ECONOMIC POLICY RESEARCH CENTRE

POLICY NOTE

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Beyond Business Registration: Does the Regulatory Environment drive Uganda's informal Sector?

Executive Summary

This Note presents the link between Uganda's regulatory environment and economy-wide informality in the country. It demonstrates how business licensing reforms and the wider regulatory environment for land, labour, as well as the Tier 4 microfinance regulatory environment may exacerbate both business and workers informality. The evidence indicates that outstanding reforms in key informal sectors are still a major barrier to legal registration, even though Uganda has been trying to reduce compliance costs since 2012. Sectors such as agriculture, trade, transport, logistics, and tourism, which have the highest prevalence of informality, also have the highest administrative licensing costs. Regarding the regulation of input markets, the land regulatory environment remains complicated and gaps in labour inspection capacity. Indeed, only 30 percent of the country's land is registered, and the urban physical development planning functions are weakly enforced. Regarding labour regulation, Uganda has significant labour inspection capacity gaps despite a growing employed population. Besides, different MDAs perform the decentralised labour inspection function, which goes against the ILO's demand for centralized labour supervision and control. Lastly, the institutional framework for regulating Tier 4 financial lenders to informal businesses needs to be streamlined to reduce mandate overlaps. The findings demonstrate a need to strengthen the implementation of programme-based approach, by strengthening coordination across ministries and local governments, ensuring clear communication to all stakeholders, enhancing capacity for planning and implementation, and establishing robust monitoring and reporting systems.

Background

Uganda's ten-fold strategy recognises the central role of reducing the size of the informal sector. In particular, the strategy states that to achieve the economy's double -digit growth potential, the Government must prioritise two outcomes: competitively growing the share of the formal economy to expand the revenue base increasing returns from public investment. Despite the above aspiration, the informal sector remains persistently large. Indeed, by the end of FY 2023/24, informality accounted for 54.8 percent of the country's Gross Domestic Product (GDP), contrary to the third National Development Plan's (NDPIII) target of reducing it from 51 percent in FY 2018/19 to 45 percent in FY 2024/25. This 4.8 percent increase in informality partly explains the stagnation of the tax-to-GDP ratio at 13.5 percent and the growth of the share of informal employment in total employment, from 90.7 percent in FY 2016/17 to 92 percent in FY 2020/21 (UBoS, 2022). As such, effective regulation of Uganda's informal sectors has several benefits such as improved public services, protection of workers' rights and enables businesses to obtain productivity enhancing services such as credit and business development services.

To encourage formalisation, several initiatives such as the Taxpayer Register Expansion Programme (TREP), the introduction of the Electronic Fiscal Receipting and Invoicing System (EFRIS), One-Stop Business Centres by the Uganda Registration Services Bureau (URSB), instant Tax Identification Number (TIN) registration, and introduction of online trade license registration at Kampala capital City Authority (KCCA) among others were implemented. However, these initiatives majorly prioritised business-side simplification of administrative registration procedures and compliance costs. Little emphasis was placed on streamlining the broader regulatory environment in which businesses operate, to support business and workers' formalisation in Uganda. This brief presents evidence that links the regulatory environment to economy-wide informality. It demonstrates how gaps in the regulatory environment for land, labour and financial markets could encourage informality. It further demonstrates how incomplete implementation of business licensing reforms acts as a first barrier to achieving legal formalisation.

Gaps in the business regulatory environment and economy- wide informality

Outstanding business licensing reforms in key informal sectors- a key barrier to the first step into legal registration

Since 2012, Uganda has embarked on a journey to reform business licenses, fees, and levies. This process was based on the recommendation of the Business Licensing Reform Committee (BLRC), which found that Ministries, Departments and Agencies (MDAs) and Local Governments (LGs) issued a total of 790 licences, permits, and user charges across the country (IGC, 2023). The reforms aimed to reduce high administrative licensing costs in the agriculture, trade, transport and logistics, and tourism sectors. However, the evidence in Figure 1 reveals that the reform process in these key sectors remains incomplete. Indeed, out of the remaining 137 sector business licenses proposed for elimination, streamlining, amalgamation and or reclassification, only 59 have been revised by 2023 (IGC,2023). Several reforms remain outstanding within sectors with the highest levels of informality, implying that the affected licences and their respective compliance costs persist.

The delay in the completion of business licensing reforms partly emanates from inadequate coordination between sector MDAs as well as with LGs, limited sharing of information among sector regulators, and disagreements between MDAs over mandates for new licensing reforms. Examples of these include the Ministry of Agriculture and Ministry of Health contestations over the national Food and Drug Administration (FDA) Bill, and the limited data integration between the National Identification and Registration Authority (NIRA) and other MDAs and LGs. These constraints exacerbate corruption, informality, and costly delays to enterprises.

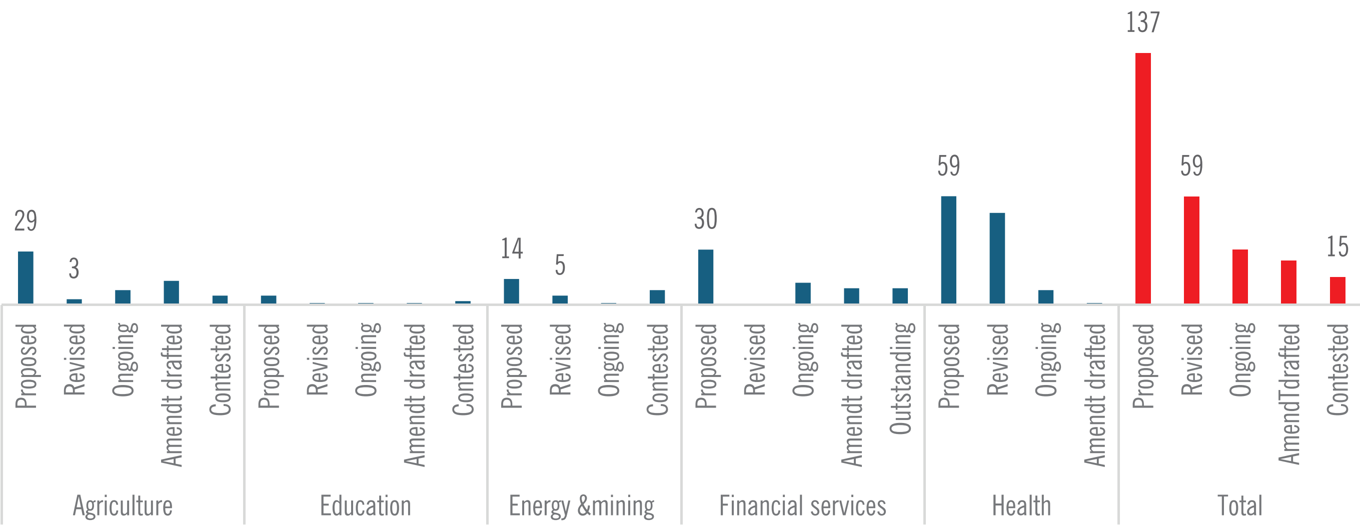
Uganda's land regulatory environment remains complicated and organised.

Land is a crucial input in any business's production and operation; therefore, the ease with which it is registered, planned, used, or transferred affects business productivity. This has implications for business investment, financial access as well as legal and fiscal formalisation. Considering the land, the following regulatory gaps are important for business registration.

Land registration: Only 30 percent of Uganda's land is formally registered

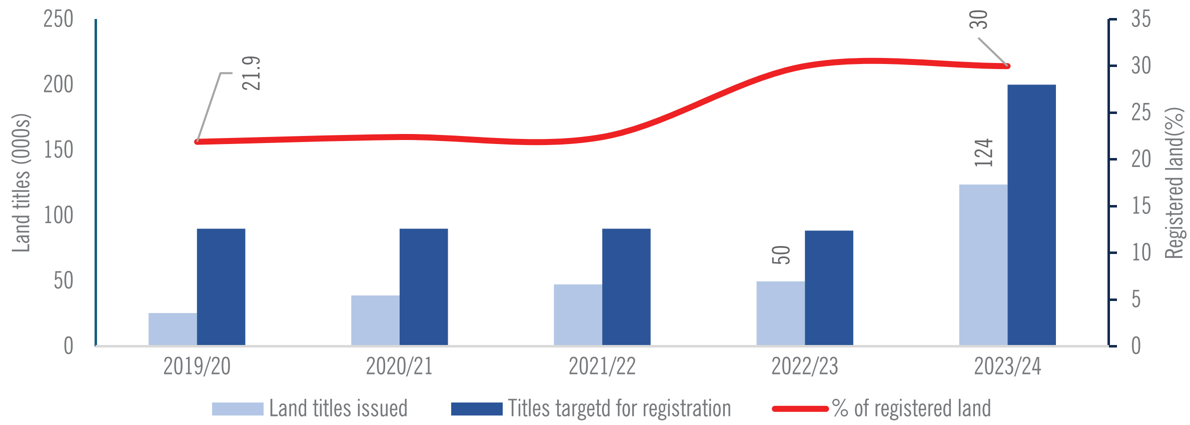
Despite several reforms aimed at streamlining land registration services and tenure security in Uganda, only 30 percent of Uganda's land is registered (Figure 2). And though customary land tenure represents 68 percent of land ownership in the country, only 7 percent of it has been registered. Regarding land tenure security, the evidence in Figure 2 further shows that while the number of issued land titles more than doubled from 49,743 in 2022/23 to 123,665 in 2023/24, the total numbers of titles issued over the last five years remained below the set targets.

Figure 1 Progress of business licensing reforms across sectors, 2017-2022



Source: Compiled based on IGC, 2023

Figure 2 Land registration, FY2019/20 -2023/24



Source: Compiled based on the annual Budget performance Report, (2019/20-2023/24) MoFPED

The persistently low levels of land registration in Uganda aid informality by creating tenure insecurity, complex and inefficient informal land markets, and enable the mushrooming of unregulated urban development.

Inadequate enforcement of urban physical development plans affects the enforcement of the trade order

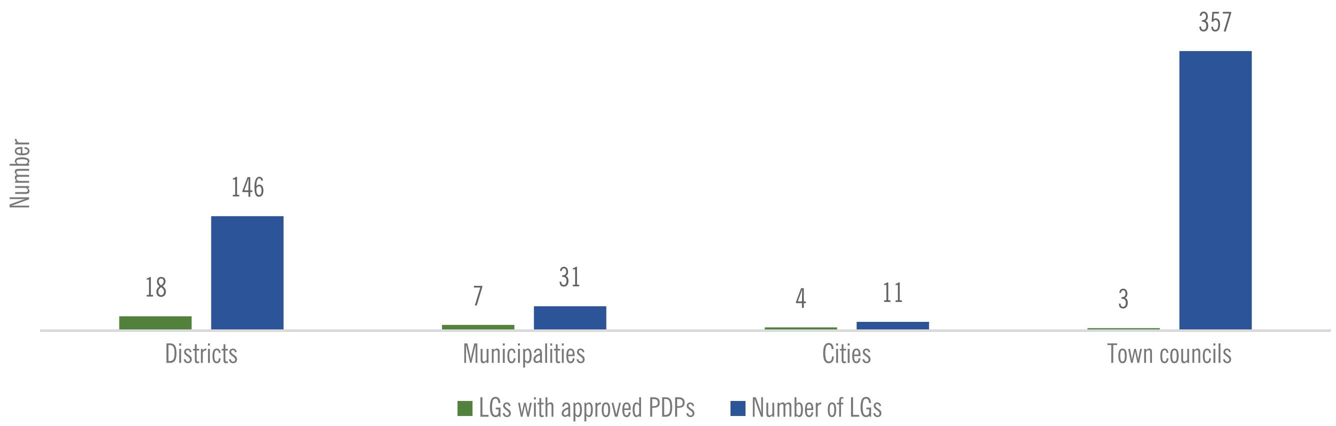
Regarding business registration, the enforcement of physical development is important for providing predictable regulatory rules, formal working spaces, and reliable infrastructure that allow informal enterprises to grow, operate securely, and eventually transition to the formal economy (Dibyendu and Bhattacharyya, 2020). However, Figure 3 reveals that the number of approved and valid Physical Development Plans (PDPs), remains low across most urban local governments that usually have a high business concentration.

With respect to the low number of approved PDPs, authorities within the different LG administrative structure pointed to the following challenges namely inadequate budget funding for renewal of the PDPs, especially in Town Councils and Municipalities; lack of appreciation of physical planning and land use compliance; low staffing levels in physical planning units and enforcement units; and political interference (MoLHUD,2023).

Limited workplace inspection function fuels workers' informality

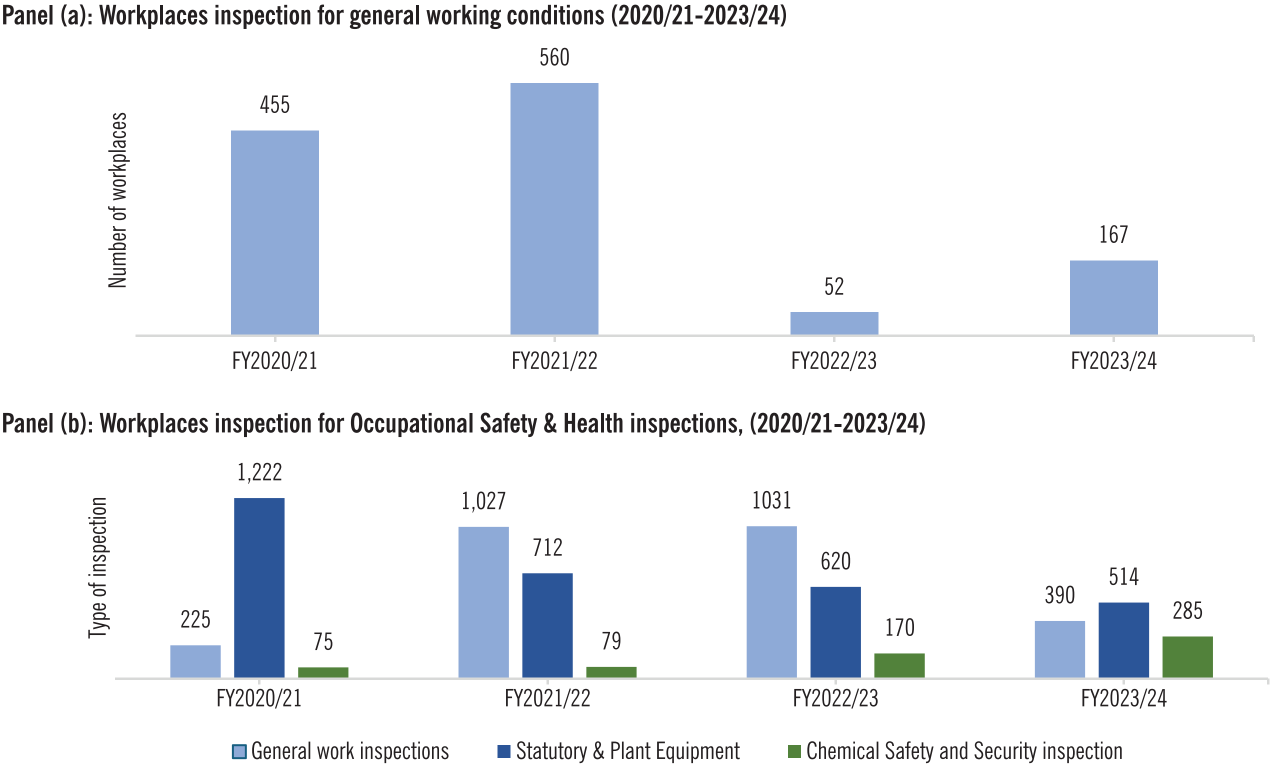
Uganda's share of informal employment in total employment increased from 90.7 percent in FY 2016/17 to 92 percent in 2021 (UBoS, 2022). According to EPRC (2024) 92.9 percent of informal workers have no insurance, about 76.6 percent work without a contract, 72.2 percent have no social security contributions and 71.1 percent do not have employment benefits such as paid maternity, sick, and annual leave, respectively.

Figure 3 Number of Local Governments with Approved Physical Development Plans FY2023/24



Source: Compiled based on annual Budget Performance Report, (2023/24) MoFPED

Figure 4 Inspections for general working conditions and OSH, 2020/21-2023/24



Source: Compiled from MGLSD Vote and DOSH annual performance reports (2020/21-2023/24)

The Employment Act Cap 226 and the Occupational Safety and Health (OSH) Act Cap 231 regulate Uganda's labour inspection environment, and they establish guidelines for welfare and working conditions in workplaces. The labour inspection function ensures workplace registrations, examination and certification of statutory equipment, and review and approval of architectural plans. The OSH Act, 2006, requires that all persons intending to use any premises as a workplace must first register it. This way, the government would be able to establish a comprehensive database of workplaces. Despite the above regulatory framework, enforcement of workplace inspections for general working conditions and OSH remains intermittent and low (Figure 4). In 2023/24, inspectors checked only 556 of over one million workplaces for compliance with labour standards, occupational safety and health standards, safe chemical handling, and safe labour.

Currently, the country has significant labour inspection capacity gaps with only 198 labour officers nationwide and 21 OSH inspectors, despite an employed population of approximately 10 million Ugandans (UBoS, 2022). In addition to the above human resources capacity gaps, various legal and institutional coordination constraints weaken the country's labour inspection function. For instance, Uganda's labour inspection function remains decentralised. Particularly, the Ministry of Public Service deploys labour officers at districts, with limited oversight from Ministry of Gender, Labour and Social Development (MOGLSD). This is contrary to Article 4 of the ILO Convention 149 on labour inspection, which requires that labour inspection be supervised and controlled by a central authority.

Moreover, Uganda's existing labour laws remain poorly aligned with emerging work forms such as gig and digital platform jobs. For example, ride-hailing platforms like SafeBoda and Bolt classify riders as independent contractors, leaving them without contracts, social security, or paid leave, despite exercising control akin to traditional employment (EPRC, 2025).

Non-streamlined regulation of Tier 4 microfinance lenders proliferates informality

Tier 4 microfinance institutions[1] are an important source of finance for informal businesses and household activity operations. According to the 2019/20 census of business establishments, 84.8 percent of all businesses in Uganda are owned by sole proprietors; whose source of credit is informal lenders. Uganda's Tier 4 microfinance environment is regulated under the Tier 4 Microfinance Institutions

1 SACCOs, Non-deposit taking microfinance institutions, Self-Help groups, community-based microfinance institutions

and Money Lenders Act, 2016. Despite a robust legal framework, several compliance and enforcement challenges persist. Below are gaps in the Tier 4 microfinance regulatory environment which affect business formalisation.

Conflicting legal mandate between the amended 2020 Co-operative Societies Act, and the 2016 Tier 4 Microfinance and Money Lenders Act.

- The introduction of provisions for the registration and supervision of Savings and Credit Co-operative Societies (SACCOs) under the amended Co-operative Societies (Amendment) Act, 2020 without proper alignment to the corresponding amendments to the Tier 4 Microfinance and Money Lenders Act, 2016, has created conflicts in the legal framework governing SACCOs (Table 1).
- As a result, conflict manifests in the areas of registration, supervision, and liquidation of SACCOs

Limited onsite inspection affects the licensing of Tier 4 lenders

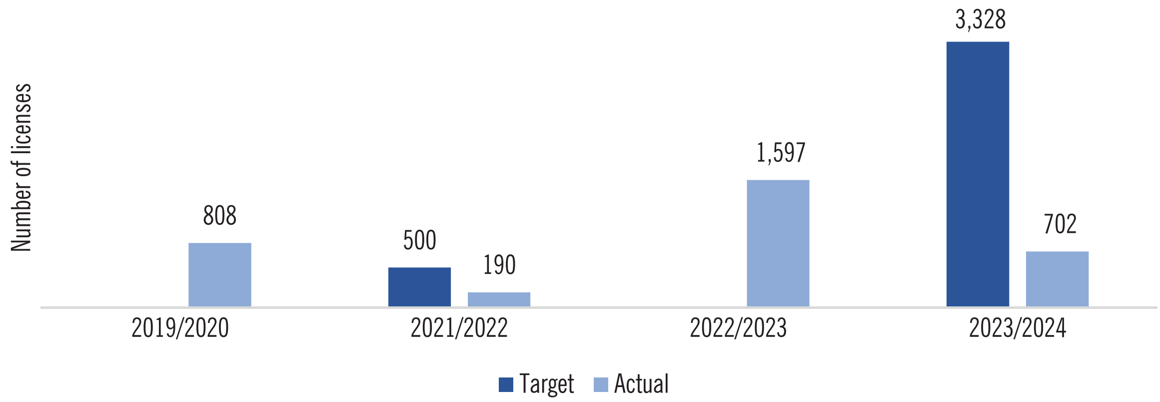
A significant number of SACCOs in Uganda continue to operate without UMRA licenses. By the end of FY2023/24, out of a target of 3,328 SACCOs, only 702 SACCOs were licensed by the Uganda Microfinance Regulatory Authority (UMRA). This represents a licensing rate of about 21 percent. Staff numbers limit the Authority's ability to enforce license compliance. Particularly, UMRA's supervision function has only 30 staff to cover the entire country. In addition, many digital lending applications (often operated by unregulated FinTech firms) have emerged in recent years, exploiting regulatory grey areas and operating without UMRA licenses, effectively evading oversight. This is partly due to low compliance and enforcement – some lenders ignore licensing requirements, knowing that penalties or inspections are rare.

Table 1 Conflicts within the existing microfinance legal framework

	Co-operative Societies (Amendment) Act, 2020	Tier 4 Microfinance and Money Lenders Act,2016	Microfinance Deposit-Taking Institutions Act (Amendment), 2023
Registration	• Stipulates that "SACCO" shall form part of the name of a society at the point of registration	• Prohibits the use of the term "SACCO" unless a society is duly licensed.	
Supervision	**Registers SACCO** • SACCOs with deposits ≤ UGX 1.5 billion • Institutional capital ≤UGX 500 million	**Requires UMRA SACCO License** • SACCOs with deposits ≤ UGX 1.5 billion • Institutional capital ≤UGX 500 million	**Requires BoU license** • SACCOs with savings ≥ UGX 1.5 billion • Institutional capital ≥UGX 500 million
Liquidation	• Empower Registrar of Cooperatives (MTIC) to place an unviable SACCO into involuntary liquidation	• Vests exclusive authority in UMRA to liquidate a SACCO or assume control of an unsound one	•

Source: Compiled from Government Acts

Figure 5 Number of Tier 4 licenses issued by UMRA, 2019/20-2023/24



Source: Compiled from ministerial policy statements

Emerging Policy Options

Based on the evidence above, the following are emerging policy options to streamline the regulatory environment and to support economy-wide formalisation.

i. **Prioritise completion of outstanding Business licensing reforms**: MDAs & LGs must prioritise completion of outstanding business licensing reforms in key informal sectors namely agriculture, trade, tourism, transport and logistics, to allow assessment of post-reform changes and the changes in.

ii. **Land regulatory environment:** The Ministry of Lands Housing and Urban Development (MoLHUD) and the Ministry of Local Government (MoLG) must liaise and prioritise the provision of technical support and guidance to urban Local governments in Uganda. The relevant bodies need to prioritise support to strengthen institutional readiness to enforce land use compliance, physical planning function and to undertake regular community sensitisation on physical planning and land use compliance.

iii. **Labour regulatory Environment:** Streamline coordination between the Ministry of Gender, Labour and Social Development (MGLSD), the Ministry of Public Service (MoPS), and local governments to eliminate overlapping labour inspection mandates. Labour inspections should be centrally supervised under MGLSD in line with ILO Convention 81.

iv. **Tier 4 microfinance regulation:** Streamline the institutional framework to reduce institutional duplication in the registration, supervision and licensing of Tier 4 microfinance lenders. The Government must eliminate regulatory duplication for Tier 4 microfinance lenders among the following institutions: the Uganda Microfinance Regulatory Unit (UMRA), the Registrar of Cooperatives in the Ministry of Trade, Industries and Cooperatives (MTIC), the Uganda Cooperative Alliance (UCA) and the Uganda Cooperative Savings and Credit Union (UCUSCU).

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