Formalising your business

Is it time to formalise your business?

Signs your business is ready

BUSINESS
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Uganda's Gross Domestic Product relies heavily on Micro Small and Medium Enterprises (MSMEs), constituting over 90 percent of private sector firms, and employing over 70 percent of the citizens. The entrepreneurial climate is also dominated by informal operations.

The State of Entrepreneurship Report 2024 reveals that business registration stood at a meager 39 percent, depriving the economy of necessary benefits.

But beyond registration, you need systems.

Ocici stresses that formalisation requires separating personal and business finances, creating Human resource systems, standardising operations, and embedding governance and customer care. Without these, incorporation can quickly become a liability.

He warns that it is in your best interest to bring systems that streamline your operations and that formalise the way things are being done. If you don't have systems in place, then you are going to make losses.

"If you just bring a pair of hands into that business, that enterprise will be run informally. People will do whatever they want to do because no systems are addressing or handling human resources, and other critical aspects of the business," Ocici advises.

Signs your business is ready

According to Baryevuga, incorporation works best when a business is focusing on raising capital through high-value transactions from tenders and contracts, access to finance through commercial banks and other financial institutions, building credibility with co-founders and clients, and managing liability by separating personal assets from business risks.

Market demands often drive businesses to higher standards, as larger buyers increasingly expect stricter compliance and quality.

"Higher market demands come in with demands for bigger volumes and a streamlined formal process," Ocici notes.

Financial readiness is another trigger. According to Ocici, when profits and savings allow investment in systems, technology, and staff.

With savings accumulated from profits, businesses can go beyond market pressures and start upgrading their operations—improving supply quality through modern technology, streamlined processes, and skilled personnel.

Entering higher-value markets demands better hygiene, packaging, and professionalism.

Customers check clothes at one of the shops in Kampala on 3rd March 2026 after KCCA sent away vendors from the Streets. PHOTO/MICHAEL KAKUMIRIZI

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The Uganda Registration Services Bureau (URSB) reports that it registered 28,408 new companies in 2024/25, marking a 19 percent increase from the previous year. During the same period, 21,695 business names were also registered, highlighting a steady move toward formalisation.

But beneath this growth lies a quiet challenge: Many new enterprises are struggling to meet compliance requirements and the scaling demands that come with formal registration.

Incorporation dilemma

For many entrepreneurs, the choice of when to formalise remains a tough call. While registering a sole small business is easy, it restricts access to bigger opportunities.

Incorporation, on the other hand, opens doors to contracts, financing, and scale, but introduces recurring obligations, taxes, filings, licence fees, and administrative requirements that can strain already thin cash flows, and worse, are costs that do not directly translate into revenue.

For Charles Njeho, who founded Colex Media in 2016, the lesson came the hard way. With Shs3 million in support from his sister, he purchased equipment, rented workspace, and began serving clients.

But when a major institution approached with a lucrative contract, his business was not yet incorporated. That cost him millions.

Similarly, Kevin Akello, a tailor, the experience took a different turn. She incorporated her business to qualify for new opportunities during a business accelerator.

Soon after, however, her client base shrank, with some customers perceiving her services as more expensive. At the same time, compliance costs began piling up.

While some established SMEs treat incorporation as a natural step, many smaller Ugandan businesses lack the financial cushion to absorb these early-stage pressures.

For some established SMEs, incorporation is a natural next step, but many smaller Ugandan businesses struggle to absorb the financial pressures of the early stages.

For Njeho, the move was reactive, rather than strategic, after painfully missing a major contract, whereas Akello found herself trapped in compliance hurdles. But many rush into it without considering the systems and obligations that come with incorporation.

Steven Douglas Baryevuga, the communications officer at URSB, notes that many entrepreneurs confuse incorporation with simple business registration.

Business registration

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Incorporation

'Incorporation creates an entity that separates company liabilities from personal assets.'

"Incorporation creates a separ[ate] entity with limited liability, while [regis]tering a business name ties obli[gations] directly to the owner. This mis[under]standing often leads to prematur[e deci]sions," Baryevuga notes.

What incorporation offers

Incorporation can transform a [busi]ness' prospects. It builds credibility [with] customers and partners, opens d[oors to] financing through banks and cre[dit in]stitutions, and makes companies [eligible] for government and corporate co[ntracts].

According to Baryevuga, incorp[oration] creates an entity that separates com[pa]ny liabilities from personal assets.

"This allows the company to own [prop]erty in its name and independently [sue] or be sued since it is a legally rec[ognised] independent entity," he stresses.

Enterprise development ex[pert] Charles Ocici adds that registration [is on]ly a small part of the process.

When one respects the systems and principles that run an independent [en]tity, separate from the owner, enorm[ous] benefits are guaranteed.

"With the initial registration pr[ocess] you can do once, and you are done. [Af]ter that, the hard work begins. You [need] to establish and manage systems, file [re]turns on time, and pay necessary lic[ence] fees," Ocici says.

He adds, "When you formalise, you ge[t a] bigger market, bigger profits, bigger [cus]tomers and bigger growth," he says.

Hidden costs of compliance

Formalisation also brings obligat[ions] that can overwhelm small enterpri[ses]. Taxes require proper bookkeeping a[nd] timely filing. Annual returns and lice[nce] renewals add costs, while penalties [for] late filings or poor record-keeping [can] cripple operations.

Njeho notes that while incorporat[ing] his printing business was an eye-ope[ner], it also turned out to be financially dr[ain]ing. Licence fees, which used to cost h[im] shs250,000, now cost more than dou[ble], at Shs520,000.

"We also file monthly VAT [Value Add[ed] Tax] returns, which can be as high [as] Shs2m depending on the business," [he] says.

Njeho, however, notes that he secu[red] a major contract, which made him [ac]quire modern machines to upgrade [his] business.

Gruesome penalties due to non-com[pliance] with taxes alone can cripple your business. Patrick Onen, a tra[vel] company owner, is battling with hu[ge] fines worth over Shs40m due to compli[ance] issues.

"My company bank account has been frozen. Every payment I get through the bank now goes to URA [Uganda Reve]nue Authority] until the penalties are cleared," he notes.

Incorporated entities also have to regis[ter] with the Public Procurement and Dis[posal] of Public Assets Authority (PPDA), provide a post office box number, and register for certifications with the Uganda National Bureau of Statistics (UNBS) to enter certain markets or venture into certain products.

There also exists the International Standards Organisation (ISO) if one seeks to venture into international markets and elevate their brands. The majority of these require hefty registration and annual renewal fees.