BUSINESS UNITS AND THEIR ORGANISATION

A business enterprise or organization refers to a unit of any business organization which is engaged in the production and distribution of goods or services with the aim of making profits. It can also be referred to as a firm.

Forms or types of Business Units

Business units in Uganda can be classified according to ownership into two broad categories or

groups namely:-

I. The private sector
II. The Public sector

THE PRIVATE SECTOR

The private sector consists of business units owned by private individuals singly or collectively with the aim of making profits. The government has no ownership in such business units but its role is to put in place an enabling environment for these units to operate business smoothly, direct their operations by issuing trading licenses, registering then in case of companies and partnerships and levying taxes on their activities.

Business Units within the Private Sector include:-

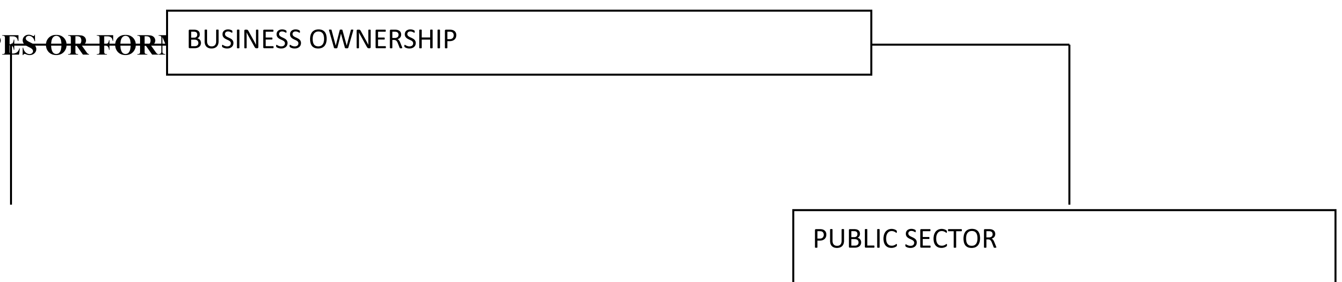
I. Sole proprietorship
II. Partnership
III. Joint stock companies
IV. cooperative societies

THE PUBLIC SECTOR

The public sector consists of establishments that are owned by the government and are engaged in commercial activities.

Business units within the Public Sector include:-

I. Local government Authorities
II. Parastatal bodies
III. Public corporations
IV. Marketing boards
V. Nationalized industries



PRIVATE SECTOR

i) Local Authorities

ii)Public Corporations

iii)Parastatal Bodies

iv)Marketing Boards

i)Sole Proprietorship

ii)Partnership

iii)Joint Stock Companies

iv)Cooperative Societies

THE PRIVATE SECTOR

The business units in the private sector include:

SOLE PROPRIETORSHIP (SOLE TRADE)

Sole proprietorship or sole trade is a business owned by one person who contributes capital, manages or supervises it, enjoys profits and suffers losses alone. It is a one man business in terms of ownership, management, enjoying profits and suffering losses. A sole proprietor or sole trader is a person who owns a business alone. Though the owner may employ some people or family members to help him in running the business, he remains the final authority on all affairs of the business, makes decisions, bears risks and losses and takes all profits alone. Sole proprietorship is the oldest, simplest and most common form of business ownership in Uganda, It is mainly common in retail trade, transport and farming.

Characteristics (Features) of Sole Proprietorship

i) It is a one man business i.e business is owned by one person.
ii) Capital is contributed by only one person i.e the owner alone and no appeal is madeto the public to subscribe.
iii) Te owner is the organizer and manager of the business sometimes assisted by family members or hired labour.
iv) It is not recognized as a separate legal entity i.e the law does not recognize the business as a separate entity from its owner.
v) The owner takes all the profits and bears all the losses and risks alone.
vi) The liability of the sole proprietor is unlimited i.e he is personally liable for all the debts of the business to the extent of selling off his personal property.
vii) The business has limited life. It can collapse any time with the bankruptcy, insanity or death of the owner.
viii) It does not require complicated documentation or legal formalities during formation.
ix) It is normally small in size involving small amount of capital.
x) It is common in retail trade transport and farming.

Advantages of Sole Proprietorship

i) **It is easy to start:** The business is quite easy to start as it requires less initial capital and no formal or legal procedures such as registration as compared to other forms of business ownership like partnerships and joint stock companies.
ii) **Easy and quick independent decision making:** The owner can quickly and easily take and implement business decisions since there is no need to consult any one or call for a meeting before making them. This saves time and enables the sole proprietor to take advantage of immediate business opportunities unlike in partnerships where there is need for mutual consultations.
iii) **High level of flexibility in business:** The sole proprietor can easily change the nature ofthe business or its premises since the business is small and there is no need to consult anyone. The owner can easily shift from a less profitable line of business to a more profitable venture.
iv) **Profits are enjoyed alone:** A sole proprietor enjoys all his profits alone unlike partnerships where profits are shared among partners. This gives him an incentive to work harder to earn more profits and make the business successful.
v) **Top secrecy and confidentiality are enjoyed:** A sole proprietor is the only one who knows his business affairs and secrets and is in a better position to preserve them a confidential unlike any form of business ownership such as partnerships and joint stock companies. His business records and personal accounts are confidential since he is not required to publish them to the public.
vi) **Personal contact with customers:** The small size of the sole trade business enables the owner to establish direct contact with his customers, give them personal attention. understand their needs better, attend to their individual complaints and cater for their interests.
vii) **Easy supervision and management:** Since the business is carried out on small scale and by only one person, it is quite easy to run, operate and supervise. The owner is able to control and personally supervise all the aspects of the business hence minimizing wastage and promoting efficiency. There is no need to conduct meetings or make consultations.
viii) **Self accountability:** The sole proprietor is financially accountable to himself and nobody else. He does not need to explain to anyone his business earnings and expenditure.
ix) **Greater personal interest in the business:** The owner has greater personal interest and initiative in the business because the success of his business also implies his personal success. Greater personal interest is developed and the sole proprietor has more commitment to make his business successful.
x) **Little documentation information:** A sole proprietor is not required by law to prepare documents on formation of the business unit. The only document that may be required is a trading licence issued by relevant authorities like a town council, municipal council, city council or chamber of commerce.

Disadvantages of Sole Proprietorship

i) **Unlimited liability:** The owner is personally liable for all the debts of the business up to the extent of selling his personal property i.e should the business funds be insufficient to pay off the debts; the sole proprietor has to sell off his very personal belongings to raise money to pay the business creditors.

ii) **Overworking and fatigue:** The owner being the organizer overworks or overstrains himself by undertaking a wide range of activities i.e. he is the seller, buyer, transporter, book keeper and advertiser.
iii) **Limited capital for expansion:** There is insufficient capital for expansion of the business because the owner contributes all the capital alone and cannot appeal to the public for funds. He also lacks adequate collateral security which makes it difficult to borrow from banks.
iv) **Lack of Continuity (uncertainty of the business):** The existence of the business very much depends on the life and ability of the owner. The sickness, insanity, bankruptcy or death of the owner may result into the collapse of the business.
v) **Suffering of losses alone**: Since the sole proprietor owns the business alone, he bears the burden of risks and losses alone.
vi) **Lack of specialization:** It is not possible for the sole proprietor to specialize in only one aspect of the business he knows better because he is alone, yet he lacks knowledge on all commercial practices and procedures on the part of the business, e.g. he may be a good buyer but not a good salesman.
vii) **Limited size of the business hence no economies of scale**: The sole trade business being small in size does not enjoy economies of scale i.e. advantages of large scale operation like bulk buying and bulk selling, free transport to his premises etc.
viii) **There is a possibility of taking wrong decisions:** There is a possibility of taking wrongdecisions which may lead to losses as there is no consultation made before taking decisions.

PARTNERSHIPS

Partnership refers to a relationship which exists between two or more persons (people) carrying out a business in common with a view of making profits. It is an association of two or more people involved in the ownership and control of a business by pooling their resources together for the purpose of making profits. Each of these persons involved in the business is called a partner and the business is called a partnership. Partnership business is the most appropriate business undertaking for firms offering professional services such as lawyers. engineers, accountants, doctors and surveyors.

Features (Characteristics) of Partnership

i) Membership of a partnership ranges from 2-20 partners for ordinary partnerships and 2-50 partners in case of professional partnerships.
ii) A partnership firm has no separate legal existence.
iii) It results from contractual agreement among partners e.g they agree on raising capital.
iv) Each partner acts as an agent of the firm i.e one is bounded by the activities of other partners.
v) The partnership must be registered with the registrar of business.
vi) Management is carried out by all partners in case of ordinary partnership.
vii) Each partner has unlimited liability except in a limited partnership.
viii) Each partner must act in good faith with each other and present true accounts.
ix) There is no transfer of capital without the knowledge of others.
x) Major decision is by majority and based on interest and mutual understanding.

xi) The partners must be governed by some kind of agreement called a partnership deed. However in case a partnership deed is not drawn up by the partners, then the partners are governed by the partnership act of 1934.
xii) Each partner has full contractual capacity to do things connected with the firm except a minor and quasi partner.
xiii) The partners contribute capital and no appeal is made to the public to subscribe.
xiv) A partnership has limited life. It may be ended any time by the death, bankruptcy or withdrawal of any partners.
xv) Responsibility, profits and losses are shared on an agreed basis.

Types of Partnerships

Partnerships may be classified according to:-

(a) Duration of partnerships i.e **temporary partnerships and permanent partnerships**.

(b) Liability of the members towards the firm's debts i.e **general** and **limited partnerships**

1. **Classification of Partnerships according to duration**

a) **Temporary partnership**: This is formed to perform a specific purpose with in a defined period of time and is dissolved as soon as the purpose for which it was formed is accomplished. For example. Roko Construction company may enter into a temporary partnership with Sterling firm for the purpose of constructing a road and after accomplishing the task, the partnership is dissolved. Temporary partnership may also be referred to as joint ventures.

Permanent partnerships: This is the one which is intended to continue indefinitely. i.e its end is not known at the time of its formation. Most partnerships are permanent partnerships.

2. **Classification of Partnerships according to liability of members towards the firm's debts**

a) **Ordinary Partnership**: This is the one where all members have unlimited liability and may be called upon to meet the firm's debts from their personal sources if the firm fails to settle them. Limited Partnership: This is the one where the liability of members is limited to their capital contribution except at least one who has unlimited liability. The partnership act provides that all partners cannot be limited i.e there must be at least one general partner in the firm. It also provides that limited partners must be registered as limited partners with the registrar of companies and are not allowed to take part in the running of the business or to act on behalf of the firm or to enter into a contract that will be binding on the firm.

Types of Partners

A business partner is a person who joins another person or persons to form a partnership business. Partners may be classified in the following ways:-

1. Classification according to the role played.
2. Classification according to their liability towards the firm's debts.
3. Classification according to capital contribution.
4. Classification according to their age.

5. Classification according to their stay in the partnership.

Classification of Partners according to the role played

i) **Active Partner**: This is the partner who, in addition to providing capital and sharing profits and losses, plays an active role in the affairs of the business. He may be given a specific area of responsibility such as sales or purchases. An active partner is also known as a managing partner or working partner.

ii) **Dormant Partner:** This is a partner who contributes Capital, shares profits and losses and is equally responsible for the debts of the firm but does not take part in the running of the business. sleeping partner and his share of profits is generally lower than those of other dormant partner is also known as a silent partner, or partners.

Classification of Partners according to their liability to the firm's debts

i) **General Partner**: This is a partner who has unlimited liability and may be called upon to meet the firms' debts from his personal sources if the firm fails to settle them.

ii) **Limited Partner**: This is a partner whose liability towards the debts incurred by the business is limited to a stated sum, usually his capital contribution. Should the business fail to meet its debts, a limited partner would not be required to contribute.

Classification of Partners according to capital contribution

i) **Real partner:** This is the partner who contributes capital and takes part in the running of the business, He shares the profits and losses of the firm and has unlimited liability.

ii) **Quasi Partner**: This is a partner who does not contribute any capital or take part in the running of the business but allows the firm to use his name as partner. He is not liable for the debts of the firm. He is invited as a partner to bring good will to the partnership because of his good reputation and conduct in society. A Quasi partner is also referred to as a **Nominal partner or Ostensible partner.**

Classification of Partners according to age

i) **Major Partners**: This is a partner who is 18 years and above. He is liable for the debte of the firm.

ii) **Minor Partner:** This is a partner who is below the age of 18. He is admitted with the consent of all of her partners and is not liable for the debts of the firm beyond his capital contribution.

Classification of Partners according to their stay in the partnership

Incoming partner: This is a partner who is being admitted into the Partnership.

Outgoing partner: This is a partner who has withdrawn from the partnership. However, he is liable for all the debts of the firm before he withdraws or retires unless he is a limited partner. An outgoing partner is also called a retiring partner.

Rights and Duties of a Business Partner

i) Every partner has a right to act on behalf of the business except a limited, minor and Quasi partner ie he can sign documents or enter a contract on behalf of other partners.
ii) Each partner is liable for the debts incurred by the firm except a minor and quasi partner.
iii) No new partner may be admitted without the consent of all partners.
iv) No partner may be expelled without dissolving the partnership i.e when ever a partner is being expelled, the partnership must be dissolved and a new one formed.
v) No partner should operate a business which competes with the partnership business and if he/she does so, he/she must surrender the profits to be shared by all partners.
vi) A partner must be indemnified for liabilities incurred by him/her in the conduct of business in good faith.
vii) All partners should display utmost good faith or honesty in handling business funds and property.
viii) All partners must have access to business records like books of accounts, contract documents, etc.

FORMATION OF A PARTNERSHIP

There are no legal formalities to be complied with if the partners wish to run the business under their own names. For example if Mr. Kato and Mr. Kakande wish to operate their firm as M/s. Kato and Kakande Advocates, they do not need to apply for any registration. However,if they decide to hide the names of the real business owners and thus operate the firm under a name other than their own personal names. for example Kampala Associated Advocates, they will be required to register the firm's name, Kampala Associated Advocates, with the Registrar of Business names.

Partners always find it convenient and useful to prepare **a partnership deed** before entering into a partnership, although this is not necessarily a legal requirement.

The partnership Act 1934 Cap 29 provides that the maximum number of partners in a firm that offers personal and professional services may be 50 if each of the partners is a professionally qualified person.

The Act provides that a person who does not have a **contractual capacity** cannot be a partner. This means a person who according to the law does not have enough mental capacity to conduct his own affairs is not entitled to enter into any sort of a contract, ie. such a person is deemed to have no contractual capacity. Since a partnership is also a contract where various partners agree to abide by certain conditions and to undertake certain responsibilities. a person with no contractual capacity cannot be party to it. Insane,mentally incapacitated and bankrupt partners among those who have no contractual capacity.

PARTNERSHIP DEED (ARTICLES OF PARTNERSHIP)

On formation of a partnership, a document called a **Partnership deed** is drawn up by the partners. A partnership deed refers to a written agreement among partners containing all matters of mutual interest agreed upon by the partners in the conduct and management of the partnership business. It is a written which outlines the basis on which the partnership business is being formed and conducted. It spells out the terms and conditions of the partnership. A partnership deed is drawn up to guide the internal management of a partnership firm and to settle misunderstandings or disputes which may arise at a later stage. A partnership deed is the most important document which is referred to in case of

misunderstandings or disputes between or among partners which may arise at a late stage. If it is a limited partnership, a partnership deed must be filed to the registrar of companies before registration of the firm. A partnership deed should be registered with the registrar of business names who issues a certificate of registration. If the partners have not drawn up a partnership deed of their own, then the business is governed by the partnership act of 1934.

The Contents of the Partnership Deed

i) The name of the partnership firm.
ii) The names, addresses and occupation of each partner.
iii) The status or type of each partner e.g. active or dormant, general or limited etc.
iv) The capital to be contributed by each partner.
v) The ratio in which profits and losses would be shared by the partners.
vi) The duration of the partnership if it is a temporary partnership.
vii) The purpose for which the partnership firm is established.
viii) The amount of drawings allowed to each partner each year and the rate of interest to be charged on such drawings.
ix) The rate of interest to be allowed on capital contributed by the partners.
x) The salary if any to be paid to each partner.
xi) The rights and duties of each partner.
xii) The method of calculating good will at the time of retirement, death or admission of a new partner.
xiii) The manner in which the books of accounts could be kept.
xiv) The procedure to be adopted at the dissolution or termination of the partnership.
xv) The duties allocated to each partner.

The Partnership Act 1934

This act is applied whenever the partners have not drawn up a partnership deed. It has the following provisions which will govern the partnership.

i) Every partner has a right to take part in the conduct of the business.
ii) No interest is to be charged on drawings made by the partners.
iii) No partner is entitled to a salary.
iv) Profits and losses are shared equally.
v) All partners are free to inspect the books of accounts of a partnership which must be kept at the registered offices of the partnership.
vi) Every partner is expected to carry out the business of the firm when ever called up.
vii) Any loan advanced to the partnership by partners should carry interest at a rate of 5% per annum.

Advantages of Partnership

i) **More capital is raised than sole proprietorship:** A partnership can raise more capital compared to sole proprietorship due to the large number of partners Resources are pooled by partners and business can easily be expanded.

ii) **Specialization among partners is possible**: A combination of talents and skills of different partners leads to specialization and division of labour with each partner concentrating on a particular aspect of the business he knows better or is good at hence efficiency. For example, if it is a partnership of three engineers, oné can be a civil engineer, the second a mechanical engineer and the third an electrical engineer.
iii) **The burden of losses and liabilities are shared among partners**: The burden of losses and liabilities are shared among many partners and therefore felt lightly unlike a sole proprietor who suffers them alone.
iv) **Even distribution of work hence less fatigue:** Work and responsibilities are dividedamong partners and this reduces fatigue as no one partner is over worked.
v) **There is limited liability in limited partnerships:** In case of limited partnership. limited partners enjoy limited liabilities and their personal properties cannot be sold off to pay the debts of the partnership if the firm fails to settle them.
vi) **Formation of partnership is simple and easy**: Partnerships are simple and less costly to form compared to joint stock companies. The partners only need to draw a partnership deed and get a certificate of registration from the registrar of business names.
vii) **New partners may be admitted for expansion or skills**: New partners may be admitted for skills or business expansion. These incoming partners bring with them more capital, a wealth of experience and new ideas.
viii) **Consultations and discussions among partners can yield sound decisions**: Decisions in a partnership firm are taken and implemented after joint discussion or consultations and with the consent of all partners. This results into more sound decisions and reduces the chances of taking adverse decisions as two heads are better than one.
ix) **Business affairs and accounts are kept secret**: The business accounts and affairs of the firm are still kept secret and are not subject to external supervision or disclosure like those of public limited companies. The disclosure of a partner's business affairs is entirely optional.
x) **The absence of one partner may not affect the business:** In the event of absence or sickness of one partner, business may not close completely.
xi) **The business is more flexible compared to joint stock companies**: The partnership business is more flexible compared to joint stock companies as the partners can shift from one line of business to another one agreed upon by all partners un like joint stock companies.
xii) **Partnerships enjoy greater economies of scale**: Partnerships can afford to operate on large scale because of their wider capital base. As a result they can enjoy the advantages of large scale operation like trade discounts when buying. Employing specialists etc.

Disadvantages of Partnership

i) **There is unlimited liability in case of ordinary partners**: Ordinary partners face unlimited liability and should the business fail to pay off its debts, their personal properties may be sold off to raise money to pay the creditors.
ii) **Delays in decision making**: Decisions take long to be arrived at due to joint discussions and consultations among partners. Due to lack of quick decision making. the partnership firm may fail to take advantage of immediate profitable business opportunities.
iii) **Lack of continuity**: Partnerships lack continuity as the death, insanity, bankruptcy or withdrawal of a key partner may lead to dissolution of a partnership.

iv) **Disagreements among partners are common:** Disagreements among partners on how a firm should be managed are common and this slows down the progress of the business.
v) **A mistake or misconduct of one partner affects the entire business:** If one partner makes a mistake or wrong decision, all the partners suffer the consequenices of this mistake committed by one of them regardless of whether or not his decision has been sanctioned by all of them.
vi) **The sharing of profits reduces the incentive to hard work**: Profits generated by a hard working partner are shared by all. This reduces the incentive for hard work as the hard working partner feels cheated.
vii) **Limited chances of expansion due to small membership**: The chances of business expansion are limited since members are restricted to 20 or 50 and these cannot raise large capital like public limited companies whose membership is unrestricted.
viii) **Partnerships are not legal entities**: Partnerships are not legal entities like joint stock companies i.e they have no separate existence.
ix) **Incapable and lazy partners may be admitted**: The admission of lazy partners may damage the good name of the firm.
x) **Profits are shared:** The sharing of profits reduces the amount received by each partner.

Dissolution of Partnership

This refers to the act of bringing the existence of a partnership to an end i.e. terminating the partnership. This may **be voluntary dissolution** by consent of all partners **or compulsory dissolution** by courts of law or when partners are declared insolvent. As soon as the partnership is dissolved, the partners are no longer bound by the partnership deed.

Circumstances or Conditions under which a Partnership may be dissolved

i) In case of temporary partnership, when the purpose for which it was formed isaccomplished or when it has reached expiry period and the period cannot be extended.
ii) When there is a general agreement or consent of all partners to dissolve the partnership i.e voluntary dissolution.
iii) If one partner notifies other partners in writing of his intention to dissolve the partnership i.e dissolution by notice.
iv) When the business venture is no longer profitable.
v) When partners are declared bankrupt or insolvent by court of law.
vi) When one of the partners acts contrary to the provisions of the partnership deed hence damaging the reputation of the firm. In this case, the courts of law can order that the partnership be dissolved.
vii) Death or insanity of one of the partners.
viii) When the partnership becomes unlawful (illegal) as a result of engaging in activities which are illegal or introduction of a law banning the activities of the firm.
ix) When the partnership has failed to raise the required capital as stated in the partnership deed. This occurs when some of the partners have failed to bring in their capital contribution.

Differences between a Partnership and Sole proprietorship

i) Sole proprietorship is a one man business while membership of a partnership ranges from 2-20 for ordinary partnerships and 2-50 for professional partnerships.

ii) A sole proprietor faces unlimited liability while there is limited liability in case of limited partnerships.
iii) Management of sole proprietorship is by one person (owner) while every partner has a right to manage the business except a limited and a quasi partner.
iv) A sole proprietor enjoys profits and suffers losses alone while in a partnership profits and losses are shared among partners.
v) There is no agreement required when starting a sole proprietorship while a partnership agreement or a partnership deed must be drawn up when forming a partnership.
vi) There is no legal requirement for registration of a sole proprietorship business while there is a legal requirement for registration of partnership name in case partners decide to hide the names of real business owners and run the business under a name other than their own personal names.
vii) A sole proprietorship involves relatively small amount of capital compared to partnership.
viii) There is no continuity in a sole proprietorship after the death of the owner while a partnership business may continue even after the death of one partner.

JOINT STOCK COMPANIES

A **joint stock company** is a corporate association or body of persons formed to carry out certain specific functions with a view of making profits. It is referred to as a joint stock company because individuals combine their capital to form a business by buying shares. A share is a unit of capital of a company. A collection of shares is called a stock hence the term joint stock company.

Features (Characteristics) of a Joint Stock Company

i) **Legal personality or Entity**: A company has an entity separate from that of its shareholders.
ii) **It has a name**: A company has a name normally ending with the letters "Limited" (Ltd) to signify that the liability of its share holders is limited to their capital contribution.
iii) **It can sue and can be sued in courts of law:** A company can take legal action against an individual or firm. Likewise, it can also be sued in the courts of law but not its shareholders.
iv) **It has a legal signature or seal**: A company has a common seal which appears on all important documents of the company as its official signature.
v) **It has perpetual continuity**: A company exits indefinitely till it is liquidated. The death, bankruptcy or insanity of any shareholder does not affect the existence of the company.
vi) **Limited liability**: The liability of the share holders of the company is limited to the face value of the shares held in the company and not beyond.
vii) **Capital is divided into transferable shares**: The capital structure of the company is divided into a number of units of uniform value called shares and its owners are the shareholders.
viii) **Members cannot bind a company by their acts**: Members of a company are no entitled to bind it by their acts.

ix) **It owns property**: A company's property must be registered in the names of the company and it is different from the property of the shareholders and directors.
x) **It has a residence**: A company has a residence where its administrative and registered offices are located. It should have a postal and telephone address.
xi) **It transacts business in its own name**: A company conducts business in its own name and not the names of its shareholders.

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Incorporated and Unincorporated Businesses

(a**) Incorporated business**: This is the one which has a separate legal entity from the owners, i.e. the owners enjoy limited liability. It can sue and can be sued'in its own name. Examples of incorporated business are joint stock companies.

(b) **Unincorporated business**: This is the one which has no separate legal existence from its owners. Its owners face unlimited liability i.e. they are personally liable for all the debts of the business up to the extent of selling their personal properties. Examples are sole proprietorships and ordinary partnerships.

TYPES OF JOINT STOCK COMPANIES

There are two broad categories of companies namely:

1. Statutory companies

2. Registered companies

1. Statutory Companies

These are companies created by an Act of parliament. Their powers and functions are clearly defined by the act of parliament which creates them. Statutory companies are mostly owned by government e.g parastatal bodies and public corporations.

2. Registered Companies

These are companies which are formed and registered under the companies Act of 1962, Cap 486.

These companies come into Legal existence after receiving certificate of incorporation issued by the Registrar of Companies.

Registered companies are further classified according to the following:-

1. According to the number of members i.e. Private Limited companies and Public Limited Companies.

2. According to the Liability of members i.e. Limited and Unlimited Companies.

3. Limited Companies may be Limited by shares or Limited by guarantee.

(i) A Company Limited by Shares

This is the one which has share capital and the liability of each shareholder is restricted or confined to the face value of shares held by them.

(i) A Company Limited by Guarantee

This is the one which has no share capital and each of its members undertakes to contribute a fixed sum of money towards the liabilities of the company i.e. the liability of its members is limited to a sum guaranteed by them. In this case the members of the company undertake to be liable to the debts of the company up to a stated limit. It means the members pledge a specific amount of money towards settling the debts of the company. For example, Federation of Uganda Football Associations (FUFA) Limited.

Limited Liability and UnLimited Liability

(a) Limited liability: This is where one is responsible for the business debts up to what he has contributed towards the business but not his personal property e.g. limited partners and shareholders of companies

(b) Unlimited liability: This is where the liability of the shareholder is unrestricted ie one's responsibility towards the business debts can extend beyond what he has contributed up to the extent of selling his personal property e.g. sole proprietors and general partners.

PRIVATE LIMITED COMPANIES

This is a joint stock company with a minimum of two shareholders and a maximum of 50 sharcholders. Examples of Private Limited Companies in Uganda include:- Mukwano Group of Companies, Madhivani, Metha Group of Companies, Wavah group of companies, Sudhir Ruperelia Group, Sembule, Alam Group of companies, etc.

Characteristies of a Private Limited Company

i) Its members (share holders) range from 2-50 shareholders ie it has a minimum of two shareholders and a maximum of fifty.
ii) Its shares are not freely transferable except by private arrangement. A shareholder who wishes to transfer his shares has to first seek permission from other shareholders and directors of a company.
iii) The owners (sharcholders) have a direct control over the affairs of the company.
iv) It is not required by law to publish its books of accounts to the public.
v) It can commence business as soon as it acquires a Certificate of Incorporation.
vi) The Liability of its members is limited i.e. share holders enjoy limited liability.
vii) It is not allowed to call upon the public for funds in form of selling shares or debentures.
viii) Its share capital is divided into a number of units of uniform value called shares.

Advantages of Private Limited Companies

i) **Limited Liability**: The shareholders enjoy limited liability and hence their personal properties are safe.
ii) **Top Secrecy and Confidentiality**: Its books of accounts are still kept secret as it is not required by law to publish them to the public.

iii) **Easy to form:** Its procedure of formation is not as lengthy as that of a public limited company and it can commence business activities as soon as it acquires a Certificate of Incorporation.
iv) **Control Over the Business**: The promoters of the company usually keep control over their business by holding the majority of the shares unlike in public limited companies where the management of the company is in the hands of the directors.
v) **Economies of scale**: Greater economies of scale are enjoyed compared to sole proprietorship because private limited companies raise more capital and operate on large scale.
vi) **More capital is raised**: More capital is raised with the large number of shareholders than in the case of sole proprietorship and partnership.
vii) **Assured continuity:** The death, bankruptcy or withdrawal of any one share holder cannot affect the existence of the business.
viii) **Employment of specialists is possible:** Employment of specialists is possible due to large capital.
ix) **Specialization:** Specialization and division of labour can easily be exploited compared to sole proprietorship.
x) **Greater chances of increasing capital:** Private limited companies have greater chances of increasing their capital base through selling shares or borrowing from financial institutions.
xi) **Possibility of issuing different types of shares**: There is a possibility of issuing different types of shares to suit investment habits of members.

Disadvantages of Private Limited Companies

i) **Limited capital:** The company cannot raise as much capital as a Public Limited Company because membership is restricted to a maximum of 50 shareholders.
ii) **Possibility of fraud**: Since the company is not compelled by law to publish its books of accounts to the public, cases of fraud may take place.
iii) **Shares are freely transferable**: Shares are not freely transferable from one share holder to another and this limits some shareholders who wish to leave the company.
iv) **No public appeal for funds**: It cannot appeal to the public to buy shares because it is not allowed by law to issue a prospectus.
v) **No economies of scale**: It can not enjoy greater economies of scale like public Limited Companies because of limited size.

Differences between a Public Limited Company and a Partnership

i) Membership of a public limited company ranges from 7 to infinity while membership of a partnership ranges from 2- 20 for ordinary partnerships and- 50 in case of professionals.
ii) Management of a public limited company is done by directors elected by share holders while every partner has a right to manage the firm except limited, quasi and minor partner.
iii) The liability of members (share holders) of a public limited company is limited to their capital contribution while partners have unlimited liability except limited partners.
iv) Shares in a public limited company are freely transferable while transfer of ownership in a partnership is by unanimous consent of all partners.

v) A public limited company is not allowed to use any other name apart from the registered name appearing in the memorandum of association while a partnership may take any name unless it is a registered partnership.
vi) A public limited company has a separate legal entity while a partnership does not have a separate Legal entity.

vii) A public limited company is formed by registration will due legal formality while a partnership is formed by mutual agreement which may be written or not.

PUBLIC LIMITED COMPANIES

A public limited company is a joint stock company with a minimum number of 7 shareholders and no specified or defined maximum. It raises its capital by selling shares to the public and its shares are freely transferable. Examples of public limited companies in Uganda include Ugantla Clays Ltd, DFCU Bank Ltd. Stanbic Bank, New Vision, B.A.T.U, Shell, Bank of Baroda National Insurance Corporation

Features (characteristics) of A Public Limited Company

i) Membership ranges from a minimum of 7 shareholders to infinity i.e. no defined maximum.
ii) Its capital is divided into small uniform units each called a share.
iii) It has a separate legal entity from that of the shareholders.
iv) Shares in a public limited company are freely transferable i.e. a shareholder wishing to sell his/her shares can do so without seeking permission from other shareholders but by simply taking the share certificate to the stock exchange market.
v) The liability of shareholders is limited.
vi) The management of the company is in the hands of people called directors who are elected by shareholders.
vii) The company is required by law to publish its books of accounts to the public, a copy of which must be forwarded to the Registrar of Companies.
viii) The company can commence business only after acquiring both a Certificate of Incorporation and Certificate of trading.
ix) It has perpetual continuity i.e. the company is not affected by the withdrawal. bankruptcy, insanity or death of a shareholder.
x) It is free to call upon the public for funds in form of selling shares and debentures.

Differences between a Private Limited Company and a Public Limited Company

i) Membership in a private limited company ranges from 2 - 50 while in a public limited company, members range from 7 to infinity (no maximum number).
ii) In a private limited company shares are not freely transferable except by private arrangement while in a public limited company shares are freely transferable.
iii) A private limited company can commence business immediately after acquiring a certificate of incorporation while a public limited company can only start business after acquiring both the certificate of incorporation and certificate of trading.

iv) A private limited company is not required by law to publish its books of accounts to the public while a public limited company is required by law to publish its books of accounts to the public.
v) A private limited company is not permitted to call upon the public for funds in form of selling shares or issuing a prospectus while a public limited company is free to call the public for funds in form of selling shares and debentures by issuing a prospectus.
vi) In a private limited company, the owners (shareholders) have a direct control over the affairs of the company while in a public limited company, management is done by directors elected by shareholders and shareholders do not have direct control over the company's affairs.
vii) A public limited company at times can only prepare the Memorandum of Association and can be guided by table A of the Company Act, while a private limited company has to prepare both the Memorandum and Articles of Association.

Advantages of Public Limited Company

i) **Large Capital is raised**: More capital is raised with the large number of share holders than in the case of sole proprietorship or partnership.
ii) **Members enjoy limited liability**: The liability of the sharcholders is restricted to the face value of shares bought in the company and does not extend to their pri vate property which is safe.
iii) **Company shares are freely transferable**: The free transfer of shares is an incentive to investors who are assured of freedom to convert their shareholdings into cash any time they wish
iv) **Assured continuity of the business**: The death, bankruptcy, insanity or withdrawal of any one member does not affect the existence of the company.
v) **Specialisation is possible:** Specialisation and division of labour can easily be exploited due to possession of adequate funds.
vi) **Shareholders are safeguarded against fraud**: Share holders are safeguarded against fraud i.e. loss and embezzlement of funds by publicity of company's books of accounts to the public. This also gives share holders an opportunity to be informed of the financial performance of the company.
vii) **There are more sources of funds for expansion**: A public limited company has greater chances of improving its capital base through sale of shares, debentures or loans from financial institutions since the firm has adequate collateral security.
viii) **Share of loss:** The risk or loss suffered is spread among many shareholders and therefore felt lightly compared to sole proprietorship or partnership.
ix) **Employment of specialists is possible:** Due to large amount of capital raised, public limited companies can afford to employ specialists such as accountants, hence efficiency.
x) **Possibility of issuing different types of shares for different members**: There is a possibility of a company issuing different types of shares to cater for the different investment habits of members e.g. accumulative preference shares, non-accumulative preference shares, etc.
xi) **People with low amount of capital are given a chance to invest their capital:** People with low amount of capital are given a chance to invest their capital by buying shares in public limited companies.

Disadvantages of Public Limited Company

i) **They are costly and difficult to establish**: Formation of a public limited company is lengthy, difficult and expensive compared to sole proprietorships and partnerships as it involves many legal procedures like registration as well many documents like Certificate of Incorporation, Prospectus and Certificate of Trading and payments of fees which is not the case with private limited companies and partnership.
ii) **Difficult to control the company**: It is difficult to effectively control the company because of its large size.
iii) **Delay in decision making**: Decision making is slow since the company directors must meet before any important decision is taken.
iv) **There is no secrecy and confidentiality**: There is no secrecy and confidentiality as regards business affairs since public limited companies are required by law to publish their books of accounts to the public. The financial affairs of the company are open to every body including competitors or rival firms.
v) **Higher taxes**: Public limited companies are subjected to higher taxes on their incomese.g. company profits, corporation taxes, etc compared to other types of business ownership.
vi) **Shareholders' non-participation in management**: Share holders especially minority shareholders do not have a direct control over the running of the company as the management of the company is in the hands of the directors.
vii) **Observation of state laws and regulations**: Public limited companies are more subjected to state laws compared to small businesses such as sole proprietorship and partnerships.
viii) **Disagreements among directors**: The directors may have their own interests that ma conflict with the interests of the company.

Advantages of a Public limited company over a Private limited company

i) **More capital is raised**: A public limited company can raise more capital than a private limited company because its members are unrestricted.
ii) **Shares are freely transferable**: A public limited company shares are freely transferable and any shareholder wishing to quit the company does not have to seek for company's approval or consent of other shareholders unlike a private limited company whose shares are not freely transferable.
iii) **Shareholders are safeguarded against fraud**: Shareholders are safeguarded against fraud as a public limited company is required by law to publish its books of accounts to the public unlike private limited companies whose shares are not published to the public.
iv) **More public confidence**: The members of the public have more confidence in public companies because of publishing the books of accounts.

FORMATION OF A JOINT STOCK COMPANY

The formation of a joint stock company involves the following steps.

i) **Promotion (Birth of the idea to form a company**: This is where individuals wishing to form a company i.e. promoters meet and decide on the possible areas of investment. the amount of capital needed, the name of the company, type of company to be formed. objectives of forming the company, where the company is to be located, expenses of formation, etc. At this stage, a list of promoters must be drawn up.

ii) **Drawing up and filing company documents**: The promoters must engage the services of a lawyer to draw up two important documents namely Articles of Association and **Memorandum of Association**. The Articles of Association is a document which laysdown the rules and regulations for the internal administration of the company i.e. the constitution of the company. The Memorandum of Association is a document which defines the powers and limitations of the company when dealing with outsiders.

iii) **Registration with the Registrar of Companies**: After completing the Memorandum and Articles of Association, the promoters must present these documents to the Registrar of companies. The Registrar of companies studies the documents and when he is satisfied with the contents in the documents, he issues a document called a **Certificate of Incorporation** which gives the company Legal existence i.e. allows the company to exist as a separate legal entity. After acquiring a Certificate of Incorporation, a private limited company immediately commences business activities. However for a public limited company, it has to advertise its shares first by issuing a prospectus inviting the public to buy its shares and then get a certificate of trading.

iv) **Issuing of a prospectus inviting the public to buy shares in a company:** After receiving a Certificate of Incorporation, a Public Limited Company issues a document called a prospectus inviting the public to subscribe for shares in the company. However, for a private limited company, no prospectus is issued because the company's capital is raised privately for instance from family members who wish to become share holders in private companies

v) **Commencing Business Activities**: After advertising its shares, and after raising the required capital, a public limited company is issued with a Certificate of trading by the registrar of companies which authorizes it to commence trading

COMPANY DOCUMENTS

i) Company documents include;-
ii) Memorandum of Association
iii) Articles of Association
iv) Certificate of Incorporation
v) Prospectus
vi) Certificate of Trading
vii) Share Certificate
viii) Debenture Certificate

1. MEMORANDUM OF ASSOCIATION This is a document which lays down and defines the powers and limitations of the company which governs its relationship with the outsiders or public. A Memorandum of Association is the most important document to be prepared when forming a limited liability company. It has six clauses each describing a particular aspect of the company.

These clauses are:-

i) **Name Clause**: This states the name of the company with the word "Limited" abbreviated as Ltd. at the end to serve as a reminder to the people dealing with the company that the liability of its members is Limited.
ii) **Situation (Domicile clause)**: This shows the registered offices of the company to which notices can be sent i.e. the name of the country, a district or town where the office is situated.
iii) **Objectives Clause**: This outlines the aims and objects for which the company is being formed and it is the most important clause. Once the Memorandum of Association is registered, a company cannot act beyond these objectives i.e. it cannot engage in another field or business other than that stipulated in the objective clause.
iv) **Capital Clause**: This states the amount and nature of the share capital the company wishes to rise. It gives the total amount of share capital, the shares into which share capital is divided, type of shares and value of each share.
v) **Liability clause**: This states that the liability of the members shall be limited to their capital contribution.
vi) **Declaration clause**: This states the desire of the promoters to form themselves into a public limited company. It is signed by at least 7 promoters in case of public limited company and 2 promoters in case of private limited company who must take at least one share each.

2. ARTICLES OF ASSOCIATION

This is a document which lays down the rules and regulations for the internal administration of the company. It acts as a constitution of the company.

The rules and regulations in the company's Articles of Association include;-

i) Powers of the directors.
ii) Methods of issuing shares
iii) Procedure of calling and conducting meetings.
iv) Method of keeping books of accounts.
v) Procedure of appointing company secretary, auditors and accountants.
vi) Rules governing election of directors.
vii) Procedure of sharing profits and losses.
viii) Voting rights and powers of share holders.
ix) Method of voting in meetings.
x) Procedure of transferring shares in case of public limited companies
xi) Provision for changing the Articles of Association.
xii) Names and addresses of the shareholders.
xiii) Rights and duties of different classes of share holders e.g. ordinary share holders and preference share holders.

3. CERTIFICATE OF INCORPORATION

This is a document issued by the Registrar of companies giving a company a corporate legal existence; separate from its owners i.e. a separate legal entity. This document gives the company separate legal entity. After receiving a certificate of Incorporation, a limited company can immediately commence business and a public limited company can issue a prospectus inviting the public to subscribe or buy

shares in the company A certificate of incorporation allows a public limited company to appeal for shares from the public. private

4. PROSPECTUS

This is a document issued by a public limited company inviting members of the public to subscribe for shares in the company. It is issued when a public limited company wishes to make a public issue of shares. A prospectus advertises the shares of the public limited company showing the classes of shares available as well as the present and future prospects of the company. It gives detailed information which would help a potential share holder to invest with confidence in a company.

5. CERTIFICATE OF TRADING

This is a document issued by the Registrar of companies to a public limited company authorizing it to commence business activities. It is issued only when the registrar of companies is satisfied that the company has raised the minimum share capital required to commence business.

6. SHARE CERTIFICATE

This is a document issued by a company to a shareholder after buying shares in a company to certify ownership of the shares. It indicates the number and value of shares purchased, name. occupation and address of the shareholder and it must bear the official seal of the company.

7. DEBENTURE CERTIFICATE

This is a document that evidences that a company has borrowed a specified sum of money from the person named on its face (debenture holder) and undertakes to pay a fixed rate of interests for the loan

WINDING UP OF A COMPANY

Winding up or liquidation of a company refers to bringing existence of the company to an end byselling off its property or assets and paying creditors.

Forms of Winding up of a Company

There are two forms of winding up of a company namely:- Compulsory winding up or winding up by court order and Voluntary winding up.

i) **Voluntary winding up:** This is where the shareholders request the directors of the company to liquidate the company in their own interest and by consent of the shareholders with out being compelled by courts of law, When the shareholders wish to liquidate the company, the directors are required to compile and file a declaration of solvency. This declares the ability of the company to pay its creditors by selling off its assets.
ii) **Compulsory winding up i.e. winding up by court order:** This normally takes place after a petition has been lodged in the courts of Jaw by dissatisfied creditors. The court of law appoints the liquidators and the company goes into receivership. The company assets are valued and sold off to pay the creditors under strict court supervision.

Circumstances under which a Company may be Liquidated

i) When the creditors of the company petition the company in the courts of law because of not receiving payment. The court of law may order the company to sell off its assets in order to pay its creditors.
ii) If its purpose has been accomplished and there is no need for further continuation.
iii) If the company is discovered by the authorities for having been operating the business illegally i.e. without being registered by the registrar of companies.
iv) If a disagreement or dispute arises amongst the directors of the company on an important issue and cannot be resolved.
v) When the directors and shareholders feel the company should be liquidated because it is no longer profitable but is instead making losses.
vi) If an active director leaves the company to form his own business.
vii) When a company faces a total loss of all is assets e.g. fire completely gutting down the company factory which was not insured.

SHARES

A share is a unit of capital of a joint stock company. A person who buys shares in a company and therefore becomes one of the owners of the company is called a shareholder. A group or block of shares is called a **stock**. A return on a share out of the profits of a company is called a dividend.

Types of Shares

There are basically two types of shares namely

1. Ordinary Shares

2. Preference Shares

1. Ordinary Shares (Equity Shares)

These are shares held by the owners of the company (ordinary shareholders) with no fixed rate of dividends out of the company profits. The ordinary shareholders are the controllers of the company and the greatest risks of the company fall upon them i.e they constitute the major risk of share capital in the company.

Features of Ordinary Shares

i) They have no fixed rate of dividends. The amount of profits allocated to them depends on what remains after all the creditors and shareholders with a prior claim have been paid.
ii) They have a second right on dividends i.e. the ordinary shareholders get residue profits it. after the preference shares have been paid.
iii) In bad years when a company doesn't get profits, ordinary shareholders do not get any dividends at all. However in good years when a company makes a lot of profits they eceive higher rates of dividends.
iv) They have a right to vote on important affairs of the company such as election of directors.
v) When a company is winding up. Ordinary shareholders are paid after other share holders and creditors.

vi) There is no special security for such an investment other than the soundness of the company.
vii) They are generally irredeemable.

2. Preference Shares

These are shares held by members of the company and form part of the company's capital with a fixed rate of dividend.

Features of Preference Shares

i) They carry a fixed rate of return (dividend) e.g. a fixed rate of 5% per year.
ii) They have a first right on dividends i.e. they are paid before the ordinary share holders get anything but after the creditors like debenture holders have been paid.
iii) Preference shares holders have no right to vote on important matters concerning the company e.g. election of directors.
iv) They are at a lesser risk than ordinary shareholders.
v) The capital repayment is also after the creditors but before ordinary shareholders

Types of Preference Shares

Preference shares are sub-divided into:-

i) cumulative preference shares.
ii) Non - cumulative preference shares.
iii) Redeemable preference shares.
iv) Irredeemable preference shares.
v) Participating preference shares.

i) Accumulative Preference Shares: These are shares which are entitled to a fixed rate of dividends till they are paid. The dividends keep on accumulating until they are paid by the company out of its profits. If a company makes little or no profits in a particular year and no dividends are declared for that year, these shareholders will get two years' dividend in the following year i.e. their dividend keep on accumulating till it is paid. These shares have a right to have arrears of dividend carried forward to subsequent years until they are paid.

Example

An accuinulative preference shareholder has missed dividends over the last two years due to lack of profits. If he holds 50 shares of shs 10.000 each at a rate of 6%, how much dividend will he get this (third) year?

Solution:

Nominal value of shares = 50 shares x 10.000

= shs. 500,000

Annual dividend = 6/100 x 500,000

= shs 30,000

Total dividend for 3 years = 30.000 x 3

= shs 90,000

ii) (Non - Accumulative Preference Shares. These are shares which are entitled to a fixed rate of dividend but only for the years for which a dividend is declared. Arrears of dividend in bad years are not carried forward to subsequent years, i.e. if no profits are made, a company does not carry forward the dividend and therefore share holders do not get any dividend in bad little or no profits are made and dividends are not declared.

Example:

A non -accumulative preference share holder has missed dividends over the last two years due to lack of profits. If he holds 50 shares of shs 10,000 each at a rate of 6%, how much dividend will he get this (third) year?

Solution

Nominal value of shares = 50 shares x 10.000

= shs 500,000

Dividend per year = 6 x 500,000

100

= shs 30.000

It should be noted that unlike an accumulative preference share holder, the dividends missed in 2 bad years i.e. shs 60.000 are not carried forward to subsequent years and therefore this non- accumulative preference share holder will only get a dividend of shs. 30.000 which is declared in this (third) year.

(ii) Redeemable Preference Shares: These are shares which are bought back by the company after a stated period of time. A company can issue redeemable preference shares when it wants money for a short period of time after which it buys back or redeems the shares by refunding or paying the shareholders.

(iv) Irredeemable Preference Shares: These are shares which can not be bought back by the company. If a share holder wishes to convert these shares into physical cash, the only alternative is to sell them to any member of the public through the stock exchange.

(v) Participating Preference Shares: These are preference shares which are entitled to receive a bonus from profits made in good trading years when a company makes substantial amount of profits. However they receive such a bonus from the ordinary share holders. Usually participating preference share holders can take an active part in the running of the business. A bonus is an extra pay or reward for more than normal contribution in the production process.

DEBENTURES

A debenture is a unit of a loan in a joint stock company. It is a document that evidences that a company has borrowed a specified sum of money from the person named on its face and undertakes to pay a fixed rate of interest on the loan. Debenture stocks are therefore loans made by outsiders to limited companies. A loan represents borrowed capital and therefore debentures are long term loans to the company. A debenture holder is paid the principle plus a fixed rate of interest whether a company makes profits or not.

Types of Debentures

Debentures may be classified in two ways::

(a) Classification according to the security pledged against them, i.e**. Naked debentures or**

Mortgaged debentures.

(b) Classification according to redemption as **Redeemable or Irredeemable debentures.**

Classification of Debentures according to the security pledged against them:

i) **Mortgaged debentures (secured debentures):** These are debentures which are secured in that a specified property or asset of the company is pledged against them Such assets may be land, machinery, business premises or building etc. In the event of liquidation or winding up of the company, the proceeds from the sale of the pledged property are used to pay off the holders of mortgage debentures. Mortgage debentures are very safe since they are secured i.e. have collateral security pledged against them.

ii) **Naked debentures (unsecured debentures):** These are debentures which are not secured in that no property or asset of the company is pledged as a form of collateral security against them. In the event of the company's bankruptcy or liquidation, the holders of naked debentures are treated as ordinary creditors of the company and are paid after the mortgage debentue holders have been paid.

Classification of Debentures according to redemption

Redeemable debentures: These are debentures which are bought back by the issuing company i.e. the amount borrowed against them is refunded by the specified minimum period but before a specified maximum period of time. Redeemable debentures are borrowings for a stated period and must be bought back at their maturity or expiry period i.e. end of loan period.

Irredeemable debentures: These are debentures which are never bought back by the company i.e. the amount against them is never refunded and remains outstanding but the company continues paying interest to the debenture holder till it is liquidated.

Floating debentures. These are debentures which are secured but no specified property or asset of the company is attached to the loan. In the event of the company's liquidation, any asset of the company may be used to pay off the holders of such debentures.

Advantages of a company raising capital through sale of Debentures

i) Debentures supplement the share capital contributed by the shareholders when the company finds it inadequate for its long term financial needs.
ii) When a company makes profits, it can easily pay off debenture holders out of its profits.
iii) In case of naked debentures which are unsecured, the company's property is not put at a risk of being sold off to pay debenture holders.
iv) Capital can be readily redeemed if it is required for only a short time.

Disadvantages of financing a company using Debentures

i) In case of mortgage or secured debentures, a company's property is put at a risk of being sold off should it fail to pay back the loan.
ii) Payment of interest is expensive to the company.
iii) Development or expansion of the company may be hindered because profits made are used to pay interest on debentures.

Differences between Shares and Debentures

i) A share is a unit of capital of a joint stock company while a debenture is a unit of a loan of a joint stock company.
ii) The shareholders are the owners of the company while debenture holders are creditors to the company.
iii) A return on a share is called a dividend and is paid out of the company to shareholders only when a company makes substantial profits. On the other hand, a return on the debentures is called interest and it is a fixed expense to the company which must be paid whether a company makes profits or not.
iv) The ordinary shareholders have a right to vote on important matters concerning the company e.g. election of directors while debenture holders have no right to vote on the affairs of the company because they are only creditors and not business owners.
v) Shares are usually irredeemable i.e, not bought back while debentures are usually redeemable.
vi) There is usually no limit on the dividends paid on shares except for preference shares while the interest on debentures is restricted to a stated percentage.
vii) When a company is liquidated, shareholders may receive more than the face value of their shares if the assets realize more than the amount necessary to pay off creditors. On the other hand debenture holders are paid only the face value of the debentures held by them plus any outstanding interest.
viii) Some shareholders may not receive dividends in bad years when profits and no dividends are declared while a debenture holder is entitled to earning a fixed rate of interest whether a company makes profits or losses.

SHARE CAPITAL OF THE COMPANY

The share capital of a company is the amount of money raised through the sale of its shares. It represents the owner's equity of the share holders.

Forms of Share Capital (Capital Structure of a Company)

i) Nominal, Registered, or Authorised Share Capital: This is the maximum amount of money a company can raise by selling shares as stated in its memorandum of association. It is also referred to as Authorized share capital or Nominal share capital. For example, if a company is registered with 10,000 shares of shs. 100 each, then its registered capital would be calculated as follows;

Registered capital = Number of registered shares x value (price) of each share

= 10,000 x 100 = shs. 1,000,000

ii Issued Share Capital: This is the total face value of shares that have been issued whether or not the full amount against them has been called up. In the above example, if a company issued only 6.000 shares, then its issued share capital would be calculated as follows;

Issued share capital = Number of shares issued x price of each share

= 6,000 x 100 =shs. 600,000

The remainder of shares not issued is called Un-issued share capital Un issued share capital = Number of un issued shares x price per share

= 4000 x 100 = shs, 400, 000

iii)Called Up Share Capital: This is the amount which the shareholders have been asked to pay. They may be called upon to pay for all the shares issued or for only a fraction of what was issued. For example, in the above case if each shareholder is asked to pay shs 70 for every share he has taken up, since 6000 shares were issued, the amount of called up share capital would be calculated as follows:-

Called Up Share Capital = Number of issued shares x Price paid by share holders

= 6000 x 70 = shs 420,000

The remainder i.e. what the shareholders have been asked to pay for later is called

Uncalled up Share Capital.

Uncalled up Share capital = Number of issued shares x Balance on each share.

= 6000 x 30 = shs 180,000

(iv) Paid up Share Capital: This is the amount which has actually been received from shareholders. Suppose out of the called up share capital of shs 420.000 some shareholders fail pay fully for the shares taken and therefore only shs 300.000 has been paid, then the Paid Capital would be shs 300,000 that has been received from the shareholders. The amount unpaid called Un paid up Share capital or Calls in arrears which would be calculated as:-

Un paid up Share Capital Called up share capital- Paid up share capital

= 420.000 – 300.000 = shs 120,000

(v) Minimum Share Capital: This is the amount stated by the promoters of the company when applying for registration of the company as the least amount required commencing business.

ISSUE OF SHARES

Once a public limited company receives a certificate of incorporation, it can offer its shares for sale to the public. The promoters are required to state the minimum share capital necessary to commence business. This amount must be raised first before the company can be issued with a certificate of trading authorizing it to commence business.

The issue of shares can be done by a company in three stages or phases:

i. By receiving money on application for shares. This money is however refunded to the unsuccessful applicants if the shares applied for are not allocated to them.

ii. By receiving money on allotment of shares.

iii. By receiving money on calls.

For example, a share with a par value of shs 1000 can be broken down as follows; on

application shs 500, on allotment shs 300, on first call shs 100 and on second and final call

shs 100.

Ways in which Company Shares are issued

The shares in a company can be issued in the following ways:

i) **Issue of shares at par:** This is where a share is issued at a value or price which is equal to its face value. For example, share of face value of shs 1000 being issued at exactly shs 1000.
ii) **Issue of shares at a discount**: This is when a share is issued at a price which is lower than its face value. For example a share with a face value of shs 1000 being issued at shs 800, would imply a discount of shs 200 per share i.e.1000 – 200.
iii) **Issue of shares at a premium**: This is when a share is issued at a price which is greater that its face value e.g. a share of a face value of shs 1000 being issued at shs 1400 would imply a premium of shs 400 per share i.e. 1400 - 1000.

Steps involved in Selling Shares to the Public

i) A prospectus advertising the shares of the company and inviting the public to subscribe is usually printed in newspapers or sent directly to interested people. It may contain an application form or specify where to obtain it. The members of the public are invited to buy shares usually through appointed banks which distribute prospectus and receive money on behalf of the company.
ii) Interested people fill in application forms and send them to the company together with application money.
iii) After receiving the applications, the directors scrutinize or go through them and approve or reject them
iv) Successful applicants are sent allotment letters asking them to pay allotment money.

v) On receiving allotment money, the company issues applicants with share certificates hence making them bona fide share holders.
vi) The shareholders are required to pay the balance of shares in 2 or 3 "calls" or installments when the company needs more money.
vii) A share holder who fails to complete payment loses his/her shares together with the money already paid for them.

Under writing of Shares

In case a company is unable to sell all its shares it is offering, it may opt for an underwriter such as an insurance company or commercial bank for guaranteeing to buy or sell all its shares i.e. under writing of shares. An underwriter is an institution which Undertakes to buy any shares of the company which may not be taken by the public e.g. East African Underwriters. An underwriter is paid an Underwriting commission for providing a guarantee to buy all the company shares.

BUSINESS FINANCE

Business finance may be divided into short term finance and long term finance.

Sources of short term finance

Firms require short term finance for the purpose of purchasing stock and raw materials, paying salaries and wages of staff and meeting operational costs like rent, power, etc. The sources 'of short term finance include: -

i) **Personal savings**: This refers to part of personal income that is not consumed but saved for future investment. It is the main source of finance for sole proprietorship.
ii) **Trade credit:** This is where a firm obtains goods or stock on credit and pays back after selling.
iii) **Bank overdraft:** This is the amount of money advanced by a bank to a current account holder in excess of his account balance
iv) **Inheritance:** Individuals with good economic background or from well to do families can start or expand businesses from inherited income or wealth.
v) **Fundraising**: Fundraising drives when successfully conducted can generate enough capital to start or expand business.
vi) **Gambling:** The surplus from the sale of lottery tickets constitutes business finance.
vii) **Bill of exchange**: One can have his bill of exchange discounted by a commercial bank and use the money generated to start or expand business.
viii) **Gifts and grants**: One can obtain money from friends, relatives and well wishers and usethis money to start or expand his business.
ix) **Hire purchase**: Very expensive assets such as machinery, vehicles, etc may be bought on hire purchase terms with the repayment period ranging from one to several years.
x) **Mortgage loans:** These are loans obtained against the security of an immovable property like land or buildings.

Sources of long term finance

i) **Bank loans**: This involves borrowing from financial institutions like commercial banks with the money repaid after a long time. This is the main source of finance for buildings machinery and vehicles, etc which have long life span.
ii) **Debentures:** These are long term loans to the company from members of the public Debentures carry a fixed rate in interest.
iii) **Selling shares**: Public limited companies can raise capital by selling their shares to the public through the stock exchange e.g. Stanbic Bank.
iv) **Retained profits**: This is where part of the profits made is ploughed back into the company.

CO-OPERATIVE SOCIETIES

A Co-operative society refers to a group of people who have agreed to work together to achieve a common objective. It is a voluntary association formed with the purpose of benefiting its members. The main objective of a co-operative society is to enable members benefit from working collectively or as a group rather than as individuals.

Unlike joint stock companies, the main objective of a co-operative society is not to make profit but to improve on the welfare of its members. Sharing profits in a cooperative society differs from other business units in that it depends on a member's contribution to society activities i.e. the volume of sales or purchases a member has made with the society.

Basic Principles of Co-operative Societies

These are the rules governing co-operative societies. Co-operative societies are guided by the following principles.

i) **Open and Voluntary membership**: The membership of a cooperative society must be open to all those who can fulfill the by-laws of the society regardless of tribe, sex. religion or political affiliations. To join or not to join a cooperative society and become a member is entirely a choice of a person concerned.
ii) **Democratic Administration**: The affairs of a Cooperative society must be administered in a democratic manner. E.g. the members of a cooperative socicty elect their own leaders from among themselves based on the principle of one man one vote.
iii) **Dividend payment based on members' contribution to society activities:** The payments of dividends depends on the member's contribution to society activitics. Incase of consumer cooperative societies, dividend payment depends on how much a member has purchased from the society i.e. ratio of purchases while in case of a producer cooperative society, dividend is paid according to how much produce a member has sold to the society i.e. ratio of sales.
iv) **Co-operation with other co-operative societies**: Co-operative socie.ies must co-operate with each other at the local, national and international levels. They have much in common and can learn from one another.
v) **Limited or no interest on share capital:** Members of a Co-operative society are entitled to earning little or no interest on share capital contributed. Members do not share all the profits made as these are used to expand the business.

TYPES OF CO-OPERATIVE SOCIETIES

There are three main types of Co-operative societies namely

I. Consumer Co-operative Societies.

2. Producer Co-operative Societies

3. Profit and Loan or Savings and credit Co-operative Societies.

1. Consumer Co-operative Societies

A Consumer Co-operative Society is a retail business owned and operated by a group of consumers to purchase and distribute goods and services to their members at fair prices. The main function of a consumer co-operative society is to provide goods and services to members at fair prices by buying in bulk directly from the producers or manufacturers. Sharing profits in a consumer cooperative society depends on how much a member has purchased from the society ie. ratio of purchases.

Functions (services) performed by Consumer Cooperative Societies

i) They provide their members with goods and services at fair prices.
ii) They provide good quality goods and services to members.
iii) They protect members against exploitation by dishonest traders and middlemen.
iv) They transport goods and bring them near their members.
v) They improve the members' welfare through savings and increased purchases.
vi) They educate their members about the quality, uses and prices of goods.
vii) They enable their members learn how to run and conduct business by involving them directly in the running of the society business.
viii) They remove excessive profits enjoyed by independent traders and pass part or the whole of it to the benefit of the members

Problems facing Consumer Co-operative Societies

1. Poor transport and communication net work especially in rural areas hinder their operations.
2. They lack adequate capital because of low incomes of their members.
3. They face stiff competition from independent traders.
4. Poor and inadequate storage facilities for merchandise (goods) especially in rural areas.
5. Corruption and embezzlement of society funds by members is common.
6. Limited supply and range of consumer goods and services.
7. Ignorance by the majority of the members affects the conduct of the society business.
8. Political instability in some parts of the country like the North makes their operation difficult.
9. Lack of adequate managerial skills.

2. Producer Co-operative Societies

A producer cooperative society is a voluntary association of producers who contribute capital to start a society that helps them in buying, transporting, processing and marketing members" produce The main objective of a producer cooperative society is to enable members market their produce such as coffee, cotton. tea and tobacco collectively and to protect producers against exploitation by individual bayers and middlemen through low prices Examples of produces cooperative society include Bunyoro Growers' Cooperative Society. Masaka Grower Cooperative Society, Banyankole Kweterana Cooperative Society, ete. The sharing of dividend in a producer cooperative society depends on the amount of produce sold to the society by each member ie ratio of sales.

Functions performed by Producer Co-operative Societies

i) They buy member's produce usually at guaranteed, fair and stable prices.
ii) They collect and transport produce from rural areas to markets there by relieving the producers of transport costs.
iii) They store the farmers' produce before selling it to local processors or for export.
iv) They provide assistance to farmers in form of agricultural inputs like hoes. Fertilizes pesticides, etc.
v) They extend credit facilities to farmers or enable them to obtain credit from financial institutions at fair terms.
vi) They educate members on better methods of farming to produce better quality products
vii) They help farmers to purchase farm equipment and enjoy such services as tractor hire services at fair prices.
viii) They encourage farmers to save.
ix) They market farmers' produce.

Problems facing Producer Co-operative Societies

i) They lack adequate funds to buy all the members' produce.
ii) They face stiff competition from private produce buyers, processors and exporters.
iii) They lack adequate storage facilities to handle the produce bought before selling it.
iv) Political instability in some parts of Uganda such as the North hinders their activities.
v) Corruption and embezzlement of society funds by members affects the society activities.
vi) Poor leadership due to low managerial skills by members.
vii) Price fluctuations on the world market.
viii) Poor quality produces from the members making it difficult to market.
ix) Poor transport and communication net work in the rural areas hinders the transportation of produce to the markets.
x) Political interference in the running of society hinders their smooth operation.
xi) Low commitment on the part of the members to the activities of the society.

Thrift and Loan or Savings and Credit

Co-operative Societies

These are voluntary associations formed by producers, consumers. Workers and other groups to encourage a spirit of thrift or savings. Members contribute a given amount of money at regular intervals

which constitutes a society fund from which members can obtain loans for the purpose of setting up or expanding their businesses e.g. constructing houses, purchasing basic inputs. Stock, etc. An example is Mengo Teachers' Savings and Credit Society.

Functions of Savings and Credit Societies

i. They encourage a spirit of savings among low income groups e.g. teachers.

ii. They advance loans to members by allowing them to borrow society funds which they would otherwise find difficult to obtain from financial institutions due to lack of collateral security.

ii. They improve members' welfare or standard of living through savings and increased purchasing power.

iv. They distribute some of the profits according to the ratio of savings or contributions.

v. They advise members on alternative investment opportunities so as to uplift their welfare.

vi. They can act as referees for members applying for credit facilities elsewhere.

vii. They provide employment opportunities to some people who work with them e.g. cashiers, accountants, etc.

Problems faced by Savings and Credit Societies

i) Limited capital contributed due to low incomes (poverty) among members.
ii) Stiff competition from independent Micro-finance institutions and commercial banks.
iii) Dishonesty by some members who fail to pay their subscription fee or to pay back the borrowed funds in time.
iv) Corruption and embezzlement of society funds by members.
v) Lack of adequate managerial skills.
vi) Political instability in some areas.

The role played by Co-operative Societies in Uganda

i) Producer co-operative societies have helped farmers to get fair prices for their produce by eliminating middlemen.
ii) Consumer co-operative societies have helped members to obtain goods and services at fair prices by buying in bulk directly from the producer.
iii) They have provided storage facilities for members' produce and merchandise.
iv) Producer co-operatives have helped farmers to get agricultural inputs such as fertilizers at fair prices.
v) Transport co-operatives have fostered the transportation of goods.
vi) Producer co-operatives have helped in giving extension services to farmers such as farming methods.
vii) Saving and Credit co-operatives have mobilized savings from low income earners and channeled them into productive activities by giving loans to members thereby facilitating rural development.
viii) Producer co-operative societies have helped farmers to get agricultural inputs such as fertilizers at fair prices.

ix) They have provided employment opportunities to many people. I, i.
x) They have increased the production cash crops such as cotton, coffee, tea, tobacco, etc.

Problems facing Co-operative Societies in Uganda

i) They lack adequate capital to finance their activities such as buying produce due to low incomes of the members and failure to pay subscription fee.
ii) Poor transport and communication net work in form of poor feeder roads in nural areas hinders the movement of produce and merchandise to markets.
iii) Inadequate storage facilities to handle all the produce or merchandise before selling it.
iv) They face stiff competition from individual business ventures e.g. private buyers and exporters of produce and independent traders.
v) Corruption and embezzlement of funds by members affects their operations.
vi) Political instability in some parts of the country hinders the operation of cooperative societies.
vii) Price fluctuations on the world market discourage production by members.
viii) Political interference in the running of society affairs affects the smooth running of cooperative societies.
ix) Poor leadership due to low education of society members.
x) Disloyalty of members who fail to pay subscription fee or borrowed funds.
xi) Members use cooperatives to achieve their personal interests rather than the interests of the society as a whole.
xii) Sharing profits causes misunderstandings among society members and their leaders.

Ways in which government can help Co-operative Societies.

i) Improvement of an extension of infrastructure e.g. feeder roads in rural areas to facilitate movement of produce to markets.
ii) Restoration of political stability in the country.
iii) Provision of credit facilities to cooperative societies at low interest rates.
iv) Sensitizing the public about the role of cooperatives in order to encourage members join cooperatives.
v) Building storage facilities e.g. Silos for cooperative societies.
vi) Reducing or abolition of taxes on cooperative society inputs e.g. hoes pesticides.
vii) Market research to find out products on demand locally and abroad.

Differences between Cooperative Societies and Joint Stock Companies

i) A minimum of 10 people is required to form a primary cooperative society while membership of a private limited company ranges from 2-50 and that of a public company ranges from 7 to infinity.
ii) A cooperative society is formed under the cooperatives Act while a joint stock company is formed under the companies Act.

iii) In a cooperative society each member has only one vote i.e. voting is on the principle of "one man one vote" while in a joint stock company voting depends on the number of shares held by a member, with a shareholder being entitled to one vote for every shareheld.
iv) In a cooperative society there is normally only one type of share capital with a fixed rate of interest while the capital structure of a company consists of different types of shares i.e. ordinary shares and preference shares with varying rates of dividends.
v) In a cooperative society the payment of dividends depends on a member's contribution (participation) to society activities i.e. ratio of purchases in case of a consumer cooperative society and ratio of sales in a producer cooperative society while the payment of dividends in a company depends on the type and number of shares held by each member.
vi) In a cooperative society, members have equal rights and there is democratic control while companies are controlled by the directors and the rights of members depend on the number of shares they hold.
vii) In a cooperative society, shares are not quoted on the stock exchange and do not fluctuate in value but remain constant while public limited company shares are quoted on the stock exchange and fluctuate in value.
viii) A cooperative society may issue as many shares as it wishes as it has no limit on its capital while the company shares are limited to its authorized or registered capital.
ix) Cooperative societies can repay the members' capital on demand and thus withdraw from is the society while companies do not normally do so and shareholders have to apply through the board of directors.
x) In a cooperative society members pay for their shares as they wish while company shareholders pay for their shares as the company states.
xi) A cooperative society members or shareholders are necessarily its customers of suppliers and so the services of the society are mainly to its members while companies offer their goods or services to the public and not necessarily their shareholders.

The role of the private sector

i) It provides employment opportunities to many people in the country.
ii) It contributes to government revenue through taxation
iii) It facilitates development of social and economic infrastructure in form of transport and communication net work, power, etc.
iv) It facilitates foreign capital inflow into the country from foreign investors and multi- national corporations.
v) It contributes to the production of a wide variety of good quality goods and services.

vi) It contributes to the utilization of the would be idle resources e.g. foreign investors exploiting cobalt in Kasese which was previously an idle resource.
vii) It facilitates technological progress by encouraging inventions and innovations in production.
viii) It widens the consumers' choices by producing a wide variety of goods and services.
ix) It improves the country's balance of payments position by producing a wide variety of commodities which were previously imported hence saving the scarce foreign exchange.

x) It provides the necessary manpower, skills and entrepreneurial knowledge to the various sectors of Uganda's economy through education and training.

xi) It contributes to foreign exchange earnings through export of a variety of products.
xii) It is a means of reducing corruption and embezzlement of public funds through close supervision by private entrepreneurs who cannot embezzle their own funds.

Disadvantages of the Private Sector

i) It promotes income inequalities because most of the major business enterprises are concentrated in the hands of a few rich people.
ii) It contributes to unemployment through the use of advanced capital intensive techniques of production e.g. computers.
iii) It encourages rural-urban migration and its related consequences by concentration of production activities in urban centers.
iv) It leads to profit repatriation by foreign investors.
v) It leads to resource wastage through excessive competition and duplication of activities.
vi) It neglects essential but non -profit making ventures e.g. garbage collection in towns.
vii) It makes government planning difficult as much of the economy is not directly under government control.

Problems facing the Private Sector in Uganda.

i) Limited capital to purchase machinery, raw materials and other inputs.
ii) Political instability in some areas which increases risks and uncertainties and leads to destruction of industrial plants
iii) Poor social and economic infrastructure in form of poor road and railway network inadequate and unreliable power supply, etc.
iv) Limited domestic markets which cannot sustain large scale production.
v) Limited supply of skilled manpower e.g. engineers, accountants, etc.
vi) Low level of technology which leads to production of inferior quality products which cannot compete on the world market.
vii) High taxes which increases the cost of production and reduce profits of entrepreneurs.
viii) Poor land tenure system which makes it difficult to secure industrial plots in some areas
ix) Inadequate supply of some basic inputs and raw materials like iron and steel.
x) Corruption and bureaucracy in government departments as reflected in government officials demanding bribes as well as delay in granting licenses to investors.

Ways in which Government supports the Private Sector in Uganda

i) Provision of economic incentives such as tax holidays, customs drawback, subsidies and liberal taxes to new investors for a period of grace to reduce the initial cost of operating business.
ii) Development and rehabilitation of physical, social and economic infrastructure in form of roads, railways, power and water supply, etc. to facilitate production activities in the private sector.
iii) Provision of education and training through seminars and workshops.

iv) Liberalization of the economy by removing rigid regulations affecting the private sector and opening up the economy to competition.
v) Restoration and maintenance of political stability in the country.
vi) Establishment of specialized institutions to co-ordinate activities in the private sector e.g. the Uganda Investment Authority (UIA), Private Sector Foundation, Uganda Manufacturers' Association (UMA), etc.
vii) Privatization of public enterprises to the private sector.
viii) Lobbying for markets both at home and abroad for Uganda's products.
ix) Returning nationalized properties to their former owners especially Indians like Metha.. Madhivan and Agha Khan in order to restore the confidence of private investors in the economy.
x) Encouraging financial institutions such as commercial banks and microfinance institutions to extend credit or loans to the private sector at low interest rate.
xi) Land reforms to facilitate easy access to land by investors.
xii) Sound micro-economic policies aimed at controlling inflation and maintaining domestic price stability.

GOVERNMENT CONTROL OVER THE PRIVATE SECTOR

The private sector consists of establishments which are owned by private individuals or firms. Its main objective is to maximize profits. If the private sector was to be left without any control, its motive to maximize profits would hurt the public. Therefore it is necessary for government to come in and regulate the private sector in order to protect the public from exploitation and to protect the interests of the public.

Ways in which Government Controls the Private Sector.

1. Price control

This is where government fixes prices of some commodities either maximum prices to protect consumers or minimum prices to protect producers.

a) **Maximum Price (Price ceiling)** This is the price set by government above which a commodity should not be sold or bought. The price is usually set below the equilibrium to protect consumers from being exploited by sellers through over charging especially during scarcity of essential commodities like Salt, Sugar, Soap, etc.

Reasons for fixing Maximum Price (Price ceiling)

i) To protect consumers from exploitation by sellers through overcharging especially during periods of scarcity of essential commodities.
ii) To control inflation and maintain domestic price stability.
iii) To ensure that essential commodities are available to all groups of people at affordable prices.
iv) To control monopoly power and protect the public from monopoly exploitation.
v) To improve people's welfare or standard of living.

(b) Minimum Price (Price floor): This is the price set by government below which a commodity should not be sold or bought. The price is usually set above the equilibrium to protect producers from being exploited by consumers (buyers) through low prices.

Reasons for fixing Minimum Price (Price floor)

i) To protect producers from being exploited by consumers (buyers) through low prices.
ii) To stabilize producers' incomes by reducing price fluctuations.
iii) To reduce income inequalities and promote a more equitable distribution of income.
iv) To discourage the production and therefore consumption of harmful goods..
v) To increase output levels.

2. National Bureau of Standards

The Uganda National Bureau of Standards (UNBS) sets up the standards for quality of various products made with in the country or imported into the country from other countries. It states the specifications in terms of quality, weight and ingredients used which must be met by the producer.

Functions of the National Bureau of Standards

i) To ensure the high quality of goods produced by manufacturers.
ii) To examine the goods produced by different manufacturers by taking random samples.
iii) To take action against manufacturers who produce inferior products.

3. Consumer Protection Measures

This consists of various legislation (laws) enforced by the government to safeguard the rights and interests of consumers. These laws include:-

a. **Public Health Act**: This act empowers the inspection of foods and drugs to ensure that they are safe for human consumption.
b. **Weights and Measures Act:** This act ensures that the measuring rods and weighing scales used when selling goods to consumers are correct and accurate.
c. **Sale of Goods Act:** This act ensures that the seller does not cheat the consumer b supplying goods of inferior quality to that of the sample displayed or advertised.
d. **Trade Description Act:** This act ensures that the seller does not make false misleading claims about his products.
e. **Foods and Drugs Act**: This act prevents manufacturers from including substances in their products which are likely to have an adverse effect on the health of the users, I also requires that the labels of items used as food or medicine must indicate clearly the ingredients used in making them.

4. Trade Licensing

No trader is allowed to operate a business without a valid trading license. This provides government with an opportunity to ensure that only genuine traders are issued with licenses, The government has a right to withdraw trading licenses from unscrupulous businessmen.

5. Taxation

The government imposes high taxes on commodities which may be harmful to the health of consumers e.g. eigarettes. This discourages their consumption and therefore production.

6. Nationalization

The government may take over control of private firms especially monopoly firms to protect consumers from monopoly exploitation.

7. Total Ban

The government may completely prohibit the production, sale or consumption of products which are deemed to be dangerous to the lives of consumer's e.g. narcotic drugs like cocaine and heroine. The Uganda government has imposed a ban on import of beef from Europe to protect consumers from mad cow disease.

8. Setting Up State Owned Enterprises

The government sets up its own enterprises to compete with the private sector and provide essential public utilities such as water and electricity to the public at fair prices.

9. Trade Restrictions (Protectionism)

The government restricts the inflow of inferior or dangerous products into the country. This is done through such tools as import tariffs.

Reasons why Government controls the Private Sector

- i) To protect consumers from being exploited by producers or sellers through over charging.
- ii) To control the production and consumption of harmful or dangerous products e.g. expired foods and drugs.
- iii) To control incorrect or unstandardised weights and measures.
- iv) To prevent the production of inferior quality products.
- v) To control misleading persuasive advertisements.
- vi) To protect national security by controlling the production of risky or dangerous products like fire arms and ammunition.
- vii) To fight private monopolies.
- viii) To control or regulate the use of resources.
- ix) To earn government revenue through levying taxes, issuing licenses, etc.

CONSUMER PROTECTION

Consumer protection refers to the various laws enforced by government to control the activities of the private businessmen to ensure that consumers' interests and rights are protected and consumers are not cheated of their hard-earmed money by the selfish and greedy businessmen. It consists of various laws enforced by government to ensure that consumers' rights are not violated.

Why Consumers need Government Protection

i) **Overcharging**: It is necessary to protect consumers from exploitation by producers (sellers) through overcharging especially during periods of scarcity of essential commodities.
ii) **Inferior quality products**: Government protects consumers from consumption of poor or inferior quality products on the market e.g. adulterated cement which may lead to collapse of buildings, diluted drinks, duplicate electronic goods, etc.
iii) **Dangerous or harmful goods**: There is a need to protect consumers against dangerous products on the market e.g. expired foods and drugs which may be harmful to the health and lives of consumers.
iv) **Wrong or unstandardised weights and measures**: It is necessary to protect consumers from being exploited by sellers through the use of incorrect or inaccurate measuring rods and weighing scales. This is common with such goods as sugar, salt and flour as well as liquid goods like paraffin, cooking oil and milk.
v) **Misleading persuasive advertisements**: It is necessary, to protect consumers from misleading persuasive advertisements which induce them to buy inferior quality products or to go in for products they can't afford e.g. "Every woman can look much younger than she is with Ambi."
vi) **Dumped imports from other countries**: There is need to protect consumers from consumption of any type of imports dumped into the country e.g. second hand products.

METHODS USED TO PROTECT CONSUMERS IN UGANDA

The rights and interests of consumers can be protected through:

1. Government initiated methods.
2. Consumer initiated methods
3. Producer initiated methods.

I. Methods used by Government to Protect Consumers in Uganda

(Government Initiated Methods).

The government of Uganda has put in place the necessary legislation (laws) and institutions to enforce these laws in order to protect the rights and interests of consumers. These include:

a. **Price control:** The government protects consumers from being exploited by producers through overcharging by fixing maximum prices for essential commodities. It becomes illegal to sell or buy the commodity above the maximum price set by government.
b. **The Uganda National Bureau of Standards (UNBS):** The Uganda National Bureau of Standards (UNBS) enforces the production and sale of standard quality and quantity of products made with in the country or those imported into the country. This is done by setting minimum quality standards to be met by manufacturers. Those manufacturers whose products are approved by the Uganda National Bureau of Standards print a standardization mark on their products as "Approved by the UgandNational Bureau of Standards (UNBS)" e.g. Rwenzori Mineral Water.
c. **Public Health Act:** This Act empowers the inspection of foods and drugs by the ministry of health and National Drug Authority (NDA) officials to ensure that they are safe for human consumption.

d. **Weights and Measures Act:** This enforces the inspection of weights and measures used by businessmen to ensure that they are correct and accurate. This is done by the Inspectors of weight and measures from the Uganda National Bureau of Standarde who carry out random routine inspection and checking of measuring rods. Weighing scales used by business men as well as fuel pumps used by petrol stations.
e. **Foods and Drugs Act:** This prevents manufacturers from including substances in their products that may cause adverse effects to the health of consumers. It also requires that the labels of items used as food or medicine must indicate clearly the ingredients used in making them.
f. **Trade Description Act:** This ensures specifications for goods produced e.g. warnings on certain goods like tobacco, beers and cigarettes
g. **Trade Licensing**: No trader is allowed to operate any business e.g. a hotel, pharmacyor clinic without holding a valid trading license. This provides the goverinment with an opportunity to ensure that only genuine traders are issued with licenses to operate businesses. The government has a right to withdraw trading licenses from unscrupulous (dishonest) traders.
h. **Encouraging formation of Consumers' Associations:** The government encourages consumers to form consumers' associations which protect the rights and interests of consumers e.g. the Uganda Consumers' Protection Association (UCPA).
i. **Eucouraging formation of Business Associations:** These protect consurners by ensuring satisfactory standards of quality of products produced by their members e.g. Uganda manufacturers' Association (UMA). They may also institute resale price maintenance by fixing prices at which their products should be sold to the final consumers e.g. prices of air time cards and Newspapers are fixed by manufacturers up to the last point of distribution.

2. Consumer Initiated Methods

These are measures adopted by consumers themselves to protect their rights and safeguard their interests. They include; -

i) **Consumers' Associations**: These are voluntary associations formed to protect the rights and interests of consumers e.g. the Uganda Consumers' Protection Association (UCPA). These educate consumers of their rights. They also receive consumers complaints regarding the quality and prices of goods and services, investigate these claims and forward them to the concerned manufacturers or government authorities for action or even take court action against the manufacturer on behalf of the Consumers.
ii) **Letters to the press (press wars):** Through writing articles in newspapers and magazines, consumers can express their grievances and complaints regarding certainproducts on the market thereby forcing the producers of such products to improve their quality or lower their prices.
iii) **Consumer Cooperative Societies**: These protect members against exploitation by dishonest traders and middlemen by purchasing good quality products directly from the manufacturers and selling them to their members at fair prices. They also educate consumers about the quality, uses and prices of goods and services.
iv) **Boycot of the product:** Consumers may completely avoid buying goods of certain manufactures which are of inferior or substandard quality or overpriced, hence forcing the manufacturers to improve their quality or lower their prices.

v) **Use of rule of Caveat Emptor (Let the consumer be aware):** This requires consumers to think twice before purchasing any goods so as to ensure that the goods are of good quality, right quantities and reasonably priced.

3. **Producer Initiated Methods**

These are adopted by producers themselves to protect the rights and interests of their esteemed customers. They include: -

a) **Business Associations**: These protect consumers by ensuring minimum satisfactory standards of the quality of their products e.g. Uganda Manufacturers' Association (UMA).

b) Resale Price Maintenance: This is where the manufacturer fixes the price at which his product should be sold to the final consumer. In Uganda this system is used in case of newspapers and magazines, airtime and SIM Cards by telecommunication companies, as well as postage stamps. This method overcharging by middlemen.

c) **Recommending Retail Prices**. In this case producers do not fix prices but simply recommend retail prices to be paid by consumers. In Uganda this method is used by producers of soft drinks, beers and cigarettes. However, unlike resale price maintenance, recommended retail prices are not fixed prices and middlemen often sell these products at higher prices e.g. soft drinks.

d) **Educating Consumers about the quality of products:** Some manufacturers warn their customers about fake or duplicate goods on the market by organizing seminars and appealing to consumers to look for particular features on the product labels. Protects a consumer against

THE PUBLIC SECTOR (GOVERNMENT INVOLVEMENT IN

COMMERCIAL UNDERTAKINGS)

The public sector consists of government owned establishments which are engaged in commercial activities. They take the following forms:-

1. Local Authorities
2. Parastatal bodies
3. Public corporations.
4. Marketing boards

1. Local Authorities.

These are bodies set up by the government to provide services to the public with in a town, municipality or city. They include town councils, e.g. Hoima Town Council, Municipal Councils like Entebbe Municipal Council and City Councils e.g. Kampala City Council (kCC).

Local authorities perform certain functions which range from providing social services like education and health. water and sewerage, collecting garbage, street lighting, road mintenance, bus scrvices. sports stadium. collecting taxes and issuing trading licences, Localauthorities generate revenue from such sources as local taxes, market dues, trading licences fees and grants from the central government.

2. Parastatal Bodies

These are organizations established by government through an act of parliament to perform certain specific functions for the good of the country. Their powers and functions are defined by the act of parliament that creates them. The main function of parastatal bodies may no necessarily be commercial and their aim may not be profit maximization. Parastatal bodies de not have share capital and their management is in the hands of people appointed by government. Examples of parastatal bodies in Uganda include Uganda National Bureau of Standards (UNBS), Uganda Revenue Authority (URA), Uganda Investment Authority (UIA). Civil Aviation Authority (CAA), Uganda Coffee Development Authority (UCDA), Uganda Tourism Board (UTB), National Environmental Management Authority (NEMA), etc.

3**. Public Corporations.**

These are joint stock companies in which the government holds either all the shares or the majority of the shares. Like parastatal bodies, public corporations are created by acts of parliament which define their aims and objectives. The main purpose of setting up public corporations is to provide essential goods and services to the public at fair and affordable prices. Examples of public corporations in Uganda include National Water and Sewerage Corporation (NW &SC), National Housing and Construction Corporation, Uganda Broadcasting Corporation (UBC).

Differences between Public Corporations and Public Limited Companies

Public limited companies are formed by registration under the companies

i) Act while public corporations are established by an Act of parliament or government decree.
ii) Public limited companies are owned by shareholders while public corporations are owned by government.
iii) The main objective of public limited companies is to maximize profits while the main objective of public corporations is to provide essential goods and services to the public at fair prices.
iv) The management of public limited companies is in the hands of directors who are appointed by shareholders while the management of public corporations is in the hands of the board of directors appointed by government.
v) Public limited companies are financed by shareholders while public corporations are financed by government.

4. MARKETING BOARDS.

A Marketing board is a trading organization set up by government or producers themselves to buy agricultural produce from the farmers and sell it to consumers or processors through various agencies.

Types of Marketing Boards

There are two types of marketing boards namely:

a. Voluntary Marketing Boards.
b. Statutory Marketing Boards.

1. Voluntary Marketing Boards: These are marketing Boards which are set up by the producers themselves to buy and sell their products.

2. Statutory Marketing Boards: These are marketing boards set up by government through an act of parliament. Their powers and areas of operation are defined by the act of parliament that creates them; e.g. former Coffee Marketing Board and Lint Marketing Board.

Statutory Marketing Boards may be:

i) Commodity Marketing Boards.
ii) Produce Marketing boards.
iii) Advisory Marketing Boards.
iv) Export Marketing boards.

i) **Commodity Marketing Board**: This is a marketing board which deals in the buying and selling of one specified commodity and its related products e.g. former Coffee Marketing Board (CMB) for Coffee and Lint Marketing Board (LMB) for cotton.
ii) **Produce marketing board:** This is the one which deals in the buying and selling of wide range of products e.g. former Produce Marketing Board (PMB) of Uganda.
iii) **Advisory Marketing Board:** This is the one which carries out research on better varieties as well as marketing problems and provide advisory services to farmers.For example, they advise farmers on how to improve the quality of their products in order to get a bigger market.
iv) **Export Marketing Board:** This is the marketing board which is set up mainly to market agricultural products in foreign markets i.e. look for markets for farmers' products abroad.

Functions of Marketing Boards

i) **Buying Produce**: Marketing boards buy produce from the farmers usually at guaranteed, stable and fair prices. The buy agriculture produce through three main channels namely:- cooperative societies, appointed agents and directly from large scale farmers.
ii) **Collection and transportation of produce:** Marketing boards arrange for transportation of farmers' produce from the rural areas to markets thereby relieving the farmers of transport expenses.
iii) **Storage of produce:** Marketing boards store all the produce bought from the farmers safely and release it gradually to processors or consumers thereby stabilizing prices.
iv) **Assistance to farmers:** Marketing boards offer assistance to farmers in form of agricultural inputs like fertilizers, pesticides, seeds, etc.
v) **Selling of produce**: Marketing boards sell produce on behalf of the farmers either to local processors or by auction for export.
vi) **Research:** Marketing boards carry out research on better varieties as well as marketing problems.
vii) **Control of production**: Marketing boards control production by establishing quotas and advising farmers on prevailing market conditions.
viii) **Representing farmers at international meetings:** Marketing boards represent farmers at international meetings e.g International Commodity Agreement.

Problems Facing Marketing Boards

i) **Inadequate funds**: Marketing boards lack sufficient funds or crop finance buy farmers' produce.
ii) **Poor quality produce**: Some farmers sell low quality produce to marketing boant making it difficult to market internationally.
iii) **Poor transport net work:** The poor transport net work in rural areas hinders the collection of farmers' produce.
iv) **Inadequate storage facilities**: Marketing boards lack adequate storage facilities to handle all the produce bought from farmers before selling it.
v) **Corruption and embezzlement of funds:** Some times the funds meant for bovine farmers' produce are embezzled by marketing board officials.
vi) **Competition from private buyers:** Following the liberation of marketing of agricultural products, Marketing boards face stiff competition from private buvers and exporter of agricultural produce who offer better prices for farmers.
vii) **Mismanagement**: Marketing boards suffer from gross mismanagement due to limited skills and experience by board officials who may be appointed on political considerations.
viii) **Over production**: Sometimes farmers produce in excess of the quota specified by the board. This creates persistent surplus leading to marketing problems and fall in prices.
ix) **Price fixing:** Marketing boards usually fix prices for farmers' produce in advance without predicting international market conditions and consequently suffer losses in case of price fluctuations on the world market.
x) **Political instability:** Political instability in some parts of the country hinders the operations of marketing boards.
xi) **Competition from other world producers:** Stiff competition from other producers like Brazil makes it difficult for marketing boards to sell all the produce on the world market.

Reasons for Government Involvement in Commercial

Undertakings (Reasons for Setting up State Enterprises)

i) **To provide essential but unprofitable services:** Government engages in commercial activities in order to provide those services which are less profitabie to the private sector yet essential to the public e.g. water supply, sewage disposal and garbage collection in towns and cities. Such services are provided by state enterprises e.g. National Water and Sewerage Corporation (NW & SC)
ii) **To promote the general welfare of the public:** Government gets involved in commercial undertakings to promote the general welfare of the public by providing essential public utilities such as water and electricity at a fair and affordable price. If these are to be left in the hands of the private sector, the public might be exploited through charging high prices.
iii) **Public Utilities**: These are services that are provided by the central government or local authorities to the general public at reasonable rates to enable the people increase their welfare or standard of living. They are government establishments with the major aim of providing important services rather than making profits. Examples of public utilities are water and sewerage, electricity, health, education, transport and communication services.
iv) **To undertake large scale projects which require heavy initial capital:** Public services which require heavy initial capital but take long to bring in returns may not be affordableby the private investors but only the government e.g. air ports, railways, power dams. research and mining.

v) **To protect national security by undertaking risky ventures**: Government gets involved in commercial undertakings in order to ensure national security by setting up certain activities which are too risky and dangerous to be left in the hands of private individuals e.g. atomic energy plants, production and supply of fire arms and ammunitions, etc.

vi) **To create employment opportunities**: Government sets up public enterprises in order to widen employment opportunities for its people and reduce the unemployment problem.

vii) **To raise government:** Government establishes certain profit making enterprises in order to raise income for the state to finance government expenditure.

viii) **To avoid duplication, waste and inefficiency:** Government gets involved in commercial undertakings in order to minimize or avoid wasteful competition due to duplication. e.g. railways. It is always better to have one state enterprise providing a service in a field where more than one enterprise is unnecessary.

ix) **To control private monopolies:** The government sets up state enterprises to out compete and control private monopolies with the aim of protecting consumers from exploitation.

x) **To control prices:** The government sets up state enterprises to control prices by producing those commodities which would have been costly if produced by private firms.

xi) **Political considerations:** The government engages in business undertakings for political considerations as a way of tapping foreign assistance in form of loans, grants and investment.

xii) **To avoid foreign economic domination.** The government may nationalize private foreign firms and then convert them into state enterprises with the aim of avoiding foreign economic domination of the economy..

xiii) **To create regional balance:** The government may set up a state enterprise in a particular region of the country which is lagging behind with a view to reducing regional imbalances and creating regional balance in development.

Advantages of State Undertakings

i) They provide certain services which are unprofitable but essential for the general well- being of the public e.g. garbage disposal in towns, municipalities and cities.

ii) They provide essential public utilities to the public at fair prices e.g. water and electricity which if left in the private sector would result into public exploitation through high prices.

iii) They provide employment opportunities to the local population e.g. as managers, engineers, accountants, etc thus reducing the unemployment problem in the country.

iv) They generate revenue to the government directly through profits made and indirectly in form of taxes paid e.g. VAT. PAYE, Corporation tax, etc.

v) They help the state to protect national security by undertaking risky ventures e.g. atomic energy plants, production of fire arms and ammunitions, etc.

vi) They help to avoid wasteful competition and duplication e.g. in the provision of certain services e.g. railways.

vii) They help to reduce foreign economic domination of the economy and promote economic independence.
viii) They help the state to undertake large scale ventures which require heavy initial capital c.g power dams and air ports.
ix) They provide social services such as education and health to the public e.g. public universities and hospitals.
x) They protect the public from private monopoly exploitation through overchargng an inferior quality products
xi) They reduce regional imbalances and help to attain balanced regional development in the country
xii) They help the government to control prices by producing those commodities which woult have been very costly if produced by private firms.

Disadvantages of State Undertakings

i) There is rampant comuption and embezelement of public funds in public enteiprises. The managers usually misuse the resources of public enterprises for their own private benefits
ii) Public enterprises discourage private investment in fields where they are operating because they are heavily subsidized and therefore in a better position to provide services at fair prices compared to their privately owned rivals.
iii) They provide poor services to the public due to lack of competition in case of statutory monopolies.
iv) They are characterized by bureaucratic red tape which delays decision making and leads to failure to take advantage of immediate business opportunities.
v) There is political interference in the running of public enterprises e.g. appointment of the board of directors may be influenced by political considerations and nepotism.
vi) It is very costly to the tax payers to subsidise inefficient public enterprises as high taxes are imposed on the public to finance and subsidise public enterprises.
vii) Government is overburdened and left with less time and resources to provide essential and social services.
viii) There is high level of inefficiency due to absence of profit motive.

Problems facing Public Enterprises in Uganda

i) Limited capital from the government to run public enterprises.
ii) Poor management of public enterprises due to limited skills by the managers who are often appointed on political considerations.
iii) Wide spread corruption and embezzlement of public funds i.e. lack of proper accountability and transparency in management of public funds.
iv) Limited interest and commitment on the part of management and workers.
v) Political instability in some parts of the country affects the operations of public enterprises.
vi) Bureaucracy and red tape which delays decision making.
vii) They face stiff competition from the private sector following the liberalisation of the economy and removal of statutory monopolies.
viii) Poor and underdeveloped social and economic infrastructure in form of road net work. power supply, etc hinders the operations of public enterprises.

ix) Government interference in the management of public enterprises.

NATIONALISATION

This refers to the taking over by the state (government) of ownership of enterprises formerly privately owned. In 1972. the then government of Uganda nationalized many Asian businesses and properties after the expulsion of the Asians. Most of the enterprises have since been returned to their former owners, a process called Denationalization.

Advantages of Nationalization

i) It ensures government control of strategic or vital sectors of the economy.
ii) There is reduction in foreign domination leading to an economy which is in the hands of the nationals.
iii) It helps in provision of essential goods and services to the public at fair and affordable prices e g. water and electricity.
iv) There is reduction in social costs e.g. pollution and noise.
v) It is easy to mobilize large amount of capital.
vi) It ensures increased employment opportunities as a result of large scale production.
vii) It makes government planning easy.
viii) State monopolies can be run in public interest unlike private monopoly.

Disadvantages of Nationalization

i) It discourages or scares away both local and foreign investors.
ii) It leads to reduction in production of goods and services due to absence of profit motive.
iii) It increases government expenditure in form of subsidies and compensation costs.
iv) It discourages inflow of foreign capital from private investors.
v) It erodes popularity of government both at home and abroad.
vi) It promotes corruption and embezzlement of public funds in nationalized enterprises.
vii) It leads to creation of inefficient state monopolies.
viii) It leads to increased taxation to maintain nationalized enterprises.
ix) Poor quality goods are produced due to limited or no competition
x) It leads to capital flight.

PRIVATISATION IN UGANDA

Privatization refers to the transfer of ownership of public enterprises from the state (government) to the private sector. It is the transfer of government enterprises into the ownership and management of the private sector, The privatization of public enterprises in Uganda is being implemented by the Privatization Unit (P.U) under the ministry of finance. Privatization has been prompted by the desire to reduce the role of the state (government) in the economy and instead support a more vibrant private sector.

Forms of Privatization

i) **Complete Divestiture**: This refers to the outright sale of public assets and businesses as going concern to the private sector. It is the sale of all government shares in a public enterprise to the

private sector, e.g. Lake Victoria Bottling Company, Uganda Grain Milling Company, NYTIL, TUMPECO, Hima Cement Factory among others.

ii) **Partial Privatization (Joint Ventures):** This is where the government sells some of her shares in an enterprise and retains some e.g. the sale of 80% of government shares in Uganda commercial Bank to Stanbic Bank.
iii) **Privatization of management**: This is where government transfers the management of the public enterprise to the private sector but retains authority over ownership e.g. Kampala Sheraton Hotel.
iv) **Repossession (Denationalisation):** This is where the government returns some enterprises to former owners e.g. the return of Asian properties like those of Madhivani, Metha and Agha Khan to their former owners.
v) **Leasing:** This is the renting (leasing) out of public enterprises and utilities to private
vi) **Liberalisation, Demonopolisation or Deregulation**: This refers to the complete individuals for a specified period of time e.g. markets and City parking. removal of barriers or restrictions into entry of private individuals into activities formerly monopolized or exclusively provided by the government government has liberalized the mass media resulting into the setting up privately owned FM radio Stations, Television stations. Newspapers and Magazi
vii) **Liquidation**: This is where the public assets are sold as a going concern especial where the roles of such a business are played by the private sector e.g, Foods and Beverages (U) Ltd., Republic Motors and Uganda Transport Corporation (UTC).
viii) **Selling enterprises to the employees**: This is where government sells enterprises to the former workers by allowing them to buy shares in the company e.g. Uganda Clays Ltd.
ix) **Mortgaging (Sale and Lease back):** This is the temporary transfer of ownership of the public assets and business to the private sector with the aim of repossession by the government in the near future.
x) **Cost Sharing:** This is where the government retains ownership of the enterprises, withdraws from the venture but jointly contributes to the running costs or cost of its maintenance together with beneficiaries (private sector) e.g. cost sharing in public universities and hospitals.
xi) **Franchising or Contracting out (Privatisation of auxillary services):** This is where the provision of goods and services is transferred from government to the private sector with government still retaining the sole right over the ownership of the enterprise e.g. construction or maintenance of roads by private firms.

Reasons for the Privatization of Public Enterprises in Uganda

i) **To reduce corruption:** Through privatization, government targets to reduce corruption and embezzlement of public funds and promote financial discipline, transparency. Accountability and better management of financial resources through close control and supervision by private investors who cannot embezzle their own funds.
ii) **To reduce government expenditure:** The need to reduce government expenditure on inefficient public enterprises in form of subsidies and maintenance costs has prompted government to privatize her public enterprises.
iii) **To widen the tax base**: Through privatization government aims at increasing preduction thereby widening the tax base and increasing government revenue.
iv) **To promote efficiency:** Through privatization. Government aims at stimulating competition among firms hence improvement in the quality of goods and services.

v) **To increase more employment opportunities in the long run**: By privatization of public enterprises government targets to increase production hence widen employment opportunities in the long run.

vi) **To attract foreign investors in the country**: The government needs foreign investors to boost production and privatization is one way of attracting them into the country when they buy the enterprises e.g. Stanbic Bank of South Africa who bought Uganda Commercial Bank.

vii) **To reduce unnecessary bureaucracy in business management:** The conducting of business affairs in public enterprises has proved to be very slow, complicated and time wasting due to unnecessary consultations which delays decision making. Through privatization government aims at creating a private sector which is quick at decision making and can exploit business opportunities as they come along.

viii) **To increase domestic production** : By privatizing her public enterprises, government targets to increase domestic output of goods and services thereby controlling inflation and reducing balance of payment problems.

ix) **To improve resource utilization**: The government is privatizing her enterprises in order to improve resource utilization by creating a private sector which has a profit motive and tries to minimize wastage of resources.

x) To meet the International Monetary Fund (IMF) conditionality of creating a private sector led economy: The govermment has been compelled to privatize her entérprises in order to meet the IMF conditionality of creating a private sector led economy and hence solicit external funds.

xi) **To allow government to concentrate on provision of essential services**: The government is privatizing her public enterprises in order to reduce the role of the government in the economy and therefore have more time to concentrate on provision of essential services like public health and public education (UPE and USE).

xii) **To encourage private initiative i.e. to promote innovations and creativity**: Privatisation is being carried out in order to create a class of creative investors and innovative management that is in position to design better ways of production and can respond to market incentives.

Advantages (Benefits) of Privatisation to Uganda

i) It has reduced corruption and embezzlement of public funds and promoted accountability, transparency and better management of financial resources in the country through close supervision of the privatized enterprises by the private investors.

ii) It has reduced government expenditure and financial burden on the treasury in form of subsidies and maintenance costs to the public enterprises.

iii) It has widened the tax base hence increased tax revenue directly through proceeds from sale of the enterprises and indirectly through taxes imposed on privatized firms.

iv) It has increased domestic production of goods and services thereby controlling inflation and improving the country's balance of payment position.

v) It has stimulated competition among firms hence better quality goods and services and low prices.

vi) It has attracted foreign investors in the country through buying the privatized enterprises e.g. Uganda Commercial Bank which was bought by Stanbic Bank of South Africa.

vii) It has reduced unnecessary bureaucracy by creating a private sector which is quick at decision making and can exploit business opportunities as they come along.

viii) It has increased financial aid to Uganda from the IMF and other western donors.
ix) It has improved resources utilization by the private sector which has a profit motive.
x) It has increased innovations and creativity.
xi) It has widened consumer choices due to increased production of a variety of goods and services.
xii) It has reduced dependence on imports due to increased local production of goods and services.
xiii) it has improved relations between Uganda and the international community especially donors.

Disadvantages of Privatisation to Uganda

i) It has promoted income inequalities as the public enterprises have been bought by a few rich people thereby promoting the interests of a small minority.
ii) It has resulted into increased consumer exploitation through increased prices of goods and services as the private investors aim at profit maximization e.g. the rise in electricity tariffs by UMEME Lid after privatization of the Uganda Electricity Board (U.E.B).
iii) It has resulted into unemployment in the short run as a result of restructuring and retrenchment before and after privatization as well as substitution of labour with machines..
iv) It has led to profit repatriation due to the sale of most of the enterprises to foreigners.
v) It has led to over exploitation or irrational use of resources by the private entrepreneurs in an attempt to maximize profits leading to environmental degradation.
vi) Foreign economic control and domination has resulted from sale of the major enterprises to foreign investors.
vii) Government planning is difficult due to creation of a large private sector which is not directly controlled by government.
viii) Resentment of government and loss of public support as the privatization policy has not been fully supported by the public.
ix) The government has incurred losses due to under valuation of the enterprises and high cost of privatization policy in terms of advertising the enterprises.

Problems encountered in the Privatization of Public Enterprises in Uganda

i) Corruption with the Privatization Unit (PE) e.g the sale of Uganda Grain Milling Company to Caleb International Ltd instead of Unga Ltd of Kenya which had emerged the highest bidder and the most technically competent company.
ii) Poor valuation (under valuation) of the enterprises which has resulted into losses to government.
iii) Poor state of enterprises making it difficult to sale e.g. Uganda Railways Corporation and Uganda Airlines.
iv) Opposition from the public due to ignorance of the benefits of privatization.
v) Unscrupulous or dishonest buyers e.g. the dubious buying of UCB by Westmont Bank Ltd of Malaysia which had to be reversed by parliament.
vi) High cost of the privatization exercise in terms of publicity, contracting values, etc.
vii) Small market which has tended to discourage potential buyers.
viii) Poverty among nationals hence forcing government to sell most of the big enterprises to foreigners

ix) Political instability in some parts of the country which discourages potential buyers especially foreign investors.
x) Underdeveloped capital markets making it difficult for government to float shares of the enterprises to the public through the stock exchange.

PUBLIC REVENUE

This refers to the total income of the state (Government).

Sources of Government Revenue

The government needs money in order to finance its expenditure by carrying out its functions like provision of social services like education and health, maintaining law and order, ete. The sources of government revenue include:

i) **Taxes**: Government obtains revenue through imposition of direct and indirect taxes.
ii) **Loans (borrowing):** This involves borrowing from both internal and external sources.
iii) **Licences:** This is a charge for permission granted by government to an individual or firm to perform a particular service e.g. trading licence.
iv) **Grants and Gifts**: These are free contributions by friendly countries. individuals and organizations to the state to perform specific functions.
v) **Profits from state enterprises:** Some public enterprises e.g parastatals and public corporations generate profits for the government.
vi) **Fines**: These are compulsory financial penalties imposed by courts of law on individuals and firms for violating the law eg, traffic fines for over loading.
vii) **Divestiture (privatization) Proceeds:** Government generates revenue from sale of her public enterprises and assets to the private sector e.g. the sale of UCB to Stanbic Bank.
viii) **Fees:** These are payments for direct services rendered by the government e.g parkingfees, court fees, etc

ix) **Market dues:** This is payment for permission to sell goods in a particular market e.g. Nakasero Market.
x) **National Lotteries:** The surplus from gambling constitutes government revenue.

xi) **Rates:** These are payments for public utilities e.g. water.
xii) **Sale of government securities**: Government generates revenue by selling her securities e.g. treasury bills to the public.
xiii) **Road tolls:** These are payments by individuals or vehicles crossing a bridge or passing a road at a particular point.

Copy the notice attentively, read to understand

Do not forget to invoke the Holy Spirit to guide whoever involved in the struggle of fighting corona virus

May God bless you all

From Bro. WASSWA PETER (0704504485/ 0777691436)