

# Unleashing the power of urbanisation for Uganda's new cities



## In brief

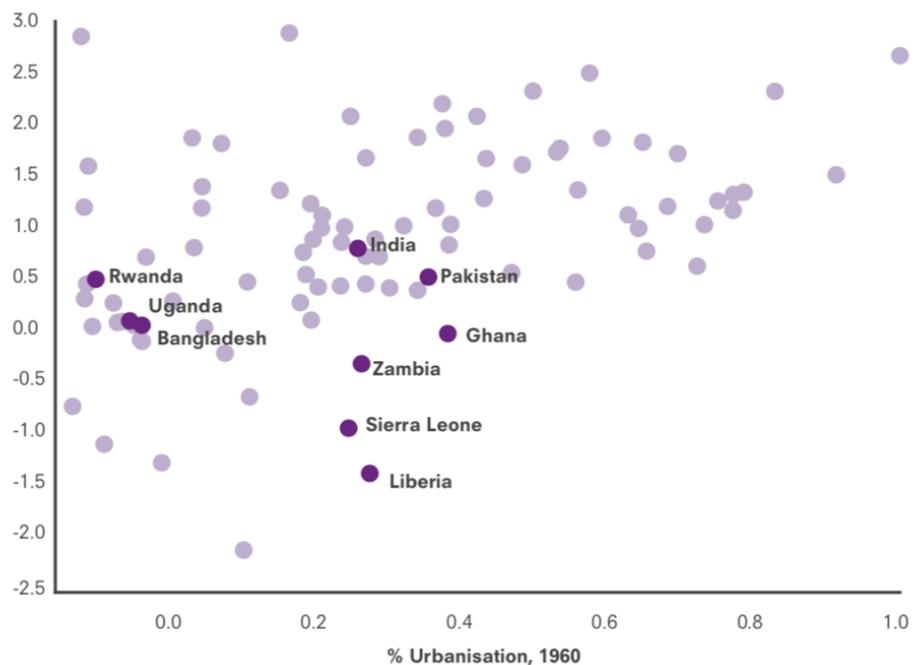
- Kampala dominates Uganda's urban system across a number of metrics, including population, production of GDP, and formal employment opportunities. However, research has shown that such urban primacy can be detrimental to economic growth for countries at lower-income levels.
- People are settling in these cities faster than infrastructure investments can be made, such that the costs of density start to outweigh its benefits. Furthermore, there is a growing evidence base that intermediary cities can have a larger impact on poverty reduction than primary cities.
- As such, the declaration of 15 new cities, 10 of which were gazetted from July 2020, is a strong signal from the Government of Uganda reinforcing the commitments laid out in the National Development Plan (NDP) III to foster productive urbanisation across the country.
- This brief suggests a series of actions to be prioritised to support liveable and sustainable secondary cities: land-use planning in advance of infrastructure development and large numbers of people settling; reconfiguring governance structures to create an enabling authorising environment for urban decision making; raising funding, particularly with a focus on own-source revenue, and enabling access to appropriate sources of finance; and improving the urban investment climate to spur local economic development and create job opportunities.

*This project was funded by IGC Uganda.*

## Urbanisation and growth in Africa

Across the world, the level of urbanisation in a country can be seen to be positively correlated with economic growth, as the process of urbanisation has historically been intimately linked with structural transformation. This is a process that shifts a country's economy, and overall share of employment, away from agriculture, predominantly a rural activity, towards manufacturing and service firms, located in urban areas.

Figure 1: Urbanisation and economic growth



The reason firms are attracted to cities is the so-called 'agglomeration benefits' of being located close together. This makes it easier for them to access inputs, take advantage of knowledge spillovers, as well as being located close to markets, both within the city as well as wider national, regional and global markets. Furthermore, locating in cities also gives firms access to relatively better infrastructure and public services and to a large labour force from which they can select their workers. Correspondingly, cities offer wider and better employment opportunities that attract further migration. All of these advantages of density in cities enable firms to scale, specialise and grow. This cycle boosts productivity and ultimately overall economic growth, resulting in the positive correlation seen between urbanisation and growth (Collier, 2017).

As noted, Africa is currently the fastest urbanising continent in the world. However, contrary to other regions of the world, urban growth is not yielding significant gains in economic growth. In particular, many African cities are not providing the investment climate that can attract enough large firms at a scale that allows for sufficient job creation for their populations.

This in turn is pushing many who move to and live in these cities into informality; in fact, it is estimated that approximately 66% of employment in Africa is in the informal sector (ILO, 2015). Operating in the informal sector confines most firms to remaining small and unproductive. Data from a census of the informal sector carried out in the GKMA in 2016, for example, shows that the majority of these firms are engaged in non-tradeable services providing limited income for the urban poor, Over 50% of these firms have just one employee and about 70% of them have an annual turnover of 2700 USD or less (World Bank 2017).

Although we are still trying to fully understand the reasons behind Africa's differing urbanisation and growth trajectory, one of the prevailing theories is from Gollin et al. (2016). They show that urbanisation is always positively correlated with rising national incomes, but it is the sources of rising incomes that determine whether the accompanying urbanisation process will result in productive cities. Gollin et al. (2016) highlight that in recent decades Africa has experienced rising national incomes due to natural resource booms, which for most countries on the continent make up the largest proportion of their exports. The resulting currency appreciation makes other exports relatively less competitive and thus has been a major hindrance to the emergence of a manufacturing sector. By contrast, urbanisation seen in Europe, the USA, and in Asia saw a manufacturing sector able to absorb a growing pool of lower skilled labour and thus providing the main source of employment for incoming rural migrants.

Yet even without sufficient employment options, populations in African cities are growing rapidly for three major reasons. First, the escape of rural poverty in search of urban opportunity. This not only includes jobs, but also better services such as healthcare and education. The second reason is that, particularly since their independence, some African countries have been affected by conflict and so often in these situations people flee rural areas to cities in search of better security. This is the reason why countries like Sierra Leone and Liberia are so highly urbanised at such low-income levels. Similarly, in Uganda, the conflict in Northern Uganda also explains some of the relatively rapid expansion of urban areas such as Gulu in the 1990s. The third major driving force behind Africa's urbanisation is natural population growth, as most African countries have not completed demographic transitions. As a result of these three factors, the population in Africa's urban areas, including those in Uganda, are set to triple between now and 2050. As Africa is also urbanising at much lower income levels than other places in the world have in the past, this puts a major strain on governments, who lack sufficient resources to be able to invest in their cities and manage the growing density.

The next section of this brief will look at Uganda's urban system, exploring the phenomenon of urban primacy and the need for an increased focus on secondary cities. The brief will then take a closer look at Uganda's newly declared cities, comparing their characteristics with those of Kampala. Finally, it will conclude with some immediate policy considerations, splitting

these to priorities for the new cities themselves, and the Government of Uganda at a national level.

## Diversification of Uganda's urban system

Until July 2020, Uganda had only one official city; its capital, Kampala. Kampala, and its immediate surrounding areas that make up the Greater Kampala Metropolitan Area (GKMA) is Uganda's most significant urban agglomeration, housing approximately 1.5 million residents and providing a place of work for a further 2 million people who commute in and out of the city daily (Government of Uganda, 2017). Kampala's historical roots as Uganda's major city go back before colonial times as it was, and still is today, the seat of the Buganda, Uganda's largest kingdom. During colonial times, the importance of the city of Kampala grew as it also became the centre of power for the British administration (Jones et al., 2016). This continued concentration of political and administrative power in the city has meant that, compared to other parts of the country, Kampala has benefitted from significant investments in infrastructure and other resources. As such the city has attracted migrants from across the country in search of both job opportunities as well as relatively better public services. Kampala's importance for Uganda can be seen across a number of metrics, including hosting nearly 40% of the country's urban population, generating over 30% of its GDP, and 9.5% of national employment (World Bank, 2017). There is little doubt that Kampala currently dominates Uganda's urban system.

Uganda is not alone in exhibiting this phenomenon of significant urban primacy with one city. In fact, across Africa, the share of the population living in intermediary cities above 1 million people is only 8.5%. This is substantially lower than in other low- and middle-income countries, where the share on average is approximately 26% (Henderson and Kriticos, 2018). Yet research has shown that such extreme urban primacy, particularly at low national income levels, may actually hamper productivity and therefore economic growth overall (Henderson, 2003; Henderson and Kriticos, 2018). As one city becomes too large relative to the rest, it becomes difficult to manage the ensuing density through sufficient investments in infrastructure and services. As can be seen in Kampala and many other African cities, people are settling faster than necessary infrastructure investments can be made. As such, the costs begin to outweigh the benefits of having such a large number of people in one space, as experienced by, for instance, growing congestion and the proliferation of slums. Retrofitting necessary infrastructure in existing settlements becomes extremely challenging; evidence has shown that retrofitting can be up to 3 times more expensive when compared to investing in advance of settlement, not to mention the personal and political costs of shifting people and livelihoods (Fernandes, 2011). Furthermore, there is the evidence that shows that intermediary cities can have a larger impact on overall poverty reduction for a country compared to primary cities (Christiansen and Todo 2014).

Given that the over-dominance of Kampala in Uganda's urban system is costly for the whole country, and the importance of intermediary cities for poverty reduction, it is a foresightful and welcome development that in April 2020, Parliament approved the creation of 15 new cities, with ten of them (Arua, Fort Portal, Gulu, Hoima, Lira, Jinja, Masaka, Mbale, Mbarara and Soroti) having achieved city status on July 1st 2020<sup>1</sup> (The Independent, 2020). The gazettement of these cities is also a strong signal from the Government of Uganda of its commitment to enabling productive urbanisation, as laid out in NDP III (Government of Uganda, 2020). Some of these new cities are growing urban areas, while others have contracting population growth rates as working-age populations continue to migrate to Kampala in search of economic opportunity.

But gazettement of the new cities is just the first step. It is not yet clear what the significance of declaring these new cities is, in terms of their powers, responsibilities and overall impact on their citizens as well as the wider communities of the districts in which they are situated. There is an urgent need to consider and clarify the necessary institutional reforms, investments and policies that will be put in place to support the productive growth of their urban economies whilst ensuring liveability and sustainability.

## Characteristics of Uganda's cities

Uganda is still relatively early in its urbanisation process, but the pace of urban growth is rapid. In 2002, only 1 in 10 Ugandans lived in an urban area - by the time the most recent census was conducted in 2014, this number had reached 1 in 5 (Sladoje et. al., 2019). There are currently important prevailing differences between newly declared cities and Kampala, as well as between the secondary cities themselves, in terms of their demographics, geography, governance arrangements and overall local economic development. Think broadly about complementarities between electrification and other policy priorities.

Another way to reduce transaction costs and liquidity constraints would be to make mobile money more attractive to use. If mobile money could be used for a wide variety of purchases, consumers would be more likely to hold a balance in their mobile money wallets. With money in their mobile wallet, they would not have to visit an agent every time they need to pay for solar. Increasing mobile money penetration and use has long been recognized as a way to promote financial inclusion – here, we see that it may also have benefits for electrification. These types of positive spill overs between different policy priorities are exciting opportunities to drive progress on multiple fronts at once.

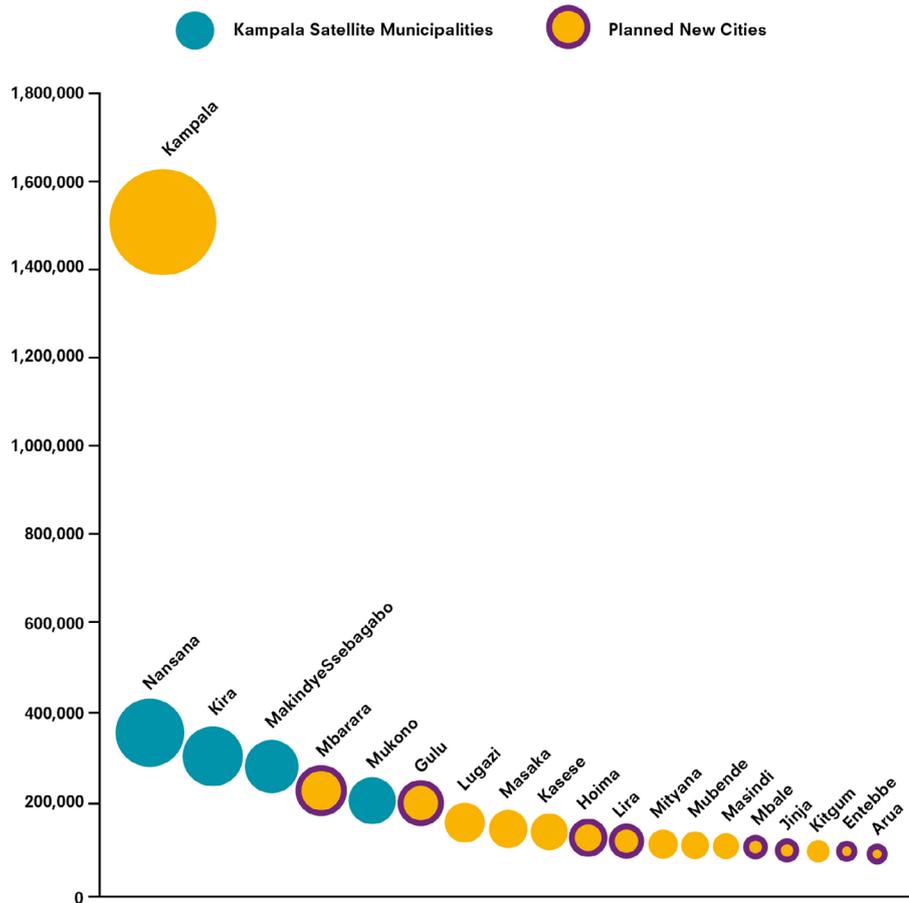
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1. The remaining 5 cities are Entebbe, Kabale, Moroto, Nakosongola, and Wakiso becoming cities on July 1st 2022.

## Demographics

As noted, the GKMA dominates Uganda’s urban hierarchy with 4.2 million people, the equivalent of approximately 39% of Uganda’s total urban population. It has the fastest growing population share, estimated to reach 8.25 million by 2030 (Sladoje et. al., 2019).

**Figure 2: Uganda’s urban hierarchy**

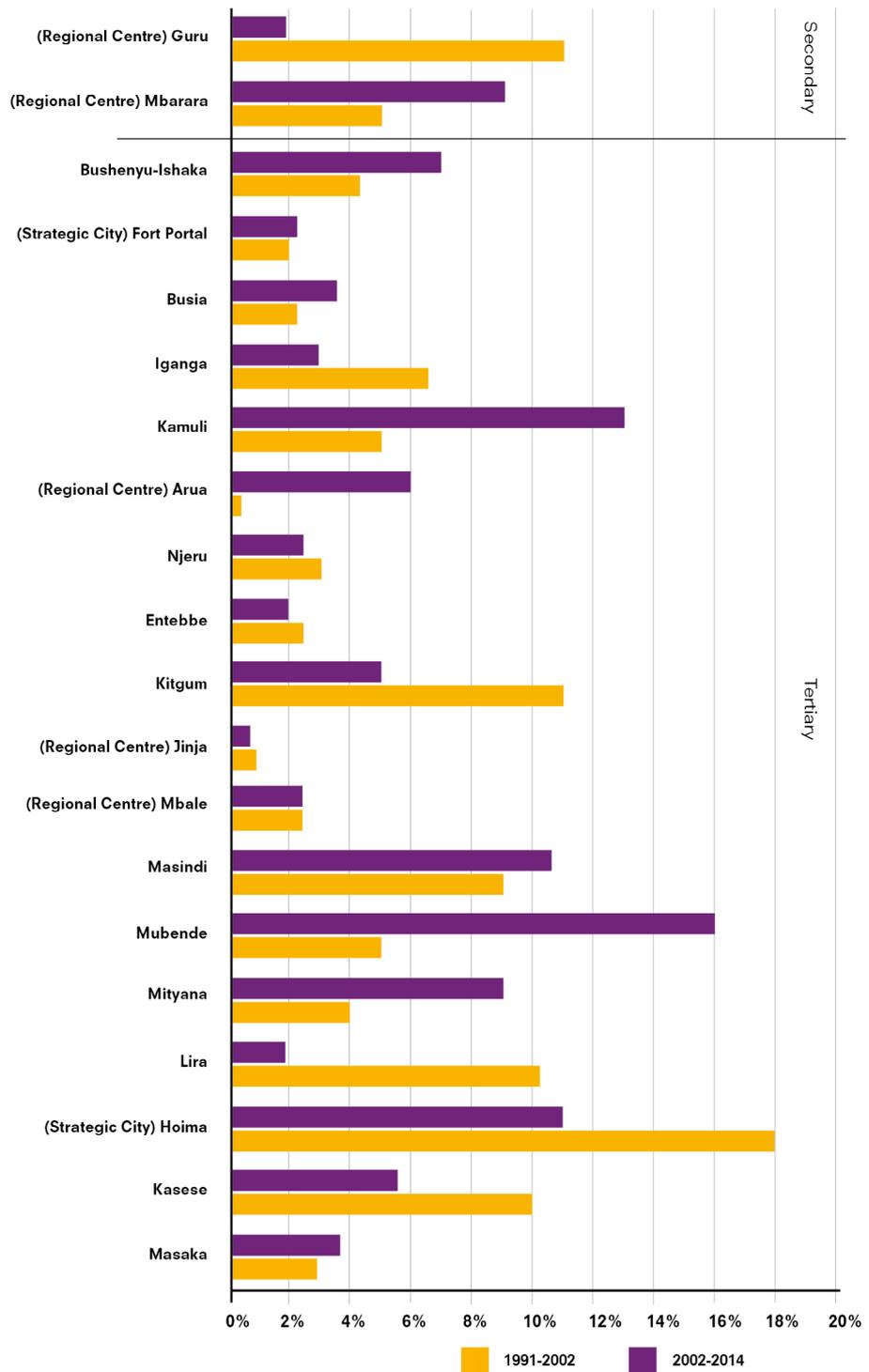


Note: Entebbe is missing from the list of planned new cities since it is not among the 20 largest settlements.

(Source: National Population and Housing Census 2014; Sladoje et al., 2019)

It is important to note in this respect that the majority of Kampala’s growth is occurring along its periphery in Wakiso and Mukono districts. Therefore, excluding these municipalities in the GKMA, there are no other cities which have populations larger than 200,000 people. Mbarara as the next largest city has a population of about 195,000 people, about 13% of Uganda’s current urban population, followed by Gulu with 150,000 people (Sladoje et. al., 2019). Important to note, however, is that the population growth rate in most of Uganda’s new cities is below that of Kampala – some are even contracting see Figure 3).

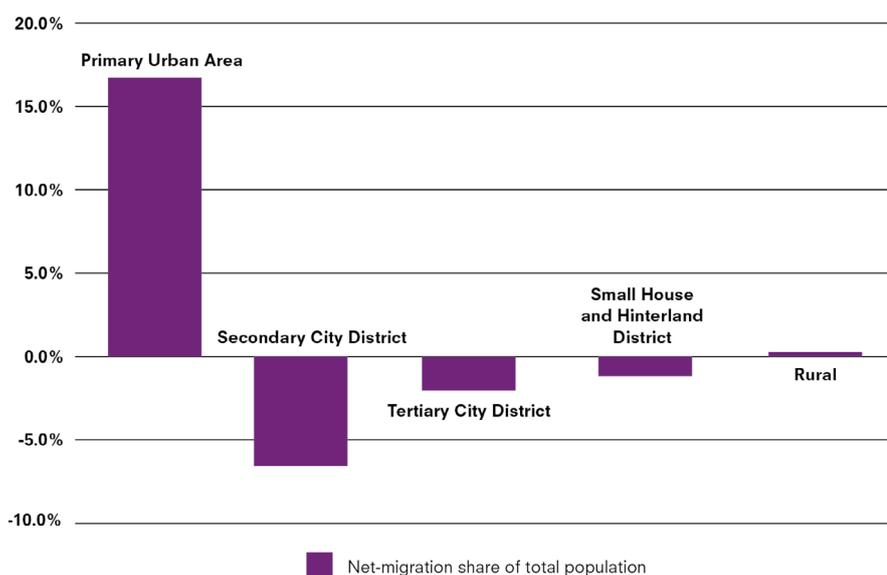
**Figure 3: Population growth in Uganda's new cities and municipalities**



(Source: National Population and Housing Census 1991, 2002, 2014; Sladoje et al., 2019)

The major reason for this is due to net out-migration particularly of the working age population, particularly towards Kampala, in search of jobs and economic opportunities overall (Figure 4).

**Figure 4: Net migration to/from Uganda's new cities and municipalities**



## Geography

All of the new cities have certain locational advantages compared to Kampala (see Figure 5). First and foremost, they are located closer to rural areas, allowing for a stronger interface between rural and urban activities. This is very important in the context of Uganda, as it is still a predominantly rural society, with many urban residents continuing to maintain strong ties to their rural homes, particularly in the form of social safety nets (UNAS, 2018). Furthermore, this also means that these cities will function as important first-point market centres for agricultural goods. Cities like Mbale and Arua are also close to borders with Kenya as well as the Democratic Republic of Congo and South Sudan respectively, giving them geographical advantages when it comes to regional trade. Other cities like Jinja have locational advantages as they are based on water, in this particular case the source of the river Nile, making it important for industry. For all the new cities, a major advantage compared to Kampala is that their land and labour costs are still substantially lower than in Kampala, which, if the other features of the investment environment are enhanced, could make them more attractive location for firms with larger land requirements.

Figure 5: Map showing Uganda's new cities



### Governance arrangements

Kampala is governed by the Kampala Capital City Authority (KCCA) Act of 2010, which was amended in 2019. This established a central government ministry, namely the Ministry of Kampala and Metropolitan Affairs, as well as a separate Authority, the KCCA, responsible for administering urban reforms in the city. The Ministry is led by a Minister whilst the Authority is led by the Executive Director, the chief technocrat. Both these positions are appointed by the President of Uganda. In addition, Kampala also has as the Lord Mayor, who leads the political wing of the KCCA, and is elected by the people. To date, although the new cities have been gazetted, there has been no legislation that has passed that changes their governance structure from when they were municipalities. As such, they are still governed by the Local Governments Act 2010 (amended in 2015) and fall under the Ministry of Local Government. The basic structure of these cities, as with all municipalities in Uganda, is through an elected Urban Council and an appointed Town Clerk, as the chief technocrat.

### Financing and funding

There are three main sources for funding and financing for cities: inter-governmental transfers, own-source revenue and aid. In terms of external

aid, although this is an important source for Kampala, in particular through the World Bank’s loan (Delbridge et. al., forthcoming a), across Africa this tends to typically be skewed towards primary cities. Furthermore, as aid budgets are falling, this is not likely to be a significant source of finance for the new cities to rely on. In terms of intergovernmental fiscal transfers, a much higher proportion of these transfers from the Ministry of Finance and Economic Planning goes to Kampala. However, it is also important in this respect that a far larger proportion of national tax revenue is generated in Kampala, and given its dominance in population size, its current demand for infrastructure and services is also commensurately higher. Kampala’s local own-source revenue generation is also the highest of any local authority in Uganda: for the fiscal year 2018/19 it totalled 117 billion UGX (42.1 million USD), making up 24% of its total budget (Delbridge et. al., forthcoming a). Although in absolute terms this is still very low for a city of Kampala’s size, it is still substantially higher than for any of the new cities where own-source revenue generation is a much lower contributor to the budget. On average, the share of own-source revenue in local government budgets is about 4% across Uganda, although there are substantial differences in rural versus urban local governments (Ofungi, 2020). For municipalities, the share of own-source revenue may be as high as 17% and for town councils, 27% (Ofungi 2020). Figure 6 shows the FY 2018/19 revenue data for the new cities, including inter-governmental fiscal transfers.

**Figure 6: Revenues for seven of the newly gazetted cities**

FY 2018/19 Source of Revenue in millions of UGX (millions of USD)	Arua	Gulu	Fort Portal	Jinja	Masaka	Mbale	Mbarara
<b>Intergovernmental Fiscal Transfer</b>	8,995 (2.45)	17,102 (4.67)	9,831 (2.68)	17,885 (4.88)	8,987 (2.45)	16,746 (4.57)	18,606 (5.08)
<b>External (incl. aid)</b>	11,207 (3.05)	21,381 (5.84)	7,900 (2.16)	12,184 (3.33)	12,843 (3.51)	14,085 (3.85)	23,081 (6.30)
<b>Own-Source Revenue</b>	2,801 (0.76)	6,212 (1.70)	3,526 (0.97)	12,822 (3.50)	3,609 (0.99)	2,330 (0.64)	6,118 (1.67)
<b>TOTAL</b>	23,003 (6.28)	44,695 (12.20)	21,257 (5.80)	42,891 (11.71)	25,439 (6.94)	33,161 (9.05)	47,805 (13.05)

(Source: Ofungi, D., 2020)

## Local economic development

The majority of economic opportunity is still located in Kampala, particularly when it comes to higher value activities. This also means that compared to all other locations in Uganda, Kampala also has higher wages. However, when nominal wages are adjusted for prices, there is actually no wage premium for Kampala (Jones et. al., 2016b). For the other cities, although there are increasingly wage opportunities being created, these are still few and far between (Sladoje et. al., 2019). However, there is evidence that

the labour market in Kampala is quickly becoming saturated (Sladoje et. al. 2019) and as such if the new cities can improve their investment climate and attract firms, there is the opportunity to generate employment opportunities elsewhere.

Given Uganda's rapidly growing population, the working-age population is projected to reach 42.4 million people by 2040 (Sladoje et. al., 2019). Therefore, the challenge for Kampala, Arua, Fort Portal, Gulu, Jinja, Mbale, Mbarara, as well as the eight cities yet to be gazetted, is to make the necessary investments now to attract firms which can generate jobs both for the current and future residents of the city. At the same time, these cities will have to manage the growing density and ensure the sufficient provision of quality public services to ensure continued liveability, in a manner that builds the resilience and sustainability of cities to mitigate and adapt to the effects of climate change as well as other risks, as the recent COVID-19 pandemic has shown. Below, we outline some key policy priorities for this.

### **Policy priorities for city and national government to support new cities**

To date, countries like Uganda are still primarily rural but are rapidly shifting and are set to be predominantly urban in the next 30 years. Therefore, the Government of Uganda still has the ability to shape the urbanisation trajectory in Uganda through proactive policies, investments and forward-planning. This is particularly major opportunity for the newly declared cities since most of them are still at the very outset of their urbanisation trajectory, such that planning, and investments can still happen before the majority of people settle. The following policy recommendations, with examples from other sub-Saharan African cities, focus on three areas of actions that should be considered. This is by no means an exhaustive list, but rather with a focus on pragmatic actions that are can be and should be prioritised at present. They distinguish the differing responsibilities between local and national governments.

#### **1. Planning in advance of development**

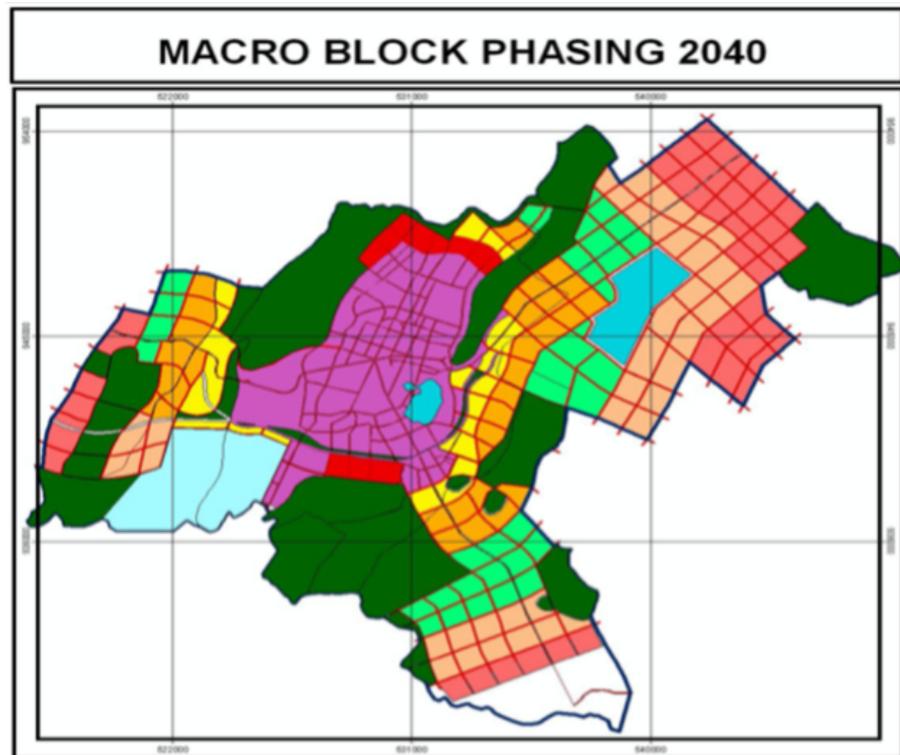
As noted in the introduction of this brief, retrofitting infrastructure once populations have already settled is financially up to three times more costly, politically challenging and may be particularly devastating for people's livelihoods. Key to successful urbanisation is planning ahead (Collier et. al., 2020a). A particularly practical and cost-effective approach has been developed by NYU Marron's Urban Expansion – Making Room programme, which focuses on supporting orderly and systematic settlement within rapidly growing cities.<sup>2</sup> They focus on ensuring that there is sufficient land on the urban periphery that is accessible, developable and ultimately

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2. For more information on what this entails, see details here: <https://marroninstitute.nyu.edu/blog/making-room-for-urban-expansion-empowering-african-planners-to-focus-on-the>

can be serviced. This is greatly assisted by the fact that cities are now urbanising in data rich environments. Although at a city level individual data sources may still be scarce, satellite imagery, GIS and other big data sources may be available and will provide a useful starting point to assess how and where people are likely to settle and thus where the city is likely to expand. At the same time, by proactively managing expansion, the government can also help shape expectations of people and firms on where infrastructure investments are to come and thus direct the path of settlement. To enact this:

**Figure 7: Mekele urban grid plan**



(Source: NYU Marron Institute, 2021)

- City governments:** Identify likely areas of urban expansion over the next 30 years and proactively work with landowners to plan out that land. If it is feasible, governments should ideally purchase the land where they expect the city to grow, in advance of people settling. However, even if they do not own the land, the city government should still map and set out a simple arterial grid (see example from Mekele, Ethiopia in **Figure 7**). This in turn can be done relatively cheaply by, for example, demarcating the grid with trees or simply clearing the way, as can be seen in the example from Hargeisa, Somaliland in **Figure 8**. In this example of Hargeisa, Somaliland, the government require that for every plot sold, 30% of the land has to be given to the government which is the space where infrastructure investments will take place (Delbridge et. al. Forthcoming\_b). The benefits of this grid system are

that it denotes both plots of lands that can be sold, ensuring orderly settlement, whilst at the same time keeping sufficient space open for future infrastructure.

- **National government:** The Ministry of Lands, Housing and Urban Development is endowed with the mandate for spatial planning across the country. As such, they can support city governments in proactively undertaking this type of activity both through capacity building and providing the technical expertise, in the form of surveyors, and where possible access to the data through GIS and satellite imagery. Furthermore, they should work with the local governments to ensure sufficient financing is set aside to ensure that planning happens ahead of expansion. Overall, they can be advocates of this approach and ensure that it is embedded in overall national plans.

**Figure 8: Land demarcation on the fringe of Hargeisa**



## 2. Reconfiguring governance structures to create an enabling ‘authorising environment’ for reform

In order to effectively plan and implement urban reforms, it is crucial to ensure that the new city governments are empowered to be able to take decisions to support their development, and this requires legal and institutional clarity around the exact structures of governance, service delivery and accountability.

As noted above, in 2010 a new Act was passed by the Parliament of Uganda to govern Kampala. This was with the recognition that Kampala, which until that point had been governed as a local government, had vastly different governance and financing requirements.

Similar considerations should be made for the new city governments, although given the substantial differences in scale compared to Kampala, arrangements would differ from those enacted under the KCCA Act. For example, it would be inefficient to set up a separate Ministry for each of the new cities. Furthermore, since the President’s declaration in 2018 that has led to the cessation of new authorities being created, it would not be possible to have similar governance arrangements. Key questions to consider here include:

- Do current urban governance/decision making structures of cities need to change given their new status?
- What mandates should be devolved to city governments? What will city governments be able to do that they can’t do now?
- What will their changed status mean for other local governments not designated as cities?
- Should all cities have the same structure?
- Will there be any changes in terms of national oversight of city governments?
- Will financial allocations/sources of revenue change as a result of city designation?
- How should new cities best coordinate with neighbouring local governments in planning for urban expansion beyond their existing boundaries i.e., metropolitan planning?
- Given that all of these new cities are attaining city status together, how can they best coordinate, plan and learn from each other?

More detailed considerations of what it takes to create an urban ‘authorising environment’ i.e. a set of institutional structures that allow cities to be able to take the necessary decisions that can ultimately deliver positive change, are outlined in the Collier et. al. (2020b), some lessons of which are summarised in **Figure 9**.

Any changes in the legal environment to answer these questions will have to be driven by the **national government** – in particular by the Ministry of

Local Government, under which currently all the new cities fall, as well as the Ministry of Lands, Housing and Urban Development, due to their status of cities.

### Figure 9: Policies for improving the urban authorising environment<sup>3</sup>

**Clarifying and devolving the authority for decision making:** Evidence suggests that clarify of responsibility, and the ability to coordinator between various roles with clear assignment of accountability between local and national governments is critical to effective decisions-making.

**Allowing cities to plan ahead:** This requires stable financial flows over time, based on a clear legal framework, leaving national policymakers to navigate the decision on how to provide a stable stream of revenue without discouraging cities to generate own-source revenue.

**Building effective structures for city-wide collaboration:** For example, by merging local units, or setting up specific coordination mechanisms. Urban government units can also take action by voluntarily cooperating with each other.

### 3. Raising funding and enabling access to finance

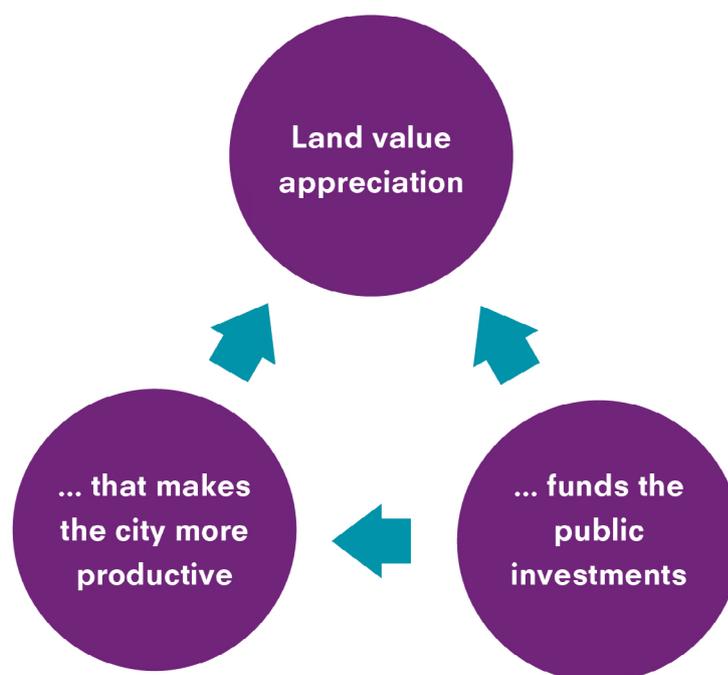
Once mandates for urban governance and service delivery are clarified a critical question to consider is how the new cities are going to fund and finance themselves. While there are a number of potential options for this (see Ofungi 2020, for example), there are a few key areas for reform that warrant emphasis:

- **City Governments:** All of the new cities will need to enhance collection of own-source revenues. Importantly, this can happen in the absence of any legislative change, as the cities are already empowered, under the Local Governments Act (2010), to raise revenues in a number of ways. Two areas of focus that have provided substantial increases in revenues for other city governments include:
  - **Administrative reforms:** i.e. focusing on revenue administration lies fully in the mandate of the city governments themselves. This includes interventions such as updating taxpayer databases, digitisation of records or enabling digital payment of taxes. These reforms can have significant and long-lasting impacts on revenue collection. In fact, Kampala managed to raise its own-source revenue by over 100% in four years, solely through improving its revenue administration (Andema and Haas, 2018).

3. Adapted from: Collier, P., Glaeser, E., Venables, T., Haas, A. and Wani, S. (2020b) Designed to succeed: Building authorising environments for fast-growing cities. London: International Growth Centre.

- **Property tax reforms:** One of the most important taxes for local governments, especially in fast-growing urban areas, is the property tax. There are various benefits of this tax, such as the fact that it is relatively easy to administer given properties are fixed and characteristics for valuation are visible, as well as the fact that if it is administered properly, the revenue from the tax will expand as the city grows (for more information see Collier et. al., 2017). Critical here is that systems for property tax are put in place before significant development takes place in order to capture the gains of urbanisation. This will also help sensitise new city residents to paying property tax at a time when property values, and therefore their payments, are still relatively low. Recent experiences from Freetown, Sierra Leone have shown that property tax reform can increase the own-source revenue potential for a city substantially: in Freetown’s case it is an estimated 5-fold increase (ICTD, 2020).

**Figure 10: A virtuous cycle of taxation**



- **User fees:** An underutilised source of revenue is user fees. Providing services do not come for free for a city government, and ultimately someone will have to pay. As a general rule, users should pay for public services, particularly for those goods where users can decide whether or not and how much to use them. This includes services such as water, sewerage and waste removal. If these are supplied for free, this can lead to inefficient overuse, straining government resources and ultimately placing the burden for payment on all taxpayers (Bird and Slack 2017). In Bogota, the TransMilenio, the city’s bust rapid transit system, covers its entire operational costs through user fees without

any government subsidies. However, a consequence of this is high user fees of \$0.60 per ride that can be up to one third of daily wages (Collier, et al., forthcoming). Cross-subsidisation can allow certain goods should be provided to lower income citizens.

Improving own-source revenue is key and should be the initial and main focus for the cities themselves. This will have the additional benefit of improving a city's creditworthiness, which in turn is important for cities to be able to attract external financing in the long run.

Although legislation in Uganda is quite restrictive on how much debt local governments can take on, in absence of legislative change, there are potential other mechanisms to be considered to raise financing, that will require a combined effort by local and national governments:

- **City and National Government:** The Public Private Partnerships (PPP) Act of 2015 provides the enabling legislation for ministries, departments and agencies in Uganda, working in conjunction with the PPP unit in the Ministry of Finance, Planning and Economics Development and develop PPPs. However, given the administrative burden and cost of developing a PPP, it is likely that the size of any individual project in the new cities may not justify the transaction costs. Furthermore, individual projects may be too small to attract sufficient interest from private sector partners. Therefore, the new cities should consider collaborating by examining the possibility of pooling projects across a group of local governments, which is indeed allowable under the PPP Act. This would spread the administrative burden and cost of developing the PPP across a number of jurisdictions whilst at the same time increasing overall project value. To do this, however, will require building a strong own-source revenue base first. Furthermore, pooled PPPs would also require strong horizontal collaboration mechanisms to be able to identify and put together bankable projects, working closely with, and receiving capacity building from, the PPP Unit. Ensuring the most appropriate projects are selected for PPP procurement is important and therefore proceeding with considerable care in this area will be key (Siemiatycki, 2018). As such, PPPs may only be a medium to longer term option for the new cities.
- **National Government:** The most critical role of national government is to promote stable and predictable transfers that are appropriate for the cities to fulfil their mandates. In some cases, these may also be investments made directly by in the city from the relevant national ministry. Particularly for smaller cities, this provides a strong base on funding to maintain core activities, allowing them to plan ahead and to leverage in crowding in additional funding sources as well. National government should be careful to ensure these transfers are predicated on strong financial management of the cities, to encourage capacity development at the local level.

As noted, the cap on borrowing for local governments means that the finance that can be raised by any one local government is going to be too restrictive for their investment needs. This cap was removed for Kampala through the recent amendment of the KCCA Act in 2019 - something the national government, through the Ministry of Finance, Planning and Economic Development could consider for the new cities when creditworthy as well.

Another interesting option that can help local governments access small-scale finance as well as increase their creditworthiness is setting up a local fund from which they can borrow. In Malawi, the Development Fund for Local Authorities (DFLA), established in 1992 through funding from the World Bank (although it has since transitioned to the central government), is a revolving fund that provides both short-term commercial loans as well as long term infrastructure loans to local governments. It has a favourable terms with an interest rate that is similar to that of Malawi's Central Bank and repayment period of up to 10 years. The DFLA has been key in supporting the capacity of local governments to start thinking commercially, build lending and repayment processes and generating revenues to repay loans, with an aim to think about taking on larger private borrowing in the future (Delbridge et. al., forthcoming d).

Furthermore, in this context it would also be useful to explore developing legislation for pooled municipal finance mechanisms, allowing the cities to take on debt together.

#### 4. Improving the investment climate and creating job opportunities

Intermediary cities, like Uganda's new cities, have an extremely important role to play in facilitating job creation outside of Kampala. In particular, given their geographic proximity to rural areas, they can provide an ideal transition from rural to urban by providing non-farm work opportunities. In order to be able to do this, they need to ensure that they can attract and sustain firms, which in turn requires improving their investment climates. This can be supported by the following policies for job creation:

- **City Government:** The new cities themselves should place a central emphasis on improving their local investment climate not only to attract new firms, but also to allow existing ones to specialise, scale and grow. This importantly requires an enabling regulatory environment that facilitates firm establishment. One idea in this regard is to establish a 'one-stop-shop' for registration that is located directly within the cities themselves. This would be a central point where all the different agencies that are required to register a business, such as the Uganda Revenue Authority, the Uganda Registration Services Bureau and others, would be co-located and a business could get all its permits in a single pace. This would negate the need for any firm to have to make separate trips to Kampala as well as be able to save time and ensure

overall compliance. In Kigali, such a facility for construction permits, which was then also put online, provided access to four separate services in one application (Government of Rwanda, 2020).

Furthermore, at a city-level, developing comprehensive job creation strategies focused on small and medium enterprises (SMEs) and industries for which the new cities may have a locational advantage, such as agro-processing, will be important.

- **National Government:** Promoting local economic development requires a variety of policies as well as the coordination of a number of actors, which needs to be done at a national level. There are a number of programmes currently in place to support local economic development, through the Ministry of Trade, Industry and Cooperatives, the Ministry of Agriculture, Animal Industry and Fisheries, the Ministry of Tourism, Wildlife and Antiquities, and the Ministry of Gender Labour and Social Development. However, many job creation programmes are designed at the national level with little room for adaptation to local circumstances, and limited coordination between ministries. Better coordination between national and local government level would be a good initial step, but ultimately providing greater policy autonomy to city governments to take charge of designing and implementing local policies for job creation will be crucial in enhancing the competitiveness of these cities. To do so successfully will require capacity building at a city level, and importantly, sufficient allocation of funding.

Another area for national government focus will be in forward-planning investment in infrastructure, especially power and transport links to and from the new cities, to ensure that firms in these cities can access markets and supplies needed for competitive production.

## Now is the time to act

As Uganda's newly declared cities are still relatively small and have most of their urban growth to come, there is a window of opportunity to act now to ensure they can be well-managed. Now that the cities have been officially declared, immediate steps for reform include creating enabling institutional frameworks, forward-planning before more settlement happens, and ensuring they can foster thriving local economies. This brief has only touched on a few of the policies that could be considered in these areas. Importantly, being at the outset of their urbanisation process, this is also an apt time for new cities to experiment, learn and iterate to find out what is most appropriate to support development in the local context.

The potential for urbanisation to underpin high levels of economic growth for Uganda is too great to be left to any individual city government. Instead, clear leadership and emphasis by national government, alongside effective implementation capacity of city governments, will be instrumental in unleashing the power of Uganda's new cities.

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