



MINISTRY OF FINANCE, PLANNING AND  
ECONOMIC DEVELOPMENT

## **AN ASSESSMENT OF THE INFORMAL SECTOR IN UGANDA**

**A CONSOLIDATED REPORT**  
**ECONOMIC POLICY RESEARCH CENTRE (EPRC)**



**MAY  
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# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b> .....	viii
<b>1 INTRODUCTION</b> .....	1
1.1 Background .....	2
1.2 Objectives of the Report .....	3
1.3 Structure of the Report .....	3
<b>2.0 CONCEPTUALISATION OF INFORMALITY</b> .....	5
2.1 Definition of Informality .....	6
2.2 Conceptual Framework .....	6
2.3 Report Approach .....	7
2.3.1 Policy Document Review .....	7
2.3.2 Quantitative Method .....	7
2.2.3 Qualitative Methods .....	8
2.4 Scope of the survey .....	8
2.5 Sampling Frame .....	8
<b>3. MEASUREMENT AND COMPOSITION OF INFORMALITY IN UGANDA</b> .....	11
3.1 Extent of Informality .....	12
3.1.1 Extent of Business Informality .....	12
3.1.2 Extent of Informality in Activities and Workers .....	13
3.2 Characteristics of Informal Businesses, Activities, and Workers .....	14
3.2.1 Characterisation of Informal Business owners, Activity owners, and Workers .....	14
3.2.2 Status of Employment .....	16
3.2.3 Informality at the Place of Work .....	16
3.2.4 Characteristics of Informal Businesses and Activities .....	17
3.3 Record Keeping, Technology Use and Sources of Input by Informal Businesses and Activities .....	20
3.3.1 Record Keeping .....	20
3.3.2 Technology Use .....	21
3.3.3 Source of Input .....	22
3.4 Contribution of Informal Businesses, Activities, and Workers to GDP to the Economy ....	22
3.4.1 Contribution to GDP by Informal Businesses .....	22
3.4.2 Contribution to GDP by Informal Activities and Workers .....	23
3.4.3 Linkages between Informal and Formal Businesses .....	25
3.4.4 Potential Contribution to Revenue by Informal Business .....	26
3.4.5 Potential Revenue Contribution by Informal Workers .....	27
3.4.6 Employment by Informal Businesses .....	28
3.4.7 Employment by Informal Activities .....	29
3.5 Conclusion .....	29
<b>4. DRIVERS OF INFORMALITY IN UGANDA</b> .....	31
4.1 Political Dynamics driving Informality .....	32
4.2 Social and Cultural Dynamics Incentivising Informality .....	32
4.3 Business Environment Incentives driving Informality .....	34
4.4 Legal and Regulatory Incentives .....	34
4.5 Other Incentives for Informal Businesses and Household Activities to remain Informal..	34
4.5.1 In-kind Benefits of Remaining Informal .....	34
4.5.2 Monetary Benefits of remaining Informal .....	35
4.5.3 Livelihood Benefits of Informality .....	36

4.6	Perceptions about Formalisation Process .....	37
4.6.1	Perceptions on Registration Fees .....	37
4.6.2	Perceptions on Annual Tax Payment by Formal Businesses.....	38
4.6.3	Perceptions on Compliance Costs for Already Registered Businesses .....	39
4.6.4	Perceptions on Duration and Distance to Points of Business Registration.....	39
4.7	Conclusion .....	41
<b>5.</b>	<b>GOVERNMENT INITIATIVES AND THEIR POTENTIAL EFFECT ON FORMALISATION .....</b>	<b>42</b>
5.1	Initiatives to reduce Informality among Informal Businesses and Activities.....	43
5.1.1	Taxpayer Registration Expansion Programme (TREP) .....	43
5.1.2	Tax Administrative Innovations: The E-Tax system and Electronic Fiscal Receipting and Invoicing Solution (EFRIS).....	44
5.1.3	URA’s Taxpayer Education Programmes .....	45
5.1.4	Business Licensing Reforms.....	46
5.1.5	Instant Individual Tax Identification Number (TIN) Registration at URA.....	47
5.1.6	Establishment of Physical and Online One Stop Centers (OSC).....	48
5.1.7	Business Associations.....	49
5.2	Initiatives to aid Formalisation of among Informal Workers .....	49
5.2.1	NSSF as a mode of Social Protection .....	49
5.2.2	Private Sector-led Voluntary Social Protection Schemes.....	52
5.2.3	Role of Trade Unions in Formalisation of Workers .....	54
5.3	Other Government Initiatives and their effect on Formalisation .....	55
5.3.1	Parish Development Model (PDM).....	55
5.3.2	Emyooga Initiative .....	56
5.3.3	Business Development Services .....	57
5.3.4	Presidential Initiative for Skilling the Youth.....	58
5.4	Conclusion .....	58
<b>6.</b>	<b>EFFECTS OF THE EMERGENCY OF COVID-19 PANDEMIC ON INFORMALITY IN UGANDA.....</b>	<b>59</b>
<b>7.</b>	<b>FORMALISATION PRACTICES FROM PEER COUNTRIES AND LESSONS FOR UGANDA ...</b>	<b>62</b>
7.1	The Brazilian Experience on the “Simples Nacional” programme .....	63
7.2	Tackling Informality in Mexico .....	64
7.3	Rwanda’s Initiative to extend Pension Coverage to the Informal Sector: The EjoHeza Long-Term Saving Scheme .....	65
7.4	Formalisation Practices in Ghana .....	67
7.5	Formalisation Initiatives and Practices in South Africa.....	67
7.6	Formalisation Initiatives in Tanzania .....	68
7.7	Lessons for Uganda on addressing Informality among Activities and Workers.....	69
<b>8.</b>	<b>KEY MESSAGES AND POLICY RECOMMENDATION .....</b>	<b>71</b>
8.1	Key messages .....	72
8.2	Policy Recommendations.....	73
8.2.1	Emerging Policy Options for Formalising Informal Businesses and Activities .....	73
8.2.2	Emerging Policy Options for Formalising Informal Workers .....	74
	<b>REFERENCES .....</b>	<b>75</b>
	<b>APPENDICES .....</b>	<b>79</b>
	Appendix A: Sample size determination.....	80
	Appendix B: Weighting procedure.....	80
	Appendix C: Disaggregation of trade sector.....	85
	Appendix D: Informal Sector Study Costed Road Map 2025-2030.....	85

## List of Figures

<b>Figure 1:</b> Conceptual framework for Informality .....	7
<b>Figure 2:</b> Extent of Business Informality .....	12
<b>Figure 3:</b> Extent of Informality in Activities and Workers, (%) .....	13
<b>Figure 4:</b> Transition of Informal Businesses and Activities by Scale (%) .....	20
<b>Figure 5:</b> Linkage with Formal Businesses .....	25
<b>Figure 6:</b> Employment ('000 persons) by Size and Industry.....	28
<b>Figure 7:</b> Main Incentives for not Formalising (%).....	35
<b>Figure 8:</b> Comparison of Prices: Informal versus Formal Businesses .....	36
<b>Figure 9:</b> Awareness of Initiatives to Encourage Business Registration and Membership to Business Associations, %.....	44
<b>Figure 10:</b> Trade Union Membership by Type (%) .....	55
<b>Figure 11:</b> Sources of funding for informal businesses .....	60
<b>Figure 12:</b> Percentage of Businesses that Received Support .....	61
<b>Figure 13:</b> Sales and Revenue Performance (%) .....	61

## List of Tables

<b>Table 1:</b> Sample and Response rate of Informal Businesses.....	9
<b>Table 2:</b> Sample and Response rate of IAWS.....	10
<b>Table 3:</b> Characterisation of Informal Business owners, Activity owners, and Workers.....	15
<b>Table 4:</b> Status of Employment .....	16
<b>Table 5:</b> Informality at the Place of Work.....	17
<b>Table 6:</b> Business Profile, %.....	18
<b>Table 7:</b> Characteristics of Informal Activities.....	19
<b>Table 8:</b> Informal Businesses and Activities Transition by Sector, %.....	20
<b>Table 9:</b> Record Keeping, Technology Use and Sources of Inputs .....	21
<b>Table 10:</b> Contribution to GDP by informal businesses (UGX billion) .....	23
<b>Table 11:</b> Contribution to GDP by Mixed Income from Informal Activities and Workers (UGX billion).....	23
<b>Table 12:</b> Potential Contribution to Revenue by Partially Informal Businesses .....	27
<b>Table 13:</b> Potential Revenue Contribution by Informal Workers by Tax Schedule and Extent of Informality.....	27
<b>Table 14:</b> Employment ('000 persons) by the Extent of Business Informality.....	29
<b>Table 15:</b> Employment ('000 persons) by the Extent of Activity Informality .....	29
<b>Table 16:</b> Welfare Benefits of Informality .....	36
<b>Table 17:</b> Business owners' Perceptions of Registration and Tax/Fees to Legal Authorities (Ugx).....	38
<b>Table 18:</b> Number of Days for Registration .....	40
<b>Table 19:</b> Distance to Registration Points (km) .....	40
<b>Table 20:</b> Number of licenses .....	47
<b>Table 21:</b> Informal Workers' Perceptions on NSSF .....	51
<b>Table 22:</b> Awareness of Trade Unions.....	55
<b>Table A1:</b> Potential Contribution to Revenue by all Informal Businesses .....	81
<b>Table A2:</b> Awareness, Tax Compliance and Tax System .....	82
<b>Table A3:</b> The Compliance Continuum .....	83

## List of Abbreviations/ Acronyms

<b>BDS</b>	Business Development Services
<b>COBE</b>	Census of Business Establishment
<b>DPI</b>	Development Planning Implementation
<b>EAs</b>	Enumeration Areas
<b>EFRIS</b>	Electronic Fiscal Receipting and Invoicing System
<b>EPRC</b>	Economic Policy Research Centre
<b>FGDs</b>	Focus Group Discussions
<b>GDP</b>	Gross Domestic Product
<b>GoU</b>	Government of Uganda
<b>IAWS</b>	Informal Activity and Workers Survey
<b>IBS</b>	Informal Business Survey
<b>ILO</b>	International Labour Organisation
<b>IRA</b>	Insurance Regulatory Authority
<b>ISIC</b>	International Standard Industrial Classification
<b>KCCA</b>	Kampala Capital City Authority
<b>KIIs</b>	Key Informant Interviews
<b>LGS</b>	Local Governments
<b>MDAs</b>	Ministries, Departments and Agencies
<b>MoFPED</b>	Ministry of Finance, Planning, and Economic Development
<b>MoGLSD</b>	Ministry of Gender Labour and Social Development
<b>SMEs</b>	Micro and Small Enterprises
<b>MSMEs</b>	Micro, Small, and Medium Enterprises
<b>NDP</b>	National Development Plan
<b>NGOs</b>	Non-Governmental Organisations
<b>NLFS</b>	National Labour Force Survey
<b>NSSF</b>	National Social Security Fund
<b>OSH</b>	Occupational Safety and Health
<b>PAYE</b>	Pay As You Earn
<b>PDM</b>	Parish Development Model
<b>PSD</b>	Private Sector Development
<b>PSDU</b>	Private Sector Development Unit
<b>PSU</b>	Primary Sampling Unit
<b>SACCOs</b>	Savings and Credit Cooperative Organisations
<b>SDGs</b>	Sustainable Development Goals
<b>SSU</b>	Secondary Sampling Unit
<b>TIN</b>	Tax Identification Number
<b>TREP</b>	Taxpayer Register Expansion Programme
<b>UBoS</b>	Uganda Bureau of Statistics
<b>UGX</b>	Uganda Shillings
<b>UNDP</b>	United Nations Development Programme
<b>UNHS</b>	Uganda National Household Survey
<b>URA</b>	Uganda Revenue Authority
<b>URSB</b>	Uganda Registration Services Bureau
<b>UWEP</b>	Uganda Women Entrepreneurship Programme
<b>VAT</b>	Value Added Tax
<b>YLP</b>	Youth Livelihood Programme

## Glossary of Terms

Term	Definition
<b>Compliance Continuum</b>	The spectrum of adherence to legal and regulatory standards, ranging from full informality to full compliance.
<b>Compliance Costs</b>	Expenses incurred by businesses to meet legal and regulatory requirements often deterring formalisation.
<b>Development Plan Implementation (DPI)</b>	A strategic framework under the National Development Plan to address informality and enhance formal economic participation.
<b>Dimensions of Informality</b>	Includes legal, fiscal, and labour dimensions, defining the extent to which businesses, activities or workers comply with formal standards.
<b>Economic Inclusion</b>	Efforts to integrate marginalized groups, such as women and youth, into economic activities, including formalisation of their enterprises.
<b>Economic Vulnerability</b>	The susceptibility of individuals or businesses to economic shocks, more pronounced in the informal sector due to lack of protections.
<b>Electronic Fiscal Receipting and Invoicing System (EFRIS)</b>	A digital platform to enhance tax compliance by improving invoicing and record-keeping among businesses.
<b>Enterprise Transition</b>	The shift from informal to formal business operations, involving scaling up activities and improving compliance.
<b>Enumeration Areas (EAs)</b>	Geographical areas used as statistical units for surveys and censuses, often critical for sampling in labour and economic studies.
<b>Formalisation</b>	The process through which informal businesses, workers, or activities transition into the formal economy, typically by complying with legal, regulatory, and tax requirements.
<b>Fully Informal</b>	Completely unregulated businesses, activities or workers without compliance with legal, fiscal, or labour aspects.
<b>Gender Disparities in Informality</b>	Differences in how men and women experience, participate in, and are affected by informal economic activities.
<b>Gross Domestic Product (GDP)</b>	Measures the total monetary value of all final goods and services produced within a country's borders over a specific period.
<b>Household Enterprises</b>	Small-scale income-generating activities or businesses operated within households, often informal in nature.
<b>Incentives for Informality</b>	Advantages of operating informally, such as reduced costs, tax evasion, and operational flexibility.
<b>Informal Activities</b>	Household-based production activities that are not registered for taxation or regulation, often to reduce costs and avoid compliance.
<b>Informal Businesses</b>	Entities that operate without; formal registration, licensing, and compliance with tax authorities and/or labour laws.
<b>Informal Employment</b>	Employment not backed by legal contracts, social security, or labour protections, often characterized by precarious conditions.
<b>Informal Sector</b>	Comprises unregulated businesses, activities, and workers operating outside the legal and regulatory framework.
<b>Informal Workers</b>	Employees without formal contracts, social security, or employment benefits, often working in precarious conditions.
<b>Informality</b>	Operating outside the legal and regulatory framework.
<b>In-Kind Benefits</b>	Non-monetary advantages of informality, such as flexible working conditions and reduced regulatory burdens.

Term	Definition
<b>Livelihood Benefits</b>	The role of informal work in improving household welfare and providing income where formal opportunities are absent.
<b>Livelihood Strategies</b>	Approaches adopted by individuals or households to secure income and sustain living standards, often through informal activities.
<b>Micro, Small, and Medium Enterprises (MSMEs)</b>	Businesses categorised by size, with many operating informally due to resource limitations.
<b>Micro-Household Enterprises</b>	Small-scale businesses typically operated within a household setting.
<b>Mono-Tax Mechanism</b>	A simplified tax regime often applied to micro, small, and informal businesses to streamline tax compliance by minimising the tax burden and improve revenue collection.
<b>National Social Security Fund (NSSF)</b>	A social security fund for retirement, now extended to informal workers through tailored products.
<b>Non-Governmental Organisations (NGOs)</b>	Organisations operating independently of the government, often supporting informal sector development and social programmes.
<b>Occupational Hazards</b>	Risks and dangers faced by workers in their workplaces, more prevalent among informal workers due to lack of safety standards
<b>Occupational Safety and Health (OSH)</b>	Focuses on the safety, health, and welfare of individuals in the workplace to ensure that work environments are safe, healthy, and with minimal risks to workers' physical and mental well-being.
<b>Parish Development Model (PDM)</b>	A government initiative targeting local economic development through community-based projects.
<b>Partially Informal</b>	Businesses, activities or workers adhering to some but not all regulatory requirements, such as legal registration but no fiscal compliance.
<b>Progressive Formalisation</b>	The gradual process of transitioning informal enterprises, activities, or workers into the formal economy.
<b>Registration Costs</b>	Expenses associated with formalising a business, including fees for registration and obtaining licenses.
<b>Social Protection</b>	A set of policies, programs, and interventions designed to reduce poverty, vulnerability, and social exclusion by providing support to individuals and households in managing risks and shocks, ensuring basic needs are met, and promoting resilience.
<b>Tax Compliance</b>	The degree to which taxpayers meet their tax obligations
<b>Tax Evasion</b>	The illegal practice of deliberately refusing to pay taxes owed to the government.
<b>Tax Identification Number (TIN)</b>	A unique number/identifier assigned to individuals or entities for tax purposes. It is used by tax authorities to track income, taxes paid, and compliance with tax laws.
<b>Taxpayer Register Expansion Programme (TREP)</b>	A government initiative comprising local government, Uganda Revenue Authority and Uganda Registration Services Bureau aimed at simplifying business and tax registration among informal businesses.
<b>Trade Unions</b>	Organisations formed to protect workers' rights and improve working conditions, with limited reach in the informal sector.
<b>Value Added Tax (VAT)</b>	A consumption tax that is levied on the value added to goods and services at each stage of production or distribution.
<b>Welfare Indicators</b>	Measures of well-being, including income levels, access to social services, and living conditions.

## EXECUTIVE SUMMARY

### Background

Considering the widespread prevalence of informality in Uganda, the third National Development Plan (NDPIII) recognised that addressing the challenges of informality is critical for promoting private sector development, inclusive growth, and enhancing the country's socio-economic development. Particularly, the NDPIII targeted reducing the size of the informal sector from 51 percent in FY 2018/19 to 45 percent in FY 2024/25. However, according to UBoS (2024), informality in Uganda accounted for 54.5 percent of the country's GDP by the end of FY 2023/24. This 3.5 percent increase in informality partly explains the persistent low tax-to-GDP ratio registered over the years. Additionally, the share of informal employment in total employment increased from 90.7 percent in FY 2016/17 to 92 percent in FY 2020/21 (NLFS, 2021).

In the quest to encourage formalisation in Uganda, several interventions have been implemented by the Government of Uganda (GoU). These among others, include the Taxpayer Register Expansion Programme (TREP), the introduction of the Electronic Fiscal Receipting and Invoicing System (EFRIS) to improve tax compliance and streamline record-keeping among informal enterprises, introduction of physical and electronic One-Stop Business Centres by the Uganda Registration Services Bureau (URSB), instant Tax Identification Number (TIN) registration, introduction of online trade license registration at Kampala capital City Authority (KCCA) among others.

To enable NSSF extend social security coverage to informal workers, an amendment of the NSSF Act in 2022 and the publication of the National Social Security Fund (Voluntary Contributions and Benefits) Regulations, 2024 by the Ministry of Gender, Labour and Social Development (MoLGSD) has also been done, granting the Fund legal authority to extend its services to both formal and informal workers. Consequently, NSSF has introduced several initiatives, such as the Livelihood Support Project and Smartlife Flexi voluntary saving plan, to expand national social security coverage to include informal workers and enable them to have some form of social protection at the National Social Security Fund (NSSF).

Additionally, public awareness campaigns such as Taxpayer Education Programmes under the Tax Literacy Unit of the Uganda Revenue Authority (URA) to encourage tax compliance and inform informal sector players about formalisation benefits have been undertaken. However, these initiatives are yet to reduce informality, especially in instances where informality is “*hidden*” within formality and some of them contribute to informality.

Government has also undertaken several wealth creation initiatives, including the Parish Development Model (PDM), EMYOOGA, Business Development Services (BSD), among others, to stimulate social economic development. While these initiatives aim to enhance financial inclusion, business growth, and expansion of the monetary economy, their implementation could have inadvertently reinforced informality. For instance, if government-subsidised funds are accessed by unregistered enterprise owners or used to start up other unregistered ventures, it would allow them to operate and expand without necessarily transitioning into the formal sector. It should also be noted that the limited integration of information from household economic activities under government wealth creation

### Informal Sector Target reduced

from 51% in FY 2018/19 to

# 45%

in FY 2024/25

### Informal employment in Total Employment

increased from 90.7% in FY 2016/17 to

# 92%

in FY 2020/21

### NDPIV targets to reduce the size of informality

from 54.5% to

# 45.7%

by FY 2029/30 (NDPIV, 2025)

### Quantitative data for the first study

(MoFPED, 2022) was drawn from a survey of

# 1,303

randomly sampled informal businesses

### 13 KIIs and 6 FGDs

were conducted in the first study, while 14 KIIs and 8 FGDs were conducted in the second study.

initiatives implies that informal sector activities continue to benefit from government's business support incentives while remaining informal.

The NDPIV targets to reduce the size of informality from 54.5 to 45.7 percent by FY 2029/30 (NDPIV, 2025), on account that formalisation of businesses, activities, and workers improves competitiveness and growth of informal enterprises, improves incomes, supports job creation, widens the tax base and contribution to GDP in line Ministry of Finance Planning and Economic Development (MoFPED's) ten-fold growth strategy. This calls for a need to understand the entire informality spectrum. It is from this background that MoFPED, in collaboration with Economic Policy Research Centre (EPRC), commissioned two studies to examine the status of the informal sector in Uganda.

The first study, MoFPED (2022), focused on informal business enterprises, defined as firms that generate income but are neither registered nor subject to taxation. The second study, MoFPED (2024), extended this analysis by examining informal activities and workers, where; the former refers to household-based activities that earn incomes that are not registered or taxed, while the latter refers to are persons without formal employment contracts, social security, or employment benefits, often working in precarious conditions and as a result, they do not have access to any social safety nets or the protection that formal labour contracts offer. Together, these two studies combined, provide a deeper understanding Uganda's informal sector. This report, therefore, consolidates the findings from the two studies and suggests policy recommendations for tackling informality in Uganda.

### Objectives of the report

The report addressed the following objectives;

- a) To understand the measurement, size, nature, composition, and extent of informality among businesses, activities, and workers, and the main reasons for operating informally.
- b) To identify political, economic, social-cultural, technological, environmental, legal, and regulatory gaps and incentives responsible for the persistent informality in Uganda.
- c) To assess the effect of previous and current government initiatives/programmes on formalisation.
- d) To identify, compare, and contrast best practices from peer countries in the formalisation process.

- e) To recommend feasible interventions to be undertaken by the various key players to address the increasing number of informal businesses, activities, and workers.

### Methodology and Data

Desk reviews, quantitative analysis, and qualitative methods were used to examine informality in Uganda. The desk reviews covered literature and policy documents from organizations like the World Bank, ILO, UNDP, and Government of Uganda (GoU), including the NDP III, UBoS reports, and scholarly studies.

Quantitative data for the first study (MoFPED, 2022) was drawn from a survey of 1,303 randomly sampled informal businesses, that is, the Informal Businesses Survey (IBS) 2021. On the other hand, the second study (MoFPED, 2024) used secondary data, particularly, the most recent National Labour Force Survey (NLFS, 2021) by the Uganda Bureau of Statistics (UBoS)<sup>1</sup> to discern the extent of informality, characteristics of informal activities at the household level and workers at individual level, the contribution of the activities and workers to GDP, potential tax revenue, and the welfare benefits of informality.

To supplement the NLFS 2021, primary data from a survey of 1057 households in the Informal Activity and Workers Survey (IAWS) in 2024 was used. The survey used a structured questionnaire to interview households and individuals in 10 cities<sup>2</sup> plus Wakiso and Mukono districts. This provided nuances not collected by the NLFS 2021. These nuances include the sectoral and scale transition, incentives for informality, household perceptions on formalisation procedures, and the effectiveness of government reforms towards formalisation.

The quantitative data was triangulated with qualitative information to fill the gaps that could not be quantified. Qualitative insights were gathered through Key Informant Interviews (KIIs) with stakeholders such as government (Revenue, Commercial, and Production officials), business associations, among others. In addition, Focus Groups Discussion (FGDs) were used to collect data from community Self-Help Groups, cooperatives/aggregators, and Savings and Credit Cooperatives Organisations (SACCOS) among others. In total, 13 KIIs and 6 FGDs were conducted in the first study, while 14 KIIs and 8 FGDs were conducted in the second study.

<sup>1</sup> This is the most recent NLFS as at the time of conducting this research.

<sup>2</sup> Hoima, Gulu, Masaka, Lira, Arua, Mbarara, Fort portal, Jinja, Mbale, and Kampala

## Summary of findings

### Contribution of the Informal Sector to the Economy

- i. In FY 2020/21, the informal sector contributed about 48.9 percent to Uganda's GDP (approximately 71.7 trillion).
- ii. A breakdown shows that informal businesses generated income amounting to UGX 41.3 trillion shillings, an equivalent of 27.8 percent of the aggregate GDP.
- iii. A disaggregation by gender reveals that UGX 29.2 trillion, which is 70.6 percent of the revenue by informal businesses, was generated by women.
- iv. A disaggregation by the extent of informality indicates that partially informal businesses contribute nearly 80 percent (UGX 32.4 trillion) of the informal businesses output.
- v. On the other hand, informal activities and workers contributed 21 percent of Uganda's GDP (approximately UGX 30.4 trillion). Of this, 1.1 trillion was contributed by informal foreigners and refugees.
- vi. Except for Kenyans and Eritreans whose contribution to GDP (UGX 518 billion) is mainly from partially informal activities and work, the contribution to GDP by other non-nationals -including refugees, South Sudanese, DR Congolese, Burundians, Somalians, some Indians, and Rwandese is mostly from fully informal activities and workers (UGX 375 billion).
- vii. There is up to UGX 560 billion in potential tax held up by all informal businesses. Of this, UGX 474 billion potential tax revenue is held up by partially informal businesses.
- viii. Out of the 9.8 million informal workers, 1.4 million (14 percent) are untapped income taxpayers with an overall revenue potential of UGX 4.8 trillion.
- ix. Informal businesses employed about 5.3 million workers in 2021. Further disaggregation of employment by firm size indicates that over 77 percent of employment is mainly by informal micro-enterprises.
- x. Informal activities in cities employ about 1.1 million workers. A disaggregation shows that partially informal activities employ about twice as many workers (726,000) as those who are fully informal (397,000).
- xi. Only 12 percent of the informal businesses supply formal ones with inputs, reflecting a small linkage between formal and informal businesses.
- ii. Among activities, 63 percent are partially informal, while 37 percent are fully informal.
- iii. For workers, 64 percent are partially informal, and 36 percent are fully informal.
- iv. There is high compliance by informal businesses with local authorities, with only 30 percent of informal businesses not registered with local authorities, compared to 99 percent and 92 percent not registered with URA and URSB, respectively.
- v. The informality dimension breakdown reveals that URSB and URA have not registered 63 percent and 77 percent of informal activities, respectively.
- vi. Among informal workers, 77 percent operate without contracts, 72 percent have no social security, and 93 percent lack employment benefits such as paid annual leave and sick leave.

### Characteristics of Informal Businesses

- i. Approximately 56 percent of informal businesses are female owned.
- ii. Household heads aged 31-54 years own 62 percent of informal businesses, compared to the youth and elderly who own 33 percent and 6 percent of the informal businesses, respectively.
- iii. Less educated individuals own about 75 percent of informal businesses.
- iv. Close to 64 percent of informal businesses are 6 years or younger; only 36 percent are older than 6 years. A disaggregation shows that 63.6 percent and 66.4 percent of partially and fully informal businesses, respectively, are 6 years or younger.
- v. Retail trade accounts for approximately 57 percent of informal businesses. However, partially informal businesses are less likely to participate in the trading sector (45.8 percent) compared to their fully informal counterparts (61 percent)
- vi. Informal businesses are mainly located in urban areas (71 percent) as opposed to peri-urban areas (29 percent), with the choice of location informed by the need to be closer to their sources of inputs and their customers, who reside in their neighbourhoods.
- vii. Moreover, owners of 85 percent of informal businesses started them using their own savings.
- viii. In addition, 55 percent of businesses cite the opportunity to start and develop a profitable business as the main reason for creating and joining informal businesses, highlighting their role as vital incubators for entrepreneurship growth.
- ix. A majority (64 percent) of informal businesses do practice bookkeeping. Disaggregation shows that partially informal businesses are more

- likely to keep records (68.6 percent) compared to the fully informal businesses (51 percent).
- x. More than 40 percent of informal businesses have access to smartphones and over 46 percent of business owners have the skills of using smartphones irrespective of the extent of informality. In addition, about 38 percent of the same businesses have access to internet connectivity.
- xi. More than 91 percent of informal businesses are still micro-businesses and haven't transitioned to different sectors.

#### Characteristics of Informal Activities

- i. Findings show that 59 percent of the informal activities are owned by household heads aged between 31-54 years.
- ii. About 99 percent of the informal activities are within the agricultural sector (poultry and livestock rearing, selling firewood and charcoal, selling agricultural produce like fresh fruits and vegetables, among others).
- iii. Over 95 percent of these activities hardly transition by scale and sector.
- iv. Approximately 70% of informal activities were started using household savings.
- v. In terms of survival, 46 percent of the informal activities operate for more than 6 years.
- vi. Approximately 80 percent of informal businesses are owned by women. Further disaggregation shows that 84.4 percent of the fully informal and 73.8 percent of the partially informal activities are owned by females.

#### Characteristics of Informal Workers

- i. Youth comprise 43 percent of informal workers, while those aged 31–54 years make up 49 percent.
- ii. In terms of gender, 59 percent of the informal workers are females. A disaggregation shows that 70.9 percent of fully informal workers and 52.8 percent of partially informal workers are women.
- iii. Approximately 56 percent of informal workers have completed primary education, 16.4 percent have attended secondary school, and only 2.4 percent have attained education beyond the secondary level.
- iv. The findings show that 41.8 percent of informal workers face occupational hazards and 73.9 percent lack protective gears.

#### Factors Underpinning Informality

- i. Informal businesses and activities, regardless of the extent of informality, choose to remain informal due to flexibility and lower operational costs, as they avoid the expenses associated with formalisation, such as registration fees, payment of taxes, and bribes.

- ii. In the absence of formal employment, informal employment acts as an alternative source of household livelihood, where extra incomes from household activities and/or work are associated with better household welfare.
- iii. Insufficient information on the cost of registration, duration, and distance to registration points constrains formalisation.
- iv. By not paying taxes and other compliance costs, informal businesses and activities enjoy a competitive pricing advantage, leading to increased demand for their products. For instance, 35 percent of informal businesses offer lower prices than the formal firms.
- v. Informality persists partly because of Uganda's turbulent political history, the structure of Uganda's economy that yields few jobs, and past economic reforms, which reduced the size of the public sector.
- vi. Widespread corruption, mismanagement of public funds, and poor public service delivery has reduced tax morale and fiscal legitimacy, thus increasing fiscal informality.

#### Effect of the Previous and Current Government Initiatives/Programmes on Formalisation

- i. Interventions to incentivise business formalisation in Uganda over the past decades have shown mixed results and brought limited knowledge on how to address informality systematically. Past reforms, such as TREP, suffered from limited geographical coverage, understaffing, and competing agency priorities and responsibilities.
- ii. Business associations such as KACITA, UMA, USSIA, can be a springboard on which the government can leverage to formalise the informal sector business in Uganda. However, only 11 percent of informal businesses belong to a business association.
- iii. Awareness of tax obligations and the Electronic Fiscal Receipting and Invoicing System (EFRIS) is low among informal workers, with nearly 60 percent of respondents unaware of the functions of EFRIS.
- iv. Only 6 percent of informal workers received tax education in 2023.
- v. Only 27 percent of the Informal workers in cities knew about voluntary saving with NSSF. Additionally, only 22 percent are aware of medium-term access.
- vi. Similarly, only 15 percent knew that one can save towards an investment such as a house or education.
- vii. About 41.2 percent of the informal household activities operate with a license, with nearly 90 percent of these having got their licenses from local authorities.

viii. While government wealth initiatives such as the PDM, Emyooga, Business Development Services (BDS), and the Presidential Initiative for Skilling the Youth initiatives provide critical financial support, capacity-building, and skill development opportunities, they also present challenges that may inadvertently reinforce informality within the economy.

#### **Lessons on from other countries**

- i. Simplification of compliance processes is key: Unifying tax payments (Mono-tax mechanism) and reducing administrative burdens is essential in motivating Micro and Small Enterprises (MSEs) to formalise.
- ii. Incentivising participation in social security schemes for the poor and vulnerable groups with matching contributions is vital for inclusive social protection systems.
- iii. Formalisation initiatives should adopt progressive and stepwise formalisation strategies for gradual integration of informal entities into formal systems.
- iv. Comprehensive awareness campaigns that leverage partnerships and community engagements for outreach are essential to inform and engage informal workers and employers about the benefits of formalisation.
- v. Incentives for progressive formalisation including tax holidays, reduced tax rates, and simplified registration processes, access to credit, social protection benefits, and government contracts encourage activities and workers to formalise.
- vi. Integration of informal workers and activity owners into cooperatives or associations, SACCOS, Groups, Village Savings and Lending Associations (VSLAs) is essential to mobilise, inform and engage informal workers on formalisation and its benefits.

#### **Emerging Policy Options for Formalising Informal Businesses and Activities**

- I. Government through NITA-U should Integrate business registration information between local government with national registers at URSB and URA. This requires provision of ICT infrastructure at LG level and user trainings, enhancement of digital literacy for the business community, and utilization of LGs as the first point of contact for business and activities registration.
- II. URSB and MTIC in conjunction with PSFU could facilitate business registration in refugee host districts, prioritising regional hub districts to expand formal registration of the refugees and other foreigner owned informal activities, given their large contribution to GDP.
- III. Undertake Simplification of formalization and compliance requirements for businesses through reducing the initial costs of registrations to achieve traceability, harmonising a single-

form registration URA, URSB, and LG, and consolidating different registration fees/ Taxes into a single payment on an annual basis.

- IV. Require member registration in SACCOs under the current wealth creation program (PDM) to be linked to legal registration. There should be progressive onboarding of enterprises and transition from SACCOs registration to legal, then to fiscal, anchoring these wealth creation benefits on the business Name registration.
- V. MoFPED through URA to adopt a mono-tax system to reduce the burden of multiple tax payments through amalgamation of registration levies to the URA, URSB, and LG level and amalgamation of all sector-specific licenses under one tax head.
- VI. URSB and URA must intensify awareness and educational campaigns among business and household activity owners across the country to dispel the wrong perceptions regarding household activity registration processes and procedures, compliance costs, business tax obligations, registration requirements, duration and benefits. This could be done through offering mentorship programs and networking opportunities for newly registered businesses in line with the BDS framework and conducting mass registration drives for MSMES in rural areas.
- VII. There should be enforcement of regulation of the Informal business environment by enforcing trade order through ensuring strict adherence to the Physical development plans across LGs, streamline the legal and regulatory framework to deliberately support formalization, investments to boost land registration across the country, and enhancing labour inspection of workplaces.

#### **Emerging Policy Options for Formalising Informal Workers**

- i. MoGLSD must facilitate the human and financial resources capacity of its labour inspection and enforcement units to ensure that employers adhere to work conditions, safety standards, guidelines and requirements.
- ii. Government should incentivise informal workers to join social security schemes/ Voluntary Savings schemes through offering targeted matching co-contributions for the very poor and vulnerable workers, enhancing awareness campaigns for the Smartlife Flexi program, and leveraging partnerships and community engagements for outreach through grassroots campaigns, village meetings, and the involvement of local leaders to promote awareness.
- iii. Government through MoGLSD should strengthen governance of trade unions and cooperatives for informal workers which will provide better representation platform, collective bargaining, and access to resources.

# 1

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## INTRODUCTION

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## 1.1 BACKGROUND

The World Bank (2020) defines informality as businesses, activities, and workers operating outside the legal and regulatory framework. The International Labour Organisation (ILO) defines an informal sector as “*all economic activities, workers, and economic units that are, in law or practice, not covered by or insufficiently covered by formal arrangements.*” These definitions, and many others, highlight the unregulated nature of the informal sector. Notably, the informal sector accounts for a third of GDP and more than 70 percent of employment in developing countries (World Bank, 2021).

Uganda’s third National Development Plan (NDPIII) recognised that addressing the challenges of informality is critical for promoting private sector development, inclusive growth, and enhancing the country’s socio-economic development. Particularly, the NDPIII targeted reducing the size of the informal sector from 51 percent in FY 2018/19 to 45 percent in FY 2024/25. However, according to UBoS (2024), informality in Uganda accounted for 54.8 percent of the country’s GDP by the end of FY 2023/24. The increase of 4.8 percent in informality partly explains the persistent low tax-to-GDP ratio registered over the years. Additionally, the share of informal employment in total employment increased from 90.7 percent in FY 2016/17 to 92 percent in 2021 (NLFS, 2021).

In the quest to encourage formalisation in Uganda, several interventions have been implemented by the government of Uganda. For instance, government has established programmes and activities aimed at promoting voluntary and involuntary registration, digitisation of tax records, and payments, such as the Taxpayer Register Expansion Programme (TREP), the Electronic Fiscal Receipting and Invoicing System (EFRIS) to improve tax compliance and streamline record-keeping among businesses, instant Tax Identification Number (TIN) registration, introduction of physical and online One-Stop Business Centers by the Uganda Registration Services Bureau (URSB) to support business registration through simplifying the process.

Government is encouraging the formation and mass enrolment of grass-root business associations; and strengthening existing apex business associations such as Private Sector Foundation Uganda (PSFU), Uganda Small-Scale Industries Association (USSIA), Uganda

Taxi Operators and Drivers Association (UTODA), Kampala City Traders Association (KACITA) and Uganda Manufacturers Association (UMA), among others. The capacity for self-regulation, especially in encouraging voluntary business registration and tax compliance, standardizing output, accessing export markets, and enhancing synergies and the bargaining power of business enterprises, results from the work of business associations.

To enable NSSF extend social security coverage to informal workers, an amendment of the NSSF Act in 2022 and the publication of the National Social Security Fund (Voluntary Contributions and Benefits) Regulations, 2024 by the Ministry of Gender, Labour and Social Development (MoLGSD) has also been done, granting the Fund legal authority to extend its services to both formal and informal workers. Consequently, NSSF has introduced several initiatives, such as the Livelihood Support Project and Smartlife Flexi voluntary saving plan, to expand national social security coverage to include informal workers and enable them to have some form of social protection at the National Social Security Fund (NSSF).

Additionally, public awareness campaigns such as Taxpayer Education Programmes under the Tax Literacy Unit of the Uganda Revenue Authority (URA) to encourage tax compliance and inform informal sector players about formalisation benefits have been undertaken. However, these initiatives are yet to reduce informality, especially in instances where informality is “*hidden*” within formality and some of them contribute to informality. Adding to the challenge is determining whether informality should be a direct target or is instead something indirectly impacted through development, improved governance, better regulation and improved public services. This calls for the development and testing of new approaches to informality or a revision of the existing ones based on a deepened understanding of the needs of the informal sector.

Government has also undertaken several wealth creation initiatives, including the Parish Development Model (PDM), EMYOOGA, Business Development Services (BSD), among others, to stimulate social economic development. While these initiatives aim to enhance financial inclusion, business growth, and expansion of the monetary

economy, their implementation could have inadvertently reinforced informality. For instance, if government-subsidised funds are accessed by unregistered enterprise owners or used to start up other unregistered ventures, it would allow them to operate and expand without necessarily transitioning into the formal sector. It should also be noted that the limited integration of information from household economic activities under government wealth creation initiatives implies that informal sector activities continue to benefit from government's business support incentives while remaining informal.

The NDPV targets to reduce the size of informality from 54.8 to 41.5 percent by FY 2029/30 (NDPVI PIAPs, 2024), on account that formalisation of businesses, activities, and workers improves competitiveness and growth of informal enterprises, improves incomes, supports job creation, widens the tax base and contribution to GDP in line Ministry of Finance Planning and Economic Development (MoFPED's) ten-fold growth strategy. This calls for a need to understand the entire informality spectrum. It is from this background that MoFPED, in collaboration with Economic Policy Research Centre (EPRC), commissioned two studies to examine the status of the informal sector in Uganda.

The first study, MoFPED (2022), focused on informal business enterprises, defined as firms that generate income but are neither registered nor subject to taxation. The second study, MoFPED (2024), extended this analysis by examining informal activities and workers, where; the former refers to household-based activities that earn incomes that are not registered or taxed, while the latter refers to are persons without formal employment contracts, social security, or employment benefits, often working in precarious conditions and as a result, they do not have access to any social safety nets or the protection that formal labour contracts offer. Together, these two studies combined, provide a deeper understanding Uganda's informal sector. This report, therefore, consolidates the findings from the two studies and suggests policy recommendations for tackling informality in Uganda.

## 1.2 Objectives of the Report

This report provides a deeper understanding of informality in Uganda providing an understanding of Uganda's informal businesses, activities, and workers, examining the reasons for the existence and growth of

the informal sector, and, what needs to be done differently by policymakers to address the informality. The Report specifically aims to;

- a) Examine the measurement, size, nature, composition, and extent of informality among businesses, activities, and workers, and the main reasons for operating informally.
- b) Identify political, economic, social-cultural, technological, environmental, legal, and regulatory gaps and incentives responsible for the persistent informality in Uganda.
- c) Assess the effect of previous and current government initiatives/ programmes on formalisation.
- d) Identify, compares, and contrasts best practices in peer countries in the formalisation process.
- e) Provide feasible recommendations and interventions to be undertaken by the various key players to address the increasing number of informal businesses, activities, and workers.

## 1.3 Structure of the Report

Besides this introduction, the Report has seven chapters. Chapter 2 presents a brief conceptualisation of informality. It also outlines the analytical approach, the sampling frame as well as the scope. Chapter 3 examines the measurement and composition of the informal sector in Uganda. The discussion includes characteristics of informal businesses, business owners, activity owners' activities and workers, contribution of the Informal sectors on in terms of GDP, Potential Revenue, as well as Employment.

Chapter 4 analyses the factors underpinning informality and these include the political, economic, social-cultural, technological, environmental, and legal factors. The discussion also looks at the regulatory gaps and incentives responsible for the persistent informality in Uganda. Chapter 5 presents the effect of previous and current government initiatives on formalisation. The chapter looks at government initiatives to raise awareness and compliance among informal businesses, activities and workers, including NSSF, TREP, EFRIS, Business associations, licensing regime, among others. The chapter also looks at the different government initiative and their effect on formalisation including, Parish Development Model, Emyooga, Presidential Initiative for skilling the girl child and Business Development Services.

Chapter 6 focuses on the effect of COVID-10 the formalisation in Uganda. Chapter 7 identifies, discusses, compares, and contrasts best practices in peer countries in the formalisation process. The section examines strategies from Brazil, Mexico, Rwanda, Ghana, South Africa, and Tanzania. These best practices show how to create supportive

systems, simplify regulatory processes, and incentivise formalisation, all of which Uganda can adapt to its context to foster a more inclusive and robust economic environment. Chapter 8 provides the conclusion as well as the feasible policy recommendations for tackling informality in Uganda.



# 2

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## CONCEPTUALISATION OF INFORMALITY

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## 2.0 CONCEPTUALISATION OF INFORMALITY

It is important to comprehend what the informal sector entails, including its players (businesses, activities, and workers) and dimensions (legal, fiscal, and labour), for a proper assessment of its economic significance as well as challenges. This chapter provides a comprehensive foundation for understanding the informal sector in Uganda. It begins by defining key concepts related to informality, including the informal sector, businesses, activities, and workers. The chapter introduces a conceptual framework that illustrates the various components and dimensions of the informal sector, offering a structured perspective on its complexity. The chapter also presents the analytical framework, scope, and sampling procedures for primary data collection.

### 2.1 Definition of Informality

The report adopts the definition of informality by the World Bank (2020), which defines the informal sector as businesses, activities, and workers operating outside the legal and regulatory systems. The informal sector consists of businesses, workers, and activities (an inherent interdependence) as illustrated in Figure 1. Informal businesses are entities that operate without formal registration, licensing, and compliance with tax authorities and/or labour laws. Informal activities, on the other hand, are household-based production activities mainly intended for the market, but not formally recognised by government's legal and regulatory authorities.

Both informal businesses and activities encompass three profiles and dimensions of informality: legal, fiscal, and labour. These dimensions are not exclusive, as businesses or activities may be informal across any or all of these dimensions and may cycle in and out of informality. What is fundamental is that informal businesses and activities exclude non-market production of goods by households, especially goods and services mainly intended for their own final use and volunteer services rendered to the community (ILO, 2012).

On the other hand, informal workers are persons without formal employment contracts, social security, or employment benefits, often working in precarious conditions and as a result, they do not have access to any social safety nets or the protection that formal labour contracts offer.

### 2.2 Conceptual Framework

Like the definition, the report adopts the conceptualisation of informality by the World Bank (2020). As earlier mentioned, the informal sector consists of businesses, workers, and activities as illustrated in Figure 1. From the conceptual framework, there are three dimensions of informality as detailed below:

- (a) Legal informality refers to a scenario where a business or activity is not registered with the Local Governments (LGs) and/or Uganda Registration Services Bureau (URSB).
- (b) Fiscal informality refers to a scenario where a business or activity is not registered with URA.
- (c) Labour informality refers to a scenario where workers engage in work without written contracts, social security (National Social Security Fund (NSSF) and private sector pension schemes), employment benefits (paid annual, sick, and maternity leave), and insurance (health and retirement insurance schemes).

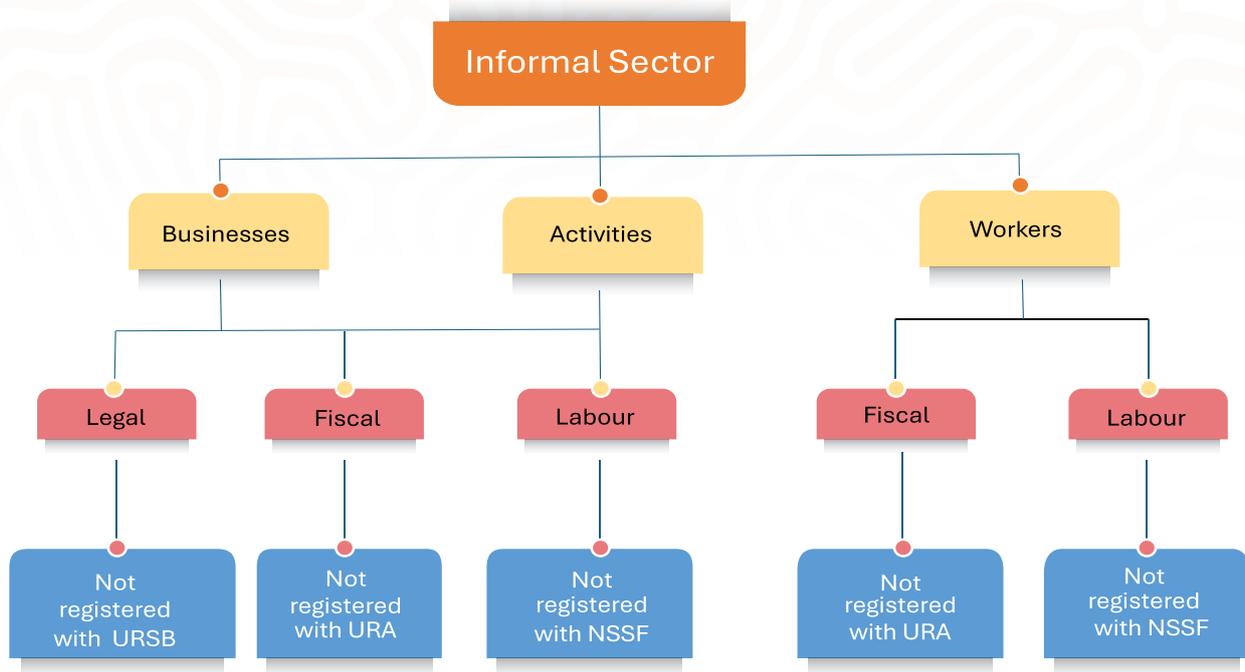
In this report, informal businesses and activities encompass all the above three dimensions of informality, that is, (a)-(c). On the other hand, informal workers profile two dimensions: fiscal and labour, that is, (b)-(c). Labour informality should be understood to be synonymous to legal informality. Therefore, the three dimensions of informality can be collapsed into two, i.e., *either fiscal or legal informality* and *both fiscal and legal informality*. For simplification, and from here henceforth, *either fiscal or legal informality* refers to *partial informality* and *both fiscal and legal informality* refers to *full informality*.

These definitions help to manage the variability found in the informal versus formal dichotomy and accommodate businesses, activities, and workers operating between fully formal and fully informal; and thus, showing some but not all dimensions of informality. This is to build a working definition for the government, the private sector, civil society, development partners, and other stakeholders that will enable research and reform efforts to nudge informal businesses and activities towards adopting formalisation. Once formalised, this will also enable support for them, as envisioned in the Private Sector Development (PSD) and Development Planning Implementation (DPI)

result framework of the NDP III. Specifically, the PSD and DPI result framework aims to deepen informality reduction and a

streamlining of taxation at national and local government levels to strengthen budgeting and resource mobilisation.

**FIGURE 1: CONCEPTUAL FRAMEWORK FOR INFORMALITY**



Source: Adopted from World Bank (2020)

**2.3. Report Approach**

The Report uses three methods namely, Policy Document Review, quantitative, and qualitative analyses explained as follows.

**2.3.1 Policy Document Review**

This involved a review of informal sector-related literature, mainly from the World Bank, International Labour Organisation (ILO), and development agencies such as United Nations Development Programme (UNDP). Government policy documents such as the NDP III, Program Implementation Action Plans (PIAPs) for the NDPIV, UBoS reports, including the NLFS, 2021; MoFPED report (2022), the Background to the Budget, Ministerial Policy Statements, and the 2015 Uganda Micro, Small, and Medium Enterprise (MSME) Policy, as well as scholarly studies were reviewed. This review was conducted to identify gaps, trends, and best practices in addressing informality, ensure alignment with Uganda’s development objectives, and provide evidence-based recommendations

to enhance the formalisation of the informal sector.

**2.3.2 Quantitative Method**

This method entailed an analysis of secondary data, particularly the 2021 National Labour Force Survey (NLFS), by the Uganda Bureau of Statistics (UBoS). In addition, in 2021 and 2024, EPRC conducted surveys on informal businesses and activities respectively to provide primary data that would support the information gathered through the desk reviews and other qualitative methods.

For secondary data, the NLFS (2021), by the Uganda Bureau of Statistics (UBoS) was used to discern the extent of informality, characteristics of informal activities and workers, the contribution of the activities and workers to GDP, potential tax revenue, and the welfare benefits of informality. The NLFS collected data from 8,668 households with 39,522 individuals. Variables analysed from the NLFS include; informal employment<sup>3</sup>, economic activity, conditions in the workplace, contribution to GDP, potential revenue,

3 A definition of informal employment is provided as i. Own-account workers ii. Employers iii. Contributing family workers; iv. Members of informal producers’ cooperatives v. Employees holding informal jobs as defined according to the employment relationship (in law or practice, jobs not subject to national labour legislation, income taxation, social protection, or entitlement to certain employment benefits (paid annual or sick leave, etc.); vi. Own-account workers engaged in the production of goods exclusively for their own final use by their household.

risks, violence, and housing conditions in the workplace. EPRC also collected primary data in 2021 through an Informal Businesses Survey (IBS) of individual informal businesses in Uganda. The survey addressed questions on measurement, size, nature, composition, the extent of informality, main incentives for operating informally, and the effects of government formalisation initiatives/programmes on reducing informality among businesses in Uganda.

Furthermore, in 2024, EPRC conducted the Informal Activity and Workers Survey (IAWS) 2024 to collect primary data supplementing the NLFS 2021, mainly addressing important and emerging policy questions such as reforms at URA and NSSF. This provided nuances not captured by the NLFS 2021 regarding informal activities and workers. These nuances include the sectoral and scale transition, incentives for informality, household perceptions on formalisation, and the effect of government reforms towards formalisation.

These quantitative datasets (IBS 2021, NLFS 2021, and IAWS 2024) were analysed using descriptive statistics with sufficient rigor. The quantitative data was then triangulated with qualitative information to fill the gaps that could not be quantified.

A Probit regression was estimated to empirically examine how earnings from informal activities and employment affect the likelihood of better welfare, controlling for factors such as the household head's demographics, education level, geographical location, and sector of activity. The primary focus was to assess how hourly incomes serving as compensation/reward to the activity owners or workers affect the household's perceived financial well-being, used as a proxy for household welfare. The household's perceived financial well-being is a binary variable, coded as 0 for those who describe their financial situation as "*Not well off*" and 1 for those who consider themselves "*either average or well off*" financially.

The NLFS 2021 provided data on household incomes, perceived financial well-being, and control variables. Probit marginal effects were used to ascertain how incomes and other control variables influence household well-being, providing valuable insights into the relationship between informal activities and/or employment and household well-being.

### 2.2.3 Qualitative Methods

To obtain in-depth insights into informality, we conducted Key Informant Interviews (KIIs) and Focus Group Discussions (FGDs) in both IBS (2021) and IAWS (2024).

KIIs were used to explain institutional and policy issues affecting informal businesses, activities, and workers, issues that proved impossible to capture quantitatively, despite their critical role in improving informal sector compliance and productivity. The KIIs were used to solicit information concerning the role played by different institutions in business development, policy and institutional impediments to informal compliance, plans, and reforms to foster regulatory compliance of informal activities and workers. An overall total of twenty seven (27) KIIs was conducted.<sup>4</sup> These were selected from stakeholders such as government departments and agencies (Revenue, Commercial, and Production officials), business associations such as KASITA and USSIA, among others.

FGDs were conducted with individuals directly involved in informal businesses, activities, and work. These mainly came from community self-help groups, cooperatives/aggregators, and Savings and Credit Cooperatives Organisations (SACCOs). Fourteen (14) FGDS are conducted and these enabled researchers to collect data from diverse participants by bringing together individuals with different backgrounds, experiences, and viewpoints, thus allowing in-depth exploration of participants' thoughts, experiences, and perceptions on informality.

### 2.4 Scope of the survey

The IBS (2021) took place in five statistical regions of Kampala: Central, West, East, and North. Conversely, the IAWS (2024) covered households and individuals in the 10 cities (Arua, Lira, Gulu, Jinja, Mbale, Hoima, Fort Portal, Kampala, Masaka, and Mbarara) plus Wakiso, and Mukono districts. These cities were selected because most commercial activities and knowledge about taxation and reforms at NSSF are concentrated in urban areas, especially in cities.

### 2.5 Sampling Frame

Prior to the IBS (2021), a two-stage stratified sampling procedure was used to pick a sample from the 2018 Census of Business Establishment (COBE) sampling frame of

<sup>4</sup> 13 and 14 KIIs for the first and second studies respectively. For the FGDs, 6 and 8 of the 14 were conducted in the first and second studies respectively.

UBoS. The Primary Sampling Unit (PSU) was the region, while the Secondary Sampling Unit (SSU) was the sector. The selection of the PSU came from Enumeration Areas within Kampala, Central, West, North, and East's five statistical regions. The sector stratification, conforming to level four of the International Standard Industrial Classification (ISIC), was the source for the SSU.

The two-stage stratified sampling method yielded a sample size of 1,303 informal businesses, accounting for both sampling and non-sampling error (Table 1).

The sample size was determined by a statistical formula that is based on the total business population in each region, sector, and the margin of error (see Appendix A).

The central region and the trade sector had the largest share, 627 and 614 informal businesses respectively (Table 1). At least 1,165 informal businesses responded to the survey, a response rate of 89 percent (Table 1). A disaggregation shows that informal businesses in the trade sector overwhelmingly participated in the survey. This was primarily due to the fact that informal businesses in the trade sector form a significant majority of businesses in the 2018 COBE sampling frame. To ensure that the results are representative of the entire informal business population in Uganda, sample weights were generated and applied in the analysis. The approach for generating the sample weights is summarized in Appendix B.

**TABLE 1: SAMPLE AND RESPONSE RATE OF INFORMAL BUSINESSES**

Sector	Kampala and Central	Eastern	Northern	Western	Total from sample	Total from interview
Agriculture	33	0	13	14	60	31
Industry	28	0	3	10	41	82
Trade	281	18	86	229	614	669
Hotels , restaurant	103	10	38	89	240	108
Services exc. Trade and transportation	117	5	28	71	221	153
Other services	65	6	15	41	127	122
<b>Total from sample</b>	<b>627</b>	<b>39</b>	<b>183</b>	<b>454</b>	<b>1,303</b>	
<b>Total from interview</b>	<b>560</b>	<b>31</b>	<b>140</b>	<b>434</b>		<b>1,165</b>

*Source: IBS (2021)*

For the IAWS (2024), the 2019/20 Uganda National Household Survey (UNHS) was used as the sampling frame. The first step involved randomly selecting EAs from 10 cities plus Wakiso and Mukono districts. The survey focused on cities because of their associated high concentration of commercial activities. In addition, city dwellers seem to be more knowledgeable about taxation and reforms at URA and NSSF than their rural counterparts. The second step involved a household listing exercise in the selected EA. This was conducted using a questionnaire that asked

whether a household had an activity(ies) or worker(s). The third step involved randomly selecting 1,057 households and 3,892 workers with replacements. The survey response rate was 93 and 97 percent for households and workers, respectively (Table2). To ensure that the results are representative of the entire informal activities in the secondary cities and Kampala, Wakiso and Mukono, sample weights were generated. The ratio of the probability of EA selection and household selection within an EA was used to generate weights.

**TABLE 2: SAMPLE AND RESPONSE RATE OF IAWS**

City	Activities			Workers		
	Sample	Interviewed	Response (%)	Sample	Interviewed	Response (%)
Arua	40	32	80%	232	192	83%
Fort Portal City	54	48	89%	202	198	98%
Gulu	65	47	72%	292	271	93%
Hoima	48	45	94%	205	202	99%
Jinja	56	55	98%	184	184	100%
Kampala	403	384	95%	1,255	1,254	100%
Lira	53	46	87%	300	273	91%
Masaka	26	25	96%	101	96	95%
Mbale	103	94	91%	365	361	99%
Mbarara	19	19	100%	74	74	100%
Mukono	61	58	95%	160	159	99%
Wakiso	213	204	96%	632	628	99%
<b>Total</b>	<b>1,141</b>	<b>1,057</b>	<b>93%</b>	<b>4,002</b>	<b>3,892</b>	<b>97%</b>

**Source: IAWS (2024).**

# 3

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## MEASUREMENT AND COMPOSITION OF INFORMALITY IN UGANDA

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### 3. MEASUREMENT AND COMPOSITION OF INFORMALITY IN UGANDA

Understanding the various aspects of informality—size, demographics of informal sector players, drivers, among others — is crucial for the formulation of tailored interventions that effectively address the challenges associated with informality. Moreover, insights into the characteristics of informality helps bridge the gap between formal and informal economies, fostering inclusivity, and enhance the sector’s potential to contribute to economic growth, decent employment generation, and sustainable livelihoods. This chapter characterises informal businesses, activities and workers by extent of informality, owner and worker characteristics, business and activity characteristics, growth potential of informal businesses and activities and use of records, technology, and source of inputs. The section ends with an estimation of the contribution of the informal sector to the economy by GDP, employment, potential revenue, and linkages with the formal economy.

#### 3.1 Extent of Informality

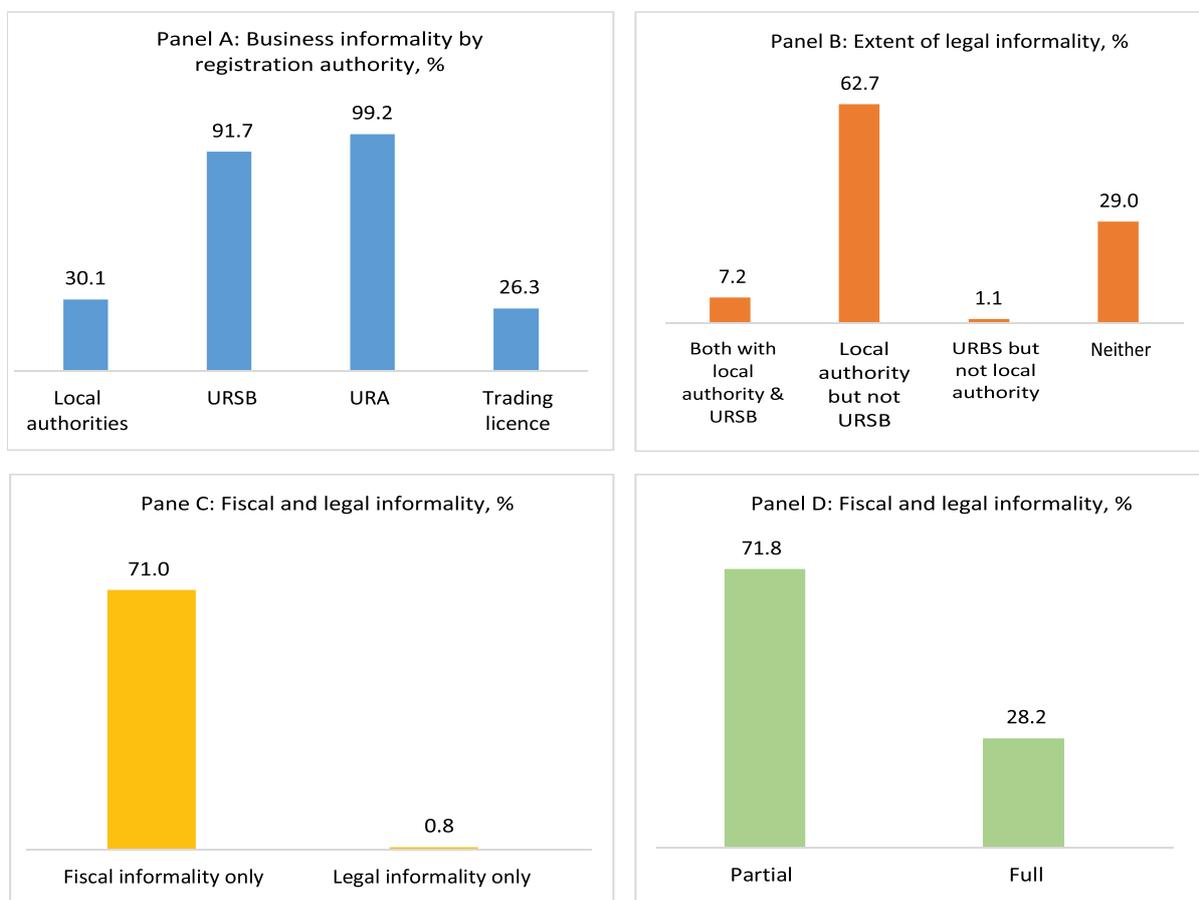
##### 3.1.1 Extent of Business Informality

Panel A of Figure 2 examines the individual variables used to measure the extent of legal and fiscal informality in businesses. In this regard, results in Figure 2 shows that 30.1 percent of informal businesses are not registered with local authorities, 92 percent are not registered with URSB, 99 percent are not registered with URA, and 26 percent do not have a trading license. The results provide evidence that more businesses (70 percent) are registered with local authorities compared to URSB and URA. This is partly

attributed to local authorities being closer and more accessible to businesses compared to other regulatory authorities. One of the KIIs noted that;

*“Local authorities have an easy process of registration i.e. the municipal council has a team that conducts field visits in various business communities; the process is as simple as collecting the contact details of the business such as the name of the owner, phone contacts, email address, where the owner stays, the type of business and its location. Picking this information marks the end of registration with local authorities”.*

**FIGURE 2: EXTENT OF BUSINESS INFORMALITY**



Source: IBS (2021)

Furthermore, business owners, especially the small ones, are reluctant to register their activities with URA because they perceive the tax rates as high and suited mainly for larger businesses. A KII explained that;

*“Businessmen, especially the ones with small businesses, are not interested in registering their businesses with URA due to high taxes charged by URA relative to the dues charged by local authorities. Most small businesses believe that registration with URA is for the big businesses”.*

In Panel B of Figure 2, the findings show that only 7.2 percent of informal businesses are registered with both local authorities and URSB. Moreover, 63 percent are registered with local authorities but not URSB. Conversely, only 1 percent of informal businesses are registered with URSB and not local authorities.

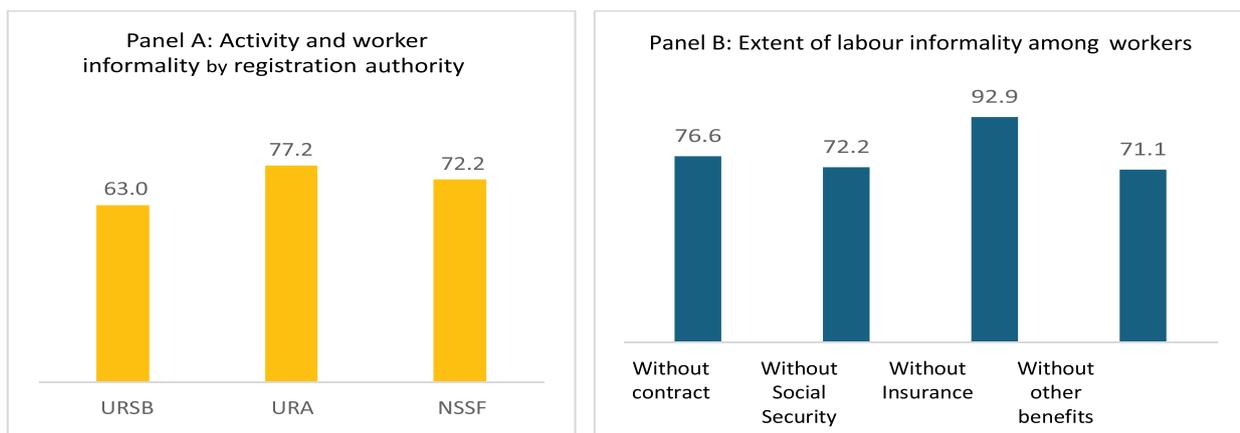
Panel C of Figure 2 combines the two profiles and dimensions of business informality: legal and fiscal. The results reveals that 71 percent of informal businesses are legally compliant, while only 0.8 percent are fiscally compliant. Furthermore, the findings In Panel D indicates that 71.8 percent of the businesses are partially informal. Conversely, 28.2 percent of the businesses are fully informal.

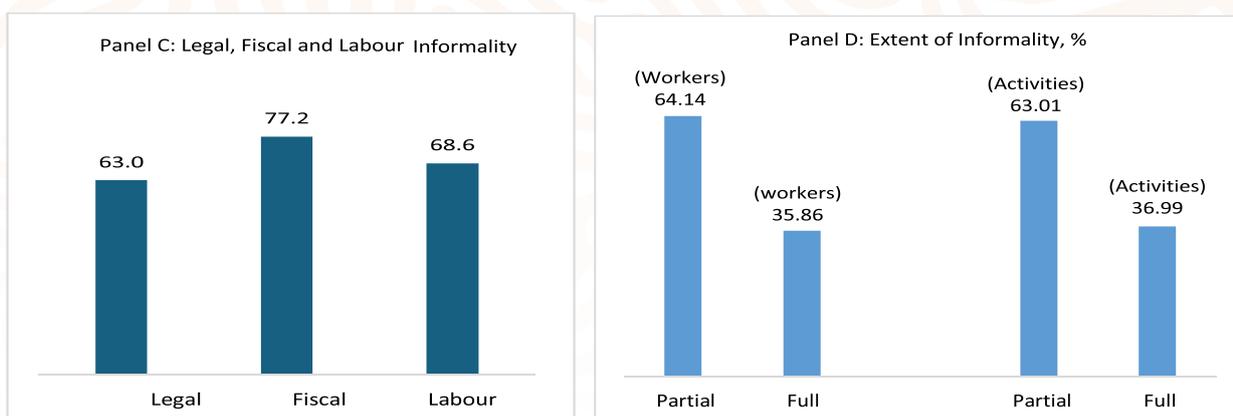
### 3.1.2 Extent of Informality in Activities and Workers

The findings in panel A of Figure 3 indicate that 63 percent of household activities are not registered with URSB, 77 percent of both activities and workers are not registered with URA, and 72.2 percent of informal workers do not save with NSSF. The high non-compliance with URSB is partly attributed to households' perception that registration with URSB could expose their activities to taxation. Results in Panel B reveal that 92.9 percent of informal workers have no insurance, and about 76.6 percent, 72.2 percent and 71.1 percent of informal workers operate without a contract or social security and do not enjoy employment benefits such as paid maternity, sick, and annual leave, respectively. These results could be attributed to the high level of unemployment, which makes individuals desperate for any available job opportunity, irrespective of the unfavourable terms.

Panel C of Figure 3 shows higher fiscal informality among activities and workers than legal and labour informality, where 77.2 percent both informal activities and workers are fiscally informal (not registered with URA) compared to 63.0 percent and 68.6 percent of activities and workers that have legal and labour informality, respectively. These results indicate widespread regulatory and tax non-compliance by informal activities and workers, as well as highlighting the poor working conditions, vulnerabilities, and risks faced by workers in such informal employment situations.

**FIGURE 3: EXTENT OF INFORMALITY IN ACTIVITIES AND WORKERS, (%)**





Notes: (a) No legal dimensions for informal workers. (b) Other benefits include annual, sick or maternity leave.

Source: NLFS (2021).

In explaining the factors contributing to the prevalence of informality among workers and informal activities, a KII reveals several critical challenges. These include, among others, limited awareness, high compliance costs (both monetary and non-monetary), fear of high taxation, and limited accountability:

*“There is limited awareness due to inadequate outreach and educational efforts, particularly in rural or remote areas with restricted access to information, which hampers registration efforts. Additionally, bureaucratic hurdles and time-consuming registration processes discourage individuals from registering their activities and enterprises. Small or informal enterprises perceive high compliance costs and fees as unaffordable. Furthermore, the lack of immediate, apparent benefits such as access to loans, business support, or legal protection diminishes the perceived value of compliance”*

Similar to informal businesses, informal activities and workers vary significantly, with some displaying only certain dimensions of informality (partially informal), while others exhibit all characteristics of informality (fully informal). Results in Panel D of Figure 3 show that 63 percent and 64 percent of activities and workers are partially informal and 37 percent and 36 percent of these activities and workers are fully informal, respectively.

### 3.2 Characteristics of Informal Businesses, Activities, and Workers

#### 3.2.1 Characterisation of Informal Business owners, Activity owners, and Workers

It is worth noting that individuals involved in informal businesses, activities, and work differ widely in terms of income level, age, gender, education level, among other indicators. Indeed, the findings on gender show that women own 56 percent of informal businesses in Uganda. Women’s dominance continues even when considering different levels of informality; they own 57.9 percent and 50.6 percent of partially and fully informal businesses, respectively.

The findings also reveal that household heads aged 31-54 years, and the youth (18-30 years) own 62 percent and 33 percent of informal businesses, respectively.<sup>5</sup> Relatively many financial responsibilities, including supporting families, paying for children’s education, or planning for retirement, partly explain this high prevalence of informality among the middle-aged.

These responsibilities drive them to create a flexible source of supplementary income to meet their needs, especially where access to formal employment or additional income opportunities is limited.

Furthermore, 34 percent and 41 percent of the overall informal business are owned by individuals with at most primary and secondary education, respectively. Further disaggregation by the extent of informality shows no differences between businesses that are partially informal and those that are

<sup>5</sup> These age categories are based on the Demographic categorisations by UBoS

fully informal regarding the level of education of business owners. These results highlight that low levels of education contribute to the increasing number of young people joining the informal sector. A KII notes that;

*“low levels of education also lead to a language barrier in reading information about formalisation and so there is need for translation of businesses formalisation information into local languages”.*

This evidence is consistent with both the international and local literature, which indicates that the lack of proper education has been responsible for locking people outside the formal economy and thus increasing the size of the informal economy in developing countries. Many businesses in Uganda, including eating kiosks, fish mongering, and shoe shining, require no special skills and are run primarily by school dropouts

and individuals without formal education. Nevertheless, a considerable portion (25 percent) of business owners have a diploma or higher qualification, indicating that the informal sector includes not only individuals with lower education levels but also those with higher qualifications.

Regarding informal activities, about 80 percent of these are owned by women. Further disaggregation shows that 84.4 percent of the fully and 73.8 percent of the partially informal activities are owned by females. Although the Ugandan government implemented several initiatives, including the Uganda Women Entrepreneurship Programme (UWEP) and the Presidential Initiative of Skilling the Girl Child, to empower women, women still heavily rely on informal activities, perhaps because of barriers to accessing formal employment such as limited access to capital, education, and restrictive social norms.

**TABLE 3: CHARACTERISATION OF INFORMAL BUSINESS OWNERS, ACTIVITY OWNERS, AND WORKERS**

Category	Extent of informality	sex		Age group (Years)			Highest education level		
		Female	Male	<31	31-54	>54	At most primary	Secondary	Diploma & above
Business owners	Partial	57.9	42.1	32.7	60.9	6.4	33.3	39.1	27.6
	Full	50.6	49.4	32.2	64.7	3.2	37.6	44.3	18.2
	All	55.9	44.1	32.5	62.0	5.5	34.4	40.5	25.1
Activity owners	Partial	73.8	26.2	25.0	60.3	14.7	7.4	39.3	53.3
	Full	84.4	15.7	35.5	55.9	8.7	55.6	35.6	8.8
	All	77.7	22.3	28.9	58.7	12.5	50.4	36.0	13.6
Workers	Partial	52.8	47.2	37.3	52.5	10.2	61.1	12.0	26.9
	Full	70.9	29.1	53.0	41.5	5.5	46.8	24.4	28.8
	All	59.3	40.7	42.9	48.6	8.5	56.0	16.4	27.6

Source: NLFS (2021) and IBS (2021).

The findings also reveal that 58.7 percent of informal activities are owned by household heads aged 31-54 years, while 28.9 percent of informal activities are owned by the youth. Further, a disaggregation shows that 35.5 percent of the fully informal activities are owned by the youth. This could be explained by the high levels of joblessness among young people due to difficulties in finding employment in the formal sector. In the FY 2020/21, the unemployment rate among the youth (18-30 years) was 17 percent, higher than the national rate of 12 percent (UBoS, 2023). The COVID-19 pandemic worsened joblessness, compelling young and middle-

aged individuals to start income-generating activities, such as charcoal selling and hawking.

In terms of education, 55.6 percent of the fully informal activities are owned by individuals who have attained some primary education or no formal education at all. The findings demonstrate that the low levels of education compel such individuals to start up informal activities primarily as a means of livelihood. These activities often require minimal startup capital, fewer regulatory requirements, and basic skills, making them more accessible for those with limited formal education. However,

92.6 percent of the partially informal activities are owned by individuals who have attained secondary education and above. This implies that greater educational attainment may provide individuals with knowledge, skills, or networks that encourage them to formalise aspects of their enterprises. Higher education may also increase awareness of the potential benefits of formalisation, such as access to credit, legal protections, and expansion opportunities.

This pattern highlights a potential link between education and the ability to access resources, information, and interact with regulatory frameworks, which can influence the transition toward formality.

Similar to informal businesses and activities, females dominate their male counterparts in informal employment, with 70.9 percent of the fully informal and 52.8 percent of the partially informal workers are females (Table 3). This evidence on gender shows that employers are more likely to employ women without formal contracts, social security,

### 3.2.2 Status of Employment

Findings in Table 4 show that majority (57 percent) of the informal workers in Uganda are self-employed/engaged in their informal household activities while others are fully informal employees (35 percent). A disaggregation shows that employed informal employees are more likely to be fully

and other employment benefits, even if the institution is formal.

Similar to informal business owners, 53 percent and 41.5 percent of the fully informal workers are youth and middle-aged individuals, respectively. This finding highlights the barriers faced by the youth to entering formal employment and as a result, they rely on informal work as a primary source of income, as earlier explained. This evidence corroborates that of the NLFS (2021) which discovered that almost all employed youth (90 percent) were in informal employment. A breakdown by the extent of informality shows that 52.5 percent and 37.3 percent of the partially informal workers are middle-aged and youth, respectively. Individuals with either some primary or no formal education at all account for 61.1 percent and 46.8 percent of partially and fully informal employment, respectively. Additionally, 38.9 percent and 53.2 percent of partially and fully informal workers have secondary or tertiary education, respectively.

informal (94.8 percent), while those in self-employment are more likely to be partially informal (86.6 percent). This implies that efforts to encourage the formalisation of workers should indiscriminately focus on the self-employed and the informal employees regardless of the extent of informality.

**TABLE 4: STATUS OF EMPLOYMENT**

Status	Partial informality	Full informality	All
As an employee	2.3	94.8	35.5
In own business activity (employers, Own-account worker)	86.6	2.8	56.6
Helping in a family or household business	11.1	2.0	7.8
Paid apprentice /intern		0.3	0.1
Helping a family member who works for some other place		0.1	0.04

**Source: NLFS (2021).**

### 3.2.3 Informality at the Place of Work

The International Expert Group on Statistics on informal employment considers the “*place of work*” among the key indicators for identifying informal workers. An examination of informal workers’ places of work to assess their risk and violence exposure and other issues such as congestion was conducted in this regard. The findings indicate that while

41.8 percent of the informal workers are exposed to occupational injuries at work, nearly 74 percent are not provided with protective gear (Table 5). The disaggregation shows that 77.6 percent and 67.2 percent of the partially and fully informal workers are not provided with protective gear.

**TABLE 5: INFORMALITY AT THE PLACE OF WORK**

	Partial informality	Full informality	All
<b>Risk at place of work</b>			
Not provided with protective gear	77.6	67.2	73.9
Accident at place of work	7.7	8.6	8.0
Occupational injuries at place of work	43.7	38.9	41.8
Fatal injury at place of work	1.7	2.5	2.0
<b>Violence at workplace</b>			
Constantly shouted at	4.7	14.2	8.1
Repeatedly insulted	3.3	7.1	4.7
Beaten/physically hurt	0.9	1.1	1.0
Sexually abused (Touch, words that you did not want)	1.2	0.7	1.0
Not paid for services offered	14.9	14.3	14.7
<b>Congestion at place of work (number of people)</b>			
1-4	81.6	47.3	69.3
5-9	10.5	16.8	12.8
10-19	3.6	12.0	6.6
20-49	1.6	10.7	4.9
50-99	0.7	4.0	1.9
100 or more	1.3	7.2	3.4

**Source: NLFS (2021).**

The results further show that at least 14 percent of Uganda's informal workers do not receive payment for their services, regardless of the extent of informality. This evidence links closely to strands of earlier-mentioned evidence, which stated that informal workers operate without contracts and, therefore, their employers have no contractual obligations to them. The findings further allude to the earlier assertion that informal workers exhibit lower

levels of education and are therefore more likely to be employed without a contract, hence their employers' failure to pay them for their services. In addition, the findings in Table 5 show that nearly 82 percent of workers in partially informal employment operate in smaller groups of 1-4 people, confirming less crowded work environments. This fact aligns with earlier findings that most informal workers are self-employed.

### 3.2.4 Characteristics of Informal Businesses and Activities

#### 3.2.4.1 Business Profile

Table 6 profiles the nature of informal businesses in Uganda, particularly focusing on the *business'* age, the industry of operation, business location, how the business was acquired, the source of start-up capital, and the reasons for starting or joining an informal business. In terms of business age, about 64 percent of informal businesses are 6 years or younger; only 36 percent are older than 6 years. This evidence points to the many challenges, including lack of credit, faced by Micro Small and Medium Enterprises (MSMEs) in Uganda, which leads to a high mortality rate<sup>6</sup>. A disaggregation shows that 66.7 percent of partially informal businesses are 6 years or older when compared to their fully informal counterparts (50.5 percent). Nearly 56.9 percent of informal businesses are engaged in retail trade (Table 6). However, a disaggregation indicates that partially informal businesses are marginally less likely to participate in the trading sector (45.8 percent) and have a notable representation in the industrial sector (11.5 percent); while fully informal businesses are more likely to

participate in the trading sector (60.9 percent) and have less representation in the industrial sector (6.5 percent). A disaggregation of the trade sector which, according to evidence dominates informal businesses, shows that informal businesses are mainly concentrated in retail of general merchandise commodities, retail of food, beverages, and tobacco, repair of motorcycles and vehicles spare parts (Appendix C).

Regarding the location of operation, informal businesses are mainly located in urban areas (71 percent) as opposed to peri-urban areas (29 percent) (Table 6). The choice of location is informed by the need to be closer to their sources of inputs and their customers who reside in their neighborhoods. At least 90 percent of informal businesses are self-started, and entrepreneurs used their own savings to launch 85 percent of them, irrespective of the degree of informality. The inaccessibility of external finance is primarily due to high interest rates and the lack of documentation (such as business plans and business records) required (Lakuma et al., 2019).

<sup>6</sup> Lakuma et al. (2019)

Additionally, 55 percent of businesses cite the opportunity to start and develop a profitable business as the main reason for creating and

joining informal businesses. This evidence highlights the role of informal businesses as vital incubators for entrepreneurship.

**TABLE 6: BUSINESS PROFILE, %**

	Partial	Full	All
<b>Years of existence</b>			
<4 years	33.3	49.5	37.9
4-6 years	30.3	16.9	26.5
>6 years	36.4	33.6	35.6
<b>Industry</b>			
Agriculture	2.9	1.6	2.6
Industry	11.5	6.5	7.8
Trade	45.8	60.9	56.9
Hotels, restaurants and eating places	7.9	13.0	9.3
Services exc. trade	11.5	11.9	11.6
Other services	10.3	16.2	11.9
<b>Location of business</b>			
Other Urban	31.7	21.3	28.9
Urban	68.3	78.7	71.1
<b>How business was acquired</b>			
Founded	90.6	92.5	91.1
Purchased	3.5	4.3	3.7
Family & others	5.9	3.2	5.1
<b>Main source of funding to set up enterprise</b>			
Own/hh savings	85.0	85.3	85.1
Loan/credit	8.4	7.3	8.1
Others	6.6	7.3	6.8
<b>What were the main reasons for starting or joining this business?</b>			
Convenience of location and/or hours of operation	10.2	14.2	11.3
The opportunity to start and develop a profitable business	57.6	47.4	54.8
To have a secondary source of income	20.2	13.8	18.5
Unable to find another source of income	6.6	18.2	9.8
Others specify	5.4	6.3	5.7

Source: IBS (2021)

### 3.2.4.2 House Activity Profile

Unlike the finding that the majority of informal businesses are six (6) years or younger, close to 46 percent of the household informal activities are six years or older (Table 7). Therefore, informal activities survive longer than informal business. This positive relationship between an activity's age and informality could support the argument that the regulation of small businesses is not always in their best interest. In this case, informality protects the liquidity of businesses ensuring their long-term survival and resilience. A disaggregation by extent of informality reveals that partially informal activities are more likely to be 6 years or older relative to their counterparts with full informality.

**TABLE 7: CHARACTERISTICS OF INFORMAL ACTIVITIES**

Characteristic	Partial Informality	Full Informality	All
<b>Years of Existence</b>			
<4 years	37.26	52.76	42.99
4-6 years	11.12	11.3	11.19
> 6 years	51.62	35.94	45.82
<b>Industry</b>			
Agriculture, forestry and fishing	99.35	98.61	99
Industry	0.29	0.36	0.32
Trade	0.09	0.45	0.04
Services excluding trade	0.27	0.58	0.63
<b>Main source of Funding</b>			
Household savings	77.76	86.45	78
Loan/credit	7.25	7.02	7.24
Others	14.99	6.53	14.76
<b>Main reasons for starting or joining this activity?</b>			
Convenience of location and/or hours of operation	38.66	43.23	55.98
The opportunity to start and develop a profitable business	12.35	14.17	11.2
To have a secondary source of income	3.46	3.26	8.42
Unable to find another source of income	41.34	38.57	40.62
Others specify	4.15	0.77	4.12

**Source: NLFS (2021)**

An examination of the industries where informal activities are concentrated reveals that 99 percent of informal activities are in the agriculture, forestry and fishing sectors. These activities include activities such as poultry, and livestock rearing, selling firewood and charcoal, and trading in agricultural produce like fresh fruits and vegetables. These findings corroborate those of the NLFS 2021, which revealed that about 92 percent of the employed population was in informal employment, including agriculture. This implies that most of the informal activities are not engaged in value addition and commercial activities, as most persons working in agriculture do so for

non-commercial purposes (UBoS, 2021).

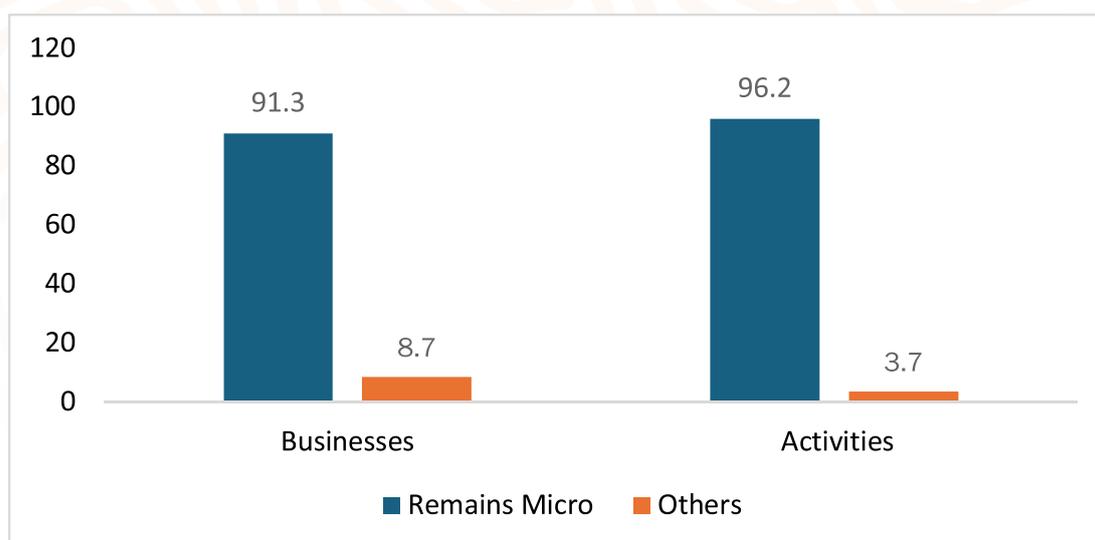
The findings further show that households started 78 percent of informal activities using their own savings. As earlier noted, most informal activities have limited access to external finance mainly due to the perception among lenders that such ventures are high risk, in addition to other limiting factors such as high interest rates and poor record keeping<sup>7</sup>. In the same regard, a disaggregation further confirms that activities that exhibit full informality are more likely to use their own savings (86 percent) when compared to those that are partially informal (78 percent).

### 3.2.4.3 Transition by Scale (Business and Activity Growth)

Transition by scale, also referred to as business or activity growth, refers to changes in the size of a business or an activity, measured by the change in the number of employees and industry. Over 91 percent and 96 percent of informal businesses and city informal activities respectively, have not transitioned and have remained micro (employing less than 4 workers), and only 3.7 percent and 1.1 percent have transitioned to a higher scale respectively (Figure 4). It is worth noting that the transition can be bidirectional.

Findings in Figure 4 also point to the fact that activity growth can regress. Indeed, about 1.6 percent and 0.8 percent of businesses and activities reduced in size, respectively. The low transition and the reduction in business and activity size speak to the earlier identified challenges that informal businesses and activities face, both at start-up and during their operations. These challenges are, among others, low access to credit, lack of records, and low technological access and use.

<sup>7</sup> According to Lakuma et al. (2019)

**FIGURE 4: TRANSITION OF INFORMAL BUSINESSES AND ACTIVITIES BY SCALE (%)**

Note: Others (Businesses) = Remain small (3.5%); Scaled up (3.7%); and scaled down (1.6%)  
 Others (Activities) = Remain small (1.8%); Scaled up (1.1%); and scaled down (0.8%)

Source: IBS (2021) and IAWS (2024).

#### 3.2.4.4 Transition by Sector

The IBS (2021) and IAWS (2024) also tracked transition by sector by comparing the sector to which the informal businesses and activities belonged at the establishment with the current sector of operation. Results in Table 8 reveal that informal businesses and activities tend to remain in the establishment's sector of operation, with a less than 0.5 and

1.5 percentage point change in informal businesses' and activities' transition from one industry to another. As earlier mentioned, most businesses (55.4 percent) and activities (35.1 percent) are involved in trading activities. This confirms that there is limited value addition and innovation amongst informal businesses, which is not consistent with Uganda's industrialisation agenda.

**TABLE 8: INFORMAL BUSINESSES AND ACTIVITIES TRANSITION BY SECTOR, %**

Sector	Businesses			Activities		
	At start	Currently	Percentage change	At start	Currently	Percentage change
Agriculture	1.1	1.0	-0.1	7.1	6.2	-0.9
Industry	4.1	4.1	0.0	6.9	7.8	0.9
Trade	55.3	55.4	0.1	34.2	35.1	0.9
Hotels, restaurant eating places	19.3	18.9	-0.4	15.3	14.0	-1.4
Services inc. trade & transportation	7.3	7.6	0.3	15.3	15.0	-0.3
Other services	13.0	13.0	0.0	20.9	21.4	0.4

Source: IBS (2021) and IAWS (2024).

### 3.3 Record Keeping, Technology Use and Sources of Input by Informal Businesses and Activities

#### 3.3.1 Record Keeping

Record keeping is the recording of business financial transactions, including sales, purchases, income, receipt, and payment by an individual or organisation. In essence, we can define bookkeeping as the art of regularly and systematically recording business transactions in books. Although we expect

informal businesses not to keep records, it's surprising that 64 percent of them actually do practice bookkeeping (Table 9). Similarly, more than one-half of informal businesses indicated that they do keep records on debtors (82 percent), purchases (78 percent), stock (62 percent) and creditors (50 percent).

A disaggregation shows that partially informal businesses are more likely to keep records (68.6 percent) compared to the fully informal businesses (51 percent). The findings highlight a high incentive amongst the partially informal businesses to keep particular records even though they are not sufficient for estimating profits, which is the

variable used to calculate the amount of tax owed. Nonetheless, information on creditors, stock, purchases, and debtors is useful in estimating tax deductions. Additionally, the unavailability of records on turnover could explain the earlier alluded low access to external credit by informal businesses.

**TABLE 9: RECORD KEEPING, TECHNOLOGY USE AND SOURCES OF INPUTS**

	Partial	Full	All
<b>Do you keep records?</b>			
No	31.5	49.0	36.4
Yes	68.6	51.0	63.6
<b>Type of record kept</b>			
Records of creditors	48.8	55.3	50.2
Stock record	60.6	65.3	61.7
Record of purchase	78.7	73.5	77.5
Records of debtors	80.6	87.0	82.0
<b>Business access to technologies</b>			
Computer (laptop or desktop)	6.1	5.0	5.8
Tablet	3.0	1.5	1.9
Internet connectivity	42.2	28.2	38.2
Smartphone	48.8	35.4	45.0
<b>Technological knowhow</b>			
Computer (laptop or desktop)	14.0	21.9	16.2
Tablet	12.2	19.4	14.2
Internet connectivity	45.7	39.4	43.9
Smartphone	49.9	46.0	48.8
<b>Sources of inputs</b>			
Locally within town	68.7	71.1	69.3
Other districts	25.4	11.7	21.5
Locally from rural areas	5.8	16.5	8.8
Other sources	0.2	0.7	0.3

Source: IBS (2021)

### 3.3.2 Technology Use

There is growing consensus that the spread of digital technologies will enable informal businesses to keep records, access wider markets, and allow for innovations that could eventually raise the productivity of low-performing sectors.

Findings demonstrate that more than 40 percent of informal businesses have access to smartphones and about 38 percent of the same businesses have access to internet connectivity (Table 9). In addition, over 46 percent of business owners have the skills of using smartphones irrespective of the extent of informality. This significant uptake of technology provides a glimmer of hope. However, there is a low use of computers (6 percent) and tablets (2 percent). Cost and a lack of technological know-how may account for this. Indeed, only 16 and 14 percent of

informal businesses have the knowledge and skill to operate a computer or a tablet (Table 9).

We should also note that while digital technologies offer opportunities to aid formalization efforts, they can simultaneously enable other businesses, activities, and workers to operate outside formal structures, reinforcing their persistence in the informal sector. For instance, the rise of digital or e-commerce platforms, such as social media and online marketing, provides entrepreneurs with tools to reach customers and manage transactions without formal registration. Similarly, the gig economy<sup>8</sup> platforms enable individuals to work independently as contractors, often outside of formal employment structures, which perpetuates informality.

<sup>8</sup> The gig economy is a labour market situation characterised by short-term, flexible, and freelance work rather than traditional, long-term employment. In the gig economy, individuals work as independent contractors, freelancers, or part-time workers, often taking on “gigs” or tasks through digital platforms and mobile apps that connect them with customers. Examples of gig economy jobs include driving for ride-sharing services (like Uber), delivering food, freelancing for graphic design, writing, or coding, and completing various tasks on online platforms.

### 3.3.3 Source of Input

It is worth noting that access to inputs plays a big role in the survival of MSMEs. In this regard, almost 70 percent of informal businesses source their inputs/supplies within their local towns as opposed to more distant places such as other districts (22 percent) and rural areas (9 percent). This could be due to the need to reduce transport costs incurred by sourcing inputs/supplies from other districts, rural areas, and other countries. This could partly explain the earlier findings that over 70 percent

of informal businesses are located in urban areas where they can easily access suppliers. A disaggregation demonstrates that partially informal businesses are marginally less likely (69 percent) to source inputs locally; and more likely (25 percent) to source inputs in other districts when compared to their fully informal counterparts, which seek inputs mostly locally (71 percent) compared to other districts (12 percent).

### 3.4 Contribution of Informal Businesses, Activities, and Workers to GDP to the Economy

While informality creates legal and fiscal distortions, it contributes immensely to GDP (World Bank, 2020). Informality plays a complementary role in generating incomes which provide the poor with a means of survival and welfare improvement. The report shows that in FY 2020/21, the informal sector contributed about 48.9 percent to Uganda's GDP (approximately UGX 71.7 trillion). The subsequent subsections give a breakdown of the GDP contributions by informal businesses, activities, and workers.

#### 3.4.1 Contribution to GDP by Informal Businesses

The results of the income approach used to estimate informal businesses' contribution to GDP indicate that informal businesses generated income amounting to UGX 41.3 trillion an equivalent of 27.8 percent of the aggregate GDP (Table 10). Disaggregation by gender shows that UGX 29.2 trillion which is 70.6 percent of the income from informal businesses, is generated by women, which is consistent with the earlier results that women dominate informal businesses. A disaggregation by industry reveals that informal businesses

in the trade sector contributes UGX 27.5 billion, which is the largest amount by any single sector, and this is 66.6 percent of the total informal business contribution. Hotels, restaurants and eating places come second with a contribution of UGX 5.4 billion, which is 13 percent of the total informal business GDP. This is not surprising given the earlier evidence that most informal businesses are in the trading and the hotel, restaurant eating places industry.

An examination by turnover finds that large business that fall under the corporate income tax schedule contribute up to UGX 11 trillion, which is 29 percent of informal business GDP and 8 percent of Uganda's GDP. In terms of firm size, the micro businesses contributed UGX 35.5 trillion, which is 86 percent of the total informal sector to GDP. This is consistent with the earlier evidence that most informal businesses are micro. A disaggregation by the extent of informality shows that partially informal businesses contribute nearly 80 percent (UGX 32.4 trillion) of the informal businesses output, which indicates that there is relatively more productivity among partially informal businesses.



**TABLE 10: CONTRIBUTION TO GDP BY INFORMAL BUSINESSES (UGX BILLION)**

Sales	Extent of Informality		
	Partial	Full	All
Total	32,400	8,910	41,280
<b>Sex</b>			
Male	23,500	5,710	12,120
Female	8,940	3,210	29,160
<b>Industry</b>			
Agriculture	1,750	316	2,064
Industry	604	1,840	2,448
Trade	23,000	4,510	27,480
Hotels , restaurant eating places	4,440	929	5,376
Services exc. Trade and Transportation	1,660	491	2,148
Other services	988	823	1,812
<b>Size by turnover</b>			
Not exceeding 10 million	4,080	1,900	5,970
>10 million to 30 million	7,360	1,990	9,350
>30 million to 50 million	5,020	721	5,740
>50 million to 80 million	2,610	1,400	4,010
>80 million to 150 million	3,160	1,330	4,490
Excess of 150 million	10,200	1,580	11,800
<b>Size</b>			
Less than 5 workers	28,900	6,650	35,520
5-49 workers	3,510	2,260	5,772
<i>Informal business GDP (Total sales)</i>	32,400	8,910	41,280
<i>Informal business GDP to Uganda's GDP (%)</i>	21.8	6.0	27.8

Memorandum item: Uganda's GDP in FY 2020/21 is UGX 148.3 trillion (UBoS, 2021)

Source: IBS (2021)

### 3.4.2 Contribution to GDP by Informal Activities and Workers

Estimates in Table 11 indicate that, in FY 2020/21, at least UGX 30.4 trillion (21.1 percent) of the total GDP (UGX 148.3 trillion) was contributed by informal activity and workers. Unlike the case with businesses,

results show that more than half of this GDP contribution (UGX 19.6 trillion) came from male informal workers despite females dominating the informal sector.

**TABLE 11: CONTRIBUTION TO GDP BY MIXED INCOME FROM INFORMAL ACTIVITIES AND WORKERS (UGX BILLION)**

Characteristic	Extent of Informality		
	Partial	Full	All
<b>Total</b>	11,400	19,000	30,400
<b>Sex</b>			
Male	7,350	12,250	19,600
Female	3,970	6,830	10,800
<b>Age</b>			
<30	1050	6900	7,950
31-54	8950	9850	18,800
>54	1314	2256	3,570
<b>Education</b>			
A most primary	230	8,760	8,990
Secondary	1,950	6,090	8,040
Certificate level	591	689	1,280
Diploma and above	8,490	3,310	11,800
Not stated	31	193	224
<b>Income tax schedule</b>			
Not exceeding 2,820,000	300	12,500	12,800
>2,820,000 to 4,020,000	220	1,160	1,380
>4,020,000 to 4,920,000	267	622	889
>4,920,000 to 120,000,000	7120	3,880	11,000
>120,000,000	3440	890	4,330
<b>Contribution by Refugees and non-nationals</b>			
Refugees	12	21	33

Characteristic	Extent of Informality		
	Partial	Full	All
South Sudanese	6	14	20
DR Congolese	0	58	58
Burundians	0	8	8
Somalians	0	2	2
Rwandese	0	29	29
Tanzanians	2	0	2
Kenyans	506	2	508
Indians	202	242	444
Eritreans	12	0	12
<b>Total contribution % of GDP</b>	<b>7.9</b>	<b>13.2</b>	<b>21.1</b>

**Source: NLFS (2021)**

Informal workers and activity owners aged 31-54 years contribute the most (UGX 18.8 trillion) to the GDP. This is because people within this age range have accumulated substantial work experience and skills, allowing them to generate more income. Many in this group may also be self-employed or operate small businesses, which contributes significantly to their economic output. As a result, their contributions highlight the economic significance of middle-aged workers within the informal economy.

In contrast, informal workers and activity owners aged 54 and above contribute the least to GDP, with a total contribution of UGX 3,570 billion. This lower contribution could be due to a variety of factors, including retirement, reduced work intensity, or a transition away from physically demanding jobs. Older workers may also rely on savings, pensions, or family support, which decreases their direct economic output in the informal economy. Consequently, while they may still participate in the workforce, their role is generally less financially impactful than their younger counterparts. Young informal workers and activity owners aged 30 years and below contribute approximately UGX 7,950 billion to GDP (Table 11). This group often includes recent entrants to the workforce who may not yet have the experience or resources to secure higher-paying positions. Entry-level roles, which are commonly available in the informal sector, offer younger workers valuable opportunities for income and skill-building, although typically with lower earnings. This lower contribution underscores the economic challenges faced by young people in the informal sector, highlighting a gap in income generation as they build their careers.

A disaggregation by education shows that informal workers and activity owners with a diploma or higher contribute the most (UGX 11,800 billion), demonstrating that higher education enhances individuals' productivity,

skills, and potential for formal employment, which typically offers higher wages. In contrast, workers with certificate-level education contribute the least (UGX 1,280 billion), indicating that limited skills might restrict them to lower-paying jobs, often in informal settings. Furthermore, workers with primary education or less (UGX 8,990 billion) and secondary education also contribute notable amounts (UGX 8,040 billion), mainly in fully informal activities and work. This implies that, while workers with lower education levels make substantial economic contributions, they are likely in less secure, lower-income positions that make up the informal sector. These findings highlight the economic value of higher education and show the difficulties that less-educated workers face, largely confined to informal employment lacking formal sector protections and income stability.

Fully informal activities and workers contribute more to GDP (UGX 19,000 billion) than their partially informal counterparts ((UGX 11,400 billion). Such findings point to the fact that, while the bad from informality outweighs the good, it has an immense indirect contribution to the economy, which explains the impossibility of wiping it out completely (MoFPED, 2022).

A breakdown of informal activities and workers' contribution to GDP by personal income tax schedule shows that the tax-exempt category contributes the most to GDP (UGX 12,800 billion). This implies that, although this category of informal workers does not pay income tax, their contribution to generating income, improving welfare and supporting the poorest cannot be overlooked. This, in turn, reduces the number of the vulnerable/poor, and thus, reduces the dependency on the government's small resource envelope through pro-poor policies. In the same regard, findings in Table 11 indicate that informality is a source of livelihood for

informal foreigners and refugees, altogether contributing about UGX 1,116 billion to the country's GDP. Except for Kenyans and Eritreans whose contribution to GDP (UGX 518 billion) is mainly from partially informal activities and work, the contribution to GDP

by other non-nationals, including refugees, South Sudanese, DR Congolese, Burundians, Somalians, Indians, and Rwandese, is mostly from fully informal activities and work (UGX 375 billion).

### 3.4.3 Linkages between Informal and Formal Businesses

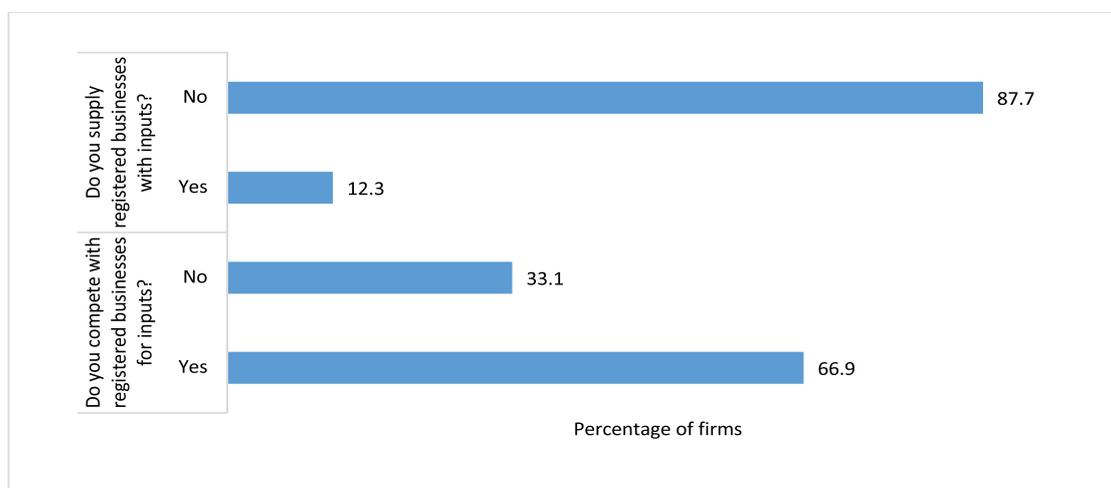
The integration of informal and formal businesses in a location within a cluster benefits informal businesses through participation in supplying as a subcontractor and direct sales linkages that they may not have had access to otherwise. Informal clusters can also be used for communication with the government regarding proposed policy reforms, air grievances, and take other measures to promote and protect businesses within the cluster. Informal businesses are also a subordinate complement to formal businesses.<sup>9</sup> By operating without regulation, the informal economy provides the formal economy with low-cost input and flexibility. Evidence demonstrates that clusters are effective in Kenya, Nigeria, Cambodia, and India, where strong buyer linkages exist within clusters, particularly between small formal and informal businesses. There is a significantly faster growth rate for firms with an interim partnership arrangement with their supply chain members than those without (Wynarczyk and Watson, 2005). Yet, informal and formal business cooperation in Uganda is often limited. Results show that a small percentage (12 percent) of the informal businesses supply formal ones with inputs (Figure 5). The missing linkage could result from most informal firms being micro-enterprises dealing in final activities such as wholesale

and retail trade, and hotel, restaurant eating places. As earlier mentioned, there is a scope for value addition among informal businesses in Uganda. In this case, businesses in the agriculture and industry sector that have the potential to supply inputs constitute the minority. This missing link in input supplies could also explain earlier findings of informal businesses' and activities' slow growth and transition.

However, there is also a risk of the negative impact of integrating formal businesses with informal ones, as small informal businesses can become a source of negative competition to formal businesses, reducing the net outcomes for the cluster. Figure 5 shows that 66.9 percent of informal businesses compete with formal businesses for inputs. While competition is necessary for growth and improvement in quality, informal businesses do not incur the regulatory cost, which gives them an unfair advantage over formal firms.

This unfair business environment could lead some formal firms to choose to operate informally. This is consistent with the view that businesses will voluntarily choose to be informal after assessing the costs and benefits of formalisation and finding that those costs outweigh the benefits.

**FIGURE 5: LINKAGE WITH FORMAL BUSINESSES**



Source: IBS (2021)

<sup>9</sup> Mukim (2013), Chhair and Newman (2014), UNIDO (2004) and Portes and Haller (2005), Maloney (2004).

### 3.4.4 Potential Contribution to Revenue by Informal Business

While most informal businesses are small by size and turnover, some large businesses, such as better-off urban professionals (such as doctors, lawyers and architects) often operate informally. For example, less than a third of Uganda's top 60 lawyers paid personal income tax between 2011 and 2014 (ActionAid, 2018). Thus, informal businesses partly consist of thriving enterprises intentionally dodging taxes. This supports the argument that partially informal businesses are profitable and should face taxation through increased formalization incentives and penalties for non-compliance. This is a matter of ensuring the formalisation of firms that have some form of formality rather than taxing all informal businesses, including those with full informality.

Table 12 estimates the potential revenue generated by partially informal businesses. According to the presumptive and income tax schedule, those businesses are differentiated by turnover. For firms with an income greater than UGX 150 million and fall under the corporate tax schedule, an Effective Marginal Tax Rate (EMTR) of 4 percent was used to calculate the income tax. The EMTR is the impact taxation has on returns on investments. Lakuma (2019) estimates Uganda's EMTR at 4 percent. Furthermore, the appropriate presumptive tax rates, as specified by the 1997 Income Tax Act (amended), were applied by differentiating businesses based on their record-keeping. Uganda charges a specific tax value for businesses with no records and a tax rate (ad valorem) for businesses with records.

Estimates in Table 12 demonstrate that 1,088,883 (69 percent) of the partially informal businesses kept records. It follows that 494,480 (31 percent) of those businesses do not have records. Furthermore, over

900,000 partially informal businesses, regardless of record-keeping, have an annual turnover under UGX 10 million and are thus exempt from presumptive tax. The micro-size of businesses employing fewer than five workers likely accounts for the high number of businesses with annual turnover not exceeding UGX 10 million.

As of 31<sup>st</sup> December 2020, partially informal businesses whose turnover was above UGX 10 million, but below UGX 30 million, had the potential to generate tax revenue worth UGX 18 billion. A more considerable percentage (52 percent) of the potential tax revenue was from firms with records in this category. Similar businesses whose turnover was above UGX 30 million, but below UGX 50 million, had the potential to generate tax revenue worth UGX 20 billion. However, for this category, most of the revenue (55.3 percent) emanates from businesses without records. The most interesting is the potential revenue of UGX 407 billion being raised by businesses with a turnover above UGX 150 million. This explains up to 86 percent of partially informal businesses' total potential tax revenue. Businesses in this category would ideally qualify for corporate taxation and are ripe for formalisation. Their continued untaxed status lends credence to the perception that;

*“Government is practicing discrimination in taxation. There is a need for uniformity in taxation for all people under a similar sector and size”.*

In a nutshell, there is up to UGX 474 billion in potential tax held up by businesses with partial informality. This figure increases to about UGX 560 billion tax potential held up by all informal businesses (see Appendix, Table A2)

**TABLE 12: POTENTIAL CONTRIBUTION TO REVENUE BY PARTIALLY INFORMAL BUSINESSES**

Threshold (UGX)	Total number of businesses	Businesses with records	Businesses without records	Potential Tax Revenue for those with records (UGX million)	Potential Tax Revenue for those without records (UGX Million)	Potential Total Tax revenue (UGX Million)
Not exceeding 10 million	928,159	609,486	318,673	-	-	-
>10 million to 30 million	413,710	307,105	106,606	9,570	8,528	18,098
>30 million to 50 million	130,188	72,257	57,931	9,350	11,586	20,936
>50 million to 80 million	43,280	37,719	5,561	9,000	2,224	11,224
>80 million to 150 million	27,757	27,080	677	16,100	609	16,709
Excess of 150 million	40,268	35,236	5,032	312,000	95,100	407,100
<b>Total</b>	<b>1,583,363</b>	<b>1,088,883</b>	<b>494,480</b>	<b>356,020</b>	<b>118,048</b>	<b>474,068</b>

Source: IBS (2021)

### 3.4.5 Potential Revenue Contribution by Informal Workers

Out of the 9.8 million informal workers, 1.4 million (14 percent) are untapped income taxpayers with an overall revenue potential of UGX 4.8 trillion (Table 13)<sup>10</sup>. Informal workers earning more than UGX 4.9 million, but below UGX 120 million have the highest

potential (both in the number of persons and revenue). We can attribute this fact to the small number of informal workers in income tax schedules other than the exempted category.

**TABLE 13: POTENTIAL REVENUE CONTRIBUTION BY INFORMAL WORKERS BY TAX SCHEDULE AND EXTENT OF INFORMALITY**

Income Tax	Extent of informality					
	Partial	Full	All	Partial	Full	All
	Persons ('000)			UGX (million)		
<b>Tax schedule (UGX '000)</b>						
Not exceeding 2,820	6,183.5	2,235.4	8,418.9	Exempt		
>2,820 to 4,020	7.0	323.7	330.8	2,350	112,000	114,000
>4,020 to 4,920	15.6	142.5	158.0	14,680	128,000	142,600
>4,920 to 120,000	104.0	813.0	916.9	315,000	2,703,000	3,030,000
<b>Total</b>	<b>6,311.2</b>	<b>3,529.0</b>	<b>9,840.2</b>	<b>896,030</b>	<b>3,931,000</b>	<b>4,838,600</b>

Source: NLFS (2021)

Additionally, fully informal workers have a higher revenue potential (UGX 3.9 trillion) than their partially informal counterparts (UGX 896 billion). Since it is not practical for the tax authority to chase the whole spectrum of informal workers, priority should be given to the highlighted income tax schedule with the highest potential. The tax authority should focus more on fully informal workers. Despite the substantial untapped revenue potential highlighted above, several gaps and challenges in mobilising this revenue could impede efforts to exploit it fully. For instance,

public distrust in tax authorities stemming from corruption discourages informal activity owners and workers from engaging with the formal tax system<sup>11</sup>. This is consistent with an FGD with activity owners and workers who noted that;

*“If I hear that so and so has stolen some good billions of money, what do you think I will do when you come asking for taxes, give you more money to be stolen? never of course”.*

10 1.4 million figure is a sum of 330,800, 158,000 and 916,9000 workers, that is those who are not in the category exempted from paying taxes.

11 <https://www.taylorfrancis.com/chapters/edit/10.4324/9781315204987-3/business-government-relations-burkina-faso-mariam-konata%3%A9-idrissa-ouedraogo-pascal-kouaman>

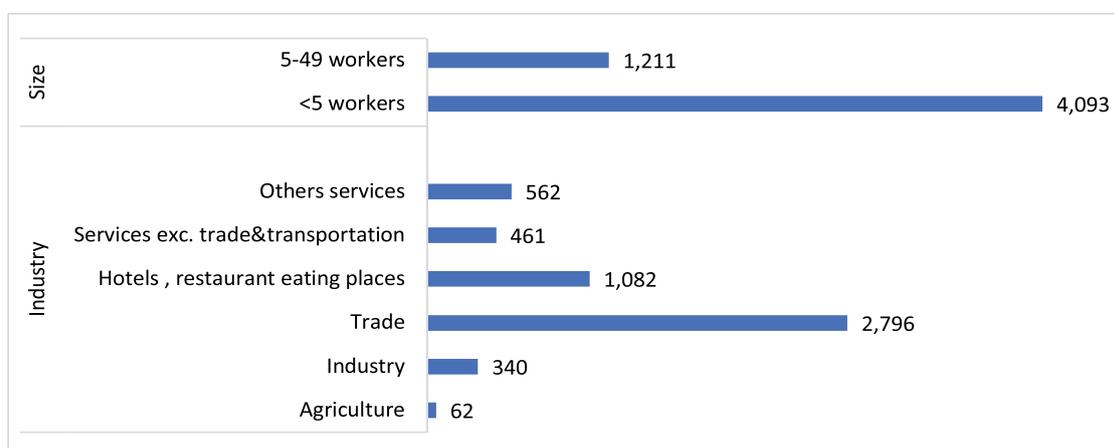
Additionally, the same FGD reveals that;

*“There is a widespread fear of high taxes; people are concerned that they will be heavily taxed once they register in the formal sector. Secondly, poor public service delivery significantly undermines trust in government institutions. Despite paying taxes, citizens often encounter subpar healthcare services, characterised by long wait times, inadequate facilities, insufficient medical staff, and lack of drugs. The complexity and bureaucracy involved in the registration process further discourages formalisation. The numerous requirements and the potential for corruption during registration makes the process burdensome and unappealing. Moreover, different authorities’ inconsistent and overlapping tax demands create confusion and further erode trust. As a result, many individuals choose to operate informally to avoid these challenges and perceived inefficiencies”.*

### 3.4.6 Employment by Informal Businesses

Informal businesses are a source of employment, primarily where formal businesses cannot provide or create jobs at the speed required. In 2021, informal businesses employed 5.3 million workers, as Figure 6 demonstrates. However, further disaggregation of employment by firm size indicates that over 77 percent of employment is mainly by informal micro-enterprises (over 4 million).

**FIGURE 6: EMPLOYMENT ('000 PERSONS) BY SIZE AND INDUSTRY**



**Source: IBS (2021)**

Considering the industrial distribution of employment by informal businesses, Figure 6 shows that the trade sector employs over 2.7 million people (53 percent), followed by the hotel, restaurant, and eating places sector with 1 million people (20 percent), and other services with 562,000 people (10.6 percent). The observed large contribution by the trade sector could be explained by the large entrepreneurial spirit of Ugandans, emanating out of a lack of any other opportunity to generate income.<sup>12</sup> Moreover, the extensive employment contribution of the trade sector could be a result of the location of informal businesses in urban areas with high population density requiring retail and wholesale services to provide for their needs for fast-moving consumer goods. The trading sector could also be a relatively more straightforward sector to join for the jobless. The trading sector tends to have low

entry costs and the highest concentration of informality. Indeed, sectors with the highest concentration of informality tend to generate the highest number of informal sector jobs.

Findings in Table 14 confirm that females dominate informal business employment, both currently and at the start of business. The disaggregation indicates that partially informal businesses employ twice as many workers as full informal businesses. A comparison of Table 14 row dimensions indicates that own-account workers (self-employed workers) explain more than one-half of informal business workers, regardless of gender or informality. The earlier-mentioned low education, significant participation of middle-aged people, and increased use of internal financing attribute to this dominance, all consistent with own-account workers.

<sup>12</sup> Anugus, M.K (2018) Understanding the informal economy in African cities: Recent evidence from Greater Kampala. World Bank Blog. Accessed at <https://blogs.worldbank.org/african/understanding-the-informal-economy-in-african-cities-recent-evidence-from-greater-kampala>

**TABLE 14: EMPLOYMENT ('000 PERSONS) BY THE EXTENT OF BUSINESS INFORMALITY**

Employment status	All		Partial		Full	
	Males	Females	Males	Females	Males	Females
<b>Employment at start</b>						
Own account workers	1,150	1,484	808	1,096	342	388
Paid family worker	137	214	89	150	48	64
Paid hired	556	621	416	483	140	138
Unpaid	176	186	120	82	56	104
<b>Total</b>	<b>2,019</b>	<b>2,504</b>	<b>1,433</b>	<b>1,811</b>	<b>586</b>	<b>693</b>
<b>Current employment</b>						
Own account workers	1,132	1,492	839	1,052	294	440
Paid family worker	171	151	129	116	41	34
Paid hired	813	741	531	519	282	221
Unpaid	413	392	274	264	139	128
<b>Total</b>	<b>2,529</b>	<b>2,775</b>	<b>1,773</b>	<b>1,952</b>	<b>756</b>	<b>823</b>

Source: IBS (2021)

### 3.4.7 Employment by Informal Activities

Similar to informal businesses, the results in Table 15 indicate that activities with partial informality employ almost twice as many workers (726,000) as those who are fully informal (397,000). Regardless of gender and extent of informality, the number of own-

account workers exceeds that of employers and employees. Factors such as low education levels, substantial middle-aged participation, and the increased use of internal financing, previously noted, explain the prevalence of own-account workers.

**TABLE 15: EMPLOYMENT ('000 PERSONS) BY THE EXTENT OF ACTIVITY INFORMALITY**

	Partial informality		Full informality		Total	
	Female	Male	Female	Male	Female	Male
<b>Employment at start</b>						
Own account worker	227	218	101	133	328	350
Employer	167	68	4	5	171	73
Employee	-	-	-	-	-	-
<b>Total</b>	<b>394</b>	<b>286</b>	<b>105</b>	<b>138</b>	<b>499</b>	<b>423</b>
<b>Current employment</b>						
Own account worker	234	206	116	259	349	465
Employer	201	78	9	7	210	85
Employee	7	-	-	6	8	6
<b>Total</b>	<b>442</b>	<b>284</b>	<b>125</b>	<b>272</b>	<b>567</b>	<b>556</b>

Source: IAWS (2024)

### 3.5 Conclusion

In this chapter, the findings show that majority of informal businesses and activities are partially informal with high compliance to local governments compared to URSB and URA. In terms of ownership, they are predominantly owned by females and less educated individuals. This highlights the persistence of obstacles faced by women and girls in accessing formal employment or starting up formal enterprises despite government programmes like UWEP which are explicitly targeted at women. Both informal businesses and activities were started up using personal savings and barely transition to more productive sectors and hardly increase their scale of operation. On a positive note, the informal sector is a vital

incubator for entrepreneurship as the majority of business owners cite the opportunity to start and develop a profitable business as the main reason for creating and joining informal businesses.

Like business and activity ownership, informal sector employment is dominated by women and less educated individuals. Additionally, most workers lack formal employment benefits, including contracts, social security, and leave entitlements. These often lack access to protective gears and are exposed to occupational hazards, highlighting the precarious nature of their work environments and the lack of adequate workplace safety standards.

At a macro level, the findings highlight a notable contribution of the informal sector to Uganda's economy, underscoring its critical role in income generation, employment, and entrepreneurship. The sector accounts for nearly half of the national economy, with women-owned enterprises playing a prominent role. The sector also presents

untapped opportunities for enhancing tax revenue and broadening the tax base, given the vast number of potential taxpayers and revenue held outside the formal system. Furthermore, the sector serves as a major source of employment, underscoring its importance in sustaining livelihoods especially in the absence of formal employment.



# 4

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## DRIVERS OF INFORMALITY IN UGANDA

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## 4. DRIVERS OF INFORMALITY IN UGANDA

This chapter explores the political, economic, socio-cultural, technological, legal, and regulatory factors contributing to the persistent informality in Uganda. Understanding these gaps and incentives is crucial to effectively addressing the root causes of informality. The chapter also examines the perceived benefits of remaining informal, including in-kind, monetary, and livelihood benefits of informality. The chapter ends with an assessment of informal business owners' perceptions regarding the formalisation process, that is, perceptions on registration fees, annual tax payments and other compliance costs by the already registered businesses, duration of business registration, and distance to registration points.

### 4.1 Political Dynamics driving Informality

Previous political turmoil contributed to the development of poor business culture and petty business culture, which persists to date. Besides past political instability, the structure of Uganda's economy has remained reliant on subsistence agriculture and correspondingly less on high productivity manufacturing (AfDB, 2010). And while the contribution of the services sector to GDP has overtaken the agriculture and manufacturing sectors in recent years, it has only produced low productive jobs that are informal in nature. Past economic reforms have also fueled informality over the years. In this regard, the lack of a clear policy to address the cost of the Structural Adjustment Programmes (SAPs) in the 1990s meant that retrenched public servants with insufficient information and limited awareness of alternative business advice and opportunities opted for the informal businesses.

Despite the above, there is a scope for policy emphasis made in Uganda's Vision 2040 on the informal economy. It is not clearly visible in national and local planning processes and there is limited institutional engagement at the national level to understand and later address it. A KII notes that:

*“There is a lack of political will from the top to the lowest administrative units to encourage businesses to register with URA since registration implies tax payment, which in turn affects business' (voters') profits. In addition, political leaders are shielding some would-be taxpayers against tax payment. There is also lack of accountability on the side of government for taxpayers' money. Indeed, the response of taxpayers to tax payment was higher in places where government had provided services”.*

Furthermore, the differences in the economy (due to diversity in demographic, socio-economic, size and type of activity), reduce

cohesion and limit representation in urban politics and planning priorities. Goodfellow and Titeca (2012) attribute the growth of both legal and fiscal informality to increased state political interference and competition. In this respect, continued central government interference has rendered formal institutions of cities' governments increasingly dysfunctional in Uganda. Categorically, a KII reveals that;

*“Increased political competition has created an environment where informal groups seeking to protect their livelihoods can tactically leverage a political intervention in their favour, helping them evade the policies and regulations of the City Council. Meanwhile, politicians have used these interventions to build support in a city—that was largely lost to the opposition. These processes have progressively undermined already weak formal institutions for urban governance”.*

### 4.2 Social and Cultural Dynamics Incentivising Informality

Socially, many important facets of traditional culture among Uganda's diverse communities have fueled the persistence of informality. Furthermore, many years of civil war and ethnic tensions have given rise to a culture of conflict and distrust in sections of society (AfDB, 2010). As a result, business owners resist full entry into the modern monetary economy. In other words, the reliance on informal institutions for business transactions in Uganda remains high.

Reduced tax morale and weak fiscal legitimacy, fueled by widespread public perception that public services are financed through foreign borrowing and that government mismanagement and corruption have yielded poor value for public funds, have also increased fiscal informality. Similar sentiments were put forward in FGDs as below.

*“To encourage business formalisation, Government needs to intensify support programmes such as cheap loans, market intelligence and information, put money in our SACCOs and provide business training that facilitates business enterprises”.*

*“The government needs to scale up service provisions such as garbage collection, power distribution, build roads and hospitals to encourage informal businesses to register”.*

*“Provision of social services, e.g. collecting garbage to account for the dues collected by local authorities. This boosts people’s willingness to pay. Also, the municipal council offers bursaries to needy students and provides help to the elderly”.*

The wide belief that only foreign-owned businesses receive tax exemptions and holidays, and that domestic firms, mostly small businesses, receive no tax incentives, fuels the perception that the government favors foreign companies.

Lack of social safety nets, social support and access to contributory social security schemes for workers in the informal sector fuels informality. Uganda’s social security coverage remains low; out of the 17.2 million total labour force, 15.6 million (91 percent) are employed in the formal and informal sectors and eligible for pension. However, the pension coverage is about 1.9 million (including public service, national social security fund, and a few occupational schemes); which is about 11.4 percent of the estimated total labour and about 12.6 percent of the estimated active labour force in Uganda. Given this limited coverage, most business firms, especially women, enter at the lower end with small market stalls or operating from home. This is characteristic of women business owners who are already constrained by cultural and labour market discriminations.

Besides the lack of safety nets, unemployment and population growth have persistently remained high. Uganda’s unemployment rate was 8.8 percent in 2019/20 and was synonymous with women (8.4%) and rural (9.1%) areas (UBoS, 2021). Besides general

high unemployment, youth unemployment (13 percent) remains higher than the national average. It is usually some of these youth that move into the informal sector.

Poverty remains a key driver of informality among Ugandan households. While poverty has declined from 56.4 percent in the pre-PEAP period (1990-1997) to 21.4 percent in 2016/17, the share of households living in transient poverty had risen to 46.3 percent (EPRC, 2020). Spatially, urban poverty is increasing, contributing to 10 percent of the poor population in Uganda. Poor people who migrate to urban areas often fail to secure decent and productive employment—escalating informality in urban areas. Besides poverty, internal and external risks in the agriculture sector catalyzed informality, forcing households to leave agriculture and move to urban areas.

The reversal in income poverty from 39 percent in 1999/00 to 50 percent in 2002/03 among crop farmers was based on recurrent drought and other vagaries of weather (Appleton and Ssewanyana, 2004). This trend reveals that curtailing informality requires making key investments to build resilience in the agriculture sector. This is because households that move out of the agriculture sector into non-agricultural sectors end up in self-employment in the informal sector on account of the failure of the wage employment sector to absorb excess labour from the agriculture sector.

Besides poverty, the business culture of most business firms in Uganda is instead a survivalist than a long-term with business growth and expansion prospects. These business growth prospects could impact on the business owner’s characteristics to pursue formalisation. As earlier mentioned, 55 percent of non-registered business owners started their businesses out of an opportunity to start a profitable business. These findings are close to a study that found that although 66 percent of businesses wanted to expand their businesses, as high as 59 percent of these, planned to expand only within Uganda, only 16 percent planned to expand within the East African region; while only 3 percent had plans of expanding to the rest of Africa (EPRC, 2017a).

### 4.3 Business Environment Incentives driving Informality

Besides political and social incentives, informality in Uganda is also incentivised by the pre-existing constraints in the business environment. A review of the EPRC quarterly business climate index (BCI) reports undertaken between 2012 to-date, reveal that, over the past 9 years, Uganda's business environment remains constrained by high electricity costs and outages, unfavourable tax policy, high cost of credit, increasing competition from substandard products, as well as corruption and bribery.

Relatedly, businesses remain constrained with regard to obtaining land, with as high as 36 percent not possessing any land. Previous efforts to register businesses, activities and workers have also been uncoordinated and require business and activity owners to visit multiple registration centres, resulting in losses of valuable work time and money. Regarding the high cost of credit, only 14 percent of business firms have ever listed on the stock market to raise working capital. The remaining 86 percent have never used this channel to raise capital, primarily due to a lack of knowledge of how the stock market works.

Moreover, business firms in Uganda have generally not embraced business development services. For instance, up to 36 percent of businesses do not use insurance products due to perceived restrictive costs and lack of awareness about their importance. By size and sector classification, insurance products were a preserve for large firms operating in the services sector. In the same view, most business firms remain informal due to a lack of awareness of the need to have audited books of accounts and/or the need to keep financial records.

### 4.4 Legal and Regulatory Incentives

Uganda currently lacks a clear national policy on the informal sector. Due to a lack of this framework, there exists limited information dissemination on the legal and regulatory practices, including registration procedures for the informal sector. Without a clear regulatory framework, defining the boundaries, constraints, actors, and initiatives to improve formal-informal relationships has not been possible.

Besides the lack of a regulatory and institutional framework to address informality, an ad

hoc business regulatory environment has resulted in informality. Indeed UNCDF (2018) reported that introducing an excise duty on mobile money transactions comprising receipts, payments, and withdrawals at a rate of 1 percent of the transaction value in 2018 reversed gains made in formalising the agriculture, education, and rural finance and energy sectors. The introduction of this tax increased the business operating costs for 71 percent of the businesses (EPRC, 2017). A KII also noted that;

*“Confidentiality of financial details of eligible taxpayers, e.g. bank details”, have shielded several potential taxpayers”.*

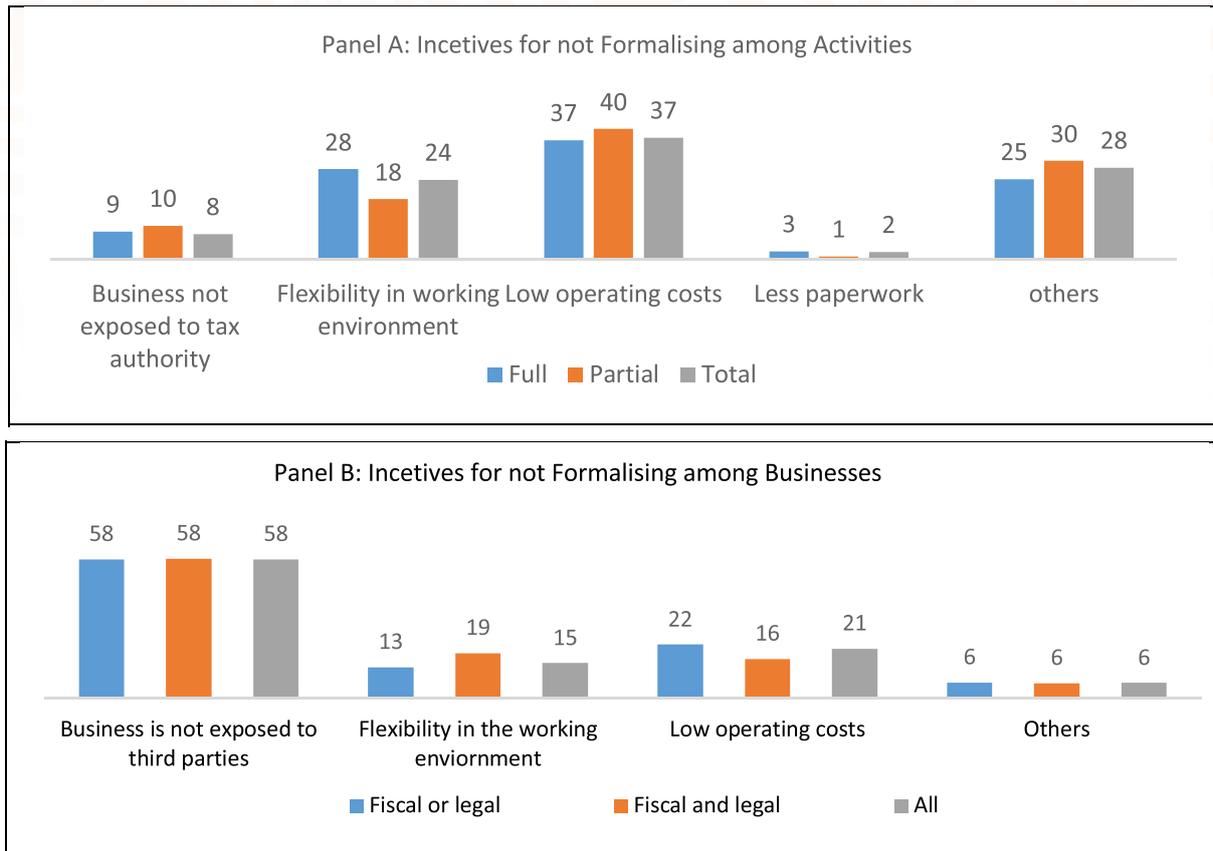
### 4.5 Other Incentives for Informal Businesses and Household Activities to remain Informal

This section breaks down the benefits of operating informally. It explains why informal businesses, activities, and workers remain informal despite the several advantages associated with formalisation. The benefits of informality are both in-kind and monetary as discussed in the subsequent sub-sections.

#### 4.5.1 In-kind Benefits of Remaining Informal

The decision on whether to operate an activity or hire workers informally is sometimes informed by the benefits gained from informality. Results show that, regardless of the extent of informality, at least 37 percent of the informal activity owners choose to operate informally because they enjoy low costs of operation given that they operate outside the regulatory and administrative reach of local authorities (Figure 7, Panel A). Formalisation comes with costs, including the cost of registration, bribe payment, etc., which gives informal activities an advantage. As such, enforcement procedures should not be too costly and lengthy to achieve the formalisation of these enterprises. A key informant revealed that;

*“Many individuals and businesses do not perceive immediate or tangible benefits from formalisation, which discourages them from registering. Formal registration and compliance processes can be complex, costly and time-consuming, deterring people from participating. The cost of Compliance is a bit high. Fees associated with registration and compliance might be seen as unaffordable, especially for small-scale or informal enterprises”.*

**FIGURE 7: MAIN INCENTIVES FOR NOT FORMALISING (%)**

**Source: IAWS (2024) and IBS (2021)**

From the informal business's perspective, close to 60 percent of all businesses that remain informal in some way benefit from being outside of the regulatory and administrative reach of local authorities (Figure 7, Panel B). A KII confirms that;

*“When you register, you are exposed to high taxes, and in the process, you lose customers to competitors because you have to put your prices higher to meet the tax. When a business has a “small capital”, it prefers to stay hiding than being exposed and forced to pay taxes”.*

Besides, a flexible working environment is another reason why businesses and activities choose to remain informal. The ability to determine when and where to work encourages activity owners to maintain their informal status. For example, this flexibility

allows women to balance income-generating activities with childcare responsibilities effectively.

#### 4.5.2 Monetary Benefits of remaining Informal

Informal businesses and activities charge a lower price for their products compared to their registered counterparts. As already alluded to in the previous sub-section, these businesses and activities are more likely not to pay taxes and other compliance costs. This reduces their operating expenses, providing a competitive pricing advantage and leading to increased demand for their products. For instance, Figure 8 reveals that 35 percent of informal businesses offer lower prices than the formal firms.

**FIGURE 8: COMPARISON OF PRICES: INFORMAL VERSUS FORMAL BUSINESSES**

Source: IBS (2021)

#### 4.5.3 Livelihood Benefits of Informality

In the absence of formal employment, informal employment acts as an alternative way of household provisioning. The findings from Table 16 below reveal that extra incomes from household activities and/or work are associated with better household welfare. The positive and statistically significant coefficient (marginal effect) for hourly income

highlights that, as hourly income increases, the probability of being in a higher welfare category also increases, with a one-unit increase in hourly income leading to a 0.002 percent higher likelihood of reporting better welfare. This evidence demonstrates that informal activity/work seems to be a good welfare/livelihood enhancing strategy.

**TABLE 16: WELFARE BENEFITS OF INFORMALITY**

VARIABLES	Extent of informality		
	Partial	Full	All
Hourly income	0.00002*** (0.0000)	0.00002*** (0.0000)	0.00002*** (0.0000)
Age	-0.00532*** (0.00101)	-0.00861*** (0.00102)	-0.00423*** (0.0010)
Age-squared	0.000001 (0.00001)	0.00004*** (0.00001)	-0.00002 (0.00001)
<b>Education (base: post-secondary)</b>			
Primary	-0.39772*** (0.00408)	-0.37711*** (0.00398)	-0.37827*** (0.00392)
No education	-0.19768*** (0.00652)	-0.17677*** (0.00647)	-0.18537*** (0.00625)
<b>Gender (base: male)</b>			
Female	0.12425*** (0.000471)	0.11531*** (0.00456)	0.11747*** (0.00451)
<b>Sector (base: services)</b>			
Agriculture	0.06977*** (0.00424)	0.07565*** (0.00407)	0.07331*** (0.00409)
Industry	0.16118*** (0.00377)	0.16815*** (0.00359)	0.16806*** (0.00360)
Hotels and Industry	0.31253*** (0.00377)		0.32184*** (0.01517)
<b>Location (base: urban)</b>			
Rural	0.19553*** (0.00291)	0.18362*** (0.00291)	0.19606*** (0.00285)
Pseudo R-square	0.2510	0.2362	0.2630
Likelihood Chi square	22448.66***	20634.49***	24129.02***
Observations	77,137	78,433	80,996

Standard errors in parentheses, \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Source: NLFS (2021)

Age disproportionately reduces the welfare of households who have full informality. As a household head becomes older, the likelihood of achieving higher welfare decreases, with the effect being most pronounced among households with activities with full informality, where a one-year increase in age leads to a 0.86 percent decrease in the probability of being in a higher welfare category. The negative relationship between age and welfare may be partly attributed to the increased financial responsibilities that older individuals often face, such as caring for family members and managing household expenses, which can lead to financial distress and limit their ability to meet personal wants and needs, ultimately contributing to a lower likelihood of welfare as they prioritize essential expenses over discretionary spending.

Lower education levels diminish the welfare effects of informal activity. In comparison to households whose heads have secondary or more education, there is a reduced likelihood of achieving higher welfare among households whose heads have primary or no education at all. These findings underscore the importance of educational attainment in influencing welfare improvement, as lower education levels are consistently associated with lower probabilities of achieving high welfare regardless of the extent of informality.

Female-headed households are more likely to report high welfare. Estimates indicate that female-headed households are 12 percent more likely to report high welfare compared to men-headed households, regardless of the extent of informality. This could be explained by a combination of factors, including economic roles, financial behaviours, and social support systems. Despite typically earning less than men due to the gender pay gap and occupational segregation, women often exhibit more positive financial behaviours, such as saving and budgeting, which can enhance their perceived financial security. Additionally, women benefit from stronger social networks that provide emotional and financial assistance, contributing to a sense of stability.

Household activities in agriculture, industry, and hotels and restaurants sectors are associated with higher household welfare probability when compared with services. Irrespective of the extent of informality, having an activity within the agriculture, industry, and hotels and restaurant is associated with 7 percent, 17 percent and 32 percent higher

probabilities of reporting better welfare by all households, whether partially or fully informal (Table 16). These results show that, despite being informal, informal activities as well as work in agriculture, industry, and hotels can still yield significant returns and allow individuals to meet their basic needs.

Informal activities in rural areas are associated with significant household welfare implications compared to their urban counterparts. Regardless of the extent of informality, rural households are more likely to achieve better welfare. The estimates in Table 16 show that households with an informal activity in rural areas are 20 percent more likely to report better welfare compared to their urban counterparts. We can partly attribute this to the fact that rural households engaged in informal activities, such as agriculture, may benefit from lower living costs and the ability to produce their own food, alleviating financial pressures and contributing to a sense of security compared to urban households.

#### 4.6 Perceptions about Formalisation Process

We gathered perceptions from owners of informal businesses and activities to identify suitable short- to medium-term interventions that would promote formalization. We investigated the following indicators: cost of business registration, annual payments by already registered businesses, registration compliance costs for already registered businesses, duration of business registration, and distance to registration points.

##### 4.6.1 Perceptions on Registration Fees

To establish whether costs of business registration, tax amount and compliance fees for registration were prohibitive and prevent businesses from registering, non-registered businesses in Uganda were asked how much they think it would cost them to register businesses, the taxes they would pay and the related compliance registration costs to different government agencies.

The evidence presented in Table 17 reveals that, overall (Panel C), non-registered businesses perceive that registration fees are costliest at URA, followed by URSB and least expensive at the local authorities. Specifically, non-registered businesses perceive the registration fees to be an average of UGX 150,000, with a maximum of up to UGX 2.3 million at URA; UGX 100,000 at URSB; and UGX 35,000 at

local authorities, with a maximum of UGX 1 million for both URSB and local authorities, respectively. However, a disaggregation by the extent of informality shows that fully informal businesses (Panel B) perceived a higher cost for registration at URA and URSB than their counterparts with partial informality (Panel A). Despite these perceptions, obtaining a tax identification number (TIN) from URA is free. Additionally, business name registration at URSB costs UGX 35,000.<sup>13</sup> The high perceived registration cost at URA and URSB is also indicative of the numerous additional

hidden costs that informal businesses are likely to incur in the registration process. In this regard, the procedures for obtaining a TIN and business name registration at URA and URSB, respectively, involve filling and submitting online forms, passport photos, valid identification documents, and online payment for name search fees. Most informal business owners have low education, and they likely incur extra fees by hiring agents to overcome the administrative and regulatory bureaucracy. This adds up to the cost of registration and may also breed corruption.

**TABLE 17: BUSINESS OWNERS' PERCEPTIONS OF REGISTRATION AND TAX/FEE TO LEGAL AUTHORITIES (UGX)**

	Minimum	Maximum	Mean	Median	#business
<b>Panel A: Partial informality</b>					
Register with local authorities	3,000	1,000,000	51,471	40,000	1,226,416
Register with URSB	10,000	1,000,000	157,524	60,000	72,781
Register with URA	1,000	2,300,000	217,318	150,000	252,513
Tax/fees with local authorities	5,000	1,000,000	90,035	50,000	1,308,116
Tax/fees with URA	3,000	10,000,000	355,524	200,000	250,694
Payment obligations with local authorities	1,000	744,000	52,908	10,000	1,043,324
Payment obligations with URA	2,000	500,000	85,203	50,000	235,889
<b>Panel B: Full Informality</b>					
Register with local authorities	1,000	500,000	44,125	35,000	278,027
Register with URSB	3,000	500,000	201,715	250,000	23,292
Register with URA	3,000	1,000,000	251,255	200,000	73,477
Tax/fees with local authorities	3,000	1,500,000	65,021	50,000	301,499
Tax/fees with URA	20,000	6,750,000	361,438	200,000	84,769
Payment obligations with local authorities	1,000	500,000	23,431	10,000	255,595
Payment obligations with URA	3,000	400,000	110,303	100,000	78,217
<b>Panel C: All businesses</b>					
Register with local authorities	1,000	1,000,000	50,113	40,000	1,504,443
Register with URSB	3,000	1,000,000	168,238	100,000	96,073
Register with URA	1,000	2,300,000	224,967	150,000	325,990
Tax/fees with local authorities	3,000	1,500,000	85,350	50,000	1,609,615
Tax/fees with URA	3,000	10,000,000	357,019	200,000	335,463
Payment obligations with local authorities	1,000	744,000	47,108	10,000	1,298,919
Payment obligations with URA	2,000	500,000	91,454	50,000	314,106

Source: IBS (2021)

#### 4.6.2 Perceptions on Annual Tax Payment by Formal Businesses

There's a huge discrepancy between what people think unregistered activity owners pay in taxes and what they actually pay. Results in Table 17 show that owners of non-registered activities believe URA receives the highest tax payments, compared to what local authorities receive. At the URA, informal activity owners perceive that their registered counterparts pay an annual average of UGX 357,019 in taxes (Table 17 Panel C).

On the contrary, the amount a registered enterprise pays in presumptive taxes to URA is based on its sales turnover and record-keeping behavior. Similar to registration fees, the lack of effective awareness campaigns from URA contributes to the spread of misinformation about taxes paid by registered businesses.

<sup>13</sup> <https://obrs.ursb.go.ug/services-cost>

#### 4.6.3 Perceptions on Compliance Costs for Already Registered Businesses

To understand whether compliance costs are a major barrier to business formalisation in Uganda, non-registered businesses were asked how much they think their registered counterparts incur to comply with the payment obligations with the different registration agencies.

Findings reveal that non-registered businesses perceive compliance costs are highest at URA and least at the local council level (Table 17). At URA, non-registered businesses perceive that their registered counterparts incur an average of UGX 50,000, with a maximum

of UGX 500,000 in compliance costs. The perceived high compliance costs at URA could emanate out of hidden additional costs that come with fulfilling administrative and regulatory requirements. A KII also explains that;

*“There is a multiplicity of taxes and dues in Uganda, we never get any explanation why we have to pay for all these taxes and dues” (KIIs, Tuesday, October 19th, 2021). Therefore, it is prudent that compliance costs are minimised by encouraging URA to leverage the Local government registration structure, especially for small businesses.*

#### 4.6.4 Perceptions on Duration and Distance to Points of Business Registration

To establish whether the duration of business registration is a limiting factor to business formalisation in Uganda, we assessed the perceptions of non-registered businesses regarding the registration duration of similar registered businesses.

##### 4.6.4.1 Perceptions on Duration of Business Registration

Non-registered businesses perceive that registration duration is the longest at URA and URSB offices. Overall, informal businesses perceived that it takes an average of 3 days to register at both URA and URSB premises (Table 18). Despite the above perceptions, the actual registration time at the different agencies is as follows, registration at URA for a TIN, whether for an individual or a company, takes one day, while at URSB, business name registration takes 30 minutes; registration of a company, whether local or foreign, takes 3 working hours upon submission of all required document (URSB,2021).<sup>14</sup> In the same view, municipalities and local councils take a maximum of one day to issue trading licenses upon submitting all requirements and payment of requisite fees.

The observed deviation in duration for URA and URSB is not surprising. Both offices tend to be centrally located, mainly targeting medium- to large-scale urban-based businesses in major cities and municipalities. As such, they are not readily available and accessible by informal businesses.

Nonetheless, a disaggregation by the extent of informality reveals that fully informal businesses perceive that it takes an average of 7 days to register at URSB. The discrepancy between the actual and perceived duration of registration could indicate the existing administrative barriers to informal business registration. From the supply side, delays can arise from bureaucratic obstruction, ranging from lack of access to services, corruption, system breakdowns, lack of internet services, and excessive paperwork. On the demand side, delays could emanate from low literacy levels, ability to use technology, and lack of time to complete the process. Specifically, an FGD stated as below;

*“The government needs to make online registration simple to encourage registration. While many business people have smartphones, there is a need to have a simple USSD code. The wording in the registration system should be short. Business people do not have time”.*



<sup>14</sup> <https://businesslicences.go.ug/index.php/license/id/1005>

**TABLE 18: NUMBER OF DAYS FOR REGISTRATION**

	Minimum	Maximum	Mean	Median	Observations
<b>Partial Informality</b>					
Register with local authorities	1	180	2.7	1	1,504,752
Register with URSB	1	99	6.7	2	118,791
Register with URA	1	365	6.4	2	214,787
Register with KCCA	1	30	3.3	1	76,315
<b>Full Informality</b>					
Register with local authorities	1	365	5	1	369,516
Register with URSB	1	120	11.7	7	96,496
Register with URA	1	356	13.7	3	153,397
Register with KCCA	1	356	7.5	2	203,613
<b>All Businesses</b>					
Register with local authorities	1	365	3.1	1	1,874,268
Register with URSB	1	120	8.9	3	215,287
Register with URA	1	365	9.4	3	368,184
Register with KCCA	1	356	6.4	1	279,928

Source: IBS (2021)

#### 4.6.4.2 Perceptions on the Distance to Registration Points

Informal business owners perceive that URA is located furthest from non-registered businesses, regardless of the extent of informality (Table 19). This is not surprising, given that URA has most of its business registration processes online, URA's last-mile physical presence is low. Overall, non-registered businesses move an average of 15Km to register at URA offices. This is consistent with a KII that stated that;

*"Distances to URA offices are long.....Just imagine from here (Nanywa) to Luwero".*

However, a disaggregation by the extent of informality shows that partially informal business owners move the longest distance (20Km) to URA registration points. On the contrary, fully informal businesses owners moved the longest registration distance to URSB (15Km). These results demonstrates that registration with URA is much more of a problem for the former group, while registration with URSB is more of a problem for the latter group.

**TABLE 19: DISTANCE TO REGISTRATION POINTS (Km)**

	Minimum	Maximum	Mean	Median	Observations
<b>Partial Informality</b>					
Register with local authorities	0.1	40	2.5	1	1,474,222
Register with URSB	0.5	99	13.9	3	170,961
Register with URA	0.1	80	17.4	20	466,143
Register with KCCA	0.2	15	4	2	67,970
<b>Full informality</b>					
Register with local authorities	0	25	3.6	1	412,947
Register with URSB	1	28	14.2	15	65,738
Register with URA	0.5	42	14.8	10	196,797
Register with KCCA	0.2	500	6.4	1.5	185,212
Register with local authorities					
<b>All Informality</b>					
Register with local authorities	0	40	2.7	1	1,887,169
Register with URSB	0.5	99	14	6	236,699
Register with URA	0.1	80	16.6	15	662,940
Register with KCCA	0.2	500	5.8	1.6	253,182

Source: IBS (2021)

#### 4.7 Conclusion

The Chapter reveals that informality in Uganda persists due to a combination of economic, institutional, and socio-cultural factors that have created an environment where informal businesses and activities thrive. These include the country's turbulent political history, the structure of the economy that yields few jobs, and past economic reforms that reduced the size of the public sector. Flexibility, lower operational costs, and avoidance of compliance related expenses such as taxes and registration fees make informality an attractive option for many. Bypassing these costs allows informal businessmen to offer lower prices, sustaining demand for their products and services.

Informal employment also serves as a critical safety net in the absence of adequate formal job employment opportunities, contributing significantly to household livelihoods and welfare. Additionally, insufficient access to information about the registration process further constrains formalization efforts. Fiscal informality is also exacerbated by low tax morale and reduced fiscal legitimacy, fueled by poor service delivery and public perceptions of corruption and mismanagement of public funds.



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## **GOVERNMENT INITIATIVES AND THEIR POTENTIAL EFFECT ON FORMALISATION**

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## 5. GOVERNMENT INITIATIVES AND THEIR POTENTIAL EFFECT ON FORMALISATION

This chapter explores government initiatives aimed at formalizing informal businesses, activities, and workers, highlighting their potential impact. Key initiatives for businesses and activities include the Taxpayer Registration Expansion Programme (TREP), the Electronic Fiscal Receipting and Invoicing Solution (EFRIS), tax education, streamlined licensing, and engagement with business associations. For workers, focus areas include social protection through the National Social Security Fund (NSSF) and access to insurance services. Additionally, broader programs like the Parish Development Model (PDM), Emyooga, Business Development Services, Presidential initiative for Skilling the Girl child that aim to transition households to a money economy have had an effect on formalisation. The chapter evaluates these initiatives' roles in fostering formalization.

### 5.1 Initiatives to reduce Informality among Informal Businesses and Activities

#### 5.1.1 Taxpayer Registration Expansion Programme (TREP)

In 2013, the Taxpayer Registration Expansion Programme (TREP) was launched to encourage small businesses to register as taxpayers and receive a Tax Identification Number (TIN). TREP was organised by URA, Kampala Capital City Authority (KCCA), URSB, and other local governments. Despite being in existence for 8 years, evidence highlights that only 5 percent of non-registered businesses are aware of the programme (Figure 9). Various accounts explain the observed trend. It has been highlighted that TREP was limited in geographical coverage (Jouste et al., 2021). Remarkably, while the first phase of TREP (TREP I) covered divisions in Kampala city and TREP II covered municipalities in Wakiso district, TREP III did not lead to the coverage of the whole country.

Besides limited scope in geographical coverage, KIIs reported that the implementation of TREP had several challenges that continue to limit its effectiveness. First, the programme suffered from understaffing, resulting from delayed recruitment processes by URA and competing agency priorities and responsibilities. Specifically, for URA, KIIs revealed that URA officers have additional duties of enforcing presumptive tax payments, which affects their commitment to the one-stop-centre. Specifically, A KII stated as below;

*“In this city, there is a URSB and a local government officer at the TREP one-stop-shop; however, the URA officer is not available at the TREP desk, yet it is supposed to be a one-stop-shop. URA is understaffed and takes a long time to recruit new staff”.*

Second, implementation of TREP is constrained by low budgets for trade promotion at the Local Government Level. A KII with a district commercial officer revealed as below;

*“The budget for trade promotion, laws, and registration remains limited. In a financial year, a total of UGX 12 -15 million is sent to the city to promote trade but also to facilitate other departments (cooperatives, tourism and industry). This low budget limits mass sensitisation, awareness and supervision. Trade is poorly funded, yet the department is expected to grow government revenue”.*

Another KII stated as below;

*“Marketing of the TREP is lacking in this city. Due to lack of funds, for radio air-time, talk shows about TREP happen only once a year”.*

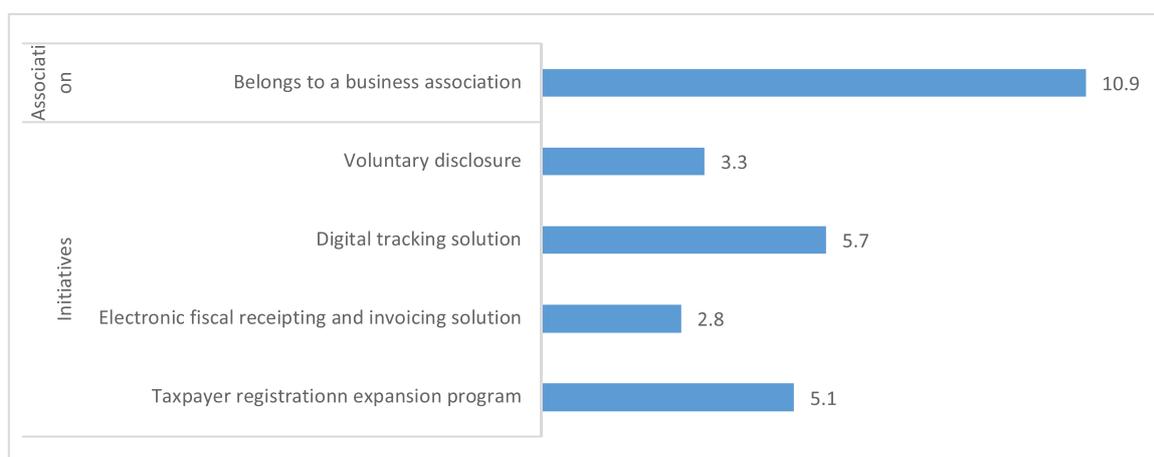
*“However, the use of radio is not the best approach. There is no feedback collected from the taxpayers when you use radio programmes, and this is not productive...”.*

Third, there was limited facilitation for registration compliance. According to a KII, the LGs receive UGX 1.5 million for enforcement for a whole city. This facilitation is disbursed quarterly; however, sometimes, it is not remitted. Fourth, the TREP database is not interlinked among the three agencies that form the one-stop-shop. Currently, if a business registers with one of these agencies, their business registration details are not interconnected with the other agencies. Most informal businesses stop registration with only one agency. There was also a lack of coordination and harmonisation of mandates of the various agencies involved in the implementation of TREP. A KII notes that;

“Each of the agencies (Local governments, URSB and URA) focused on implementing its mandate during the implementation of TREP. For instance, institutions like KCCA did not bother about acquiring TINs but only concentrated on issuing out trading licenses. Indeed, TREP failed to achieve the intended objectives of avoiding multiple points of contact. That is partly why legal compliance did not necessarily translate into fiscal compliance. That’s how local governments end up with millions of registered businesses not necessarily paying taxes. Also, integration of the information by the different entities was difficult as the LG did not have a system in place, yet URA already had a system in place. As such, the biggest part of the TREP budget was spent on system development by the LG”.

“Government is not having a uniform way of formalising businesses.....Some agencies are asking for a trading license, while others want taxes.....In addition, more than 50 percent of businesses registered are with the (LC) chairman. The LC chairman(s) have robust business registers at the local council level. These registers must be utilized”.

**FIGURE 9: AWARENESS OF INITIATIVES TO ENCOURAGE BUSINESS REGISTRATION AND MEMBERSHIP TO BUSINESS ASSOCIATIONS, %**



Source: IBS (2021)

**5.1.2 Tax Administrative Innovations: The E-Tax system and Electronic Fiscal Receipting and Invoicing Solution (EFRIS)**

Since 2009, the government, through URA introduced the Electronic-tax system and filing of tax returns (E-tax system). The E-Tax system is complemented by the Electronic Fiscal Receipting and Invoicing solution (EFRIS), Digital Tracking solution, and Voluntary Disclosure. These systems were an improvement over the erstwhile Excel-based form, which aimed at increasing transparency and simplifying the filing of tax of mainly presumptive taxpayers—mainly the informal sector. Besides enabling registered businesses to report and or pay taxes, these online platforms also enable small businesses to register as new taxpayers and assign newly registered businesses, a TIN to be used on the platforms. Despite the benefits, awareness of these administrative tax innovations, by non-registered businesses, remains low. Besides limited awareness of these systems to the

business community, Ladu and Nakaweesi (2021) reported that application to these systems was limited by the many technical and administrative requirements; poor internet and power connectivity across the country. Therefore, attracting non-registered businesses to enroll and later use these platforms calls for simplifying the processes and procedures as well as heavily intensifying publicity about their existence. A KII suggest that:

“There has been slow uptake of EFRIS. Not every business person who is eligible issues receipts using the EFRIS system. In addition, the business community lacks the required logistics, such as the internet, a computer which are necessary when using the EFRIS system. There is also inadequate capacity/ skills among business owners on how to use the EFRIS system”.

Besides formalisation interventions at the central Government level, various initiatives have also been undertaken at the Local Government level. According to KII, formalisation interventions at the district level have taken the route of mass sensitisation through radio talk shows, implementation of local ordinances and community engagement through barazas to deliberate about business formalisation.<sup>15</sup> However, KIIs reveal that inadequate implementation budgets have limited effective implementation.

The EFRIS was particularly introduced to enhance compliance and improve efficiency for electronic-Invoicing and VAT reporting of commercial transactions. All VAT-registered taxpayers are expected to use EFRIS to issue e-invoices or e-receipts for every business transaction. The EFRIS system streamlines business operations by improving bookkeeping skills through accurate inventory and cash flow tracking, enabling real-time monitoring and authentication of transactions. It simplifies tax processes with prefilled tax returns,

reduces delays and costs in filing, and enhances compliance. Additionally, EFRIS facilitates quick refund claims by centralising necessary data, eliminates the need for cumbersome physical document storage through digitalisation, and minimises risks like theft, ultimately making business operations more efficient in Uganda.

However, regardless of the extent of informality, close to 60 percent of the respondents are unaware of the function of EFRIS (Appendix A, Table A2); and more than 25 percent of respondents perceive EFRIS as a new tax. However, this is unsurprising, considering only 3 percent of respondents are registered for VAT. Furthermore, this poor perception might be closely linked to the fact that almost 60 percent of respondents, regardless of the level of informality, are unaware of their civic duty to pay taxes. No wonder less than 1 percent of potential taxpayers in the informal sector have used the EFRIS point-of-sale gadget due to a high level of lack of knowledge about the gadget (59 percent) or ineligibility to use the gadget (35 percent).

### 5.1.3 URA's Taxpayer Education Programmes

The Uganda Revenue Authority (URA) has undertaken several taxpayer education programs, mainly under its Tax Literacy Unit (TLU), to enhance public understanding of taxation. These initiatives aim to bridge knowledge gaps, counteract misinformation, and promote tax compliance among citizens. Through workshops, media campaigns, tax katales, tax clinics, Barazas, drama, school debates, among other programs, URA seeks to equip individuals and businesses with the necessary knowledge to fulfill their tax obligations.

URA's tax literacy programs have achieved notable successes over the years. For instance, recognizing the importance of taxpayer education, URA more than tripled its budget for these campaigns, with allocations rising from UGX 800 million in the fiscal year 2016/17 to approximately UGX 2,700 million in 2019/20.<sup>16</sup> Between 2017/18 and 2018/19, URA organized 928 taxpayer and stakeholder engagements on tax matters across various platforms. Additionally, several school and university tax debates have been conducted, fostering a culture of tax awareness and a tax alert generation.<sup>17</sup>

URA also leverages media campaigns to disseminate tax-related information, utilizing radio programs, online platforms, and print publications to reach a broad audience. These campaigns help address tax misconceptions and clarify compliance requirements.

Additionally, URA conducts community outreach programs by deploying mobile tax units and hosting targeted tax clinics. These efforts aim to provide personalized assistance to taxpayers across different regions.

However, despite these efforts, a 2024 Afrobarometer survey found that many Ugandans still struggle to access clear and comprehensive tax information. The survey highlighted that 76% of Ugandans find it difficult to determine their tax obligations, while 83% face challenges in understanding how collected revenues are utilized (Afrobarometer, 2024).<sup>18</sup>

<sup>15</sup> For Masaka city, there is a policy which states that local business licenses are only a preserve of business that have registered with URSB and obtained a TIN from URA.

<sup>16</sup> [https://www.academia.edu/93967930/Who\\_can\\_make\\_Ugandan\\_Taxpayers\\_more\\_Compliant?uc-sb-sw=10109793&utm\\_source=](https://www.academia.edu/93967930/Who_can_make_Ugandan_Taxpayers_more_Compliant?uc-sb-sw=10109793&utm_source=)

<sup>17</sup> <https://govinfohub.go.ug/index.php/2024/07/16/ura-builds-national-capacity-on-taxation/>

<sup>18</sup> <https://www.afrobarometer.org/publication/ad886-most-ugandans-struggle-to-access-information-on-taxes-they-owe-and-how-revenues-are-used/>

This study particularly finds that tax education is being delivered to a small proportion of potential taxpayers with informal activities. At the time of the survey, only 6 percent of informal activity owners had received tax education (Appendix A, Table A3). Of these, more than 36 percent perceived the course content to be more dominant on penalties, fees, and fines. Only 2 percent perceive the course content to be sensitising the community about the benefits of paying taxes and the use of taxes to provide public service. The concentration on educating taxpayers about penalties, fees and fines may partly explain the earlier mentioned widespread lack of knowledge about the civic duty to pay taxes, mostly among respondents with full informality.

Therefore, there's a need for more customized tax education to strike a balance between disseminating information on penalties and fees and increasing knowledge about taxes, particularly on sensitising the community about the benefits of paying tax and the use of taxes in public service provision. Indeed, a basic understanding of how taxes work is necessary for engagement in the discourse around tax and tax education programmes should strive to show a friendly and service-oriented face of the state (Mascagni and Santoro, 2018).

In addition, evidence in (Appendix A, Table A3) reveals that 30 percent and 22 percent of the respondents with partial informality acknowledged that the course content did delve into methods of tax payment and eligibility criteria of each tax head. Meanwhile, respondents with full informality mostly acknowledged course content revolving around penalties, fees and fines (40 percent) and the various tax compliance tools (37 percent).

Regarding the channels used to educate taxpayers, respondents ranked TV shows, social media, face-to-face interactions, and radio as the most popular media for accessing tax education. The rankings are 34, 25, 17 and 16 percent of respondents, respectively.

On the other hand, newspaper articles (3 percent) and public address systems through speakers on the car, email and messages from friends (2 percent) were the least accessed methods

### 5.1.4 Business Licensing Reforms

The Government has taken several steps to reform its business licensing regime, aiming to create a more business-friendly environment that supports private sector growth and efforts to reduce informality. These include initiatives to streamline business operations by reducing the constraints posed by the legal and regulatory environment. Notable reforms undertaken include the elimination of redundant licenses, the simplification of remaining licenses, and the establishment of an electronic business registry system (Bimbona and Rwengabo, 2023).<sup>19</sup> These reforms targeted enhancing the efficiency of the licensing process through automation and decentralization, ultimately fostering a more conducive environment for private sector investment and growth. One of the major accomplishments of these reforms has been the rollout of the e-licensing business

portal in 2013. This online platform enables businesses to easily access information regarding the licenses they need to operate. By simplifying the licensing process and providing a centralized source of information, the portal has greatly improved transparency, reduced bureaucratic hurdles, and contributed to a more streamlined licensing environment. Furthermore, the system has promoted a shift towards a more efficient and paperless system, which is an essential part of the government's efforts to modernize administrative processes.

The World Bank's 2013 review of Uganda's licensing regime highlighted several critical findings, including the existence of 790 different business licenses issued by both central and local government agencies.<sup>20</sup> Among the sectors most burdened by the licensing system were agriculture, trade, transport, logistics, and tourism. The review identified the trading license as a significant driver of high compliance costs, noting that it was often used more as a revenue generation tool by local governments rather than for regulatory purposes. Another key issue highlighted was the overlap between national and local government licenses, levies, fees, and permits, which contributed to confusion and inefficiency in the system. In response to these findings, the government took decisive action by eliminating 27 of the licenses that were deemed redundant or unnecessary.

19 <https://www.theigc.org/sites/default/files/2024-10/Bimbona%20and%20Rwengabo%20Final%20Report%20October%202024.pdf>

20 <https://www.worldbank.org/en/news/feature/2013/12/31/uganda-embarks-on-licensing-reform-to-reduce-costs-for-small-businesses>

This move was a critical step in reducing the administrative burden on businesses and simplifying the licensing process.

According to a study by Bimbona and Rwengabo (2023), a total of 59 licenses had been eliminated or streamlined by 2017. However, the authors note that, despite these reforms, several business ventures still require licensing and approval from several MDAs, which increases the costs of compliance, both in monetary and non-monetary terms. For instance, the authors observed that about 20 costly licenses still remained in the agriculture, trade, Transport & Logistics, and Tourism sectors.

With respect to informal activities, the findings show that less than one half of the informal activities operate on licenses. The evidence in Table 20 indicates that 41.2 percent of the household activities surveyed operate with a license. Nonetheless, 87.4 percent of licensed activities hold only one license. Evidence also reveals that local governments are the primary authorities for issuing licenses, with 89.1% of licensed household activities obtaining their licenses from local government institutions. This significant percentage emphasizes that local government licensing of these activities is a predominant form of regulatory compliance. The high reliance on local government authorities for licensing suggests that they play a crucial role in regulating and formalizing regional business activities. This trend may also reflect the accessibility and perhaps the mandatory nature of local government licensing for activities operating within their jurisdiction.

**TABLE 20: NUMBER OF LICENSES**

Licensing characteristic	Percentage of activities
<b>Activities operated with a license</b>	41.2
<b>How many licenses do you have</b>	
1	87.4
2	10.2
3 or more	2.4
<b>What type of licenses do you have</b>	
Local Government	89.1
Ministries, Department & Agencies	1.7
Professional body	1.1
Other	8.1

**Source: IAWS (2024)**

### 5.1.5 Instant Individual Tax Identification Number (TIN) Registration at URA

In June 2021, URA fully transitioned the TIN application process to a user-friendly web-based system.<sup>21</sup> This digital shift aimed to enhance the taxpayer registration experience by leveraging technology to simplify and make the process less costly in terms of money, time, and effort.

By eliminating cumbersome paperwork, the new system sought to make TIN registration more accessible and convenient for individuals and businesses. One of the key improvements was the removal of the requirement to photocopy national identification cards. Instead, applicants now only need to input their National Identification Number (NIN) into the system, which automatically retrieves relevant details. Additionally, the previous requirement of printing, signing, and physically submitting forms to URA offices was replaced by a streamlined online process. Under the new system, applicants simply read and acknowledge the terms and conditions with a single click, significantly reducing the bureaucratic burden.

Despite these advancements, a significant proportion of informal sector workers and business owners still lack a TIN. Evidence in Appendix A, Table A3 reveals that 80 percent of informal workers do not have a TIN, and the proportion of non-registrants is higher (91 percent) among informal workers with full informality.

This gap suggests that while digitalization has improved efficiency for those who engage with the system, broader challenges remain in encouraging informal sector participation. The most significant reason advanced for not having a TIN is the perception that taxes are meant to be paid by the well off. Overall, 30 percent of workers thought that their turnover was below the threshold. A disaggregation suggests that this behaviour is disproportionately common among informal workers with partial informality (40 percent) as opposed to those with full informality (30 percent). As earlier mentioned, there is a misperception that URA imposes a registration fee to obtain a TIN. Close to 20 percent of respondents perceive that it costs money to register. While 19 percent of those with partial informality perceive distance to registration offices to be an obstacle, close to 17 percent of those with both forms of

<sup>21</sup> <https://businessfocus.co.ug/ura-introduces-new-simplified-tin-registration-process/>

informality do not want to be known by URA. Other reasons advanced by 30 percent of respondents are that they are not aware about TIN; have no idea how TIN works; are low-income earners; their business is small; and their work is seasonal. Regarding filing of taxes, evidence reveals that, 95 percent of informal workers do not file for taxes. Of these, 99 percent are fully informal. More than 63 percent of informal workers perceive that their business is either too small to file taxes or lack awareness of tax filing procedure. About 33 percent of informal workers do not know how to file for taxes. There is very low payment of taxes among informal workers, with only 13 percent of informal workers having paid taxes in the last one month prior to the survey. Of these, the method of payment utilised was through the bank (54 percent), cash and withholding (20 percent), point of sale (12 percent) and mobile money (10 percent). In the absence of the methods used to pay taxes, informal workers would have preferred to use mobile money (38 percent), bank (29 percent), and cash (25 percent). A disaggregation suggests that those with full informality do not pay taxes while 67 percent of those with partial informality pay taxes.

The findings also show that close to 40 percent of informal workers perceive taxes as a compulsory payment made for service delivery charged on income or profit. However, only 27 percent of informal workers perceive they are getting service delivery out of taxes they pay, and only 10 percent are of the opinion that there is accountability for the taxes they pay. Only 9 percent believe in Uganda's tax system.

Tax enforcement among informal workers remains weak. According to the evidence in Appendix A, Table3, only 2 percent of informal workers had an interface with an enforcement officer in the last six (6) months. The low level of enforcement could be due to many factors, including difficulty in locating informal workers, poor access to technology, a lack of specialised skills, and low URA staff numbers. A lack of inspection by tax enforcers could also be a driver of low effort in tax enforcement (Marhuenda and Ortuno, 1997). Despite the limited number of visits, the 65 percent of interactions with URA officers were described as cordial. However,

in a small number of cases, officers exhibited rude behavior (7.44 percent), issued threats (17.19 percent), or even resorted to violence (6.96 percent).

Moreover, the scope of tax audits for informal businesses remains small. Indeed, evidence reveals that 1 percent of activities belonging to informal workers had been audited in the last 6 months. Most of the audited activities (6 percent) had partial informality (Appendix A, Table3).

### 5.1.6 Establishment of Physical and Online One Stop Centers (OSC)

To promote the growth and development of the private sector, the Government of Uganda through the Uganda Investment Authority (UIA) established the One Stop Centre (OSC), an inter-institutional initiative that integrates several government agencies and facilitates smooth interactions between entrepreneurs and government agencies. This effort aims to, among several other functions, simplify business registration and licensing procedures, ensuring that entrepreneurs can start and operate their businesses with greater ease.<sup>22</sup>

The OSC brings together the services of 16 government agencies through a unified online platform, providing a single point of access for entrepreneurs.<sup>23</sup> The electronic platform, EBIZ, is a digitally enhanced tool designed to offer user-friendly and faster services. Through EBIZ, the government significantly reduces bureaucratic procedures, minimizes the time spent, and cuts down on the cost of obtaining licenses and permits. This is a major step in modernizing Uganda's business registration landscape, ensuring that formalization is more accessible and efficient.

Among the key services offered by the OSC are tax registration, compliance advisory services, and the issuance of trading licenses. These services are critical for businesses looking to formalize and operate within the legal framework of Uganda. In addition to these formalization services, the OSC plays a broader role in supporting business establishment and development through streamlined processes and procedures, facilitating the journey from business inception to operational status.

<sup>22</sup> <https://heconsulting.us/12-services-at-the-one-stop-center-osc-ebiz-for-investors-starting-business-in-uganda/>

<sup>23</sup> Agencies housed under the physical OSC in Kampala include; UIA, KCCA, National Environment Management Authority (NEMA), National Water and Sewerage Corporation (NWSC), URSB, Directorate of Immigration and Citizenship (DIC), Uganda National Bureau of Standards (UNBS), Ministry of Lands, Housing and Urban Development (MLHUD), Federation of Uganda Employers (FEU), URA, Uganda Free Zones Authority (UFZA), Diamond Trust Bank (DTB), Giants Club, UMEME and the National Information Technology Authority (NITA), among others.

A particularly noteworthy feature of the OSC is its 24-hour multilingual hotline, which provides assistance to entrepreneurs in any language. This service ensures that no matter the time or the language barrier, entrepreneurs can access the help they need, making the formalization process more inclusive and efficient. The OSC's integration of government authorities with the business community fosters a collaborative environment where online and business support services are readily available, ensuring that entrepreneurs can easily navigate the often-complex regulatory landscape.

Initially, the physical OSC was located solely in Kampala, which posed significant challenges for entrepreneurs in Uganda's upcountry regions. Recognizing the need for greater accessibility, efforts have been made to extend the reach of the OSC through the establishment of regional centers. As reported in the Private Sector Development (PSD) program's annual monitoring report for FY2023/24, a regional OSC was set up in Arua, and premises have been secured for the Mbale regional OSC.<sup>24</sup> These expansions are crucial steps in ensuring that businesses across the country can access the services offered by the OSC, helping to reduce regional disparities and improve service delivery.

However, despite these improvements, regions without OSCs still face challenges due to limited access to OSC services. In areas without regional OSCs, entrepreneurs may struggle to access support, thereby diminishing the effectiveness of the initiative. Additionally, low internet coverage in some parts of Uganda further limits the reach of the EBIZ platform and other online systems, making it harder for entrepreneurs in those areas to fully benefit from the digital services offered by the OSC.

### 5.1.7 Business Associations

Globally, business associations broadly facilitate capacity building of its members and advocate for an improved business environment. As such, business associations such as PSFU, KACITA, and UMA can be a springboard on which government can leverage to formalise the informal sector business in Uganda. There is also another strand of business associations, such as the Federation of Small, Medium Enterprises (FSME) and Uganda Small Scale Industries Association (USSIA). Informal business

associations provide two main functions: first, raise awareness among their members and the authorities concerning the needs and barriers faced by informal business. They provide policy guidance and influence legislation so that the national environment is more conducive to the development and integration of informal businesses into the formal economy. Second, they provide services that help informal businesses strengthen and enter the formal economy. These services may include facilitating the supply of training, access to information, technology and finance, and other business support services.

Despite the above benefits, there is scope for improvement of the role of business associations regarding increasing awareness about the government's formalisation initiatives in Uganda. Indeed, evidence indicates that of the 11 percent of informal businesses that belong to a business association (Figure 9) yet, this Government formalisation initiative has been in existence for the last 8 years. Indeed, an FGD notes that:

*“Business association leaders have not been informed about encouraging formalisation by any Government agency. Their role stops at fundraising in SACCOs”.*

A KII stated;

*“Business associations are many in this area; however, their mandate has been restricted to advocacy on the cost and the provisioning of rent, licenses, competition between traders and hawkers and street vendors, and places of convenience at business premises. In this regard, few associations participate in TREP activities”.*

Another KII stated;

*“The business community has not appreciated the value of being a member of a business association. They only join associations whenever programmes such as Emyooga come up”.*

## 5.2 Initiatives to aid Formalisation of among Informal Workers

### 5.2.1 NSSF as a mode of Social Protection

In response to the need for greater social security coverage, the National Social Security Fund (NSSF) has implemented several initiatives to integrate informal sector workers into Uganda's social security system.

<sup>24</sup> <https://finance.go.ug/sites/default/files/reports/PSD%20Programme%20Annual%20Monitoring%20Report%20FY2023-24.pdf>

These mainly followed the amendment of the NSSF Act in January 2022 and the publication of the National Social Security Fund (Voluntary Contributions and Benefits) Regulations, 2024 by MoLGSD, which granted the Fund legal authority to extend its services to both formal and informal workers within the private sector. This legislative change marked a significant milestone in ensuring that all workers—regardless of their employment status—to contribute and benefit from social security coverage.

However, a key challenge in extending social security coverage to informal sector workers is that many of them earn low and fluctuating incomes. Unlike their counterparts in the formal sector, whose earnings are more stable and predictable, informal workers often face periods of financial instability. This variability in income makes it difficult for them to commit to regular savings, as their financial capacity fluctuates with the ebb and flow of their earnings. Consequently, the irregularity of income in the informal sector presents a significant barrier to building long-term savings and engaging with social security systems like NSSF.

As a remedy to the aforementioned challenge, NSSF has introduced the Smartlife Flexi Savings Plan, a voluntary savings option aimed at expanding coverage to informal workers, members of the diaspora, and existing contributors seeking to make additional savings. The plan leverages mobile technology, allowing users to sign up and start saving, with a minimum voluntary contribution of UGX 5000, through their mobile phones. The flexibility of this plan allows individuals to set personal savings goals and choose the frequency of contributions, making it an accessible and attractive option for a wide range of savers. As of January 2025, the plan has already enrolled 9,000 customers, with contributions totalling UGX 3 billion.<sup>25</sup>

NSSF has also introduced the Livelihood Support Project (LSP), which specifically targets workers in the informal sector who are currently outside the scope of social security coverage.<sup>26</sup>

The project targets existing groups referred to as the “Livelihood Community” to accelerate their access to new skills and knowledge, productive assets for value addition to their goods and services, markets for their goods and services, and higher income-earning opportunities. The LSP is expected to play a vital role in helping NSSF achieve its goal of enrolling at least 50% of Uganda’s working population by 2035. It provides a means for the unserved and underserved portions of the workforce to access social security, significantly contributing to expanding social protection in the country.

Another key initiative is the Hi-Innovator Program, which focuses on nurturing small and growing businesses by offering a network of business incubation centers and seed funding opportunities.<sup>27</sup> These efforts not only encourage entrepreneurship but also stimulate job creation, thereby providing more individuals with the opportunity to engage with the social security system and secure their future. Together, these initiatives are helping NSSF reach workers who have traditionally been excluded from the social security system. Given the relatively low social security coverage in Uganda, these efforts are crucial in increasing participation in the system and ensuring that more individuals, regardless of their sector of employment, are covered by social security in their later years.

These efforts notwithstanding, there are several issues that NSSF must address to further increase social security coverage among informal workers as revealed by the study findings. First and foremost, the study shows that only 27 percent of the informal workers are enrolled on a social protection programme (Table 21). The lack of social protection is a key defining characteristic of informality and a critical aspect of social exclusion. Yet, informal workers are also the most in need of social security, not only because of job and income insecurity but also because they are more likely to be exposed to severe Occupational Safety and Health (OSH) hazards and/or face invalidity or early retirement due to incapacitation.

25 <https://www.nssfug.org/savings-digest/nssfs-smartlife-flexi-registers-ugx3billion-in-savings/>

26 [https://www.nssfug.org/media-center/latest-news/media/nssf-launches-project-to-recruit-informal-sector-workers/?utm\\_source=chatgpt.com](https://www.nssfug.org/media-center/latest-news/media/nssf-launches-project-to-recruit-informal-sector-workers/?utm_source=chatgpt.com)

27 <https://hi-innovator.ug/>

**TABLE 21: INFORMAL WORKERS' PERCEPTIONS ON NSSF**

	Extent of Informality		
	Partial	Full	All
<b>Panel A: Access to NSSF</b>			
<b>Preparation of retirement</b>	27.8	20.9	27.1
<b>How people prepare for retirement</b>			
I contribute to NSSF	7.9	0.0	8.0
My employer contributes my retirement to NSSF	6.8	0.0	5.2
I have savings in my bank account	33.1	34.7	34.0
I have some investment	34.9	42.3	35.9
I save with other retirement schemes like Mazima	5.4	7.5	5.6
I have a public pension s	1.7	0.2	1.1
Others <sup>1</sup>	10.2	15.3	10.5
<b>Trust of safety of savings with NSSF</b>	74.9	0.0	74.9
<b>Reason for trust of NSSF</b>			
The fund has diversified investment	4.3	0.0	3.9
The fund is guaranteed by the GoU	24.3	0.0	23.7
The fund is well managed	70.7	0.0	71.5
Others <sup>2</sup>	0.7	0.0	0.9
<b>Reason for not trusting NSSF</b>			
The Economy is not doing well	1.8	1.8	1.8
The fund doesn't make sound investment decisions	5.5	5.5	5.6
There is corruption in the fund	84.9	84.9	84.7
There is political interference with the fund	1.2	1.0	1.3
Others <sup>3</sup>	6.5	7.0	6.7
<b>Panel B: Factors affecting saving decision with NSSF</b>			
Religion	2.7	1.7	1.8
Societal norms/ Culture	38.5	41.4	41.5
Others <sup>4</sup>	58.9	57.0	57.1
<b>Awareness of voluntarily save with NSSF</b>			26.5
<b>Awareness about other aspects of NSSF</b>			
I can save toward a house/medical care/Education			15.3
I can access part of my NSSF savings at 45 years having contributed for 10 years			22.4
Persons living with disability can access part of their savings at 40 yrs.			5.4
My NSSF card can work as a debit and credit card after retirement			8.4
Others <sup>5</sup>			21.2
Not applicable			27.4
<b>Method of contribution to NSSF</b>			
Bank			28.0
Mobile money			40.9
Agent banking			6.4
Cash			15.4
Others <sup>6</sup>			9.4

Notes:<sup>1</sup> Savings in SACCOS, bought land, keep livestock and farming work. <sup>2</sup> My other colleagues got the money; <sup>3</sup> Bureaucracy / lengthy process in getting the money. I don't even see the money in there and the interest is low. <sup>4</sup> Other bureaucracy, a lot of corruption and mismanagement, financial status and lack of awareness. <sup>5</sup> Banking system, saves people's money, when you grow old can access cash, mobile money services and isn't ware of services. <sup>6</sup> I don't have enough money to save, I am not sure how NSSF operates. I don't know about NSSF, and my business is too small to contribute to NSSF.

Source: IAWS (2024).

The findings (Table 21) above also reveal that only 8 percent of city informal workers contribute to NSSF. In this case, most informal workers prefer alternative retirement-saving modes, such as saving in a bank account (34 percent) and investment (36 percent). Less significant but notable is the rise of alternative forms of retirement schemes, which have attracted 6 percent of city informal workers.

In addition, close to 75 percent of the respondents with partial informality trust NSSF because the government of Uganda guarantees the fund (24 percent), and they believe it is well managed (71 percent). Despite its reputation for safe and sound investment decisions, 85 percent of the same respondents perceive corruption at NSSF, diminishing its reputation.

Regarding the drivers of NSSF, culture and societal norms such as gender roles are the most significant barriers to voluntary enrolment in NSSF (Table 21). Other barriers are perceived bureaucracy, corruption and mismanagement, inferior financial status and lack of awareness.

#### **Awareness of services offered by NSSF**

Of the 1.8 million city informal workers, only 27 percent knew they could voluntarily save with NSSF (Table 21). This may explain the earlier mentioned low uptake of NSSF services by informal workers. Similarly, only 15 percent know that one can save towards an investment such as a house or education. Equally, only 22 percent are aware of medium-term access, where those 45 years and above can access 20 percent of their savings, conditional on having saved for more than ten years. Other (21 percent) services offered by NSSF that informal workers are aware of are that NSSF is a banking system that saves people's money, and when you grow old, you can access cash and mobile money services.

While the traditional method of contribution to NSSF would be through the bank, technological advancement has produced more convenient modes that potential customers of NSSF prefer. The evidence in Table 21 reveals that informal workers would prefer to contribute to NSSF through mobile money (41 percent). However, up to 15 percent of informal workers would still prefer to pay in cash.

#### **5.2.2 Private Sector-led Voluntary Social Protection Schemes**

The Uganda Retirement Benefits Regulatory Authority (UBRA) has been working to expand social protection coverage in Uganda through private sector-led voluntary social protection schemes. These initiatives aim to provide retirement savings and other financial security mechanisms for workers, particularly those in the informal sector who are not covered by statutory pension schemes, and these include Mazima Voluntary Individual Retirement Benefits Scheme (MVIRBS), Kampala City Traders' Association (KACITA) Provident Fund, among others.

#### **Mazima Voluntary Individual Retirement Benefits Scheme (MVIRBS)**

The Mazima Voluntary Individual Retirement Benefits Scheme (MVIRBS) is one of Uganda's key private-sector-led initiatives aimed at expanding social protection, particularly for workers in the informal sector. With the majority of Uganda's labour force engaged in informal employment, access to traditional pension schemes like the National Social Security Fund (NSSF) remains limited. MVIRBS was introduced to address this gap by offering a flexible, voluntary pension scheme that allows individuals to save for their retirement at their own pace. It was designed to enhance retirement savings, particularly in contexts where mandatory schemes face challenges. It is a voluntary individual pension scheme licensed by URBRA in 2016 with a primary objective of increasing access of informal sector employees to formal pensions. Currently the scheme has over 2500 members with saving worth UGX 1.2 billion shillings.

With a registration fee of UGX 10,000, the scheme provides a flexible retirement savings plan with no penalties for irregular contributions to its members. Its key feature allows low-income workers to save conveniently through mobile money networks, standing orders, or direct deposits, with the freedom to decide the amount and timing of their savings. Additionally, the scheme members can make contributions of as little as UGX 2,000 and they are allowed to make early withdrawals from their initial savings after one year.<sup>28</sup> However, the effectiveness of this scheme depends on various factors, including coverage, accessibility, financial sustainability, regulatory compliance, and its overall impact on retirement security.

<sup>28</sup> <https://mazimarbs.co.ug/>

One of the major strengths of MVIRBS is its broad coverage and inclusivity, as it provides an opportunity for workers who are not covered by mandatory social security programs to save for retirement. The scheme is open to individuals, small business owners, and freelancers, ensuring that those in the informal economy can build financial security for their old age. However, despite this inclusivity, a large proportion of the informal workforce remains uncovered. Many workers lack awareness of the scheme, while others are reluctant to participate due to affordability concerns. As a result, while MVIRBS has made significant strides in expanding pension coverage, its impact is still limited compared to the overall size of the informal sector.

MVIRBS stands out due to its high level of accessibility and flexibility, making it an attractive retirement savings option. Unlike statutory pension schemes, which require fixed contributions, MVIRBS allows members to contribute as little or as much as they can afford, making it suitable for workers with irregular income streams. The scheme is also portable, meaning that contributors can continue saving even when they switch jobs or move between sectors. Additionally, digital payment options such as mobile money and bank transfers have made it easy for individuals to make contributions remotely. These features have greatly enhanced convenience, allowing informal workers to actively participate in the pension system without disrupting their cash flow.

The financial sustainability of MVIRBS is another critical factor in assessing its effectiveness. The scheme is privately managed, with funds invested to generate returns that benefit members. This professional management structure enhances transparency and efficiency, ensuring that contributors receive fair returns on their savings. However, the small scale of the fund poses sustainability risks, as a low membership base may limit its ability to generate competitive returns in the long run. Compared to larger, more established pension schemes, MVIRBS still faces challenges in achieving economies of scale, which could impact its long-term viability. Strengthening investment strategies and attracting more contributors will be essential in ensuring the scheme remains financially sound and sustainable.

### **Kampala City Traders' Association (KACITA) Provident Fund**

The Kampala City Traders' Association (KACITA) Provident Fund locally known as TEGEKA was introduced to provide a structured savings and social protection mechanism for traders and business owners, particularly those in the informal sector. Given that the National Social Security Fund (NSSF) primarily covers formal sector employees, the KACITA Provident Fund seeks to bridge the gap by offering traders a means to save for retirement, emergencies, and future investments. KACITA Provident Fund was licensed by URBRA in 2016 with the primary objective of increasing informal sector employees' access to formal pensions. Its aim was to mobilise members to save for a dignified retirement. The scheme is open to individuals, irrespective of income sources, including children under 18 years who can participate through supplementary accounts managed by their guardians.

Similar to MVIRBS, membership fee for KACITA provident Fund is 10,000 and permits savings as low as UGX 3000.

However, enrolment and participation remain relatively low, as many traders prioritize daily business operations over long-term savings. The voluntary nature of the fund means that participation is not enforced, and many traders do not see the immediate need for structured retirement savings. Additionally, limited awareness and trust in the fund have contributed to its slow uptake, with many traders opting for alternative savings mechanisms such as SACCOs, group savings schemes, and mobile money wallets.

Regarding financial sustainability KACITA Provident Fund relies on voluntary contributions, and its long-term viability depends on continuous member participation and sound financial management. Proper investment strategies and fund governance are crucial to ensuring that contributors receive competitive returns. However, concerns have been raised regarding whether the fund is generating adequate returns compared to private pension schemes. Regulation by the Uganda Retirement Benefits Regulatory Authority (UBRA) is expected to improve transparency and governance, but adherence to these regulatory frameworks remains a challenge.

Therefore, while voluntary micro-pension schemes are increasingly seen as viable solutions in Uganda to address the inadequacies of mandatory pension systems like NSSF, such schemes face a common set of challenges, such as low financial literacy amongst their members, lack of trust in such kind of scheme due to allegations of corruption and fund mismanagement and insufficient processes and administration, which creates scheme leakage, further eroding trust in the schemes. These challenges explain the insufficient participation in the se schemes, and the persistent lack of social protection for players in Uganda’s informal sector. Furthermore, the Uganda Retirement Benefits Regulatory Authority, and the financial Sector Deepening Uganda attribute the low participation in the two schemes to inadequate awareness among the would be beneficiaries/members.<sup>29</sup>

### 5.2.3 Role of Trade Unions in Formalisation of Workers

Trade unions play a crucial role in advocating for the rights and protection of informal workers, contributing to their transition into formal employment. By organizing workers in the informal sector, trade unions provide a collective voice that enables them to negotiate for better wages, improved working conditions, and access to social protection schemes (Steiler, 2023). They also engage in policy advocacy, pushing for legal and institutional reforms that promote the recognition and inclusion of informal workers in labour laws. In many countries, trade unions have successfully lobbied governments to extend labour protections, such as minimum wage regulations and access to pension schemes, to informal sector workers. Additionally, unions facilitate training and capacity-building programs that enhance workers’ skills, increasing their employability and prospects of transitioning into the formal economy (ILO, 2021).

Beyond advocacy, trade unions often collaborate with governments and employers to develop innovative mechanisms for integrating informal workers into formal structures. For example, in Tanzania, unions have spearheaded the creation of cooperatives and worker associations, which provide informal workers with social security benefits and collective bargaining power. Moreover, unions play a key role in educating informal workers about their rights and available formalization pathways, addressing barriers such as a lack of awareness and legal complexities.

According to Webster and Ludwig (2023), The Amalgamated Transport and General Workers Union (ATGWU) exemplifies the crucial role trade unions play in formalising workers, through integrating them into organised structures, enhancing their agency and transforming them into hybrid organisations that bridge the gap between formal and informal labour sectors.

Despite their potential, trade unions in Uganda face a major challenge—very low membership among informal workers. Overall, the study finds that only 12 percent of informal workers are aware of trade unions (Table 22). A disaggregation suggests a higher proportion of informal workers with partial informality (24 percent) are aware of trade unions when compared to their counterparts with both legal and fiscal informality (9 percent). A majority of informal workers (45 percent) perceive trade unions to be an organisation that provides a unified voice for workers’ collective bargaining and advocates for contracts for workers (13 percent). However, a significant proportion (36 percent) are also unaware about the roles of trade unions. Conversely, a minority of informal workers perceive trade unions to be effective in fight for increased salaries and wages (4 percent) and health and safety of workers (2 percent).

<sup>29</sup> <https://urbra.go.ug/download/rapid-assessment-of-the-feasibility-of-a-national-long-term-savings-scheme-detailed-final-report-sep>

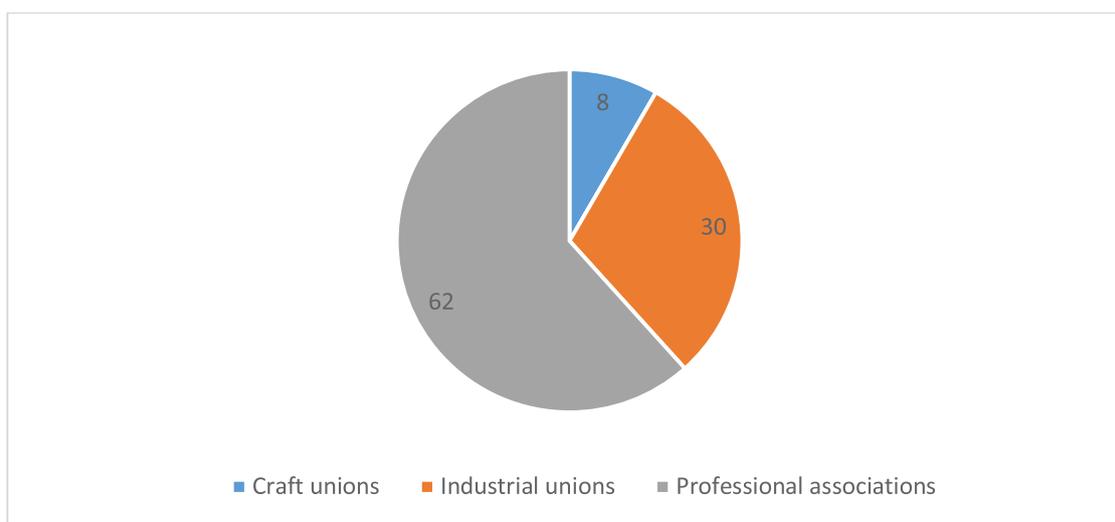
**TABLE 22: AWARENESS OF TRADE UNIONS**

	Extent of informality		
	Partial	Full	All
<b>Do you know about trade unions</b>	24.2	8.9	12.0
<b>Estimated persons ('000)</b>	286.6	1,533.5	1,879.9
<b>Role of trade unions</b>			
Fight for health and safety for employees	0.0	0.1	1.9
Fight for increased salaries and wages	0.8	3.4	3.5
organisation that provides a unified voice for workers	59.7	38.4	45.3
organisation that fights for contracts for workers	11.0	14.7	13.3
I don't know	28.6	43.4	35.9
<b>Are you a member of a trade union</b>	4.4	5.5	5.3
<b>Estimated persons ('000)</b>	<b>69.3</b>	<b>135.7</b>	<b>226.1</b>

Source: IAWS (2024)

The membership of informal workers in trade unions is low. Only 5.3 percent have membership in trade unions (Table 22). Further disaggregation by type of trade union (Figure 6) reveals that 62 percent of the membership is in professional associations.

On the contrary, membership in craft unions and industrial unions represents 8 and 30 percent respectively.

**FIGURE 10: TRADE UNION MEMBERSHIP BY TYPE (%)**

Source: IAWS (2024)

### 5.3 Other Government Initiatives and their effect on Formalisation

Other government initiatives and programmes that could aid formalisation and potentially have an effect on the size of the informal sector activities and workers include;

#### 5.3.1 Parish Development Model (PDM)

The Parish Development Model (PDM) commenced in February 2022 to transition 3.5 million households (39 percent) from subsistence to a money economy. Of these, 2.2 million households (62 percent) are involved in subsistence

agricultural activities (UBoS, 2021). The PDM initiative aims to stimulate economic activity by targeting Government's subsidised credit to both agriculture and non-agriculture household activities.

During the PDM implementation, targeted government loans to households' economic activities is delivered to each parish through formal Savings and Credit Cooperative Societies (SACCOs) that manages and distributes subsidised loans through a Parish Revolving Fund (PRF) to select household activities. To access the Parish Revolving Funds, SACCOs must provide a certified copy of the Certificate of Registration

for the PDM SACCO, which is issued by the Registrar of Cooperative Societies in the Ministry of Trade Industry and Cooperatives (MTIC), and evidence of training of PDM enterprise groups (MoLG, 2022). Additionally, the SACCO must hold an account with a financial institution supervised by the Bank of Uganda (GoU, 2016). Within the establishment phase of the PDM programme, the Government has been able to set up 10,585 PDM tier 4 microfinance institutions SACCOs in each parish countrywide. Despite this success, it is evident that while PDM SACCOs are required to be formal, there is no requirement that the household activities<sup>30</sup> with which SACCO members are involved are required to be formally registered. This situation exacerbates the informality of household activities supported under the PDM programme, since access to the Government's subsidised credit is delivered to informal household activities through formalised SACCOs.

Second, through the PDM approach, the Government through MoFPED has been successful in setting up a digitalised financial inclusion system— the Parish-Based Management Information System (PBMIS), for transferring PDM funds through commercial banks to the last mile household beneficiary enterprises at the parish level across the country. MoFPED then transfers funds directly into designated parish PDM SACCO accounts in different commercial banks across the country. In turn, funds are disbursed from the PDM SACCO account directly to the beneficiary's mobile wallet, after a vetting process that takes place at the community, enterprise group, SACCO and district level. From the above, it is evident that delivery of PDM funds to the last household enterprise beneficiary is undertaken through a formalised financial system involving commercial banks and Fintech platforms that have strict Know Your Customer requirements for all recipients of PDM funds. In addition, through the PBMIS, MoFPED maintains a detailed digitised database of all household beneficiaries of the PDM across the country. Despite the two years of the PDM implementation, household activity and beneficiary information from the PBMIS has not been integrated with other national business registers and databases at URSB, NITA, URA or even OBRS. The limited integration of information from household economic activities implies that informal sector activities continue to benefit from government's business support incentives while remaining informal.

### 5.3.2 Emyooga Initiative

Emyooga is a government initiative designed to enhance financial inclusion and entrepreneurship among MSMEs in Uganda, particularly those operating informally. The program targets various groups within the informal sector, providing access to capital through Savings and Credit Cooperative Organizations (SACCOs) and promoting business skills development. While it has the potential to support formalisation, it also presents challenges that may reinforce informality in some cases.

One of the primary ways that Emyooga promotes formalisation is through increasing access to capital. Informal businesses often struggle with accessing formal credit due to a lack of financial documentation or business registration. Through SACCOs, Emyooga provides a platform where businesses can pool resources and access affordable credit. This access to capital is crucial for small enterprises seeking to grow, and as these businesses expand, they are more likely to engage with formal financial institutions, which often require business registration and compliance with regulatory frameworks.

For instance, once businesses begin to formalise their operations to meet the requirements of formal financial institutions, they may register for taxes, get business licenses, and comply with legal regulations. This process not only helps businesses grow but also brings them into the formal sector, contributing to national tax revenues and economic growth. As businesses expand and enter structured markets, they often encounter the necessity of formalisation, such as meeting standards for product quality, employee protection, and customer trust, which formalisation supports.

Emyooga's integration of capacity-building initiatives, such as training in bookkeeping, financial management, and business registration, also plays a significant role in promoting the formalisation of businesses. By educating participants on the advantages of formalisation—such as access to legal protections, ability to bid for government contracts, and eligibility for loans from formal financial institutions, the program increases awareness of the benefits of transitioning to the formal economy.

Many beneficiaries report that the training helps them understand that formalisation can improve their businesses' operations, increase their access to markets, and provide them with better

<sup>30</sup> Dairy, piggyery, poultry, coffee, fish farming, fruits and food crops

protection under the law. However, despite these positive outcomes, the program's effectiveness is limited in certain regions, particularly rural areas. Low levels of awareness about formalisation procedures, associated costs, and bureaucratic challenges hinder the transition from informal to formal status. In some cases, participants may not fully understand the formalisation process, leading to reluctance or delayed action in registering their businesses.

While Emyooga offers significant opportunities for formalisation, its community-based structure can sometimes reinforce informality. A key challenge is that many of the beneficiaries operate within informal collectives or loosely structured networks, which may not prioritize business registration or legal compliance. For example, while SACCOs facilitate access to finance and foster mutual support among members, they do not necessarily mandate business registration or strong incentivisation for individual businesses to comply with formal regulations.

In these informal collectives, business operations may remain largely unregulated, and business owners may view registration as an unnecessary step or a burden due to costs, administrative complexity, or perceived lack of immediate benefits. Thus, while the program encourages financial inclusion and entrepreneurship, the lack of a strong formalisation push within the structure of the SACCO model can leave many businesses operating in a semi-formal state. This may inadvertently perpetuate informality, particularly among small-scale traders who benefit from mutual support but are not compelled to adopt formal business practices.

Therefore, while Emyooga contributes positively to financial inclusion and entrepreneurship, its impact on reducing informality is complex and dependent on the region, awareness levels, and the willingness of beneficiaries to embrace the full formalisation process.

### 5.3.3 Business Development Services

Business Development Services (BDS) refer to all non-financial services that improve the performance of an enterprise, its access to markets and productive assets, competitiveness and sustainability. The national Business Development Strategy Framework highlights informality as the first binding constraints faced by MSMEs in Uganda, limiting their contribution to the economy. The strategy indicates that informality results from difficulty and cost of business registration plus the fear of the burden

of regulatory compliance. Due to the obstacles faced by MSMEs because of informal operations, the BDS framework is one of the interventions to reduce the informal sector in order to support sustainable enterprise growth. The framework points out the various challenges faced by MSMEs and the government interventions in response to the challenges.

Findings from a literature search and the BDS market assessment survey conducted by MoFPED in partnership with Enterprise Uganda in 2021 confirms barriers to credit and weak business management capacities as the most important obstacles to MSME growth and competitiveness. This is because MSMEs remain informal, do not keep books of accounts and therefore remain categorized as high-risk clients by lenders, hence the high interest rates charged by lenders for loans taken by these enterprises.

In response, government has capitalized UDB and created funds like the Youth Entrepreneurship Programme (Youth fund), the UWEP, the Agricultural Credit Facility, and recently, credits through Emyooga and PDM SACCOs.

However, government's focus on financial-related interventions ignores the second most important constraint i.e. weak business/management capacities hence the broad recognition of the role of BDS in unlocking the potential of MSMEs in Uganda.

Different MDAs provide some form of BDS in line with their mandate. Regarding formalisation, the URA has delivered BDS geared towards enabling informal SMEs to register. For example, sensitization campaigns where business owners are trained in the procedures for business registration and TIN acquisition. However, URA does not exhaustively deliver the wider benefits of business formalization.

Additionally, the Private Sector Foundation Uganda (PSFU) in partnership with Mastercard Foundation and African Management Institute (AMI) have collaborated to develop national BDS standards and offer business development service providers with training to increase their capacity to serve MSMEs.

URSB has been working directly with MSMEs to ensure that they take advantage of the benefits accrued to a formalized business by providing insights into growth through trainings, seminars, workshops, and other engagements like expos and exhibitions. Vulnerable and specific-target groups like the women entrepreneurs have

been re-trained, re-skilled and re-tooled in collaboration with their mother agencies like the Uganda Women Entrepreneurs Association Limited (UWEAL), KACITA, etc.

#### 5.3.4 Presidential Initiative for Skilling the Youth

The presidential initiative on the skilling the girl/ boy child project is a government initiative that was started in 2017 with the aim of supporting the less educated and underprivileged youth to acquire skills for purposes of curbing the youth unemployment challenge. The six-month training prepares trainees for self-employment, especially after they have failed to get employed. Some of the skills include hairdressing, embroidery, tailoring, knitting, weaving, shoe making, bakery and confectionery. While this is a great initiative on developing a skilled workforce and creating opportunities for job creation, its effect on curbing informality is yet to be examined.

A world Bank policy note<sup>31</sup> indicates that government-initiated Youth employment interventions put a disproportionate emphasis on the supply side compared to labour demand growth. This is because such programmes are premised on the assumption that young people are unemployed because of the poor quality of education and therefore they lack the technical and vocational skills which are required on the job market yet, Uganda's youth unemployment challenge is a question of limited labour demand growth.

Furthermore, the World Bank argues that programs like the presidential initiative for skilling the youth are focused on self-employment as a viable alternative to job shortage, contributing to the increasing number of MSMEs. These self-employment ventures are mostly informal enterprises that cannot create enough jobs for new entrants into the labour market.

#### 5.4 Conclusion

Uganda has indeed made notable strides in streamlining business formalisation and tax registration, particularly through digitalisation, taxpayer education programs, and the establishment of One Stop Centers (OSCs). The transition to a web-based system for TIN registration has simplified the process, eliminated paperwork and reduced costs. However, many informal sector workers remain unregistered due to misconceptions about taxation, lack of awareness, and perceived financial burdens. Taxpayer education programs have been

introduced to improve tax literacy and encourage compliance, yet gaps in awareness persist. The OSCs, both physical and online, have improved access to business registration and licensing, integrating multiple government services into a single platform. While efforts to expand regional OSCs are underway, limited internet coverage and the absence of centers in some areas hinder accessibility. Despite these challenges, Uganda's digital reforms, taxpayer education initiatives, and institutional integration have significantly enhanced efficiency, reduced bureaucracy, and facilitated business formalisation.

NSSF and private social security schemes (Mazima, and KACITA) have the potential to significantly expand social security coverage in Uganda by offering flexible savings options tailored to informal sector workers. These initiatives provide a pathway for financial security in retirement, yet challenges such as low financial literacy amongst their members, lack of trust in such kind of scheme due to allegations of corruption and fund mismanagement and insufficient processes and administration, eroding individuals' trust in these schemes. These challenges explain the insufficient participation in the se schemes, and the persistent lack of social protection for players in Uganda's informal sector. Addressing these obstacles is crucial for maximizing their impact and ensuring broader social protection.

The review of government wealth initiatives such as the PDM, Emyooga, Business Development Services (BDS), and the Presidential Initiative for Skilling the Youth highlights the significant efforts undertaken to promote economic development, financial inclusion, and business formalisation in Uganda. While these initiatives provide critical financial support, capacity-building, and skill development opportunities, they also present challenges that may inadvertently reinforce informality within the economy. These therefore require enhanced integration with formalisation policies to ensure that informal businesses transition into the formal sector. Strengthening linkages between financial support programs and national business registration frameworks, simplifying registration processes, and increasing awareness of the benefits of formalisation will be essential in reducing informality and fostering sustainable economic growth in Uganda.

31 <https://documents1.worldbank.org/curated/en/969961589175110707/Youth-Employment-Policy-Note.docx>

# 6

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## **EFFECTS OF THE EMERGENCY OF COVID-19 PANDEMIC ON INFORMALITY IN UGANDA**

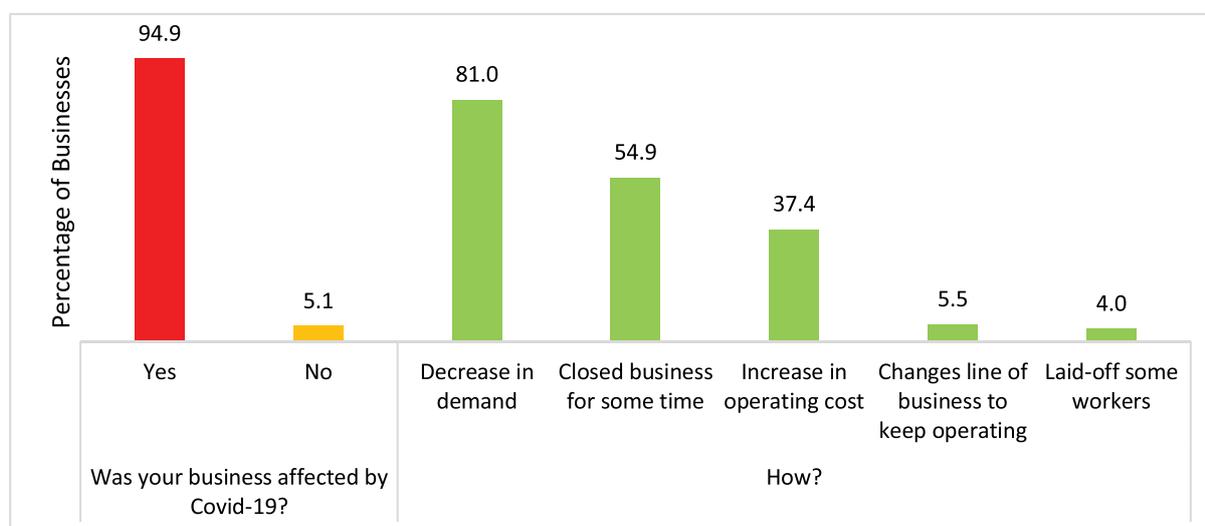
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## 6. EFFECTS OF THE EMERGENCY OF COVID-19 PANDEMIC ON INFORMALITY IN UGANDA

Informal businesses faced high risks during the COVID-19 outbreak. These businesses were the hardest hit by the widespread shutdowns imposed to control the spread of the virus. Findings demonstrate that about 95 percent of the informal businesses were affected by COVID-19 and its lockdown measures (Figure 11). Given their earlier-mentioned smaller average size and lower productivity, informal businesses are often less able to weather shocks than formal businesses. As earlier-mentioned, informal businesses have less access to finance and are disproportionately owned by women, who often find themselves without social protection. In this context, most informal businesses responded to the effect of COVID-19 by reducing aggregate demand for goods and services (81 percent), while 55 percent closed their businesses for some time. In addition, 37.4 percent of the informal businesses faced increased operating costs, while 5.5 percent changed their line of business to keep operating, while 5.5 percent changed their line of business to keep operating, while 5.5 percent changed their line of business to keep operating, while 5.5 percent changed their line of business to keep operating.

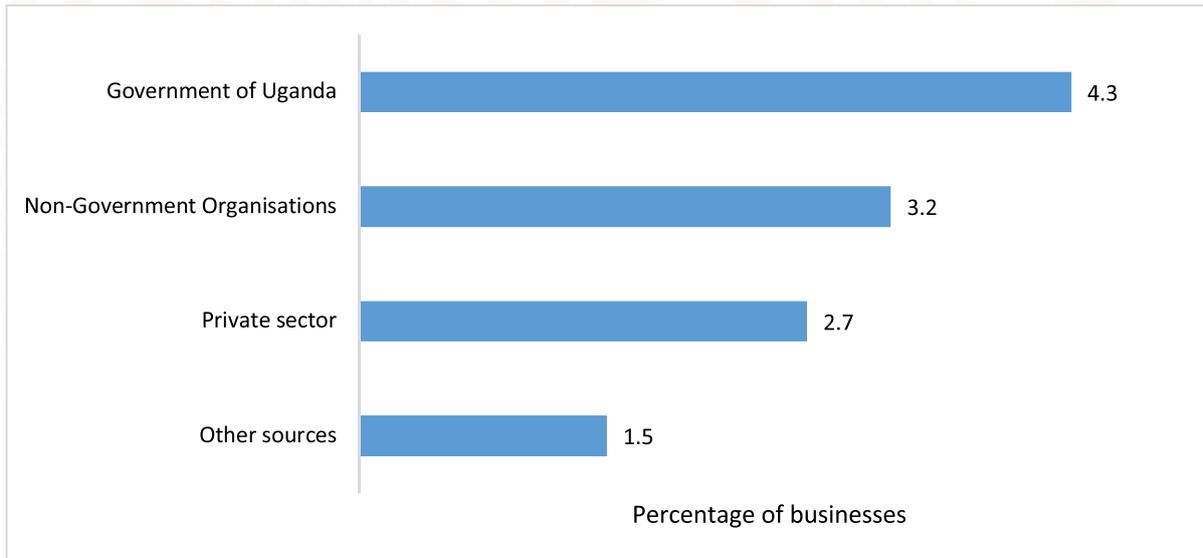
This is consistent with earlier studies that have shown that preventive measures adopted by the government of Uganda to curb the spread of COVID-19 resulted in an increase in operating expenses for businesses that continued to stay open (Lakuma *et al.*, 2020). Consequently, majority of informal businesses, especially in the service sector were predicted to have closed within one to three months due to the persistence of the pandemic and its related restrictions. The latter businesses halted operations largely due to their inability to implement preventive health measures such as providing on-site lodging for employees and sanitizers and hand-washing equipment for customers hence their closure.

**FIGURE 11: EFFECTS OF EMERGENCY OF THE COVID-19 PANDEMIC ON INFORMAL BUSINESSES**



**Source: IBS (2021)**

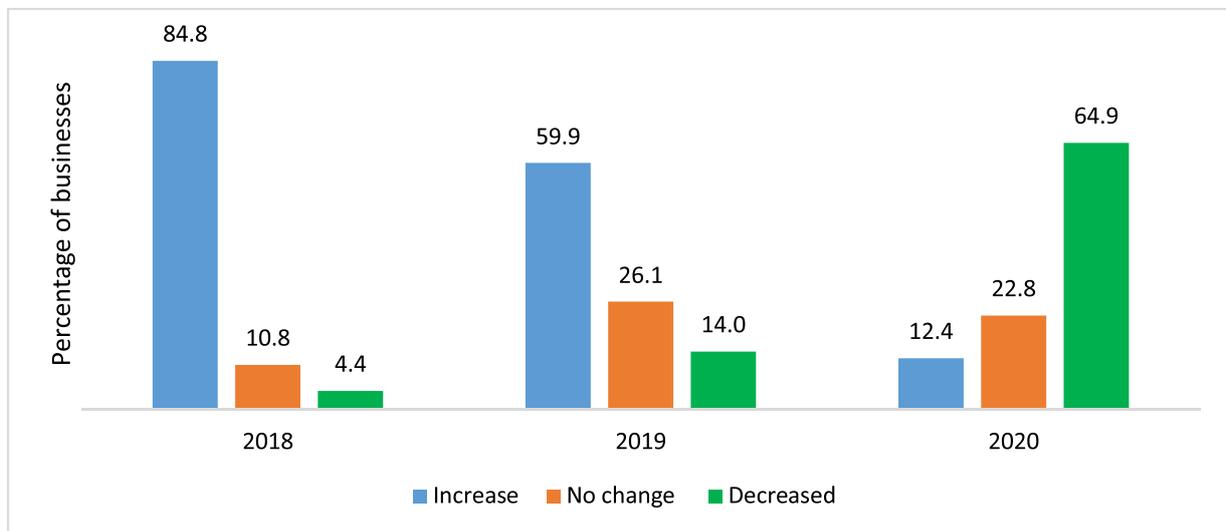
Following the unprecedented consequences of COVID-19 and its containment measures on business operations, several stakeholders such as the government, private sector and some development partners came up with initiatives to support vulnerable groups, including informal businesses. However, less than 5 percent of informal businesses received any form of support from the government of Uganda (Figure 12). This low percentage is likely because the government primarily targeted formal businesses for support during the crisis. The inaccessibility of support by informal businesses may partially explain the closure of many informal business operations, as shown in Figure 12.

**FIGURE 12: SOURCES OF FUNDING FOR INFORMAL BUSINESSES**

**Source: IBS (2021)**

The effects of COVID-19 and the general absence of support for informal businesses could have resulted in the loss of sales and revenue by 65 percent (Figure 14). As earlier-mentioned, the large decline in sales and revenue was partly due to the inability of

informal businesses to implement COVID-19 preventative health measures such as the provision of on-site lodging for employees and sanitisers and hand-washing equipment for customers.

**FIGURE 13: SALES AND REVENUE PERFORMANCE (%)**

**Source: IBS (2021)**

# 7

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## **FORMALISATION PRACTICES FROM PEER COUNTRIES AND LESSONS FOR UGANDA**

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## 7. FORMALISATION PRACTICES FROM PEER COUNTRIES AND LESSONS FOR UGANDA

The formalisation of informal businesses, activities, and workers is a critical step towards economic growth, enhancing social protection coverage, and fostering sustainable development. Several countries have implemented various practices that address the unique challenges and opportunities of their informal sectors. These formalisation practices show how to create supportive systems, simplify regulatory processes, and incentivise formalisation, all of which Uganda can adapt to its context to foster a more inclusive and robust economic environment. Below is a brief description of formalisation practices in Brazil, Mexico, Rwanda, Ghana, South Africa, and Tanzania and highlights potential lessons for Uganda.

### 7.1 The Brazilian Experience on the “Simples Nacional” programme

The Brazilian government, in an attempt to ease taxation and thereby reduce informality among the Micro and Small Enterprises (MSEs) and Micro-Entrepreneur Individuals (MEIs), launched a Monotax mechanism known as the *Simples Nacional* programme in 2006 (ILO, 2022). Prior to the launch of the programme, MSEs were incurring multiple overlapping taxes at the different government levels including Federal, State and Municipal/Local governments. This made the tax compliance process complex and hence, perpetuated high levels of informality. This also posed several challenges for the Brazilian government, as informal businesses are generally less productive, offer limited employee protections, and did not contribute to tax revenue.

As a remedy to the aforementioned issues, the *Simples Nacional* program integrated various taxes at the different government levels into a single payment. Precisely, the programme unified seven taxes including five federal taxes, the state tax, the municipal tax and the employers’ contributions to the National Social Security Institute (INSS) into one monthly payment. Besides, the programme offers significantly lower tax rates compared to the standard tax system. The tax rate under this system varies according to the type of business and its annual revenue, with lower rates applied to businesses with lower revenues, thus encouraging the formalisation of even the smallest enterprises.

The *Simples* contributions are collected by the central fiscal administration and the share corresponding to social security payments is transferred to the INSS (ILO, 2022). These contributions cover the social insurance members and their families. This simplified system for the payment of taxes and contributions to social security lowered the tax burden and simplified compliance,

which incentivised formalisation, thereby allowing MSEs to enjoy benefits such as participating in government procurement deals, opening bank accounts, getting loans with lowered interest rates, gaining access to social security, among others.

#### Eligibility Criteria

The programme uses annual revenue as the primary criterion for eligibility. Microenterprises with annual revenues up to BRL 360,000 (approximately UGX 228 million) and small businesses with revenues up to BRL 4.8 million (about UGX 3 billion) qualify to participate in the programme. This threshold structure allows many small firms to access the benefits of *Simples Nacional*.

Registering as a MEI grants, the business owners get access to benefits, including an old-age pension (which requires 180 months of contributions), sickness benefits, and a disability pension (requiring 12 months of contributions), as well as maternity benefits (with a requirement of 10 months of contributions). Families are included in this coverage; for instance, surviving spouses are eligible for a pension equivalent to one minimum wage, with the duration depending on the age of the beneficiary. Additionally, small and micro enterprises members are entitled to the standard INSS benefits.

#### Achievements of the *Simples Nacional* programme on Formalisation

According to ILO (2022), the programme greatly encouraged firm registration where the number of total registered firms covered by the scheme increased from around 3 million to around 12 million between 2008 and 2016. As of 2018, the system covered 75 per cent of all MSEs in Brazil and these enterprises accounted for 39 per cent of the total number of enterprise-based jobs in Brazil. Additionally, informality went from 41.1 percent in 2012 to around 39 per cent by 2016.

The scheme has proven to be an effective instrument for the formalisation and inclusion of self-employed workers into the social security system. It has been shown that programme's implementation reached low-income groups of the population, with an estimated 8 million new jobs in the formal sector from 2006 to 2016.

The system has also proven to be an effective tool for broadening the tax base and generating additional fiscal resources. Tax revenues from participants in the Simples programme increased significantly, rising by 78 percent (from 41 billion Brazilian reais in 2008 to 73 billion reais by 2016).

While the scheme is available to everyone, enterprises involved in Simples, particularly the MEIs, were predominantly made up of women (47.6 percent), self-identified mixed-race individuals (42 percent), and black individuals (11 percent) in 2016. Thus, the programme increased the participation of vulnerable groups in the economy and improved their access to social protection.

## 7.2 Tackling Informality in Mexico

Out of the 51 million Mexican workers in 2014, 28.6 million were informal workers. However, these contributed only 26 percent to the country's GDP, which is a testament to the low productivity levels associated with informal workers in addition to other social economic costs of informality.<sup>32</sup> To combat informality, the Government adopted a holistic approach which involved the launch of the "Crecamos Juntos" ("Let's grow together") strategy and the *Régimen de Incorporación Fiscal* (RIF) tax regime. This was based on three fundamental premises that effective combating of informality required and (i) integrated approach, (ii) an innovative approach, and (iii) Better communication at all levels, a key to a successful strategy and results<sup>33</sup>.

The strategy was entirely incentive based to encourage formalisation of small and micro-businesses and workers, expand access to social security and health benefits, and enhance financial inclusion. The programme primarily targeted small businesses and self-employed individuals who were previously discouraged from formalising due to tax burdens, limited access to credit, and a lack of social security benefits.

## Implementation and Partnerships

To promote the programme, the government partnered with various stakeholders, including local governments, financial institutions, and social organisations. The programme uses an extensive outreach strategy, such as social media campaigns and workshops, to reach informal workers and educate them on the benefits of formalisation. It also offered assistance centres to help businesses navigate the registration process, making it easier to transition into the formal economy.

### The Fiscal Incorporation Regime (RIF)

Besides the *Crecamos Juntos* strategy, the Mexican government also introduced a simplified tax regime known as the *Régimen de Incorporación Fiscal* (RIF), exclusively targeting small taxpayers. According to the World Customs Organisation (WCO), in 2015, the RIF tax regime aimed at reducing the tax burden on small and micro-enterprises, making it easier for informal businesses to transition into the formal economy, by offering tax reductions, simplified tax filing, and gradual tax obligations.<sup>34</sup> The regime provided informal MSEs a ten-year plan that would begin with zero taxes and gradually increase tax rates, allowing MSEs to adapt without a sudden financial burden. By gradually incorporating more businesses into the tax system, RIF also aimed to expand Mexico's tax base and enhance overall government revenue.

### Implementation

The RIF was administered by the Mexican tax authority, Servicio de Administración Tributaria (SAT), which invested in digital tools to simplify tax filing. The Authority created online tutorials, mobile applications, and taxpayer assistance programmes to help businesses meet RIF requirements and take full advantage of its benefits.

### Eligibility Criteria

- i. Owners of business activities that sell goods or provide services for which no professional degree is required.
- ii. Annual income not exceeding 2,000,000 Mexican pesos (approximately USD 130,000 /UGX 364 million).

32 <https://mag.wcoomd.org/magazine/wco-news-77/mexico-combat-informality/>

33 <https://contadormx.com/crecamos-juntos-rif-programa-con-beneficios-para-informales/>

34 [https://www.wcoomd.org/~media/wco/public/global/pdf/media/wco-news-magazines/wco\\_news\\_77\\_2.pdf](https://www.wcoomd.org/~media/wco/public/global/pdf/media/wco-news-magazines/wco_news_77_2.pdf)

The *Crezcamos Juntos* and RIF initiatives entailed several incentives which among others included;

- i. Access to medical and social services from the Mexican Social Security Institute (IMSS) for the business owner and his employees, including discounts on social security contributions for 10 years.
- ii. Discounts on Income Tax (ISR) payments for 10 years; a 100 percent discount in the first year, 90 percent in the second, and so on.
- iii. Direct and indirect financial support for small business owners through the National Institute for Entrepreneurs such as access to special development bank financing for the acquisition or modernisation of equipment.
- iv. Access to training offered by SAT.
- v. Simplified mechanisms to calculate and pay taxes, and to file tax returns.
- vi. Taxpayers with annual sales of up to 100,000 Pesos (about UGX 18 million) not paying Value Added Tax (VAT) or Special Tax on Production and Services during the first 10 years.
- viii. Access to housing and consumption credits from the Federal Agency for Workers' Consumption and the Federal Agency for Workers' Housing.

To benefit from these initiatives, business owners had to register with the Federal Tax Payer Registry, keep electronic accounting records, assess, deduct and pay over the taxes of all workers, issue digital invoices and deliver sales notes when customers do not require invoices, keep receipts that meet fiscal requirements for expenses and investments, record revenue and expenses in the Fiscal System Registry every two months, file informative returns via the internet with regard to the payment of taxes deducted from workers, and pay expenses, or expenditure above 2,000 Mexican pesos (about UGX 364,000) by cheque or electronic means (WCO, 2015).

### **Achievements of the *Crezcamos Juntos* and Fiscal Incorporation Regime initiatives on formalisation**

The introduction of *Crezcamos Juntos* and RIF show an increase in the number of registered small businesses. The gradual tax structure and simplified reporting under RIF have made it more attractive for informal businesses to formalise. As of February 2015, nearly one million taxpayers had joined voluntarily and over 10 million fiscal declarations had been processed.<sup>35</sup> Besides, over 17 million transactions had been recorded in the Fiscal System Registry and over 19 million operations, including income and expenses declarations and simplified invoicing, were conducted through the RIF contributors via the “Mis Cuentas” (“My Accounts”) platform.

Although the several tax incentives under the RIF programme lowered immediate tax collections, the gradual increase in tax obligations led to an increase in tax revenue growth. By September 2016, RIF contributors had paid 591.90 million pesos in income tax (ISR), representing 1.4 percent of the total potential tax and 6,987.90 billion pesos had been collected, a sum that represents 34.9 percent of the total tax from the RIF regime (Osorio et al., 2017).<sup>36</sup> However, the several incentives also led to high tax expenditures especially in the initial years under the implementation of the RIF programme.

Formalisation under *Crezcamos Juntos* and RIF has enabled over 1.5 million previously informal workers to enrol in the IMSS, granting them access to healthcare, pensions, and other social benefits. Through providing the fiscal stimulus, the RIF increased access to credit to the participants through access to low-interest credit lines and other financial products (*ibid*).

### **7.3 Rwanda's Initiative to extend Pension Coverage to the Informal Sector: The EjoHeza Long-Term Saving Scheme**

Recognising the dominance of the informal sector workers excluded from social protection in Rwanda's workforce (accounting for about 90 percent of the entire workforce), and the rapid aging population, the Government of Rwanda (GoR) launched the EjoHeza Long-Term Savings Scheme (LTSS) in December 2018 (Ayandev, 2022).<sup>37</sup>

35 <https://www.wcoesarocb.org/wp-content/uploads/2018/07/Developing-policies-with-respect-to-informal-trade-FI-NAL-EN.pdf>

36 [https://www.ciat.org/Biblioteca/Revista/Revista\\_42/Ingles/2017\\_TR\\_42\\_osorio\\_huesca\\_teran.pdf](https://www.ciat.org/Biblioteca/Revista/Revista_42/Ingles/2017_TR_42_osorio_huesca_teran.pdf)

37 Ejo Heza is a Rwandan term which translates to “a bright tomorrow”.

It is a voluntary defined contribution scheme that allows participants to make short-term withdrawals upon meeting certain conditions, as well as providing lump sum and monthly/scheduled payouts upon retirement. This innovative and inclusive initiative aimed at ensuring financial security for all citizens, particularly those in the informal sector who often experience irregular incomes, lack access to social protection, and are unable to save adequately for retirement. According to Guven et al. (2023), only 8 percent of the country's workforce is enrolled in formal pension schemes, a critical gap in social security coverage for the majority of the workers. The introduction of the scheme, therefore, was a critical effort to bridge the pension coverage gap and extend social protection to the vulnerable groups and promote financial inclusion across the nation.

### Implementation

Designed with flexibility in mind, the programme caters for informal sector workers who often face unpredictable earnings and immediate financial pressures. Using technology, the scheme allows individuals to open savings accounts linked to their national identity cards using basic mobile phones. Contributions can be made in any amount, at any frequency, aligning seamlessly with the cash flow patterns of informal sector workers and enterprises. Children under 16 years old can enrol using the temporary identification provided by the National Identity Agency, with their accounts connected to their parents' national identity card numbers. Once they reach the age of 16 and receive their official national identity, the contributions to their Ejo Heza accounts transition to their own names.

The scheme has a dual focus, that is, both the long-term security and short-term needs. Members can access up to 40 percent of their savings for critical expenses like education, housing or serve as a collateral security for personal loans on condition that the remaining amount is not less than the scheme's minimum balance (Rwandan Francs 4,000,000/ UGX 10.5 million). This ensures that financial emergencies do not derail their retirement goals.

Furthermore, as an incentive, the Government provides targeted matching co-contributions and life and funeral benefits to individuals belonging in lower-income households, upon meeting a minimum level of savings.<sup>38</sup> Government also finances operational costs such as staff costs, administrative costs related to the scheme, and fund expenses.

To make this vision a reality, the government implemented a multi-faced approach to mobilise participation. These included:

- i. Community engagement: through grassroot campaigns, village meetings, and the involvement of local leaders, awareness about EjoHeza spread rapidly. Initiatives like Umuganda, Rwanda's community work tradition, provided a platform to promote the scheme.
- ii. Performance accountability: By embedding EjoHeza targets into performance contracts (Imhigo) signed by government officials, a sense of ownership and urgency was created at all administrative levels.
- iii. Strategic partnerships: Collaborations with financial institutions, cooperatives, mobile money providers, community-based organisations, such as Non-Governmental Organisations (NGOs), faith-based organisations among others as intermediaries/facilitators enabled widespread access and simplified the registration process. These facilitators performed a variety of services such as guiding their clients and citizens in activating scheme accounts, collecting and transferring contributions, providing information related to the scheme among others. These were also vital for targeting the informal sector workers and enterprise owners who couldnot easily be reached by formal pension providers.
- iv. Technological innovation: The development of a centralised Information Technology platform facilitated secure account management, real-time monitoring, and targeted delivery of government incentives. This technology-driven model not only reduced the costs but also ensured a high standard of service quality.

38 (Guven et al., pp 7, 2023) at <https://documents1.worldbank.org/curated/en/099033123085039385/pdf/P1765760e814d806d09ad90af5463223bde.pdf>

### Achievement of the EjoHeza scheme

In just three years, EjoHeza's impact was already transformative. By the end of 2021, a total of 1.85 million members had subscribed to the scheme, with informal sector workers comprising 87 percent of the savers. As of December 2022, the number of subscribers had reached to about 2.87 million (Guyen et al., 2023). The scheme introduced many informal workers to formal financial systems, deepening Rwanda's financial markets and fostering economic growth. The programme's design also emphasizes equity, ensuring that fiscal benefits are available to all citizens regardless of income level. By leveraging digital tools and community networks, EjoHeza has demonstrated that even modest, intermittent savings can evolve into meaningful financial security for old age.

### 7.4 Formalisation Practices in Ghana

Informality accounts for a significant portion of Ghana's economy, encompassing a range of activities from micro-entrepreneurship to artisanal mining. These activities often thrive on the peripheries of regulatory frameworks, highlighting the necessity of interventions to bridge the gap between informal and formal sectors.

Key formalisation initiatives in Ghana include the introduction of the Tax Stamp System and the establishment of decentralised business registration centers. The Tax Stamp System aims to ensure compliance and accountability among small-scale businesses, particularly in the retail and hospitality sectors. It requires businesses to affix tax stamps to goods and receipts, which serve as a mechanism for validating tax payments and monitoring transactions. This initiative seeks to address the longstanding issue of underreported incomes, which limits government revenue and undermines the competitive landscape for businesses that operate outside the tax net (Adom, 2017).

Simultaneously, decentralised business registration centers were introduced to eliminate the physical and financial barriers preventing rural and peri-urban entrepreneurs from registering their businesses. By providing accessible registration services, the government aimed to reduce bureaucratic complexity and encourage formalisation, especially in remote areas (Kumah, 2022).

### Achievement of the formalisation practices

The success of these formalisation efforts is evident in the significant increase in the number of registered businesses in Ghana. From 2012 to 2018, the number of registered businesses rose from 1.2 million to 2.3 million, reflecting a 91.7 percent growth rate. This increase not only broadened the tax base but also improved access to services for formalised enterprises. Registered businesses gained the ability to secure government contracts, access credit facilities, and benefit from social protection schemes, thereby enhancing their sustainability and resilience (Mahadea & Zogli, 2018).

These developments demonstrate the strong link between formalisation and economic empowerment. Formalised businesses gain legitimacy and operational advantages, while the government benefits from enhanced fiscal revenues and better policy oversight (Adom, 2016).

### 7.5 Formalisation Initiatives and Practices in South Africa

South Africa has made significant strides towards formalising its informal economy, which has historically been a vital component of its economic landscape. Informality in South Africa covers a wide range of sectors, including street vending, small retail businesses, and informal housing. Over the years, the government has introduced various policies aimed at integrating these informal enterprises into the formal economy, recognising that formalisation can lead to greater economic stability, increased tax revenue, and enhanced access to public services.

A key initiative in this regard is the establishment of the Department of Small Business Development (DSBD) in 2014, which was specifically tasked with supporting small and informal businesses. The ministry has been instrumental in promoting the formalisation process by offering tax incentives, training, and simplified compliance procedures for small businesses. In addition, the DSBD has helped small businesses access credit and other financial resources that were previously difficult to obtain in the informal economy. According to the Department of Small Business Development (2018) and the National Treasury Reports (2019), these interventions resulted in a significant increase in tax compliance among small enterprises, rising from 45 percent in 2012 to 65 percent in 2018. This improvement has

led to an additional 2.3 billion rand in annual government revenue, demonstrating the positive economic impact of these policies.

Furthermore, the South African government has adopted a comprehensive approach to formalisation that includes addressing infrastructural and bureaucratic challenges that small businesses face. Through simplified tax regimes, reduction of red tape, and decentralisation of registration processes, South Africa has sought to ease the transition from informality to formality, particularly in rural and peri-urban areas where access to government services is often limited (Sebola & Tsheola, 2017). These practices are designed not only to increase government revenue but also to promote broader economic inclusion.

#### **Achievement of South Africa's formalisation policies.**

The effect of South Africa's formalisation efforts has been significant, especially in terms of tax compliance and the financial health of small businesses. As mentioned earlier, tax compliance rates among small businesses increased from 45 percent in 2012 to 65 percent in 2018 (Department of Small Business Development, 2018; National Treasury Reports, 2019). The 20 percent rise in compliance added 2.3 billion rand to South Africa's annual tax revenue, which could be reinvested into public services and infrastructure, benefiting both formal and informal sectors. Additionally, formalised businesses in South Africa have gained greater access to financial services, including loans, which are crucial for their growth and sustainability.

In terms of employment, the formalisation of small businesses has contributed to the creation of more stable and permanent jobs. Small businesses that transition into the formal economy have been able to access government contracts, participate in the formal labour market, and enjoyed the benefits of social protection systems. This shift has improved the livelihood and working conditions of many individuals who previously worked in precarious, informal employment. According to Marais et al. (2014), small businesses that successfully formalise are more likely to grow, expand their workforce, and contribute to local economic development, especially in the urban and peri-urban areas.

However, the formalisation process has not been without challenges. Simatele, Dlamini, and Kubanza (2017) note that despite the policy successes, many informal enterprises continue to face obstacles such as inadequate infrastructure, limited access to finance, and difficulties navigating the bureaucracy involved in the formalisation process. These persistent issues show that while formalisation policies have had positive outcomes, there is still much work to be done to ensure inclusivity and address the systemic barriers that hinder the full integration of informal enterprises.

#### **7.6 Formalisation Initiatives in Tanzania**

Tanzania's approach to formalisation has focused on a combination of policy reforms, institutional support, and the promotion of collective organisation among informal workers and businesses. The government implemented the National Informal Sector Policy (NISP), which aimed to create a favourable environment for informal sector businesses to transition into the formal economy. This policy included measures such as incentives for business registration, tax breaks, and access to social protection services.

A central aspect of Tanzania's formalisation strategy has been the promotion of cooperatives. The government provided incentives for the formation of cooperatives, particularly in rural and urban informal sectors. This has been an important means of organising informal workers, improving access to resources, and fostering collective bargaining power. According to data from the Tanzania Cooperative Development Commission, the number of cooperative societies increased significantly from 2,424 in 2006 to over 7,000 in 2017. The cooperative membership itself grew from 200,000 members in 2010 to 500,000 members in 2017, a 150 percent increase (Mutabazi, 2019). This rise in cooperative membership reflects the success of government policies aimed at encouraging informal workers to formalise through collective action.

Furthermore, Tanzania's government introduced programmes to promote trade union participation in informal sectors. The inclusion of informal workers in trade unions provided them with legal support and the ability to negotiate better working conditions. The efforts of unions in the informal sector

have contributed to improved labour standards and provided informal workers with social security benefits, which were previously unavailable to them.

The Tanzania Revenue Authority (TRA) also implemented a digital tax registration system that simplified the process for small and medium enterprises (SMEs) to formalise. This technological innovation helped reduce barriers to formalisation, allowing businesses to register online and comply with tax obligations more efficiently.

### **Achievement of Tanzania's formalisation initiatives and policies**

The impact of Tanzania's formalisation policies has been substantial, although the transition to the formal economy has not been without challenges. One of the most significant effects of formalisation has been on the access to financial services for informal sector businesses. Prior to formalisation, many informal enterprises lacked access to loans or credit, primarily due to their unregistered status. However, once formalised, these businesses could access financing through banks, government programmes, and other financial institutions. According to the Bank of Tanzania, access to credit for SMEs increased by 40 percent between 2010 and 2020 as a result of formalisation (Falco et al., 2011).

Another notable impact is the reduction in the number of unregistered businesses. According to the World Bank (2020), the number of unregistered urban businesses in Tanzania decreased by 20 percent by 2020, following the implementation of formalisation policies. This reduction reflects the growing recognition among informal businesses of the benefits of formalisation, including access to markets, legal protection, and government support.

Additionally, formalisation has led to improvements in tax revenue collection. Before the formalisation push, informal businesses were often outside the tax system, contributing little to national revenue. However, with the growth in formalised businesses, Tanzania's tax revenue from SMEs rose by 25 percent between 2010 and 2020 (Ishengoma & Kappel, 2008). This increase in revenue has enabled the government to invest more in infrastructure, education, and other services that support economic development.

Gender equity has also improved as a result of formalisation. Women in Tanzania's informal sector faced numerous barriers to accessing resources and legal protection, but through policies that promoted formalisation, more women have been able to enter the formal economy. For instance, the number of women entrepreneurs registering their businesses with the TRA increased by 30 percent between 2010 and 2017 (Steiler, 2023).

However, the process has not been without its challenges. Despite the positive impacts, a significant portion of the informal sector remains resistant to formalisation due to the perceived costs and bureaucratic hurdles. This resistance is particularly pronounced in rural areas, where many informal enterprises are located. According to the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), over 60 percent of small informal businesses in rural areas have not yet formalised, citing difficulties in meeting formal sector requirements (Riisgaard et al., 2024).

### **7.7 Lessons for Uganda on addressing Informality among Activities and Workers**

Drawing on experiences from Brazil, Mexico, Rwanda, Ghana, South Africa, and Tanzania, Uganda can adopt tailored strategies to address both household activity and worker informality. These initiatives provide lessons for designing innovative policies and programmes that integrate informal enterprises and workers into the formal economy, ensuring inclusivity, equity, and long-term development. These include:

- i) **Simplification of tax and registration processes:** By unifying tax payments and reducing administrative burdens through the monotax mechanism, Brazil's Simples Nacional programme has shown that simplifying compliance procedures is essential in motivating businesses to formalise.
- ii) **Incremental formalisation:** Initiatives should adopt progressive and stepwise formalisation strategies for gradual integration of informal entities into formal systems. Offering tax breaks, subsidies, and other financial incentives helps businesses gradually transition to the formal sector, as demonstrated by Mexico's RIF programme

- iii) **Leverage partnerships and community engagements for outreach:** Comprehensive awareness campaigns are essential to inform and engage informal workers about the benefits of formalisation. The success story of Rwanda's EjoHeza scheme serves as a powerful example highlighting that partnerships with NGOs, financial institutions, and community-based organisations are critical for enhancing outreach and building trust among the informal sector actors. Through grassroots campaigns, village meetings, and the involvement of local leaders, awareness about EjoHeza spread rapidly. Initiatives like Umuganda, Rwanda's community work tradition, provided a platform to promote the scheme.
- iv) **Incentivise participation in social security schemes for the poor and vulnerable groups:** Incentives like matching contributions and life insurance are effective in attracting the poor and vulnerable participants. These have been found to be very effective in Rwanda's EjoHeza scheme. Additionally, providing flexible savings options is crucial for extending social protection to informal workers.
- v) **Use of technology for accessibility:** Mobile and digital tools, such as Rwanda's national Identity-linked and basic phone-enabled EjoHeza scheme, demonstrates that technology can be leveraged to reduce barriers for workers in accessing social security and financial services.
- vi) **Integration of informal workers and activity owners into cooperatives:** One of Tanzania's most successful strategies has been the promotion of cooperatives and trade unions for informal workers. Uganda could adopt similar policies to help informal workers form cooperatives, which would provide a platform for better representation, access to resources, and collective bargaining. This is particularly important in sectors such as agriculture and street vending, where workers are often isolated and lack a voice.
- vii) **Break barriers to credit and financial services:** Providing access to low-interest loans, credit lines, and financial literacy training as seen in Ghana and South Africa, empowers workers and informal activity owners to transition into formal employment.
- viii) **Overcoming resistance to formalisation:** One of the challenges faced especially in Mexico and Tanzania was the resistance to formalisation, especially in rural areas. Uganda should consider providing more targeted support to rural informal enterprises, such as simplifying the registration process, offering financial assistance for compliance costs, and providing advisory services on the benefits of formalisation.



# 8

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## KEY MESSAGES AND POLICY RECOMMENDATION

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## 8. KEY MESSAGES AND POLICY RECOMMENDATION

This Report provides a holistic view on the informal sector in Uganda, comprising of informal businesses, household activities, and workers. The report sought first; to understand the measurement, size, nature, composition, and extent of informality amongst businesses, activities, and workers, and the main reasons for operating informally. Second, to identify political, economic, social-cultural, technological, environmental, legal, and regulatory gaps and incentives responsible for the persistent informality in Uganda. Third, to assess the effect of the current and previous government initiatives and programmes on formalisation. Fourth, to identify, compare, and contrast best practices from peer countries in the formalisation process. Lastly, to recommend feasible interventions to be undertaken by the various key players to address the increasing number of informal businesses, activities, and workers.

### 8.1 Key messages

- i) Majority of informal businesses and activities are partially informal with high compliance to local Governments compared to URSB and URA. In terms of ownership, they are predominantly owned by females and less educated individuals, which highlights the persistence of obstacles faced by women and girls in accessing formal employment or starting up formal enterprises despite government programmes like UWEP which are explicitly targeted at women.
- ii) Most of the informal businesses and activities were started up using personal savings and barely transition to more productive sectors and hardly increase their scale of operation.
- iii) On a positive note, informal sector is a vital incubator for entrepreneurship as majority of business owners cite the opportunity to start and develop a profitable business as the main reason for creating and joining informal businesses.
- iv) Like business and activity ownership, informal sector employment is dominated by women and less educated individuals. Additionally, most workers lack formal employment benefits, including contracts, social security, and leave entitlements. These often lack access to protective gears and are exposed to occupational hazards, highlighting the precarious nature of their work environments and the lack of adequate workplace safety standards.
- v) At a macro level, the findings highlight a notable contribution of the informal sector to Uganda's economy, underscoring its critical role in income generation, employment, and entrepreneurship. The sector accounts for nearly half of the national economy, with women-owned enterprises playing a prominent role.
- vi) The sector also presents untapped opportunities for enhancing tax revenue and broadening the tax base, given the vast number of potential taxpayers and revenue held outside the formal system.
- vii) Furthermore, the sector serves as a major source of employment, underscoring its importance in sustaining livelihoods especially in the absence of formal employment.
- viii) Insufficient information about the registration process further constrains formalization efforts. Fiscal informality is also exacerbated by low tax morale and reduced fiscal legitimacy, fueled by poor service delivery and public perceptions of corruption and mismanagement of public funds.
- ix) Government initiatives targeting the formalization of informal businesses and workers show potential to enhance economic inclusion and tax compliance. Programs like TREP, EFRIS, and PDM have made strides in integrating informal enterprises into the formal economy, while measures such as NSSF coverage and insurance schemes address worker welfare. However, challenges remain, including limited awareness, compliance costs, and enforcement gaps. Strengthening these initiatives through tailored support, streamlined processes, and broader stakeholder engagement is crucial. Sustained efforts in formalization will not only improve livelihoods and social protection but also boost revenue generation and economic resilience in Uganda.
- x) Fiscal informality persists partly due to reduced tax morale and fiscal legitimacy, based on the wide public perception that government has not been delivering value

for money with the resources collected from the public, in addition to the widespread corruption and mismanagement of public funds and resources.

- xi) Besides formalisation interventions, other government wealth creation programmes, information from the Parish-Based Management Information System (PB MIS) under the Parish Development Model (PDM), Emyooga, among others can be leveraged to reduce the size of the informal sector.
- xii) Experiences from other countries highlight that simplifying processes, such as unifying tax payments and reducing administrative burdens, is key to motivating formalisation. Incentives like tax holidays, simplified registration, and access to credit and government contracts can encourage businesses to formalise. Leveraging mobile and digital tools, promoting social security participation, and adopting stepwise formalisation strategies are vital for inclusivity. Awareness campaigns the leverage partnerships and community engagement and integrating informal workers into cooperatives can enhance outreach and engagement. Finally, providing affordable credit and financial services, along with training and legal support, can ease the transition toward formalisation

## 8.2 Policy Recommendations

### 8.2.1 Emerging Policy Options for Formalising Informal Businesses and Activities

1. Government through NITA-U should Integrate business registration information between local government with national registers at URSB and URA. To easily facilitate this, there should be;
  - Provision of ICT infrastructure at LG level and user trainings.
  - Enhancement digital literacy for the business community.
  - Utilization of LGs as the first point of contact for business and activities registration.
2. URSB and MTIC in conjunction with PSFU could facilitate business registration in refugee host districts, prioritising regional hub districts to expand formal registration of the refugees and other foreigner owned informal activities, given their large contribution to GDP.
3. Undertake Simplification of formalization and compliance requirements for businesses through;
  - Reducing the initial costs of registrations to achieve traceability.
  - Harmonising a single-form registration URA, URSB, and LG.
  - Consolidating different registration fees/ Taxes into a single payment on an annual basis.
4. Require member registration in SACCOs under the current wealth creation programme ( PDM ) to be linked to legal registration. There should be;
  - Progressive onboarding of enterprises and transition from SACCOs registration to legal, then to fiscal.
  - Anchoring these wealth creation benefits on the business Name registration.
5. MoFPED through URA to adopt a mono-tax system to reduce the burden of multiple tax payments through the following activities;
  - Amalgamation of registration levies to the URA, URSB, and LG level.
  - Amalgamation of all sector-specific licenses under one tax head.
6. URSB and URA must intensify awareness and educational campaigns among business and household activity owners across the country to dispel the wrong perceptions regarding household activity registration processes and procedures, compliance costs, business tax obligations, registration requirements, duration and benefits. This could be done through;
  - Offering mentorship programs and networking opportunities for newly registered businesses in line with the BDS framework.
  - Conducting mass registration drives for MSMES in rural areas.
7. There should be enforcement of regulation of the Informal business environment by;
  - Enforcing trade order through ensuring strict adherence to Physical development plans across LGs.
  - Streamlining the legal and regulatory framework to deliberately support formalization.
  - Investments to boost land registration across the country.
  - Enhance labour inspection of work-places.

### 8.2.2 Emerging Policy Options for Formalising Informal Workers

8. MoGLSD must facilitate the human and financial resources capacity of its labour inspection and enforcement units to ensure that employers adhere to work conditions, safety standards, guidelines and requirements.
9. Government should incentivise informal workers to join social security schemes/ Voluntary Savings schemes through;
  - Offering matching co-contributions for the very poor and vulnerable workers.
  - Enhancing awareness campaigns for the Smartlife Flexi program.
  - leveraging partnerships and community engagements for outreach through grassroots campaigns, village meetings, and the involvement of local leaders to promote awareness.
10. Government through MoGLSD should strengthen governance of trade unions and cooperatives for informal workers which will provide better representation platform, collective bargaining, and access to resources



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## APPENDICES

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### Appendix A: Sample size determination

Where  $n$  is the sample size,  $N$  is the total number of industries,  $e$  is the margin of error (the preferred being 5%).

### Appendix B: Weighting procedure

In order for the sample estimates from the survey to be representative of the population, it is necessary to multiply the data by a sampling weight. The basic weight for each sample business is equal to the inverse of its probability of selection, calculated by multiplying the probabilities at each selection stage. A business weight was attached to each sample business record in the data files. Below is the detailed explanation on how the weights were calculated. The weights were calculated based on the probability of selection at each stage. At the sector level, the weights were computed separately for each stratum (size).

Based on the stratified two-stage sample design, the probability of selection for the sample business within a sample region (enumeration area) can be expressed as follows:

$$p_i = \frac{n_h \cdot M_i}{M_h} \cdot \frac{m_i}{M'_i}$$

where:

$p_i$  = probability of selection for the sample businesses in the  $i^{\text{th}}$  sample PSU (region) in stratum (sector)

$n_h$  = number of sample PSUs selected in stratum  $h$  for the survey

$M_{hi}$  = total number of businesses in the frame for the  $i^{\text{th}}$  sample PSU in stratum  $h$

$M_h$  = total number of businesses in the sampling frame for stratum  $h$

$m_{hi}$  = number of sample businesses selected in the  $i^{\text{th}}$  sample PSU in stratum  $h$

$M'_i$  = total number of businesses listed in the  $i^{\text{th}}$  sample PSU in stratum  $h$

The basic sampling weights, or expansion factors, are calculated as the inverse of these probabilities of selection. Based on the previous expressions for the probabilities, the weights for the sample businesses can be calculated as follows:

$$W_i = \frac{M_h \cdot M'_i}{n_h \cdot M_{hi} \cdot m_i}$$

Where:

$W_i$  = basic weight for the sample business in the  $i^{\text{th}}$  sample PSU of stratum  $h$

Design weights were adjusted for businesses non-response and for individual non-response to get the sampling weights.

**TABLE A1: LIST OF PARTICIPANTS IN KEY INFORMANT INTERVIEWS AND FGDS**

Name	Title	Name	Title
David Muwumuza	Senior commercial officer	Waluwandaga Issac	Ass. Commercial Officer
Peter Kalungi	Revenue officer	Kaweesa Banabas	Ass. Town clerk
Najjuma Agnes	Commercial officer	Mubiru Ben	Secretary
Baliisa Muhammed	Revenue officer	Musubika Prosscovia	Revenue officer
Odong Justine	Revenue Officer	Tibyaze Vernica	Revenue officer
Kansiime Teposita	Revenue officer	Wasswa Zephanian	Revenue officer
Oket Simon Peter	Ass. Revenue officer	Kagaike Harriet	W/L F. D
Nantama Sandra	Senior Revenue Office	Komukama Prudence	Revenue officer
Matovu Isma	Revenue officer	Wakola Alex	Revenue officer
Katusiime Muheeza	Revenue officer	Kamala John	Revenue officer
Okoko Julius	Ass. Commercial Officer	Kabanda	Ass. Commercial Officer
Odyek Dickson	Ass. Town clerk	Simon Ategeka	Licensing Officer, Fort Portal Municipal council
Akubari Musa	Accountant	George Mutakooha	District Commercial Office of Kakumiro district
Ssali James	CU Secretary	Tina Kaidu	Assistant Commissioner URA
Ojera Alex	Ass. Commercial Officer	Nicholas Musoke	Research Officer, URA
Sempebwa Sammuel	Accountant	Taban Peter Data	Resident District Commissioner- Adjumani District
Kaisa Memea	Bufwabya LC 1	Mangapi Lawrence	Mayor Adjumani / Head Adjumani SACCO
Afayoa.A. Richard	Principal Town Agent	Oyela Concy	VHT/LC1 - KEYI A
Birungi Lydia	Accountant	Geoffrey Mutebi	District Commercial officer Mbarara District
Naturinda Prudence	Defense	Nahabwe Sharon	Principal commercial officer Bushenyi District
Kugunza Catherine	Secretary (Woman)	John Abitekaniza	Deputy Commissioner Business Development and Quality Assurance
Atuhuura Moreen	youth Secretary	Mugerwa Ronald Joseph	Senior Commercial officer, Masaka city
Barongo Godfrey	Mobilizer	Dorothy Nakachwa	Technical Coordinator, Uganda small Scale Industries Association (USSIA), Greater Masaka region
Omedi Gilibert	CDU/AG-	Nakayiza Irene	Chairperson
Odongo Godfrey	Defense	Nanyinja Irene	Representative of female workers/ Deputy Speaker
Namala Hildah	Revenue officer	Mr. Wasswa Sempija	District commercial officer
Adongo Lilly	VHT	Kasumba John	Mobiliser, Focused group Discussion
Walembe Brian	Secretary		
Jamilah Ssalamah	Women Affairs		
Swaib Mustaffa	Revenue Committee		
Judric Omar	Assistant Youth coordinator		
Sunia Swale	Secretary		
Mudacene yusuf	Cordinator		
Swalah Twanvule	Ass. Commercial Officer		
Ayatulaku Kosayi	Assistant Secretary		
Mivule Ernesi	Mananger		
Mugambe Phillip	VHT		
Ssengendo John	Ass. Town clerk		

**TABLE A1: POTENTIAL CONTRIBUTION TO REVENUE BY ALL INFORMAL BUSINESSES**

Threshold (UGX)	Total number of firms	Number records	Numbers without records	Revenue for those with records (UGX million)	Revenue for those without records (UGX Million)	Total potential revenue (UGX Million)
Not exceeding 10 million	1,371,351	806,830	564,521	-	-	-
>10 million to 30 million	538,815	380,608	158,207	11,000	12,657	23,657
>30 million to 50 million	149,250	80,213	69,037	10,300	13,807	24,107
>50 million to 80 million	64,078	58,517	5,561	14,900	2,224	17,124
>80 million to 150 million	38,500	36,972	1,529	22,600	1,376	23,976
Excess of 150 million	43,960	38,928	5,032	376,000	95,100	471,100
<b>Total</b>	<b>2,205,953</b>	<b>1,402,067</b>	<b>803,886</b>	<b>434,800</b>	<b>125,164</b>	<b>559,964</b>

Source: IBS (2021)

**TABLE A2: AWARENESS, TAX COMPLIANCE AND TAX SYSTEM**

	Partial	Full	All
<b>Awareness of taxes</b>			
Corporate income tax	1.24	0.26	0.4
VAT	12.66	27.95	24.75
PAYE	40.53	19.14	24.25
Presumptive	23.72	10.17	12.28
others	21.84	42.48	38.33
<b>Taxes difficult to comply with</b>			
Corporate income tax	2	0.7	0.9
VAT	11.34	16.95	15.98
PAYE	30.25	8.67	13.21
Presumptive	24.56	10.91	12.88
others	31.85	62.77	57.03
<b>Perceptions about the functions of EFRIS</b>			
A tax	32.2	24.21	25.31
A tool to keep stocks	1.56	0.86	1.24
A tool for managing sales and purchases	8.6	2.88	3.92
A tool to process VAT refunds	15.58	3.33	5.71
I don't know	42.07	68.72	63.83
<b>Perceptions on who should pay tax</b>			
All tax payers	20.52	16.32	16.88
VAT registrants	19.72	4.94	7.98
I don't know	59.76	78.74	75.14
<b>Registration of VAT</b>	9.5	1.08	2.9
<b>No use of point-of-sale terminal /EFRIS (No)</b>	99.67	99.97	99.91
<b>Reasons for not using point of sale terminal /EFRIS</b>			
Not eligible to use	36.43	34.19	34.61
Expensive	3.65	3.94	4
They are not anywhere near my premises (distance)	5.83	1.63	2.24
I don't know about the gadget	54.09	60.24	59.14
<b>Total number of workers</b>	<b>286,586</b>	<b>1,533,472</b>	<b>1,879,853</b>

Other (1): local government tax, local service taxes and rental taxes.

Source: IAWS (2024)

**TABLE A3: THE COMPLIANCE CONTINUUM**

	Partial	Full	All
<b>Experience with tax education</b>	11.46	4.49	6.35
<b>Course content</b>			
Eligibility criteria for each tax	22.42		6.17
The various tax compliance tools	10.33	37.01	24.64
How to use the tools		0.8	0.46
Methods of tax payment	36.92	19.77	30.59
Penalties, fees, and fine	30.32	40.23	36.42
Others (1)		2.18	1.72
<b>Total</b>	<b>32,841</b>	<b>68,804</b>	<b>119,381</b>
<b>Mode of delivery of tax education</b>			
Face to face	13.01	21.23	16.97
Newspaper article	1.68	3.85	2.68
Radio	24.55	13.4	15.89
TV show	11.09	50.53	34.19
Social media	34.69	9.21	25.12
Others (2)	14.97	1.78	5.14
<b>Total</b>	<b>32841</b>	<b>68804</b>	<b>119381</b>
<b>Registration: Not Having a tin</b>	46.23	90.45	80.95
<b>Reasons for not having a tin</b>			
My turnover is below the threshold	40.64	29.5	30.43
It cost money to register	19.93	20.07	20.03
Registration offices are far	13.94	1.13	2.24
Registration platforms are not on our mobile phones		0.48	0.44
Registration platform is on and off	3.18	1.09	1.27
I don't want URA to know me	9.5	16.96	16.28
Others (3)	12.8	30.77	29.3
<b>Total</b>	<b>132,480</b>	<b>1,387,100</b>	<b>1,521,714</b>
<b>Not filling for tax</b>	83.4	99.01	95.35
<b>Total</b>	<b>286,586</b>	<b>1,533,472</b>	<b>1,879,853</b>
<b>Reasons for not filling for tax</b>			
The system was off	1.83	2.23	2.14
I don't know how to use the filling system	37.86	32.44	33.29
My accounts were not reconciling with the system	3.73	0.79	1.17
Others (4)	56.59	64.54	63.41
<b>Total</b>	<b>239002</b>	<b>1,518,221</b>	<b>1,879,853</b>
<b>Tax payment in the last one month</b>	63.41	0	13
<b>Totals</b>	<b>286,586</b>	<b>1,533,472</b>	<b>1,879,853</b>
<b>Method of Tax payment used</b>			
Bank	43.38	0	54.09
Mobile money	11.33	0	9.61
Pay way	6.4	0	4.82
Point of sale	14.97	0	11.65
Others (5)	23.92	0	19.84
<b>Totals</b>	<b>181723</b>	<b>0</b>	<b>241518</b>
<b>Most preferred method of tax payment</b>			
Bank	55.68	22.26	29.2
Mobile money	23.02	41.34	37.86
Pay way	3.89	1.96	2.19
Point of sale	8.91	4.47	5

	Partial	Full	All
USSD	0.64	0.43	0.45
Others (6)	7.85	29.54	25.3
<b>Total</b>	<b>286,586</b>	<b>1533472</b>	<b>1879853</b>
<b>Reasons one would pay taxes</b>			
My activity made profit	11.59	15.27	14.8
The tax system is up and running	8.92	8.78	8.9
There is accountability for the taxes we pay	12.34	8.52	9.45
There is improved service delivery	27.74	26.62	26.5
Others (7)	39.41	40.82	40.35
<b>Totals</b>	<b>286586</b>	<b>1533472</b>	<b>1879853</b>
<b>Enforcement: Approached by URA on the last one month (yes)</b>			
	8.45	1.48	2.72
<b>Totals</b>	<b>286,586</b>	<b>1,533,472</b>	<b>1,879,853</b>
<b>Method of approach</b>			
Email	6.28	15.66	9.93
Phone call			7.44
Face to face visit	93.72	81.91	81.55
Summoned to URA offices		2.43	1.08
<b>Totals</b>	<b>24,208</b>	<b>22,726</b>	<b>51,699</b>
<b>Experience with engagement with the enforcer</b>			
Cordial	90.32	48.52	65.11
Rude tone on email & phone			7.44
Issued threat	9.68	28.39	17.19
Became violent during a face-to-face meeting		15.66	6.96
Others (8)		7.43	3.3
<b>Totals</b>	<b>286586</b>	<b>1533472</b>	<b>1879853</b>
<b>Experience with audit in last 6 months (yes)</b>			
	5.97	0.06	1.31
<b>Totals</b>	<b>17,099</b>	<b>853</b>	<b>24,573</b>
<b>Change of behaviour after audit</b>			
I continued filling my taxes as I had done previously	26.81		26.2
I wanted to do my taxes differently from done it previously how I had	27.72		38.69
I was indifferent	24.66	100	20.63
Others (9)	20.81		14.48
<b>Totals</b>	<b>17,099</b>	<b>853</b>	<b>24,573</b>

**Notes:** Other (1): sensitizing the community about the benefits of paying tax service tax and use of taxes to the public service

Other (2): Public Address system through speakers on the car, email and words from friends

Others (3): Am not aware about it; I have no idea of how it works; I am a low-income earner; my business is small; and my work is seasonal

Others (4): My business is small, I am not knowledgeable, I have not made sales yet and I am not aware I am supposed to file

Others (5): Cash and withholding

Others (6): Cash

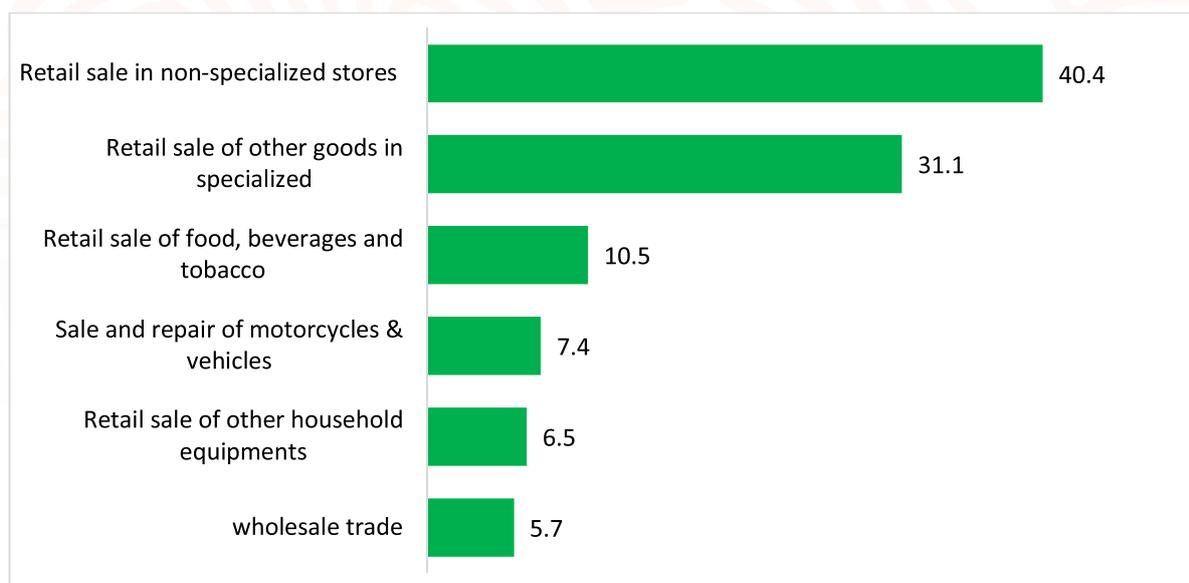
Others (7): It is compulsory, for better service delivery, to avoid penalties like business closure/to avoid disturbance, If I make enough profits

Others (8): They were fine and calm

Others (9): The audit was mainly to assess me.

**Source: IAWS (2024).**

## Appendix C: Disaggregation of trade sector



Source: IBS (2021)

## Appendix D: Informal Sector Study Costed Road Map 2025-2030

PRIORITY OBJECTIVE 1: FORMALISING INFORMAL BUSINESSES AND HOUSEHOLD-BASED ACTIVITIES				
<b>Targets</b>	<ul style="list-style-type: none"> <li>Reduce the percentage of the informal sector from 80% in 2023/24 to 67.0% in 2029/30</li> <li>Reduce the economic contribution of the informal sector from 54% in 2023/24 to 45% in 2029/30</li> </ul>			
<b>Outcomes indicator</b>	<ul style="list-style-type: none"> <li>Improved business regulation and certification</li> <li>Improved labour and business productivity</li> <li>Improve tax compliance and accuracy in the filed tax returns</li> </ul>			
POLICY OBJECTIVE	INDICATORS	RESPONSIBLE ENTITY	Start Time	End Time
<b>1.1 Integrate business registration information between local governments with national registers at URSB and URA</b>				
<b>Strategic Interventions</b>				
1.1.1 Provision of ICT infrastructure at LG level	- Number of LGs equipped with ICT integration infrastructure for business registration.	MoFPED, MoICT, MoLG, URA, and URSB.	2025	2030
1.1.2 Conducting ICT infrastructure user trainings	- Number of LG staff trained per year in using ICT systems. - Cost of consultation for implementing and testing the integrated systems	MoICT, MoLG, URA, and URSB.	2025	2030
1.1.3 Enhance digital literacy for the business community (Sensitise informal business owners (businesses, informal household activity owners) on the new integrated ICT systems for business registration.)	- Number of mass awareness campaign sessions conducted for informal business owners	MoICT, MoLG, URSB	2025	2030

1.1.5 Establish and empower a governance structure to oversee the systems integration management and implementation (Establish an informal sector working group to coordinate the ICT systems integration)	- Number of technical coordination meetings for the working group per year	MoLG, Accountant General, NITA-U, URA, ULGA, LGFC	2025	2030
<b>1.2 Enforcement of regulations for the informal business environment</b>				
<b>Strategic Interventions</b> 1.2.1 Enforcing trade order through ensuring strict adherence to physical development plans across LGs - Conduct public awareness campaigns about physical planning regulations - Monitor and enhance compliance with physical development regulations	- Number of mass sensitization campaigns undertaken per year - Number of enforcers hired per district - Number of equipment and training provided for the enforcement team - Number of field inspections to enforce physical development plans (building plan, occupation permits etc)	MoLG, MLHUD, NPA	2025	2030
1.2.2 Streamlining the legal and regulatory framework to support deliberate formalization. - Undertake revisions of the existing legal and policy frameworks for formalisation - Undertake mass sensitization for informal sector players on amended laws and regulations	- Number of technical workshops held for revision of policy and legal frameworks	MoFPED, MoLG, URA, MJCA	2025	2030
	- Number of mass sensitization campaigns on legal and regulatory reforms per year		2025	2030
<b>1.3 Undertake the simplification of formalization and compliance requirements for businesses</b>				
1.3.1 Harmonising a single-form registration URA, URSB, and LG (Revision and completion of the draft single-form registration)	- Number of meetings held by the harmonising committee	URA, URSB, and LG. MoLG	2025	2030

<p>1.3.2 Consolidate different registration fees/ Taxes into a single payment annually (undertake revision of different tax and fees for consolidation)</p> <ul style="list-style-type: none"> <li>- Amalgamation of all sector-specific licenses under one authority- Undertake revision of businesses licensing authority</li> </ul>	<ul style="list-style-type: none"> <li>- Number of regional workshops held to sensitise the business community</li> </ul>	<p>URA, URSB, and LG. MOLG, MoFPED</p>	<p>2025</p>	<p>2030</p>
<p>1.3.3 Undertake mass sensitization of informal sector players on amended laws and regulations.</p>	<ul style="list-style-type: none"> <li>- Number of radio and TV talk shows and community drives held to sensitise the business community on the new registration form, fees, and licenses.</li> </ul>	<p>URA, URSB, and LG, MoLG. MOFPED</p>	<p>2026</p>	<p>2030</p>
<p><b>1.4 Require member registration in SACCOs under the current wealth creation programs (e.g PDM, Emyooga, UWEP, YLP, ACF) to be linked to legal registration.</b></p>				
<p><b>Strategic Interventions</b></p> <p>1.4.1 Progressive onboarding of enterprises and transition from SACCOs registration to legal, then to fiscal</p> <ul style="list-style-type: none"> <li>- Progressive registration of enterprises owned by wealth creation programmes beneficiaries</li> <li>- Facilitate sub-county chiefs to follow up, monitor and encourage informal enterprises owned by wealth creation programmes beneficiaries to register.</li> </ul>	<ul style="list-style-type: none"> <li>- Number of sub-county chiefs facilitated per year</li> </ul>	<p>MoFPED, MoLG, MoICT, URSB</p>	<p>2025</p>	<p>2030</p>
<p><b>1.5 Intensify awareness and educational campaigns among business and household activity owners nationwide to dispel the wrong perceptions regarding household activity registration processes and procedures, compliance costs, business tax obligations, registration requirements, duration and benefits.</b></p>				
<p><b>Strategic Interventions</b></p> <p>1.5.1 Offering mentorship programs and networking opportunities for newly registered businesses in line with the BDS framework. (-Enhance informal business mentorship/ networking sessions held)</p>	<ul style="list-style-type: none"> <li>- Number of business development training offered per year</li> </ul>	<p>Enterprise Uganda, URA, MoLG</p>	<p>2026</p>	<p>2030</p>
<p>1.5.2 Conducting mass registration drives for MSMEs in rural areas. (Boost mass awareness campaigns on the benefits, compliance procedures, and costs of registration of informal businesses in rural LGs.)</p>	<ul style="list-style-type: none"> <li>- Number of mass sensitisation activities (adverts/ radio/TV) talk shows to raise awareness per year.</li> </ul>	<p>URA, URSB, MOFPED, MOLG</p>	<p>2026</p>	<p>2030</p>

<b>PRIORITY OBJECTIVE 2:</b>	<b>FORMALISING INFORMAL SECTOR WORKERS</b>				
<b>Targets</b>	<ul style="list-style-type: none"> <li>Reducing the proportion of informal employment from the current 87.9%</li> </ul>				
<b>Outcomes indicator</b>	<ul style="list-style-type: none"> <li>Improved working conditions for informal sector workers</li> <li>Improve access to social protection benefits among workers</li> <li>Improved social security contributions to NSSF</li> <li>Improved workplace safety by employers</li> </ul>				
<b>STRATEGIC OBJECTIVE</b>	<b>INDICATORS</b>	<b>RESPONSIBLE ENTITY</b>	<b>FINANCES in UGX</b>	<b>Start Time</b>	<b>End Time</b>
<b>2.1 Facilitate the human and financial resources capacity of labour inspection and enforcement units to ensure that employers adhere to work conditions, safety standards, guidelines and requirements.</b>					
<b>Strategic Interventions</b> 2.1.1 Conduct employer and employee awareness workshops on labour rights and safety standards	- Number of awareness sessions held per year	MoGLSD		2025	2030
2.1.3 Provide operational logistics (transport, equipment, ICT tools) to district labour offices	- Number of labour officers in districts, municipalities and cities facilitated to undertake labour inspection per year	MoGLSD		2026	2030
<b>2.2 Incentivise informal workers to join social security schemes/ Voluntary Savings schemes</b>					
<b>Strategic Interventions</b> 2.2.1 Enhancing awareness campaigns for the Smart Life Flexi program.	- Number of awareness campaigns conducted	MoGLSD, NSSF, URBRA		2025	2030
2.2.2 Leveraging partnerships and community engagements for outreach through grassroots campaigns, village meetings, and the involvement of local leaders to promote awareness	<ul style="list-style-type: none"> <li>- Number of regional outreach events held per year</li> <li>- Number of partnerships established for outreach</li> </ul>	MoGLSD, MoLG		2025	2030
<b>2.3 Strengthen governance of trade unions and cooperatives for informal workers to provide a better representation platform, collective bargaining, and access to resources</b>					
<b>Strategic Interventions</b> 2.3.1 Conduct sensitization for informal business and workers' association leaders on governance, opportunities, leadership, collective bargaining, and compliance.	<ul style="list-style-type: none"> <li>- Number of training and advocacy campaigns to sensitize and strengthen informal trade unions conducted annually.</li> <li>- Number of union/cooperative leaders trained</li> </ul>	Enterprise Uganda, MoGLSD, MTIC		2025	2030
2.3.2 Facilitate networking and dialogue platforms between informal worker groups and policy/decision-makers	- Number of multi-stakeholder dialogue forums held annually	MoGLSD		2025	2030
2.3.3 Provide seed grants or technical assistance to strengthen administrative capacity of worker organizations	- Number of cooperatives/unions receiving support	MoGLSD		2026	2030





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