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**ECONOMIC INTEGRATION**

Economic integration refers to the coming together of two or more countries in a given region for the sake of mutual (economic) benefit of all member states.

**Conditions necessary for success of economic integration.**

1. **Countries should be in the same region or share common borders**. This minimizes transport costs and helps when undertaking construction of joint infrastructures like roads, railways and harbor linking member countries.
2. **The countries or intending members must be relatively the same level of development.** This ensures equitable distribution of costs and benefits.
3. **Intending countries should be of approximately the same population size or market size**. This is important in sharing costs of infrastructural development and creation of a wider market in the region.
4. **Intending member countries should have similar political and economic ideology**. This enables harmonization of political and economic policies.
5. **The countries should be ready to maintain good political ties or relations among themselves.** There should be peace in all member countries, harmony and cordial relationship among leaders of member countries.
6. **Member countries should have well developed infrastructure.** This enables easy transport of goods and better communication among member countries.
7. **Comparative advantage must differ among the countries**. This enables specialization in different products to take place.

**Stages/forms of economic integration**

The degree of economic integration can be categorized into is a stage:

* Preferential trade area
* Free trade area.
* Customs union
* Common market
* Economic union
* Complete economic integration

**Preferential trade area**

A form of regional cooperation where countries reduce tariffs among themselves for selected goods only while maintaining tariffs on non-selected goods from member states.

**Free trade area.**

Form of regional cooperation where by existing internal trade barriers are eliminated among member states but each member state retains the pre-requisite to impose different external tariffs.

**Custom union**

Is a form of economic integration in which member countries have free trade among themselves and common external barriers or tariffs.

**Common market.**

Is a form of economic integration in which member states have free trade among themselves, common external trade barriers and free mobility of factors of production among themselves.

**Economic union**

A form of regional cooperation in which there is free movement of goods and services among member states (absence of internal tariffs), common external tariffs and other barriers, free mobility of factors of production among member states, common social services (research, transport and communication), common monetary policies, use of a single currency(or monetary standard), common fiscal policies, harmonious economic policies, similar political system, and existence of a supra national organization(such as regional council) to eliminate policy differences among member states.

It is the full integration of two economies into a single economic entity.

**Full or complete integration.**

This is the highest and last level of integration. At this level, member states surrender all national sovereignty on economic social, finance and political spheres to the regional supra-national body.

**Merits of regional cooperation/economic integration.**

1. It promotes trade creation hence increased volume of trade.
2. It leads to increased production due to specialization based on the law of comparative cost advantage.
3. Stimulates industrial development due to existence of larger markets created.
4. Avoids duplication of resources due to specialization in production hence saving resources.
5. Leads to low average cost of joint research and information gathering
6. It leads to better exploitation of resources hence avoiding resource wastage
7. It improves on the quality and quantity of factor inputs due to competitiveness among member countries.
8. Improves the bargaining ability of the region in the international fora.
9. It strengthens political cooperation and understanding among member states.
10. There is variety of goods produced hence widening consumer choice.
11. It leads to creation of more employment opportunities due to free factor mobility.
12. It leads to creation of a wider market.
13. Economies of scale are enjoyed by firms due to a widened market.
14. Increased provision of infrastructures at relatively low average cost of each member country.

**Demerits of economic integration**

1. It leads to loss of tax revenue due to reduced or removal of tariffs.
2. It leads to unequal distribution of benefits among the member states.
3. It leads to trade diversion as trade shifts from low cost non-member countries to high cost member countries.
4. It results into surpluses may result due to production of similar goods.
5. It leads to buying of poor quality goods from member states.
6. It leads to sacrifice of national interest since member countries have to act in the interest of all.
7. It leads to loss of political sovereignty as a country is no longer independent because of trading policies dictated by the bloc.

**BUSINESS UNITS AND THEIR ORGANISATION**

Some business units are owned by one person while others by groups of persons. Some are big whereas others are small.

**Factors that influence the size of a business.**

1. **Floor area occupied**. Large firms occupy a larger floor area compared to small firms.
2. **Amount of capital employed**. Large firms invest larger capital in businesses compared to small firms.
3. **Size of market**. Large firms serve a larger market compared to small firms.
4. **Production technique**. Large firms employ modern techniques of production while small firms employ primitive techniques of production.
5. **Amount of goods produced**. Large firms produce on large scale while small firms produce on small scale.

**Reasons for the continued existence of small firms alongside big firms**

1. **Lack of capital**. Most people who start businesses have small amount of capital to invest.
2. **Small market size**. The small market size has made the firm firms to continue to exist.
3. **Personal service.** The owners of small firms can easily maintain personal contacts with their customers. Expanding them makes it hard to have the personal contact with individual customers and this makes them to remain small.
4. **Easy management.** Small firms are easy to manage. The direct contact with employees makes management easy.
5. **Limited liability.**  Businessmen feel secure to have a small concern with a few members and enjoy limited liability.
6. **Flexibility.** Small firms can easily change from one line of business to another and therefore preferred by many people.

**FORMS OF OWNERSHIP**

Business units may be broadly classified into two groups/sectors namely private and private sector.

Private sector consists of businesses owned by private individuals jointly or solely.

The public sector comprises of enterprises owned by the government.

Businesses owned by individuals are:-

1. Sole trade/sole proprietorship
2. Partnership
3. Joint stock companies
4. Cooperative societies

The public sector consists of the following units:-

1. Nationalized industries and public corporations
2. Local Authorities for example Uganda Revenue Authority.

**SOLE PROPRIETORSHIP**

This refers to a business run by a single man who contributes capital and is responsible for all the profits and losses of the business. A person who owns a business alone is called a sole trader or **sole proprietor**.

Sole trader and the business are the same entity implying that in case the business fails to pay the debts from the business resources, the sole trader is called upon to sell his private property in order to clear the debt.

Sole proprietorships are the most common forms of business organization in East Africa.

**Advantages of sole proprietorship**

Most businesses in Uganda are sole proprietorship because of the following advantages:-

1. **Little capital required**. This type of business is easy to set up since it requires small capital.
2. **Flexibility.** The business is easy to change from one line of business to another.
3. **Enjoys all the profits.** A sole trader enjoys all the profits of the business alone. This provides him with a high degree of responsibility because he knows that his hard work benefits him.
4. **Easy decision making.** Decision making in this type of business is easy since the sole trader need not to consult any person as regards the affairs of the business.
5. **Personal contact with the customers.** A sole proprietor is in direct contact with the customers therefore he knows the type of goods needed by them.
6. **Top secrets.** A sole proprietor enjoys top secrets of his business and has better chances to preserve them than any other form of ownership.
7. **Confidentiality.** There is confidentiality as regards this type of business because a sole trader knows that his hard work benefits him and his mistakes injure him alone.
8. **Few legal formalities required.** There are few legal procedures required to set up this kind of business. Formation costs are lower compared to other forms of business units.
9. **Easy management.** Since the business is small, it is easy to manage.
10. A sole proprietor is able to assess the credit trustworthiness of the customers because of his close relationship with them. He can therefore extend credit to a few selected customers.
11. **Close supervision.** There is close supervision in this type of business which results into efficiency.
12. A sole trade provides employment to his family members who help him/her in the day to day running of the business.

**Disadvantages of sole proprietorship**

A sole proprietor suffers the following disadvantages:-

1. **Unlimited liability.** A sole proprietor has unlimited liability implying that in case he fails to pay the debts of the business from its resources, a sole trader undertakes to pay the money by selling his personal belonging.
2. **Limited room for expansion.** There is limited room for expansion due to the limited resources invested.
3. **Works for long hours.** A sole proprietor works for long hours since he carries out a wide range of activities alone.
4. **Business based on owner’s life span.** The business is based on the life span of the owner. If the owner dies, even the business collapses. There is lack of continuity of the business.
5. **Bears all the risks.** A sole proprietor bears all the risks of his business alone for example bad debts and losses.
6. **Limited profits.** A sole proprietor enjoys limited profits due to limited capital resources invested in the business.
7. **Lack of specialization.** Lack of specialization in running of the business may lead to poor performance. This is because one person cannot manage all aspects of the business effectively for example one may be a good salesman but a poor accountant.
8. A sole proprietor cannot get money from financial institutions because he does not have collateral security.
9. **Unbecoming decisions.** A sole proprietor is likely to come up with unbecoming or wrong decisions due to lack of consultations.
10. If a sole trader falls sick, the business may experience difficulties due to lack of adequate management.
11. **The psychological effect** of unlimited liability leads to constant strain, poor judgment and always poor relationship with employees.

**PARTNERSHIP**

This refers to the relationship that exists between persons carrying out a business in common with a view of making profits. The owners of such a business are called partners. A partnership is formed by a minimum of two persons and a maximum of 20, except for partnerships that provide professional services such as law firms, medicine etc which have a maximum of 50 persons.

**Characteristics of partnership**

1. Membership ranges from 2 to 20 for commercial businesses and 2 to 50 for professional firms.
2. There is no transfer of shares or capital without the knowledge of other partners.
3. Management is carried out by all partners in case of ordinary partnership.
4. Any change made should be in consultation with all members of the partnership.
5. All partners are agents of the partnership. Each partner is free to act on behalf of the business.
6. There should be contractual agreement among partners before started.
7. The association is registration with registrar of companies.
8. Decision making has to follow the majority votes of the partners.

**Types of Partnerships**

1. **Temporary partnership**. This is a type of partnership formed for either a specific period or purpose. At the expiry of which the partnership is dissolved for example Mukasa and Kagoda may form a partnership solely for the purpose of digging a borehole and after the completion of the borehole, the partnership cease.
2. **Permanent partnership.** This is intended to continue indefinitely that is to say their end is not known at the time of formation.
3. **Limited partnership.** This is a form of partnership where the liability of members is limited to capital contributed.
4. **Unlimited partnership.** This is also called ***ordinary or general*** partnership. It is a form of partnership where the liability of members is unlimited. This means that if the business is unable to clear the debts from its own resources, the members can be called upon to sell their private property in order to clear the debts.
5. **Syndicate partnership.** This is a form of partnership which is formed to carry out certain transactions.

**Types of Partners**

a) *Partners are classified according to role played* i.e. Active and dormant partners.

* 1. **Active partner.** This is a partner who in addition to contributing capital, sharing the profits and losses of the business plays an active part in the day to day running of the business.
	2. **Dormant partner.** This is a partner who contributes capital, shares the profits and losses of the business but **DOES NOT** participate in the day to day running of the business.

b) *Partners are also classified according to the liability of members as:-*

1. **Limited partner.** This refers to a partner whose liability towards the debts incurred by the business is limited to his/her capital contributed. This means that should the business fail to pay the debts of creditors, a limited partners is not required to contribute anything beyond his capital contribution.
2. **General partner/unlimited partner.**  This is a partner whose liability towards the business debts is unlimited. This means that if the business fails to pay debts of creditors from its own resources, the general partners are called upon to sell their private property to settle the debt.

c) *Partners are also grouped according to age as:-*

1. **Major partner.** This refers to a partner who is above 18 years of age. This is called the majority age. Such a partner is free to enter into contracts because he/she has personal consent.
2. **Minor partner.**  This is a partner below 18 years of age. In most cases a minor partner is not liable to the debts of the firm beyond his capital contribution.

d) *Partners are classified according to the capital contributions as:-*

i) **Real partner.** A real partner is a person who has actually contributed capital into the business.

1. **Quasi partner/Nominal partner.**  This is a person who neither contributes capital nor takes part in the day to day running of the business but just allows the firm to use his name as a partner.
2. **Partner by Estoppel.** This is not a real partner but the way he conducts him/herself makes the public to believe that he/she is a partner.

**Formation of partnership**

There are no legal formalities followed if partners wish to run the business under their own names. They do not need to apply for any registration. However, if they decide to run the business under another name other than their personal names, they are required to register the firm’s name with the registrar of business names.

Members need to graft an agreement called a partnership deed.

**Partnership Deed**

This is a written agreement by partners when forming a partnership outlining the basis on which the business is to be conducted in order to avoid future quarrels and misunderstandings.

**Contents of the Partnership Deed.**

The partnership deed usually contains the following clauses:-

1. Name of the partnership. The proposed name of the business should be clearly shown in the partnership Deed.
2. The location, address and area of operation of the business.
3. Objective of setting up the partnership business.
4. The name, address and occupation of each partner
5. The status or type of each partner for example active, dormant, limited, minor etc.
6. The amount of capital contributed by each partner is shown in this agreement.
7. The ratio in which profits and losses of the business are to be shared by each partner.
8. The rights and duties of each partner for example drawings allowable each year, salary if any to an active partner, interest on capital etc.
9. The duration of the partnership in case it is a temporary partnership.
10. Procedure to be adopted at dissolution of the partnership in case of temporary partnership.
11. Manner in which the books of accounts should be kept.
12. Means of arbitration to be used to dissolve matters which can’t be mutually agreed upon.
13. Methods of valuing goodwill on admission, retirement and death of a partner.

**Contents of a partnership Act**

1. Each partner is entitled to participate in management.
2. Each partner gets an equal share of profit and losses of the business.
3. In case of differences, the decision may be taken by majority of partners.
4. No interest is to be allowed on capital
5. No salary is allowed to any partner
6. Every partner has a right to inspect the books of accounts
7. 5% interest is to be paid on any loan advanced to the business (other than capital) by a partner.
8. A partner shall be indemnified in respect of liabilities assumed in the course of business.
9. A partner has a right not to be expelled by other partners.
10. A partnership ends with death of a partner unless an agreement is made prior to death.

**Rights and Duties of a partner.**

Unless the partnership deed specifies otherwise, a partner has the following rights and duties:-

1. The firm must compensate a partner for liabilities incurred by him/her in the conduct of the business.
2. Every partner who has access to the firm’s fund must render accounts utmost good faith.
3. If a partner has a private business which competes with the partnership business, all profits made by him/her must be surrendered to the firm.
4. All partners are personally liable to the debts incurred by the firm.
5. No new partner should be admitted without the consent of other partners. Similarly, a partner should not sell his share to an outsider without the consent of other partners.
6. No partner may be expelled without the consent of other partners.
7. Every partner has a right to act on behalf of the firm for example in signing documents as long as he/she acts in the provisions of the partnership deed.
8. Every partner has a right to inspects the books of accounts of the firm when need be.

**Advantages of Partnership**

Partnership has the following advantages:-

1. Capital contributed is larger than in case of sole trade. This gives room for expansion for business.
2. The burden of losses is distributed to all partners unlike a sole trader who faces the burden alone.
3. Formulation of partnership is easy since it does not require many legal formalities.
4. The work of the business is distributed amongst the partners.
5. In a limited partnership, members’ liability is limited to their capital contribution.
6. Different partners have different skills which can be achieved. Each member can specialize in his own field.
7. The absence of a dormant partner cannot stop the business from operating.
8. In partnership, a new partner may be admitted in case the firm needs more capital for expansion.
9. The business accounts can be kept as a secret to only members of the firm.
10. Discussions and consultations during decision making yield sound decisions.
11. The firm can easily borrow money from financial institutions because it has collateral security to present to the bank.
12. The firm can easily expand because of the large capital resources invested.

**Disadvantages of Partnership**

Partnership has the following disadvantages:-

1. Profits are shared amongst partners which reduces the amount received by each partner.
2. Absence of an active partner affects the running of the business.
3. The death and retirement of a partner leads to dissolution of the partnership.
4. If one partner works hard and the profits are raising out of his labour, they are shared by all partners.
5. With ordinary partnership the liability of members is unlimited to the capital contributed.
6. Decision making may delay as a result of consulting all partners and disagreements.
7. Misconduct of one partner affects the entire business for example a mistake made by one partner may result into losses which are shared by all the partners.
8. There is lack of responsibility. As a result of working as a group, no single partner will be held responsible for the mistakes made in the business.
9. The capital resources of the business are limited due to the limited number of people in the business i.e. it ranges from 2 to 20 and 2 to 50 for firms offering professional services.
10. Actions taken by one partner in good faith on behalf of the firm are binding on all partners.

**Dissolution of partnership.**

Partnership may come to an end under the following circumstances:-

1. If it is a temporary partnership at the expiry of the specified period or on completion of the purpose of the partnership, it is dissolved.
2. In case a partner becomes insane, bankrupt or dies, the partnership is dissolved.
3. If an event occurs that makes the partnership unlawful i.e. a law is introduced banning the activities carried by the firm.
4. Partnership can be dissolved by the court of law if it acts contrary to the provisions of the partnership deed and damages the interests of the firm.
5. A partnership can be dissolved if it is operating at a loss.
6. Written request for a dissolution by a partner.
7. Persistent disagreement among the partners may the members to terminate the partnership.
8. Retirement or admission of a new partner may lead to a permanent or temporary dissolution.
9. Mutual agreement by all the partners to dissolve the business (voluntary dissolution).

**JOINT STOCK COMPANIES**

A company is corporate association of persons formed to carry out certain specific functions. A company is a separate legal entity from the members who comprise it because there is continuity irrespective of death or bankruptcy of a member.

**Features of joint stock companies.**

1. **Legal entity**. The company is separate legal entity form the members who constitute it. It can own property, sign contracts, sue and be sued in its own name.
2. **Limited liability**. The members’ liability is limited to the share capital which remains unpaid.
3. **Perpetual Succession*.*** There is continued existence of the company irrespective of death, insanity and bankruptcy of a shareholder.
4. **Common seal**. Since the company is an artificial person, it must have a seal to enable it sign documents.
5. **Corporate Name**. The company’s name must be approved by the Corporate Affairs Commission, and is the corporate name appearing on the certificate of incorporation sent to the association by them.
6. **Property**. The company owns both real and personal assets upon incorporation.
7. **Profits for members.** A company must not pay any money to a member (or any associate of a member) without the board of director’s approval. The exceptions are payments that are incidental to activities carried on by the company in accordance with its object

**Advantages of joint stock companies / limited liability companies**

1. A company issues different types of shares to suit the different needs of investors.
2. **Large capital contribution**. A company can raise large amount of capital through sale of shares and debentures.
3. The management of the company is in the hands of directors who are experts. They are liable to be removed if the shareholders find their work unsatisfactory.
4. Large sums of capital enables large scale production which results into less costs of production and higher profits.
5. **Continued existence**. The existence of a company is not affected by death or bankruptcy of a shareholder/Continued existence.
6. **Shares are freely transferrable**. A shareholder does not need to get permission to sell off his/her shares.
7. If a company is performing well, a shareholder will be able to sell his/her shares at a higher price.
8. Employees may be allowed and encouraged to buy shares in a company giving them added incentive to work.
9. The publication of books of final accounts safeguards shareholders against incidences of fraud by directors/employees.
10. They are better placed to acquire bank loans because they own assets which are used as security.
11. A company can employ specialists which increases efficiency and output.
12. Specialization can be easily exploited. This is as a result of employing people with different talents.
13. Low income earners can be able to invest because shares are issued at very low price.
14. Governance by loyalty. Shareholders are safeguarded by legal regulations pertaining to the company.

**Disadvantages of joint stock companies.**

1. **Formation is expensive and lengthy.** The process of forming a joint stock company is lengthy and expensive since it involves payment of registration fee and preparation of various documents.
2. **Delayed decision making.** Decision making of joint stock companies is lengthy since there is need to consult a number of people before a final decision is reached.
3. **Separation of ownership from management.** The owners of the company do not participate in the management of the company. They are furnished with annual reports of the transactions that take place during a given period.
4. **Lack of secrets.** There is total lack of secrets in a public limited company because it is a legal requirement to submit annual returns and accounts to the registrar of companies.
5. **Conflict of interest**. Directors may have personal interests that conflict with those of the company which results into mismanagement.
6. **Not flexible.** The company must comply with a number of legal restrictions like acting intra-vires which makes its operations inflexible.
7. **Diseconomies of scale.** As a result of over expansion, joint stock companies suffer the disadvantages of large scale production like complex management.
8. **Lack of personal interest.** The shareholders do not have personal interest in their business like a sole trader.

**Formation of a company**

The people who come up with the idea of forming a company are called **promoters**. For a private limited company, it requires two promoters and for a public limited company it requires seven promoters.

**Documents involved in forming a limited company**

The following documents are drafted by the promoters when forming a company:-

1. **Memorandum of Association**

This is a document that defines the relationship between the company and outsiders. It outlines the powers and limitations of the company. It is prepared by the promoters and presented to the registrar of companies as an application to form a company.

**Clauses/contents of a memorandum of association**

a) **Name Clause**. The proposed name of the company must be clearly stated in the memorandum of association with the word “limited” at the end. For example *Competch Assorted Stationers Ltd*. This indicates that the liability of the company is limited.

b) **Objects Clause**. This states the purpose for which the company is formed. The activity enshrined in the memorandum of association should be legal and the company should not act against the stated objects (**Ultra vires**). Therefore the company should act **intra-vires** all times.

c) **Situation/Location.**  This states the location of the registered office of the company where official notices and other communications are received and sent.

d) **Liability Clause**. This states that the liabilities of members are limited to the capital contributed.

e) **Capital Clause**. This states the minimum amount of capital that must be raised by the company to begin business operation. It also states the different divisions, types and value of capital called shares that comprise the registered/authorized or nominal share capital.

f) **Declaration clause**. This is signed by the promoters stating their desire to form the company and undertake to buy shares in the proposed firm. The promoters must at least buy one share each. It is signed by a minimum of seven promoters for a public limited company and two promoters for a private limited company.

2. **Articles of Association.**

This is a document that outlines the internal working rules and regulations of the company. It outlines rules and regulations that affect the shareholders in relation to the company

It contains the following:-

1. Rights and powers of each type of shareholder for example voting rights.
2. Methods of calling meetings for example giving notices to members before holding the meeting.
3. Rules governing the election of official in the company such as directors
4. Rules regarding preparation and auditing of accounts.
5. Powers, rights and duties of directors.
6. The way of sharing dividends in the company.
7. Procedure of transferring shares from one person to another.
8. Provisions of changing the Articles of Association

3. **List of Directors.**

This states the names, addresses, occupations, shares subscribed and written promise to act as directors.

4. **Certificate of incorporation**.

On approval of a memorandum of association and articles of association and payment of registration fee, the registrar of companies issues a certificate of incorporation.

A certificate of incorporation gives a company separate legal entity from the owners. At this stage, the private limited company begins business operation.

5. **Prospectus**

This is an advertisement or circular prepared by the company inviting the public to come and buy shares from the company. This document is only prepared by a public limited company to enable it raise the necessary capital in order to begin business operation.

6. **Certificate of trading**

This is a document that is prepared by the registrar of companies and sent to the company giving the public limited company legal powers to begin business operation.

**Sources of capital of a company**

Companies raise capital from the following sources:-

* Shares
* Debentures
* Loans from financial institutions
* Retained profits.
* Bank overdrafts
* Trade credits
* Leasing and renting of property.

**SHARES**

This is the main source of capital of a joint stock company. A share is a unit of capital of a joint stock company.

**Types of shares**

a) **Ordinary shares**. These are shares which are owned by the proprietors of the company because they carry the greatest risk of the company. The shareholders of ordinary shares have last priority in sharing the dividends of the company.

b) **Preference shares.** These are preferred by people who do not want to risk with ordinary shares. The holders of preference shares have first priority in sharing the dividends of the company.

**Types of preference shares**

i) **Cumulative preference shares**. The holders of these shares are entitled to their dividends every whether the company makes profits or not. If they do not get dividends in one year due poor business performance, they get two years dividends in the following year and if in the following year dividends are not declared, they will get three years dividends in the third year. This means that their dividends keep on cumulating until they are paid.

**Example:** A cumulative preference share holder holds 100 shares at Shs.20,000 each. He is entitled to an annual dividend of 10%. If he missed dividends for two years, how much he get in the third year?

 **Capital** = 100 x 20,000 = 2000,000

 Dividend for one year = 10% of 2000,000

 = 10 x 2000,000 = 200,000

 100

 Dividends for three years = 200,000 x 3 = **Shs. 600,000**

ii) **Non-cumulative preference shares.** The holders of these shares are entitled to their dividends only for the years when the company makes profits and dividends are declared. They do not get dividends in arrears.

iii) **Redeemable preference shares.** These are shares which are refunded by the company in case the holder feels he/she no longer needs to hold them.

iv) **Irredeemable preference shares.** These are not bought back by the company from shareholders. In case a shareholder wants to convert his shares into physical cash, he/she can do so only through the stock exchange market.

v) **Participating preference shares.** These receive a fixed percentage of dividends and in addition are entitled to any profit which remains if all other shareholders have got theirs.

**SHARE CAPITAL**

The capital of companies is called share capital. Share capital is categorized into the following:-

a) **Authorized or registered or nominal share capital**. This is the maximum amount of capital a company may raise by selling shares. It is stated in the memorandum of association. For example if a company wishes to sell 100,000 ordinary shares at Shs. 1000 each, its registered share capital will be 100,000 x 1000 = **Shs. 100,000,000.**

b) **Issued share capital**. This is the fraction of the ordinary shares which have been issued to the public for subscription. For example out of 100,000 ordinary shares the company may decide to issue 50,000 shares at Shs.1000 each. The issued share capital will be 50,000 x 1000 = **Shs.50,000,000.**

c) **Called up share capital.** This is the amount that the shareholders have been asked to pay. For example if the above company has issued 50,000 but has asked the shareholders to pay Shs. 700 per share, it’s called up share capital would be 50,000 x 700 = **35,000,000** and the balance of Shs. 15,000,0 would be **uncalled up share capital.**

d) **Paid up share capital**. This is the amount that has actually been received from the shareholders. For example if in the above company one shareholder holding 10,000 shares has failed to pay a call of Shs. 300 per share, the paid up share capital of the company would be calculated as follows:

 Called up share capital = 50,000 x 700 = 35,000,000

 Less capital in arrears = 10,000 x 300 = 3,000,000

 Paid up share capital **32,000,000**

 The balance of Shs. 3000,000 is **unpaid share capital or call in arrears**

e) **Minimum share capital**. This is the amount stated by the promoters when making applications for registration of the company as the minimum required to commence business effectively.

**Steps of selling shares**

1. An advertisement is placed through a document called prospectus inviting the public to come and subscribe for the shares of the company.
2. On receipt of the applications, the directors go through them and decide the ones to approve. The approved applicants are sent allotment letters asking them to pay allotment money.
3. On receipt of allotment money, the share certificates are issued. The applicants now become shareholders.
4. The shareholders are then asked to pay the balance in two or three installments. The installments are called calls and they are made when the company needs more cash.
5. A shareholder who after paying allotment money fails to pay the calls, his shares are forfeited and loses the already paid money.
6. The forfeited shares are re-advertised and reissued to other people.

**Underwriting** refers to a situation where a commercial bank or an insurance company undertakes to buy any share that may not be taken up by the public.The commercial bank or insurance company is called ***an underwriter*** and is paid an ***underwriting commission*** for this guarantee.

**DEBENTURES**

A debenture is a unit of a loan of a joint stock company.

It is a document which evidences that a company has borrowed a specified sum of money from a named person and undertakes to pay a fixed rate of interest.

**Types of Debentures**

a) **Naked debentures**. These are debentures where no property of the company is pledged against them. These debentures are not secured and in case of liquidation, the holders of naked debentures rank under the ordinary creditors of the company.

b) **Mortgaged debentures.** These are debentures where some property of the company is pledged against them. This means that in case the company fails to pay, the debenture holder sells the property pledged in order to recover his money.

c) **Redeemable debentures.** These are debentures bought back by the company after a specified period of time. In other words, the amount borrowed against them is refunded by the company after the period specified.

d) **Irredeemable debentures.** These are not bought back by the company. The amount borrowed against them remains outstanding until the company is liquidated.

**Differences between shares and Debentures.**

1. A share is a unit of capital of a joint stock company whereas a debenture is a unit of a loan.
2. When the company is liquidated, the debenture holders are paid the face value of their debentures whereas shareholders may get more than the face value of their shares in case the amount realized from the sale of assets is far greater than the one required to clear creditors.
3. Shareholders get dividends whereas debenture holders get interest.
4. Shareholders have a voting right whereas debentures do not have voting rights.
5. Shareholders are owners of the company whereas debenture holders are creditors to the company.
6. Some shareholders like the non-cumulative preference shareholders do not get dividends in case the company makes losses whereas debenture holders are entitled to their interest whether the company makes profits or not.
7. Shares are irredeemable whereas debentures except the irredeemable are redeemable.
8. Shares are sold by the stock exchange market whereas debentures are sold by capital markets.
9. At liquidation, the debenture holders are paid first before the shareholders.
10. Shares are assets of the company whereas debentures are liabilities of the company.

**Types of Companies**

Companies are classified into the following:-

1. **Registered companies**. These are companies which are formed and registered under the companies Act.

2. **Statutory companies**. These are companies which formed by Act of parliament.

3. **Unlimited liability companies**. These are companies where the liability of members is unlimited.

4. **Limited companies**. These are companies where the liability of members is limited to the capital which remains unpaid. Limited companies may be limited by share or limited by guarantee.

1. **Companies limited by share** are those ones where the members’ liability is limited to the share capital which remains unpaid. Therefore, if a shareholder has fully paid for his shares, he has no further liability to the company.
2. **Companies limited by guarantee** are companies where members pledge to contribute a stated amount of capital towards the liabilities of the company. Such companies do not have share capital for example Federation of Uganda Football Association (FUFA)

Limited companies are further classified into two- private limited companies and public limited companies.

**Private limited company**

This is a developed form of partnership. It is formed by a minimum of two promoters.

**Features/ characteristics of private limited companies**

1. Its membership ranges from two (2) to fifty (50) excluding the employees of the company.
2. There is restricted transfer of shares from one person to another. Shares are not transferred from one person to another without the consent of other shareholders.
3. It does not invite the public to come and subscribe for its shares. A prospectus is not filled.
4. It requires a minimum of one director to begin business operation.
5. It is not required to publish its accounts annually.
6. The promoters **must** prepare a memorandum and articles of Association.
7. It starts business on issue of a certificate of incorporation

**Advantages of a private limited company**

1. It is easy to form since less cost is involved.
2. A private limited company is a separate legal entity from its owners. It owns property, enters into contracts and it sues and can be sued.
3. The members’ liabilities are limited to the share capital which remains unpaid. Therefore, if a shareholder has fully paid for his shares, he has no further liability to the company.
4. Management of a private limited company is easy since it can afford to hire professional managers.
5. There is continuity of a private limited company. Death of one shareholder does not affect the company.
6. It commences business immediately on issue of a certificate of incorporation unlike a public limited company.

**Disadvantages of a private limited company**

1. It cannot mobilize much capital since it does not publish its shares to the public.
2. The shares are not freely transferable. There is need to consult the other shareholders in order to transfer shares by a shareholder.
3. Since the membership is only restricted to fifty members only, expansion is also limited.
4. It must submit returns to the registrar of companies immediately after the annual general meeting unlike partnership.
5. It does not enjoy economies of large scale since it does not operate on large scale.

**Public limited company**

These are companies which have the following features or characteristics:-

1. The company is separate legal entity form the members who constitute it.
2. The liability of members is limited to the share capital which remains unpaid.
3. It requires a minimum of seven members and no upper limit.
4. The shares are freely transferable from one person to another.
5. It prepares a prospectus which invites the public to subscribe for the shares of the company.
6. It is required to publish its accounts annually.
7. It requires a minimum of two directors to begin business operation.
8. It commences business on issue of a certificate of trading.
9. There is separation between ownership and management of the company.
10. There is continued existence of the company because death, insanity and bankruptcy of a shareholder does not lead to winding of the company.
11. The final accounts and audit reports of the company must be submitted to the registrar of companies annually
12. All shareholders have voting rights.

**Advantages of a public limited company**

1. **Large capital**. A public limited company raises more capital since it sells its shares and debentures to the public.
2. **Limited liability.** The liability of members is limited to the share capital which remains unpaid.
3. **Continuity.** There is continued existence of the company irrespective of death, insanity and bankruptcy of a shareholder.
4. The company issues different classes of shares to suit the invest behaviour of different investors**.**
5. **Hire of specialized management.** The management of public limited companies are the hands of directors who are expert people hence increased efficiency.
6. **Easy to transfer shares.** It is easy to transfer shares from one person to another.
7. **Economies of scale.** Its large scale operation enables it to enjoy the economies of large scale like reduced costs of production.
8. **Large profits.** Because of large capital invested, higher profits are released.
9. **Proper book keeping.** There is proper book keeping since the accounts of the company are published annually.
10. If a company has been declaring good dividends, a shareholder can be in position to sell his shares at a price higher than the face value.

**Disadvantages of a public limited company**

1. **Lack of secrets.** There is total lack of secrets in a public limited company because it is a legal requirement to submit annual returns and accounts to the registrar of companies.
2. **Delayed decision making.** Decision making is delayed because there is need to consult a number of people before a final decision is reached.
3. **High costs of formation.**  The process of forming a public limited company is lengthy and expensive since legal costs, registration fees and taxes are paid.
4. **Dichotomy (separation) of ownership and management.**  The owners do not participate in the running of the business. They are just furnished with financial statements showing transactions in given trading period.
5. **Conflict of interest**. Directors may have personal interests that conflict with those of the company which results into mismanagement.
6. **Double taxation.** There is at times double taxation because profits are taxed and shareholders are also taxed as they get their dividends.
7. **Legal restrictions.** The company must comply with a number of legal restrictions like acting intra-vires which makes its operations inflexible.

**Differences between private limited companies and public limited companies.**

1. Shares of a private limited company are not freely transferable while those of public limited company are freely transferable.
2. Private limited companies commence business on receiving a certificate of incorporation while public limited companies start business operations on receiving a certificate of trading.
3. Private limited companies do not prepare a prospectus inviting the public to subscribe for their shares whereas public limited companies invite the public to subscribe for their shares through a prospectus.
4. In a private limited company, owners have direct control over the affairs of the business whereas in a public limited company, company directors have control over the company’s affairs.
5. Membership in a private limited company ranges from 2 to 50 whereas in a public limited company, it ranges from 7 to infinity.
6. Private limited companies must prepare both a memorandum and articles of Association while public limited companies at times only prepare a memorandum of Association and can be guided by **table ‘A’**  of the companies Act.
7. Private limited companies are smaller than the public limited companies.

**Differences between public limited companies and public corporations**

1. **Ownership.** Public limited companies are owned by shareholders while public corporations are owned by the government.
2. **Formation.** Public limited companies are formed by the companies Act while public corporations are formed by an Act of parliament.
3. **Control and management.** In a public limited company owners have no direct control, management is in the hands of board of directors elected by shareholders while public corporations are under officials appointed by the government.
4. **Raising of capital.**  Public limited companies invited the public to subscribe for shares through a prospectus while public corporations are financed by the government through public funds/taxes.
5. **Distribution of profits.** In a public limited company, shareholders share dividends according to share holdings and class of shares while profits of public corporations are taken by the government.
6. **Purpose.** Public limited companies are profit making organizations while public corporations are for provision of goods and services to people at reduced costs.
7. **Accountability.** Public limited companies are accountable to shareholders in an annual general meeting while public corporations are accountable to government.

**Winding up of a company**

A company can be liquidated in the following ways:-

1. **Court orders**. The court of law can order for liquidation of the company in case it involves in illegal activities.
2. **Ultra-vires.** The company is liquidated when it acts contrary to the object clause.
3. **Membership goes below the minimum**. If the membership of a company goes below the minimum required, it is wound up for example if the membership of a private and public limited company goes below 2 and 7 respectively.
4. **Voluntary winding up by shareholders.** The shareholders can decide to voluntarily wind up the company.
5. **Petition by the creditors of the company.** The creditors of the company can petition in case the company is unable to clear their debts hence leading to its liquidation.
6. **Bankruptcy.** When the company is declared bankrupt, it is immediately liquidated.
7. **Amalgamation.** This happens when two or more companies join o form one company completely different from the original companies.
8. **Failure to start** after one year from the time of incorporation**.**

***REVISION QUESTIONS***

1a) Give **four** differences between private and public limited companies

 b) What are the advantages of a public limited company?

2a i) Define a memorandum of association

 ii) Name and explain **six** clauses or contents of a memorandum of association

 b) Outline the steps involved in selling shares of a public limited company

4a) Give **five** differences between private and public limited companies.

b) What circumstances may cause winding up of a limited liability company

4a) State any **five** differences between a share and a debenture

 b) Why are public limited companies preferred to partnerships in Uganda today?

**STOCK EXCHANGE MARKET**

This is a market where shares, stocks and other securities are sold and bought.

The securities traded on the stock exchange market include the following:-

a) **Stocks.** These are bonds issued by the government of local authority signifying a debt.

b) **Bonds.**  A bond is a government security. It is a document issued by the government as evidence that a certain amount of money has been borrowed from the person named on its face.

c) **Treasury bills.** These are securities sold by the government with a short maturity period.

d) **Debentures.** It is a document which evidences that a company has borrowed a specified sum of money from a named person and undertakes to pay a fixed rate of interest.

e) **Shares.**  A share is a unit of capital of a joint stock company.

**Terms used in the stock exchange market**

1. **Blue chips**. These are shares in companies of high repute and sounding financial history. These shares have good dividend record over a period of time
2. **Portfolio**. This is a collection of various securities held by one investor.
3. **Quoted/Listed companies**. These are companies whose shares are sold and bought on the stock exchange market for example Uganda clays limited.
4. **Unquoted/Unlisted companies**. These are companies whose shares are not sold and bought on the stock exchange market. It applies to private limited companies whose shares are not traded on the stock exchange market.
5. **Gilt-edged.** This is a security which is absolutely safe in respect of both capital redemption and payment of interest.
6. **Par value of shares.** This is the face value of a share. It is also called the face value or nominal value of shares. The face value is fixed.
7. **Market value of shares**. The price of shares on the stock exchange market. This price is fluctuating because it is determined by forces of demand and supply.
8. **Going public.** This is the process of changing a private limited company into a public limited company such that it sells its shares to the stock exchange and public.
9. **Cum Div**. This stands for “with dividends”. This means that the buyer gets the shares together with the dividends declared for that year.
10. **Ex Div**. This stands for “without dividends”. This means that the buyer acquires the shares without the dividends declared for that year but gets dividends for the following year.
11. **Dividend**. This is the amount of money paid out by the company in form of profits to its shareholders.
12. **Issuing house** is a bank that specializes in launching new issues (shares).

**Membership of a stock exchange market.**

Only members are allowed to sell and buy shares on the stock exchange market. The membership of stock exchange market is constituted by the following:-

a) **Brokers.** A broker is a trader who buys and sells shares and other securities on behalf of others. A person wishing to buy securities approaches a broker and the broker looks for shares at the cheapest price. A broker is paid a commission called ***brokerage.***

b) **Jobbers.** A jobber is a person who buys and sells shares on his own account. The jobbers get profits which is the difference between their selling price and cost price. This is technically called the **jobber’s turn.**

 Jobbers are categorized into the following:-

* 1. **Bulls.** These are jobbers who buy shares when they are cheap hoping that prices will rise soon and sell them at a profit.
	2. **Bears.** These are jobbers who sell shares when prices are high hoping that prices will fall soon and restock at a lower price.
	3. **Stags.** These are jobbers who deal in newly issued shares of a company. They buy with the speculation that the value of such shares will rise and get higher profits.

**Importance of the stock exchange market**

The stock exchange plays a paramount role in the economic development of a country as shown below:-

1. It provides a ready market for those who want to buy and sell shares and other securities.
2. It sets prices for every security. This helps both the investors and companies.
3. It publishes useful information in statistics and summary form about different companies for guidance of investors.
4. The stock exchange acts a barometer showing the country’s economic progress. The stock exchange index is prepared on the basis of prices and volume of shares traded during a given period.
5. It provides employment opportunities to people like jobbers and brokers.
6. It assists to direct a large part of savings by members of the public to investment in joint stock companies which play an important role in the development of the country.
7. It is an important source of government revenue in form of either taxes or sale of government securities.
8. The stock exchange makes the transfer of shares from one person to another very easy.
9. It provides useful information necessary for the economic planning of the country.

**Problems faced by the stock exchange markets in developing countries**

1. **Low levels of income.** Most people in developing countries like Uganda do not have the income to invest in buying of shares on the stock exchange market.
2. **Illiteracy/Ignorance of the people.** There is general ignorance of the people about the functions of the stock exchange.
3. **Low interest rate on the stock exchange market securities.** The general returns in form of dividends yet there is a high rate of inflation in the economy.
4. **Political unrest.** This scares away potential investors from investing in companies because of fear of huge losses.
5. **Lack of stock exchange specialists**. There is lack of people who specialized in the stock exchange like jobbers and brokers in developing countries.
6. **Weak industrial sector**. Many people are employed in agricultural sector.
7. **Most businesses operate on small scale** and cannot be quoted on the stock exchange market since they usually have small profits and private ownership.
8. **Limited government support**. It lacks government support by way of developing the financial and capital markets and funding the stock exchange market.
9. **Urban operations** of the stock exchange markets limits its operations.
10. **Most companies are foreign** and privately owned and do not offer shares to the public hence affecting the stock exchange market.
11. **Existence of large informal sector** that is not monitored by government**.**

**MARKETING BOARDS**

This is a trading organization set up either the government or producer to buy agricultural produce from farmers at fair prices.

**Types of marketing boards**

1. **Commodity marketing boards**. These are marketing boards which deal in the marketing of only one crop for example coffee marketing board and lint marketing boards dealing in coffee and cotton respectively.
2. **Produce marketing boards**. These are boards which deal in a variety of crops for example they may deal in maize, beans, coffee
3. **Advisory marketing boards**. These are concerned with researching for agriculture problems and provision of advice to farmers from the findings.
4. **Statutory marketing boards**. These are set up by the government under the Act of parliament. Board of Directors is appointed by the government.
5. **Voluntary marketing boards**. These are set up by producers themselves to enable them market their produce.
6. **Export marketing board.** These are boards set up to promote the marketing of produce to foreign markets.

**Functions of marketing boards**

Marketing boards perform a number of functions to farmers and these include the following:-

1. Marketing boards buy farmers’ produce at fair and stable prices. The produce is bought from co-operatives, large scale farmers and agents appointed by the boards.
2. Marketing boards collect produce from local collection centres controlled by board agents and co-operatives societies.
3. Marketing boards also sell the farmers’ produce to consumers at fair prices.
4. They provide storage facilitates for the produce bought from farmers while waiting for export or sell to local consumers.
5. They carry out research to improve on the quality and quantity of produce and they send officials to the field to advice farmers.
6. They provide assistance to farmers by offering fertilizers, pesticides, farming tools and quality seeds.
7. Marketing boards stabilize prices and supply by use of buffer stocks. During periods of over production, they store surplus produce which is put on the market during period of low production hence stabilizing surplus supply and prices.
8. They are obliged to buy all what is produced therefore it takes all the steps to avoid over production. This is done through imposing quotas to large scale farmers.
9. They represent farmers at international organizations to discuss commodity affairs.
10. They advance soft loans to farmers to enable them meet the costs of production.
11. They grade and standardize produce so that it is sold at better prices
12. They create employment opportunities to people who work with them for example board management and agents.
13. They add on a country’s foreign exchange by exporting produce to foreign markets.

 **Problems facing marketing boards**

Marketing boards face the following problems:-

1. Farmers sell poor quality produce for example coffee. They mix poor quality produce with good ones and sell it as superior quality hence making the marketing of the produce hard.
2. They lack adequate funds to buy produce which lead to delays in payment of farmers. This makes some farmers to sell their produce outside the boards.
3. Poor transport and communication make the collection of produce from farmers very hard. Some roads become impossible especially during rainy seasons.
4. Competition from independent businessmen who buy the farmers’ produce on cash basis.
5. Political intervention. The management of marketing boards is normally politically influenced thus poor management.
6. Price fluctuations on the world market affect marketing boards. Ensuring fair prices to farmers is normally difficult.
7. Marketing boards also lack adequate storage facilities to store the produce to wait for better prices.
8. Corruption and embezzlement of funds of the marketing boards by top administrators. Administrators embezzle funds and this reduces the working capital of the boards.
9. Price fixing is hard as prices are fixed at times without predicting the world market conditions thus losses may occur.
10. Political instabilities in some areas of Uganda affect the operations of marketing boards.

**CO-OPERATIVE SOCIETIES**

A co-operative society is a group of people who have come together mainly to provide convenient and efficient services to the members.

**Principles of co-operative societies**

Modern co-operative societies as a practice was started by the Rockdale pioneers in Britain in 1844 and its principles are followed worldwide. The principles are:-

1. **Open and voluntary membership.**  The membership of a co-operative society is open to every person who fulfills the rules and regulations of the co-operative. Membership should not be based on tribe, religion and political affiliations.
2. **Democratic administration.**  The management of the co-operative society should be elected democratically. This principle states that ‘**one man one vote’.**  This means that every member is supposed to caste one vote irrespective of the number of shares he/she holds.
3. **Cooperation with other co-operatives.** Co-operative societies cooperate with other societies at a local, national and international level because they have a lot in common and can learn from one another’s experience.
4. **Limited interest on capital.** Members receive interest basing on capital contributed to the co-operative. The interest given to the members is always a fixed percentage for example 5% of capital contributed.
5. **Dividends to members.** Members receive share of profits from the co-operative society depending on one’s contribution to the co-operative. For a consumer co-operative society, the dividends depend on the amount of purchases a member makes with the co-operative and for the producer co-operative society; it depends on the volume of sales to the co-operative.
6. **Promotion of education.** Co-operative societies provide basic education to its members for example how to save, better methods of production among others.

**Types of co-operative societies**

a) **Producer co-operative societies**. This is an association of producers who have come together to improve the production and marketing of their products for example Bugishu farmers’ co-operative society***. Dividends are paid to members depending on the volume of sales a member makes with the co-operative***

**Functions of producer co-operative societies**

1. They obtain better prices for the members’ products.
2. They provide better storage facilities for the products waiting for sell.
3. They provide better and reliable transport for moving the products from the producers to market centres.
4. They provide short term loans to members to enable them buy farm inputs.
5. They provide education to members on better methods of production through seminars, field trips and demonstrations.
6. They provide members with subsidized farm inputs like improved seeds, fertilizers and insecticides.

b) **Consumer co-operative societies.** These are formed by a group of consumers who come together and start up a shop from where they buy goods at prices lower than the retail prices. They buy goods from the producers eliminating the greedy middlemen. ***Dividends are paid to members depending on the volume of purchases a member makes with the co-operative.***

**Advantages of consumer co-operatives**

1. They sell goods to members at fair prices.
2. They sell goods to non-members at normal prices thereby making more profits.
3. They sell a variety of goods to members hence easy choice.
4. They pay interest on capital to the members.
5. They give credit facilities to the members hence enabling low income earners acquire goods.
6. They buy directly from the producers hence avoiding exploitation from the greedy middlemen.
7. The members share the profits made by the co-operative depending on the volume of purchases.

**Disadvantages of consumer co-operatives**

1. They face stiff competition from large scale retailers who sell at low prices.
2. Mismanagement of shops is very common.
3. Reluctance of non-members to buy from the co-operatives lowers the turn over and the profits.
4. Limited capital is raised because most of the people are low income earners.
5. They cannot afford to employ qualified staff.

c) **Savings and credit co-operatives.** These are co-operatives formed by members to mobilize savings and provide soft loans to the members. They help the low income earners save some money which they invest in productive in ventures. They are wide spread in most of the towns and villages in Uganda for example the Iganga savings and credit society.

**Problems facing co-operative societies in Uganda.**

The following are problems facing co-operative societies:-

1. **Shortage of capital.** Co-operative societies in Uganda are faced with a problem of limited capital given the fact that the majority of the people are low income earners.
2. **Poor transport and communication.** The poor roads in Uganda affect the transportation of products by the producer co-operative societies from the farmers to market centres.
3. **Shortage of storage facilities.** Co-operative societies lack enough storage facilities to enable them keep produce during periods of bumper harvest and put them on the market during scarcity.
4. **Corruption and embezzlement of funds.** There is wide spread corruption and embezzlement of the funds of the co-operative society.
5. **Conservativeness.** Most of the members of the co-operative societies are not receptive to new ideas. For example some farmers in the villages are not willing to adopt the modern methods of farming.
6. **Limited range of supply.** Most of the farmers in Uganda grow the same type of crop which results into stiff competition for market.
7. **Language barrier.** The diversity of languages in Uganda creates a problem of language barriers which affects communication.
8. **Government interference.** Government interference in the affairs of the co-operative society affects the running of the co-operatives.
9. **Disunity.** Sometimes the members of the co-operative society are not united. Some members have personal interests which conflicts with the interests of the co-operative hence they do not work towards a common goal
10. **Political instability.** Political instabilities in some areas of Uganda scares away some people to invest in co-operative societies.
11. **Shortage of security for loans.** Co-operative societies do not have adequate collateral security to secure loans from financial institutions hence they continue to operate on small capital.

**PUBLIC SECTOR**

This consists of establishments, enterprises that are owned by the government and are engaged in commercial activities such establishments may take any of the following forms:-

1. public corporation
2. local Authorities
3. parastatal bodies

**Public corporations** are joint stock companies in which the government owns either all the shares or part of them. It is formed by an act of parliament for example Uganda Railways corporations, Uganda Steel Corporation. Corporations are aimed at provision of goods and services at free or reduced costs.

**Local authorities** include city councils, minimal councils and town council which perform certain commercial services for examples provision of water, setting up markets.

**Parastatal bodies** are organizations set up by the government to perform certain functions (business). For example Uganda Revenue Authority which was set up to collect taxes.

**Advantages/ Reasons why the state owns some enterprises**

1. **To provide unprofitable but yet essential services** to the public therefore the government should provide them. Private individuals being profit motivated cannot invest in such ventures for example road construction, street cleaning and garbage collection.
2. **To create regional balance in development** by establishing firms in different areas of the country.
3. **To avoid exploitation of the public**. Some activities are so essential to the public that if let in the hands of private individuals can exploit the public. For example electricity and water supply.
4. **To provide services which require high initial capital**. Some project require greater initial capital to begin which the private sector cannot offered yet essential to the public. Therefore the government must undertake such projects for example Electricity and Air ways.
5. **To provide essential goods and services at fair prices**. The government provides essential services to the public at cheap prices because it does not aim at making profits.
6. **To provide risky essential activities**. Certain activities such as atomic energy and fire arms are too risky to be left in hands of private individuals therefore the government undertakes such activities.
7. **To avoid profit repatriation**. If the government is not in position to establish certain projects which are essential, foreigners will have to dominate hence leading to resource drain.
8. **To provide employment opportunities to the people.**  State enterprises can provide employment opportunities to the public hence reducing on the problem of unemployment.
9. **To promote competition with the private sector**. This leads to production of high quality goods and elimination duplication of services.
10. **To raise government revenue** from taxes and profits earned by profitable government enterprises.
11. Profits made by the state enterprises
12. are shared amongst members of the public through provision of education, road construction and health.
13. **To make profits.** Government owns some enterprises to get profits which can be used to provide social services to the people in the country.

**Disadvantages of State Owned Enterprises**

1. Administration and management of state enterprises is normally politically influenced and may lack business techniques. They tend to make decisions which are desired by the public but economically unsound.
2. Some undertakings are unprofitable and therefore run at loss and the cost of their operation is passed to the public in form of increased taxes.
3. Government enterprises are usually very large organizations therefore diseconomies of scale apply to these units.
4. Some state enterprises compete with private sectors which reduces private sector investment.
5. In state enterprises, there is corruption and embezzlement of public funds by employees.
6. Government enterprises often enjoy monopoly in their field hence charging high prices and providing poor quality goods and services.
7. Too much red-tape (bureaucracy) may lead to delays in supply of certain goods and services as a result of delayed decision making.
8. If government enterprises are operating in a field where even private sector operate, there will be competition which may discourage private investment in that particular field.
9. Inefficiency is common in public enterprises since they are not profit oriented. There is total lack of innovation which results into continuous production of poor quality goods and services.
10. The management of state enterprises is appointed based on *technical know-who* instead of *technical know-how* which results into mismanagement and eventually collapse of these enterprises.

**Methods used by government to control activities of the private sector**

If the private sector is left to operate without any control of direction, its aim of maximizing profits would end up hurting the public. The following are the steps taken by governments to control the private sector:-

1. **Taxation**. The government imposes taxes on goods produced by private sector in order to control them.
2. **Trade licensing**. The government issues licenses to traders to ensure that only authorized people carryout business.
3. **Foreign exchange control**. The government controls the issuing of foreign currency to limit on the number of people involved in foreign trade.
4. **Bureau of standards**. This ensures that the private sector produces quality goods for the consumers.
5. **Consumer protection laws**. The government enforces the consumer protection laws like the sale of goods act, false advertisements etc.
6. **Credit control policies**. This ensures that the many of the traders do not access credit from the commercial banks.
7. **Price controls.** If traders are allowed to charge any price, the public would greatly suffer. The government therefore set the maximum prices at which essential goods and services are sold to avoid exploitation of the public by the private sector.
8. **Financial control measures.** To ensure that its currency maintains its value, government may come up with many financial control measures like credit control.
9. **Import restrictions** e.g. total ban, quotas etc.

**PRIVATIZATION**

This is a process of transferring ownership of a business, enterprise, agency or public service from the public sector (the state or government) to the private sector.

**Forms of privatization**

(a) **Divesture or complete privatization or total sale.**  This is where the government sells fully the non performing enterprises to private individuals i.e. the government has no share in such divested enterprises.

(b) **Partial privatization**. This is where some shares are owned by the government while others by private individuals. In partial privatization, the government retains the minority control for example in Uganda Electricity board (UEB), some departments were sold where others like Electricity regulatory authority are still controlled by the government.

c)  **Contracting.** This is where the government transfers management of state enterprises to private sector for a specified period of time after which it resumes the ownership and control.

d) **Joint venture.** This is where government runs state owned enterprises jointly with the private sector.

e) **Mortgaging.** This refers to a temporary sale of government property to private sector and secured back after a given period of time. The property is normally used to secure a loan by the government.

**Reasons/Advantages of Privatization**

1. **To increase efficiency**. Privatization increases efficiency in production of goods and services this leads to production of quality goods and services.
2. **To generate revenue**. It enables a country to generate revenue from the sold enterprises through taxation.
3. **To reduce government expenditure**. Privatization enables a country to reduce expenditure on unprofitable enterprises.
4. **To attract foreign investment** to come and participate fully in the lucrative competition in the private sector.
5. **To fulfill the international monetary fund** and World Bank conditionality of creating a private led sector.
6. **To reduce on state monopoly**. Privatization helps to reduce on state monopoly with its associated disadvantages.
7. **To reduce on bureaucracy.** Privatization helps to reduce on bureaucratic tendencies rampant in the public sector which causes delay in decision making.
8. **To reduce corruption and embezzlement which** are rampant in the public sector.
9. **To create more employment opportunities for the people.** As a result of increased investment by the private sector, employment opportunities are created for the people in the country.
10. **To allow state concentrate on the provision of only essential services** like security of the country.
11. **To increase on efficient utilization of resources** due increased competition and the profit motive of the private sector.
12. **To provide a variety of goods for easy choice by the customers**. As a result of privatization, a variety of goods is availed to the consumers.

**Disadvantages of privatization**

1. Private individuals tend to exploit the public by overcharging and provision of poor quality goods and services.
2. Private individuals do not have enough bargaining power to apply for loans from financial institutions like World Bank, IMF and European Economic Community.
3. Some private enterprises depend on the life span of the owners. Once the owner dies, the enterprise also collapses for example sole proprietorship. This in turn results into unemployment.
4. Some national enterprises are so expensive that if privatized will end up in the hands of foreigners who drain resources. For example Uganda Electricity Board which was sold to South Africans.
5. National enterprises being part of government revenue if sold to private individuals reduce government revenue and increases taxes.
6. Some materials are nature gifted like lakes, minerals, gas so it becomes unfair if left to one individual.
7. In most cases, the privatized enterprises fall in the hands of foreigners who tend to repatriate the profits.
8. Privatization promotes income inequality in the country. The gap between the very poor and the very rich will widen because income will be concentrated in the hands of people who own the enterprises.
9. National objectives like creation of employment and eradication of poverty are not a priority in private sector.
10. Privatization results into regional imbalance in the country. Private sector will only establish firms in areas where the factors of production exist leaving other areas to lag behind.
11. Over exploitation of the country’s natural resources like minerals. Private sector has no consideration for national interest since they are profit oriented.
12. If a large proportion of the economy is in the hands of private sector, implementation of monetary policies becomes difficult.

**GROWTH OF FIRMS**

**A firm** is a production unit which hires factors of production from the factor owners, produces goods and services which in turn it sells to the customers.

Firms grow in two different ways that is to say natural growth and merging or integration.

**Natural growth** is where the firm expands by ploughing back (reinvesting) the profits it makes.

**Merging or amalgamation (combinations)** refers to combining of two or more firms together to form a big firm.

**Forms of amalgamation**

1. ***Complete amalgamation (consolidation).*** This involves the dissolution of all companies intending to amalgamate and creation of a new company to take over their business. The shareholders of the old companies will be issued with shares in the new company.
2. ***Absorption (Merger).*** This is a form of combination which takes place when one company takes over the business of another company or companies. The company taking over retains its entity while the shareholders of the liquidating companies will be issued with shares in the existing company.
3. ***Holding company.*** In this case the various companies entering into the combination retain their entities but one of them acquires 51% or more of the shares gains control over other companies. A holding company is one which owns 51% or more of the shares in a combination while the other companies are called ***subsidiary companies.***
4. ***Cartel.***  This is an arrangement in which companies agree to sell their products through a central selling agency. This is normally aimed at avoiding wasteful production among firms and maximizing profits. Cartels are normally used by oligopolistic firms.

**Lines of merging, integration or combinations**

1. **Horizontal merging.** This is a form of integration where two or more firms at the same stage of production of similar products come together. The main aim to have large scale production and enjoy the economies of large scale. For example Kakira sugar works combining with Lugazi sugar industry, coca cola merging with Pepsi cola.
2. **Vertical merging**. This is a form of merging where two or more firms at different stages of production of related products join together. For example tea growers combine with tea processors.
3. **Conglomerate merger**. This is where two or more firms producing completely unrelated products join together. They are intended to diversify activities so as to spread the risks. For example Stanbic bank merging with Kakira sugar works.
4. **Lateral merger.** This occurs where two or more firms producing related products which do not compete join together. For example a car making industry joining with a fuel making industry.
5. **Franchising.** This is when one firm allows other firms to use its brand name and production techniques.
6. **Consortium.** This is where two or more firms jointly undertake a complex task. After the completion of the task, the merger ceases. For example RCC constructors and Zimwe constructors **join** to build a bridge.

**Advantages of merging firms**

1. Enjoyment of economies of scale. As a result of large scale operation, the merged firms enjoy the advantages of large scale production.
2. Employment opportunities are created as the firm increases its scale of operation.
3. Production costs of the firm are reduced. As a result of large scale operation, production costs are reduced for example due to bulky purchase of raw materials.
4. It results into forward and backward linkages which creates market and raw materials to firms especially for vertical integration.
5. It accelerates the rate of innovations and invention to which helps the firm to improve on the quality of goods and services hence able to compete favourable in the market.
6. Merging widens the capital level of the resultant firm.
7. Merging ensures long run survival of the firm. This helps to reduce risks of collapse for example if one firm is declining, the other may be prospering.
8. Firms are able to avoid wasteful competition.
9. It increases the market power and size of the resultant firm
10. It increases efficiency leading to increased production.

**Disadvantages of merging firms**

* 1. Management becomes a problem due to bureaucracy which leads to inefficiency.
	2. Diseconomies of scale are experienced as a result of over expansion of the firm.
	3. There is loss of personal interest and responsibility by members due to collective ownership.
	4. Merging results into emergence of monopoly. This leads to production of poor quality goods and charging of high prices.
	5. Merging results into unemployment as some workers may be laid off after the combination of firms.
	6. Valuation of assets of the firm during a takeover is difficult.

**CONSUMER PROTECTION**

This is a deliberate policy taken by the government to guard consumers from being exploited by the businessmen.

**Need /reasons for consumer protection**

1. **To avoid overcharging**. Consumers are protected from paying higher prices than the real ones.
2. **To ensure that commodities are of good quality**. Consumers are protected from consuming poor quality, inferior and counterfeit products as genuine.
3. **To ensure that products offered for sale are of the right quantity and size.** It helps to consumers to be protected from consuming underweighted products. Some products bear weights which are not realistic hence cheating the consumers.
4. **To ensure that health standards are maintained**. Places where products take place would be hygienic for example butcheries, eating places and food processing factories.
5. **To protect consumers from false advertising.** Producers use persuasive advertising which misleads the consumer to buy products they do not require.
6. **To ensure that consumers are protected from consumption of harmful products** which could adversely affect their health for example drugs.
7. **To protect the consumers against breach of contract**. Producers and traders might fail to honour contracts entered into with the consumer as regards the sale of products.
8. **To protect consumers from monopolists** who hoard products with the intention of forcing up prices.

**METHODS OF CONSUMER PROTECTION**

The consumers can be protected in the following ways:-

(a) **Consumer initiated protection**

 Consumers can protect themselves in the following ways:-

1. **By use of common sense**. When a consumer sees that a commodity is not in good condition, being over charged or undercharged weighted, he may decide not to buy hence being protected.
2. **Use of consumer associations**. These are formed to protect consumer’s interests. They collect complaints and suggestions about goods from members and forward them to affected producers.
3. **Consumer co-operatives societies**. Consumers by pass the high cost traders and buy from producers and sell to members at fair prices.
4. **Use of the press**. Consumers use new papers to voice their discontent about goods or traders. Traders avoid being negatively published by adjusting to consumers’ demands.
5. **Caveat emptor**. This means let the buyer be aware. The buyer should be aware of the prevailing prices, quality and quantity of goods.

(b) **Business/Trade associations**

1. Voluntary associations by producers to protect consumers.
2. Associations set up standards for goods and services that must be maintained thus consumers are saved from consuming poor quality goods.
3. Associations may even control prices of goods.
4. Caveat venditor. This means let the seller be aware.

(c) **Government initiated protection**

 The government can protect consumers in the following ways:-

1. Price legislation. The government protects the consumer by fixing the maximum prices for essential goods.
2. National Bureau of Standards. The government can use the National bureau of standards to control the quality of goods. Inferior goods are not approved by the bureau of standards.
3. Weights and measures Act. The government can use the ministry of commerce to ensure that weight and measures used in trade are correct.
4. Health Act. The government can use the ministry of health to check on unhygienic conditions.
5. Sale of goods Act. The government also protects the consumer through the sale of goods as Act 1893 which prevents false description of goods as composed to samples.
6. Trade description act which prevents false advertisements is another way used by government to protect consumers.
7. Trade licencing. By issuing trade licenses to ensure that the right people carry out business..
8. Financial control measures. To ensure that its currency maintains its value, government may institute several control measures.
9. Government also controls prices of factors of production and hence sells their produce at fair prices
10. Resale price maintenance. This is where the producer sets prices at which retailers sell his products.
11. Exchange control.

TRANSPORT

This refers to the movement of goods and people from one place to another. Transport is a part of production because it adds utility to the product by bringing it near to the consumers hence ***place utility***.

**Elements of Transport**

There are four elements of transport namely the way, unit of carriage, the method of propulsion and the terminal.

**The way.** This refers to the means by which the goods are moved. Goods are moved on something. Ways may be natural for example water or man made for example roads and railways.

 **Unit of Carriage.** This refers to anything used to carry people and goods. Goods are carried by vehicles, trucks, Lorries, ship, trains, carts and airplane.

**Method of Propulsion**. This is the force that drives the unit of carriage. The common methods of propulsion are engines like jet engines, petrol engines and diesel engines. The selection of the method of propulsion depends on the size of the unit of carriage, speed required and load to be carried.

**The terminal.** This is a place where loading and offloading is done for example railway station, airports, parks, sea port among others.

**Importance of Transport**

Transport plays the following roles to the business community:-

1. It enables the producers to move the goods and services to the consumers for consumption.
2. It helps in transportation of commercial documents like letters. It therefore facilitates communication in business.
3. It leads to growth of industries by moving raw materials from one region to another.
4. Avails consumers with variety of goods and services hence improving their standard of living. Widens market.
5. It is a source of government revenue which is used to improve infrastructure.
6. It promotes the tourist industry hence more income to the government.
7. It encourages commercial farming and specialization due to the large market created. Specialization leads to production of high quality goods.
8. Transport encourages mass production. Goods are produced in large quantities since goods can be transported to distant markets.
9. It minimizes wastage by transferring goods from places where they are in plenty to places where they are scarce.
10. Transport widens the market for goods and services by moving them to where they are required.
11. Transport provides employment opportunities to people who would otherwise be unemployed. Transport industry employs people like drivers, pilots, road cleaners among others.
12. It adds utility to goods and services by availing them to the right person at the right time.
13. It stabilizes prices by allowing a steady supply of raw materials to production centres and goods and services to the market.
14. Transport promotes international trade by moving goods from one country to another. This enables the citizens of a country to enjoy a variety of goods hence increased choice.
15. Transport increases labour mobility and other factors of production. This is because workers can easily move from one geographical location to another.

**Modes / forms of transport**

Road transport

Water transport

Air transport

Railway transport

Pipeline transport

**Road transport**

The common units of carriage used in road transport are buses, taxis and private cars for passengers and Lorries, pick-ups, tankers and trailers for carrying goods.

**Advantages of Road transport**

1. Road transport is flexible as regards changing from one route to another is concerned.
2. Road transport is convenient because vehicles do not move on a tight schedule. This makes delivery of goods very convenient to the businessmen.
3. Roads can be easily constructed in areas which are inaccessible to other means of transport for example hilly areas. This makes it the widely available means of transport.
4. Road transport is relatively cheaper over short distances.
5. It is also fast over short distances.
6. There is minimum handling of goods which reduces on the loss of goods through breakage.
7. Using road transport, goods can be delivered to the final destination of the businessman.
8. Lower insurance premium is paid since the goods are handled for a short period of time.
9. Vehicles can be used to advertise goods as they pass through a mass of people especially in densely populated areas.
10. Special arrangements can be organized for particular occasions for example introduction parties and weddings.
11. It is easier to set up a road than any other means of transport.

**Disadvantages of Road transport.**

1. There is congestion and traffic jam on roads especially in towns which results into delays in delivery of goods.
2. Some roads may be out of use most especially during rainy seasons for example some Marram roads become impassible during winter causing delays.
3. The rate of accidents is high and it has claimed a number of people’s lives
4. High maintenance costs are incurred because roads require periodic maintenance.
5. Road transport is slow over long distances.
6. It is impossible to arrange for return cargo since vehicles do not move on a fixed time table.
7. There is a high risk of highway robbers especially through heavy forests like Mabira.
8. Road transport is expensive for long distances.
9. It has got limited space for carrying bulky goods like timber.

**Railway transport**

This is one of the oldest means of transport in Uganda operated by the Uganda railways Corporation. This form of transport is very expensive to set up because it requires large capital investment in the construction of the railway line and purchase of the train. Now days, railway transport is mainly limited to carriage of cargo.

**Advantages of Railway transport**

1. It is economical for carriage of heavy and bulky goods like coffee, copper, timber among others over long distances. This is because a single engine can pull many wagons.
2. Railway transport is safe as cases of theft and accidents are minimized.
3. Trains can carry more goods and people compared to motor vehicles.
4. Special trains can be chartered to carry particular kinds of goods like petrol, cement among others. Similarly special wagons can be constructed for carrying people.
5. It is reliable because trains follow a fixed time table or schedule. This makes it possible for the businessmen to plan for the transportation of goods.
6. It is easy to arrange for return cargo when using railway transport since trains travel on a fixed time table.
7. Trains are not affected by traffic congestion as for the case of road transport.
8. It is suitable and convenient to passengers who travel long distances because facilities such sleeping, toilet are provided.
9. Trains are not affected by bad weather as for the case of road transport.
10. Shunting facilities are provided to allow the trains to deliver or collect goods to or from industrial premises.

**Disadvantages of Railway Transport**

1. The routes are fixed therefore trains cannot go beyond railway station and therefore a businessman has to arrange for another form of transport to deliver the goods to his premises.
2. Railway transport is slow therefore not suitable for the transportation of perishable goods unless special facilities for carrying such goods are provided.
3. Railway transport requires large capital investment in the construction of the rail lines and purchase of the trains.
4. Goods delay at stations because of the many clearing procedures involved. This leads to delays in delivery of goods.
5. There is a greater risk of damage of goods as a result of increased handling. Goods are loaded into trains and unloaded at railway stations to be loaded onto another form of transport like vehicle to deliver them at the trader’s premises.
6. Railway transport is not flexible as trains follow a fixed schedule.
7. It is uneconomic for short distances and small loads.
8. Trains cannot pass through hilly and mountainous areas so construction of rail lines is restricted to plain lands.

**Pipeline transport**

This form of transport involves the transportation of petroleum products, water and gas from one place to another using pipe.

**Advantages of Pipeline transport**

1. Pipelines allow 24-hour operation with minimal disturbance if any. The pipes are used in the transport of liquid products at any time.
2. Pipeline transport is suitable for transporting flammable products like petroleum and gas.
3. There is no risk of delay due to congestion as for the case of road transport.
4. Pipeline transport is labour saving since it requires less man power.
5. Pipeline transport substitutes heavy tankers hence reducing damage caused by such tankers on roads.
6. It is the fastest means of transport for petroleum products, water and gas. Large volumes of the products can be carried within a very short period of time.
7. Pipes are not affected by atmospheric conditions since they pass underground.
8. It is cheap to maintain since there is little wear and tear of pipes.

**Disadvantages of Pipeline transport**

1. It is only used in the transportation of liquids such as water and petroleum products and gas.
2. Leakages may be difficult to locate and this results into huge loss of the product being transported.
3. It is expensive to construct a pipeline over long distances.
4. Pipeline is not flexible because once a line is constructed it is not easy to adjust it according to transport patterns and demand.
5. Spills may occur accidentally and cause environmental pollution.
6. It does not create employment opportunities for the people since it is capital intensive.
7. Pipeline transport is in most cases unidirectional that is to say it moves only in one direction.

**Water/Sea transport**

This form of transport involves the movement of goods and people by use of units of carriage such as steamers, dhows and ships on water bodies like seas, lakes and rivers. When transporting goods using water transport, the trader can hire a ship to carry goods to a given destination. The ship owner and trader sign a contract known as a **charter party** which an agreement showing the details of goods and the shipping charges. When the ship is hired to carry goods for a particular journey or voyage the contract is called **a voyage charter** and when it is hired for a given period of time, the contract is called a **time charter.**

**Types of Water vessels**

1. **Ocean Liners.** These are vessels designed to carry cargo though some may carry passengers. They follow specific routes at a fixed timetable.

2. **Tramp Steamers.** These are made to carry cargo and go anywhere they find goods to carry. They do not follow a fixed timetable and routes but go anywhere they find business.

 **A Line conference** is an association of liner companies who operate on a particular route to withstand unfair completion from tramp owners.

3. **Bulk Carriers.** These are large vessels specially designed to carry particular types of cargo for example minerals.

4. **Oil Tankers.** These are mainly chartered by large petroleum companies to carry their products.

5. **Roll-On-Roll-Off.** These are large ferries used to carry vehicles. The vehicles are driven on the ferry and driven off when they reach their final destination.

**Advantages of Water transport**

1. It is a cheap mode of transport because the way is natural hence construction and maintenance costs are not incurred.
2. Water transport is suitable for the transport of bulky and heavy goods such as timber and machinery.
3. Water transport provides specially built ships for carrying goods that require special handling for example refrigerated ships are used in carriage of perishable goods.
4. The way is free; no country has to pay anything.
5. It is suitable for handing fragile or delicate goods since there is minimum handling.
6. Water transport is economical since the number of employees to carriage volume ratio is less compared to road transport.
7. There is no traffic congestion on the water bodies hence delays are minimized.
8. Water transport promotes international trade especially when it connects to outside countries.
9. Containers reduce on theft and damage of goods.

**Disadvantages of Water transport**

1. Land locked countries like Uganda pay double transport when they use sea transport since they have also to pay for either road or railway transport to make the goods reach.
2. The speed is low hence making it unsuitable for the transportation of perishable goods.
3. Fierce storms and water disturbances may lead to serious accidents resulting into loss of vessels and cargo.
4. Port and harbour congestions lead to delays in delivery of goods.
5. Some water bodies tend to freeze especially during winter like the St. Lawrence sea way making them out of use.
6. Return cargo may be difficult to arrange especially for tramp steamers which do not follow a fixed time table.
7. Water reductions especially during summer seasons greatly affect water transport because some heavy loads may not go over shallow waters.
8. It is expensive to construct artificial harbours in case the natural harbours are lacking.
9. Water transport is only limited to areas with water bodies.
10. Water transport is not suitable for door to door businesses.

**Containerization transport**

Containerization is a process of transporting goods packed in standard sized wooden or metal containers for easy transportation.

Containers are used either as full container Load (FCL) or less than container Load (LCL). In **full container Load** the container is loaded with goods of one exporter. In other words, the shipper loads the container with his own cargo destined for one consignee.

**Less than Container Load** is where the cargo loaded in the container belongs to many shippers/traders. At the port of destination, the container is opened i.e. de-consolidated and deliveries made to various consignees.

**A dry port** is a container terminal where exporters who are located inland take their products to be packed and sealed in containers ready for export. All clearances and documentation is done here. For instance there is a dry port in Nairobi where goods are packed and sealed in containers before being taken to Mombasa port.

**Advantages of Containerization Transport**

1. Goods are protected from damage and harsh atmospheric conditions like rainfall.
2. Loading and off-loading is easy since automatic cranes are used.
3. Movement of containers in sea port is comparatively cheap and simple.
4. Saves time and labour since containers are packed at exporter’s premises.
5. Reduces risks of theft or loss of goods since containers are sealed at exporter’s premises.
6. Special containers are used to carry special types of goods such as chemical and petroleum.
7. Larger consignments of cargo can be carried than if separate units of goods were loaded on a ship.
8. Lower insurance costs are paid because goods are safe in transit.
9. Does not require construction of large warehouses for keeping goods.

**Disadvantages of Containerization Transport**

1. Containers cannot carry all kinds of goods for example containers cannot carry living things like people.
2. The initial cost of manufacturing containers is very high.
3. Loading and offloading may not be possible without automatic cranes.
4. Containerization contributes to unemployment since it is capital intensive.
5. In case of damage of a container all the product may be lost.
6. It is not suitable for goods that are bulky and awkwardly shaped like timber.

**Air transport**

Air transport involves the movement of goods and people by air liners and aeroplanes. A trader enters into a contract with the air way company when transporting goods by air. This contract is called an **Airway bill.**

**Advantages of Air Transport**

1. It is the fastest means of transport making it suitable for transportation of perishable and urgent goods over long distances.
2. It is the best means of transport for carrying valuable goods such as gold since it takes a short time in transit.
3. It is convenient for passengers traveling long distances usually from one continent to another.
4. Air transport is not affected by topographical barriers like high mountain ranges.
5. It reduces loss of goods as there is minimum handling of good which at times is mechanized.
6. The way does not require construction and maintenance costs.
7. Planes can travel where other means of transport would be difficult such as places with high mountain ranges.

**Disadvantages of Air Transport**

1. Air transport is the most expensive mode of transport hence only appropriate for valuable and urgently needed goods.
2. It is not suitable for carrying bulky, awkwardly shaped and heavy goods like timber.
3. Delays in air transport can be caused by bad weather conditions like fog and frost.
4. It is expensive to construct airports and to acquire aircrafts.
5. Cargo and passengers cannot be carried to their final destination. Airplanes end at air ports and therefore the businessman has to arrange for another form of transport to deliver the goods to his premises.
6. In case of an accident, all the cargo and passengers are destroyed.
7. Time is wasted in air traffic control over the air field.
8. Hijackers affect the functioning of air operation.
9. It requires highly trained personnel in all aspects of its operations.

**Factors considered when choosing the mode of transport**

1. **The type of goods.** Perishable and fragile goods need to be handled with extra care in order to deliver them safely.
2. **Transport costs.** The cost of transporting goods should be lower in relation to the value of goods. Cheap goods should be transported by road and railway and expensive goods should be transported by air transport.
3. **Speed and urgency.** Urgently needed goods can be transported by air or road for short distances.
4. **Distance.** Road transport is best for short distances and air and water for long distances.
5. **The terminal.** The availability of loading and offloading points influences the mode of transport to be used.
6. **Flexibility.** The mode of transport chosen should be flexible i.e. easy to change from one route to another, reach goods to their final destination.
7. **Weight of goods.** Heavy goods are economically transported using rail and water transport.
8. **Risks involved.** Lower insurance charges are paid for air transport compared to other forms of transport since time taken under transit in air transport is short.
9. **Bulkiness of goods.** Bulk goods are best transported by sea and rail transport.
10. **Reliability.** The means of transport chosen should provide assurance that goods reach the intended destination at the right time, place and right form.

***REVISION QUESTIONS***

1a) What are the advantages of road transport over railway transport in Uganda?

 b) Under what circumstances may a trader prefer to transport goods by railway?

2a) Explain the role of transport in the development of trade in Uganda

 b) What are the limitations of water transport?

3a) Define containerization

 b) Give any **five** advantages and **four** disadvantages of containerization