

2C: Joint-Stock Companies

2.3.1 Background

The Industrial Revolution (18th–19th centuries) created complex capital and operational demands that sole proprietorships and partnerships could not meet. Joint-stock companies emerged as a solution, enabling:

- Pooling of capital from multiple investors via share issuance.
- Risk-sharing among shareholders (limited liability).
- Large-scale operations (e.g., railways, colonial trade).

2.3.2 Definition

A joint-stock company is a legal entity or artificial person created by law, separate from its owners, created under the Companies Act (Uganda, **Companies Act, 2012 (Cap. 106)**). In Uganda, they are regulated by the Uganda Registration Services Bureau (URSB).

2.3.3 Characteristics

1. **Separate Legal Entity/ Artificial person:** The company has a distinct legal identity separate from its shareholders. It can borrow capital, own assets, sue, or be sued in its own name.
2. **Limited Liability:** Shareholders are only liable for the company's debts to the extent of their shareholding. Their personal assets are not at risk.
3. **Transferability of Shares:** Shares can be bought or sold easily, especially in public companies, allowing investors to enter or exit without affecting company operations.
4. **Large Capital Mobilisation:** Raises funds from many investors enabling them to finance large-scale projects (e.g., MTN Uganda's IPO (Initial Public Offering)).
5. **Professional Management:** Day-to-day operations are handled by qualified professionals appointed by the board of directors, ensuring efficiency and expertise.
6. **Separation of Ownership and Management:** Shareholders (owners) do not manage the company directly. Instead, professional managers run the business, which may lead to agency issues but improves operational efficiency.
7. **Regulatory Compliance:** Must follow strict laws and transparency requirements set by authorities like the Capital Markets Authority (CMA) and Uganda Registration Services

Bureau (URSB). They are legally required to keep accurate records and prepare audited financial statements to ensure legal and ethical operations.

8. **Perpetual Succession / Continuous Existence:** The company continues to exist even if shareholders or directors leave, die, or transfer their shares. Its existence is not tied to individuals (Continues despite shareholder changes).
9. **Profit Sharing:** Profits are distributed to shareholders in the form of dividends based on the number of shares owned, while the remainder may be reinvested in the business.
10. **Ownership Rights:** Shareholders have rights such as voting in general meetings, receiving dividends, and accessing key company information.
11. **Global Accessibility:** Public companies can list on national or international stock exchanges like the Uganda Securities Exchange (USE), London Stock Exchange (LSE), or New York Stock Exchange (NYSE), attracting global investors.
12. **Legal Framework: Incorporation:** Joint-stock companies are established through a formal legal process that gives them legal status and defines their structure and governance. **Memorandum and Articles of Association:** These key documents set out the company's objectives, operating rules, and the rights and responsibilities of its members.

2.3.4 Formation

1. Preliminary Steps: Planning:

- Develop a **business plan** (objectives, target market, financial & operational plans)
- Choose **company type** (e.g. private/public limited).

2. Legal and Regulatory Requirements:

- **Name Reservation:** Reserve a unique name with URSB
- **Legal Documents:** Draft **Memorandum of Association (MOA)** - A document outlining the company's name, registered office, objectives, and the extent of liability of its members) and **Articles of Association (AOA)**-A document

detailing the internal rules and regulations governing the company's management, operations, and the rights and duties of shareholders and directors).

- **Share Capital:** Determine and subscribe to initial capital.

3. Registration and Incorporation:

- **File documents with URSB:** Submit the MOA, AOA, and other required documents (e.g., name reservation certificate, shareholder details) to the Registrar of Companies or relevant authority for registration.
- **Registration Fees:** Pay the necessary registration fees and stamp duties. pay necessary registration fees fees and obtain a Certificate of Incorporation.
- **Issuance of Certificate of Incorporation:** The Registrar reviews the submitted documents for legal compliance (**verification**). A Certificate of Incorporation is issued, officially recognising the company as a legal entity upon **approval**.

4. Post-Incorporation Compliance:

- **Commencement of Business: Public limited companies** must issue a prospectus, invite public subscription, and meet minimum subscription requirements before starting operations. **Private limited** companies may commence business immediately upon receiving the Certificate of Incorporation.
- Appointment of directors and secretary
- Tax registration (e.g., URA TIN, VAT)
- Opening corporate bank accounts in the companies' names.
- Licensing from relevant authorities (e.g., KCCA, UIA)
- **Annual Compliance:** must hold **Annual General Meetings** (AGMs) to review performance and make key decisions, prepare **audited financial statements**, and submit annual returns and reports to the regulatory authorities.

2.3.5 Types of Companies

1. Statutory companies / Statutory corporations

These are public enterprises created by an Act of Parliament (a statute) to carry out specific public functions or services. They are owned and controlled by the government. Their legal powers, duties, and structures are defined in the establishing legislation.

Key Features of Statutory Companies:

1. **Created by Law:** Established through a specific Act of Parliament.
2. **Government Ownership:** Fully or majority-owned by the state.
3. **Separate Legal Entity:** Can sue and be sued in their own name and can own property.
4. **Public Purpose:** Usually provide essential services such as infrastructure, transport, energy, water, and regulation.
5. **Operational Autonomy:** Run by a board of directors or governing body, though under ministerial oversight.
6. **Not for Profit (Usually):** Primary goal is service delivery rather than profit-making, though some may generate revenue.

Examples of Statutory Companies in Uganda:

- Uganda National Roads Authority (UNRA) – established by the UNRA Act, 2006
- National Water and Sewerage Corporation (NWSC) – established under the [Statute of 1995](#)
- Uganda Communications Commission (UCC) – created under the UCC Act, 2013
- Electricity Regulatory Authority (ERA) – established by the Electricity Act, 1999
- Uganda Broadcasting Corporation (UBC) – established by the UBC Act, 2005
- National Social Security Fund (NSSF) – established by the NSSF Act, Cap 222
- Uganda Development Corporation (UDC) – established under the UDC Act, 2016

2. Companies Limited by Shares

A company limited by shares is a business entity in which shareholders are liable for company debts only up to any unpaid amounts on the shares they hold, should the company's assets be insufficient to cover its debts. This means that if the company faces financial difficulty, shareholders are only responsible for the value of the shares they hold and not personally liable for the company's debts. In Uganda, such companies are governed by the Companies Act, 2012 (Cap. 106), and must register with the Uganda Registration Services Bureau (URSB).

Key Features of companies limited by shares in Uganda's Context:

1. **Legal Personality:** The company is a separate legal entity, capable of owning assets, incurring liabilities, and entering contracts independently of its shareholders.

2. **Share Capital:** The company issues shares, which represent ownership. Shareholders pay for these shares, and their liability is capped at any unpaid amount on their shares.
3. **Registration:** Must be registered with the **Uganda Registration Services Bureau (URSB)**. The process involves submitting a memorandum and articles of association, detailing the company's objectives, share structure, and governance rules.
4. **Governance:** Managed by a board of directors, with at least one director for private companies and two for public companies.
5. **Taxation:** Subject to corporate income tax (30% for resident companies as of 2025), VAT (if applicable), and other taxes administered by the **Uganda Revenue Authority (URA)** such as PAYE.
6. **Types:** Private and public limited companies are the most common form of companies limited by shares in Uganda. But they can also form as government companies.
 - **Private Limited Companies (Ltd):** The transfer of shares is restricted by the company's articles of association. These companies are typically limited to a maximum of 100 members with a minimum of 1 (one) member and cannot offer their shares to the public. They are suitable for small to medium-sized enterprises and family-owned businesses. E.g., Roofings Limited, Centenary Rural Development Bank Limited, Kakira Sugar Limited, Tororo Cement Limited and Nile Breweries Limited

International Examples:

- Mars, Inc. (USA)
- Aldi (Germany)
- IKEA (Sweden)
- Naivas Limited (Kenya)

Characteristics of Private Limited Companies

- **Shareholder Restrictions:** Typically restricts the number of shareholders to 100 and prohibits public trading of shares.
- **Commencement of business:** Can begin operations immediately upon receiving the certificate of incorporation.
- **Transfer of Shares:** Share transfer is usually subject to approval by other shareholders or the board of directors.

- **Strict regulatory requirements:** Less stringent regulatory and disclosure requirements compared to public companies.
- **Public Limited Company (PLC):** There is no restriction on the number of shareholders, can offer their shares to the public and may list on the **Uganda Securities Exchange (USE)** or other stock markets. They are often large businesses with broad ownership. E.g., New Vision Printing and Publishing Co Ltd, Uganda Clays Limited, Bank of Baroda Uganda Ltd, NIC Holdings Ltd (National Insurance Corporation), DFCU Ltd, Cipla Quality Chemical Industries Ltd.

International Examples:

- Apple Inc. – NASDAQ
- Tesco PLC - London Stock Exchange
- Safaricom PLC - Nairobi Securities Exchange
- Toyota Motor Corporation - Tokyo Stock Exchange

Characteristics of Public Limited Companies

- **Public Offering:** Can offer shares to the public and are often listed on stock exchanges.
- **Number of Shareholders:** No upper limit on the number of shareholders but have a minimum of five members.
- **Commencement of business:** cannot begin operations immediately upon receiving the certificate of incorporation; it must first obtain a certificate of commencement of business.
- **Regulatory Compliance:** Subject to rigorous regulatory requirements, including regular financial disclosures, corporate governance standards, and compliance with securities laws.
- **Government Companies:** These are companies in which the government holds at least 51% of the share capital. Although run with private sector efficiency, they remain subject to government oversight and serves public objectives. E.g. Uganda National Oil Company (UNOC), Uganda Development Bank Limited (UDBL), Uganda Airlines (Uganda National Airlines Company Ltd), Uganda Electricity Generation Company Ltd (UEGCL), Uganda Electricity Distribution Company Ltd (UEDCL),

Uganda Electricity Transmission Company Limited (UETCL), Posta Uganda (Uganda Post Limited), Kiira Motors Corporation, National Housing and Construction Company Limited (NHCC) and New Vision Printing and Publishing Co Ltd.

Summary Table

Entity	Government Shareholding
Uganda National Oil Company (UNOC)	100% (51% Ministry of Energy and Mineral Development; 49% Ministry of Finance, Planning and Economic Development)
Uganda Development Bank Limited (UDBL)	100% (Ministry of Finance, Planning and Economic Development)
Uganda Airlines (Uganda National Airlines Company Ltd)	100% (50% Ministry of Finance; 50% Ministry of Works and Transport)
Uganda Electricity Generation Company Ltd (UEGCL)	100% (Ministry of Finance, Planning and Economic Development; Ministry of Energy and Mineral Development)
Uganda Electricity Distribution Company Ltd (UEDCL)	100% (60% Ministry of Energy and Mineral Development; 40% Ministry of Finance, Planning and Economic Development)
Uganda Electricity Transmission Company Ltd (UETCL)	100% (Ministry of Finance, Planning and Economic Development)
Posta Uganda (Uganda Post Limited)	100% (99% Ministry of Finance, Planning and Economic Development; 1% Ministry of Works, Housing, and Urban Development)
Kiira Motors Corporation	96% (Ministry of Science, Technology and Innovation and Office of the President); 4% (Makerere University)
National Housing and Construction Company Limited (NHCC)	51% (Ministry of Finance, Planning and Economic Development); 49% (Libyan African Investment Company)
New Vision Printing and Publishing Co. Ltd (Vision Group)	53% (Government of Uganda); 47% institutional and individual investors.

3. Companies Limited by Guarantee

These are special types of companies commonly used for non-profit purposes. They do not have shareholders, and instead, members (also called guarantors) agree to contribute a fixed amount, usually small towards the company's debts if it is wound up.

Key Features of Companies Limited by Guarantee:

- **Non-Profit Objectives:** Typically formed for charitable, educational, religious, cultural, sporting, or community-based purposes.
- **No Share Capital:** These companies do not issue shares and cannot distribute profits to members. Any profits are reinvested in achieving the company's objectives.
- **Membership:** Often obtained and maintained through payment of an annual or periodic subscription fee, as determined in the organisation's constitution or by-laws. Members may include individuals or corporate bodies.
- **Members/Guarantors:** The members guarantee to pay a nominal amount (e.g., UGX 10,000) in case the company is wound up. They are not liable beyond this guarantee.
- **Non - transferable membership:** Membership is not transferable or saleable like shares.
- **Separate Legal Entity:** Like all companies, they are separate from their members and can enter contracts, own property, sue and be sued.
- **Limited Liability:** Members enjoy limited liability, limited to the amount they guaranteed.
- **Governance:** Managed by a board of directors or trustees, in accordance with its constitution or articles of association.

Common uses

- Charities
- NGOs and Civil Society Organisations
- Professional associations
- Clubs and societies
- Faith-based organisations
- Educational institutions

Examples in Uganda:

- The Rotary Club of Kampala Central
- Association of Microfinance Institutions of Uganda (AMFIU)
- Uganda National NGO Forum

- Uganda Law Society

4. Unlimited Companies

Unlimited companies, characterised by members' unlimited personal liability for company debts, are rare as multinational entities, particularly in host countries like Uganda where the Companies Act, 2012 (Cap. 106) is silent on specific provisions governing their cross-border operations. When operating in such jurisdictions, these companies register as foreign entities under general company law, subjecting members to full liability for global debts unless mitigated by parent company structures or contracts.

2.3.6 Advantages of Joint-Stock Companies

1. **Limited Liability:** Protects shareholders' personal assets.
2. **Large Capital:** Enables major projects (e.g., Umeme's infrastructure investments).
3. **Perpetual Succession:** Ensures continuity which allow profit maximisation.
4. **Professional Management:** Skilled managers enhance efficiency.
5. **Transferability of Shares:** Shares can be easily transferred from one person to another, providing liquidity to shareholders.
6. **Economies of Scale:** Large-scale operations can lead to economies of scale, reducing costs and increasing profitability.
7. **Public Confidence:** Being subject to regulatory oversight and required to publish financial statements can enhance public confidence and attract investors.
8. **Risk Sharing:** The risks associated with business ventures are spread among numerous shareholders. This reduces the financial burden on any single investor and encourages investment in potentially high-risk but high-reward projects.

2.3.7 Disadvantages

1. **Complexity:** High formation and compliance costs due lengthy legal procedures.
2. **Regulatory Burden:** Extensive reporting requirements may be burden and can lead to loss of business confidentiality.
3. **Agency Problems:** The separation of ownership and management can lead to conflicts of interest between shareholders (owners) and managers. Managers may not always act in the best interests of shareholders, potentially leading to inefficiencies.

4. **Dilution of control:** Issuing new shares to raise capital can dilute the ownership percentage of existing shareholders, reducing their control and influence over company decisions.
5. **Double Taxation:** Corporate and dividend taxes apply in some jurisdictions.
6. **Potential conflicts:** Possibility of conflicts due to presence large membership that disrupt efficiency of business operations.

2.3.8 Tax Incentives in Uganda

- **Free Zones:** Tax exemptions for exporters (e.g., 10-year income tax holiday for investments over USD 50M).
- **Tax Deductions:** 100% for research/training expenditure (not exceeding in aggregate 5 years for training expenditure), 2% income tax deduction for employing at least 5% of persons with disabilities.
- **Double Taxation Agreements (DTAs):** To avoid taxing the same income twice in both countries. Reduced withholding tax (a tax deducted at source on payments like dividends, interest, or royalties sent abroad) with countries like the UK (15%) and Denmark, Norway, South Africa, India, Italy, Netherlands and Mauritius, (10%).

2.3.8 Dissolution of Companies in Uganda

The dissolution of a company in Uganda is a formal, legally governed process that brings a company's existence to an end. The dissolution of companies in Uganda is governed primarily by the **Companies Act, 2012 (Cap. 106)** and the **Insolvency Act, 2011**, supplemented by the **Insolvency Regulations, 2013**. These laws provide that termination of a company's existence can occur through liquidation or winding up, administration, and receivership.

1. Liquidation/Winding Up

Liquidation (or winding up) is the process of dissolving a company by selling its assets to pay off creditors, with any surplus distributed to shareholders.

Types of Liquidation in Uganda:

- **Voluntary Liquidation** (Members' or Creditors') – Initiated by shareholders or creditors.
- **Compulsory Liquidation** – Court-ordered, often due to insolvency.

Reasons for Liquidation:

- Inability to pay debts
- Expiration of company duration in its constitution
- Special resolution by shareholders
- Public interest or fraud

Ugandan Examples:

- **National Bank of Commerce (NBC) Uganda (2012)** – The Bank of Uganda placed NBC under compulsory liquidation due to insolvency, with assets sold to pay creditors.
- **Uganda Co-operative Bank** - liquidated in 1999 by Bank of Uganda due to insolvency and non-performing loans.

Global Example:

- **Lehman Brothers (2008, USA)** – One of the largest bankruptcies in history, leading to a structured liquidation process under Chapter 11 (US Bankruptcy Code) after failing to meet its financial obligations.

2. Administration (Corporate Rescue Mechanism)

Administration is a legal process aimed at rescuing an insolvent company or achieving better returns for creditors than through liquidation.

Key Features

- An **administrator** is appointed to manage company affairs, business, and property.
- Creditors' claims are frozen during the process.

Global View:

This model is more common in jurisdictions like the UK, Australia, and South Africa.

Ugandan Context:

Though Uganda's **Insolvency Act, 2011** provides for **administration**, it is not widely used due to:

- Lack of awareness
- Preference for liquidation by creditors

- Complex commercial litigation environment

An **administrator** in Uganda must be a licensed insolvency practitioner appointed by the court or creditors.

Ugandan Example:

- **Uganda Telecom Limited (UTL)** – Placed under **administration** in 2017 by the Uganda Communications Commission (UCC) to prevent collapse. The government took over management to stabilise operations.

Global Example:

- **Nakumatt Holdings Limited**, once Kenya's largest supermarket chain, underwent a formal **administration process in 2018** under Kenyan insolvency law.
- The UK high street fashion retailer **Debenhams** entered administration more than once (in April 2019 and again in April 2020), before its eventual liquidation.

3. Receiverships

Receivership occurs when a secured creditor appoints a **receiver** to take control of a company's assets (or the entire business) to recover debts. It focuses on **realising collateral** rather than saving the company. Unlike liquidation, the company may continue operating.

Key Aspects in Uganda:

- Receivership is frequently used, especially by banks and financial institutions (common in **bank loan defaults**).
- The receiver's primary duty is to the appointing creditor.

Ugandan Example:

- **WBS TV** was placed under receivership by **URA** in April 2016 over unpaid taxes totalling around Shs 7.2 billion accrued over a decade. Court-appointed receiver **Mr Kabiito Karamagi** took control to recover the debt, but due to lack of capital, turnaround efforts failed, leading to asset sales and the station ceasing broadcasts on 14 December 2016.

Global Examples:

- **Quintis Ltd (Australia)** a sandalwood plantation company, went into receivership in 2017 when a secured lender appointed **McGrathNicol** to manage and restructure its assets after loan defaults.

Comparison Summary:

Type	Focus	Uganda's Legal Basis	Common in Uganda?	Example (Uganda)	Example (Global)
Liquidation	Dissolve company, pay debts	Insolvency Act, 2011	Yes	Uganda Co-operative Bank (1999)	Lehman Brothers (USA)
Administration	Rescue or reorganise	Insolvency Act, 2011	Rare	Uganda Telecom Limited (2017)	Debenhams (UK)
Receivership	Realise creditor security	Insolvency Act, 2011	Very common	WBS TV (2016)	Quintis Ltd (Australia)

Online Video Resources

- *Private Limited Company:* <https://www.youtube.com/watch?v=kntCosww9ZQ>
- *Public Limited Company:* https://www.youtube.com/watch?v=Q7W_RUc024
- *Meaning of Limited Liability:* <https://www.youtube.com/watch?v=FlaP0wrtjUA>
- *What is the Difference between Corporation and Incorporation:* <https://www.youtube.com/watch?v=-3s8k9ZeDIO>.

Case Study: A Tale of Two Companies – NHCC and Carillion

In the early 2000s, Uganda's **National Housing and Construction Company (NHCC)** sought to attract private investment alongside government backing to expand urban housing. As the company grew, it drew in shareholders, attracting the Ugandan government as a majority shareholder, operated as a separate legal entity, and made decisions through a professional board, features typical of many joint stock companies. Over time, however, the company struggled to complete key projects, citing funding delays and bureaucratic hurdles, despite having access to bank loans and public support.

Across the globe, **Carillion plc** in the UK, a firm involved in infrastructure and public service delivery, expanded rapidly with funds raised through borrowing. Though privately owned, it

became deeply embedded in government projects. After years of mismanaging costs and overpromising on contracts, Carillion collapsed in 2018. Creditors triggered legal processes that led to the appointment of a receiver and eventual dissolution. Both companies were formed through legal incorporation, attracted shareholders, and undertook large projects with public implications. Yet one **continues to face serious operational challenges**, while the other dissolved entirely due to financial failure.

Discussion Questions

With evidence from the case:

1. Describe the types of companies represented by NHCC and Carillion.
2. Identify and explain the key characteristics of joint stock companies.
3. Discuss the implied benefits and risks associated with forming the specific types of joint stock companies shown by NHCC and Carillion.