as an, often inadequate, sink for the unemployed, educated young job seekers. This path to urban livelihood creation is of growing importance as educated youth unemployment rises in Uganda. Furthermore, new investments in resource and technology-intensive industries (such as the oil industry in Hoima) attract job-seeking rural migrants with limited skills, most of whom eventually join the informal sector.

A major driving force of rural-urban migration is rural poverty, which leads to men, women and youth moving to urban areas in search of economic opportunities. This has led to the urbanisation of poverty as many of the migrants are unable to secure gainful employment, and hence join the

ranks of the unemployed and under-employed in the informal sector. This contributes to the development and expansion of unplanned informal settlements, lacking basic urban services and security of tenure, since they cannot afford formal housing (Mabala, 2012; UN-Habitat, 2012). Informal settlements are vulnerable to a range of climate-related hazards, including flooding. Secondary impacts of climate change that informal settlement residents potentially face include increased competition and higher prices for clean drinking water, and increases food prices (Dobson et al., 2015).

In many sub-Saharan African countries, the urbanization of poverty is accompanied by another phenomenon—the feminization of poverty (McFerson, 2010). Uganda is no exception, as shown by Ahikire (2009) and Elmes (2012). As many as half of all households in informal settlements are headed by women, who are typically poorer than men. As they often cannot inherit land and property, many women migrate from rural areas to urban informal settlements, where they are confronted with high levels of unemployment, the predominance of low-paying jobs and unstable sources of income. This forces some women into prostitution to supplement household incomes, making them more vulnerable to HIV/AIDS infection than non-informal settlement dwellers (Kuiper and van der Ree, 2005).

The poor who come to live in the town, as well as those born and brought up there, for the most part live in burgeoning informal settlements that both house a major source of labour that fuel the informal economic markets and well providing an increasing source of demand for the products that it procures. With informal development taking place before formulation of planning strategies and implementation of control and management systems, growing numbers of urban poor are playing a leading role in this dysfunctional urbanisation process. The development, expansion and proliferation of slums and informal settlements, in which the growing majority of urban poor live and work, is the most conspicuous manifestation of this reality.

Urban population growth and expansion of cities and towns are exceeding the institutional, financial, technical and human resources capacities of the urban authorities to plan and manage development and provide infrastructure, services and amenities. The situation is being aggravated by the urbanisation of poverty, whereby an increasing proportion of the poor are now found in cities and towns.

Cities are essentially being built ‘back to front’, with informal development taking place before formulation of planning strategies and implementation of control and management systems. The poor are playing a leading role in this arguably dysfunctional urbanisation process. The development, expansion and proliferation of slums and informal settlements, in which the growing majority of urban poor live and work, is the most conspicuous manifestation of this reality.

## **6.6 Conclusions, knowledge gaps and policy implications**

This chapter has summarised the wider urbanisation context and demographic change in sub-Saharan Africa and Uganda noting the social impacts, and the implications for informal economic development and the wider economic development of its cities. The wide range of issues raised by the ‘demographic deficit’ and high child dependency ratio, the urbanisation and feminisation of poverty, lack of formal employment opportunities for youth, the growth of slums and the urban infrastructure deficit pose profound challenges for public policy.

A well thought-through, strategic approach guiding public and private investment in basic urban infrastructure in Africa's cities is essential and pressing. This has to be matched by parallel institutional strengthening and capacity building particularly at the local and sub national government levels, to ensure the sustainability of such investment, that it is properly maintained and is not wasted. Population pressures and deficits infrastructure and services are particularly evident in secondary and smaller towns and cities and national policies need to address the common problem of skewed and unbalanced regional development.

This policy agenda is short on basic evidence. Urban data across sub-Saharan Africa, with the exception of South Africa, is thin on the ground or non-existent. There is sufficient analytical evidence at the national level to broadly frame the issues and research questions. However, this is in constant need of review given the pace of urbanisation, the normally 10-year cycle of national population censuses and the rapidly changing circumstances at the local level.

Social surveys at the local level can help fill the knowledge gaps and are essential to inform urban planning and service delivery policy. These need to be augmented by local government surveys to determine capacity and capability requirements, land use surveys to determine the requirement for urban physical development and business surveys to map out the local economic development requirements, taking on board the reality of the hybrid economy and the need for positive support to the informal economy.

## **CHAPTER 7: RURAL-URBAN LINKAGES AND LIVELIHOODS**

### **7.1 Introduction**

This chapter explores the concept of the hybrid economy as an economic space of formal and informal linkages and interactions that extends, continuously over urban and rural areas. The informal economy is embedded in rural-urban linkages, varying patterns, sometimes cyclic, of short and long-term migration and commuting to central towns and cities from wide rural catchment areas around them. The chapter draws on the concepts of the Sustainable Livelihoods Approach (Conroy and Litvinoff, 2013; Chambers and Conway, 1991; Carney, n.d.; DFID, 1999), with its original rural focus, and as subsequently applied to the urban economy (Rakodi and Lloyd-Jones, 2002).

It is argued that an increasing reliance on service- and cash-based economic activity, the closer that people live to towns, is evident. Statistical evidence in support of this trend is presented in the case study of Uganda. There has been a strong shift in employment from agricultural to non-agricultural sectors, associated with urbanisation and the growth of employment opportunities, notably in the informal economy in the towns and cities.

Simultaneously, there is a major diversification of livelihood activities in rural areas, with employment in non-agricultural sectors notably in informal employment with men participating more than women in the non-agricultural informal rural economy. Significant underemployment is evident, especially in rural areas, and likely to be contributing to the growing numbers of informal economy workers in both urban and rural areas.

While local spatial data is lacking, an analysis of the satellite imagery exploring the settlement pattern in and around the case study city of Mbale, demonstrates the on-going rapid densification of population in the rural-urban interface, areas which though nominally and administratively rural, in reality are fast becoming peri-urban. This provides further evidence in support of the recent theoretical arguments concerning the ‘urbanisation of the countryside’.

The chapter argues that a sustainable livelihoods approach, with its emphasis on identifying and sustainably managing the assets available to poor households and communities, in rural and subsequently in urban areas, and its recent embodiment in community-based resilience assessment frameworks, offer a promising theoretical basis for developing analytical tools to better understand the set of dynamic relationships that characterises rural-urban linkages.

### **7.2 Rural urban linkages**

#### **7.2.1 Rural-urban dynamics and informal livelihood opportunities**

The ‘economic space’ of informal-formal interactions extends over rural and urban areas, a heterogeneity that varies with relative location in relation to the urban centres. The urban economy does not end at the boundary of the built up area and overlaps with a geographical continuum of rural employment diversification. It is argued that an increasing reliance on service- and cash-based economic activity, the closer that people live to towns, is evident. The informal economy is embedded in rural-urban linkages, varying patterns, sometimes cyclic, of short and long-term migration and commuting to central towns and cities from wide rural catchment areas around them to work, sell and buy (McGee, 2005; Tacoli, 1998, 2008).

With regard to informal linkages with the rural economy, Bakeine (2009) and Kessides (Kessides, 2005:29) have emphasised the importance of the linkages that rural households develop with urban centres. These linkages with the urban economies are central to the rural household's risk management and overall income generation strategy. Remittances and income from the informal sector are vital to the rural economy.

Conversely, these links enable the urban economy to draw on the rural economy for food. There is a growing recognition of the geographic and economic complementarity between rural and urban areas for urban food supply. For example 'the 'urban food/foot-print' of Kampala, as well as those of secondary cities, stretches far beyond city boundaries (Proctor, 2014:21).

This point is further emphasised by Kessides (2005, pII), who argues that 'well managed cities and towns support the national development agenda by providing market demand and remittances for the rural economy' which generate demand and labour supply for provision of further services, i.e. a virtuous circle, with multiple entry points. Urban needs for fresh fruits, vegetables and many other foods – fish, meat, eggs, beans, grains and other staple foods – are mainly supplied domestically.

According to Pedersen et al. (2012) a majority of Ugandan households still depend directly or indirectly on agriculture, which contributed approximately 21% of the GDP in 2010 (UBOS, 2014a). At a regional scale, agriculture, on aggregate, represents 15% of GDP in the Sub-Saharan but still is the main occupation for most of the population (RurbanAfrica, 2015). However, the fact that the increasing value added from services and industry with 70% of non-agricultural GDP in Uganda generated in urban areas (World Bank, 2015a) can explain why rural households rely in non-farming activities as part of their livelihood strategies, with growing importance of links with the urban economy.

A recent study by Brønd and Fold (2015) in sub-Saharan Africa highlights the importance of non-agricultural income, especially "smallholders who do not produce the dominant crop (who) are highly dependent on alternative income outside agriculture." Von Braun (2007) also emphasise that "rural economic activities outside the agricultural sector are a major source of income and employment, and therefore the rural nonfarm sector is an important contributor to economic growth and poverty reduction during the economic transformation of many developing countries."

While agriculture remains the dominant feature in the livelihood strategies of rural households, agricultural activities are more and more complemented with off-farm and multi-locality activities through people's access to rural and urban networks. Rural dwellers expand their areas of operation and diversify their activities by engaging in livelihood activities, both within and outside of their rural places of residence. Similarly, urban livelihoods are in turn complemented through their familial connections in the rural hinterlands (Steel and van Lindert, 2015).

### **7.2.2 The rural-urban continuum**

Robert Redfield (1941), in *The Folk Culture of Yucatan*, first introduced the concept of *rural-urban continuum*, where rural and urban areas are the opposite ends of a continuum of activities/social relationships, and town or villages occupy different positions along this spectrum. However, although the idea of a dichotomy between rural and urban has long been challenged by researchers (Dabson et al., 2012) most public policy and theories have traditionally adopted a dualistic approach to defining rural and urban areas (Dabson et al., 2012; Garret, 2005; Tacoli, 1998; Von Braun, 2007).

Many contemporary authors have discarded the dualistic approach to rural-urban as independent entities (Dabson et al., 2012; Garret, 2005; Satterthwaite and Tacoli, 2003; Simon et al., 2004; Tacoli (n.d., 1998); Von Braun, 2007). Tacoli (1998) emphasises that such distinctions (rural-urban) are often arbitrary. Von Braun (2007) argues that “it is inaccurate to simply associate urban with industry and rural with agriculture in the current context of rural-urban relationship.”

Brønd, and Fold (2015) in a recent study of socio-economics dynamics of rural area covering four countries in Sub-Saharan Africa, highlights the current process of “urbanisation of the countryside..... where more small businesses open up and more young people work in non-agricultural sectors such as transportation and construction.” Steel and van Lindert (2015) emphasise the “increased need for understanding the impact of rural-urban linkages on changing livelihoods both in rural and urban areas.” Tacoli (1998) describes four main types of interaction between rural and urban: flows of people, flows of goods, flows of wastes and sector interactions defined as rural activities taking place in urban) and activities often classified as urban taking place in rural areas. Tacoli particularly notes the intensity of the interactions in the peri-urban areas of cities (Tacoli, 1998).

From an administrative/planning perspective, the boundaries of the urban administration often do not coincide with the urban built-up areas, adding another layer of complexity to the rural-urban dichotomy. Urban, peri-urban and surrounding rural areas often fall under separate administrative jurisdictions with different resources, political views and between traditional and state authorities (Simon et al., 2004).

According to DANIDA well-managed interactions between rural and urban areas are the foundation for a balanced regional development which is economically, socially and environmentally sustainable (DANIDA, 2000). Garret (2005) adds that local authorities that see the value of supporting regional economies (at rural-urban scale) are often essential to success. A balanced management of rural-urban linkages is also necessary for the maintenance of environmental resources at a regional scale (Ndabeni, n.d.).

Rural-urban interactions are mutually reinforcing and create (if well managed) a 'virtuous circle' of development fostered by backward and forward linkages between agricultural production and industry (Tacoli, n.d.). Von Braun (2007) exemplifies the 'virtuous circle' arguing that agriculture growth engenders both backward linkages in the form of increased demand for farm inputs such as fertilizers and farm equipment, and forward linkages, as increased farm households' income translates into increased demand for consumption goods and services. These linkages can subsequently lead to rural transformation, with an expansion of the rural nonfarm economy and better linkages with the rest of the economy, with increasing sectoral and spatial flows between rural and urban areas.

### **7.2.3 Rural-urban linkages in Uganda**

Given the growing understanding by researchers of the significance of rural-urban linkages in the wider sub-Saharan African context, this section explores why and how such linkages are central to understanding the growth of the informal sector in Ugandan cities. The importance of the rural-urban linkages to the rural household and the urban economy has been noted. It has also been argued that well managed cities and towns support the national development agenda by providing market demand and remittances for the rural economy.

Bakeine (2009) highlights the need for the removal of obstacles to facilitate expansion of informal enterprises as well as supporting them to be stable and secure over time. This requires, among others, recognising and valuing such enterprises as a central part of the local economy and understanding and supporting the links between the formal and informal enterprise sectors operating in rural areas and functionally linked small towns and secondary cities.

The traditional, largely informal food supply system in Uganda is nevertheless highly organised with produce often moved long distances and involving a range of different services - brokering, transport, credit provision, etc. Limited market information can result in weak vertical coordination, inefficiency and low produce prices. Uganda is fortunate in having a market information service, Infotrade<sup>13</sup>, which collects, analyses and disseminates agricultural and other market information from 23 central markets in major districts in Uganda.

Small catering operations and provision of street food, mainly run by women, also provide a market for produce and generate incomes, though conditions of street and markets give rise to issues of food safety and hygiene (Dubbeling, 2010).

A number of larger questions arise concerning the role of the rural economy in relation to on going urbanisation that are not possible to address within the confines of this scoping study but which should form part of the future research agenda. These include:

- How adequately and efficiently are formal and informal food supply actors able to satisfy the urban demand for food at present and in the coming decades?
- How adequately and efficiently are existing markets, processing and storage facilities located in relation to the spatial population changes and what new and improved facilities need to be planned for?
- Are adequate transport and information infrastructures and services in place to facilitate quick and safe urban food distribution at the lowest possible cost and under the most hygienic conditions, with the least wastage?
- To what extent can informal actors (rural and urban) are able to participate in value chains with large and growing markets and share in domestic value added? What are the optimal strategies for sustainable rural and urban development for supply in fresh produce, accepting the major and persistent role of the informal economy?

In Uganda private/public investments in rural areas, rural infrastructure and other elements of rural change “all occur to some degree independently of what is happening economically and demographically in Uganda’s urban centres. Similarly, social and economic investments in urban areas generally are done with little regard to what their impact will be on rural economic activities or on rural households. Nonetheless, the economic and demographic dynamics in rural areas of Uganda will affect its urban centres and vice versa.” (Mukwaya et al., 2011)

Climate change is expected to have negative impacts on both urban areas and agricultural production (see Chapter 8). This only heightens the need for better targeting and support to rural infrastructure development. Similarly, the need to both adapt agricultural production to changing circumstances and improve productivity to meet the growing urban food supply needs (either directly

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<sup>13</sup> Infotrade produces a weekly agricultural market price report. This report is disseminated through email, website and SMS. <http://www.infotradeuganda.com/index.php/market-information.html>

or increasing the value of agriculture-based exports to cover the cost of growing food import demands) will become increasingly critical.

#### **7.2.4 Regional, rural and urban economic divergence in Uganda**

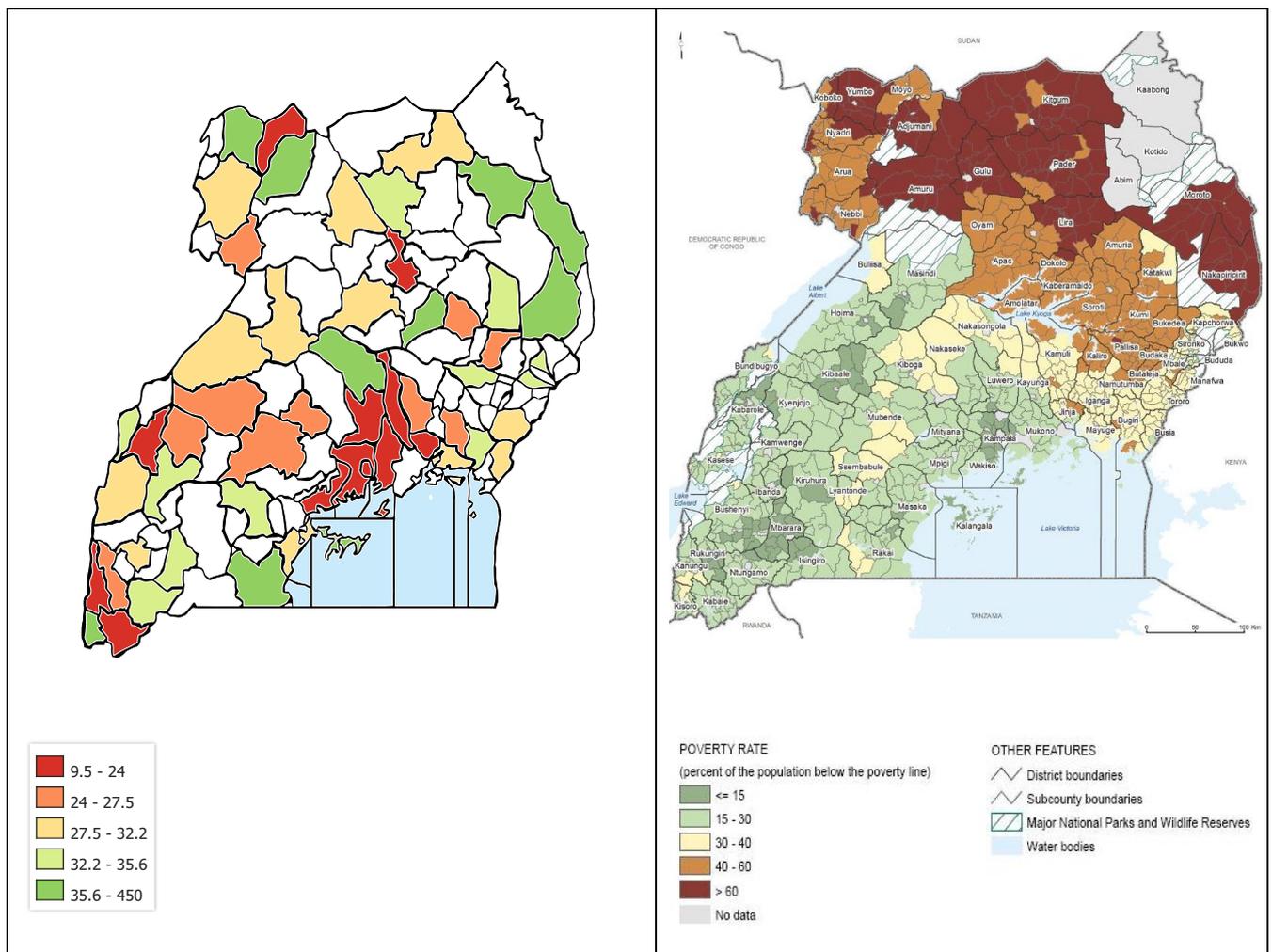
Kampala is the dominant urban centre for the country, where 80% of the country's industrial and service sector firms are located (Mukwaya et al., 2011). Nevertheless, Uganda is characterised by an urban system with a preponderance of secondary cities and small towns that have closer links with the rural hinterland. These will play an increasingly strategic role in local economic development as they provide the markets for the products of the rural areas, will stimulate the growth of non-farm jobs, and will have to provide for the health, education and other services needs of the growing urban and rural population (Satterthwaite and Tacoli, 2003; Wandschneider, 2004).

An increasing share of the rural population will come to live in small towns and the secondary cities are where the major urban growth is expected in the near future. Furthermore, temporary and seasonal movement is also a strong characteristic of rural areas, in cities such Mbale in Uganda where, according to local officials, day population could be as much as double than night population. These various factors point to the importance of integrated rural-urban policies and coordinating the efforts of local authorities.

There is currently little micro-level data available to begin to analyse and understand the complex socio-spatial relationships and economic flows between Uganda's rural and urban areas or how the pattern is changing and this represents a major gap in the knowledge. The following analysis is based on the data available at national, regional and district level.

At the regional level, according to the AfDB et al. (2015), development has “continuously been skewed towards the Central and Western regions while the rest of the country lags behind.” Wide regional disparities in poverty levels are apparent ranging from 5% in the Central regions, compared with 9% in the Western regions, 25% in the Eastern regions and 44% in the Northern regions (UBOS, 2014b).

As the AfDB comments, “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. The rural-urban divide has also been expanding mainly for similar reasons.”



**Figure 7.1: a) Uganda Poverty Index by District 2006 and b) Poverty rate by Subcounty 2005** (Source: a) DevInfo, 2012; b) Fisheries et al., 2010)

Overall, according to the 2012/13 Uganda National Household Survey (UBOS, 2014b) poverty levels have declined from 24.5% in 2009/10 by 4.8% to 19.7% (in 2012/13) with the numbers living in absolute poverty from falling from 7.5 million to 6.7 million. On the other hand, there is stagnation or reversals in progress for other areas including universal primary education, and health, in particular HIV. Development progress across regions also varies, with the North and Northeast lagging behind the rest of the country.

The Human Poverty Index<sup>14</sup> in Mbale was 28.3% in 2006, slightly up on the 27.6% value for 2000. In 2006, Mbarara's human poverty index was the highest of the secondary cities originally considered for further fieldwork at 35.2% down from 37.8%, with Arua at 29.4% down from 38%, Hoima at 31.1%, up from 30.5%, and Jinja at 20.2% down from 23.3%. Over the same period, however, the poverty index in Kampala fell from 20.3% to 9.6%. The map (Figure 7.1) shows the

<sup>14</sup> The Human Development Reports website defines this as "A composite index measuring deprivations in the three basic dimensions captured in the human development index — a long and healthy life, knowledge and a decent standard of living." It combines probability at birth of not surviving to age 40, Adult illiteracy rate and Unweighted average of population without sustainable access to an improved water source and children under weight for age. It 2010 it was replaced by the UN Multidimensional Poverty Index.

concentration of districts with lower HPI in the Central District in and around Kampala and the higher rates in the more remote, rural areas.

Overall poverty levels have fallen proportionately in both rural and urban areas in recent years. Between 1999/2000 and 2009/10 the proportion living in poverty in urban areas fell from 14.3% to 10.9% of the population. Given the rapid growth in urban population this represented an increase in absolute numbers from 600 to 700,000. Rural poverty decreased both proportionately and in absolute terms over the same period from 33.9% to 23.5% and from 7.8 million to 6 million. The decrease in rural poverty as a result of economic growth and demographic changes was greater in rural than in areas (30.6% as oppose Diesel standby today we didn't use it good morningd to 24% and a 28.4% fall over the whole country). The urban share of poverty increased from 7.1% to 10.4%.

### 7.2.5 Informal employment by sector and gender in rural and urban areas

In 2012/13 around 23.5% of the population and just under 23% of the working population lived in urban areas, up from 15% and 16% respectively in 2009/10. Of the total workforce for 2012/13 actually employed, however, 31.7% were living in urban areas. Overall, 56.8% of the total work force was employed at the time of the survey, 79% in urban areas and 50.2% in rural areas. 52.4% of women were employed and 61% of men. This relates to those doing paid work and excludes those working in substance farming. This does not include those actually employed who are classified as 'time under employed' 8.9% of those in employment, 10.3% in rural areas and 5.8% in urban areas. The breakdown by industry and gender is given in Table 2 in Chapter 4 but no rural-urban breakdown is given.

The 2009/10 survey gives a useful breakdown of the informal economy, although the household survey data is less reliable and the industry breakdown is likely to be questionable. For the economy as a whole, there is no breakdown by industry and by urban-rural although this is data that could be analysed in both surveys. Data is given for both informal employment and the informal sector as per the most recent ILO definitions given in Chapter 2.

As per Table 7.1, in 2009/10, 34.5% of all employment was in the non-agricultural sector. The breakdown of all non-agricultural employment by industry/type of activity and formal/informal is given in the following table. In most of the industry sectors, informal employment predominates, as indicated in the table above (based on the data in the 2009/10 UNHS, Socio-Economic Module). Only in "Other services", which includes financial, business and professional services, does formal employment predominate.

Non agricultural activity	Total	Formal	Informal	Informal % of total
Manufacturing	20.0%	8.4%	24.9%	87.5%
Construction	6.8%	5.4%	7.4%	76.3%
Trade	36.2%	16.9%	44.4%	86.0%
Transportation	7.7%	8.3%	7.4%	67.9%
Services (other)	29.3%	61.0%	15.9%	37.9%
Total	100.0%	100.0%	100.0%	70.1%

**Table 7.1: Uganda, non-agricultural employment by industry/type of activity and formal/informal.** *Source:* After (ILO, 2013)

According to the (ILO, 2013c) based on the Ugandan National Household Survey of 2009/10 (UBOS, 2010) there were 2,720,300 people in informal employment representing 69.4% of total non-agricultural employment (having been calculated on a slightly different basis to the figure of 70.1% given in the table). The great majority of these (2,343,700, 86%) were employed in the informal sector with 160,100 in formal employment in the informal sector and 536,600 in informal employment outside the informal sector.

Of the total in informal non-agricultural employment, 1,232,400 (45.3%) were women and 1,488,000 (54.7%) men; 1,169,700 (43%) were in urban areas and 1,550,000 (57%) in rural areas.

The breakdown of informal employment by type of activity and gender is given in the following Table 7.2:

Informal employment	Total		Women		Men	
Manufacturing	677,355	24.9%	309,332	25.1%	367,536	24.7%
Construction	201,302	7.4%	7,394	0.6%	194,928	13.1%
Trade	1,207,813	44.4%	664,264	53.9%	541,632	36.4%
Transportation	201,302	7.4%	1,232	0.1%	202,368	13.6%
Services (other)	432,528	15.9%	248,945	20.2%	181,536	12.2%
All non-agricultural activities	2,720,300	100%	1,232,400	100%	1,488,000	100%

**Table 7.2: Uganda informal, non-agricultural employment by type of activity and gender.**

Trade represented 44.4% of all informal employment but nearly 54% of women in informal employment. A rural-urban breakdown of employment, informal or otherwise by type of activity, is not given in these reports.

### 7.2.6 Informal sector breakdown by gender and rural/urban

The breakdown of the informal sector employment according to the ILO and UBOS definition by type of activity is not given. Most agricultural activity takes place in rural areas but this is not counted in the ILO informal sector or informal employment statistics, although most agricultural activity would count as informal by the same criteria applied to the non-agricultural sector.

Of the total working in the non-agricultural informal sector about 46% were women and 54% men; about 41% were in urban areas and 59% in rural areas. The informal sector represented around 59% of those working in the non-agricultural sector (21% of all employment), 55% in urban areas and 63% in rural areas, 62% of women and 58% of men.

In 2009/10, 19% of the working population were in urban areas (compared with an urban population of 15-16% of the total) and 81% in rural areas. The urban workforce was growing at a rate of 6.8% per annum since 2005/6 compared to 3.6% in rural areas. These figures are in line with the total population growth.

Women represented 51.9% of the total in 2005/6 and this had risen to 52.8% in 2009/10. 75.6% of males aged between 14 and 64 were employed compared to 75.2% of women, with a higher proportion of the total in rural (77.1%) than in urban areas (68%).

Overall 28% of the working population was engaged in a secondary activity which indicates a six percentage points increased from 22% in 2005/06. The proportion is higher for males compared to that of females. Working persons in rural areas (31%) were more likely to engage in secondary activities compared to their urban counterparts (13%).

The self-employed represented 76.4%, down from 81.2% in 2005/6 but still very high compared to OECD countries normally in the range 5-20%.

“A sizeable proportion of self-employed persons can be an indication of low growth in the formal economy and high rate of job creation in the informal economy. A situation where a large proportion of the employed is constituted of contributing family workers is a probable indicator of poor development, limited job creation, widespread poverty and often a large rural economy.” (UBOS, 2010)

Total employed was 75.6% of 16-64 age group in 2009/10 up from 70.9% in 2005/6. Female participation rose from 69.8% to 75.2%

Of the total employed, 1.3% were employers, 17.6% own account workers, 2.5% contributing family workers, 0.5% apprentices and 54.3% working on the household farm. 23.6% were employees. The proportion of self employed fell from 81.2% in 2005/6 to 76.4% in 2009/10.

Informal sector					
Non-agricultural activities:	2005/6		2009/10		Change
Working proprietors	1,782,000	69.0%	1,332,000	63.6%	-25.3%
Paid employees (regular & casual)	238,000	9.2%	276,000	13.2%	16.0%
Unpaid helpers	563,000	21.8%	486,000	23.2%	-13.7%
Total:	2,583,000	100.0%	2,094,000	100.0%	-18.9%

**Table 7.3: Uganda informal, non-agricultural employment by employment status and gender**

In the non-agricultural informal sector, 61.7% were employers, own account workers and members of a cooperative (68% women and 56.5% men; 53% urban and 68% rural). 9.8% were contributing family workers (14.2% women, and 13.6% in urban areas). 28.5% were employees (37.4% men and 17.8% women; 33.4% in urban areas and 24.9% in rural areas). However, the section on the informal sector in UNHS 2009/2010, Socio-Economic Module gives somewhat different figures: 63.6% working proprietors, 23.2% unpaid helpers and 13.2% paid employees These figures compared with those for 2005/6 are shown in Table 7.2.

### 7.2.7 Summary and implications from the case study analysis

While there is some inconsistency and uncertainty in these various data sources and there is more analysis that can be done from the related datasets, some broad conclusions can be drawn.

A major shift in employment from agricultural to non-agricultural sectors is evident. This is associated with urbanisation and the growth of employment opportunities, notably in the informal economy in the towns and cities.

At the same time, however, there is a major diversification of livelihood activities evident in rural areas, with employment in non-agricultural sectors representing 57% of all informal employment (and 59% of the more narrowly defined informal sector). Men were participating more

than women in the non-agricultural informal rural economy. Men are also likely to be participating more in secondary activities than women in rural areas and those living in rural areas were more than twice as likely to engage in secondary activities compared to their urban counterparts.

Finally, as has been already noted, there is a much greater gulf between those who claim to be in the workforce but not actually employed at the time of the survey in rural than in urban areas, particularly among women. As noted in Chapter 4, this implies there are times of the year when farmers are not actively engaged, and available for other non-agricultural activities, especially if they live close to urban areas. These are likely to be contributing in a major way to the growing numbers of working in the informal sector in both urban and rural areas.

It has been noted that urban population in Uganda has been increasing rapidly over recent decades. It grew from less than one million in 1980 to 2.9 million in 2002, and more than 7.4 million in 2014. According to Uganda National Household Survey 2012/13 (UBOS, 2014b), the growth in urban population has been mainly due to reclassification of urban areas – the redefinition of the boundary of existing urban areas, on top of the other contributing factors – natural growth, rural-urban migration and the gazetting of new urban areas. A separate estimate by population researcher, Menashe-Oren, based on examination of the census and Demographic and Health Survey data suggests rather that around 70% of the urban population growth between the census of 1991 and 2002 was due to natural population increase, with 10% due to reclassification of rural areas as urban and 20% due to in-migration (Menashe-Oren, 2015). This is an area that needs clarification through further research.

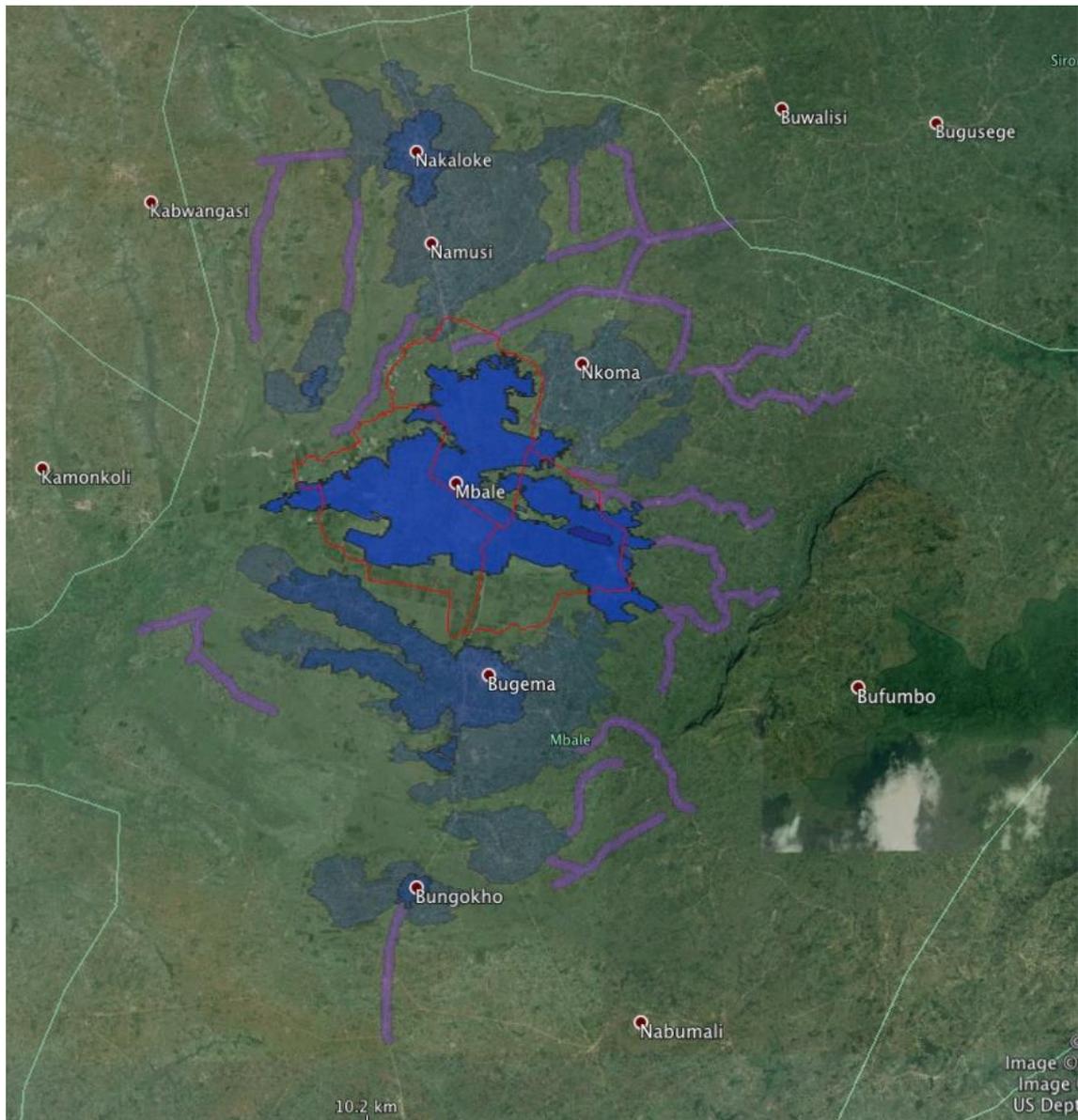
The extension of urban boundaries normally encompasses recognized “urban extensions”, the growing arms of a continuous or semi-continuous central built up area. However, beyond the more visible confines of an urban conurbation, there are usually wider areas of urban influence, catchment areas that also growing in terms of population density, a rural-urban fringe, characterised by mainly rural but a growing frequency of urban land uses and growing population density. The rural population of these areas in the immediate and wider catchment areas of towns and cities are certainly more likely to have diversified their livelihoods away from farming.

This while the rural economy in Uganda is plainly diversifying, this is likely to following a gradient towards a higher dependence on subsistence agriculture the further the distance away from the urban centres.

### **7.3 Rural-urban linkages and the informal economy in Mbale and Mbarara**

#### **7.3.1 The rural urban continuum in the case of Mbale and Mbarara**

In the case of Mbale, the on going process of rural densification is apparent from an inspection of the satellite imagery. Four broadly defined types of close-built settlement can be discerned – the central built up area of Mbale town which is beginning to extend of the administrative boundaries in bright blue, the nucleated, expanding or newly formed villages (darker blue); scattered settlement areas, more densely populated than the adjacent countryside (lighter blue); and ribbon development, usually no more than a plot or two deep along the roads in the wider area of the district (purple).



**Figure 7.2: Mbale – the densifying rural-urban fringe**  
*Source:* authors

This latter type of linear development, interspersed with occasional villages, is typical of the wider rural development of this densely occupied part of Uganda. Judged by the extent of obvious densification of the countryside around current Mbale, the current main catchment area, including ribbon development long the principal roads, is unlikely to extend more than 10km from the city centre. This type of rural densification is less apparent in the case of Mbarara, with its larger central . tion but a similar range of rural densification is evident.

Obviously proximity to roads is a key factor determining this phenomenon. The 2009 World Development Report (World Bank, 2009) uses the concept of an ‘agglomeration index’ This measure focuses on the economic aspects of urban areas with the concentration of people and firms in areas benefitting from agglomeration economies and the forward and backward linkages associated with large local markets (Marshall, 1961; Baldwin et al., 2011; cited in Uchida and Nelson, 2010). Large local (“thick”) markets are defined by the existence of a large central city. The other two determining factors are travel time from the central city and a minimum density threshold (150 or 300 people per

square kilometre). Using a city threshold population of 50,000 and a coarse satellite image resolution methodology, the WDP team's agglomeration index for Uganda in 2006 was 25%. There is no data to indicate what proportion of this population can be said to be 'urban', in the sense of engaging directly in the urban economy (as opposed to being involved in intensive farming which is also common in the wider city region). Density and distance alone cannot be taken as determining factors. However, it is more than double the UN's estimate of Uganda's level of 12% urbanisation at the time.

In the case of Mbale, the town lies at the centre of a densely populated rural district with a population of 492,804 in 2014, having grown at an annual rate of 3.2% since 2002. The city itself grew at only 2.64% over this period which implies that rural areas and smaller urban centres outside of the central city have been growing at a faster rate than the city itself, over 7% per annum. An agglomeration type measurement would suggest looking beyond the confines of the administrative area of the city, with the continuous built up area already spilling over its borders, to a wider defined catchment area containing perhaps the same size of population again.

In the case of Mbarara, however, the central city has grown much faster at a rate of 8.09% per annum than the surrounding rural district, which has also grown at a rate of 2.9% per annum. Further research is needed to clarify why the patterns of urbanisation are so different in the two districts and what the implications are for the urban and rural economies and their inter connections.

However, it should be noted that rural accessibility to urban markets rapidly falls away with distance from the centre because of poor road infrastructure. A 2005 report from IFPRI (Torero and Chowdhury, 2005) estimated that only 34% of rural people in sub-Saharan Africa live within 2 km of an all-weather road, and were thus essentially reliant on subsistence living and cut off from health care and education (which inevitably impacts on their ability to secure a sound, sustainable livelihood). Linard et al. (2012), who built a high resolution population distribution dataset for Africa and analyse rural accessibility to population centres, estimated the average per-person travel time to settlements of more than 50,000 inhabitants at about 3.5 hours, with Central and East Africa displaying the longest average travel times. Their analysis highlights the large inequities in access and the isolation of many rural populations and the economic consequences for such population.

### **7.3.2 Informal employment by sector in urban Mbarara and Mbale**

As noted above, the 2009/10 Ugandan National Household Survey (UBOS, 2010) gives a breakdown by type of activity for informal employment, as defined by the ILO, but not for the informal sector as such, and informal employment is not broken down by urban/rural. Given these limitations, and the various indications drawn from the fieldwork described in Chapters 4 and 5, the following is a first attempt to give some idea of the composition of the informal sector workforce in the two case study cities. It is anticipated that with further research as part of a future agenda, such estimates can be modified and firmed up. For this study, they are included to give some indication of the scale of activities involved.

Based on the national average for urban areas, informal employment is about 19% greater than employment in the informal sector. Based on the average inter-census growth rate of 8.6% for Mbarara and 2.5% for Mbale, a population estimate for 2016 was estimated for both cities.

Table 7.4 was compiled using this estimate, assuming the same ratios of Informal employment to all non-agricultural activities and all employment and population as the national average for urban areas, and the average breakdown by type activity for informal employment

nationally. This is highly indicative and takes no account of differentials in the economic structure of the two cities.

Given its higher population growth rate, for example, Mbarara is likely to have a higher proportion involved in construction. Possibly, there would be differences in the proportions engaged in manufacturing, trade and transportation, taking into account both rural urban differences and the local economies.

Informal employment by sector				
	Mbarara		Mbale	
Agriculture	7,678	15.5%	3,608	15.5%
All non-agricultural activities	49,534	84.5%	23,275	84.5%
		100.0%		100.0%
Manufacturing	12,334	24.9%	5,796	24.9%
Construction	3,665	7.4%	1,722	7.4%
Trade	21,993	44.4%	10,334	44.4%
Transportation	3,665	7.4%	1,722	7.4%
Services (other)	7,876	15.9%	3,701	15.9%
All non-agricultural activities		100.0%		100.0%

**Table 7.4: Indicative estimate of informal employment by sector in Mbale and Mbarara**

The number of street traders estimated in the enumeration for the field survey carried out as part of this study was 1,871 in Mbale and 5,792 in Mbarara. This represents 18% and 26.3% of the total of those informally engaged in trade respectively as per the estimate in the table. It is likely there will be street traders in other parts of these cities not apparent in the main clusters. There will certainly be a high incidence of householders operating small shops at the front of their houses in informal settlements. A representative random sample household survey would need to be carried out to give a better profile for the two cities.

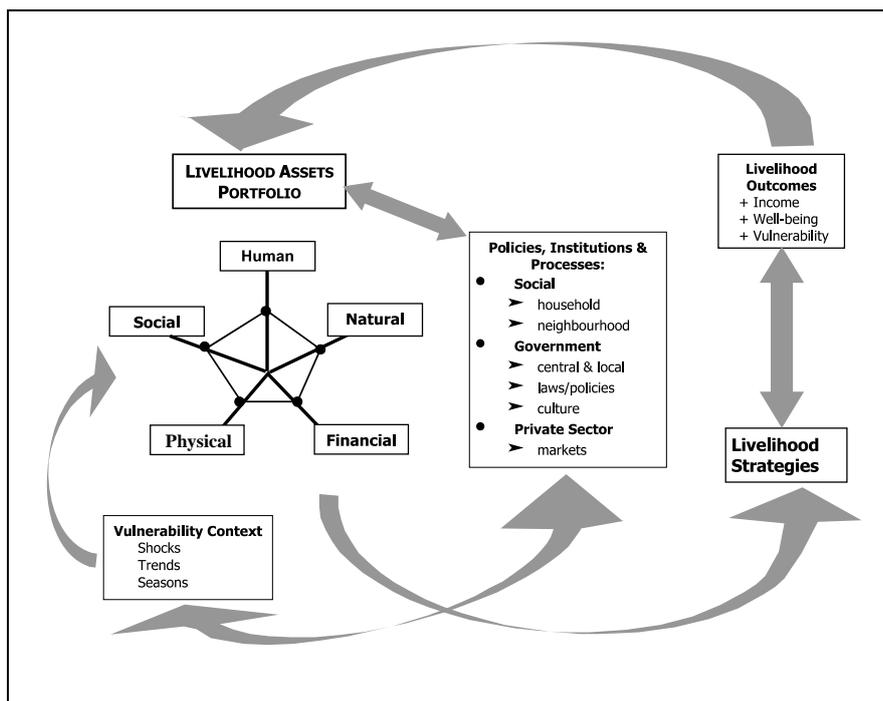
## **7.4 A Sustainable Livelihoods perspective**

### **7.4.1 Livelihoods strategies of poor households**

Rural-urban linkages play an important role in the ways in which livelihoods are constructed (Tacoli, nd). Migration is an important element of livelihood strategies. In many cases, it is more useful to understand households as multi-spatial rather than 'rural' or 'urban', and to encourage the positive linkages between spatially distant members, by recognising urban-based members' claims on rural assets and facilitating their contribution to the rural economy, for example through the productive investment of remittances (Tacoli, n.d.).

Household membership is usually defined as 'sharing the same pot', under the same roof. However, the strong commitments and obligations between rural-based and urban-based individuals and units show that in many instances these are 'multi-spatial households', in which reciprocal support is given across space. For example, remittances from urban-based members can be an important income source for the rural-based members, who in turn may look after their migrant

relatives' children and property. These linkages can be crucial in the livelihood strategies of the poor, but are not usually taken into consideration in policy-making (Tacoli, n.d.).



**Figure 7.3: DFID's Sustainable Livelihoods Framework**  
(Source: Majale, 2002)

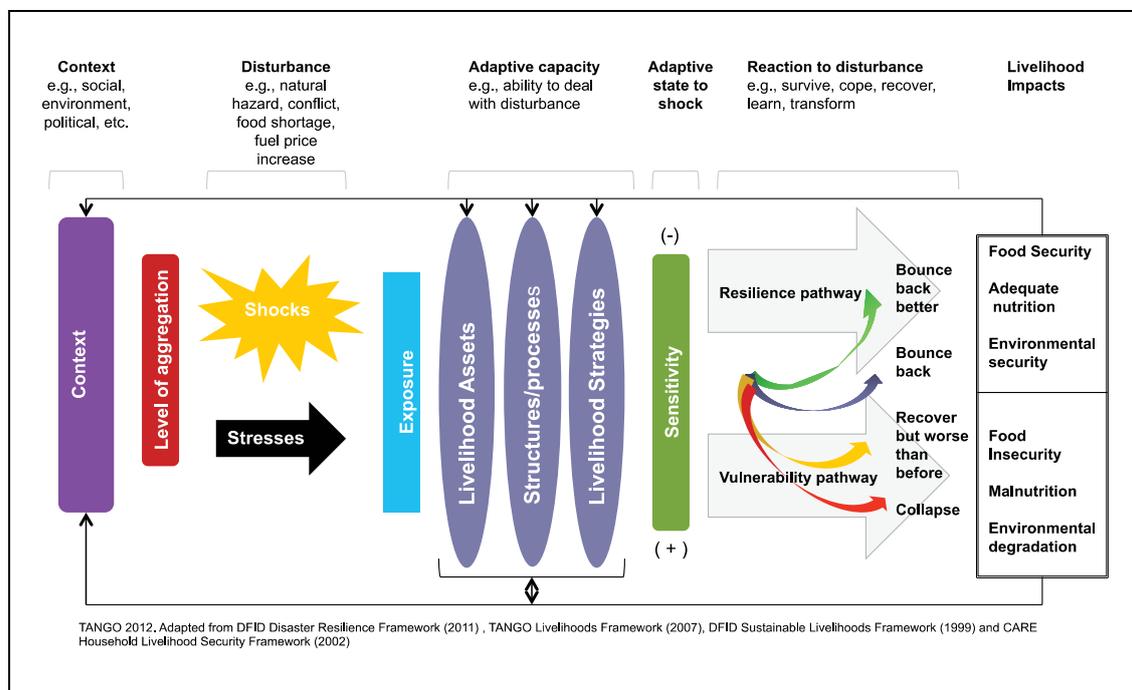
Livelihood strategies, the complex collective portfolios of economic activities adopted by poor households in rural and urban locations has been explored in the research on rural livelihood diversification, in the earlier literature on the Sustainable Livelihood Approach and more recent analysis (Morse et al., 2009; Morse and McNamara, 2013; Petersen and Pedersen, 2010). The related research in the urban context employing the same approach has been more limited (Rakodi and Lloyd-Jones, 2002; Ojong, 2013; Dimanin, 2012) and should form the focus of any future research agenda.

#### 7.4.2 An asset-based approach to building resilience

Numerous conceptual frameworks that draw on the Sustainable Livelihood (SL) approach focus in particular on the range of assets that poor households draw on to reduce their vulnerability to external shocks and stresses – both economic (for example shifts in global commodity markets) and environmental (e.g. shifting weather patterns due to climate change) – and build their resilience.

Hence there is a close relationship between sustainable livelihood frameworks and more recent community-based frameworks focused on building resilience to natural disasters and climate change. The same basic principle of developing adaptive capacity to often radically changing circumstances can be applied whether to developing economic resilience or resilience to natural hazards. It can be argued that by its very nature, informal economic activity has to be resilient. At the bottom end of the scale, people working out of poor households have to live on their wits, be adaptable and flexible and adapt their livelihood strategies to the opportunities and 'niches' within the economy that are available.

The recent TANGO-DFID community-based Resilience Assessment Framework (Figure 7.4) is one example of this developing conceptual approach, explicitly building on DFID’s earlier Sustainable Livelihoods Framework. At the centre of this framework is a fivefold classification of assets or ‘capitals’ – natural, physical, social, human and financial, that poor households and communities can draw on, forming a pentagon that is sometimes analytically and heuristically used to map their relative strengths and weaknesses in any particular context.



**Figure 7.4: The TANGO Resilience Assessment Framework** (Source: UNDP Drylands Development Centre, Community Based Resilience Analysis (CoBRA) Conceptual Framework and Methodology)

In the urban (and rural-urban) informal sector context, social capital can help offset deficiencies in financial, human (e.g. education, skills) or natural capital (which is more easily drawn on in rural areas) or wider urban infrastructure deficiencies. Alongside ‘asset portfolios’ collective livelihood strategies of households aim to maximise the benefits from operating in what is normally a very low value, uncertain and high risk economic environment.

With often little regularity and certainty in the flow of employment and income over time, diversity in the range of economic activities undertaken both on an individual and collective family basis can help overcome the limitations of working in a single informal sub sector. The creation of ‘livelihood portfolios’, occupying different niches in the informal economy at different points of space and time to manage the gaps in regularity of income are a commonly a strategic response of the poor to deal with such uncertainty and vulnerability. The Concept Note (submitted in April, 2016) suggests that conventional value chain analysis is unable to capture this particular complexity. Methodologically, adopting a ‘value network’ approach (Forum for the Future, n.d.) to mapping these kinds of relationships may add value to analysing where the critical points of policy intervention and investment might be to improve the wider operation of the hybrid economy.

Something of the complexity and creativity that characterises aspects of the informal sector in a rural-urban setting is starting to be captured in the qualitative research associated with this study (see the qualitative case studies in the final section of Chapter 4) whilst future research efforts can

feed into the on going efforts to create appropriate analytical frameworks that are able to capture this richness and help better target future policy interventions.

## **7.5 Conclusions, knowledge gaps and policy implications**

This chapter has argued that the informal economy as part of a wider hybrid economy cannot be simply geographically isolated into urban and rural components but is part of a rural-urban continuum characterised by strong inter-linkages. Analysis of the national data shows the growing importance of employment diversification into non-agricultural cash-based economic activities in the rural areas as administratively defined. Examination of the settlement pattern in the district of Mbale, shows rapid densification of population around the central city and on going ‘urbanisation of the countryside’.

These processes have been subject to wide ranging research in developing countries in recent decades and suggest a more systematic review of the literature, including the considerable range of rural and agricultural development studies that have been carried out, than has been possible in this short scoping study. As noted elsewhere, local economy data that could shed more light on the linkages and inter-relationships that exist in what is largely part of the informal economy is largely lacking in Uganda and other sub-Saharan African countries. There are opportunities to take forward the theoretical and analytical conceptualisation of the rural-urban economic continuum, as indicated in the final sections of the chapter.

As currently weakly resourced as they are, local authorities need to look beyond the existing administrative boundaries that separate urban from rural and develop physical planning and local economic development policies that encompass the and rural catchment areas of the fast growing cities. The dangers are that densifying areas on the rural-urban interface can metamorphose rapidly into under-serviced peri-urban sprawl and lead to the problems described in Chapter 8. At the same time there are opportunities for innovative policies to build on this particularly dynamic element of the informal economy to encourage more sustainable and resilient forms of ‘green growth’ (see Chapter 8)

## **CHAPTER 8: INFORMAL SETTLEMENTS, HOUSING AND INFORMAL CONSTRUCTION**

### **8.1 Introduction**

This chapter focuses on informal settlements, primarily places where for the most part those in the informal economy live, but also, as the data and existing research suggest, important sites for informal economic activities themselves. Invariably, in land use terms these settlements are ‘mixed use’ combining residential with various forms of employment uses. The chapter touches on issues of housing affordability and the restrictions imposed by (and the weak implementation capabilities of) the regulatory framework and constraints in the supply of land and finance that make informal housing the default mode for meeting housing needs across most of sub-Saharan Africa.

In the case of the urban poor, this gives rise to the emergence of slum-type informal settlements, suffering from an almost complete lack of basic infrastructure and services and a range of environmental and public health threats. These are key urban resilience policy concerns but also open up potential development opportunities for the ‘hybrid economy’. The housing demands created by the massive growth of informal settlements arising out of Africa’s rapid urbanisation are currently being met by the informal construction sector. This offers not only plentiful employment opportunities but also a strong potential for ‘green growth’ in the form of more intensive use of natural environment and climate friendly designs and technologies using locally sourced materials in the provision of both building and services, including and especially solid and liquid waste management.

These various issues are analysed from the larger sub-Saharan and Uganda-specific perspectives, primarily with reference to the secondary sources, and drawing on the primary research for the local in-depth case studies. The various analyses highlight the urgent need for further research and data collection, to contribute to setting out a future agenda for engaging the local and regional research community as required in the terms of reference. They provide an initial pointer to the kinds of development policy interventions that may be required to address the issues raised.

The theoretical perspective underlying the chapter’s analysis draws on the conceptual concepts developed in earlier chapters of this monograph. The chapter draws on both secondary desktop research, referring to a wide range of official (governmental, international), scientific and academic sources, and the two sets of fieldwork carried out as part of the Uganda case study. Within the time constraints of this study, it has not been possible to conduct a systematic review of all the literature addressing what is necessarily a very wide range of topics, but where possible, we have drawn on other recent research which have undertaken such reviews.

The qualitative investigation involved unstructured with a range of respondents – both local government officials and individuals operating in the informal economy in all four cities visited. Some quantitative analysis is provided based on the results of the questionnaire-based surveys of informal economy operators in Mbale and Mbarara and, where relevant, and subject to caveats, analysis of national survey data is also presented.

The knowledge and data sources are cited in the text and listed at the end of this report. The chapter highlights a series of closely-related issues that contribute strongly to the socio-spatial context within which the informal economy operates and is developing. As is highlighted throughout this report, a more thorough in-depth understanding is required of the heterogeneous nature of the

informal economy and the challenges and opportunities it poses for different social groups, including in particular women and youth.

## **8.2 Informal settlements**

### **8.2.1 Informal housing, settlements and slums**

In Uganda, as generally across cities sub-Saharan Africa, the formal housing market is inaccessible to the great majority of the population who are therefore reliant on informal land supply, finance and construction to secure their shelter (World Bank, 2015b). Each year adds 4.5 million new residents to Africa's informal settlements and on average it takes 50 years for such settlements to achieve their full basic infrastructure requirements (*ibid.*) However, informality in housing “represents a spectrum of different shelter locations, conditions and tenure statuses, from slum conditions, to partially upgraded structures, to semi-formal conditions” (*ibid.* see Box 8.2).

Target 7D of the 2000 Millennium Development Goals had as its stated aim the target is to achieve a significant improvement in the lives of at least 100 million slum dwellers by 2020. According to United Nations estimates, between 2000 and 2014, more than 320 million people living in slums gained access to improved water sources, improved sanitation facilities, or durable or less crowded housing, thereby exceeding the MDG target. More than 880 million people are estimated to be living in slums today, compared to 792 million in 2000 and 689 million in 1990 (UN, n.d.).

For the purpose of measuring progress towards achieving this MDG Goal, the United Nations defines ‘slums’ by reference to slum households (UN-Statistics Division, n.d.). A slum household is defined as ‘a group of individuals living under the same roof’ lacking one or more<sup>15</sup> of five shelter/housing deficiencies – access to improved water, access to improved sanitation, sufficient living area, durability of housing and secure tenure. Accordingly, not all those who live in informal housing or informal settlements live in slums. It is primarily those on low incomes, including the vast majority who are reliant on the informal economy for their livelihoods who suffer from living in such sub-standard housing conditions.

In principle, the 2013 Uganda National Land Policy (Ministry of Land, Housing and Urban Development, 2013) affirms the land rights of informal settlements residents; and that the Government will take measures to, among other things: accord statutory security to informal sector activities without compromising physical planning standards and requirements; provide basic infrastructure for informal sector developments; and provide affordable infrastructure for self-improvement for the urban poor. In practice, a lack of resources and institutional capacity and institutional resistance and inertia in government and the rapidly growing scale of the associated challenges means that little progress has been made in achieving these aims.

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<sup>15</sup> “According to the situation in a specific city this definition may be locally adapted. For example, in Rio de Janeiro living area is insufficient for both the middle classes and the slum population and is not a good discriminator. It could either be omitted, or it could be formulated as *two or more* of the conditions such as overcrowding and durability of housing” (UN-Statistics Division, n.d.)

### **8.2.2 Growth of informal settlements**

According to the *Millennium Development Goals Report for Uganda 2015* (GoU and UNDP, 2015), the share of the urban population living in slum-like conditions rose from 34% in 2002/03 to 43% in 2012/13. However, other estimates suggest that 60% of the 6.3 million urban population lives in slums and informal settlements (Mabala, 2012). In Masaka Municipality, the seventh largest urban centre, it is estimated that 85% of the residents live in informal settlements (World Bank, 2014).

The *National Slum Upgrading Strategy and Action Plan* (GoU, 2008) identifies six causal factors for the continued growth of informal settlements in Uganda: (i) high urbanisation rate; (ii) urban poverty; (iii) lack of urban planning and development control; (iv) complex urban land tenure systems; (v) the effect of decentralization and poor urban governance; (vi) poor management of privatised urban services; and (vii) extension of boundaries of urban centres.

Nnaggenda-Musana and Vestbro (2013) observes that unplanned low density housing in informal settlements in Uganda is contributing to urban sprawl and sub-standard housing. Nkurunziza (2007:525) asserts that informal settlements are viewed negatively by planners in Uganda, because to them, “such developments violate city planning norms and hinder the development of a better quality urban environment.” Kiggundu (2014), meanwhile, argues that the planning schools that have failed to produce planners who can affectively address the challenge of the proliferation and expansion of informal settlements.

### **8.2.3 The challenges of land administration and regulatory procedures**

The proliferation of informal housing and settlements arises in large part from a regulatory regime that is overly demanding and weakly enforced. UN-Habitat (2012b) notes that administrative procedures for processing land transfers and ownership in Uganda are extremely complex, time-consuming and costly, driving substantial numbers of people to resort to informal or illegal means to address their needs for land, housing and services. Obtaining an official building permit (which, at least in Kampala, requires prior official approval an architect’s layout plans by the planning committee of the Capital City Authority) is likewise a protracted and expensive undertaking. The World Bank (2016) ranks Uganda at 161 out of 189 countries on the ease of dealing with construction permits. Furthermore, comprehensive spatial planning is implemented erratically and ineffectively (if at all), leading to urban areas being surrounded by expansive informal settlements (World Bank, 2015).

### **8.2.4 Population characteristics**

Housing standards and incomes in informal settlements vary considerably, as highlighted by Hansen and Vaa (2004). Both citywide studies and case studies of individual settlements have documented that the informal settlement populations are as heterogeneous as the rest of the city in many respects. Informal settlement residents work in both the formal and informal sectors; and while there is considerable variation in income levels, these are lower than city averages, indicating an over-representation of the poor and the very poor (Hansen and Vaa, 2004).

Mukiibi (2012) similarly found that incomes in informal settlements in Kampala are low, irregular and indeterminate, with 80% being in the low-income category. However, even though most

informal settlement residents work in the informal economy, it is not uncommon for some of them to have higher incomes than formal sector employees (UN-Habitat, 2003), as the findings of the field surveys revealed. The majority of young people working in the urban informal sector live in informal settlements (UN-Habitat, 2006). Available data indicate that a range from 46 to 98% of working youth in informal settlements in Africa, were engaged in informal economy activities in 2004 (Kuiper and van der Ree, 2005). In Uganda the percentage of working youth in slums engaged in informal economy activities was 86% in the same year (*ibid.*)

### **8.2.5 Informal settlements as physical sites of informal economic activities**

This section addresses how access to sites, land, streets and other urban spaces and buildings constrains or otherwise facilitates the operations of the different sectors that make up the informal economy; and how this shapes the spatial pattern of informal activity in the city. As highlighted in Chapter 9, because of the limited accessibility for many residents of informal settlements, and with particular challenges for disadvantaged groups, given the heavy reliance of walking and the limited service levels of the more affordable modes of informal public transport, this limits livelihood opportunities for people who live away from economic centres

The field surveys revealed that 42% of respondents in both Mbale and Mbarara walk to their place of work. But many others working in the urban informal economy outside of informal settlements – including informal employees in formal enterprises – use other modes of travel to commute from informal settlements. 60% of the respondents in Mbale and (51%) in Mbarara, who work in the informal street trading sector in the city centres and many of whom live in informal settlements, use the relatively expensive informal motorcycle taxis ('boda boda') to get to and from their workplace.

It has not been possible with the limited confined of this study to explore the spatial distribution of informal employment and data at the city level is largely lacking. In chapter 7, a very indicative estimate by sector of those in informal employment was made in the two cities in which field surveys were carried out, Mbale and Mbarara. This suggested that the number of street traders enumerated in the central city areas for the field survey was 18% and 26.3% of the total of those informally engaged in trade and 8% and 11.5% of the total informal employment respectively in the two cities. By implication a large proportion of those working in the informal economy are working elsewhere.

A full city-wide survey of more than 11,400 households in the much larger city of Kaduna (population more than a million) in Nigeria in 2010 also suggested a heavy concentration of informal employment in local areas outside of the city centre, despite the city's major central markets (Lloyd-Jones *et al.*, 2016). Analysis of the survey data suggested that the informal economy was much more localised than the formal sector, with generally upwards of 80% of those in the informal economy working within their own district, and highest, as might be expected, in the outer, peri-urban areas. This was also true of those working in the formal sector but here the level of commuting to the centre was far higher. This is reflective not only of the limitations of the movements system and its connectivity, as highlighted in that study, but also the fact that informal sector workers are poorer and less able to afford longer commutes. It is also important to note that income brought into local areas by people working in the formal sector has a multiplier effect on the local economy through the demand for goods and services locally supplied by the informal economic sector (*ibid.*).

While the fieldwork carried out in this study focused, of necessity, in the most visible and arguably the most dominant of the informal economic sectors – street trading – much wider business and household surveys are needed to map out the full spatial characteristics on the informal economy in African cities. In Uganda, this could build on the efforts of the slum dwellers themselves...

Lwasa (2016) observes that the majority of low-skilled urban labour in informal settlements in Kampala find employment opportunities in the low end manufacturing and trade. In addition, many of the businesses are also located within the informal settlements due to lower operational costs. There is a remarkable social capital in informal settlements that is manifested in buoyant informal economy providing job opportunities and income for substantial numbers of informal settlement residents (UN-Habitat, 2014b). Indeed, it is often easier for the urban poor to find work in informal settlements given the wide ranging presence of the informal economy in various sectors (UNA-GBE, 2015).

The working poor in the informal economy often find work in informal settlements in either public spaces such as streets, open areas, construction sites or in private homes. Many home-based enterprises (HBEs) are also found in informal settlements where living spaces often double as workspaces, and vice versa, at the household and neighbourhood scales, thus functioning as a vital productive asset (Wigle, 2008; Brown and McGranahan, 2016). But as Pietrus (2014:5) asserts: “Despite granting access to space and the economy, however, the informal sector cannot secure this access because it is inherently outside of legal protection.”

Some historical research has been carried out on home-based enterprises in which women play a notably significant role both in manufacture, trade and other services (Carr and Chen, 2002; Kazimbaya-Senkwe and Vaa, 2004; Horn, 2009; Ezeadichie, 2012). It has not been possible to investigate this aspect of the informal economy within the scope of the Uganda case study, and there are clearly considerable opportunities to building on still fairly limited historical work and investigate this in further studies by local researchers.

The analysis of the informal sector in the 2009/10 Uganda National Household Survey includes some information on home-based enterprise at the national level. As previously noted, the survey design has a rural bias. The survey findings indicated that of the estimated 6.2 million households in Uganda, 1.2 million (21%) ran an informal business. This includes households undertaking commercial farming where 50% or more of the produce was sold. On this basis, 87% of the businesses identified were in rural areas, and 13% or 164,000 households in urban areas (about 14% of all urban households) ran an informal business. The distribution of household businesses by sector is indicated in Table 8.1.

This survey found that almost a third (32.9%) of all businesses were based at home with no special working space with a further 28% in a space inside/attached to the house. 21.7% were business premises with a fixed location. 5.3% were street/pavement-based with a fixed post (kiosk) 4.3% were in a market/trade fair<sup>[SEP]</sup> and 0.7% each hawking or operating from a vehicle (making 13% in one form out-of-home trade or another). Household-based business represented 70% of all 1,800 businesses that the survey identified as working in Uganda, nearly all run by working proprietors (60% male and 40% female) making up 52% of all employees with paid employees (regular and casual) making up 15% and unpaid helpers (33%) making up the rest. The limitations of the survey data notwithstanding, there are clearly opportunities for further interrogation and analysis. The proliferation of non-farming based businesses in rural areas, many of which will have direct

economic links with Uganda’s towns and cities, highlights the importance of rural-urban linkages to urban economic development as discussed in chapter 7.

Industry:	Distribution of informal businesses	Distribution of informal employees by gender	
		All	Female
Agriculture	27%	18%	52%
Trade	24%	21%	16%
Food processing	15%	24%	9%
Manufacturing	14%	16%	9%
Services	7%	4%	6%
Hotels & restaurants	9%	11%	5%
Forestry	3%	5%	1%
Fishing	1%	0%	1%
Mining & quarrying	1%	0%	0%

**Table 8.1: Uganda, informal businesses and employees.**  
*Source: UNHS 2009/10*

As noted in chapter 6, those that have been brought up in or come to live in informal settlements provide both a major source of labour that fuels the informal economy and provide an increasing source of demand for its products and services. Understanding where clusters of different types of informal economic activity are located within the cities is important, whether in markets, streets, homes, workshops or industrial sites and sites of extraction based activities. Equally, as explored further in Chapter 9 analysing patterns of movements, both short and long term, and costs and benefits in terms of time and money or related travel and accommodation will enable a better understanding of some of the features that are particular to the informal economy – the lower part of the hybrid continuum.

### 8.2.6 Environmental concerns for slum settlements

There are major environmental challenges facing the secondary towns in Uganda. The first arises from the lacks of basic services in existing slums in established urban areas and those that are emerging with the rapid expansion of informal development on the urban peripheries; the second from the environmentally dangerous working conditions in some sub-sectors of the informal economy particularly in relation to solid waste management.

As noted, informal enterprises are often located in, or are serving slums and informal settlements, which are characterized by inadequate housing conditions; deficient urban services (water supply, sanitation, drainage, solid waste disposal, and roads and footpaths); poor infrastructure; absence of public service; unsanitary and dehumanizing living conditions; extremely high densities (of both people and dwellings); and, frequently, long travel distances to, and poor transport connections with, formal sector job opportunities. At the domestic level, charcoal-burning stoves, in continuing widespread for cooking, have an adverse impact on women’s health, in particular. Table 8.2 shows an official estimate of the infrastructure deficit in the informal settlements in the secondary towns selected for this project.

The immediate challenge is to address the urban infrastructure deficit to meet the Sustainable Development Goals 6, 7 and 11 agreed at the end of 2015.<sup>16</sup> This would mean reversing the loss of environmental resources and reducing the number of households without basic amenities as shown above.

Secondary Town/Municipal LG	No of households in slums	Proportion of households connected to electricity supply	Proportion of households with sewage connection	Proportion of households with access to regular potable water
Arua	11,452	0.11%	-	0.18%
Mbarara	10,045	0.95%	0.02%	0.98%
Jinja	9,431	0.25%	0.043%	0.12%
Mbale	18,622	0.14%	-	0.17%

**Table 8.2 Infrastructure deficits in informal settlements in the secondary towns selected for this project** *Source:* Ministry of Lands, Housing and Urban Development<sup>17</sup>

### 8.2.7 Solid waste management and resilience concerns

The processing and recycling of solid waste is an important source of income in the informal economy. Whilst these activities can enhance environmental sustainability in terms of waste management, they often take place in highly dangerous conditions. The industry is subject to few regulatory constraints with high negative environmental, spatial, economic and social costs and accompanying safety, pollution and environmental and work-related health risks. Thus, there is a pressing need to introduce pro-poor regulation and planning responses that integrate elements of land, economy, services, housing, transport, voice and public space.

Solid waste management is obviously critical to the environmental health and resilience prospects of Uganda's secondary cities. In-depth studies of this sector (Okot-Okumu and Nyenje, 2011) indicate the importance of multiple linkages between the many actors from local governments to private companies, community based organisations, informal operators and individual households involved in the multiple process of waste collection, storage, transportation and disposal (see Figure 8.1).

Waste management represents less than 10% of total budget of most urban councils (*ibid.*). Fees are paid by households to private door-to-door collectors at rates that are obviously more affordable to higher rather than low income households. In communities where collection points exist, low income households carry their waste to the points, from where waste is collected by urban councils and transferred to dump sites.

The majority of uncollected wastes go to fly tips or backyard disposal. Lack of resources poor planning, political interference and corruption are identified as constraints with very levels of

<sup>16</sup> Goal 6: Clean Water and Sanitation. Ensure availability and sustainable management of water access to water and sanitation for all; Goal 7: Affordable and Clean Energy: Ensure access to affordable, reliable, sustainable and modern energy for all; and Goal 11: Sustainable Cities and Communities: Make cities and human settlements inclusive, safe, resilience and sustainable. In: <https://sustainabledevelopment.un.org/?menu=1300>.

<sup>17</sup> Ministry of Lands, Housing and Urban Development, GoU (2014). Final Report On The Baseline Study for the Cities Alliance Country Program In 14 Municipal Local Governments Of Uganda. Cities Alliance And UNOPS.

satisfaction with waste collection due to low collection frequencies, nuisance and perceived health threats (*ibid.*). As note by Okot-Okumu and Nyenye (2011):

*“Community participation in waste management is mostly informal and there are no clear avenues for active formal participation. Waste pickers work in informal groups with no clear control and do not follow safety and health regulations. The councils are also unable to enforce existing waste management laws because of lack of resources and political interference. People’s perceptions and attitudes towards waste management are that it is the sole responsibility of urban councils and that being a waste worker is socially degrading.”*

Chapter 4 has provided one case study example to illustrate the role of waste pickers in the informal economy and the life of informal settlement residents. In general, the waste pickers salvage from households. Additionally there are itinerants who either buy or barter items such as fruits and vegetables for recyclable wastes such as bottles, plastics and old newsprints (Okot-Okumu and Nyenye, 2011). This is then sold to middlemen who supply recyclers. They also purchase and sell on plastics and scrap metal from waste pickers.

Solid waste disposal and management is an obvious area for future research to address the current knowledge gaps and address the urgent need for appropriate policy interventions. Wang *et al.* (2008; quoted in Okot-Okumu and Nyenje, 2011) argue that the informal system which has made a positive contribution to urban waste management should be streamlined to obviate the associated social problems with assistance from community-based organisations (CBOs). “CBOs have been active in waste recovery, recycling, collection and drainage cleaning in Kampala (Tukahirwa *et al.*, 2010) and as such they could be a suitable agent for streamlining the operation of the informal sectors.” (Okot-Okumu and Nyenye, 2011)

### **8.2.8 Other environmental and natural resource concerns**

Rapid population growth and urbanisation is leading to unplanned growth of informal housing and uncontrolled urban sprawl, which is encroaching on productive agricultural land. There is over exploitation of natural resources with fuel wood and charcoal considered essential for cooking used by 90% of the population, including urban dwellers denuding the countryside of its valuable tree cover (GoU and UNDP, 2014b). However, the production of charcoal and use of inefficient cook stoves leave a substantial environmental footprint, for example the uncontrolled gathering of wood contributes to deforestation. The National Forestry Authority estimates that 80,000 hectares of private and protected forests are being cleared annually in Uganda for the unsustainable production of charcoal and timber (UNDP, 2014).

Currently, the per capita country’s carbon emissions remain one of the lowest in the world at 1.39 tons of carbon dioxide, very low by international standards emissions at 7.99 tons (UNDP, 2015). However, if there is a favourable global economic environment, the Ugandan economy is expected to grow at 6.3% per annum in 2016-2020 (The Economist, 2016). Burgeoning cities compete with agriculture in the demands placed on the water supplies of their hinterlands. Regional scale water management is also required to mitigate the growing threats of flooding in urbanising areas, exacerbated by poor drainage and construction in river flood plains, likely to intensify with the more extreme weather events associated with climate change. Haphazard urban development puts life at risk where settlements occur in high-risk areas, such on hillside that are increasingly at risk from heavy rain-induced mudslides and landslides. In strategic planning terms, these issues are outside of

the scope of this study. Nevertheless, informal enterprises have a potentially important role to play in adopting community-based good practices and understanding of local risks and mitigation strategies (see Chapter 7).

### 8.2.9 Green growth opportunities

Economic growth will put pressure on natural resources in rural areas in particular and increase emissions from urban-based activities, transportation and domestic and business fuel use. Pursuing efficient infrastructure and energy solutions to support this growth can contribute to sustainable urban development. Using appropriate technologies and properly managed activities, the informal sector has potentially an important role to play in generating ‘green growth’ solutions.

Drawing on Benson *et al.* (2014), Brown and McGranahan (2016) argue that the green economy agenda must engage constructively with the urban informal economy to have any impact on the transition to an economy that is “not only greener, but also inclusive of disadvantaged women and men.” They pinpoint the enormous variance in the environmental performance of the different sector of the informal economy. Benson *et al.* (2014) notes that many informal activities can be less harmful to the environment than formal activities and can provide a productive basis for green economic solution that could benefit the poor and disadvantaged groups. These include:

- Waste management (through efforts to prioritise the 3Rs of Reduce, Recycle and Reuse);
- Agrifood markets (through the use of green technologies by smallholder farmers to increase their yields);
- Artisanal mining (through incentivizing cleaner technologies and processes);
- Energy delivery (through enabling biomass energy markets); and
- Housing and infrastructure (through upgrading).

As noted, other informal activities are hazardous even if they conserve resources, placing workers and the immediate public at risk. Brown and McGranahan (2016) note that the urban poor are often blamed for most urban environmental degradation with local governments pursuing policies of neglect this need or exclusion (e.g. ‘slum’ clearance). The challenges then is to enable informal activities which may already be reasonably sustainable to become greener and grow, but also to:

*“Transform certain unsustainable and unjust segments and spaces (including the home, work environment and neighbourhood) so that they are at very least safer and more inclusive, and ideally greener as well. In some cases, this may involve formalisation, in other cases it may not, but in virtually all cases it will require taking both socio-economic and environmental goals seriously and making difficult trade-offs.”*  
(Brown and McGranahan, 2016, p99)

Research undertaken by consulting firm IMC Worldwide (2015) to develop a strategy for the green urbanisation of Rwanda’s secondary cities in 2014 for the Global Green Growth Institute in partnership with the Government of Rwanda notes that construction is one of the sectors with greatest potential to be greener. Construction costs in Rwanda are high due to imported and energy-intensive building materials. This applies to Uganda as to many other African economies. The research identified a number of good practices and potential green growth interventions:

- Reducing waste, reusing where possible, recycling collection, sorting and supply for new enterprises. Ultimately sending zero waste to landfill - a leapfrogging current waste solutions

to implement a city-scale circular (resource) economy. Waste can be minimised by supporting initiatives/enterprises that increase reuse, repurposing and <sup>[[1]]</sup>remanufacturing of resources (often small-scale, neighbourhood enterprises) together with larger scale plants that utilise different recycling collected.

- Better cooking technologies to reduce rural impact and deforestation around growing urban centres on urban expansion due to increased cooking fuel demand. Some new cooking stove technology may need to be imported to ensure new cooking stoves rolled out are both more efficient and limit air pollution impacts.
- Low cost, sustainable building materials such as STRAWTEC® strawboard panels produced across the border with Uganda in Musanze, using raw materials supplied by local wheat framers; basic brick and block making machinery to enhance the production of mud-cement units using local materials; improved use of sustainably forested timber products; more generally, the introduction of sustainable construction products, supported by a green building and construction code.
- Best Practice for composting and biogas production; Energy-from-waste through anaerobic digestion supported by both compostable solid waste and sewage sludge. The outputs of this technology is compost, which can be used for urban agriculture, and biogas (which can be used as a fuel for public transport). This is a scalable technology with substantial potential in urban areas.
- Sustainable water use, focused on water supply, water and sanitation, water efficiency rainwater harvesting and sustainable urban drainages. Neighbourhoods to be supported with water supply and sanitation enterprises delivering efficient water use and management of water resources together with sustainable urban drainage and management of wider water catchment areas.
- An industrial strategy to green existing industries or initiate new ones to be implemented as various scales – the scale depending on size of supply chains or markets so that both the informal and formal ends of the hybrid economy could be engaged as appropriate.

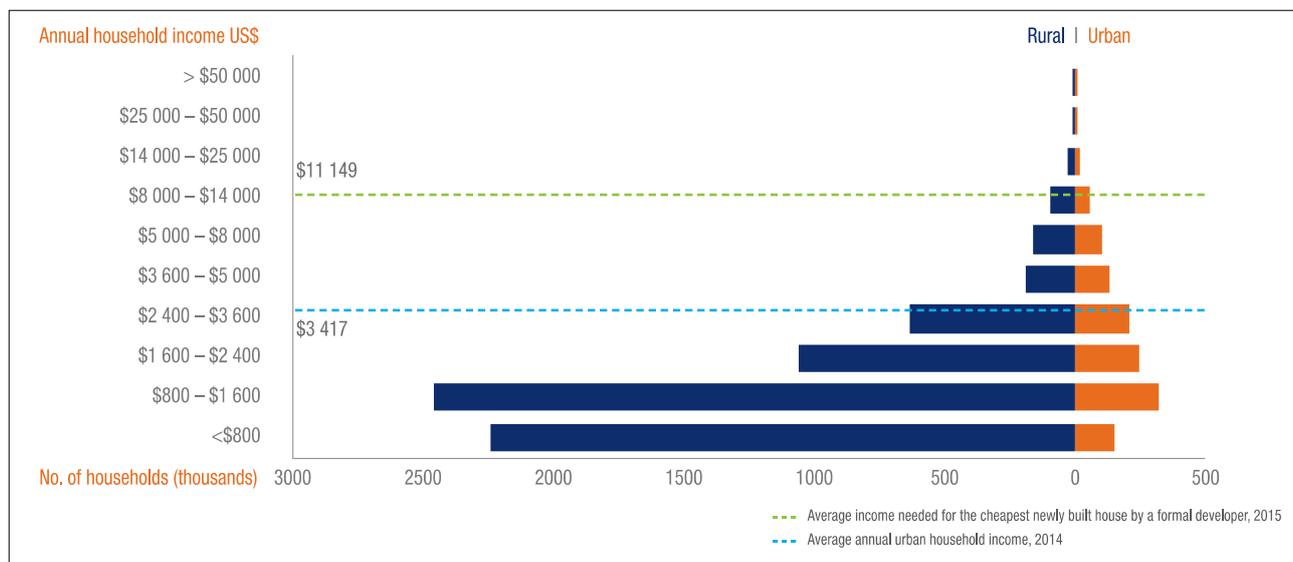
## **8.3 Housing**

### **8.3.1 Housing affordability**

Uganda's average per capita income (estimated at US\$706 in 2015) is far too low for most of the population to obtain mortgage finance to purchase a dwelling in the formal housing market. Mortgage finance access those working in the informal economy, on a self-employed and often intermittent basis, is similarly constrained by employment status. According to CAHF (2015) the cheapest house built in Uganda by a private developer in 2015 cost US\$13,500 for a one bedroom unit of 80 sq m. Interest rates are extremely high and the loan period very short, typically 22% over a seven-year term. On this basis a mortgage on the entry level house would cost an estimated US\$308 per month earned, affordable by less than 2% of the population (see Figure 8.2).

A key factor contributing towards the cost of housing is the infrastructure component. Increasingly, given capacity constraints within local authorities, commercial developers are building local and bulk infrastructure as part of actual development, and covering this investment in the price

of the housing rather than spreading it over the long life of the services delivered, as a municipality might be able to do. This can contribute as much as 15% to 25% to the purchase price.



**Figure 8.2: Uganda – average annual household income 2015.**  
*Source:* Centre for Affordable Housing Finance, 2015.

To date, there are no affordable formal housing projects that have been embarked upon to scale. With an estimated housing deficit of 1.6 million units in 2008, of which 1.29 million is in rural areas and 211,000 in urban areas (GoU, 2008) coupled with an annual population growth rate estimated at 3.3%, and a 5.6% urban population growth rate, Uganda will need to move rapidly to match its population growth with decent and affordable shelter.

As it is, the ever expanding infrastructure deficit accepted, the informal economy is particularly efficient in providing affordable housing for the low income majority because construction is undertaken on an incremental basis using informal sources of finance (cash savings, loans from family and acquaintances, remittances) invested over long periods of time, remaining affordable largely because of the lack access to basic infrastructure and services. According to UN-Habitat, the lower unit cost of informal housing means that investment of a given amount in informal housing generally generates about 20% more jobs than in formal housing, while also contributing six times as many dwelling units, albeit of a lower standard. The World Bank (2015a) estimated that the construction of one house can support 5 jobs.

### 8.3.2 Informal housing

In common with many other sub-Saharan African countries, the urban housing stock in Uganda includes both structures that comply with official building standards and regulations, but have not been formally approved, as well as semi-permanent structures, typically built by the poor themselves or by landowners for rental income, that do not meet official standards.

The majority of the national housing stock can thus be defined as informal (UN-Habitat, 2012), in line with the World Bank (2007) definition of informal housing sharing one of the following characteristics:

1. Located at the urban periphery or within the interstices of the formal city (e.g. non buildable or risk areas).
2. Self-designed and self-built with local materials.
3. Does not fully conform to building and land use standards.
4. Poorly serviced by infrastructure networks and public services.
5. Financed out of family/group savings and/or loans from informal lenders.
6. Lacks legal title and often subject to insecurity of tenure

Thus, informal housing is not necessarily equal to inadequate housing in informal settlements. Rather, informality represents a continuum of housing conditions, ranging from rudimentary dwellings lacking secure land tenure and access to basic infrastructure, and not in compliance with planning and building standards and regulations; to housing units with sequentially greater levels of tenure security, permanence and quality. Global experience suggests that informal housing conditions usually improve incrementally over time through tenure regularisation, infrastructure upgrading and self-help improvement and construction (World Bank, 2015b).

## **8.4 Informal construction**

### **8.4.1 The informal construction sector**

The construction sector in the majority of developing countries is not homogeneous. The informal construction sector plays the main role in the development of informal settlements. The informal sector of the construction industry is defined by CIB<sup>18</sup> as:

*“Unregulated and unprotected individuals and enterprises engaged in economic activities in construction, including the supply of labour and production of building materials and components for both the formal construction sector and directly in response to client needs.” (CIB as cited in Wells, 2007)*

The construction industry has experienced tremendous growth following the liberalization of the Ugandan economy during the 1990s according to Obwona *et al.* (2014). The authors state that the sector’s contribution to GDP in the recent past that has grown at an annual rate of 12% growing from 4% of GDP in 1989, to 7.7 per in 1999 years and an estimated 15% by 2010.

Other official estimates put the value of the construction industry somewhat lower, at 6.7% in 2010/11 (World Bank, 2015a) and 7.8% in 2013/14 (World Bank, 2015a; UBOS, 2015).<sup>19</sup> The informal construction sector accounted for up to 70% of all construction (Charlotte *et al.*, 1997; cited in Irumba, 2015).

The informal sector dominates the construction industry in Uganda, providing building materials and services at lower and more affordable cost than the formal sector, albeit sometimes of questionable quality. These materials and services are consumed by the majority of low-income housing developers, especially in informal settlements, as well as middle- and high income consumers. The informal construction sector has low fixed costs and low total costs, and is able to adapt to the local market (UN-Habitat, 2012).

<sup>18</sup> CIB Task Group 29 (‘Construction in Developing Countries’) in Arusha, Tanzania in 1998

<sup>19</sup> ‘The contribution of construction to total GDP was revised downwards in the rebased GDP, from double digit to single digit.’ (UBOS, 2015)

As part of the informal economy, the informal construction industry faces many challenges in common with the rest of the informal sector, including, among others, poor technical and business skills; lack of registration, working capital, tools, transport and adequate working premises; a scarcity of markets; and unfairly low payment (Molony, 2008).

Informal construction plays an important role that goes beyond its share of the national output by creating employment opportunities and, as various country studies have demonstrated, the income multiplier effects for the construction industry are normally about two and above. However, “The informal sector is generally undermined by non-adherence to standards, varying costs of materials, labour, and quality of materials and services” (UN-Habitat, 2012).

The *Uganda Urban Housing Sector Profile* (UN-Habitat, 2012) affirms that the majority of firms currently operating in the construction industry are informal, and use labour-intensive building materials and construction technologies to produce low-cost local materials, which are affordable to the majority, for use in incremental housing construction. The large informal sector of small firms and individual artisans constitutes a key growth sector in the urban economy, and a potential source of revenue for local governments in the long-term.

The literature on the informal economy recognises that multiple and complex links exist between informal and formal sectors; and the importance of the linkages between the formal and informal construction sectors is equally supported in the literature. According to Royden-Turner (2012), the informal construction sector creates both cascading and closed loop flows of materials from the formal construction sector material flows, thereby contributing to environmental sustainability.

Although construction accounts for 7.4% of informal employment, and the informal sector employs over 76% of all employees in the construction industry in Uganda, there are relatively very few women working in informal construction and transportation activities, with these two sectors clearly remaining male-dominated and representing together nearly 15% of informal employment (ILO, 2013c; Ulrichs, 2016). This is the case in Uganda also, as shown in Table 8.1; and was also the finding of the field surveys in Mbale and Mbarara.

The informal construction sector has significant potential for opening up entrepreneurial roles for women. Celik (1993) observes that the entrepreneurial capacity of women involved in construction is sometimes expressed through women's groups. Organizing themselves into groups is an effective way in which women can empower themselves. And experience also shows that the formation of an umbrella organization by several individual groups, can enable workers and their leaders to pressurize those who control their opportunities for advancement.

Employment in the informal construction industry is extremely hazardous; and it is estimated three-quarters to all of informal construction workers are exposed to occupational hazards. Injuries from accidents arising from unsafe work sites, and lack of appropriate occupational health and safety (OHS) training and a non-provision of protective equipment and gear are commonplace. Indeed, the Rockefeller Foundation (2013) asserts that: “Accidents are so common that they are considered an inevitable part of the work.” The management of the Ruti Youth Brick Makers Association in Mbarara affirmed that they do not give workers any OHS training; but asserted that accidents were relatively rare.

	<b>Women</b>	<b>Men</b>
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<b>Non agricultural activity</b>	<b>Total</b>	<b>Formal</b>	<b>Informal</b>	<b>Total</b>	<b>Formal</b>	<b>Informal</b>
Manufacturing	19.3%	3.4%	25.1%	20.5%	11.6%	24.7%
Construction	0.5%	0.0%	0.6%	11.8%	8.9%	13.1%
Trade	44.2%	17.5%	53.9%	30.0%	16.6%	36.4%
Transportation	0.2%	0.5%	0.1%	13.5%	13.3%	13.6%
Services (other)	35.8%	78.6%	20.2%	24.3%	49.7%	12.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Table 8.1: Non-agricultural employment by sex, formal/informal nature and kind of activity.** (Source: After (ILO, 2013))

## 8.5 Construction industry

The construction industry is growing in line with increasing informal housing settlements in the towns of Arua, Jinja, Mbarara and Mbale, visited in the first round of field studies, among numerous others. Materials commonly used for house building include stones, cement, sand, un-burnt and burnt bricks, mud blocks, mud and wattle and timber. Other materials such as mass concrete and cement blocks are rarely used, except in commercial and public buildings and high and middle-income residential buildings. Local burnt bricks are currently the most commonly used material for single storey buildings. However, materials made from clay are gradually becoming scarce in Uganda because of the limited availability of appropriate clay in the country coupled with high demand associated with an enhanced construction.

Sun dried bricks are produced and used by the informal sector mainly for low income housing. Sun dried bricks are generally inferior to burnt bricks, less resistant to rain, abrasive forces and more porous. Despite these disadvantages, sun-dried bricks are cheaper than burnt bricks, can easily be made even in areas where firewood is scarce, take less preparation time and can be prepared easily on site. Because of growing scarcity and rising prices, clay-based building materials such as bricks are gradually being replaced by earth bricks (burnt and un-burnt) and cement/sand bricks.

In a few cases, under the, stabilised soil-cement/lime bricks are used especially in housing project schemes (Ayani, 2013), but they are not widely accepted by individual developers because of the technology is yet to be embraced. The various construction activities are based on different methods of engagement of workers, negotiations of costs, procurement of materials and construction. The parties involved are subject to, and un-insulated from, many risks. Findings from the initial field visits are as follows:

### 8.5.1 Arua

The team visited Kenya ward. This is not a planned area and has therefore development haphazardly on an informal basis and most houses within the neighbourhood have not been approved by the

municipal authority. The majority of the houses are informal in nature and are made of mud and wattle with some few made with a more permanent structure. Generally the built up area does not have infrastructure services such a piped water, sewerage, waste collection services, drainage etc. The municipal council has however tried to open up some access roads within the neighbourhood.

This is a low income settlement where many low income earners reside and earn their living by doing petty business i.e. selling of small items along the roads, trading in markets, brick making, boda boda riding, casual labour, etc.

One of those interviewed was Mr Otubo a truck driver /owner, who was born and lives in Ewatu village. Having completed schooling up to form 4 he starting trading in agricultural goods and running a small shop dealing in hardware. This later enabled him to raise money and bought a second hand lorry. He is an owner of a medium-size 4 tonne Fuso track lorry and derives his income from transporting construction materials mainly sand, bricks and building aggregate.

The sand is obtained from the Arivu area and Aka River , 8 km and 12 km from Arua town respectively. Other areas which are sources of sand are in Ewata, Muni, Jaaka and Odurapaka. One lorry trip of lake sand costs between 100 and 180,000 UGX depending on where the sand is transported from. There is an Ajovu Ivu Sand Association which has 20 registered vendors who dig up the sand. At the sand pit quarry areas the casual workers are paid 5,000 UGX for each lorry filled. On daily basis according to Mr Otubo 15-20 lorry trips are ferried. Bricks are mainly made in Abeku and the price for buying and transporting 1000 bricks costs 130,000 UGX within Arua municipality.

### **8.5.2 Jinja**

Masese is an informal settlement located within Walukuba East Division is close to the Masese fish landing market at the shores of Lake Victoria. The main economic activity is fishing and commercial trade which has led to the need for construct houses for those employed in these industries.

The slum area was formerly proposed as a middle income area as per the Jinja Structure Plan 1994. Part of the Masese informal settlement area had been surveyed by the Municipal Council for larger plots. The people who had already settled within this area were not compensated as the land was owned under customary land holding and had tenants had temporary occupancy permits. The Council had to revise the building regulations to allow the use of local building materials in order to reduce construction costs. Masese women funded by UN-HABITAT constructed and operate a concrete building products factory with outputs sold at commercial rates.

The majority of the houses are made of timber as the local soil is not good for brick making is not good. Thus most houses within the Masese slum are made of timber of which is ferried across Lake Victoria.

The youths involved in construction informed the research team that they are paid 50,000 UGX weekly as helpers. Masons are paid 15,000 UGX on a daily basis and monthly they take home between 200,000-450,000 UGX depending of the work schedules at the construction site. The cost of construction for a two bedroomed timber house made of iron sheet is about 3,500,000 UGX (around US\$1000, more than thirteen times cheaper than the cheapest house built in by a private developer in 2015 in the country noted above).

## 8.6 Conclusions, knowledge gaps and policy implications

This chapter has explored the place of informal settlements in urban physical and economic development in sub-Saharan Africa and analysed their importance in providing access to affordable housing and job opportunities for the low-income majority in Uganda. It has examined the impact of the rapidly growing urban population in Uganda on the informal economy in terms of the demand for new housing which is largely being met by the informal construction sector, the role that the informal settlements play in housing those working in the informal economy, and the role these settlements play as places of employment for other forms of informal economy activity.

A key knowledge gap identified in this chapter is a wider and more in-depth understanding of the socio-spatial characteristics of the informal economy in sub-Saharan African cities. There is an urgent requirement for further research and data collection at the city level with business and household surveys needed to help map out how the informal and wider hybrid economy works in spatial terms. At the local, informal settlement level, in Uganda, as elsewhere in Africa, this could build on the participatory survey efforts of the slum dwellers associations. There are significant opportunities for further analysis of national household survey data and interrogation of population and housing census data at the micro, enumeration/small area levels.

Addressing this knowledge gap should include profiling the ways in which slums and informal settlements act as the locii of informal economic activity, serving both the local and wider urban economy, and as affordable residential areas for those commuting to work in informal sectors located in the city centres and elsewhere. As noted, while historical research has been carried out on home-based enterprises there is a continuing need for the local, regional and international research community to build on this existing body of research.

This should form part of a wider systematic analytical approach to understanding of where and how different types of informal economic activity are clustered and distributed in cities and their near regions and the related patterns of movement, short and long term explored in Chapters 6,7 and 9. It should draw on the theoretical frameworks outlined in Chapter 2 but more especially on the sustainable livelihoods and community resilience frameworks outlined in Chapter 7.

This will enable a better understanding of socio-spatial features that are particular to the informal economy – the lower part of the hybrid continuum – as well as spatial linkages between informal and formal business operations within and between activity sectors.

This, in turn, can inform a value chain and value network analysis of the informal construction industry, responsible for a substantial part of city-building across the continent, as well as the industries such as solid and liquid waste management that are currently providing vital environmental services to urban areas on a largely informal basis.

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 take measures improve their productivity and improve the understanding of the needs and economic potential of women and other relatively disadvantaged social groups.
- Unlock the potential for sustainable practices and realising green growth opportunities based on the circular economy;

- In particular 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 more of a facilitating and less restrictive and punitive role and urban planners can engage more proactively with the informal economy;
- Support informal enterprises working with the communities in which they located to improve the understanding of environmental and climate change and undertake risk mitigation measures to improve community-based resilience;
- 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.

The 2008 *National Slum Upgrading Strategy and Action Plan* and 2013 Uganda National Land Policy (GoU, 2008) commit the Government to take measures to ensure security of tenure to informal sector activities and provide basic and affordable infrastructure for informal sector development and self-improvement for the urban poor. These policies need to be 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.

More generally, policy urgently needs to address the growing urban infrastructure deficit reduce the number of households and enterprises without basic services and amenities and curtail the local and wider negative environmental impacts. As noted waste disposal and management, both solid and liquid, are areas for future research to address the current knowledge gaps and address the urgent need for appropriate policy interventions. Urban planning needs to focus strategically on curtailing haphazard urban development occurring in high-risk areas.

## CHAPTER 9: TRANSPORT AND COMMUNICATIONS

### 9.1 Introduction

This chapter addresses the challenges and opportunities for the informal economy that arise out of issues of accessibility relating to transportation and communications systems in Africa's cities.

There are four fundamental issues for the informal economy and the developing urban economy in general:

1. How easy it is for people and goods to reach desired destinations in and around cities, and for people to communicate across cities – for those living on low incomes and/or who are otherwise disadvantaged in particular;
2. Transportation and communication links between cities and between cities and their wider rural catchment areas; and
3. What the impact is, actual and potential, of non-movement based communications, and the role of information and communications technology (ICT) in facilitating more productive activity within the informal and larger urban economy;
4. The role of transport and communications in providing livelihoods for those employed in the informal economy.

Though fundamental to the future economic development of secondary and regional cities in sub-Saharan Africa, issue 2 is largely in the realm of national infrastructure and regional economic development policy. It is therefore largely outside the remit of this study, except only to mention the need to accommodate an understanding of the wider freight and passenger movements in and around cities, and the often quite substantial informal livelihood opportunities associated with servicing these movements.

The focus of this chapter, therefore, is on issues 1, 3 and 4. Sections 9.2 to 9.5 are concerned with movements and accessibility of people, focusing on the informal public transport sector in facilitating this, and on the implications for urban transport policy in general and for those employed in this sector of the informal economy in particular. Section 9.6 considers the impacts of ICT, focusing on mobile phone technology in particular, as this has been something of a 'game changer' as far as the informal economy is concerned.

Both the wider sub-Saharan African context and the specific of the Uganda case study are explored, including the detailed findings from the field visits to the various secondary case study cities, primarily from interviews with key respondents – local government officials and informal economy operators, with some quantitative evidence from the questionnaire surveys and analysis of national survey reports.

The methodology adopted in this chapter includes a review of the literature on the informal transport sector in sub-Saharan Africa widened to include secondary findings on the broader urban transportation and public transportation issues, and issues of urban connectivity and economic development. Recent literature of the former is limited and subject to systematic review. It has not been possible to carry out a systematic review of the wider set of transportation and connectivity

issues within the scope of the study but sufficient evidence is provided to set the proper context for investigating the three key questions noted above.

Quantitative data was obtained from the following sources: Uganda National Household Survey 2009/2010, Uganda Communications Commission, various reports from World Bank (2008, 2012 and 2015), Australian Aid (2014), the Trans-Africa consortium (International Association of Public Transport, UIRTP and African Association of Public Transport, UATP) for the European Commission, the BRTData online database, from the various academic sources in the literature review and from the interview surveys with respondents in the case study cities.

The chapter notes the need for more data collection to inform a better understanding of how the informal transport sector works and the movement patterns of those involved in the informal economy more generally. In policy terms, informal ‘paratransit’ poses many difficult challenges, including contributing to congestion, pollution and a worsening road safety record. However, it is also one of the most developed, self organised and managed and economically robust of the informal industry sectors, and one, given an effective strategic transport planning and appropriate regulatory framework, most adaptable to the hybrid economy approach that this monograph argues for.

## 9.2 Accessibility, mobility and connectivity.

These terms are sometimes used interchangeably. In this chapter we adopt the following definitions:

**Accessibility** in the case of movement is defined as the measure of *the capacity of a location to be reached by, or to reach different locations* (Rodrigue, 2013). In human and social terms, it is concerned with “the ease of reaching opportunities or the ease of being reached, replying to key questions, such as how many valued destinations – such as jobs, shops, schools, or parks – individuals can reach in a given period of time or the pricing in terms of time taken and money spent to connect people and places” (Papa, 2016). This concept of accessibility does not depend on any particular transportation mode and considers the cost of connecting people and places – both in terms of time taken and money spent – as well as the wider impact of land use patterns on the need to travel (*ibid.*) In any city, a combination of the urban form and its transport system determine levels of accessibility. Rode and Floater (2014) argue that accessibility is based on physical proximity (through densification) and/or on a transport system that can overcome spatial separation.

**Mobility** refers to the movement of people or goods, the speed with which they can travel and distance over time. It measures in terms of trips (person or freight x distance) and the cumulative impact. It is normatively assumed that any increase in travel mileage or speed benefits society (Litman, 2011): however, mobility per se is not necessarily desirable, especially if it is required simply because of poor access to work and facilities (Bryceson *et al.*, 2003:43). According to Litman (2011), mobility “recognizes both automobile and transit modes, but assumes that movement is an end in itself, rather than a means to an end. It tends to give little consideration to non-motorized modes or land use factors affecting accessibility” (*ibid.*)

**Connectivity** is a feature of both transport and communications networks. In terms of the transportation network, and taking into account the impact of urban land use patterns, a well-connected network offers an optimum number of inter-linkages that connect one geographic area with another accommodating a choice of different ways of travel between particular places. It depends on the capacity of the links as well as the efficiency of the intersections. As cities develop and grow larger a hierarchy of routes normally emerges as this offers the quickest and most cost

efficient way of getting around, optimally balancing the needs of accessibility and mobility. In many cases in African cities, in the absence of strategic planning, this kind of connectivity has been forgone or is slow to emerge.

Transport planning and investment, generally, have been focused more on ‘how far and how fast can people go’ (mobility), rather than how easily one can obtain access to desired goods, service, destination or activities (accessibility). Urban policies in the Global South have favoured automobile oriented development with little or no consideration for public transport and other non-motorised modes of transport. Private vehicle travel has been favoured over alternative urban travel options such as public transport, walking and cycling (Van Audenhove *et al.*, 2014). This is particularly true in the case of developing countries in sub-Saharan Africa where alternative modes are generally unsafe, uncomfortable, and substandard, and in some case lacking (Iles, 2005).

Combining connectivity with mobility and planning for an appropriate mix of travel modes to achieve good levels of accessibility for all citizens is key to realising the potential benefits of urban and economic development in cities. African countries are experiencing rapid urbanisation, with growing populations and expansion of the urban areas, creating more complex urban systems. However, this growth has generally not been matched by employment creation. In this context, creating more accessible cities by improving their street networks and public transport systems is a key challenge for urban and transport planning, in order to promote urban economic development and better living conditions for all its residents.

However, the transport sector is given little attention in terms of regulation, development and organization, “giving rise to a complex and inefficient system that affects millions of people, in both urban and rural areas” (Ndibatya *et al.*, 2014). Gwilliam (2010; cited in Porter, 2014) refers to transport services as “the forgotten problem.”

As noted by Gutman *et al.* (2015) “national data estimates capture energy and water investment needs of urban populations to an extent, but do not do so for urban transport needs.” And while this is not to say that no investments are being made in cities in sub-Saharan Africa, “they are not planned within a forward-looking strategic framework,” with “the lack of a strategic approach that takes into account the interaction of land use and infrastructure can have irreversible deleterious effects in terms of economic growth, social progress, and environmental preparedness.”

### **9.3 Urbanisation, accessibility and productivity**

The majority of Sub-Saharan cities have grown in an unplanned manner and with little provision of public transport. They are characterized by low-density urban expansion with a large share of their population relying on walking as the main transport mode. According to Collier (Collier, 2016) these attributes have condemned them to low productivity and contributed to a process of urbanisation without sufficient economic growth (see Box 9.1).

In Africa, non-motorised transport accounts for more than 70% of trips in some cities (UN-Habitat, 2013, cited in Floater and Rode, 2014). In Uganda, 64% of urban population walk to work and up to 70% in Kampala according to the World Bank (2012); the report asserts that the limited reach of walking trips severely limits labour market opportunities for people who live away from economic centres. The expanding spatial footprint of Ugandan cities may also intensify low grade informal settlement development as many people will trade off housing quality for proximity to job opportunities; and to offset commuting costs (World Bank, 2015a; Collier, 2016).

**Box 9.1: Connectivity and the informality trap** (Source: Collier, 2016).

*“If connectivity is poor, it inhibits the emergence of modern business organizations. In well-connected cities, the markets for locally traded goods are sufficiently large to enable firms to reap scale economies, and productivity is high enough to enable entry to global markets. In order to reap scale economies, firms have to become large. As the organization grows, it has little option but to formalize. Managing a large organization informally would usually be infeasible, grossly inefficient, or prohibitively costly. Formality brings with it transactions that are legally enforceable, bookkeeping that keeps track of finances, and access to formal credit markets. It also brings the firm onto the government’s radar screen for taxation. If, however, connectivity is too poor to permit scale economies, firms remain small. For small firms, formalization may bring net disadvantages such as exposure to taxation, so they remain informal.*

*Hence, poor connectivity traps the urban economy into a small scale of enterprise. At small scale, informality outperforms formality on the criterion of private, static efficiency. But informality in turn traps the economy into stagnant productivity.”*

An efficient transportation system promotes access to opportunities, amenities and services that are central to the lives of all individuals, such as employment, education, health services and leisure (Ahmed *et al.*, 2008; cited in Okoye *et al.*, 2010). In contrast, transport deficiencies in cities have wide-ranging implications for livelihoods, individual life chances and the potential for wider community improvement and positive economic change (Porter *et al.*, 2010).

In terms of accessibility by gender, Porter (2008) notes that:

*“Prevailing gender constructs are intimately related to the way people are able to interact between places: just as social processes help shape gendered mobility patterns and access to transport, mobility and transport are strongly implicated in the shaping of social processes.”*

Access to transport varies according to different factors such as age, socio-economic status or local culture, but with “fairly widespread gender distinctions across Africa (particularly among lower income groups) regarding use and operation of transport and in broader patterns of mobility.” (Porter, 2008) As users, Porter notes that women face significantly more constraints than men, as a result, among other factors, of relative poverty compared to men and the ‘time-poverty’ they face due to their triple role (entailing productive, reproductive and community maintenance work).

Urban women in Africa mostly work in low-paid, informal, unskilled jobs, thus dependence on walking or public transport is high. Buyana and Lwasa (2014), in a study of Kampala, found that the three-layered profiling of women’s roles into domestic, commercial and communal was associated with shorter but multiple trips as women prefer jobs or self-employment within a walkable distance from their homes. Women’s key difficulties when travelling in the city include: the high cost of safe, secure transport; the complex routes they need to follow due to trip chaining, raising costs and the time required; travel with small children or escorting elderly parents; stresses associated with traffic congestion; lack of safe walking spaces; high exposure to traffic dangers especially for women engaged in pedestrian/roadside trade and pedestrian goods transport; and harassment among others. (Lucas and Porter, 2016)

The mobility and transport needs of children and young people should be viewed in the family and household context and with reference to potential life and livelihood trajectories. Access to facilities and services can be strongly affected by family and household demands for children's work (Porter, 2011). Household labour demands coupled with a long journey to school are likely to deter school attendance or detract from educational performance (*ibid.*). Absence of transport provision means children may have to carry water, firewood etc. in addition to other household tasks, before and after classes. These duties tend to fall particularly heavily on girls and may cause children to arrive late at school and leave them exhausted during lesson time (*ibid.*) Difficulties of physical access to health services can impact particularly badly on children and young people (Bosu *et al.*, 1997; Cullinan and Pieterick, 1998; Bossyns *et al.*, 2006). Given the widespread neglect of pedestrian access generally, little or no attention is paid to the needs of the disabled and as Porter (2013) notes:

*“Older people’s mobility and transport needs are only just starting to gain attention, despite that fact that older people form a substantial key component of African populations, not least since in many countries HIV/AIDS has left grandparents supporting and caring for grandchildren.”*

## **9.4 Public transport in sub-Saharan Africa**

### **9.4.1 Informal transportation sector**

Largely unregulated private operators are the main suppliers of public transport services in developing countries (Wilkinson, 2008). Sometimes referred to as ‘paratransit’ or ‘para transport’ such informal operations provide employment to a large number of people (Kumar, 2011). According to Cervero (2000) the informal transport sector consist of “mostly small-vehicle, low-performance services that are privately operated and that charge commercial rates to, for the most part, low-income, car-less individuals making non-work trips.” He notes that the sector, as other informal businesses, consists of largely unregistered, self-employed entrepreneurs working long hours in a highly competitive marketplace.

The number of private transport operators in African cities has grown at over 15% annually in the last decade as an indigenous response to an increasing demand for public transport, but also as a commercial opportunity for many (Wilkinson, 2008).



**Figure 9.1: Transport of goods by motorcycle, Kaduna, Nigeria.**

The informal operators offer a form of community taxi service, carrying often more than one person as well as their goods on the back of a motorcycle, or in unscheduled, communal ‘shared taxis’ in the form of saloon/sedan cars or minibuses. Overcrowded and frequently unsafe, usually imported, aging second-hand, and poorly maintained, these vehicles provide the main form of transportation for the majority of the population and contribute considerably to the congestion and pollution on the city streets (Behrens *et al.*, 2015).

Cars and minibuses operate on a ‘fill and go’, origin-destination basis (Lloyd-Jones and Mutter, 2016). Such services can be cost effective and economically self-sufficient but do not provide a proper public transport service. Buses do not operate according to a fixed schedule and can stop anywhere. Would-e passengers in en route locations are not properly served, whilst uneconomic routes are ignored. With motorcycle taxis sometimes banned in African cities (as is the case in Ghana and increasingly in Nigeria, for example) apart from the equally sub standard saloon taxis, the only alternative to the minibuses are the growing numbers of three wheeler that provide door to door services. These are also notoriously unsafe (*ibid.*)

Informal paratransit offers an affordable and flexible service for the mostly low income residents of Africa’s cities. Evans (2013) argues that for a city “to be in any sense sustainable and inclusive, informal transport has to play a part.” Among private transport operators, and apart from walking, the informal transport sector represent the main mobility option available to the great majority of residents in most African cities (Wilkinson, 2008). In some cities such as Kampala, Kigali, Dar es Salaam and Dakar, the market share of the informal sector in urban transport is over 95% (Bruun and Behrens, 2014).

However, accessibility is limited and mobility constrained by the congestion caused by the large numbers of competing vehicles and haphazard stopping and parking practices of the informal operators. Travel times are extended by waiting times, slow traffic speeds and the need for many users to walk long distances to access the services. As Wilkinson (2008) remarks, although currently providing an essential role in Africa's cities, the "service they offer is often compromised by poorly maintained and frequently un-roadworthy vehicles, inappropriate and unsafe driver behaviour, and fierce, often violent, competition between rival operators both for specific routes and for passengers on those routes" (Wilkinson, 2008).

#### 9.4.2 Public transport policy responses

Formal public transport provision varies across sub-Saharan Africa. Only a few large cities have been in position to build urban/suburban rail networks (Johannesburg-Pretoria, Durban and Cape Town in South Africa, a recently completed metro Addis Ababa, two metro lines under construction in Lagos and one in Abuja). Rail-based systems are expensive and provide limited accessibility as far as the mass of the mainly poor urban populations are concerned.

Formal large-capacity bus lines with regulated operators and scheduled services ('bus mass transit') provide the necessary reach and level of service to become the backbone of a high capacity and accessible urban mass transit network (if, as is argued below, well integrated with feeder paratransit services connecting to peri-urban areas.) They have proved their worth in a number of smaller towns and larger cities across the world (Rizzo, 2015). In the developing world they offer significant benefits including providing wider accessibility, reducing waiting and travel times and significantly reduced congestion and pollution.

However, most cities in sub-Saharan Africa have struggled to maintain even the most basic of bus-based municipal mass transit systems. Such systems have generally been poorly organised and attempts to introduce frequently fail for several reasons, for example failure to maintain vehicles that are dependent on expensive imported spare parts, or competition with cheaper, unregulated paratransit operators (Transafrica, 2008). Without an effective institutional and regulatory framework in place to secure the necessary preconditions, failure is almost always guaranteed. Invariably, there are insufficient buses to maintain an attractive service with scheduled services undercut by unregulated operators, disrupted by poorly managed traffic or run down because of inadequate maintenance or management capabilities or too restrictive fare regimes (Lloyd-Jones and Mutter, 2016).

According to the World Bank (Kumar and Barret, 2008) in a sample of 14 major cities at that time, the modal share of large buses generally ranged from 0% to 10 or 11%. Only in Addis Ababa was the share more significant at 35%.<sup>20</sup> Most of such services have been run by state-owned companies that have failed the test of time. "As<sup>[SEP]</sup> operational deficits grew<sup>[SEP]</sup> and public subsidies did not grow commensurately, operators had difficulty maintaining and replacing their fleet. The result was deterioration in service coverage and quality. Most of the public companies eventually failed and went out of business."

Many cities abandoned large-bus services altogether, relying instead on private, largely informal, minibus services. "Nairobi is the only city not to have passed through this cycle, having retained the private operation of its large-bus service since independence" (*ibid.*) Even then, the

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<sup>20</sup> Recent research suggests proportions in the range 10-20% have been achieved, for example, in Lagos and Abuja/FCT in Nigeria and with the Metrobus in Accra and Kumasi.

modal share of large buses in Nairobi in 2008 was only 7%. Minibuses, with a capacity of approximately 8 to 25 passengers, provide for the majority of public transport needs in most cities, backed up occasionally by larger 30-50 passenger ‘midi buses’ but mainly by saloon or motorcycle taxis, the latter predominating in some places (e.g. Ouagadougou, Bamako).

Bus Rapid Transit, BRT, using dedicated, traffic-free, segregated bus lanes excluding unregulated competitors, is increasingly seen by policy makers and development finance bodies as a ‘quick fix’ way of addressing some of the problems that have arisen with the attempts to introduce and maintain conventional, large capacity bus services. However, though providing a high capacity and high level of service, and considerably cheaper than light rail mass transit alternatives, BRT is relatively costly in terms of infrastructure and space requirements and is difficult to implement in more densely developed urban locations (Lloyd-Jones and Mutter, 2016).

The provision of public transport and the regulation of the informal transport sector have raised questions around employment destruction, and led in some cases to sustained resistance from informal paratransit operators. This and other issues can lead to huge delays in implementing BRT as Rizzo (2015) argues in the case of Dar es Salaam. Dar es Salaam’s BRT project (‘DART’) has been in the pipeline since 2002, and highlights many of the challenges such systems in complex urban areas face, such as land take and displacement of existing property owners and residents, compensation levels to be paid, and the affordability of the new service, Rizzo (2015) argues that there has been a lack of commitment to the project by the Tanzanian government reflecting the “government's attempt to respond to the priorities of the World Bank without alienating local actors, some of whom wield considerable electoral power” (Rizzo, 2015). With average rush hour speeds already down to 10km per hour or less in some parts of the central area, Dar es Salaam is home to around 30 registered motor vehicles per 1000 people, with the number of vehicles in the city expected to grow fivefold in the next decade (Stewart, 2011). This suggests there is little time to lose in dealing with the urban transportation problems of African cities.

While BRT projects are fitfully coming to fruition in places such as Dar es Salaam, Accra in Ghana and Abuja in Nigeria, currently only three cities in sub-Saharan Africa have BRT systems up and running – Johannesburg and Cape Town in South Africa and Lagos in Nigeria. According to the BRT data web site managed by World Resources Institute in Brazil, more than 60% of the world’s 33.3 million passengers carried daily by BRT in cities across the world are in Latin America – one third in Brazil alone (BRTData, 2016). Rio de Janeiro’s system carries more than 3 million passengers daily, as does that of Sao Paulo. Both have extensive systems covering over 130 km but a total of 34 cities in Brazil, including many much smaller than the two megacities have operational BRT systems. In China, 20 cities already have BRT systems, although the current ridership is smaller with the cities of Guangzhou and Zhenzhou, carrying the most numbers (850,000 and 650,000 respectively) over intensively used routes. By comparison Lagos’s existing BRT carried 200,000 passengers over 22 km daily, while Johannesburg and Cape Town carry 60,000 over 61 km between them

In Lagos, buy-in from the informal transport sector was achieved through a co-operative organisation of informal operators under the National Union of Road Transport Workers (NURTW) to run the first ‘BRT Lite’ route (‘blue buses’), alongside the ‘red buses’ of Lagos State Government’s LAGBUS asset management company. Although initially successful, this line has run into problems with vehicle maintenance (Premium Times, 2013). A second line will be run by a private operator.

It should be noted, even though there are dozens of cities systems BRT up and running among the market leaders in BRT, there are hundreds more in those countries that do not have such systems. Worldwide, 206 cities have BRT systems while tens of thousands do not and are largely dependent on more conventional forms of bus mass transit, which share the streets with other vehicles. And even where there are extensive BRT systems these serve only their immediate corridors and need to be connected to much larger networks of conventional formal and informal bus services to meet the accessibility needs of the urban population. Jakarta has the most extensive BRT in the world with a network that extends over 207 km. This is working reasonably well and carried around 370,000 passengers daily. Nevertheless, it is reported that the system accommodates just 10% of the city's public transport demand (Australian Aid, 2014).

Therefore, BRT has to be seen as part of a larger public transport strategy involving wider Bus Mass Transit (BMT) and other modes of urban mass transit. In many instances, for example, it is possible to redeploy irregular minibus services, which are a major source of livelihood in developing cities, as regulated and scheduled feeder routes to trunk BMT or BRT services. Getting conventional high capacity buses operating scheduled services on heavily congested city streets that face growing private vehicle use thus remains the key challenge.

This implies a strategic planning approach to managing traffic in Africa's cities, with targeted interventions to address the substantial deficit of investment in their road and street networks improving the connectivity and mobility they provide to give better access to the population as a whole. Intelligent use of signalling and use of information technologies for better-designed and "smarter" management systems congestion will play a growing role.

Certainly, in general in African cities, however, for the foreseeable future the main thrust of public transport policy should be directed towards a hybrid approach, with existing paratransit operators being offered a stake, through a share of ownership, jobs and/or providing feeder services to, or parallel services integrated with BMT or BRT routes will be necessary. Considerable efforts need to go into managing negotiations with the informal transport operators associations and transport unions, for buy in and redeployment of those currently involved into new business and employment opportunities. For example, in Johannesburg, existing operators were offered shareholdings in the proposed Public Transport Operator Company in exchange for scrapping/sale of vehicle, earning a profit not less than they would have been earning from their taxi business. Drivers were also offered jobs either in the bus company or in the bus stations to replace jobs lost from current informal transport operators.

### **9.4.3 Employment opportunities in the informal transport sector**

In sub-Saharan Africa, the informal public transport sector is also a crucial employment niche for the poorest. With large urban paratransit fleets operating within most cities, the sector contribution as a growing employer and in terms of contribution to economic product is significant (African Centre for Cities, 2015), a trend of concern, according to Nassaira (2015), considering its low productivity and contribution to economic growth.

Kumar (2011) remarks that, in Lagos, Nigeria, up to two millions residents (15% of the population) receive their income from the informal transport sector. The boda boda industry provides important employment opportunities and is a source of livelihood for those who might not otherwise have work. The dramatic rise of boda bodas in Uganda, fuelled by the a government's program of using motorcycle taxis as a development tool to fight poverty and unemployment (*ibid.*) could

transform the boda boda business into the second largest employer in the country after agriculture, according to a 2013 Standard Bank report (cited in Nasasira, 2015), although this seems unlikely given the dominance of trade and manufacturing in informal employment indicated in the 2009/10 Uganda National Household Survey-UNHS (UBOS, 2010).

**Box 9.2: Boda boda in rural Tanzania** (Source: Porter, 2013)

*“The only rural-focused research on older people’s mobility published to date seems to be from the study conducted in 10 Tanzanian villages (Porter, Tewodros et al. 2013). The new connectivities associated with increasing mobile phone and motorcycle-taxi usage among older people here, are likely to also be of significance for the future in many parts of rural Africa.*

*Motorcycle taxis (boda boda) are now the main modes of transport in this district, except along the paved road. They have spread rapidly in all the Kibaha study settlements since c. 2007-2009, before which transport was limited mainly to bicycle taxis. Their uptake has been facilitated by the availability of cheap imported Chinese motorcycles and the fact that they offer a major employment opportunity for rural youth.*

*We concluded that boda boda have transformed rural lives in this district, even where older people are concerned: 18% of older women and 31% of older men had used one in the week before the survey [n=339] – they are now ubiquitous. While older people would prefer other motorised transport [i.e. buses or minibuses which are cheaper, safer and more comfortable], the only real alternative is usually walking.*

*They are, of course, especially important in health emergencies, but they are also important for livelihoods. The small scale of farming among many older people makes boda boda feasible for transport of farm produce and farm inputs. Moreover, some urban traders were now coming in to the district by boda boda to purchase at their farms.*

*Meanwhile, mobile phones are a complementary new connector in Kibaha as in many parts of Africa. Mobile phones were owned by 41% of the older men surveyed and 15% of older women but are widely available to many more older people through widespread sharing with relatives and friends. The phones have radically improved older people’s access to transport since mobile phones are now widely used to organise boda boda transport both in emergencies and on a daily basis.”*

Porter (2014) highlights the importance of the transport service on poverty alleviation and growth among rural populations in diverse ways: “as a generator of direct employment and broader effects on agricultural and off-farm activities, but also its pervasive social effects with specific reference to health, education and well-being.” Young and poor men and boys have become motorcycle taxi drivers for (often urban-based) owners, helping increase their income and broaden their livelihood portfolio.

## 9.5 The informal transport sector in Uganda

### 9.5.1 A profile of Uganda's public transportation

In Uganda, as in the sub-Saharan region in general, the informal public transport sector dominates the provision of public transport in the capital and secondary cities (Howe, 2002). The Ugandan public transport system consists of four different modes: buses, 'matatus' (minibus taxis), motorcycle (boda boda) and car-taxis. Matatus, buses and motorcycles, form the bulk of the public transport supply side (Kamuhanda and Schmidt, 2009). The informal matatu system is the cheapest mode of public transport in Uganda. These are privately owned minibuses, typically a 14-seater bus. The matatus are the dominant form of public transit in Kampala and provide 'the widest, densest and cheapest connectivity.' (Kamuhanda and Schmidt, 2009). Matatus do not have a specific timetable as they usually start their journey when all seats are filled, although they do have a specific route with intermediate stops determined by the passengers. However, ITDP (2015) argues that the route of each matatu can vary from day to day or even hourly, due to congestion, road construction, or the presence of the traffic police, among other causes, the article also states that even their origins and destinations can change (please refer to section 11.4:215 for more information on Matatus' self-regulations and urban public transport).

Other buses serve medium and long distance journeys (inter-city and inter-national connections) with fixed boarding points (bus parks), routes, intermediate stops and timetables (Transafrica, 2008). Motorcycle taxis, boda boda, provide the third main mode of public transport. The fourth and more expensive option of public transport is the car-taxi, known as 'special hire'. Their fares are, on average, seventeen times those of the Matatu.

The boda boda is the most agile way of moving around the city, working door-to-door with no waiting times at stages and limited hold ups at traffic jams. Kamuhanda and Schmidt (2009) argue that the increasing use of boda bodas is an expression of growing income levels in the country, as their fares are four to six times higher than those of the matatus. An in-depth analysis of the boda boda informal business in Uganda is provided in the next section.

In Uganda, the informal public transport sector has never been regulated effectively, and is now causing major safety and congestion issues in urban areas owing to the very high number of taxis and boda bodas, and their ways of operating. Evans (2013) affirms that 'transport needs are dictated by the ways cities are planned, but equally the existing urban landscape reflects the kinds of transportation available' (Evans, 2013). According to Professor Ngabirano, urban planning professor at Makerere University and city planning adviser, the rise of boda bodas is a result of poor urban transit planning by the government. Urban areas in Uganda are poorly connected, conventional means of public transport are unaffordable to low-income workers, whilst private car ownership is rising among the rich, exacerbating the traffic problems (Poon, 2016).

The transport situation is worsened due to a lack of awareness and involvement on the part of politicians and public (Goodfellow and Titeca, 2012). In Kampala, the licensing authority, the Transport Licensing Board (TLB), has made little attempt to limit the number of bus or taxi operators, to impose a route structure or to allocate routes (ASI, 2005). There are an estimated 20,000 to 25,000 taxis (minibuses) in Kampala, which is double the number of officially registered taxis. They have been estimated to employ between 40,000 and 60,000 people: drivers (70%), owners (20%) and 10% conductors (10%) (Ndibatya *et al.*, 2014).

In Kampala, attempts to introduce high occupancy public transport systems have faced a number of challenges. Government authorities, both central and local, have been accused of dragging their feet either for lack of a vision for the city or for selfish interests. The Uganda Taxi Operators and Drivers Association (UTODA), the former taxi drivers association in Uganda, also allegedly worked against their introduction, concerned that high occupancy vehicles would push them out of business and create unemployment among hundreds of drivers and conductors, many of whom are youths (Pirie, 2013).

The number of vehicles in Uganda tripled within ten years (1994-2004), however the number of motorcycles grew more than 600% and matatus grew around 250% in the same period: the latter account for 14% of the total number of vehicles on the road (Kamuhanda and Schmidt, 2009). Boda bodas have become an attractive option and the main mode of transport in many secondary cities, as confirmed in our informal sector survey carried out in Mbale and Mbarara., Despite the increase in number of vehicles, however, 64% of urban population still walk to work in Uganda and up to 70% in Kampala, according to the World Bank (2015).

### **9.5.2 Informal transport in Uganda: boda boda**

Boda bodas began as bicycle-taxis transporting people and goods across the Uganda/Kenyan border in the Busia County, Eastern Uganda, in the 1960s. In the 1980s the service was complemented by motorcycles and extended across Uganda's main towns (Poon, 2016). Boda bodas have grown as fast as the cities in which they exist (Evans, 2013) and, despite its low contribution to productivity, the boda-boda business could become the second largest employer in the country, after agriculture, according to a 2013 Standard Bank report (Nasasira, 2015).

According to Simone (2011; cited in Evans, 2013), boda bodas support the “thickening fields of social relations” that city residents rely on. Evans argues that they “contribute to the connectivity and resilience of the city, running errands and delivering both goods and information in addition to providing personal transport (Aworemi *et al.*, 2008). It is through informal urban infrastructures like boda bodas that existing socio-economic relations find material expression in the city.”

The Kampala Boda Boda Association estimated that, in 2010, there were upwards of 200,000 boda riders and 5,000 stages (stops) serving an urban population of some 1.5 million people (Evans, 2013). However, Goodfellow and Titeca (2012) found that there were about 40,000 boda bodas in Kampala in 2012, with the overall boda boda association having 43,700 members (40,000 motorcyclists and 3,700 bicyclists). The number of boda boda operators in Uganda allegedly grew by 58.7% a year in the 2000s (Goodfellow, 2015). Clearly, all such statistics need to be viewed with caution but they are indicative of the rapid rise of the motorcycle taxi as a convenient means of navigating increasingly congested city streets and the fact that they provide a door-to-door service that is otherwise unavailable except through chartered taxi.

A contributory factor to the rapid growth of the industry has been their ease of entry into the market (Howe, 2002). Boda boda riders have been “widely considered to constitute an urban underclass of ‘rogues’ and criminals that the state was powerless to control” (van der Griend and Siemonsma, 2011). However, Goodfellow and Titeca (2012) show that Uganda's changing political and institutional landscape has created new opportunities for boda boda drivers (along with informal market vendors), to exert more influence.

Unfortunately, their services come at a high cost in terms of driver/passenger safety. Motorcycles have among the greatest number of accident-related deaths and injuries due to a lack of road safety training and pressure from passengers to ride fast and break traffic rules. However, despite these risks, Boda riders find themselves earning enough to pay for most their dependents' needs, rent, food, and basic school fees. Our surveys in Mable and Mbarara showed that boda boda drivers are among the top earners within the informal sector.

In recent years, a worrying trend in the rise of boda bodas is the accompanying increase in number of death in the country's roads. Boda bodas have been dubbed as the 'Uganda's silent killers' (Nakiyimba, 2012; Fallon, 2013). In 2011, 3,343 road deaths were registered in Uganda, twice the average across Africa, although the World Health Organisation estimate that the number could be more than double that (Fallon, 2013). Road death could soon become the second cause of mortality in the country, after HIV/AIDS.

In 2010, about 17% of those killed on Ugandan roads were operators or passengers of two- and three-wheel vehicles, primarily motorcycles (Roehler *et al.*, 2013), although a good percentage of riders and passengers do not wear helmets (QG Group, n.d.). According to the Global Helmet Vaccine Initiative -Uganda (cited in Bagala, 2012), the use of helmets among passengers is only 18% in Kampala and 11% in Mbale. Bagala (2012) argues that the traffic law requires a rider and passenger to wear helmets, however politicians have hindered its implementation. There are also issues regarding helmet quality (many are sub-standard and offer little protection) and passenger fears of being affected by 'fungus' if they wear a helmet provided by the driver.

In Kampala, the number of accidents has risen eight-fold in the past eight years (BBC News, 2015). Kampala Capital City Authority attempt to introduce regulations, including registration of drivers, first-aid training, reflector jackets and helmets, and a monthly fee of 20,000 UGX (Fallon, 2013). According to Poon (2016), "Uganda has put some regulations in place, and local entrepreneurs are looking to technology for help. There's Safeboda, for example, a mobile app that lets passengers book reliable rides – ones equipped with helmets and riders trained in road safety and first aid."

### **9.5.3 Uganda field trip findings: boda boda**

During March, the research team visited the initially selected secondary cities (Arua, Mbale, Mbarara and Jinja) to get an overview of how the informal economy sectors operate in these cities. Mbale and Mbarara were selected to carry out an informal sector questionnaire survey in order to test a methodological approach and gain an initial understanding the complexity of the informal economy. The following sections include an analysis of the mobility patterns in Mbale and Mbarara based on the results of the questionnaire survey, while a qualitative analysis of the boda boda business in Arua and Jinja is presented.

As has occurred in most towns in Uganda, boda bodas are being used to fill a gap in the limited formal transportation market in Arua, Mbale, Mbarara and Jinja. Boda bodas generally provide a short-to-medium distance service, covering a radius of 10-15 km around the main urban areas. They also provide access to peri-urban areas where the roads are poorly surfaced and not easily accessed by other motor vehicles.

In the four towns visited, boda boda businesses are similar in their nature of operation. The area of operation of a boda boda is called a 'stage'. Each one has a 'stage master' appointed by the association, or selected by the members providing services on that stage, who enforce their rules. At

each stage there is a committee, headed by the stage master, to maintain discipline among operators. If the committee cannot handle a particular case it is referred to the association headquarters. Boda boda charges are normally levied for a particular stage, or distance; however, there may be the same charge for stages varying slightly in length. Currently a typical short ride less than a km would be 1,000 UGX.

The Ugandan Government has yet to update the minimum wage of 6,000 UGX per month set in 1984. The Minimum Wage Advisory Council recommended a minimum monthly wage of 75,000 UGX for unskilled workers; the unions have been pushing for a monthly minimum of 250,000 UGX (DRT, 2013; Vision Report, 2014). In any case, however, minimum wage levels only apply to those in formal employment and other forms of social protection are needed for those in informal employment (DRT, 2013).

Initially, a boda rider needs to be a member of a stage: the process for joining a stage is simple as a rider only needs to ask the stage leader to join. The rider then pays money to the committee. The committee keeps the money in case any rider in the stage has an accident or other problem. Once they are a member of a stage, the rider can then register with their divisional office of the umbrella association. Registration with the boda boda association costs around 5,000-7,000 UGX per year, and the rider receives an identification card.

The association claims offers a form of social welfare – primarily an emergency fund available to the boda riders. Should a rider have an accident, marriage, or burial – all of which cause individuals to incur high costs in a short period of time – the association aims to contribute money to cover the rider's needs. However, although the association leadership “do what they can for the riders,” due to a lack of funds beyond the yearly registration fee, the association is unable to meet all of the needs of the riders.

Generally the cost of buying a standard boda boda 250cc motorcycle is around 4.5 million UGX and ownership is either through leasing or working for an owner who is paid a fee of about 10,000-15,000 UGX per day. Uganda Revenue Authority (URA) has however instituted 20,000 UGX of which is paid by each boda boda motorcyclist and it is mandatory to have a tax registered number.

Most of the motorcycle operators view the provision of boda boda services as their main occupation and some had attained primary or secondary education with a few cases of drivers having diplomas or even graduated with degrees. In all these towns the operators are exclusively males with an exceptional case of three women in Arua town.

#### **9.5.4 Boda boda in Arua**

A meeting with the Arua Municipal Authority officials indicated that boda boda was the most commonly used means of transport within the town as there were no other means of public transport i.e. buses or minibuses. They also indicated that they had carried out a census in 2010 (the report was not made available to the research team) and the number of boda bodas had increased tremendously since then. However, they are yet to ascertain current actual numbers. The issues raised by the municipal authority were about the increasing number of accidents and having no gazetted stages. Arua Municipality do not get any fees from the boda boda though they are using municipal infrastructure. Therefore, the local authority has no funds to put up organized boda boda stages with shades.

According to the Arua Boda Boda Association, registered on March 2013 under certificate number 463, Arua district has 3,337 registered boda boda riders of whom three are women. As of 2015, there are 167 recorded stages of which 125 are within Arua Municipality (Chairman Arua Boda Boda Association-Mr Safialema Tiyo). The Boda Boda Association intends to reduce the number of stages within the Municipality to about 60 or 70. The number of riders in the stages varies according to location. Most of the stages do not have names and the actual number of riders at each is not known by the Association. A census was to be undertaken this year.

The Arua Boda Boda Association has set the fee for a rider to join a stage at 100,000 UGX and each month a rider pays 3,000 UGX. The benefits that members enjoy include security of operations at the stages, assistance with police issues if they are arrested, amicable dispute resolution, safety and awareness, guarantee for loans from bank, contributions for burials or sickness, etc.

The Arua Boda Boda Association has a close working relationship with the political arm of the government i.e state house/presidency, and this helps in managing security aspects. They have also been beneficiaries of the Government's Youth Livelihood Loan Program (YLP) with loans at 15% interest per annum repayable in 2 years. The association also has a memorandum of understanding with Centenary Bank for their members to get loans for buying motorcycles at 25% interest per annum payable in 2 years. A Bajaj motorcycle cost 3.4m UGX and 4.2m UGX for Boxer motorcycle.

The riders themselves, generally, do not own the majority of these motorcycles but make a dependable livelihood. Boda drivers leasing a bike from an owner pay around 10,000 UGX per day. It takes about 18 months to for the rider to fully pay off the bike to own it. Many people then use the bike that they own as a stepping stone as they either sell it or they lease it to somebody else and have two income streams.

An average income for a boda boda rider a day is 15,000-20,000 UGX (Abu Saali of Ewata Boda Boda Stage) after deducting all costs i.e. fuel, daily owners fee, etc. The riders rent houses at an average of 40,000 UGX per month and pay the motorcycle owners around 200,000 UGX per month. Some of the boda boda riders interviewed have bought 15m x 30m plots in the peri urban areas of town at a cost of 1.5-2 million UGX and a few have built their own houses.

The boda bodas are also used to transport agricultural produce to various markets within the municipality and the district and to carry passengers and merchandise (i.e textiles, beverages, foodstuff, etc) for businessmen to the Vurra/Aru Custom border (12 km from the town) and to Odworajaku within the Democratic Republic of Congo (DRC), 15 km away.

#### **9.5.5 Boda boda in Jinja**

Jinja Municipal authorities have no idea of the numbers of boda boda operators as they do not collect any taxes from them and have difficulty in registering them. The authorities, however, attribute this to political reasons coupled with wrangles among the various boda boda stage associations regarding the establishment of a unified boda boda association. There has been an increase in registered numbers of crimes and stealing of boda bodas which has lead in some cases to death. Interactions with some boda boda operators gave some estimates of boda boda in each division as follows: Mpumunde 500, Walukumba 450 and central division 420.

During a discussion with Mr. Kakaire Joshua, the chairman of Amber Court Boda Boda Association, the research team were informed that there were 38 members who paid 240,000 UGX in

order to be registered as a member of the association. As in other locations, the drivers obtain some social benefits from the association. Mr Joshua highlighted major problems such as the lack of sanitation facilities, high loan interest rates and the high cost of motorcycles among others. A boda boda rider earns an average of 10,000-15,000 UGX as take home and pays 10,000 UGX to the motorcycle owner. The boda members acknowledged that they do not pay any fee to the municipal council but they pay 20,000 UGX a year to Uganda Revenue Authority (URA).

### 9.5.6 Boda boda in Mbarara Town

Mbarara Municipal Boda Boda Association is the umbrella organization with about 2,500 members operating within 96 stages, of which the majority are in the central business district. In the main, riders are 20 to 30 years old. The amount paid for being a member varies from stage to stage but on average it is between 800,000 and 1,200,000 UGX. Before the presidential directives that abolished paying of fees to the municipal council, they were being charged 5,000 UGX per month. The boda boda riders indicated that, after all the expenses. they take home an average of 20,000 UGX per day.

A survey of individuals working across a range of informal sectors, carried out in April by the research team, found that most of the interviewees live and work within the urban area, and almost 90% of them spent up to 30 minutes commuting per journey. Boda boda is the most used method of transport in Mbarara town, either combined with other modes or on it is own, as 51% of respondents use boda bodas to travel to work (44% said they only use boda bodas for their commuting).

Walk is the most popular mode of commuting in Uganda where 64% of the urban population walks to work (World Bank, 2015a), although the percentage is significant for the survey sample, it represents less than 43% of the trips.

Another point to highlight is the insignificant use of four wheeled vehicles among the interviewees, as less than 10% (including combined trips with other modes) of them use a four wheeled vehicle.

Although the number of boda drivers interviewed in the survey does not constitute a significant sample, as only four drivers were interviewed, all of them have opted for the boda boda business as they do not have another job. In terms of income, boda drivers are within the top performers sector in Mbarara with an average income of 22,500 UGX a day. On average they claim to work 12 hours a day, 7 days a week. Three out of the four use a mobile phone to contact their clients. One has just primary education while the others have attained lower secondary education.

Travel time	No of respondents	Modes of transport										
		Walk	Cycle	Own/ shared	Mini-bus/ bus	Boda boda	Own motorcycle	Walk/ cycle	Combined modes			No response
									Walk/ boda	Cycle/ boda	Bus/ boda	

j1-10	43	19				20			1	1	1	1
11-20	26	7		1	1	14				1	1	
21-30	19	7		1		3	1	1	2			
31-40	3	1				3						
41-50	0											
51-60	7	3					2	1				
<b>Total</b>	<b>94</b>	<b>37</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>41</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>

**Table 9.1: Mbarara commuting pattern**

### 9.5.7 Mbale Town

In Mbale boda bodas are managed by Mbale Motorcycle and Riders Association (MMOPA) which oversees 17 stages with 600 operators in 2008, although the number of motorcycles was only 300 (Kwamusi, 2008). This implies that there is disguised unemployment within this motorcycle business. The Association requires the drivers to pay an entry fee of 30,000 UGX. However, Wanzusi (2013) argues that there were more than 9,000 registered motorcycle in 2013 in Mbale and its suburbs, citing MMOPA.

In Mbale, a further survey of the informal economy (street traders) was carried out with results very similar to Mbarara in terms of the pattern of travel of the traders. Almost 95% of respondents in Mable spent no more than 30 minutes commuting per journey. As in Mbarara, boda boda, is the most used method of transport, either combined with other modes or on it is own, as 59% of respondents use boda bodas to travel to work (48% solely boda boda and 11% combined with other means).

Walking is also the second most popular mode of commuting to work, as 41% of the respondents walk to work, 9% combining walking with other mean of transport. The percentage of people walking to work is considerable lower than the given national average of 64% and, again, as in Mbarara, the use of bicycle to commute is insignificant, at only 2% of the sample.

Almost a quarter of the informal traders claimed to live outside Mable Municipality and although the time spent commuting to work is no longer than elsewhere (95% of them travel for less than half an hour), the proportion using boda boda is higher, at 82%.

	No	<b>Modes of transport</b>									
		W	C	O	M	B	O	W	<b>Combined modes</b>		

									Walk/ boda	Cycle/ boda	Bus/ boda	No response
j1-10	43	13	1			23		1	5			
11-20	24	7				13			2	1		1
21-30	19	7	1			8	1				2	
31-40	1	1										
41-50												
51-60	1	1										
No response	3											
<b>Total</b>	<b>91</b>	<b>29</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>44</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>1</b>	<b>2</b>	<b>1</b>

**Table 9.2: Mbale commuting pattern**

## **9.6 Impact of mobile phone technology on mobility patterns and the informal economy**

### **9.6.1 Mobile phone trends in sub-Saharan Africa**

A factor, which is changing the pattern of urban trade across the board, including the informal economy, is the rapid expansion of mobile phone ownership in Uganda. Mobile phone usage is now widespread among urban traders, including women with few other resources. This is not only supporting improved rural-urban market supply systems and intra-urban trade, but also has the potential to improve associated organization within urban markets, such as dispute settlement and internal movements of trade goods to ease congestion. Mobile money, meanwhile, aids traders' business development and security in and outside the trading space: current mobile money penetration in Uganda is close to half of its population (UCC, 2015).

In the recent history of Africa, the mobile phone ranks well ahead of other communications technologies in the pace of adoption. Africa's first mobile phone call was only made in 1987 (Coyle, 2005), yet the World Bank's 2012–13 Africa Development Indicators report suggests that over 80% of the urban population in Africa now have access to cell phones. This may be an underestimate, since phones are shared regularly and widely with family, friends, and neighbours.

Competition between network providers has reduced call costs, encouraging regular phone communication among even the very poor, while cheap Chinese handsets support this trend. Meanwhile, Africans are remaking the mobile phone to suit local contexts, from building their own phones to establishing Afro-driven innovation hubs or platforms, and from innovative use of airtime for money transfers (promoting development of M-Pesa in Kenya, a precursor to mobile money worldwide) to local phone etiquettes (Zegeye and Muponde, 2012; Daily Independent, 2013).

The growth of broadband access, and associated smartphone ownership as handset prices continue to fall rapidly, is a second trend with implications for physical mobility practices. Information and communication technologies (ICTs), in particular mobile phones, are rapidly changing the face of Africa. A growing literature shows how these technologies are reshaping the way business is done, the way social networks are built and maintained.

In Uganda, according to Uganda Communications Commission-UCC (2015), the total number of mobile phone subscribers in June 2015 stood at 21,910,948. Mobile subscription in the country has been growing at a rate of around 15% in the last two years. The mobile phone is emerging as a powerful tool for gender emancipation in Uganda. Mobile phones provide real time services that increase reach ability and mobility, reduce costs and increase incomes. They can also facilitate development and expansion of social and business networks that empower women with knowledge and support to gain emancipation (Komunte, 2015). They are also contributing towards achieving gender equality through the expansion of women's agency (Masika, 2012).

### **9.6.2 Mobile money in Uganda**

Two recent developments, the embrace of mobile money and smartphones, have particular significance for physical mobility practices. In a continent where relatively few people have bank accounts, phone-enabled money transfers offer a quick, secure, and cost-effective way to move money (including across national borders) without requiring personal travel. This has had remarkable success across a growing number of African countries, following M-Pesa's commercial launch in 2007 (Maurer, 2012). In Tanzania, for instance, by October 2012 mobile money use had reportedly reached 45% of the adult population (Kaffenberger and Butt, 2013).

In 2009 mobile money was introduced in Uganda. The business model generally involves a partnership between a mobile money operator (MMO) and a commercial bank. The services offered are currently restricted to domestic remittances, basic retail payments and money storage services. As of December 2014, there were over 18 million registered mobile money customers. According to UCC, between July 2013 and June 2014, the number of mobile money subscribers grew by 10%. During this period, the number of transactions grew by 24% and the value of transactions grew by 43.4% or UGX 3,599.1 billion (UCC, 2015).

According to a 2014 Bank of Uganda's report (2014), overall, 85% of the adult population aged 16 years and above are financially included – a significant increase from 70% in 2009 and 38% in 2006. In 2013, 85% of women and 85% of men were financially included – but 51% of women are formally financially included compared to 58% of men; and 34% of women are informally financially included compared to 27% of men. The increase in formal inclusion between 2009 and 2013 was mainly driven by mobile money financial services.

### **9.6.3 Social equity, mobility, and ICTs**

Social equity issues form a significant backdrop to the earlier discussion. The gender- and age-related mobility implications of mobile phone use, in particular, will need careful monitoring and further explication over time, as patterns of phone ownership develop and change. For instance, although boys often seem to start with higher levels of phone ownership than girls, girls may subsequently achieve higher ownership than boys (Porter *et al.*, 2012). The implications of expanded virtual mobility in terms of girls' and women's empowerment through access to new educational, economic, health, social, and political information and opportunities are exciting, because African women and

girls are still so often restricted in their physical travel (Porter, 2011). However, how this works out in practice remains to be seen. A mix of gains and losses seems more likely.

Across Africa youth are in the vanguard of mobile phone adoption, practice, and expertise, but their potential to tie this neatly to physical mobility performances may be more constrained, especially in the absence of cheap, reliable public transport. Moreover, young girls often do not have the freedom, flexibility, or resources to travel spontaneously and may well already have parenting commitments. However, for both genders, virtual and physical mobility practices are likely to change as they age, shaped partly by interactions between peers in the same age cohort and cross-generationally.

#### **9.6.4 Transport services in an era of new connectivity**

New connectivities are being enabled in Africa as mobile phones connect directly to transport operations and operators. These changes are already dramatically altering the lives of many poor people. Inhabitants of remote off-road villages in rural Tanzania, for instance, can now call a local motorcycle taxi with numbers already saved on their phones and be traveling toward the nearest major road to pick up an intercity bus in a matter of minutes (Porter *et al.*, 2013).

All this is happening spontaneously, between individuals, without external intervention. However, recent experiments in Abidjan show how public transport itself can be reorganized more efficiently by utilizing phone information, such that travel times could be reduced by 10% across the city (Wakefield, 2013). Although this is only pilot research, it indicates the potential for transport planners to engage with operators and customers to build much more connected, socially equitable, and environmentally sustainable travel systems. In the context of an increasingly carbon-constrained world, this is enterprise clearly worthy of further investigation.

#### **9.7 Conclusions, knowledge gaps and policy implications**

This chapter has focused on movements and accessibility of people in cities in Sub Saharan Africa and Uganda and the role of the informal public transport sector in facilitating this and providing employment – mainly for young men. It has noted that improving the general level of accessibility in cities is a key factor in realising their economic development potential, as well making cities work for people in terms of being able to get around address their needs and wants and ability to access livelihood opportunities. Creating more accessible cities by improving their street networks and public transport systems is a key challenge for urban and transport planning, in order to promote urban economic development and better living conditions for all urban residents. The research suggests that more in-depth work needs to be carried out to understand the movement patterns of informal economy operators and employees. This could encompass a better understanding of the positive impacts the new connectivities associated with the increasing use of phones to aid mobility, accessibility, access to livelihood opportunities and business development.

The evidence from the limited research that has been carried out suggests the informal transport sector plays a significant role as a source of employment for the poor, less educated people with its ease of entry and reasonably well developed supporting social infrastructure. The sector is often reasonably well-organised and self-regulated under the guidance of the drivers associations and transport workers' unions providing growing informal employment opportunities. Under the best circumstances, the operators' associations work collectively and co-operatively with the local authorities. A better understanding of the business organisation, capacity and capabilities and

practices of the various informal transport sector operations and their contribution, actual and potential to meeting travel and accessibility demands, however, is clearly required.

Paratransit offers an affordable and flexible service for the low-income residents of Africa's cities. However, the informal transport sector faces growing challenges – poor levels of service, limited accessibility, slow movement, extended waiting times, old and poorly maintained and highly polluting vehicles, undisciplined and dangerous use of the city streets. The associated issues of increasing congestion and traffic safety can no longer be ignored in most large and even smaller cities. The findings of the primary research carried out in this Uganda case study suggest that the informal transport sector should be supported and more effectively regulated, in order to improve its efficiency for the public interest, providing a more reliable, safe transport system; and also to ensure an acceptable level of employment and working conditions for its employees

A strategic planning approach to managing traffic in Africa's cities is urgently required. This should encompass radical, public mass transit-based solutions, and address the substantial deficit of investment in urban road and street networks to give better access to the population as a whole. Intelligent use of signalling and use of information technologies should provide a growing contribution. Given the current on going importance of employment in the informal transport sector, public transport policies should employ a hybrid approach involving existing paratransit operators being offered a share of ownership, jobs and/or providing feeder services to, or parallel services integrated with, BMT or BRT routes.

For traffic planning generally, data collection and analysis of basic statistics on the transport system are essential to understand the current situation of the sector in any given city. At the moment there is a dearth of data at the local city level across most of sub-Saharan Africa. This suggests an urgent need for more traffic, business and sample household surveys, and analysis of local area national population and housing census data, which proves almost always difficult if not impossible to access. Given the many political and practical challenges in the transport sector establishing effective governance through public institutional report and appropriate regulatory and policy frameworks is key. With both the wider traffic management issues and in implementing mass transit reforms, an appropriate institutional and regulatory framework has to be in place to secure the essential preconditions for successful outcomes.

Typically, in African cities, vehicle, traffic, road and street planning management and regulatory functions are currently shared in an uncoordinated manner across a range of public bodies, including the police and departments of local authorities, sub national and national governments. Transport policy is lacking along with follow up legislation by the relevant government bodies with an ad hoc approach to dealing with traffic management and transport accessibility and mobility issues. In the case of large cities, the establishment of a metropolitan transport authority answerable directly to the elected authority is recommended as a coordinated, integrated approach to planning and managing public and private transport vehicular and non-motorised modes of transportation and related infrastructure investment is necessary. Alongside institutional reform and policy and improved policy and regulatory frameworks, strategic and integrated land use and transport planning, capacity building and data collection are essential.

## CHAPTER 10: INFORMAL RETAIL TRADING AND SPATIALITY

### 10.1 Introduction

This chapter reviews informal retail trading in the context of urbanisation, considering the spatial implications of supporting the sector. Previous chapters of this report have identified that street trading and markets constitute a significant component of the informal economy in sub-Saharan Africa and traders deal in many different types of goods and services.

In section 10.2, the chapter provides a general overview of the theoretical literature on the operations of African markets and their design and governance and evidence from surveys carried out in other parts of sub-Saharan Africa. Secondary research on street trading is summarised in section 10.3 drawing on the academic literature and the AfDB's Markets and Agricultural Trade Improvement Project, Environmental and Social Management Plan for Uganda. Section 10.4 provides further analysis of the data from the primary research carried out in the case study cities of Mbale and Mbarara. Section 10.5 notes the constraints of contemporary urbanist theory that fails to consider roadside trading as a legitimate activity and hence disadvantages the poor in the global South. New concepts of and international guidelines for urban street design that prioritise the needs of pedestrians and where streets inside areas are considered as places which combine vehicular movement with the pedestrian-based social spaces of the city, including spaces for informal trading are presented.

In considering governance issues, the chapter notes the key importance of full engagement with stakeholders, including with the traders themselves working with the local research community to co-produce effective solutions, the city authorities to consider ways in which informal trading can be accommodated, rather than simply displaced.

### 10.2 Summary of key issues identified in literature

While much attention has been focused on African markets and their systems of governance in recent years, commentary on their location and design has been secondary, with some exceptions (Brown, 2006). The informal selling of everyday goods relies on close proximity and ease of access between purchaser and vendor. Steel *et al.* (2014)'s study of the eviction of traders from informal markets in Accra's CBD found that traders returned to more central, and therefore lucrative locations, even after forced evictions. The same report notes the failure of a 'Hawker's Market' near Nkrumah Circle, one of the reasons being the poor accessibility of the location, as well as its inadequate design. New markets on the Jos plateau in Nigeria have often been located in unsuitable locations, due to inadequate consultation with traders (Porter & Lyon, 2005).

Market design and infrastructure has come under sustained criticism in a number of different settings, in Liberia, Nigeria and Ghana. The most common complaints are of overcrowding, lack of sanitation, poor lighting, poor waste management and lack of security (Osei-Boateng *et al.* 2012, SWMF 2012). Overcrowding has many negative impacts, not least creating or exacerbating conflicts, as the overcrowded area provides a flashpoint for violence (Porter *et al.*, 2010; Porter *et al.*, 2005).

Trading outside of fixed markets occurs in the areas around the markets themselves and in locations that attract sufficient passing consumers, who may be pedestrians or the drivers or passengers in vehicles. Watson V. (2009a) notes that in many cities in the global south informal traders have occupied spaces in the formal, planned city, setting up pitches and stalls in the spaces

between building, on footways and in the medians to highways. Dar es Salaam, she notes, has one long linear market along the length of a road reserve.

Trading in such conditions leads to many health hazards caused by spending long working days in polluted environments with high volumes of motorized vehicles. Conditions may also be even more insanitary if combined with other hazards, such as trading adjacent to an open sewer. Children, who are often involved in street trading, are especially vulnerable. Not only are they out of school, but they may never receive any road safety training and hence are vulnerable to accidents (Osei Boateng *et al.*, 2012).

WIEGO's global campaign to improve the lives of street traders strives to achieve recognition for the contribution that women make to the informal economy. Women are central to food production in Africa, particularly at the level of production and basic distribution, that is street selling. Evidence from South Africa, Ghana and Nigeria demonstrates that women tend to be concentrated in trading in the lowest value of goods, with the least profitable margins, such as fruit and vegetables (Karumbizda, 2011; Skinner, 2008; Porter & Lyon, 2005).

Yet despite the participation of women as street sellers and market traders, there is still strong evidence of discrimination and gender inequality. This is not to suggest that the experience of all women in the informal economy is homogenous. For example, studies in Liberia and Ghana found a grouping of women, who combined trading with work in the formal economy, had husbands in employment and enjoyed a livelihood that enabled them to educate their children and improve their homes (Osei-Boateng, 2012; SWMF, 2012). Indeed, Clark's (1994) seminal study of Kumasi market in Accra, coined the term 'market queens'. This group of women form a contrast to those who are barely surviving, selling one type of fruit or vegetable and who, as single heads of households, support children and grandchildren.

Karumbizda's (2011) survey of female traders in Durban's eThekweni district outlines many of the gender specific problems that women face with regard to space and time. The gender coded responsibility for looking after children either prevents women from carrying out the activity of street trading or incurs extra expenses in paying others to do it. The busiest and therefore the most profitable times to be trading are in the morning or evening rush hours, precisely when young children need most attention. The burden of social reproduction, the 'double shift' of preparing food, washing clothes and household chores also prevents women from earning extra income through working longer hours.

There is also women's vulnerability with regard to sexual harassment. This can occur when trading in isolation in unsafe areas. It can also happen when unscrupulous officials demand sexual favours in return for basic rights, such as establishing a pitch. Informal associations of market or neighbourhood governance can also be guilty of coercion and harassment. This discrimination, which reinforces other structural inequalities such as women's restricted access to education and to start-up finance, has an impact on the locations women trade in. Some researchers have found that female traders have a preference for markets, even if they are in peripheral locations (Steel *et al.*, 2012; SMWF, 2012; Kinjanui, 2014) because they offer a higher degree of safety.

For the poorest women, renting a market stall may not be an option and they are forced to occupy pitches by the roadside (Osei Boateng *et al.*, 2012). Transport costs and traffic problems can limit women's potential to trade in more lucrative markets further from home. Traffic congestion and associated transport delays in busy urban centres are a major concern for many women traders

who need to get home at night to prepare the evening meal, as observed in Accra by Grieco *et al.* (1996). Women traders in the city centre often depend on ‘doorstep anchors’ in the form of elderly women or young girls to remain at home in such cases.

Informal street trading has suffered from a perception that it is an inappropriate form of exchange, incompatible with the formal modernist approach to urbanism that dominated much of the last century (Watson, 2009). The most common approach by many administrations is to require street traders to remove themselves from the streets and to operate in markets, either open air or closed. Ikioda (in press) comments that street traders operating in the degraded, chaotic environment surrounding many market areas in Lagos, caused itself by inadequate investment in market infrastructure, are then regarded as a problem to be removed. In her case study, it was road development which provided the means for eviction. Movingly, she recounts how an elderly woman lost her entire livelihood of groundnuts to the bulldozers. Central and local government administrations are frequently antipathetic to street traders and use heavy handed tactics such as forced evictions and the imposition of swinging fines to expel traders. Friction also occurs between registered traders, either within markets or registered businesses and informal traders.

WIEGO’s World Cities for All campaign seeks to challenge this attitude. Formalisation, though, is not straightforward. While market organisations can charge fees for services within markets, informal street ‘pitches’ have no charge attached. Attempts to formalise through charging a fee for a pitch, as in Durban, have led to problems regarding governance, with similar difficulties to those attached to market operations. Many subsistence traders are simply unable to pay a fee of any kind. The imposition of fees may place further burdens on the poorest who are struggling to survive and as Karumbizda (2011) points out, may lead to criminalising the poor.

Best practice in incorporating informal street trading and planning for markets has come for the internationally renowned markets at Warwick Junction, Durban (Dobson & Skinner, 2009). Warwick Junction is a busy transport hub where a motorway runs adjacent to a commuter rail station. 46,000 people pass through this transport hub daily and there are 6,000-8,000 street traders, the majority of which are women and nine distinct markets (Dobson & Quazi, 2016). While this intense urban context differs from the low density pattern of development in this study’s secondary cities, there are innovations that demonstrate how informal trading can be accommodated within a contemporary urban infrastructure in an African context.

Of particular note was the recognition by the City Health department of the social and cultural value of the traditional medicine and herb traders. The consultative process was ‘qualitatively different’ (Robinson and Dobson, n.d.) and an improvement on previous practice. An area based team was able to productively use a redundant space and negotiate a ‘seamless transfer’ on an issue by issue basis of the on street traders to the ‘still affordable’ new Market. The design of the market itself also provides a good model of a way to achieve a calm interior space with stalls around the perimeter fronting onto the surrounding footways. The process took place over a number of years and the spaces for informal activity have expanded and improved. A pedestrian bridge that incorporates street stalls won an architectural award.

The strength of the collaboration between different traders was tested between 2009 and 2014 when the City Council attempted to assist a developer in replacing the Early Morning Market with shopping mall (Skinner, 2011). This proposal has now been rescinded, due to the strength of the opposition, who resisted clearance despite the use of tear gas and aggressive policing (PPS, 2015). One implication of this aspect of Warwick’s evolution is the evidence that when the informal sector

is successful, the formal sector moves in to take advantage, even if it is to the detriment of the informal entrepreneurs who developed the initial economic opportunity.

The work of liaising between the city authorities and the market traders has been supported by an NGO, AeT (Asiye e Tafuleni) since 2008. The organisation has successfully brokered many issues, such as cleaning, temporary accommodation and the construction of street stalls. One of the more unexpected impacts of the project was the promotion of Warwick Junction as a tourist destination, a result of the Market tours organised during the football World Cup 2012.

The evolution of the design and construction of the street stalls is interesting, as it demonstrates the need for a deep contextual understanding and consultation. The first food stalls were constructed in steel, for hygiene and robustness. These proved to be too tempting to steal. The second modification was to construct concrete counters with lockers underneath for overnight storage, but these also failed because the lockers suggested there were valuables inside and were broken into. The third and most successful solution was to construct wooden trestle tables, which could be taken away and stored every night, with a plastic cloth thrown over for hygiene. This pragmatic move had two bonuses, one of which was to provide employment for an on-site carpenter and the second to allow the pavements to be cleaned daily without obstruction (Conley & AeT, 2015). The process of design for this basic component provides a model for consultation and experimentation, which could usefully be translated for other more complex projects.



**Figure 10.1: Herb Market, Warwick Junction, Durban**  
(Source: Open City Projects, 2012)

The commentary so far has focused on sub Saharan Africa. Recently, policy and practice in Western Europe and north America has recently reclaimed informal trading as a way to promote social cohesion, support for low-income households and urban regeneration, including gentrification (Evers & Seale, 2014; Cross River Partnership, 2014; Ikioda, 2013; Gonzalez & Wiley, 2013; Watson, 2009). ‘Farmers markets’, selling local produce are now an accepted ‘tool’ in the

regeneration armory in the UK. Within the European Union, some member states, such as Italy, France and Spain, have been eager to protect their traditional open air and seasonal markets (Costa, 2015). The most recent innovation has been ‘night markets’ which are common in Asian countries but a new development in the UK (Pottie-Sherman & Hiebert, 2015). In the USA, Loukaitou-Sideris & Mukhija (2015) have used a student design project as way to lobby the city authorities in San Francisco to accommodate informal street traders in a new public space in a low-income area.



**Figure 10.2: Ariel view, Herb Market, Warwick Junction**  
(Source: The city at eye level, 2016)

### 10.3 Summary of findings from secondary research

Informal street trading and the operation of markets has been contentious in the Ugandan context. It also has particular connotations for gender relations. The background is that an ordinance in 1914 forbade women from selling on Kampala’s streets because street selling was associated with prostitution. The law was enforced into the 1950s to discourage women from moving into cities and becoming roadside vendors. Nevertheless, street selling carried on despite its illegality and assumed importance during the instability of Amin’s regime. During this period, women established their own network of night markets, selling prepared foods, managed by informal co-operatives to regulate prices. There were crack downs, with 1,000 market vendors arrested in one night in Kampala in April 1974 (Lince, 2011). Following the establishment of a stable government, there has been a move to formalisation, from the millennium onward, with street traders being required to remove themselves from the street and to operate within designated markets, either open air or closed.

Two research studies have evaluated this programme, one in Kampala and the other in Jinja. In both cases problems were recorded with the overall finding that the approach had not been successful, the conditions of traders had not improved and in many cases had worsened. Some markets have been run by private individuals or companies who had no prior experience of managing markets and have been unable or unwilling to provide the goods and services that traders need, for

example toilets, solid waste removal and security. Both the municipality and the managers are interested in raising revenues and there is a problem with overcrowding within the markets (Lince, 2011; Lindell & Applebad, 2009).

From a different perspective, Masika (2012)'s research into mobile phone use, gender and informal trading in Kampala, provides some insights into informal traders' use of public space. 82% of her survey respondents, divided equally between women and men, were stationary roadside vendors, with the remaining 18% being peripatetic (Masika, 2012:172). Of the 'hawkers' or mobile street traders, only 7.8% were women. The stationary traders located themselves at places where there was 'heavy human traffic'. Goods were displayed on mobile rails, or tables, mats on the floor or hung over shoulders. 59% of her respondents lived outside Kampala and commuted into their work. The research explores the shifting gender relations between women and men, as the traditional gender segregation between trading sectors are breaking down, with men selling in previously female dominated trading products (such as food) and women selling electronic goods.

The Ugandan Government has introduced a programme to improve the physical infrastructure of the main markets in eighteen of its urban centres. The Markets and Agricultural Trade Improvement Programme (MATIP) has two phases. The first reconstructed seven markets and the second will tackle eleven sites. The first phase included Jinja and the second will include Mbarara and Arua. MATIP phase 2 will provide multi-storey market buildings, loading bays, storage facilities, spaces for restaurants, toilets, spaces for providing services, stalls and lock ups and parking. Landscaping will be planted within the market area. The proposals are gender sensitive with regard to proposals for training and management and the physical facilities will accommodate the needs of women with children through the provision of day care and spaces to wash and bathe (AfDB, 2014). These proposals respond to many of the criticisms noted in the literature review. Funding being limited, with finance provided through the African Development Bank, only a small number of markets will be able to benefit.

While street traders are disadvantaged by their illegality in Uganda, they nevertheless wield political power. In Kampala, the city authority KCCA has had an ordinance since 2010 to outlaw street trading and enforcement powers to evict traders (Anon 2015). This is strongly supported by shop owners who resent the traders and argue that they are undercut their businesses. According to a leading Kampala newspaper, street traders in the city's CBD enjoyed something of an eviction 'holiday' in the run up to the 2016 elections. The president reliant of their vote, allowed them to trade without fear of action from the KCCA (Katusiime, 2016).

#### **10.4 Summary of findings from primary research**

The primary research has added weight to the commentary that Ugandan markets and informal street sales constitute a significant component for the economy as a whole. The findings from the more buoyant local economy and urbanised city of Mbarara show the entry of males into informal market and street trading (see below), a trend noted by by other researchers (Porter *et al*; Osei Boateng, 2012). The ability of some groups of women to gain access to higher value trading, in second hand clothes and mobile phones, also corroborates trends noted in recent research (Masika, 2012; Kinjanui, 2014).



**Figure 10.3: Male informal traders in Mbarara**

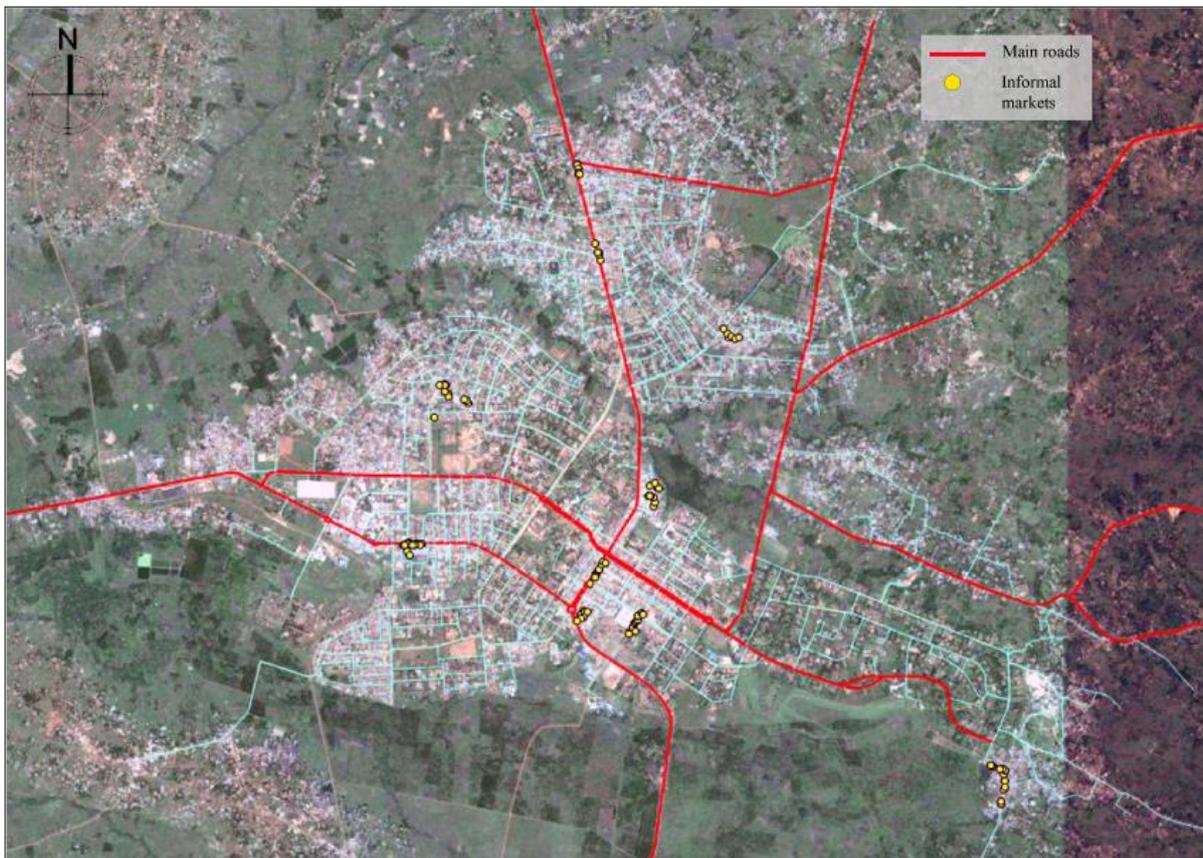
With regard to spatiality the case study evidence for the problems associated with markets highlights the lack of investment and planning in market infrastructure. For example, Bugwere Road Market in Mbale has 250 vendors trading inside the market and 150 outside it. Traders outside the market complained of theft, disputes over ‘pinches’ (rudimentary market stalls) and witchcraft. Gender differences are highlighted in the interview with chair of this market traders’ association. The leadership of the association is male dominated, seven men to two women, although 250 of the 400 vendors are women. The vertical heterogeneity within informal street trading is illustrated by the respondent owning a shop and several market stalls, which he rents out. There is a further interested dimension with regard to transport and spatial linkages. The interviewee trades in second hand clothes and sources them from Kampala, going in person to collect the bales. Meanwhile his wife also works in the business, but she travels around the markets in the local district around Mbale to sell her wares.

Of further interest are the responses from the questionnaires from Mbale and Mbarara concerning investment. Only a small percentage of respondents would like to invest in better or more permanent premises. This suggests that capital improvements (as opposed to registration) to street trading pitches and market infrastructure are unlikely to be financed by traders themselves. The lack of investment in markets as physical spaces and in the ‘pinches’ where street traders operate at roadsides and verges can be contrasted with the recent high levels of capital investment in buildings in Uganda.



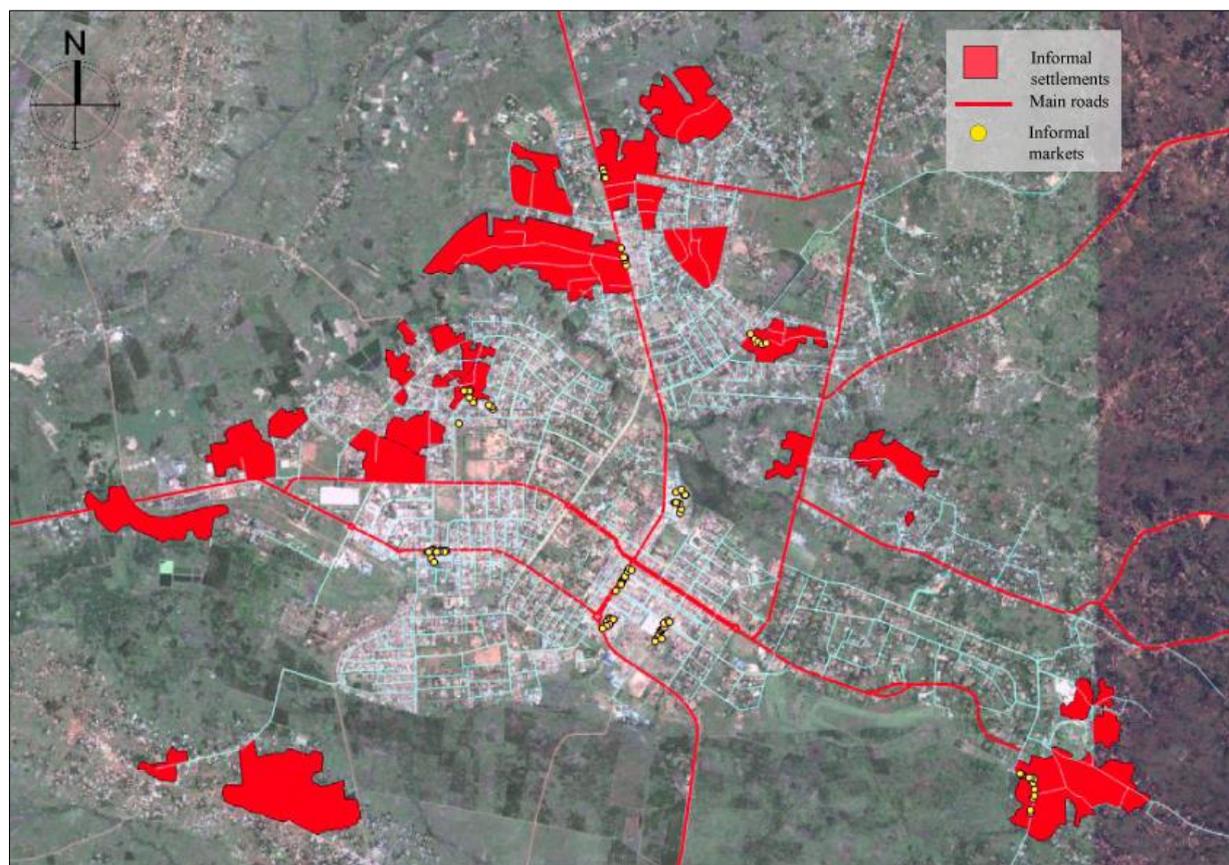
**Figure 10.4: Street waste from informal trading in Mbale**

Our primary research has revealed the demand for the allocation of space for street trading. Taking Mbale first, which as previous sections of this report has noted, has a somewhat depressed economy, street traders congregate in ten different spaces across the city (see Figure 10.5). Two of these clusters appear to be related to markets, while the other eight are street based.



### Figure 10.5: Mbale informal markets

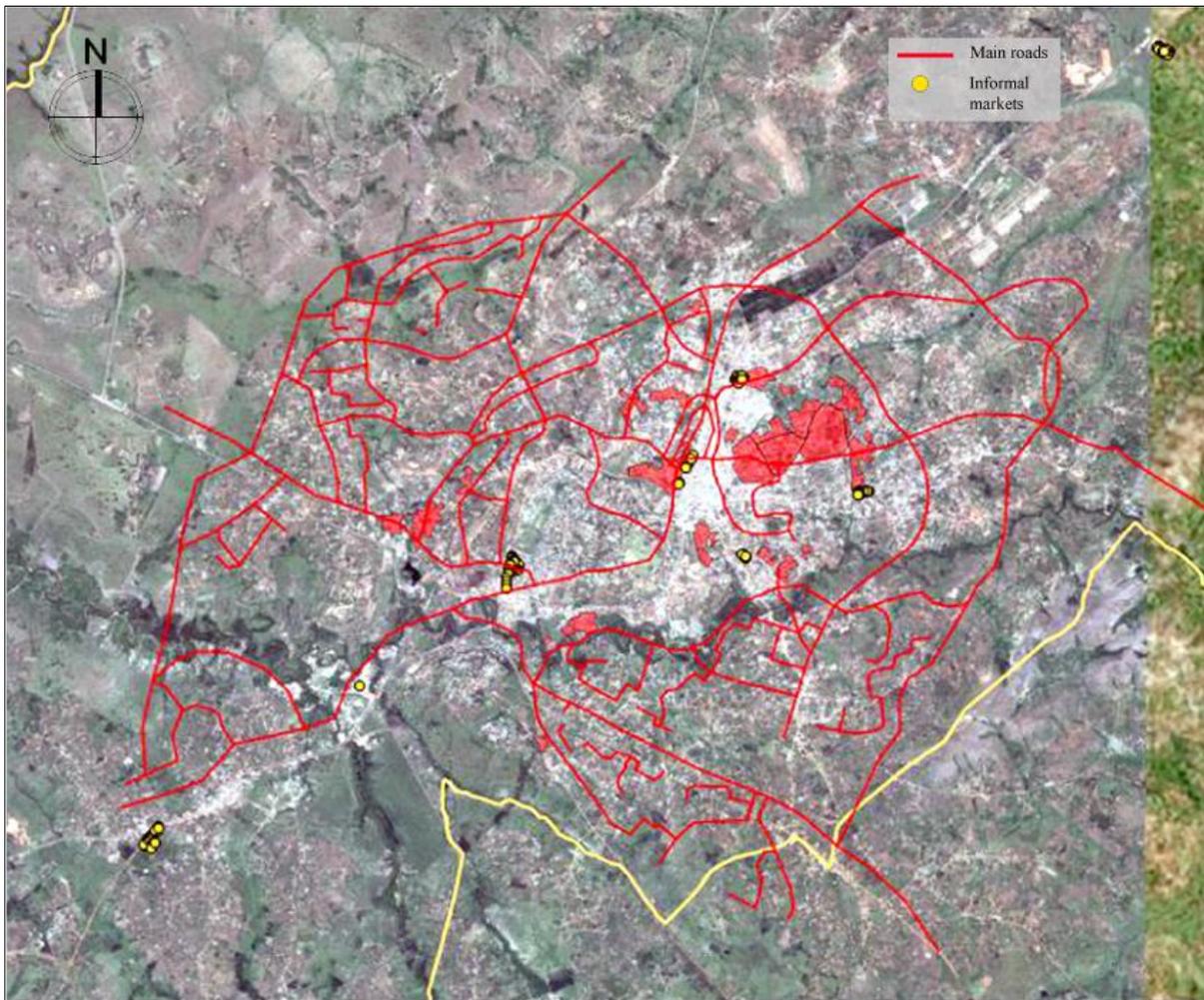
Adding an extra layer to the map of the informal settlements demonstrates that the traders congregate on main streets, at street junctions and along streets within neighbourhoods. This suggests that a typology of spaces for street traders will need to incorporate a number of categories to accommodate these different situations (see Fig. 10.6).



**Figure 10.6: Mbale informal markets and informal settlement**

The analysis for Mbarara (see Fig. 10.7) shows a similar patterns of street traders clustering along main streets, at junctions of main streets and along smaller street within neighbourhoods. There are fewer clusters, only six in total, but they are more densely populated.

The mapping shows that the demand for street trading far outstrips what can be provided by one central market. In fact, in the poorer city of Mbale, more sites seem to be needed.



**Figure 10.7: Mbarara informal markets**

### 10.5 Discussion of implications for theory

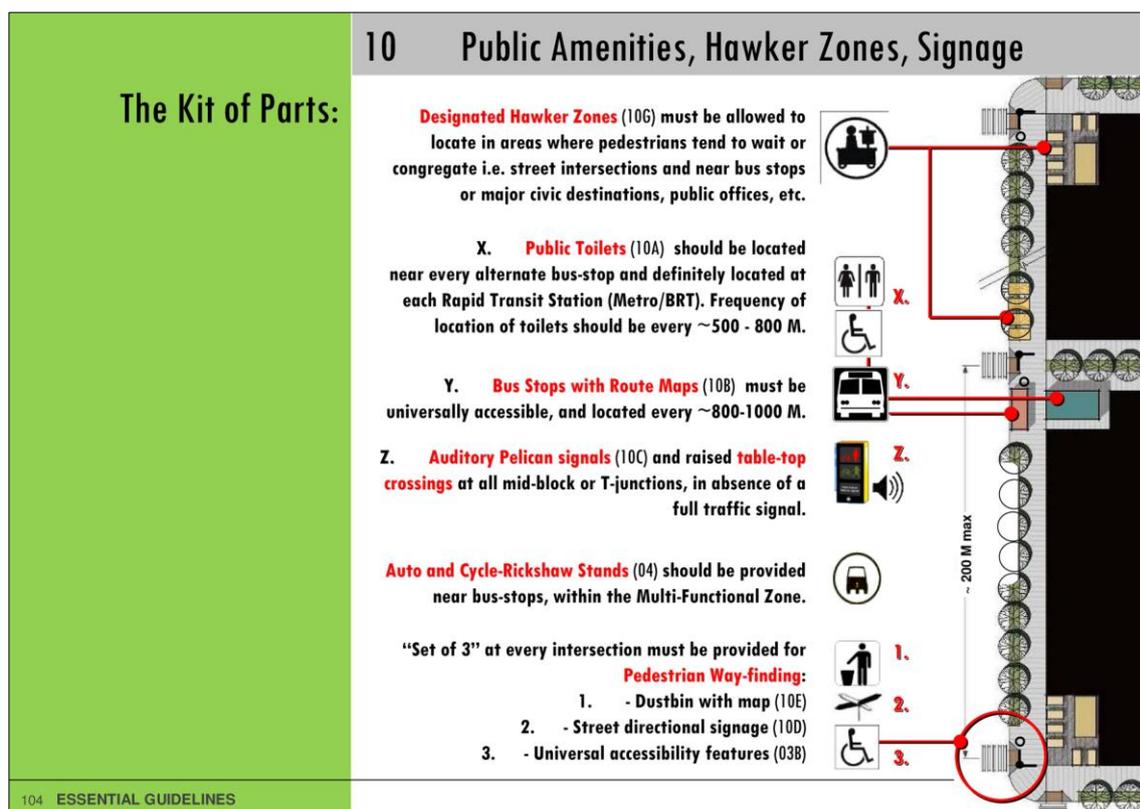
Informal street trading and markets constitute a significant component of the Ugandan economy, as with other African countries. It provides an important means of survival, for producers and consumers. Further, as the economy becomes buoyant and more urbanised, informal trading offers a means by which certain households can move into higher earnings and run sustainable and expanding businesses. Nevertheless, there are many unresolved spatial issues which are not specific to Uganda and which challenge previously dominant paradigms in urbanism, planning and highway engineering.

Watson (2009a, 2009b) has argued that modernist urbanism disadvantages the poor in the global South and that its assumptions and theories need to be reconceptualised. It has already been noted that there has been a shift in the USA and Europe towards revaluing and reinvesting in markets. This is a trend which is highly relevant to the Ugandan context. Watson's discourse is mainly directed at housing and land rights, but she comments that informal roadside trading has not been considered within contemporary urbanist theory. This is true but the recent reconsideration of street design in Europe and the UK provides a reversal of previous theory and practice, thereby offering a way forward.

The new approach to street design rests on three major premises. The first is that road or street design in urban areas is conceptually and practically different from inter city highway design

(Engwicht, 2008). Streets inside urban areas are considered as places where the social space of the city is combined with vehicular movement. The rules and standards of highway design are therefore not applied to urban areas. Highway design is focused on the fast movement of motorised transport and its design standards, codes and rules of necessity prioritise the driver, with the aspiration of providing a predictable, rule bound environment where the vehicle is dominant.

Urban street design challenges the hierarchy of road users and puts the pedestrian at the top of the hierarchy. Vehicular traffic is required to move more slowly, at a maximum speed of 20 mph. This principle is now adopted in the UK for the design of new streets (DfT, 2007). The approach allows for unpredictable pedestrian movements and the opportunity to create places combining commerce and movement within urban areas. A further theorisation, which is proving more controversial, is the ‘shared space’ concept, which argues that vehicular movement can be controlled through design measures and that the engineering solutions to traffic control, such as signage, traffic lights and guard rails can be removed. It is noteworthy, in this context, that the shared space approach was developed by the Dutch engineer, Hans Monderman, first as a pragmatic solution to traffic regulation in a village where there was insufficient funding to pay for regular controls (Hamilton-Baillie, 2008).



**Figure 10.8: Essential guidelines for street design** (Source: UTTIPEC 2009:103)

A new set of standards for road design incorporating an approach to ‘sharing the road’ has been produced by the UNEP Transport Unit (Murguia, n.d.). This document makes the case for recognising the importance of walking and cycling in an African context and proposes detailed design guidelines to incorporate the needs of different road users, pedestrians, cyclists and public transport, as well as cars and trucks. The report makes the case for social and economic benefits that accrue to this approach. The document draws on Delhi’s street design guidelines (UTTIPEC, 2010) to propose for the provision for ‘hawkers zones’ (see Figure 10.8). In the UNEP report these are

located in a planting zone, which would provide a buffer between the pedestrian footway, cycle lanes and the carriageway. The Delhi design guidance is less prescriptive and suggests that designated hawker zones should be located near where pedestrians tend to congregate, for example bus stops. Both sets of guidelines recommend the provision of public toilets.

The evidence from the literature review and the case study visits demonstrate that the context of Ugandan secondary cities will provide a fruitful ground for a revaluing and reconceptualization of the spaces allocated for informal trading, in markets and at the roadside. The comparatively low density of development in Mbale and Mbarara, with many unused spaces between buildings will allow for the allocation of new market spaces. Similarly, the layout of wide roads, which have yet to be engineered with tarmac, kerbs and drainage, allow for optimising the allocation of space and how to provide for all street ‘users’, from street hawkers, pedestrians, cyclists to motorists and heavy trucks.

Extrapolating from the mapping from the primary visits, a typology of street trading spaces might be postulated:

<b>Pedestrian oriented</b>	Markets
	Spaces around markets
	Bus stops
	Spaces around supermarkets
<b>Car oriented</b>	Around junctions of major roads
	Around signal controlled junctions

**Table 10.1: Street trading spaces’ typology**

The value of pitches within these locations will vary. There will be a continuum based on the proximity to high income customers and to the number of potential customers. Clearly all niches within the different sectors would need to be covered. Such a strategy would optimise the use of space throughout the city. It would seem likely that the highest degree of competition will be for spaces nearest the city centre and major transport hubs and these will require the most regulation and supervision.

In addition to the spatial aspect of the locations allocated for informal trading, some sensitivity towards time also needs to be considered. Night markets adjacent to quiet residential areas are likely to cause problems with noise. The safety of the women street traders is important, as women are more vulnerable during the hours of darkness.

Conflict between street traders and licensed and registered shop keepers has been noted in the literature review, with evidence from Kampala. Such friction is not an inevitable feature in informal street trading. In Dar es Salaam, for example, the street traders on the median acted in association with the shops that were located parallel to them, across the carriageway. Other instances of shops using street trade as an extension of their business have been noted. More investigation is needed of this relationship.



**Figure 10.9: Street in Mbarara: illustrating need for investment and management**

## **10.6 Engagement with stakeholders**

While this section has focused on physical space, it is clear that this process is closely allied to approaches to the management and governance of these informal and formal spaces. Flexible arrangements for formalisation that take into account gender considerations, the types of goods traded and the heterogeneity of traders. While this report is mainly concerned with the interconnections between the formal and informal economies, the relationship between informal traders and the households they support requires further elaboration. Women traders are most frequently carers and a more detailed understanding of the constraints on their mobility would help to provide policy guidance to overcome gender inequalities. Childcare also needs to be taken into account, particularly if children are required to help in trading operations.

Engagement with different types of stakeholders are therefore required:

- The local research community to investigate the socio-spatial issues identified above;
- City authorities to win over ‘hearts and minds’ to recognise the legitimacy of informal trading
- Informal traders to co-produce effective solutions.



**Fig 10.10: Woman selling fruit in Mbale**

## **10.7 Conclusions, knowledge gaps and policy implications**

This chapter has reviewed evidence on informal trading in sub Saharan Africa in markets and by the roadside from a spatial perspective. The literature review, primary and secondary research all point to the continued significance of the activity. Despite the efforts of charities and lobby groups such as WIEGO, informal trading still suffers from many disadvantages, in Uganda as much as elsewhere.

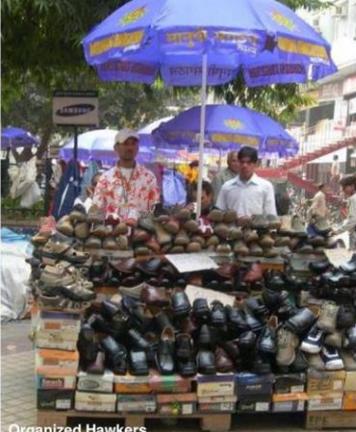
There are considerable knowledge gaps regarding the current state of markets, the condition of their physical infrastructure and their locations. A future research agenda would be to systematically review the spatial configurations of different types of markets, their functions, locations and relationship to their urban context. Specifically, attention needs to be paid to market access by both motorised and non-motorised transport, to their provisions for storage and arrangements for the disposal of solid waste. Security, sanitation lighting and child care and are also important facilities.

Further research is required on the spatial needs of informal street stalls and mobile ‘hawkers’ and their integration into street design in the context of sub Saharan Africa. The Delhi design guide was produced for an intensely used, urban context and recommends heavily engineered proposals. Context specific guidance is needed for Ugandan secondary cities as they urbanise.

There are many policy initiatives that could be undertaken with regard to the organisation and governance of markets, but from a spatial perspective these are the most pressing:

- Making an accurate assessment and forecast for the demand for future market infrastructure in Uganda’s secondary cities in consultation with local stakeholders and informal traders;
- Designation of suitable sites in consultation with informal traders, taking into account requirements for accessibility for motorised and non-motorised traffic;
- Reversing the prohibition on roadside trading;

- Incorporating gender sensitive provisions for roadside trading in suitable locations into revised design guidelines;
- Re-balancing investment within urban areas away from ‘heavy fixed infrastructure’ such as shopping malls and traditionally engineered highways to markets and contextually designed streets that celebrate and support the informal retail sector.

10F Designated Hawker Zones		Best Practices	
<p><b>Benefits of Hawkers in Street-space:</b></p> <ul style="list-style-type: none"> <li>• They keep streets busy, vibrant and safe.</li> <li>• They provide a variety of cheaper food and retail options.</li> <li>• They infuse mixed-use and encourage walk-trips in a city planned predominantly based on private-vehicle use.</li> <li>• They generate self-employment for a large number of people.</li> </ul>	 <p>Organized Hawkers</p>	 <p>Organized Food Stalls, China</p>	 <p>Organized Food Stalls, Beijing</p>
	 <p>Organized Food Hawking</p>	 <p>Organized Hawking, London</p>	 <p>Organized Hawking, Mumbai</p>
<p>Street Design Guidelines © UTTIPEC, DDA 2009</p>		<p>Pictures courtesy Pradeep Sachdeva Design Associates</p>	
		<p>ESSENTIAL GUIDELINES 111</p>	

**Fig. 10.11: Benefits of Hawkers in Street-space** (Source UTTIPEC, 2009:111)

## **CHAPTER 11: GOVERNMENT AND GOVERNANCE**

### **11.1 Introduction**

This chapter will identify and examine the main stakeholders that determine the level and nature of institutional engagement with informality. Firstly, it will do so by firstly examining examples of informal governance in different cities in Africa, and secondly by focusing on the specific case of Ugandan cities and the informal governance within the urban transport and informal trading sectors. The chapter will explore the complex and diverse forms of associations in which informal urban groups organise, the roles these associations play and their diverse approaches to influence, and how in turn, these forms of informal governance impact on their trading activities, their linkages to the state and their overall recognition as key actors within the urban economy. Likewise, the section will give an overview of how the state has engaged with this complexity and will debate the implications of this engagement in informal traders and urban governance in general.

The methodology of the chapter relies primarily on a semi-systematic review of the wider literature and data sources cited in the text and listed at the end of the chapter. Considerable use is made of case study evidence drawn from the literature to support the main argument. Section 6.3 draws on the secondary research to explore the issues of the informal governance in Uganda focusing in particular on informal transport and street vending. This complements the findings on governance from the primary research and fieldwork noted in Chapters 9 and 10 respectively.

The theoretical approach is in line with the rest of the monograph. In policy terms this chapter builds on the argument of earlier chapters in arguing for then need to go beyond legal rights, and establish institutionalised processes of participation and negotiation that address the lack of recognition of those employed in the informal economy, particularly marginalised groups, and that builds on the social capital and local knowledge embedded in processes or informal governance

### **11.2 Informal governance and its linkages to the State: Case studies from Africa**

This section will utilise concrete examples to illustrate the diversity within different forms of informal governance that operate in African cities, and how these shape the relations between the state and informal traders.

The main form of organisation that informal traders utilise is traders associations. Traders associations vary greatly according to income, scale of operation (city, district or site level), legal recognition and leadership based on professional, kinship or patrimonial practices. Based on the literature review, it was evident that some of these variants have a direct link to the type of linkages that are forged between the state and the informal traders. Hence, in order to give an overview of current level and nature of institutional engagement with informality, we considered fundamental to discuss firstly this complexity.

One of the key distinctions between associations that influences their linkages to the state is the nature of their governance and leadership. Meagher (2011), on her study of popular networks and associations in the Nigerian informal economy, explores the relation between forms of informal governance and structural outcomes and institutional processes. Based on three very different clusters of associations, she found clear distinctions between those that rely on leadership based on kinship and patrimonial strategies of accumulation and those that are based on higher levels of education and success, and how each of these establishes their linkages with the state. On the one hand, governance

within clusters of shoe producers associations, in this case at the lower level of the economic continuum, relies heavily on social capital based on kinship which helps to promote and maintain membership. Nonetheless its leadership is elected by seniority and characterised by low levels of education and a lack of organisational skills. This type of leadership has tended to rely on survivalist approaches and clientel forms of engagement with the state, including lobbying based on kinship linkages with members within relevant institutions, and with no strategic vision towards economic gains and adequate representation of their associations. On the other hand, leadership within the cluster of garment associations is characterised by higher levels of education, success and some background in formal employment, which tends to alienate less successful traders and makes it difficult to recruit and increase their membership. Their leadership attempts to overcome corruption and exert some influence by engaging with the state only through formal processes, promoting and assisting legal registration of the associations within the cluster and forging alliances with other recognised associations of small scale enterprises. However, while this approach allowed them to engage more closely and effectively with central government, in negotiations at higher levels with other powerful actors within civil society and the formal economy, they found themselves considerably more restricted due to their comparatively lower levels of education, income and negotiation skills (Meagher, 2011:64-65).

In a similar manner, Brown *et al.* (2010) focused on a comparative study of the characteristics of informal traders associations in West, East and Southern Africa, exploring how distinctions between legally recognised associations and those ones operating outside of legal frameworks can also manifest across regional contexts. In their study of street traders and citizenship in African Cities, a key difference emerged between West Africa associations that tend to be more cohesive but are highly influenced by kinship modes of organisation that rarely access urban political negotiations, and East and Southern African traders that are less cohesive and more likely to depend on formal structures to achieve influence (Brown *et al.*, 2010:678). In both cases however, neither the strong social capital of kinship relations nor recognition achieved through formal processes managed to significantly enhance decision-making or political negotiation. The author argues that a critical problem lies in the lack of capacity within informal governance structures and the lack of institutionalised channels of participation.

Another characteristic that has a significant influence on how associations exert leadership and relate to the state is the scale and site of operations. Lindell (2008) in her empirical study of marketplaces in Maputo, Mozambique, explores urban governance and the importance of understanding the different 'sites' (both in terms of scale and place) in which power is manifested and contested. Associations or clusters, when organised at city level, provide leadership and some level of political representation and influence, particularly with their capacity to mobilise at the urban scale and access to higher level authorities. On the other hand, associations at the site level (like market committees) rarely have the opportunity to influence at higher levels and have to rely on the transparency of the leadership that represents them. Moreover, they play more of a supplier and regulator role focused on the provision of basic services, security, conflict resolution and basic social welfare, which are usually financed through the small fees they collect from their members (see examples in Lindell, 2008; Meagher, 2011). However, associations at the site level have been documented to bypass city-wide leadership and engage directly with the municipal government to revert damaging decisions taken by the leaders, usually as a result of clientelism relations and favours (Lindell, 2008:1892). This tiered and often fragmented and contested system of scales and sites where power is manifested, multiplies the actors within informal governance structures, as well as the

modes of engagement with the state, reinforcing the need to engage with this complexity and promote adequate modes of organisation and leadership.

The case studies presented in this section exemplify only a small fraction of the rich diversity within informal governance, and how different modes of organisation result in particular approaches to establishing linkages to the state and achieve some influence. In all cases, there is a need to understand the influence of social capital, survivalist strategies and the lack of negotiation capacity in how links with the state are forged and maintained.

After this brief discussion, the following section will give an overview of how the state has engaged with this complexity and will debate the implications of this engagement for informal traders and urban governance in general.

### **11.3 The state and the informal economy: modes of engagement**

This section will offer an overview of how the State (including municipal, district and national level) has approached and engaged with popular and localised governance structures or associations involved in the informal economy. It will do so by offering examples that have been documented in West, East and Southern African cities, and structured loosely on Medina's (1997) broad categories of repression, neglect, collusion and stimulation (or synergies).

In the case of Tanzania, there has been a fluctuation of how the State has engaged with the informal economy, ranging from brief periods of openness triggered by management crises within the municipality, to criminalisation and implementation of policies of privatisation and economic deregulation. Attempts to establish a 'right to work' in the 1980s with the establishment of the *nguvu kazi* itinerant trader licenses, resulted in an increasing organised informal sector, with higher levels of advocacy capacity and consolidating a substantial number of self-help groups and two umbrella national associations (Msoka, 2007; quoted in Brown *et al.*, 2010). However, since the *nguvu kazi* was canceled in 2003, legislation has worked in detriment of the informal economy as a whole, particularly criminalising street trading and marginalising other informal traders due to prohibited costs associated to licenses or fees. This repression translated into violent evictions from street level markets since 2006, ordered by the Primer Minister's Office and implemented by municipalities. Another effect of this criminalising legislation has been the disempowerment and loss of reputation of the umbrella associations as they were partly associated with street traders. This disempowerment was evident when the umbrella associations were unable to negotiate the evictions effectively with the Prime Minister (Brown *et al.*, 2010: 674-675).

In other cases, repression has been used to exert strict control through normative and spatial order that conforms with modernist views of the city, exemplified by the tendency towards formalisation at the micro level as documented in Cape Town and Johannesburg, which in turn was eventually duplicated in Nairobi (Steck *et al.*, 2013:156-157). Normative and spatial modes of control were implemented in these cases, particularly with street traders, introducing quotas, badges representing different types of permits and strict regulations regarding the spaces they could occupy and transform, both at the street and neighbourhood level. The authors describe this approach from the State, as a way to acknowledge and profit from the revenues deriving from informal trading, while also attempting to camouflage informal trading activities by imposing a strict vision of spatial planning and order in the city.

It is also important to note that in the case of Cape Town, Johannesburg and Nairobi, the enforcement of these polices is done through city inspectors in collaboration with private officers, with little or no space for engagement with grassroots groups or associations. This enforcement and spatial reordering has been more successful in Cape Town and Nairobi, and less so in Johannesburg due to the scale of the city and the number of informal traders (Steck *et al.*, 2013:157). Moreover, in the three cases, a large percent of the revenue is lost through corruption practices.

In all these examples, street traders were more likely to be criminalised, regulated and repressed due their high visibility and strategic locations within the city, in contrast to market activities that are more tolerated as long as they are spatially contained.

On the other hand, neglect and tolerance is mostly associated with weak governments with little capacity for policy-making and planning, and with an interest to keep informal trading as a reliable source of income for the city. In this case the common mode of engagement is based on the collection of fees coupled with little or no accountability, including the inability to provide even the most basic of services, as in the example documented by Lindell (2008) in Maputo, Mozambique. She highlights a case of unwritten policies and extorting practices, aided by a dispersed and weak authority and the tendency of grassroots leaders to engage in clientelism relations with the state. In this case, the influence of site level associations such as market committees is mostly dependent on their relations with leadership at the city scale, which can be highly conflictive as explained in section 6.1. Moreover, some of the conflicts that have been documented between different tiers of informal governance structures in Maputo, have been as a result of active and strategic State and party politics involvement, with the aim to destabilise popular organisation, proving that the State can play an active in shaping informal governance dynamics.

Nonetheless, neglect is a mode of engagement that can quickly fluctuate and shift to repression. Several cases have documented how urban governance processes quickly shift under pressure from international and high profile events like in the case of Maputo and the African Union meeting that resulted in forced relocation of markets (Lindell, 2008:1892), or in the case of Cape Town and the eviction of street traders in preparation for the 2010 World Cup (Steck *et al.*, 2013:154).

In places like Abidjan, Côte d'Ivoire (Steck *et al.*, 2013:157), tolerance is the most common attitude, due to large revenue that is extracted from the traders. This tolerance is based mostly on fiscal benefits as approximately 50% of the revenue of the city comes from informal trading, and therefore this mode of engagement does not involve any managerial or spatial strategic thinking for the city. In places where the revenue is not significant in comparison to other kinds (i.e. oil revenue in Nigerian cities) popular empowerment and official accountability are even more limited or inexistent (Meagher, 2011:66).

The following section will summarize focus on the case of Uganda, in particular the current modes of organization within the urban transport and informal trading sector and the approaches from the local governance and the State for engaging with these sectors.

#### **11.4 Informal governance and urban public transport in Uganda**

**Matatus, self-regulation and non-institutionalized interactions with other actors:** According to several studies documenting public transport regulation in sub-saharan Africa, Uganda constitutes one of the cases where under-regulation is most predominant, characterized by few relevant policies,

lack of enforcement, and most importantly, by the rise of self-regulation strategies implemented by urban transport organizations (Transafrica, 2008; Goodfellow, 2012; Goodfellow and Titeca, 2012). Two sectors are of particular relevance to this regulatory system: the Matatus and the boda bodas. This section will then focus on exploring its forms of association and their linkages to the National and Local authorities.<sup>21</sup> (Please refer to page 184, section 9.5.1, for a profile of Uganda urban transport system).

With regards to Matatus, self-regulation was initially established by the only organization representing owners, drivers and conductors of Matatus: The Uganda Taxi Operators and Drivers Associations (UTODA). Currently UTODA is in charge of overseeing fares and routes while also collaborating with authorities, mainly with the Kampala City Council (KCC), in the management of taxi parks in the capital city and throughout the country, effectively establishing itself as the Regulatory Entity of Matatus in Uganda and accumulating a considerable amount of economic and political power in the country (Transafrica, 2008; Kumar and Barret, 2008).

This combination of a monopolistic and powerful association in charge of regulating its sector, and its multiple relations established with the State and KCC, has translated into a complex and hybrid dynamic of governance composed by both formal and non-institutionalized interactions between all actors.

Understanding and profiling the internal governance mechanisms of UTODA is highly difficult. In his study of urban public transport and State effectiveness in Kampala, Goodfellow (2012) makes reference to the highly secretive nature of UTODA, and identified some key findings in terms of internal dynamics, vulnerable groups and informal transactions that may have an impact in the interaction with authorities and regulation of the sector in general. Firstly, the association simply by its member composition is inherently characterised by conflict of interest and delicate power dynamics, particularly between the owners, and the considerably less powerful drivers and conductors. Secondly, profiling of the Matatu ownership within the organization is highly difficult or almost impossible, thus making it difficult to map and understand who is controlling the majority of the resources within the sector and subsequently, where power and political leverage resides within the association. Thirdly, the involvement of politicians, either by being owners themselves, or by facilitating clientelism relations makes the association and therefore the sector, highly politicised (Goodfellow, 2012:202-203). Additionally, there is the proliferation of informal or indirect payments like welfare and loading fees, which in most cases is difficult to account, with Kampala having drivers paying indirect charges six times higher than those in Acraa (Kumar and Barret, 2008:10).

On the other hand and in a similar manner as with some of the African cases reviewed in section 6.1, UTODA plays a significant role in expanding the social and financial capital of its workforce, particularly Matatu drivers and conductors. It does so by firstly expanding the network in which they can rely on whether to secure a new job in times of sudden unemployment within the sector, or to provide the stepping-stone for better income opportunities such as becoming a Matatu owner. Secondly by providing, to some extent, a small financial aid in the form of a welfare fund that originates from the fees collected at each Matatu Stage (Kamuhanda and Schmidt, 2009).

**Boda bodas associations and their relations with other actors:** In the case of Kampala and other cities<sup>22</sup>, Boda boda drivers are highly organised at the local level. This organisation is structured by

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<sup>21</sup> See Chapter 9 for a detailed review of the urban public transport sector in Uganda.

Divisions, with each division containing ‘stages’ where groups of drivers wait for customers. Chairmen are nominated or elected for both the Divisions and the Stages. The stages become an important unit of self-regulation, presenting additional management figures such as a Secretary and a Treasurer. Stage chairmen are also in charge of collecting an entry, one-off fee for operating in that particular stage, as well as additional daily welfare fees (Goodfellow, 2012).

At the city-level, there is no organisation equivalent to UTODA in terms of scale, monopolisation and political leverage. Several larger-scale and often rival associations have emerged throughout the years, including the now dismantled Uganda Association of Motorcycle and Bicycle Operators (UAMBO), the Real boda boda Association, and the most recent National Federation for Boda boda Operators (NAFEBO). Overall, city or national level organisation has been plagued by competing claims, no clear hierarchy and inconsistent acknowledgement by the government (Kwamusi, 2008).

There is however an umbrella organisation, The National Federation of Boda boda Organisations Ltd that acts as the channel of communication between members from different associations and the government, mostly focused on welfare issues and credit scheme. Nonetheless, in comparison to UTODA, it has very little political influence (Kwamusi, 2008).

Furthermore, it is also necessary to give a brief overview of how these associations interact with different national and local authorities and how in turn these influence urban governance.

At the National level, the Ministry of Works and Transport, through the Transport Licensing Board (TLB) has been in charge of issuing and inspecting P.S.V licenses, though with little success. It has been documented that political interference has undermined efforts for effective regulation by the TLB (Kwamusi, 2008). With regards to local authorities in Kampala, KCC has the mandate to regulate and collect taxes from urban public transport. However, in the case of Boda Bodas, efforts to collect revenue have been swiftly dismantled or suspended due to strong resistance from local groups and/or direct political interference, leading to a considerable loss of income (Kwamusi, 2008:29).

Two instances are worth mentioning where political interference undermined enforcement of taxation and/or other forms of regulation, even when boda boda leaders were supportive of the effort. The first attempt of taxation by KCC was established in 2002 in response to the explosive growth of the sector. This attempt was met with strong opposition from local groups who in turn advocated for its dissolution directly with the Office of the President. As a result, the regulation was overturned by 2004 through a Presidential Directive, who at the time was supportive and cautious of the growing industry and its many members (Goodfellow, 2012:224; Goodfellow and Titeca, 2012:268).

The second attempt, established in 2006, was a collaborative effort between KCC and the Boda Boda Division Chairmen, as leaders were increasingly concerned with achieving some form of regulation of the expanding sector. It involved the use of stickers and monthly payments to the KCC collected through NAFEBO. This short-lived system was considered relatively successful, but as its predecessor, it was quickly dismantled after 6 months through the influence and interference of Resident District Commissioners (RDC) that acted as local presidential representatives (Kwamusi, 2008; Goodfellow, 2012).

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<sup>22</sup> See sections 9.5.3 – 9.5.7 for a detailed account on Boda Boda associations from primary research carried out in Arua, Jinja, Mbarara Town and Mbale Town.

Securing sources of capital for acquiring motorcycles, has been another type of relation established between the associations and the State, with both positive and negative outcomes. For example, boda boda associations can second personal loans from its members, only if the Office of the President has recommended the association to the financial institution crediting the loan. This is an established interaction that benefits both the association and the State. A less successful example is the now dismantled credit scheme established in 2005 by the Office of the President through the Ministry of Finance, which allowed capital disbursement directly to the associations to purchase motorcycle for its members. This scheme was canceled due to corruption allegations (Kwamusi, 2008).

Another important actor to mention is the Motorcycle Enforcement Unit (KUBOKA), established by the boda bodas operators themselves and financed through the fees collected in each Stage. Their role was to enforce different traffic and safety regulations. This arrangement was plagued by accusations of extortion and violent enforcement techniques, subsequently being dismantled once again by a Presidential order (Kwamusi, 2008). Nonetheless, it is a precedent that shows some level of organisation and capacity to take on more complex management and regulation roles, if coupled with the adequate financial and managerial capacity as well as enforcement of transparent practices and adequate accountability.

### **11.5 Informal governance, vendor associations and markets**

In terms of the internal governance of the informal vendors and marketplaces, a series of key issues are highlighted, which in turn also corroborate some of the findings in the literature review.

In contrast to Matatus and UTODA, informal traders are mostly organised through site-based associations, each dealing with the challenges within their own markets or areas. The most important issues they face include the lack of financial, managerial and negotiation capacity, factional in-fighting and corruption, and consequently an inherent vulnerability to political interference and manipulation by powerful politicians from the State and local government, as well as from private sector and from wealthy individuals within their own associations.

One of the most detrimental interventions, both for vendors associations and for urban governance in general has been the privatisation of the management and service provision for markets, established at the beginning of the 2000s (Lindell and Appelblad, 2009; Goodfellow, 2012; Goodfellow and Titeca, 2012).

The case of Owino Market, a market initially managed by the KCC and later by different vendors associations, is an example of how privatisation efforts gave way to politicisation, manipulation and weakening of market associations, namely through political interference and alliances with leaders that aimed at securing deals in the management and construction contracts. The situation worsened after the traders, feeling misrepresented, set up a rival association effectively starting a factional conflict (Goodfellow, 2012). These informal and clientelistic interactions between different authorities and association leaders, worked in detriment of the effective management, adequate representation of the traders and the actual improvement of their conditions.

In other cases where vendors associations exhaust all the channels available to influence, they utilise riots and clientelism relations to influence interventions, whether it is for redevelopment, management or service provision. Nonetheless, as exemplified by the three cases explained by Goodfellow, the Owino market, Nakasero market and Kisekka market, vendors are usually

manipulated and left feeling betrayed due to the constantly shifting attitudes towards them, according to election periods and how useful they can be for party politicians, whether within KCC or at the State level (Goodfellow, 2012).

In the case of Kitembo Group, in the Kisekka market, vendors were left with no option but to organise protests in order to negotiate. Most importantly, even though there was a Presidential intervention that eventually revoke the lease they were protesting against, the lease was eventually not granted to them and they did not find effective ways to speed up the process or negotiate further. Eventually, the redevelopment did not materialise, which created a wide sense of discontent (Goodfellow and Titeca, 2012). This probes that even when there is a political intervention in favour of the vendors, an actual transformative and positive outcome does not materialise if associations lack power, recognition and legitimacy as urban actors and if they do not have institutionalised channels for negotiation and collaboration with other sectors.

Furthermore, Lindell and Appelblad study on the implications of privatisation and the introduction of cooperatives in two markets, the Parkyard and the Nakawa, demonstrate how privatisation has worked in detriment of vendor associations and their ability to informally govern and manage themselves, in some cases causing their disintegration or violent factional in-fighting, mainly by inserting a new politicised game and new actors into their informal governance system (Lindell and Appelblad, 2009).

Furthermore, the two examples explored in this study also demonstrated how delegating urban management and service provision to the private sector does not necessarily translate into effective implementation nor into a positive transformation of marketplaces, as demonstrated by the more positive perceptions attached to the market managed by cooperatives, as “they differ considerably in terms of the changes that have occurred in the extent of services provided, in the style of management, in the relations between the management bodies and vendors and in opportunities for vendors to exercise their influence” (Lindell and Appelblad, 2009).

## **11.6 Conclusions, knowledge gaps and policy implications**

This chapter has focused on examining the diverse forms of associations in which informal urban groups organise and the main stakeholders that determine the level and nature of institutional engagement with informality.

The following knowledge gaps and recommendations have been identified through the case studies reviewed in sections 6.1 and 6.2 and the summary of secondary research undertaken on Ugandan cities:

- There is a need to go beyond legal rights, and establish institutionalised processes of participation and negotiation that addresses the lack of recognition of informal traders, particularly of the most marginalised groups, and that builds on the social capital and local knowledge embedded in processes or informal governance. As documented by Brown *et al.* (2010), countries like Tanzania, Senegal, Lesotho and Ghana, have no institutionalised mechanisms to support the effective engagement of informal traders in urban management and governance (Brown *et al.*, 2010). Even in cases like Cape Town, where participation is mandatory and implemented in the form of consultations, it has proven to have little impact on pro-poor policy making and recognition of informal traders (Steck *et al.*, 2013).

- When focusing more specifically on the Ugandan case studies, particularly within the public transport and informal trading sectors, there is a crucial need for integrated governance solutions that work both ways: Building competent policy frameworks for effective regulation and promoting adequate enforcement and coordination among institutional actors, while in parallel, recognising and building the capacity of associations as legitimate actors within city economies and urban management.
- In this line, institutionalisation is key to strengthen and build capacity within associations to negotiate, demonstrate benefits, skills and capacities within that allows them to establish more effective relationships with authorities, not embedded in clientelistic relations, and therefore more beneficial for urban governance as a whole. Therefore capacity building is crucial at all levels, including State, local government and informal organisations, promoting long term and strategic engagement rather than short term linkages based on clientelistic relationships with short term benefits for both parties. Moreover, institutionalisation can help change the negative perceptions that remain common in administrative and political authorities, as well as public spheres.
- Additionally, recognition, legal legitimacy and rights to self-manage like in the case of market privatisation does not necessary translate into influence and materialisation of political promises. Political will and support - not interference - at high level is also vital, hence demanding more integrated solutions that work both ways: addressing the shortcomings within informal governance practices - such as corruption, lack of capacity in finances, management and tender bidding - as well as high level championing needed to support these processes, particularly the lack of political acceptance and recognition of associations as legitimate actors.
- In parallel to institutionalisation and legitimacy, there is also the need to strengthen the links between informal governance structures and other actors beyond the trade unions and monopoly local associations, including other civil society organisations, particularly from the formal economy, international and transnational organisations, as well higher levels of government.
- As exemplified in the Nigerian case study, social capital originating from associations, particularly those that work at the local level, does not necessarily translate into popular empowerment or inform pro-poor governance in urban Africa (Meagher, 2011). This might suggest a need to understand the complexity of livelihood strategies attached to informal economies, the skills and capacities within, that can be used to engage in effective and mutually-beneficial ways with state actors and subsequently enhance pro poor governance that also benefits the cities.

## **CHAPTER 12: CONCLUSIONS**

The informal economy has become structurally integral to the urban system in developing countries. Enterprise in the informal economy is no longer a journey, but has become the destination of many. If the aim is to create prosperity and reduce poverty and improve urban environmental sustainability, the informal economy must be included in the public policy framework. A holistic,

inclusive evidence-based framework is required that will address issues of vulnerability, gender differentiation and discrimination, low levels of skills poor access to credit and workspace, infrastructure and public services.

This study has addressed crucial theoretical and evidence gaps, by reviewing the literature on the urban informal economy in sub-Saharan Africa, collecting and analysing data on the informal economy and cities growth in Uganda, testing the relevant theories/models/hypotheses and methods of analysis and feeding the results into current academic and policy debates at national and international levels.

The monograph provides an initial guide to this body of research and identifies a number of key researchable issues. It provides the basis for further theoretical debate and innovative analytical concepts that can guide future studies and policy development. The study employs multiple methods and these will be needed in future research to provide a better theoretical understanding of what, in reality, is a much more complex socio-economic phenomenon than previously assumed and where evidence remains thin on the ground. The study aimed to contribute to the framing of new policy approaches – ‘new ways of thinking’ about the informal economy and its potentially positive contribution to the inclusive, resilient and sustainable economic development of Africa’s cities.

In Africa the urban economy is dominated by informal activities – often unregulated, uncontrolled, unrecorded, and characterised by precarious and harsh working environments:

- Just under 70% of non-agricultural employment is informal
- Around 80% of urban employment is informal
- Over 60% of urban employment opportunities are informal

As the urban economy in Uganda expands, informalisation of employment continues while formal industrial employment accounts for less than 5% and appears to be stagnating. As with most of sub-Saharan Africa economies, is unlikely, for the foreseeable future, to benefit in most respects from the value-chain transformation open to developed world economies, based on technology and skills intensive home based production and extended supply chains with off shoring of low skilled operations to lower wage economies. Given the global pressures supporting the maintenance of resource-extractive, low employment generating economies in Africa, it remains likely that the informal economy will persist for decades to come.

While the informal economy can be the site of inventiveness, entrepreneurial activity and community and potentially a driver of growth and a form of development that is increasingly inclusive and resilient, prevailing circumstances in Uganda and the wider African urban context do not currently appear to be promising. Very few informal businesses grow, most informal businesses remain as micro/household low-productivity, low-return, low-wage operations, and too many informal activities are survivalist in nature. The informal economy is often productivity reducing as the increase in number of informal enterprises in relation to formal economy businesses, drags down aggregate productivity figures. There are clear reasons why the productivity of informal activities is low:

- Access to factors of production (including infrastructure, services and finance) is often grossly inadequate
- Creating, sustaining and expanding channels to markets is often very difficult (and costly)
- The value of their production is often captured by those further along the value chain
- Skills training and business development support is often totally absent

Governments often neither support or take informal activities seriously – nor understand their potential. Currently, government policy and practices either ignore the existence of informal activities altogether, or seek to restrict them. Informalisation is usually viewed as a problem by city authorities. The informal economy, however, clearly accounts for a large proportion of value, accounting for some 43% of the total output in Uganda. Informal activities support the consumption habits of many of those on higher-incomes and provide cheap inputs to formal service sector and manufacturing operations. Furthermore, there are greater business and income opportunities in a growing economy for informal units due to a ‘multiplier effect’.

Thus results from the in-depth fieldwork carried out in the Ugandan case study secondary cities show that the urban informal economy can thrive under conditions of both economic growth (as in the case of the secondary city, Mbarara) and relative economic stagnation (as in Mbale). This study indicated that the majority of entrepreneurs make a viable living and that the informal economy is embedded in the urban, regional and national economies. The fieldwork also indicates that the return to informal activities is higher in a thriving economy, attracting more entrepreneurs than a slow growing city. This can provide the potential for building some of the ‘missing middle’ actors noted below.

The informal economy has a role to play in contributing to putting manufacturing and industrialisation in Uganda cities and urban Africa on a higher productivity trajectory. There is a need to move from the dualistic concepts of the urban economy, to notions that present informal economic activities on a continuum and an evolving larger hybrid economy. This is increasingly supported by a body of evidence, substantiated by this study.

Effective support through the right policy mix addressing the challenges noted above can help underpin the necessary economic transformation across sub-Saharan Africa. A first step is to recognise the value that is already inherent in informal economy and its place within this hybrid entity. Informal activities should be encouraged by promoting the development of a hybrid economy; one in which informal enterprises are increasingly integrated into key value chains currently dominated by formal enterprises so they can expand, become more productive and benefit from ‘spill over effects’.

Thus improving the sustainability of livelihoods for those participating in the informal economy depends on promoting the opportunities for them to rise along the value chain, strengthening their linkages and networks with businesses at the “higher” and more formal end of the economy. Such improvement requires that informal businesses gain better access to key productive ingredients: financial capital, both working capital and physical assets; human capital - training both in basic elements of business, and in skills and adaptive technology that they can adopt; suitable and secure premises (space); information; and general security, including recognition of legitimacy.

Some of these inputs are provided by sharing among the informal operators themselves, e.g. via their trade associations and potentially through cooperatives and other social enterprises, and others could be provided in varying degrees by improved connections with more formal institutions, private and public. Policy should help build capacity and cooperative relations within and among informal and formal businesses, rather than clientelistic behaviours that exploit and inhibit shared economic welfare. Wider access to markets and technology could possibly be realised through licensing or franchising agreements, or subcontracting. A ‘menu of steps’ to link policy and investment inputs to potential for value chain development could be explored as part of the future research agenda.

Further research is required to support a development strategy that seeks to identify:

- Sectors and related value chains with the potential to expand (especially into export markets);
- The firms whose expansion can strengthen these sector and value chains;
- The firms whose expansion can plug gaps in value chains embedded in the priority sectors;
- The form of technology and business operational improvements needed by these firms for expansion;
- The forms of infrastructure and service constraints that impede the expansion of these firms; and
- How combined business assistance with measures to improve infrastructure and service access can be successfully implemented (closing the implementation gap that characterises many countries in Africa).

Uganda is a country with a ‘missing middle’ in its economy, characterized by a large number of small firms, some large and few medium size firms. In resource-based economies found across most of sub-Saharan Africa, value extraction is dominated by large firms with a monopolistic or oligopolistic position. The remaining, mainly informal, economy is numerically dominated by low productivity personal services and basic manufacturing activities.

There is a need for an increasing number of professionally managed and adequately financed middle sized firms focused on producing and exporting value-added products based on the comparative advantages of the country. Most likely many of these businesses would operate within a value chain involving both smaller firms and larger system integrator type operations. The ‘missing middle’ needs to be filled by targeting the policy measures, including advice and business support at promising, entrepreneurs, enterprises and industry associations to improve their productivity in growth and export potential areas.

The appropriate use of existing and innovative technologies can play a key role. Technologies that are practical and proven, and innovations that are incremental and augmentative, commonly drive economic growth. 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.

Social enterprises such as cooperatives can play a key role in strengthening the associated value chains. 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.

At the same time the base of the informal employment pyramid also needs support in order to provide a safety net for those excluded from the new economic opportunities and the livelihood strategies of household and survival enterprises should be strengthened providing a seedbed for the development of future ‘hybrid’ business operations.

Given the evidence of socio-economic diversity and heterogeneity in the labour market and business enterprise make up of the various informal sectors investigated in the Uganda fieldwork, a differentiated policy response is required taking into account the varying poverty risk profiles. This will be essential to shape and design any major urban development programme that also works for the poor. They could provide the policy entry points. The study outlined a methodology for the

further research that is necessary to shape this policy. It provides the tools for analysis and a conceptual framework to do so.

As resource intensive industrial growth policy tends to disadvantage women in particular, gender should be mainstreamed in other growth areas, for example, in communications and the information technology industry. While, women are more heavily represented in informal trading, in other informal sectors such as construction and transportation, they are severely under-represented.

A hybrid economy-informed policy approach is one that can be applied across the economy, for example in rural areas in aiding the transition from subsistence agriculture to more market-focused activities within a more diversified rural economy. It was argued in Chapter 7 that the hybrid economy is an economic space of formal and informal linkages and interactions that extends, continuously, over urban and rural areas.

There is growing ‘urbanisation of rural areas’. Densifying areas on the rural-urban interface can metamorphose rapidly into under-serviced peri-urban sprawl. Therefore, a distinctly spatial perspective on the analysis of value chains in the hybrid economy is required, and a holistic concept of ‘value networks’ operationalized. Local authorities need to look beyond the existing administrative boundaries that separate urban from rural and develop physical planning and local economic development policies that encompass the rural catchment areas of the fast growing cities.

The rapidly growing urban population in Uganda and elsewhere is having a major impact on the informal economy in terms of the demand for new housing which is largely being met by the informal construction sector. Typically, across sub Saharan Africa, 90% of housing is provided informally, with each house built creating 5 jobs. This is an area where policy can assist, through technical advice and micro-finance support to informal homebuilders to facilitate incremental improvements over time, and through tenure regularisation, infrastructure upgrading and self-help improvement and construction.

This sector offers not only plentiful informal employment opportunities but also a strong potential for ‘green growth’ in the form of more intensive use of natural environment and climate friendly designs and construction technologies using locally sourced materials in the provision of both building and services. Waste disposal and management, both solid and liquid, are areas for future research to address the current knowledge gaps and address the need for appropriate policy interventions. Using appropriate technologies and properly managed activities, the informal economy has potentially an important role to play in generating ‘green growth’ solutions. Pursuing efficient food production and distribution, water resource management, sustainable urban drainage and infrastructure and energy solutions to support this growth can contribute to sustainable and resilient urban development.

There is a requirement for further research and data collection to understand how the informal and wider hybrid economy works in spatial terms at the city level. This will enable a better understanding of socio-spatial features that are particular to the informal economy – the lower part of the hybrid continuum – as well as spatial linkages between informal and formal business operations within and between activity sectors. The informal transport sector should be supported and more effectively regulated, in order to improve its efficiency for the public interest, providing a more reliable, safe transport system; and also to ensure an acceptable level of employment and working conditions for its employees.

A strategic planning approach to managing traffic in Africa's cities is urgently required. This strategy should encompass radical, public mass transit-based solutions, and address the substantial deficit of investment in urban road and street networks to give better access to the population as a whole. Given the significant role the informal transport sector plays as a source of employment for the poor, public transport policies should employ a hybrid approach involving existing informal transport operators being offered a share of ownership, jobs and/or providing feeder services to, or parallel services integrated with formal mass transit routes.

Informal trading suffers from many disadvantages, in Uganda as much as elsewhere. There are considerable knowledge gaps regarding the current state of markets, the condition of their physical infrastructure and their locations. A future research agenda would include a systematic review of the spatial configurations of different types of markets, their functions, locations and relationship to their urban context. There are many policy initiatives that could be undertaken with regard to the organisation and governance of markets, but from a spatial perspective these are the most pressing:

- Making an accurate assessment and forecast for the demand for future market infrastructure in Uganda's secondary cities in consultation with local stakeholders and informal traders;
- Designation of suitable sites in consultation with informal traders, taking into account requirements for accessibility for motorised and non-motorised traffic;
- Reversing the prohibition on roadside trading;
- Incorporating gender sensitive provisions for roadside trading in suitable locations into revised design guidelines;
- Re-balancing investment within urban areas away from 'heavy fixed infrastructure' to markets and contextually designed streets that celebrate and support the informal retail sector.

In terms of urban governance, a radical change of policy direction is required to give appropriate support to informal enterprises. Changing the mind-set of policy makers and of local government officials is fundamental to develop and implement inclusive local economic development policies. Donor agencies should take on board the negative cross-sectoral impacts of their policies including that push for greater revenue generation by local governments.

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. This, together with appropriate institutional strengthening, should make it easier to enforce. Hazards and bad working practices can be limited; certified goods and services can reach wider markets, particularly export markets. Critically, registration can facilitate traders access finance. The real constraints on the regulatory framework as it currently exists need to be acknowledged, and transitional, less restrictive, more supportive, and ultimately *enforceable* modes of regulation introduced.

Policy needs to encompass and institutionalise 'informal governance' – 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. Government should work cooperatively with informal trade associations, networks and stakeholders. There is a need to establish institutionalised processes of participation and negotiation that addresses the lack of recognition of informal traders, particularly of the most marginalised groups, and that builds on the social capital and local knowledge embedded in processes or informal governance.

Co-operation and capacity building is crucial at all levels, including in national and local government and informal organisations. Long-term and strategic engagement through building capacity and co-operative association (including the promotion of and support for social enterprises) should supplant clientelistic relationships with only short-term benefits for the parties concerned.

When focusing more specifically on the Ugandan case studies, particularly within the public transport and informal trading sectors, there is a crucial need for integrated governance solutions that work both ways: Building competent policy frameworks for effective regulation and promoting adequate enforcement and coordination among institutional actors, while in parallel, recognising and building the capacity of associations as legitimate actors within city economies and urban management.

In parallel to institutionalisation and legitimacy, there is also the need to strengthen the links between informal governance structures and other actors beyond the trade unions and monopoly local associations, including other civil society organisations, particularly from the formal economy, international and transnational organisations, as well higher levels of government.

Social capital originating from associations, particularly those that work at the local level, does not necessarily translate into popular empowerment or inform pro-poor governance in urban Africa. This might suggest a need to understand the complexity of livelihood strategies attached to informal economies, the skills and capacities within, that can be used to engage in effective and mutually-beneficial ways with state actors and subsequently enhance pro poor governance that also benefits the cities.

Political will and support - not interference - at high level is vital to promote more integrated solutions that work both ways. This includes addressing the shortcomings within informal governance practices - such as corruption, lack of capacity in finances, management and tender bidding - as well as the high-level championing needed to support the positive contribution of these processes, particularly the lack of political acceptance and recognition of informal economy associations as legitimate actors.

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