JOINT STOCK COMPANIES

A Joint Stock Company may be defined as an association of persons in a business enterprise with transferable shares of stock.

Why it is called a joint-stock company? It is called a joint-stock company because the owners (shareholders) join their capital (stock) to form a business.

Features of a Joint Stock Company

1. **Artificial legal person;** a company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc.
2. ***Separate legal entity;*** the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company.
3. ***Incorporation;*** for a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.
4. ***Perpetual succession;*** a joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. The existence of a company is not affected by the death, insanity or bankruptcy of any shareholder.
5. ***Limited liability;*** the liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company. A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability.
6. ***Common seal;*** *a* company is an artificial person, so its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a

common seal. A common seal is engraved seal with the company's name on it.

7. ***Transferability of shares;*** *i*n a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a private company, there are some restrictions, but the transfer cannot be prohibited.
8. **Separation of ownership from management;** the management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business. The shareholders do not have the right to be involved in the day-to-day running of the business.
9. **Rigidity of objects;** a joint stock company cannot do any business not already included in the object clause of the Memorandum of Association of the company. A change in the object clause under condition laid down in the Companies Act is essential for making any alteration in the scope of the business.
10. **Statutory regulation;** a company has to comply with numerous and varied statutory requirements. It has to submit a number of returns to the government. For instance company accounts must be audited by a charted accountant.

Classification of companies

Companies may be classified into main groups; statutory companies and registered companies.

1. **Statutory companies;**

   Statutory corporations (state corporations); these are companies owned by government. They are brought into existence by an Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments e.g. National Water and Sewerage Corporation.

2. **Registered companies;** these are companies formed and registered under the Companies Act. These companies are formed by private individuals. Registered companies are divided into two; unlimited companies and limited companies.
    a. **Unlimited companies;** these are companies whose members have got unlimited liabilities i.e. members might be forced to sell their private properties to pay the debts of the business. These companies are not common.
    b. **Limited companies;** these are companies whose members enjoy limited liabilities. Limited companies are also divided into two; companies limited by guarantee and companies limited by share capital.

Companies limited by guarantee; these are companies whose members' liability is limited to the amount guaranteed by them at the time of becoming members. In the event that the company is liquidating and the assets are not enough to pay off the debts, members will be called to contribute only up to the amounts pledged by them. Companies limited by guarantee usually do not have share capital e.g. clubs and associations.

Companies limited by share capital; these are companies whose members' liability is limited to the amounts unpaid on the shares they hold. In the event of liquidation when the assets of the company are not enough, shareholders will only be called upon to pay the amount not yet paid on the shares they hold. Companies limited by share capital are divided into two; private limited companies and public limited companies.

Private limited company; is a company which makes the following restrictions:

(a) Restricts the transfer of shares i.e. shareholders must seek the approval other shareholders before they can transfer their shares.

(b) Prohibits invitation to the public to subscribe to its shares and debentures.

Features of private limited companies

1. Does not invite the public to subscribe to its shares and debentures.
2. Its shares are not freely transferable and cannot be listed on the stock exchange. One must seek the consent of other shareholders before selling his shares.
3. Has a minimum of two shareholders and a maximum of 50 shareholders.
4. Has a minimum of one director.
5. Commences businesses as soon as it receives a Certificate of Incorporation.
6. Does not prepare a prospectus to the public.
7. Is not required by law to public its annual accounts.
8. Is not required to hold a statutory meeting and file a statutory report to the registrar of companies.
9. It is not mandatory for private companies to appoint a company secretary i.e. they do so only at their will.
10. It is compulsory to get the articles of associations registered along with the memorandum of association in case of a private company.

Public limited company; is defined as that company which is not a private company.

Features of public companies

1. Invite the public to subscribe to its shares and debentures.
2. Its shares are freely transferable and can be listed on the stock exchange. One does not need to seek the consent of other shareholders before selling his shares.
3. Has a minimum of seven shareholders and there is no maximum.
4. Has a minimum of two director.
5. Needs to have a certificate of trade on top of a certificate of incorporation to commence business operation.
6. Needs to prepare a prospectus to the public.
7. Is required by law to public its annual accounts.

8. Is required to hold a statutory meeting and file a statutory report to the registrar of companies.
9. It mandatory for public companies to appoint a company secretary.
10. A public limited company may or may not have Articles. It can adopt Table-A of Schedule I of Companies Act. A Private limited company may have its own Articles of Association.

Formation of a company

A company is formed when the Registrar of Companies issues a Certificate of Incorporation. People who wish to form a company (promoters) are required to write an application to the Registrar of Companies and file the following documents.

1. Memorandum of association.
2. Articles of association.
3. Statement of nominal capital.
4. Particulars of directors and secretaries.
5. Consent to act as director of company.
6. Declaration of compliance with the requirements of the Companies Act (Form A2).
7. Notice of situation of the registered office and the registered post address.

MEMORANDUM OF ASSOCIATION

This is a legal document prepared in the formation and registration of a limited liability company, which governs the company's relationship with the outside world (public). It lays down and defines the company's powers and limitations i.e. what a company can do and what it cannot to do.

A memorandum of association has got six paragraphs called clauses. They include:

1. **Name clause;** this clause states the legal and recognized name of the company. The name of the company must end with the word '*limited*' or

’LTD’, as a reminder to the public that the liabilities of shareholders is limited. The name of the company should not be identical to the name of an existing company.

2. **Address/registered office clause;** this clause shows the physical location of the registered office of the company. The registered office's physical location determines which jurisdiction the Registrar of Companies and which court the company would fall under. It also confirms the company's nationality.
3. **Objects clause;** this clause state the main objectives for establishing the company. The objectives should be free of any provisions or declarations that contravene laws or public good. Any contracts or dealings made by the company which are not within this clause are considered void (not binding).
4. **Capital clause;** this clause states the company’s authorized share capital, the different categories of shares and the nominal value of the shares. You are also required to list the company’s assets under this clause.
5. **Liability clause;** this clause states the extent to which shareholders of the company are liable to the company’s debts in the event of liquidation.
6. **Association/declaration clause;** this clause states that shareholders bound by the MOA are willingly associating and forming a company. You require seven members to sign an MOA for a public company and not less than two people for a MOA of a private company. You must conduct the signing in the presence of witness who must also append his signature.

ARTICLES OF ASSOCIATION

This is a document prepared in the formation and registration of a company, which lays down the rules and regulations for the internal organization of the company. It must be signed by promoters and sent to the registrar of companies.

Contents of articles of association

1. The rights and powers of each type of shareholders.
2. The powers and rights of directors.
3. Rules governing election and disqualification of directors and auditors.
4. Director's remuneration.
5. Methods of calling and conducting general meetings.
6. The issue and transfer of shares.
7. How the books of accounts are to be kept and audited.

STATEMENT OF NOMINAL CAPITAL

This is a document prepared in the formation of a company showing the registered share capital of the company, number and class of shares, value of the shares.

LIST OF DIRECTORS

This is a document prepared in the formation of a company showing a list of proposed directors who will serve until the first annual general meeting during which they will be confirmed. A board of directors is a group of people who jointly supervise the activities of an organization,

CONSENT TO ACT AS DIRECTOR OF COMPANY

This is a document prepared by directors in the formation of a company, showing their willingness to act as directors.

DECLARATION OF COMPLIANCE

This is a declaration by an advocate engaged in the formation of the company, or by a person named in the articles as a director or secretary of the company, of compliance with all the requirements of the Companies Act Cap 110.

NOTICE OF SITUATION OF THE REGISTERED OFFICE AND THE REGISTERED POST ADDRESS

The company is required to furnish the Registrar of Companies within 30 days of incorporation.

CERTIFICATE OF INCORPORATION

This is document which is issued by the Registrar of Companies, which establishes the company as a separate legal entity.

The Registrar issues a certificate of incorporation after cross-checking the above documents and finds out that they are in order and that the objectives are lawful. A certificate of incorporation is considered the birth document of the company.

A certificate of incorporation allows a private company to commence business operations and for a public company, to legally offer its shares to the public to subscribe.

PROSPECTUS

This is a legal disclosure document that provides information about issue of shares to the public. It is prepared by directors to advertise the sale of shares of a company. It is only prepared by public companies.

CONTENTS OF PROSPECTUS

1. Registered company office address.
2. Company secretary, auditors, bankers, underwriters, etc., their respective names and address.
3. Opening and closing dates of the issue.
4. Allotment letters and refunds declaration within the prescribed time.
5. A statement by the board of directors about the separate bank account where all monies received out of shares issued are to be transferred.
6. Underwriting of the issue their details.
7. Directors, auditors, bankers Consent to the issue, expert's opinion if any.

8. The authority for the issue and the details of the resolution passed thereof.
9. Procedure and time schedule for allotment and issue of securities.
10. The Capital structure of the company with a comprehensive outlook.
11. Main objects and location of the present business of the company.
12. Public offer and terms of the present issue and its objective.
13. Minimum subscription, amount payable by way of premium, issue of shares otherwise than on cash.
14. Appointment and remuneration details of the director
15. Sources of promoter's contribution.

CERTIFICATE OF TRADE

This is a document issued by directors issued by the registrar of companies to allow a public limited company (PLC) commence business operations. A private limited companies (Ltd) does not need to apply for a trading certificate and is therefore able to trade as soon as a certificate of incorporation is issued by Registrar of Companies.

This document is issued after:

- The company has sold shares and raised the minimum share capital.
- The director have paid for the shares taken by them.
- Directors have filed a declaration that the above requirements have been filled.

OFFICERS OF A COMPANY

1. **Board of directors;** these are people chosen by shareholders to take decision about the activities of the company. The appointment of directors is regulated by the articles of association.
2. **Company secretary;** this a director responsible for the efficient administration of a *company*, particularly with regard to ensuring

compliance with statutory and regulatory requirements and for ensuring that decisions of the board of directors are implemented.

3. **Company auditor;** this is a person or a firm appointed by a company, to scrutinize the company's books of accounts and give an independent report on its financial performance.

COMPANY MEETINGS

The ultimate control of a company lies in general meetings (GMs). There are three types of company meetings:

(a) **Statutory meeting;** this is the first meeting held by every public company after a company has been registered, where shareholder review the directors' progress.

(b) **Annual General Meeting (AGM);** is a yearly gathering between the shareholders of a company and its board of directors, during which directors present the company's annual report. Other activities done during the AGM include:

   a. Shareholders elect new directors in place of those who retire.
   b. Shareholders appoint auditors and fix their remuneration.
   c. Directors declare dividends.
   d. Any other business.

(c) **Extra-ordinary General Meeting;** this is a meeting of shareholders held when there is an urgent matter which cannot wait until the next annual general meeting e.g. death of directors.

SHARE CAPITAL

<u>Share capital</u> refers to the amount of funding a company raises through the sale of shares to public investors. The amount of *share capital* of a company can change over time with additional public issue.

SHARE

A *share* is a unit of ownership in a limited liability company. It is a unit in which the capital of a company is divided. Owners of a company are called shareholders and are entitle to the share of profits (dividends) made by a company.

DIVIDEND

A *dividend* is a distribution of profits by a company to its shareholders. Dividend payments typically take one of two forms:

(a) **Cash divided**; a sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).
(b) **Bonus shares/scrip issue**; these are additional free shares issued by the company to its existing shareholders out of accumulated reserves, in proportion to the shares already held.

The company board of directors determines the dividend amount and manages these payments. Companies can choose to not pay dividends and instead reinvest the money back into the company.

TYPES OF SHARES

1. **Ordinary/equity shares;** these are shares that carry no special rights or restrictions i.e. they carry no fixed rate of dividend (dividend depends on the amount which remains after payment of dividends on preference shares. They rank after preference shares as regards dividends and return of capital.

   Features of ordinary shares

   - They don't carry a fixed rate of dividend i.e. dividend depends on the amount which remains after dividend on preference shares has been paid.
   - Holders of ordinary shares receive dividend after preference shareholders.

- Ordinary shareholders usually have voting rights in important matters of the company.
- Ordinary shares are usually irredeemable i.e. they cannot be bought back by the company from their holders.
- They have the potential to give the highest financial gains, but also have the highest risk.
- During winding-up, ordinary shareholders are paid money after both creditors and preference shareholders.

2. **Preference shares;** these are shares that carry a fixed rate of dividend every year. These shares are usually bought by people who do not want the risks associated with ordinary shares.

Features of preference shares

- They carry a fixed rate of dividend i.e. 10% of the face value of the shares held.
- Holders of preference shares receive dividend before ordinary shareholders.
- Preference shareholders usually do not have voting rights in important matters of the company.
- Some preference shares are redeemable i.e. they can be bought back by the company from their holders.
- They stand less risk of not getting dividend during bad times.
- During winding-up, preference shareholders are paid money after both creditors but before ordinary shareholders.

Preference shares are different types:

a. **Cumulative preference shares;** these are shares that are entitled to a fixed rate of dividend until it is paid. If the dividend is missed or not paid in full then the shortfall will be paid when the company next has sufficient distributable reserves i.e. dividends keep on accumulating until paid.

b. **Non-cumulative preference shares;** these are shares entitled to a fixed rate of dividend but only for the years when dividend is declared. Dividends not paid in a particular year are not carried forward.
c. **Redeemable preference shares;** these are preference shares that can be bought back (redeemed) by the company from their holders after a specified period. They are issued when the company needs money only for a short period of time. Holders are entitled to a fixed rate of dividend during years hold them.
d. **Irredeemable preference shares;** these are preference shares that cannot be bought back (redeemed) by the company. In other words their holders hold them until liquidation or can sell them to another person to recover their money.
e. **Participating preference shares;** these are shares that are entitled to a fixed rate of dividend and also an extra share in the profits that remain after all shareholders have been paid.
f. **Convertible preference shares;** these are preference shares that can be converted into Equity shares within a certain period.

3. **Deferred ordinary shares;** these are ordinary shares in which dividends are only paid after all other classes of shares have been paid. On a winding up they will only receive something once every other entitlement has been met. Such shares are usually issued to employees in order to give them a long term interest in the company and to increase their loyalty.

Sale of shares

Once a public limited company receives a Certificate of Incorporation, it prepares a Prospectus to call upon members of the public to subscribe for its shares. A company may sell some of the shares in instalments called 'Calls'. This is done to encourage a large number of people to apply for shares. The procedure for sale of shares is as follows:

- **Preparation of a prospectus;** an advertisement is placed in newspapers calling upon members of the public to apply for shares. Either the advertisement itself contains an application form or it specifies from where the application form may be obtained. Usually a bank is used to distribute the prospectus and application forms and also receive applications for shares and money on behalf of the company.
- **Filling application forms;** interested people are required to fill the application form, clearly stating the number of shares applied for and pay part of the money. This money is called 'Application Money'.
- **Allotment of shares;** on receipt of the applications, directors go through them and decide which ones are to be approved. Those applicants whose applications are approved are sent 'Allotment Letters', informing them the number of shares allotted to them and asking them to make further payments called 'allotment Money'.
- **Issuance of share certificates;** on receipt of allotment money, applicants are sent Share Certificates. Applicants now become shareholders.
- **Payment of the balance on shares allotted;** shareholders are asked to pay the balance in two or three installments. These instalments are called 'Calls'.

NB: A shareholder who after having been allotted shares fails to pay the calls, forfeits his shares and the money already paid is not refunded. The forfeited shares are later reissued by the company.

Underwriting; is the process through which an individual or institution takes on financial risk for a fee. If a company feels that it will not be able to sell the shares in an issue, it may contact an underwriter to underwrite the issue. An underwriter is any party that evaluates and assumes another party's risk for a fee. The underwriter undertakes to buy any shares that may not be taken up by the public. He is paid a small commission called underwriting commission for his guarantee.

A stock; means a block of shares.

DEBENTURES

A *debenture* is a debt instrument used by companies to borrow money, at a fixed rate of interest. Companies use debentures when they need to borrow the money at a fixed rate of interest for expansion.

Debenture holder; is a person who has lent money to a company against a debenture. Debenture holders are entitled to a fixed rate of interest, which must be paid whether the company makes profits or not. Debenture interest is paid before dividends on shares.

Differences between shares and debentures

1. A share is a unit of loan while a debenture is a unit of loan for a company.
2. Shareholders are the owners of the company while debenture holders are just creditors.
3. Shareholders are entitled to dividends (share of profits) while debenture holders are entitled to interest.
4. Shareholders can only be paid dividends when the company makes considerable profits while interest on debentures is an expense to the company which must be paid whether the company makes profits or not.
5. Most shareholders have voting rights while debentures holders have no voting rights in the affairs of the company.
6. At the time of winding, shareholders are paid money after debenture holders.

Types of debentures

1. **Redeemable debentures;** these are debentures (loans) that carry a specific date of redemption (repayment) on the certificate. The company redeems (buys them back) after a specified period of time. The company pays interest during the time they remain outstanding.
2. **Irredeemable/perpetual debentures;** these are debentures (loans) that do not carry any date of redemption (repayment). i.e. they remain

outstanding until the company is liquidated. However the holder can sell them to another person to get his money back.

3. **Secured/mortgaged debentures;** these are debentures (loans) that are secured by the charge on some asset or set of assets of the company. If the company fails to pay back the money borrowed, holders may sell the property pledged to recover their money.

   Secured/Mortgaged debentures are further classified into two types; first and second mortgaged debentures. First mortgaged debentures have the first charge over the assets of the company where as the second mortgage has the secondary charge which means the realization of the assets will first fulfill the obligation of first mortgage debentures and then will do for second ones.

4. **Unsecured/naked/simple debentures;** these are debentures (loans) without any security backing. Holders of these debentures do not have specific company assets they can sell to recover their money. They are issued solely on the credibility of the issuer.
5. **Convertible debentures;** these are debentures (loans) that can be converted into equity shares of the issuing company after a predetermined period of time. To investors, convertible bonds are more attractive because the bonds can be converted, and to companies they have the advantage that they normally have lower interest rates than non-convertible corporate bonds.
6. **Non-convertible debentures;** these are standard debentures that can't be converted into equity shares of the issuing company. Since they can't be converted, they usually have higher interest rates than convertible debentures.
7. **Registered debentures;** are debentures that are recorded in the register of debenture holders of the company. A regular instrument of transfer is required for their transfer.
8. **Bearer debentures;** are unregistered unsecured debentures i.e. the issuing company does not record them in the register of debenture

holders of the company. The owner cannot get a replacement debenture if the original one is lost or stolen. These debentures are transferable by mere delivery.

9. **Fixed rate debentures;** have a fixed interest rate over the life of the debentures.
10. **Floating rate debentures;** have the floating rate of interest which is dependent on some benchmark rate say LIBOR (London Inter Bank Offer Rate), PLR (Prime Lending Rate), etc.

Capital structure of liability companies

The capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Debt comes in the form of debenture issues or loans, while equity may come in the form of ordinary shares, preference shares, or retained earnings.

1. **Authorized/registered/nominal share capital;** this is the maximum amount of capital that a company is allowed to raise by issuing shares, as mentioned in the Memorandum of Association. For instance if a company is registered with 100,000 ordinary shares of shs1000 each, then the authorized capital would be shs100 millions.
2. **Issued share capital;** is simply the monetary value of the shares a company actually offers for sale to investors. Issued share capital can never exceed authorized share capital. Issued share capital equals authorized share capital if a company has issued all the shares it is authorized to do so. From the example in 1 above, if the company has so far issued only 75,000 shares, the issued share capital would be shs75 millions ($75{,}000\ X\ 1000$). The fraction of authorized capital which is not issued (shs25 millions) is referred to as unissued share capital.
3. **Called-up share capital;** this is the amount that shareholders have not yet paid, though payment has been requested by the issuing company. From the above example of shs75 millions of issued capital, if every shareholder has been asked to pay 60% of the value of shares allotted to him/her, the

total called-up share capital would be shs45 millions ($shs75\ millions\ X\ 60\%$) and the balance of shs30 millions becomes uncalled-up share capital.

4. **Paid-up share capital;** this is the amount that has already been paid by investors in exchange for shares. Paid-up capital is created when a company sells its shares on the primary market, directly to investors. When a company calls upon shareholders to pay a certain portion out of the issued share capital, not all shareholders will be able. For instance out of shs45 millions called-up share capital, the company may receive only shs39 millions and this would be referred to as paid-up share capital and the balance of shs6 millions becomes unpaid-up share capital or calls in arrears.

   NB: A company that is fully paid-up has sold all available shares and thus cannot increase its capital unless it borrows money by taking on debt. A company could, however, receive authorization to sell more shares.

5. **Borrowed/loan capital;** this is capital provided by issuing debentures or borrowing from the bank, and such capital is a liability to the company.

Advantages of Joint Stock Company

1. **Large capital resources;** a joint stock company can raise a large amount of capital by issuing shares and debentures to the public. There is no limit to the number of shareholders in a company. (However, in a private company the membership cannot exceed 50).
2. **Limited liability;** a shareholder's liability is limited only to the extent of the face value of the shares held by him and his personal properties are not affected. This is a great attraction to persons who do not want to take much risk in other forms of organization that do not enjoy the benefit of limited liability.
3. **Benefits of large scale organization;** as the size of a company is large, the economies of large-scale organization and production are secured.

4. **Scope for expansion;** as there is no limit to the number of persons in a company, there is a great scope for expansion of the business. A company, which is making good profits, can create big reserves which can be used for the expansion of the company.
5. **Stability;** a company enjoys perpetual succession which means the retirement or death of a shareholder cannot affect the company. The companies are well suited for business, which require a long period to establish and consolidate.
6. **Transferability of shares;** shares of public companies are freely transferable from one person to another without the knowledge of the other shareholders. The existence of stock exchanges where shares and debentures are sold and purchased has facilitated the transfer of shares.
7. **Efficient management;** companies usually has large resources and this allows them to hire the *best talent and professionals*. The most efficient persons may be chosen as directors and this results in effective and efficient management.
8. **Higher profit;** as a large capital is invested in companies, it would be possible for them to use the expensive machinery and up-to-date equipment resulting in greater production, reduced cost, and higher profit.
9. **Reduced risk;** the risk of loss is reduced for each shareholder because of large membership. The risk is diffused and spread over several shareholders of the company.
10. **Separate legal entity;** a company is a separate legal entity and therefore can own property, sue or be sued in its own name.
11. **Access to loans;** a company is in a better position to secure loans from banks since it owns property in its own name.
12. Employees may be allowed and encouraged to buy shares in a company, thereby giving them added incentive to work harder.
13. If a company has a good dividend history, a shareholder may be able to sell his shares at a price which is much higher than the face value.

14. A company may issues several types of shares to suit the investment habits of different types of investors.

Disadvantages of Joint-Stock Company

1. **Formation is difficult;** the formation of a company involves a long-drawn-out complex procedure. For instance, a lot of documents have to be filed with the Registrar of Companies for a company to be incorporated.
2. **Fraudulent management;** many times unscrupulous promoters (by presenting the prospectus as a rosy picture) manage to get capital from the public. This results in companies being started and managed by incapable and fraudulent hands.
3. **Concentration of control in few hands;** a company is managed by a few directors. Shareholders have no say in the affairs of the company. Very few shareholders attend meetings to take decisions on how the company is being managed.
4. **Lacks initiative and motivation;** as there is indirect delegated management in the company, there is no initiative and motivation. The paid officials who manage the company have no personal interest and this leads to inefficiency and waste.
5. **Conflict of interest;** there is a conflict of interest between directors and shareholders. Many times dishonest directors succeed in cleverly misleading and cheating the shareholders.
6. **Excessive government control;** a company is very much controlled by the government and it has to observe many provisions of the different regulations of the government. Again, heavy penalty is imposed for the non-observance of the provisions of the Acts.
7. **Lack of prompt decision; owing** to the difficulty of getting the requisite quorum and the presence of diverse interests, which may lead to disagreement, prompt decision cannot be taken.

8. **Lack of secrecy;** all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access.
9. **Shareholders lack a direct control over the business;** this is because the day-to-day running of the company is under directors.

WINDING-UP AND LIQUIDATION OF A COMPANY

a. **Winding up** involves ending business affairs and terminating company obligations, including liquidation. After winding up, the company ceases trading and closes down.
b. **Liquidation** is a small part of winding up and it involves the selling off company assets in order to pay creditors.

NB: In commercial terms, liquid means cash. Liquidation is the process of converting assets to cash, usually in order to pay back debts or shareholders.

A liquidator is a professional (usually an accountant or lawyer) who manages this.

There are two types of liquidation; **voluntary liquidation** and **compulsory liquidation.** There are two forms of voluntary liquidation:

(a) **Members' Voluntary Liquidation (MVL);** a procedure for winding up solvent companies, undertaken by the shareholders.
(b) **Creditors' Voluntary Liquidation (CVL);** a procedure for winding up insolvent companies, undertaken by the creditors.

Members’ Voluntary Liquidation (MVL)

Shareholders can liquid a solvent company if it is no longer required. The procedure for members’ voluntary liquidation are as follows.

1. Directors draw up a declaration of solvency, stating that they believe that the assets of the company would be enough to pay its debts.

2. Shareholders pass a special resolution for winding up the company voluntarily.
3. Shareholders appoint a liquidator to supervise the sale of assets.
4. Assets are liquidated per schedule.
5. Advertisements are placed in newspapers, calling upon creditors to come forward to prove and claim their debts.
6. All taxes are prepared and filed throughout the winding up process through to liquidation.
7. Any money that remains after all creditors have been paid is distributed among shareholders.
8. Shareholder meeting for the final report

The role of the liquidator

- Sell the company's assets or distribute them to creditors.
- Make an agreement or arrangement with creditors.
- Challenge voidable transactions.
- Bring a wrongful trading claim against directors.
- Settle any legal disputes and/or outstanding contracts.
- Pay liquidation costs and the final VAT bill.

The role of directors in a winding up

Once a liquidator is appointed, company directors lose their control over the company and can no longer act on behalf of the company. Directors must:

- provide the liquidator with any information about the company they ask for
- hand over the company's assets, records and paperwork
- allow the liquidator to interview them.

NB: Where directors' negligence contributed to the company's insolvency, they may be convicted of wrongful trading. If convicted, directors will be held personally liable for any debts incurred by the company as a result of their negligence.

Circumstances that may lead to voluntary liquidation by shareholders

Although voluntary liquidation is not forced, it may take place due to the following circumstances:

1. Unfeasible operations or poor operating conditions;
2. Tax relief; to take advantage of tax reliefs for shutting down, reorganizing, or transferring assets to other companies in exchange for shares of the acquiring company.
3. Special purpose(s); if a company is only in existence for a specific purpose over a limited amount of time.
4. Departure of company founder (or another key executive); the founder of a company decides to leave, and the shareholders decide not to continue operations.
5. When a company passes a special resolution requiring the company to be wound up voluntarily.
6. Burglary, theft or fire may also result winding up after all assets are stolen or burnt down.

CREDITORS' VOLUNTARY LIQUIDATION (CVL)

If the company is insolvent or the majority of directors cannot agree on a Declaration of Solvency, winding up would be done by creditors. The procedure would be:

1. Directors call a meeting of creditors.
2. Creditors appoint a liquidator of their own choice, to sell the assets of company.
3. The money realized is distributed among creditors in the proportion of the amount owed.

NB: If the company is insolvent, the top priority is paying off creditors even if there is nothing left to be distributed to members.

It is illegal for a company to continue trading when it is insolvent, meaning that action must be taken as soon as possible.

Compulsory liquidation up by court

Compulsory liquidation involves court issuing an order for the company to be liquidated. Court will order liquidation of a company under any of the following circumstances:

1. If the company does not commence business within one year from the date of incorporation or suspends business for a whole year.
2. If it is proved to the satisfaction of the court that the company is unable to pay its debts.
3. If the number of shareholders is reduced below the statutory minimum i.e. less than two for private companies and less than seven for public companies.
4. If the number of directors is reduced to below the statutory minimum and remains so reduced for more than 6 months.
5. When the period, if any, fixed for the duration of the company by the memorandum of association or articles of association expires.
6. If shareholders pass a special resolution for the company to be liquidated by court.
7. Where a public company has failed to hold a statutory meeting and file a statutory report.
8. The company is unable to file its balance sheet or annual return for five financial years consecutively.
9. If the Court is of opinion that it is just and equitable that the company be wound up.
10. If the company is being used for unlawful purposes or any purpose prejudicial to or incompatible with peace, welfare, security, public order, good order or morality in Uganda.
11. If the company is being used for any purpose prejudicial to national security or public interest.

Procedure for compulsory liquidation by court order:

1. A Winding-up petition is submitted to the court by a creditor of a company who has failed to collect the debts that they are owed.
2. If this petition is granted by the court, the company will then be investigated.
3. Court appoints an Official Receiver or an Insolvency Practitioner, to supervise the sale of assets and payment of creditors.
4. The Official Receiver will make it their business to conduct an investigation into whether any wrongful trading has been conducted.

Difference between striking-off and winding-up

A company can be struck off by the registrar of companies for failure to file accounts or a confirmation statement. Notice of strike-off must be advertised in newspapers, and if steps are not taken to rectify the overdue filings, the company will be struck off after two months.

Once a company has been struck off, it will be automatically dissolved. Any assets of the dissolved company will, depending upon the location of the company’s registered office, become vested in the government of Uganda.

Differences between partnerships and limited liability companies

1. The members of the partnership firm are called partners whereas the members of company are called shareholders.
2. The partnership businesses are governed by the Partnership Act whereas companies are governed by the Companies Act.
3. Partnership firm is created by contract/agreement between two or more persons whereas company is created by law i.e. incorporation/ registration.
4. Registration of a partnership is not necessary whereas the company's registration is mandatory.

5. The mandatory document in case of partnership is partnership deed whereas in the case of a company the mandatory document is the memorandum of association and articles of association.
6. A partnership firm is not a separate legal entity from its partners whereas a company is a separate legal entity.
7. Partners have unlimited liability except limited partners whereas shareholders have limited liability.
8. A seal is not required for partnership whereas in case of company a seal is required.
9. In case of partnership, management is to be done by active partners whereas in case of company management is done by the board of directors.
10. A partnership firm is not required to publish its annual accounts while public companies must publish its annual accounts.
11. A partnership is dissolved when any partner dies, becomes insane or bankrupt while the existence of a company is not affected by the death, insanity or bankruptcy of any shareholder or director.
12. A partner cannot transfer his interest in the business (capital) without the consent of fellow partners while there is free transferability of shares in case of public limited companies.
13. Contract; a member of a company can enter into a contract with the same company. But a partner of a firm cannot enter into contract with the same partnership firm.
14. Number of Members; a private company should have a minimum of 2 members and can have a maximum of 50 members. A public company should have a minimum of 7 members and there is no maximum limit. But a partnership should have a minimum of 2 and can have a maximum of 20 persons [10 in the case of banking business].
15. Audit; the accounts of a company should be audited by a qualified auditor. But in the case of a partnership, the accounts need not be audited.
16. Implied Agency; in case of a company, a shareholder is not regarded as its agent in dealing with third parties. But in case of a partnership, a

partner is an agent of the firm and of all other partners in dealing with third parties.

17. Issue of Debentures; joint stock company is the only business organization which is authorized to borrow money through the issue of debentures. A partnership firm cannot issue debentures.
18. Secrecy; the companies have to file their documents, returns, reports, balance sheet, profit and loss account etc. with the Registrar. Some of them are open to public. So, there is no secrecy at all in case of companies. But in case of a partnership, the firm need not prepare and file such documents. So its secrets are not leaked out. Outsiders cannot know the in and outs of the firm.
19. Dissolution; a company, being a creature of law, can only be dissolved as laid down by law. A partnership firm, on the other hand, is the result of an agreement and can be dissolved at any time by agreement.

COOPERATIVE SOCIETIES

"If you want to go fast, go alone. If you want to go far go together"-

African Proverb

A cooperative society is an association of persons who have agreed to carry our certain activities to attain a common objective. Members agree to pool their resources together to do certain activities collectively which they were previously doing individually.

Profit is not the main objective but rendering services to members (Service and not profit, cooperation and not competition).

Principles/features of cooperative societies

1. **Open and voluntary membership;** membership is open to all those who can fulfill the bylaws of the cooperative. There is no discrimination of people based on social, political, tribal, racial or religious differences.
2. **Democratic administration (one-man one-vote;** members enjoy equal status and when it comes to voting on important matters of the society, every member is entitled to only one vote regardless of the number of shares one holds.
3. **Profit distribution (repayment);** payment of dividends depends on members' participation in the activities of the society and not capital contribution. For instance, in a consumer's cooperative society share of profits depends on members' purchases from the society while in a producer's cooperative society, share of profits depends on members' sales to the society.
4. **Limited interest on share capital;** Ideally, cooperative societies do not pay interest on members' capital contributions. However, if members are to get interest on capital contributions, the interest given should be fixed and known to all members.
5. **Cooperation with other cooperative societies;** cooperative societies should cooperate with other cooperative societies at a local, national and

international level. This is because they have a lot in common and can share from each other's experiences.

6. **Share capital;** a minimum share capital must be contributed by each member. One can hold several shares up to a specified upper limit.
7. **Political and religious neutrality; c**ooperative societies do not engage in political and religious activities and should not take sides. Members are however free to participate as individuals and not as representatives of the society.
8. **Education;** cooperative societies are expected to educate their members on business techniques, better farming methods etc.
9. **State control;** cooperative societies are under strict government control and supervision through a specialized ministry.
10. **Concern for community development;** cooperatives work for the sustainable development of their communities through policies approved by the members.

TYPES OF COOPERATIVE SOCIETIES

Cooperative societies are classified according to the services rendered by them. They include:

1. Consumer cooperative societies.
2. Producer cooperative societies.
3. Savings and credit cooperative societies (SACCO's)/Thrift and Loan cooperatives.
4. Marketing cooperative societies.
5. Transport cooperative societies.
6. Insurance cooperative societies.
7. Banking cooperative societies.
8. Housing cooperative societies.

CONSUMER COOPERATIVE SOCIETIES

Is an association of consumers set up with the aim of assisting members obtain their requirements at fair prices? Members contribute capital to set up a retail shop from which they will be buying their requirements. The society aims at eliminating middlemen to achieve economy in operations.

Features of consumer cooperatives

1. The shop is collectively owned by the very consumers it sells goods to.
2. They bought goods in large quantities directly from wholesalers and sometimes producers.
3. Goods are sold to members at reduced prices and to non-members at normal retail prices.
4. Capital if contributed by members by buying shares in the society.
5. Profits made are shared among members in form of dividends depending on each member's purchases from the society.
6. Managers are elected from among members on the principle of one-man one-vote.

Advantages of consumer cooperatives

1. They offer goods to members at reduced prices compared to ordinary retail shops.
2. Protect members from exploitation from unscrupulous/dishonest businesspeople.
3. Consumer cooperatives bring goods nearer to consumers/members as they are located near members.
4. Members can suggest the kind of goods to stocked since they jointly own the business.
5. Consumer cooperatives promote social understanding (friendship) among members.
6. Profits made are shared among members in form of dividends depending on each member's purchases from the society.
7. Members get advice on how certain goods are to be used and handled.

PRODUCER COOPERATIVE SOCIETIES/INDUSTRIAL COOPERATIVES

Is an association where members (mostly small-scale producers) work together to produce or manufacture a product and sometimes market it together. Producers decide to work together or as separate entities to help increase marketing possibilities and production efficiency.

They are set up to protect the interests of small producers.

Features of Producer Cooperative Societies

1. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers.

Objectives of producer cooperatives

1. To get great production facilities to produce collectively to accumulate a small amount of capital.
2. To attain large purchase facilities to purchase raw materials.
3. To produce the daily necessary products of the organization.
4. To reduce the influence of risk, moneylenders and middlemen.
5. To ensure the usage of modern technology.
6. To entertain a huge facility for the labours.
7. To attain the opportunity of joint transportation and warehouse.
8. To ensure the financial prosperity of the members.
9. To distribute profits properly
10. among the members.
11. To supply products to the mass people at the minimum prices.

Advantages of producer cooperatives

1. They provide raw materials, implement tools and other inputs to members.
2. They provide technical guidance to the members to provide superior quality products.
3. They buy members’ produce and find market for it.

4. Profits made are distributed to members on the basis of their sales to the society.
5. They protect members (farmers) from exploitation from businesspeople.
6. Enable members get better prices for their produce.
7. They sometimes give loans to farmers to buy fertilizers and farming tools.

Saving and credit cooperative societies (SACCO's)/Thrift and Loan cooperatives

These are associations of mainly low-income earners aimed at encouraging members to save their money together and offering loans to each other at reasonable rates of interests.

Objectives of SACCOs

1. To protect the members from the exploitation of lenders who charge high rates of interests on loans.

Features of a SACCO

1. It is owned, governed and managed by its members who have the same common bond. They may be working for the same employer, belonging to the same church, social fraternity or living/working in the same community.
2. Membership is voluntary to all those who can abide by the set bylaws, regardless of race, religion, colour, gender etc.
3. Members agree to save their money together and offer loans to each other at reasonable rates of interest.
4. They are democratic organisations and decisions are democratically made.
5. Members elect a board that in turn employs staff to carry out the day-to-day activities of the SACCO. The number of board members is between nine and fifteen.
6. The minimum number of members required to register a SACCO is 30 people.

What SACCOs offer members

1. Shares; every potential member must purchase a minimum share as determined by the SACCO making each member an owner of the cooperative. Once the share has been fully paid up, all other contributions will go towards savings.
2. Savings; a member's monthly contribution is usually split between various types of savings accounts. Savings unlike shares are withdrawn on demand. Each SACCO determines amongst its members what the minimum savings per member will be.
3. Loans; members are encouraged to save towards loans. Loans are ratio based on member's savings and shares.

Advantages of SACCOs

1. Profits made are distributed to members in form of dividends.
2. Encourage members to save their money.
3. Lend money to members at reasonable rates of interest.
4. Help to fight poverty among members by encouraging members to invest in income generating activities.
5. Promote social understanding among members.
6. Members enjoy limited liability towards the debts of the business.

Housing cooperative societies

They are formed for construction and maintenance for construction and maintenance of buildings for residential purposes. They purchase land and develop it.

Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs.

Marketing cooperative societies

They undertake centralized sale of the products produced by their members. They perform marketing functions viz standardizing, grading, packaging, advertising, transportation etc. Members sell their produce through their cooperative and benefit from the economies of scale. By so doing, they get a better price for their produce.

Sustainability test

In order for the cooperative to be sustainable, it has to pass the four basic criteria test:

a. It has got to be member owned.
b. It has got to be member used.
c. It has got to be member controlled.
d. It must benefit members.

COOPERATIVE STRUCTURE

Cooperatives societies are organized in a four-tier vertical system i.e. primary, secondary, tertiary and apex.

1. **Primary cooperatives;** consist of at least 30 persons who have attained the age of 18 and are resident within society's area of operation.
2. **Secondary societies/Cooperative Union;** consist of at least two registered primary societies among its registered members. Primary societies may form themselves into a secondary cooperative with the aim of increasing the bargaining power e.g. Bugisu Cooperative Union.

   Functions of Cooperative Unions

   a. They help primary cooperatives get better prices for their products i.e. they increase the bargaining power of primary cooperatives.
   b. They enable primary cooperatives get loans by extending guarantees.
   c. They provide services such as centralized book-keeping, purchasing of farm tools, training of members etc.
   d. They sometimes process products before they are sold etc.
3. **Tertiary societies;** consist of at least two registered secondary societies.
4. **Apex society;** consists of two or more secondary societies and includes a society established to serve the movement by providing facilities for insurance, banking and supply of goods and services. The Uganda

Cooperative Alliance Limited is the apex body for all registered cooperative societies.

Objectives of Apex Societies

1. Advocacy and image building.
2. Capacity building.
3. Advisory services to member societies.
4. Mobilizing resources for member societies.

Role of Government in cooperative movement

1. Registering cooperative societies.
2. Regulating cooperative and quality assurance activities.
3. Mobilizing resources for policy implementation.
4. Coordinating all agencies involved in implementation of the policy.
5. Monitoring policy implementation.
6. De-registering non-compliant cooperative societies.
7. Policy review.
8. Support capacity building for members of the cooperative movement.
9. Support District Commercial/Cooperative Offices in the implementation of the policy.
10. Coordinating cooperative activities.
11. Building and improving supportive infrastructure.
12. Supervising opera rations of cooperative training institutions, such as Cooperative College, Kigumba, in collaboration with the Ministry of Education and Sports.
13. Preparing cooperative development strategy.

DISTRICT COMMERCIAL/COOPERATIVE OFFICER

District Commercial/cooperative Officer shall be responsible for:

1. Implementing the National Cooperative development in their areas of jurisdiction.

2. Integrating cooperative development policy issues in district development plans.
3. Providing technical support in the formation and diversification of cooperative societies.
4. Collecting and disseminating cooperative management as well as market information.

THE ROLE OF COOPERATIVE SOCIETIES IN DEVELOPMENT

1. They promote unity among members. Members know that in unity, there is strength.
2. The fight ignorance among members; cooperative societies provide education to members on better farming methods, business techniques etc. there by creating general awareness.
3. The fight poverty among members. They do this by eliminating middlemen who often exploit both consumers and producers.
4. They attract government attention to develop the area. It is easy for government to assist organized people in an area than individuals.
5. They help to eliminate wasteful competition among producers (farmers), thereby by increasing farmer's incomes.
6. They increasing the bargaining power of members and protect weak members.
7. Producer cooperatives play an important role in stabilizing prices of commodities. They do this through buffer stock and stabilization fund.
8. Producer cooperatives provide farmers with cheap farming tools and fertilizers.
9. Producer cooperatives participate actively in collection, storage and distribution of farmers' produce.
10. Consumer cooperatives provide members with consumer goods at reduced prices.
11. Cooperative societies provide employment opportunities to members of the public e.g. drivers.

12. SACCOs mobilize savings and advance loans to members at reasonable prices.

Finance of Cooperative Societies

The main source of finance to a cooperative society is the entrance fees, members' share capital and annual subscriptions.

Upon approval from members, a cooperative society may retain some of the profits made to strengthen the financial position of the society. Such amounts are called reserves.

NB: Unlike shares of a joint stock company which are freely transferable, shares of a cooperative society are not freely transferable and are not quoted on the stock exchange.

Problems facing cooperatives societies in Uganda

1. Leadership gap; although cooperatives are democratically governed, members have not taken this advantages to elect leaders that are competent.
2. Inadequate cooperative knowledge; members especially at primary level are not adequately trained especially in cooperative matters which negatively impacts on cooperative activities. For instance, there is inadequate knowledge on how to start a cooperative, leadership and governance.
3. Dented image and weak advocacy; this is attributed to various disadvantages suffered by cooperatives such as crop failure, market/price fluctuations, urbanization, political persecution in the 1970's etc.
4. Narrow scope of cooperative activities; cooperatives in Uganda are mainly engaged in the production, processing and marketing of traditional cash crops. There is limited involvement in other areas such as housing, transport, insurance, finance, health, environment and tourism.
5. Lack of cooperative education; Uganda's current formal education syllabus hardly provides cooperative knowledge other than mere

categorization of cooperative societies as one form of business enterprises.

6. Inadequate resources; cooperatives in Uganda are faced with the challenge of insufficient working capital. Given that most members are low income earners, they can hardly raise enough capital to sustain cooperative societies.
7. Inadequate infrastructure; as a country we still rank very low in electricity supply, road and railway development,
8. Storage; Uganda is faced with an acute shortage of agricultural commodity warehouses. This contributes to high post-harvest losses and compromises quality as well as commodity prices.
9. Government interference in the activities of cooperatives has tended to discourage some members.
10. Illiteracy among members; most members are illiterate and such members are conservative and difficult to educate.
11. Fluctuation in prices of agricultural commodities; this greatly affects the incomes of members.
12. Language barrier; there is lack of a common unifying language in Uganda which has greatly limited the growth of cooperatives.
13. Inadequate market; most cooperatives produce similar agricultural products and this creates a problem of getting adequate market.
14. Slow decision making; this is because most members are scattered, some do not attend meetings and even those who try to attend meetings arrive very late for meetings.
15. Corruption and embezzlement of funds by managers; this has tended to discourage many members.
16. Personal differences among members which affect the smooth running of cooperatives especially where members have different opinions.
17. Sectarianism based on religious, political and tribal differences which have forced some members to pull out.

18. Low commitment on the part of some members; some members (farmers) prefer selling their produce to independent buyers than selling through their societies.
19. Failure to pay farmers cash in time for their produce which has forced some members to their produce to independent buyers instead of selling through their societies.

Formation of a Cooperative Society

1. The name of the society must reflect the elements of domicile, economic activity of common bond of elements and of course bearing the words Savings and Credit Cooperative Society at the end whether limited or unlimited e.g. Wandegeya Metal Works Savings and Credit Cooperative Society.
2. The minimum number of members to start and operate a cooperative society is thirty persons. There is no specified maximum number.
3. Members must be 18 years and above. However the law allows a person of twelve years and above to become a member but such a person cannot be elected to act in any capacity as a committee member until they have turned 18 years. To be accepted as a member, there must be a common bond with other members. A person should either be a resident or owns land in the area where they are registering the cooperative society.

Procedure

1. They have to first purchase four copies of Savings and Credit Cooperative Society Model Bye laws and a set of Cooperative Societies Act and Cooperative Societies Regulations from Ministry of Trade, Industry and Cooperatives, located at Parliamentary Avenue in Kampala by paying in the bank the necessary fees.
2. The society should then elect an interim committee from its members which should preferably be an odd number of persons between five (5) and nine (9).

3. Members will then fill in the model Bye laws stating their full names, gender, age, place of residence and signature. Members will then be required to make financial statements showing a comprehensive schedule of all shareholders showing shares held by each member, entrance fees, savings of members and loans if any.
4. The Model Bye laws will then be submitted to the Department through the respective District Commercial Officers. In Kampala, the commercial officer seats at Kampala Capital City Authority (KCCA) offices behind Equatorial mall.
5. Each founder member must submit a photocopy of their National Identity Card and their respective telephone contacts which names must correspond with those on the national identity card. The copies of the National Identity Card are as well signed.
6. People that handle the society's bank accounts must enclose passport size photographs, that is, the Chairman, Vice Chairman, Secretary and Treasurer.
7. The founder members should undergo training in cooperative prior to submission of the application documents. A training report must be attached, signed by the founder leaders and the District Commercial Officer.
8. Once all these steps have been complied with, the members can submit the byelaws to the District Commercial Officer who forwards them to the Department and have their SACCO registered and issued with a Certificate of Registration.

Differences between joint stock companies and cooperative societies

1. Dividend payment in joint stock companies depends on number of shares held (capital contribution) while in cooperative societies, dividend payment depends members' participation in the activities of the cooperative.

2. A joint stock company is set up with the main reason of making profits the shareholders while a cooperative society is set up with the main reason of rendering certain services to members.
3. The people served by cooperatives are mostly the members while joint stock company offer goods and services to the general public.
4. Joint stock companies are registered under Companies Act while cooperative societies are registered under Cooperatives Societies Act.
5. In cooperative societies, all members have equal status irrespective of their capital contribution while in a company, shareholders with majority share exercise control over the company.
6. Shares of public limited companies are freely transferable and are tradeable on the stock exchange while share of cooperative societies are not transferable.
7. The minimum number of members ranges from two to fifty while in public limited companies the minimum number of partners is seven and there is no maximum. The minimum number of members in a cooperative society is thirty and there is no maximum.
8. In a joint stock company, a shareholder can hold any number of shares while in a cooperative society there is a minimum and maximum number of shares a member can hold.
9. A joint stock company is managed by a board of directors appointed by the shareholders, while a cooperative society is managed by a committee elected from among members.

THE PUBLIC SECTOR

The public sector consists of enterprises that are owned and control by government. Such enterprises take the following forms:

a. Public corporations e.g. National Water and Sewerage Corporation, National Insurance Corporation etc.
b. Parastatal bodies e.g. marketing boards, UNEB, Uganda Communications commission, Uganda Wildlife Authority etc.
c. Local Authorities like Kampala City Council Authority.

REASONS WHY GOVERNMENT OWNS CERTAIN ENTERPRISES

1. To provide employment opportunities to its citizens.
2. To provide essential services which if left to the private sector, it would lead to exploitation of consumers e.g. water supply, electricity etc.
3. To promote the general welfare of all citizens by providing essential services at free or reduced prices e.g. education.
4. To avoid most of the enterprises being owned and controlled by foreigners. Governments often take steps to buy enterprises owned by foreigners in order to reduce on profit repatriation.
5. To control certain ventures that are too risky to be left in hands of the private sector e.g. production and sale of fire arms.
6. To provide services that are not profitable but are essential e.g. public toilets, garbage collection, street cleaning etc.
7. State enterprises are a source of revenue to government through the profits made.
8. To promote regional balance by setting up enterprises in different regions of the country.
9. To promote the political ideology of the government in power such as socialism in former Tanganyika.
10. To take control of ventures where competition is not required e.g. providing railway transport. It is better that government be the only supplier to avoid duplication of such services and wastage of resources.
11. To invest in ventures that require large initial capital that private individuals may not be able to raise e.g. generation of hydro-electric power.
12. To deter the emergence of monopoly firms in the market. Government sets up its own enterprises to compete with monopolies in order to avoid exploitation of consumers.

Problems facing State Enterprises

1. Corruption and embezzlement of public funds by government officials.

2. Poor performance; most state enterprises keep on making losses and these losses are passed on the general public in form of increased taxes.
3. Inadequate funding by government which has resulted in provision of poor quality services e.g. universal primary education in Uganda.
4. Political interference in the management of state enterprises which has resulted in inefficient management. This is very common when it comes to appointment of managers.
5. Long decision-making process because of bureaucratic tendencies (red-tape) in government institution. Decisions take long to be implemented.
6. Inadequate skilled workers due to poor remuneration in government institutions.
7. Lack of personal interest; people who work in state enterprises lack personal interest in the performance of these entities as a result offer very poor quality services.
8. State enterprises are difficult to manage of their large sizes and employing very many people.
9. State enterprises face stiff competition from private enterprises that are often well managed.

PUBLIC CORPORATIONS/STATUTORY COMPANIES

A public corporation is a joint stock company in which government hold either all or majority share capital (at least 51%) e.g. National Water and Sewerage Corporation, National Insurance Corporation etc.

Features of Public Corporations

1. Its management is vested in a Aboard of directors is appointed by government.
2. A public corporation is created by an Act of Parliament, which clearly defines its objectives, powers and functions
3. A public corporation is a separate legal entity with a common seal; it can own property, can make contracts and sue in its own name.

4. It has got perpetual succession; its existence is independent of the government in power.
5. The capital of a public corporation is provided by government in form of share capital. Government holds all or majority of the share capital (at least 51%).
6. A public corporation enjoys financial autonomy. It prepares its own budget; and has authority to retain and utilize its earnings for its business.
7. Annual reports and audited accounts of a public corporation are presented to parliament, which is entitled to discuss them.
8. They aim at making profits just like other joint stock companies. The profit made is passed on the general public in form of improved services and likewise, the loss incurred is borne by the general public in form of increased taxes.

Differences between public limited companies and public corporations

1. Public limited companies are owned by private individuals (private sector) while public corporations are owned by government (public sector).
2. Public limited companies are formed and registered under the Companies Act while public corporations are formed by an Act of Parliament.
3. Profits made by public limited companies are shared by shareholders in form of dividends while profits made by public corporations benefit the general public in form of improved services.
4. Losses incurred by public limited companies are borne by shareholders while losses made by public corporations are passed on the general public in form of increased taxes.
5. A public limited company is managed by a board of directors appointed by shareholders while a public corporation is managed by a board of directors appointed by government.

6. Public limited companies are funded by private individuals (shareholders) while public corporations are funded by government (government is the majority shareholder).
7. Management of a public limited company is accountable to the shareholders while the management of a public corporation is accountable to government.
8.

LOCAL AUTHORITIES

These are local governments in different areas, which are engaged in performing some commercial functions and providing social services which the private investors would be reluctant to invest in because of being unprofitable. Example is the Kampala City Council Authority and it performs the following activities:

a. Garbage collection.
b. Street cleaning.
c. Street lighting.
d. Public toilets.
e. Drainage maintenance.

KCCA also owns primary schools, health facilities and sports stadiums (Nakivubo stadium).

PARASTATAL BODIES

A parastatal body is an organization set up by government to perform certain functions e.g. marketing boards, Uganda National Examinations Board etc.

Features of Parastatal Bodies

1. They are established by government to perform a certain function.
9. They are created by an Act of Parliament which clearly defines their objectives, powers and functions
2. They are managed by government appointed officials.

3. They do not have share capital. They are financed by government using tax revenue.
4. They do not aim at making profits, although some of them actually make profits.

MARKETING BOARD

These are trading organizations set up by government or individual producer (farmers) to buy agricultural produce from farmers and sell it to consumers.

Statutory and Voluntary boards

Statutory boards are marketing boards set up by government by passing an Act of Parliament, to buy agricultural produce from farmers and sell it to consumers. They are managed by a chairman appointed by government.

Voluntary boards are marketing boards set up by the farmers themselves to market their produce.

Marketing and Advisory boards

Marketing boards are primarily concerned with purchasing, collection, transportation, storage and sale of farmers' produce.

Advisory boards are primarily concerned with carrying out research into better farming methods and advising farmers accordingly.

Commodity and Produce marketing boards

A commodity marketing board is one that handles only one type of agricultural produce e.g. coffee marketing board, lint marketing board etc.

A produce marketing board is one which handles a number of agricultural produce e.g. the produce marketing board of Uganda which handles maize, beans, groundnuts etc.

Export promotion marketing board

This concentrates on marketing various agricultural produce to foreign markets.

Aims of Marketing Boards

a. To assist small farmers to market their produce.
b. To eliminate unhealthy competition between farmers.
c. To ensure steady supply of essential commodities to consumers.

Functions of Marketing Boards

1. They buy produce from farmers in various parts of the country at reasonable prices and sell them to consumers both locally and internationally at favorable prices.
2. Transportation of produce; they collect the produce from farmers which saves farmers from transport expenses.
3. Storage of produce; they store agricultural produce so as to protect it from damage by weather and to maintain constant supply.
4. Giving loans to farmers; they advance loans to farmers to buy agricultural equipment in order to improve production. This solves the farmers' financial problems.
5. Advise farmers; advisory boards carry out research into better farming methods and advise farmers accordingly.
6. Control production; they control production in order to maintain stable prices. They do this by setting quotas for every farmers and any crop produced in excess of the quota is rejected.
7. They help to stabilize prices of agricultural commodities. They do this through stabilization fund and buffer stock.
   a. Buffer stock; when farmers produce in excess, marketing boards may buy all the produce and store the excess. During periods of shortage, the stored stock is released to counter the shortage.
   b. Stabilization fund; during years when marketing boards get very high prices, the board retains part of the revenue as stabilization fund. In years when prices fall on the world market, the board will

continue offering fair prices to farmers, meeting the deficit from the stabilization fund.

8. They provide farmers with fertilizers, pesticides, quality seeds, farming tools etc. at fair prices.
9. They represent farmers at international organizations to discuss commodity prices.
10. They provide employment opportunities to many people e.g. those involved in buying, selling, transporting etc.

Problems facing marketing boards

1. Inadequate funds which usually delays payment of farmers.
2. Corruption and embezzlement of funds by top managers.
3. Poor management due to appointment of unskilled managers.
4. Political influence which results in mismanagement. Unskilled people end up being appointed as managers.
5. Poor transport facilities especially in rural areas which makes transport of produce not only difficult but also expensive.
6. Poor quality produce; many farmers still produce poor quality produce while makes it difficult to market.
7. Inadequate storage facilities; there are few warehouses for storing agricultural produce and as a result many commodities end up getting spoilt.
8. Competition other buyers; many farmers prefer selling their produce to other traders who pay cash promptly other than selling to marketing boards that take long to pay them.
9. Over production by some farmers which could result in low prices and wastage. However, marketing boards try to solve this problem by:
    a. Searching for new markets.
    b. Exporting the surplus to other countries at lower prices.
    c. Storing those products that are not perishable for future sale when demand is high.
    d. Destroying the surplus. Some countries burn the excess products.

e. Donating the surplus to the needy in the form of aid.