

## **Evolution of the Ugandan Government, Its Regulatory Role to the Formal and Informal Sector in Managing Trade and Production**

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### **Abstract**

*The informal sector in relation to trade and production in Uganda has continued to face negative inverse relational effect from both the Governments' regulatory implementer forces and formal sector challengers who are out competed in the acquisition of revenue and customers respectively. The clash between the three actors in trade and production has continued to coexist in a midst of much suffering of the informal sector through losses of their capital when attacked by both government and formal sector. This existent political economy in terms of studying production and trade, and their relations with law, custom, and government, as well as with the distribution of national income and wealth for a shared developmental approach for all will be examined in this paper. Since there is less focus on transforming the informal sector to becoming formal and contribute to the majority of the citizens who are in the informal trade and production in Uganda, this paper presents the historical experience of Ugandan political economy in relation to literature connected to the informal and formal sector in the country. Review of secondary sources is used to shape the methodology of combining information to address the focus of the paper. Lastly, the paper also provides the results, conclusion and recommendation in relation to the political economy of Uganda and its Regulatory role in managing the Formal sector and Informal Sector in the areas of Trade and production.*

**Keywords:** Formal Sector, Informal Sector, Trade and Production

### **1.0. Introduction**

#### **1.1. Pre historical context of Uganda**

The pre-historical evolution of what is now Uganda, before contact with the British, there was an array of kingdoms (Buganda, Bunyoro, Ankole and Toro) and communities located in the Lango, Acholi, Madi, West Nile, Bukedi, Bugisi, Busoga, Teso, Karamoja, Sebei and Kigezi regions existed. With more of past oralism in the North and agriculture in the south. In the south than in the north people settle in social units and family relations took precedence over the clan<sup>1</sup>, Clan leaders were responsible to the council, and could not make war or peace without consensus. Similarly, elders had joint responsibility for resolving disputes<sup>2</sup> With the diverse clans, Inter-clan violence was common and deadly; clans fought over cattle, land, women and goods which were the source of trade and production. These non-stratified social systems existed in much of North and Eastern Uganda.<sup>3</sup>

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<sup>1</sup> The clan is a group of people who share the same ancestor, either through birth or kinship

<sup>2</sup> Kanyeihamba (2002), *The Political Development of Uganda*; Kasozi, A.B.K., *The Social Origins of Violence in Uganda*, p. 18.

<sup>3</sup> *Ibid*, p. 17.

In Buganda the most advanced forms of accumulation were cattle and women, in that order,<sup>4</sup> and labor was not merely divided by sex and age. There were different tasks for peasant men, women and slaves in the whole process of trade and production. The Kingdom of Buganda was able to build its administration by recruiting the 'ordinary' people; Bunyoro relied increasingly on a group of elite pastoralists which made it weaker than it was at that time.<sup>5</sup> From all these historical setup presented above about Uganda, the formal and informal sector as they operate in the contemporary trade and production was inexistent. With the coming of Colonizers the society was structured into formal and informal and the formal being those business entities registered by the state system as explained in the consecutive section.

## 1.2. Colonial Historical context of Uganda

In relation to the Buganda situation at the time than other kingdoms or communities in the region, they benefited from the British in the region since it's the kingdom that benefited from the indirect rule system in contemporary Uganda. Sathyamurthy (1986) argues that the Uganda Agreement of 1900 both legitimized the social changes that had already taken place in Buganda (among religious groups and among clan heads, peasants and the oligarchy) and triggered new tensions and conflicts within Buganda and between the Baganda and other ethnic groups. Among the Baganda, economic inequalities increased as the new landowners managed and exploited the peasantry. Unequal relationships between Buganda and other regions, particularly Bunyoro, also increased as the Baganda oligarchy now had administrative power. The British actively stratified the kingdoms. Though Ankole and Toro did not enjoy Buganda's special standing, they were also given Agreement status, however, Bunyoro was treated as 'enemy territory'. Baganda chiefs were instrumental in 'mediating British rule' or, as Mamdani describes, in instituting 'decentralized despotism'. Native administrations followed ethnic boundaries, except in areas where it was not feasible to form a district (such as West Nile, Bugisu, Bukedi, Toro and Kigezi).<sup>6</sup>

## 1.3. Post-colonial Historical context of Uganda

Uganda obtained independence in 1962 with the Kingdoms of Buganda's' King (kabaka) as the first President of Uganda's federated Government.<sup>7</sup> Considerable post-Independence decline was evidenced through an expectation that economic growth would continue with the new government of indigenous leaders. With the leadership role for the Baganda elite and Dr. Milton Obote as the first prime minister of Uganda, division in the Ugandan society widened and ethnicity continued to be used as the mode of indirect colonial rule by the Buganda Kingdom. It in the long run became the medium of protest and in less than a decade after Independence, people had lost faith in the promises of procedural and substantive democracy. As Brett describes it, to be the bullets rather than ballots dominated politics of Uganda.<sup>8</sup> In addition with the coup from Idi Amin in 1971, that brought him to the presidency role contributed to the destruction of the trading communities of Indians by expelling them out of Uganda. This was an act that damaged the rapid growing formal sector at the time and promoted more informal setups in the country. This also increased turmoil in deteriorating economic growth due to the high focus on political control and domination of the presidents at time.

With the coming in power of H.E Yoweri Kaguta Museveni, the current President of Uganda since 1986 after overthrowing Obote II Regime who was president of the country from 1980 to 1985. Kasozi (1999), analyses the social conditions that produced the violence in Uganda, and categorizes them as social inequality (generated by unequal trading relationships and local regional, ethnic, religious and gender disparities). The existence of sub-states, ethnic and religious factionalism, poor conflict resolution mechanisms, absence of an indigenous property-owning class, the post-Independence decrease in national production, parochial, weak and poorly educated leaders

<sup>4</sup> Mahmood Mamdani (1976) *Politics and Class Formation in Uganda*, p. 25

<sup>5</sup> Mahmood Mamdani (1976) *Politics and Class Formation in Uganda*, pp. 28-29.

<sup>6</sup> Captain Frederick Lugard was a representative for the British East Africa Company. He arrived in Buganda in 1890

<sup>7</sup> Uganda Constitution (1962), <http://www.buganda.com/const62m.htm> Accessed 6/February 2017 Accessed on 14/02/2017 at 10 :39 am

<sup>8</sup> Kasozi (1999), pp. 6-11.

lastly was that of language problem.<sup>9</sup> From 1988 economic growth and political stability cautiously predicted that the NRM had a better chance of success than any of its Predecessors.<sup>10</sup>

With the evolution of the Ugandan political realities from the precolonial history, to the colonial and post-colonial times of contemporary day. Republic of Uganda, the production and trade with in the country in relation to this political and economic history is the focus of analysis in this paper, emphasis is put on their relation with law, custom, and government. Lastly an understanding of the distribution of national income and wealth with a case of the formal and informal trading with in the country are illustrated in the subsequent sub-topics of the paper.

#### 1.4. Objectives of the study

- a) To understand the role played by the formal sector in the Ugandan political Economy.
- b) To understand challenges faced by the Ugandan government in managing the informal trading sector.
- c) To explain the relationship across the Government of Uganda, formal and informal sector in Uganda.

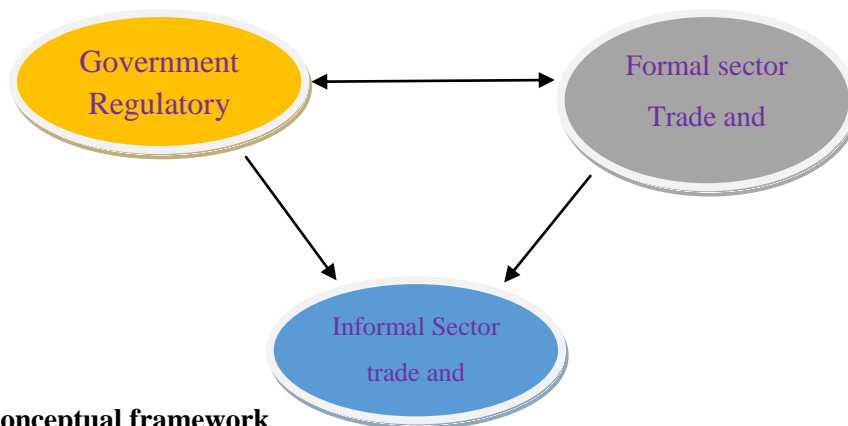
#### 1.5. Research Questions of the study

- a) What is the role played by the formal sector in the Ugandan political Economy?
- b) What are the challenges faced by the Ugandan government in managing the informal trading sector?
- c) To explain the relationship across the Government of Uganda, formal and informal sector in Uganda.

#### 2.0. Conceptual Framework and Literature review

This section presents the Conceptual Framework in relation to the relationship across the government of Uganda, it's formal and inform sector. Furthermore a literature review is presented from various studies that try to illustrate the linkage between both the formal and informal relation effect of the sectors as opposed to the direct forces from the governments regulatory role as demonstrated in the subsequent subtopic of the paper;

#### 2.1. Conceptual Frame work



##### a) Explanation of the conceptual framework.

In the conceptual framework above, the government directly influence the formal sector trade and production through taxation policy implementation. This is done through the Governments' role of providing licenses to the Formal sector. The Formal sector in return contribute through paying tax and paying off the licenses required by the government. There is a positive relationship effect between the government and Formal sector Trade and production.

However there is an inverse relational effect of both the Government regulatory role and Formal sector Trade and production. The Government regulatory role attacks and dismantle the informal business venders and informal traders to clean up illegal business ventures.

<sup>9</sup> Kasozi (1999), pp. 6-11.

<sup>10</sup> Low, 'The Dislocated Polity' p. 51

In addition, the formal sector is always in conflict with the informal sector due to the high competition and grabbing of customers by the formal sector agents who don't pay tax. All this pose a clash over the political economy basing on the taxation revenues between the formal sector and government as opposed to the informal business functioning that affecting the general economy through failure to contribute to revenue collection process of the government due to their Illegal transactions in the country's economy.

## 2.2. Literature Review

The understanding of formal and informal relations in Trade and production dates since the early 1990s. This time line also involved a more limited conceptualization of the issue, which was based largely on analyses of resource flows via interfirm linkages. The main problematic involved in assessing how linkages structured flows of resources between the formal and informal economies remains to be a big discus for many researchers. Several studies have been conducted in relation to the issue of formal and informal sector functioning and most of the studies that were reviewed focused on local or national level linkages as well as on direct (forward and backward) and/or indirect (factor markets, production structure or consumption) linkages.<sup>11</sup> Both types of review noted that national, sectoral and growth contexts, influenced the nature and effect of linkages. These linkages in relation to formal and informal sector were recognized to be neither wholly beneficial nor wholly detrimental. However, there was a sense that the key development problems were not based on any systematic exploitative effect of linkages, but related to market distortions and a lack of adequate linkages between the informal economy, the resources and markets in the wider economy. In relation to this, Sethuraman noted that reliance on intermediaries in linkages with the formal economy could be a source of vulnerability for informal actors.<sup>12</sup> He adds that the two decades since then, the problematic of formal-informal linkages has become much more complex in the contemporary operation of both the formal and informal sectors in any given country. New empirical realities, such as globalization, market reforms, the growing prominence of the informal economy in production and reproduction activities, the crisis of the global (formal) economy, have dramatically altered assumptions about the relationship between the formal and informal economies and their roles in economic development. These changes have expanded the geographical scope of linkages, brought in new actors, and altered the balance of power between the formal and informal economies. In addition, new theoretical approaches have come into the analysis of formal-informal linkages, including the New Institutional Economics, network analysis, global commodity/value chains, legal pluralism, subaltern politics, and Foucauldian conceptions of power beyond the state. The result is a new problematic that focuses not only on patterns of linkages and whether they are beneficial or not, but also for whom, and with what impact on the regulatory structures of formal as well as informal economies by their respective governments is emphasized.<sup>13</sup>

One effect of this changing problematic of the linkages as opposed to regulatory role of their governments has been to raise the regulatory stakes of deciphering the nature and effects of linkages between the formal and informal economies. Mounting quantitative as well as qualitative evidence about the size and increasingly central role of the informal economy in global production and reproduction has triggered incentives to blur rather than clarify formal-informal distinctions and linkages, and to argue for normalization rather than analysis. There has been a new trend in the literature toward reawakening the sense of controversy about the definition of economic informality across Africa.

The recent World Development Report on Jobs in 2012, describes economic informality as a "grey area", mired in definitional disagreements, with statistical measures just beginning to emerge.<sup>14</sup> Others suggest that formality and informality represent a continuum, with no clear boundaries or definitional consensus.<sup>15</sup>

<sup>11</sup> Sethuraman, S.V. (1992) *The Urban Informal Sector in Asia: An Annotated Bibliography*, International Labour bibliography no. 13, Geneva: ILO.

<sup>12</sup> *Ibid* p.20.

<sup>13</sup> Levenson, A. R. and W.F. Maloney. 1998. *The Informal Sector, Firm Dynamics and Institutional Participation*, Washington, D.C.: The World Bank.

<sup>14</sup> World Bank. 2012. *World Development Report 2013: Jobs*. Washington D.C.; World Bank.

<sup>15</sup> Guha-Khasnobis, B. and R. Ahuja. 2006. "Micro-Insurance for the Informal Economic Workers in India" in B. Guha-Khasnabis, R. Kanbur and E. Ostrom (eds.) *Linking the Formal and Informal Economy*.

This resurrection of old definitional debates tends to draw on literature from the 1970s and 1980s, glossing over the conceptual clarity that has emerged since then, or confusing conceptual with operational debates. In addition, there has been an inclination to represent as nascent statistical measures that have been widely used for a decade in the publications of a range of international institutions, and which have inspired new policy narratives about the contemporary global economy.

The dominant theme of the interfirm linkage literature is an emphasis on the importance of forward linkages/ subcontracting with the formal sector in promoting economic development in the informal sector.<sup>16</sup> Ranis and Stewart's in a study of "V-Goods and the Role of the Urban Informal Sector in Development" adds to this linkage of formal and informal relations a seminal contribution to this literature. Rational individualist approaches also attempt to explain the "paradox of a relatively flexible labour market accompanied by a very large informal sector". This is done through modelling firm behavior rather than regulatory incentives of the governments in which they operate.<sup>17</sup>

Furthermore drawing on data from Mexico Levenson data studies in relation to labour.<sup>18</sup> The study suggests that movements between the two sectors are not determined by regulatory incentives, but by decisions of individuals to maximize cash incomes and flexibility by opting out of taxation and costly social protection arrangements. Perry (2007), highlight a logic of voluntary exit from the formal economy rather than exclusion, but recognize segmentation within informal labour markets in which informal wage workers face exploitation by informal entrepreneurs.<sup>19</sup>

Studies of Nigeria according to Soyibo,<sup>20</sup> and of four other African countries as argued by Steel,<sup>21</sup> both examine the effectiveness of informal financial institutions in reducing transaction costs and default risk in the context of fragmented markets. The authors argue that strengthening formal-informal linkages is more effective than formalization in extending finance to small business and rural producers.

A more critical perspective considers the limitations of formal-informal market linkages. Combining ethnographic insights with advances in economic modelling and game theory, Bose (1998) and Flora and Rey (1997) highlight the potentially perverse effects of attempts to use formal-informal linkages to increase credit to informal borrowers.<sup>22</sup> They show that, owing to the use of monopolistic and interlocked markets to manage information problems and contract enforcement in informal financial systems, increased or subsidized credit from the formal sector may increase margins and reduce access to credit for informal borrowers.

A focus on informal manufacturing and crafts considers how integration of informal Guatemalan handicraft and Villeda,<sup>23</sup> or Tanzanian furniture producers into GVCs how it facilitated upgrading, raise incomes and improvement to the access to markets. Similar concerns are represented within the context of the USAID's Growth-Oriented Microenterprise Development Program (GMED), with a particular focus on formal-informal linkages in agricultural supply chains hence promoting trade and production in the respective economies in which

UNU-WIDER Studies in Development Economics, Oxford: Oxford University Press.

<sup>16</sup> Ranis, G. and F. Stewart. 1999. "V-goods and the Role of the Urban Informal Sector in Development." *Economic Development and Cultural Change*, Vol. 47 (2), pp. 259-288.

<sup>17</sup> Levenson, A. R. and W.F. Maloney. 1998. *The Informal Sector, Firm Dynamics and Institutional Participation*, Washington, D.C.: The World Bank.

<sup>18</sup> Levenson, A. R. and W.F. Maloney. 1998. *The Informal Sector, Firm Dynamics and Institutional Participation*, Washington, D.C.: The World Bank.

<sup>19</sup> Perry, Guillermo E., William F. Maloney, Omar S. Arias, Pablo Fajnzylber, Andrew D. Mason, and Jaime Saavedra-Chanduvi. 2007. *Informality: Exit and Exclusion*, Washington D.C.: World Bank.

<sup>20</sup> Soyibo, A. 1997. "The Informal Financial Sector in Nigeria: Characteristics and Relationship with the Formal Sector." *Development Policy Review*, Vol. 15 (1), pp. 5-22.

<sup>21</sup> Steel, W., E. Aryeetey, H. Hettige and M. Nissanke 1997. 'Informal Financial Markets Under Liberalization in Four African Countries' *World Development*, 25(5): 817-830.

<sup>22</sup> Bose, P. 1998. "Formal-Informal Sector Interaction in Rural Credit Markets." *Journal of Development Economics*, Vol. 56 (2), pp. 265-280.

<sup>23</sup> Dunn, E., and L. Villeda. 2005. *Weaving Micro and Small enterprises into Global Value Chains*. Retrieved October 20, 2009, from USAID Advanced Microenterprise Advancement Program: [http://pdf.usaid.gov/pdf\\_docs/PNADI914.pdf](http://pdf.usaid.gov/pdf_docs/PNADI914.pdf)

they operate. In addition to that, a literature review for USAID according to Campbell argues, He argues that formal-informal linkages in GVCs offered developmental opportunities in conflict zones by providing valuable mechanisms for collective learning, risk sharing, upgrading and institutional innovation.<sup>24</sup>

### **3.0. Methodology**

This section presents the limitation of study and selected methods of data collection utilized in this study as presented below;

#### **a) Limitation of Study:**

This study is limited to the political economy of Uganda with a focus on the historical trend, its relational effect to the contemporary formal and Informal sector in Trading and production in the country. Discussion of the contradiction between trade and production consumption patterns with regards to post Independence in Uganda with reference made to the historical nature of the country is made. A case study of the formal and informal relationship to the government of Uganda in Kampala city the capital city will be presented. Focus on the clash between the Informal sector trade and production over the formal trade patterns in Uganda in relation to their manifestations and consequences over the citizens as opposed to the state politics and dynamic actions in regulating their function is examined.

#### **b) Methods of Data Collection:**

This study relies significantly on secondary data with both a historical and an empirically gathered information from the library such as books, articles, international and domestic instruments, internet sources in relation to both the formal and informal sector and the government of Uganda. Authors' observations, being a Ugandan and having experienced these clash between the Informal sector trade and production over the formal trade patterns in Uganda will expand on the historical and empirically presented manifestations and consequences of the relational effect of the sectors in the political economy of Uganda.

### **4.0. Results**

This section presents information in relation to the formal sector, informal sector and the government of Uganda as collected from secondary sources. Furthermore this is done to fulfill objectives and questions posed in the paper respectively. The analysis and selection of the information from the sources is done through using content analysis and findings are presented in response to the questions of study respectively as illustrated below.

#### **4.1. To understand the situation and role played by the formal sector in the Ugandan political Economy**

In response to the first research question "What is the role played by the formal sector in the Ugandan political Economy? In the paper, focus is put on the evolution of the formal sector during time of Independence and after independence and its contemporary contribution and positive relationship with the government of Uganda is illustrated in the proceeding section.

##### **a) Evolution of the manufacturing and private sector as formal sector in Uganda**

In relation to the historical situation of Uganda, the country was under colonial rule from 1890 to 1962. However, colonial industrial policy assumed significance only in the post-Second World War period. The pro-industrialization stance of the colonial administration continued to be associated with the serious economic hardships that Britain was experiencing after the disastrous war.<sup>25</sup>

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<sup>24</sup> Saperstein, A. and Campbell, R. 2008 'Accelerating the Transition from Conflict to Sustainable Growth: Value Chain Development in Conflict-Affected Environments,' USAID.

<sup>25</sup> Memorandum from the Colonial Office to Governor of Uganda, The Colonial Empire and the Economic Crisis, 6 August 1948, in Main Papers, AR MA 5/34, Standing Finance Committee, 1944-49: 1.

The drastic change in the economic situations in relation to the strategy of the push for ‘dollar-earning’ and ‘dollar-saving’ industries, Uganda found an opportunity for industrial development at the time. To finance this initiative the Colonial development and welfare Act of 1940 was amended by Britain in 1945 and £120 million were reserved for the ‘development of the resources of the colonies’ among which Uganda was part.<sup>26</sup> Mamdani alleges that the Worthington Plan of 1947 was Uganda’s first development plan (for the period 1936–41) and appeared in 1936.<sup>27</sup> He states that it was ‘a modest programme of works, to a total of £1.6 million with hardly any provision for recurrent expenditures towards improving Uganda’s political economy at the time.’<sup>28</sup>

The most important outcome of colonial developmentalism was the construction and establishment (in 1952) of the Owen Falls Dam to provide cost-effective hydro-electricity for industrial development and the Uganda Development Corporation (UDC) respectively. This installation of the dam contributed to cheap electricity for industrialization and promotion of production from Ugandan factories.

At the time of independence, mining and industry were insignificant sectors in the economy. As Elkan notes, Uganda had only one significant mine, Kilembe copper mine, whose contribution to GDP was negligible, although it already accounted for 5 per cent of the value of Uganda’s exports.<sup>29</sup> Uganda had 78 coffee hulleries, 145 cotton ginneries, and only two factories engaged in higher value added activities such as cotton-spinning, weaving, and finishing all geared to production across the country.<sup>30</sup> Of the 1,176 were in food and tobacco processing; and 233 were in the metal and engineering sub-sector. This sub-sector was dominated by motor vehicle and plant repairing (with 148 firms).

Uganda’s industrial policy over the last two decades has been a laissez-faire type approach in which the private sector has taken the lead in shaping the structure and patterns of industrial development to facilitate trade and production. The policy framework has sought to enable the macroeconomic environment as well as provide the necessary physical infrastructure to enhance firm level competitiveness in the political economy of Uganda.

Two distinct episodes of manufacturing sector performance can be identified for the period under review. The initial phase (from 1988 to 1999) was characterized by relatively good performance of the sector both in terms of growth and its contribution to total value added to production and trade in Uganda by following the legal under the Uganda Private sector foundation. This has been followed by declining performance starting in the year 2000. This is counterintuitive from the perspective of both the domestic market potential (due to increased incomes) and the regional market potential in the East African community. (Due to regional integration trends and market opportunities in the post conflict countries in the region).

#### **b). Contemporary formal sector in Uganda and situation of Trade and production with the case study of Kampala trading Environment.**

Through the Uganda public sector Foundation, the formal sector is engulfed in this foundation and is Uganda’s apex body for the private sector. According to the Uganda Private Sector Foundation<sup>31</sup>, it is made up of 160 business associations, corporate bodies and the major public sector agencies that support private sector growth. Since its founding in 1995, PSFU has served as a focal point for private sector advocacy as well as capacity building and continues to sustain a positive dialogue with Government on behalf of the private sector to facilitate trade and production.<sup>32</sup> Right from its inception PSFU has been Government’s implementation partner for several projects and programmes of trade and production aimed at strengthening the private sector as an engine of economic growth. Such programmes include; the implementation of the Business Uganda Development

<sup>26</sup> Interestingly, the bulk of development ‘aid’ for manufacturing in Uganda came from the surpluses accumulated by the colonial produce marketing boards. By 9 December 1950, these surpluses, which essentially accrued to the cotton (and later, coffee) growers of Uganda, amounted to £129.6 million (Uganda Herald, 9 December 1950: 4).

<sup>27</sup> Mamdani, M. (1976). *Politics and Class Formation in Uganda*. London and Nairobi: Heinemann.  
National Resistance Movement (NRM) (1987). *The 10 Point Program*, Kampala: NRM Publications.

<sup>28</sup> Elkan, W. (1961). *Economic Development of Uganda*. Oxford: OUP.

<sup>29</sup> Ibid: p4

<sup>30</sup> Ibid 4-5

<sup>31</sup> Uganda private sector foundation 2017, [www.psfuganda.org.ug](http://www.psfuganda.org.ug) Accessed on 12/02/2017 at 8:00 am

<sup>32</sup> Ibid

Scheme (BUDS), the BUDS-Energy for Rural Transformation (ERT) programme and advising government on positive policy reforms.<sup>33</sup>

PSFU also implemented a five year World Bank Second Private Sector Competitiveness Project (PSCP II) on behalf of government whose objective was to support improvement of competitiveness within the Uganda private sector.<sup>34</sup> This formal sector platform has been operating from 1995 to date with an increasing expansion in larger production sectors and also associates with Associations of Traders who clash with the Government authorities in the form of enjoying rights of Association which is not the case for traders in the informal sector.

The U.S. Annual Country Report on Human Rights Practices,<sup>35</sup> registered that there were several instances of government interference in union activity for the above mentioned private sector associations. Freedom of association of the formal sector traders and producers as well as the right to collective bargaining were also generally not respected, and the government did not always protect these rights. This action establish the share cooperation and action of all traders and producers to collectively act in the political economy of Uganda towards change in their direction because they are legal entities and pay tax to the main Government through several licenses.

Furthermore to illustrate the shared cooperation for change, was evidenced in a A case from September 2013 in Kampala city, where traders demonstrated and police in Kampala seriously injuring a former employee of Mukwano who had gone to the offices to demand compensation from management after a machine he was operating cut off two of his fingers. Police removed the worker from the factory premises, causing a kidney rupture and injuries. Authorities arrested five police officers in connection with the incident. All five were found guilty of misconduct and dismissed, except one who was demoted. In the next page, picture present the actual appearance of the Formal sector business transaction in the area of trade in Kampala City.

**Picture 1: Presentation of Formal Trade Premise That Pay Taxation.**



Photos illustrating trading in formal sector retrieved from Kampala City Council Authority website.<sup>36</sup>

<sup>33</sup> Ibid

<sup>34</sup> Ibid

<sup>35</sup> U.S. Department of State, Annual Country Reports on Human Rights Practices, 2013

<sup>36</sup> The salt Lake Tribute <http://www.sltrib.com/home/2655756-155/chinese-retail-spreads-in-uganda-despite>, Accessed on 12/02/2017 at 9:11 am



#### **4.2. To understand the challenges the government of Uganda face in managing the informal trading sector in the country.**

In response to the first research question what are the challenges faced by the Ugandan government in managing the informal trading sector? In the paper, focus is put on the previous studies on the informal sector in Uganda as illustrated in the proceeding section;

##### **a) Previous studies on the Informal Sector in Uganda**

Many studies are conducted in relation to the informal sector in Uganda and the outstanding study is that of the Uganda National Household Survey Report in 2009/2010, it states that the Informal sector covers all business activities, as specified in the International Standard Industrial Classification (ISIC Rev IV). Furthermore in the study across the country above its established that these businesses are normally characterized by absence of final accounts, having less than 5 employees, no fixed location, in most cases not registered and sometimes such businesses are operational for only 6 months or less.

The study adds that Informal sector surveys have been carried out since 1993 starting with the 1993/94 First Monitoring Survey (FMA), the 1992/93 Integrated Household Survey (IHS), the 2002/03 Uganda National Household Survey. This all makes the 2009/10 Informal sector survey to be the 5th in the series of surveys and most valid for this paper presentation.<sup>37</sup> The survey expanded its definition of the informal sector businesses and stated that its categorized into two i.e. household based and non-household based in the report. The main objective of undertaking the informal sector survey was to determine the extent of informal activity in the economy undertaken at household level. It also provides indicators on the extent of economic activity, numbers engaged in the informal businesses, ownership, and level of Non-Current Assets, gross output and value added in the informal sector as well as access to credit and market challenges were evident. Lastly for the households operating an Enterprise, the report estimated 6.2 million households covered, 1.2 million (21%), had an informal business. This included those households undertaking agriculture on a commercial basis where at least 50 percent of the produce was sold. Rural-Urban variations also show that the majority of the informal businesses were in the rural areas than in urban areas.

##### **b) Case study of Kampala trading operations among the informally organized business.**

There is a high increase of informal traders and producers of products like Shoes, Clothes and manually made product by the small scale entrepreneurs. All these trading or productions have continued to be done illegally in the city. This as a result has continued to be a challenge to the Kampala city Authorities. Kampala City Council Authority is the governing and administrative body for Kampala capital city. The Authority is mandated by the Ugandan Constitution to regulate business through bylaws across the country. The Authorities functions include; formulating and initiating policy, setting service delivery standards, determining taxation levels, monitoring the general administration and provision of services in divisions, enacting legislation for the proper management of the capital city, constructing and maintaining roads, constructing and maintaining major drains, assisting the city division in mobilizing the residents to pay their local taxes, just mention but a few. All these functions above are geared towards turning Kampala into a fully developed modern city.<sup>38</sup> Due to the role of the city authority,

In the created by law by the Authority, Street Traders act under section 39 of the Act prohibits illegal trading in the city.<sup>39</sup> In article 3 in the same by laws, it states that there is prohibition of street trading without permit and form of permit. In Section 1 of the article it establishes a position from the government side for no street trader permission to carry on business without a permit from the town clerk. And section 2 introduce the form of permit to be issued to street traders as one set out in the first Schedule to these Byelaws.<sup>40</sup>

<sup>37</sup> Uganda National Household Survey Report 2009/2010,

[http://www.ubos.org/UNHS0910/chapter12\\_the%20informal%20sector.html](http://www.ubos.org/UNHS0910/chapter12_the%20informal%20sector.html) Accessed on 7/02/2016 at 1:13 pm

<sup>38</sup> Kampala City Council Authority website (2017): <https://namarajus.wordpress.com/2015/04/23/kcca-issue-management-case-of-evictions-of-street-vendors/> accessed on 10/02/2017

<sup>39</sup> THE LOCAL GOVERNMENTS ACT. Statutory Instrument 243—23. The Local Governments (Kampala City) (Street Traders) Byelaws

<sup>40</sup> Ibid

However from the side of the traders, According to the local News Paper, New vision 2016<sup>41</sup>, it reported local trader's experience. Swaibuh Mubiru as one of the local traders in the report argued that they are afraid about the daily market dues that increase as a result of change in garbage collection management. He also stated that they pay shillings 1000 and above depending on the areas where one operates his business and argue that they are not ready to pay an extra fee towards garbage collection hence their movements across the city to be exempted from these charges.<sup>42</sup> The clash between the Kampala City Authority between the Government administrators and trader continue to operate in discordance where by traders refuse to pay taxes and trade across streets without permission. This is coupled up with counter officers' attacks to the traders to clear up the streets as illustrated in the photographs bellow.

### Picture 2: Presentation of Informal Trade and Clash with Authority



Photos

illustrating trading informal sector traders retrieved from Kampala City Council Authority website<sup>43</sup>

### 5.0. Discussion on clash between the formal sector and informal sector operators in Uganda's Political Economy.

Although transitions to the formal economy from the informal economy and decent work are desired goals, different views exist about what is meant by formalization and how it can be achieved. Some believe that it is about expanding the capacity and outreach of institutions primarily and historically designed to address the situation of wage employment in the formal sector. Formalization may sometimes be narrowly conceived only in terms of registration and punitive sanctions for non-compliance with the law an aspect nonexistent in the informal sector in Uganda.

Such an approach is likely to be counter-productive, as it does not take into account the many avenues towards formalization, the limited choices that are facing most informal economy actors or the range of incentives which can encourage a genuine movement out of informality to formality for a progressive political economy of Uganda. Others believe that reform should go much further, by rethinking or reinventing policy frameworks, instruments and the culture of outreach to suit the specific conditions of the informal economy.<sup>44</sup> In relation to all this above as suggested to promote formalization of informal sector in trade and production in current policy initiatives around the world show that there is no universal policy framework, but rather a set of multidimensional approaches that can be combined in integrated policy frameworks and adapted to each specific country context among which the realities in Uganda are distinct to the role played by the Uganda Private sector Foundation in contributing to this transformation.

<sup>41</sup> Ibid

<sup>42</sup> New vision Paper ( 2016) : [http://www.newvision.co.ug/new\\_vision/news/1414563/kcca-halts-garbage-collection-nakasero-market#sthash.EgMz0QFQ.dpuf](http://www.newvision.co.ug/new_vision/news/1414563/kcca-halts-garbage-collection-nakasero-market#sthash.EgMz0QFQ.dpuf) Assessed on 14/02/2017 at 12:00 am

<sup>43</sup> Kampala City Council Authority website (2017): <https://namarajus.wordpress.com/2015/04/23/kcca-issue-management-case-of-evictions-of-street-vendors/> accessed on 10/02/2017

<sup>44</sup> ILO: World Social Security Report 2010–11: Providing coverage in times of crisis and beyond (Geneva, 2010).

The limits of one-size-fits-all policy responses suggest that a very diverse and rich array of responses are possible as it possible for the Ugandan Political economy to be transformed through enhancing the role played by the informal sector as opposed to being oppressed by the formal sector or property demolished by the government authorities as the case is in Kampala city.

## **6.0. Conclusion**

The formal economy in the political economy of Uganda has an organized system of employment with clear written rules of recruitment, agreement and job responsibilities and follows the government business functioning procedures in Uganda. Furthermore it has a standardized relationship between the employer and the employee is maintained through a formal contract. The employees are expected to work for fixed hours and receives fixed salaries in addition to incentives and perks and works under a decent work environment and is entitled to benefits such as leave, savings, loans etc. In addition to this above, they have organized association or union where their official grievances are addressed. Besides, they are usually covered under social protection benefits such as life insurance, health insurance, pension and gratuity across the country. People working in civil service, public sector units, government service, defense, multi-national/national/private companies, schools, colleges, research institutes, management organizations, banks just to mention a few, all are active agents in the functioning of the Formal Sector.

In contrast to the formal sector operation and benefits it brings to the Ugandan society such as Jobs, revenue through taxes just to mention a few, the informal economy does not have any written rules or agreements, it exists merely on verbal understanding, it does not have fixed wages or fixed hours of work and mostly relies on daily earnings. Furthermore in most cases, the work atmosphere is congested and unhygienic, the workers in this type of economy in Uganda usually fail to come together and address their problems through an association or a group as the case is for those in the formal sector. This all is attributed to the traders or producers in the informal sector failure not to have an efficient awareness levels regarding social protection schemes, to make savings and not seeing the necessity of insuring themselves.

In conclusion the demerits of economic development for the government of Uganda, majority of the informal sector are people working as small farmers, street vendors, hawkers, small traders, micro-entrepreneurs, home-based workers, cobblers, rag-pickers, porters, laborers, artisans, just to mention a few, these all make up the majority of the population of Ugandan citizens. As noted from the cases presented of Kampala traders in this paper. The Majority of the poor citizens engage more in the informal sector, don't pay tax and are always in a clash with both the government institutions to keep them off the streets for vendors and the formal sectors' customer fight. This all leave the Ugandan trading and production among the Informal and formal sectors poorly managed by the government with interest of transforming the informal sector to formal and hence contribute to more revenue collection from all business engaged citizens in Uganda.

## **7. Recommendation**

There is need for the Ugandan government to promote formal employment through pro-employment macroeconomic and sectoral policies focusing especially on the development of sustainable MSMEs. This is hope from this paper to groom a new breed of citizens engaging in trade and production with full formalization of than operating in an informal black market business model.

There is need to reduce the informal employment across the country by lowering the cost of transitions to formality through the creation of an enabling policy and regulatory environment that reduces barriers to formalization, while protecting workers' rights and increasing the benefits of being formal while promoting a greater awareness of the advantages and protection that come with formalization (business development services for MSMEs, access to the market, productive resources, credit programmes, and training and promotional programmes to upgrade informal economy units) There is need to increase decent work in the informal economy by developing a national social protection floor for all, implementing a minimum wage and health and safety incentives, organizing workers from the informal economy and encouraging informal enterprises to join together in production conglomerates or cooperatives, and supporting the development of social economy enterprises and organizations in Uganda.

In view of the informal sectors' economic contribution, it is widely believed that policies should be developed that recognize the importance of the informal economy, restricting and regulating it when necessary, but mostly seeking to increase the productivity and improve the working conditions of those who work in it so as to facilitate transitions to formality. The goal is to make informal activities part of a growing formal economy, offering decent jobs, productivity gains and economic growth in the political economy of Uganda.

There is a need for the Uganda Private sector Foundation to organize social dialogue, based on capacity building and opening up access to a full range of resources, as well as tailoring taxation, financing and social security systems to the specific challenges faced by informal economy actors. This is believed from this paper that it could contribute to the formalization process of the informal sector and have a more sustained impact.

Lastly, there is need to advocate for more political will and commitment of politicians, to transform the structures and mechanisms for proper governance. This action is expected from this paper to be essential towards full transformation of the informal sector and boosting of the formal sector. This is a paramount task for the government of Uganda to provide an enabling environment for sustainable formal enterprises as well as to extend the coverage of social security, particularly to groups in the informal economy who are currently excluded.