



MIN. OF TRADE AND INDUSTRY CO-OPERATIVE DEVELOPMENT DEPARTMENT



The laws governing operations of Co-
operative Societies in Uganda

Co-operative Movement Philosophy



Presentation overview

- ✓ What is a co-operative ?
- ✓ Statement of Co-operative identity
- ✓ Why form coops?
- ✓ Why should any one join co-ops?
- ✓ Cooperatives and poverty
- ✓ Cooperatives-a significant part of the global economy
- ✓ The laws governing co-ops in uganda

Presentation overview

- Audit ,annual returns and accounts
- Appropriation of net surplus

What is a co-operative?

- A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise(ICA,1995).

Statement of Cooperative identity and principles

- ❑ Co-operatives are based on the values of: *self-help, self-responsibility, democracy, equality, equity and solidarity.*
- ❑ In the tradition of their founders, co-operative members believe in the ethical values of *:honesty, openness, social responsibility, and caring for others*

Co-operative Principles

- ❑ The co-operative principles are guidelines by which co-operatives put their values into practice.

VOLUNTARY AND OPEN MEMBERSHIP

- ❑ Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept responsibilities of membership, without gender, social, racial, political, or religious discrimination.

Cooperative Principles

DEMOCRATIC MEMBER CONTROL

- ❑ Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership.

Cooperative Principles

- ❑ In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

Co-operative Principles

MEMBER ECONOMIC PARTICIPATION

- Members contribute equitably to, and - democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as

Cooperative Principles

a condition of membership.

Members allocate surpluses for any of the following purposes:

- ▣ developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Cooperative Principles

AUTONOMY AND INDEPENDENCE

- ❑ Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Cooperative Principles

EDUCATION, TRAINING AND INFORMATION

- Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

Cooperative Principles

CO-OPERATION AMONG CO-OPERATIVES

- ❑ Co-operatives serve their members most effectively and strengthen the Co-operative Movement by working together through local, national, regional and international structures.

Co-operative Principles

CONCERN FOR COMMUNITY

- ❑ Co-operatives work for the sustainable development of their communities through policies approved by their members.

Why form co-ops?


- ❑ Co-operatives are easy to form, flexible and can be used to address many issues that are facing many people in Uganda
- ❑ coops are one way a group of people can work together to solve problems facing them. These may include:
- ❑ To meet certain needs such as financial services and many others.

Why form coops? cont

- ❑ To fight exploitation by the powerful individuals or institutions by pooling their own resources to meet their needs.
- ❑ To fight unemployment through acquisition of entrepreneurial skills

Why should any one join a co-operative

- Through co-operatives, the people can generate ideas, share concerns, offer support to each other, build on existing skills as well as learn new ones, create employment opportunities and empower themselves.

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- By pooling their produce or production efforts through their co-operatives, members can access better prices, improve the quality of their produce, etc.

Co-operatives and poverty

What can co-operatives do about poverty? The answer is: a lot.

- ❑ Co-operatives have a number of important roles to play in securing the rights and livelihoods of poor people:
- ❑ Co-operatives are schools for democracy, and require the development of citizenship skills to maximise their potential.
- ❑ Providing services the state cannot, or services captured by elites, where private provision

contn

is too costly or too difficult: health, education, utilities, credit, and agricultural extension services. These could be of enormous importance in helping to achieve the Millennium Development Goals.

- Business co-operation – small farmers and entrepreneurs co-operate to obtain production

contn

inputs, help with processing and marketing. This has the potential to enable small primary producers to combine and reach the critical mass to break into export markets.

- Capital accumulation, credit and savings – especially important for disadvantaged groups who do not have access to credit.

Co-operatives-a significant part of the global economy

- ❑ Co-operative sector represents a significant contribution to our global economy.
- ❑ According to the ICA annual survey, Global 300, the top 300 cooperatives around the world had nearly \$1 trillion in revenues in 2005. That is only slightly less than the economy of the world's 9th largest economy, Canada.

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- ❑ Co-operatives create over 100 million jobs ,more than all the multinational corporations combined.
- ❑ Cooperative enterprises also contribute to every sector of the economy and are among the largest businesses in the world(ICA,2008)

Important information to note

- ❑ Cooperatives are member owned businesses ,their equity is provided by their members .
- ❑ A cooperative member will make an equity investment ,often nominal, in a cooperative upon becoming a member. This investment represents a member's ownership interest in the cooperative.

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- Members shares are recognised by members as risk capital because in the unfortunate incidence of a bankruptcy, member shares are used in making good of the loss if the cooperative society's own funds (which are usually comprised of retained earnings) cannot cover the losses.

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- ❑ In Uganda there is no active market for cooperative shares .
- ❑ The member's interest is generally not transferable and shares can only be exchanged with the cooperative it self.
- ❑ When a member decides to withdraw from the cooperative or when he is excluded from the cooperative

contn

- Some cooperatives repurchase the shares of members or refund the equity interest upon their withdraw from the cooperative, upon death, upon reaching retirement or a certain age. the redemption amount is generally the book value of the member's shares.

Contents of the co-op societies act cap 112

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- Part ii: registration
- Part iii: rights and liabilities of members
- Part iv: duties of registered societies
- Part v: duties of the board and privileges of registered societies
- Part vi: property and funds of registered societies
- Part vii: supervision and inspection of affairs

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- Part viii: dissolution of a registered society
 - Part ix: surcharge and attachment
 - Part x : settlement of disputes
 - Part xi: General sections

CO-OPERATIVE REGULATIONS 1992

- 1. Citation
- 2. registers of societies
- 3. application for registration
- 4. Registration of a society
- 5. Certificate of registration & documents to be supplied to the society
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- 9: Transfer of shares of a member on ceasing to be a member
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- 16: Estimates
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 - 19: First general meeting
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- ❑ 25: Eligibility for membership of the committee
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- 32: Property and funds
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 - 34: Duty to maintain a reserve fund
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 - 37: Form of annual return
 - 38: Form of particulars of charge
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- 40: Maximum dividend on shares
 - 41: Transfer of shares by a member
 - 42: Accounting for education fund
 - 43: Share transfer fund
 - 44: Registrar's notice pending surcharge
 - 45: Publication by the liquidator of notice requiring claims to be made
 - 46: Reference to arbitration by liquidator
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- 48: Lodging of disputes
 - 49: Disputes referred to arbitration
 - 50: Copies of byelaws and balance sheet to be open
 - 51: revocation

The co-operative act cap 112

Registration

- Societies which may be registered(s.3)
subject to this act ,a society which has for its object the promotion of the economic and social interests of its members in accordance with the co-operative principles and which in the opinion of the registrar ,is capable of promoting those interests may be registered under



this act with or with out
limited liability; except that a co-operative
union or any apex society shall be
registered with limited liability

Conditions for registration(s.4)

- No society shall be registered under this act unless:
 - a) It consists of at least 30 persons all of whom are qualified for membership of the society under s.13
 - b) In the case of a secondary society, it consists of at least 2 registered primary societies among its registered members


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- c) In the case of tertiary society, it consists of at least 2 registered secondary societies among its registered members.
- d) In the case of an apex society, it consists of 2 or more secondary societies
- (s.s2) The UCA Ltd shall be the apex body for all registered societies

Application for registration(s.5)

- For the purpose of registration, an application to register shall be made to the registrar.
- Application shall be signed –
 - a) In the case of a primary society, by at least 30 persons qualified for membership(s. 13)
 - b) In the case of a secondary, tertiary or apex ,by a person dully authorized by each society

Registration of a probationary society(s.6)

- ❑ If the registrar is satisfied that a society has complied with this act and regulations made under it and its proposed bye laws are not contrary to the provisions of this act ,he or she shall register the society and its bye laws on probation for a period not exceeding 24months
- ❑ If at the expiry of the 24months the registrar is satisfied with the performance of the society,he/she shall register the society permanently.



3) If at the expiration of 24 months the registrar is not satisfied with the performance of the society, he or she may either cancel the registration or extend the probationary period by a period not exceeding 12 months; and if after the extension he or she is still not satisfied with the performance of the society and a liquidator appointed (secs. 62 & 63)

Qualifications for membership(s.13)

- (1) To be qualified for membership of a registered society, one must have attained the age of 18 yrs and be a resident with in or in occupation of land with in the society's area of operation as prescribed by the relevant by law.
- (2) A person above the age of 12 years may become a member of a society, but such a person shall not be eligible to act as a committee member of the society until 18yrs

Restriction on share holding(s.14)

- ❑ No member other than a registered society shall hold more than 1/3 of the paid up share capital of any co-op soc.
- ❑ No company incorporated or registered under the companies act and no unincorporated body of persons shall be entitled to become a member of a registered society, except with the written permission of the registrar.

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- ❑ Member not to exercise rights until due payment is made(s.16)
 - ❑ Restriction on membership in more than one society (s.17) no person shall be a member of more than one registered society with unlimited liability, and except with the written consent of the registrar, no person shall be a member of more than one registered society having the same or similar objects

Votes of members(s.18)

- ❑ Each member of a registered society shall have one vote only as a member in the affairs of the registered society.
- ❑ S.20: address of society
- ❑ Every registered society shall have registered address to which notices, and communications may be sent and shall send to the registrar notice of every change of address with in one month of the change.


Address of society(s.20)

- 1) Every registered society shall have a registered address to which notices and communications may be sent and shall send to the registrar notice of every change of address within one month of the change.
- 2) every registered society shall display its name and address on a sign board in a conspicuous position outside its place of business.

Coop leadership/governance&mgt structure

- After the members have formed their co-operative, the next task for them is to make it work or operate in such a way that it will meet their expectations and fulfill the objectives for which it was formed. This task falls into two main parts; leading or

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- guiding or directing the operations, and handling the day-to-day operations/activities of the co-operative. If it was possible, members would all perform this task but realistically, they cannot. Imagine all members of a co-operative handling its day-to-day activities!

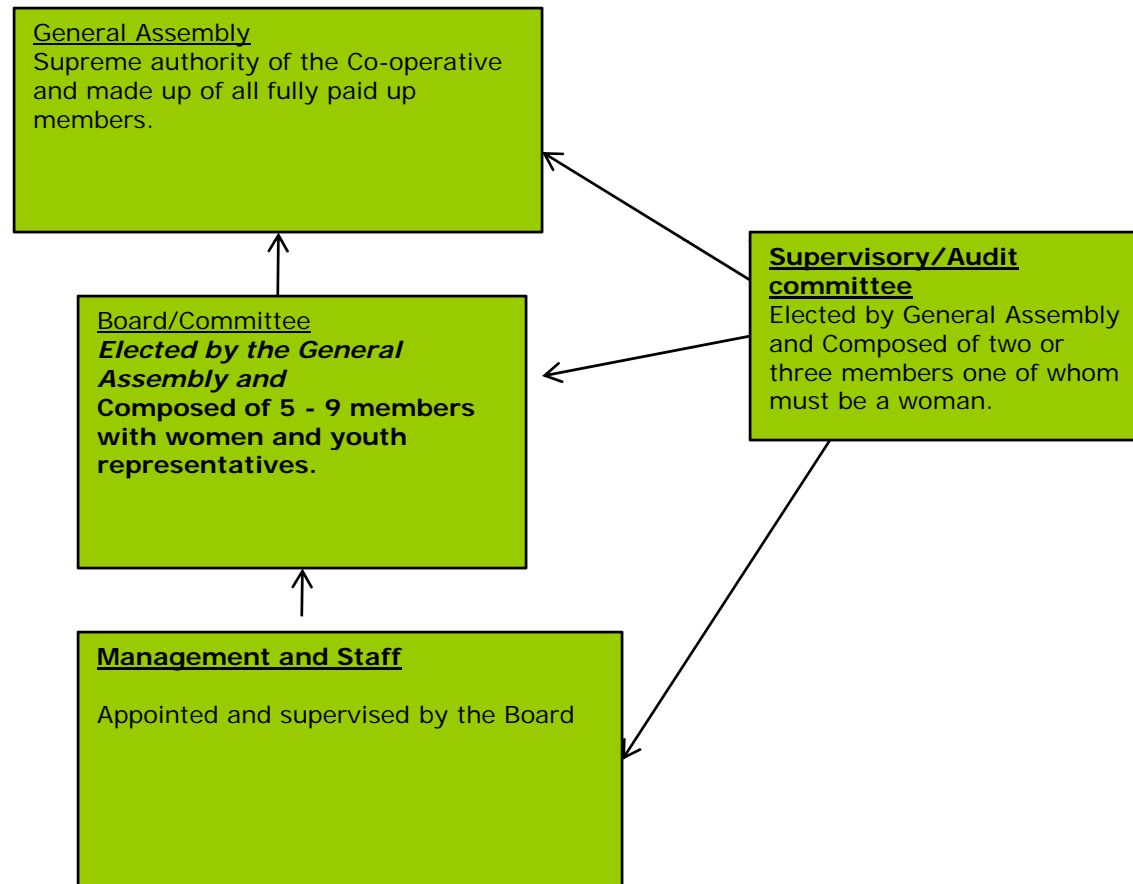
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- To avoid the chaos that would ensue, the members have got to set up a leadership/governance and management structure which would enable their co-operative to operate efficiently and effectively and do so in their best interests.

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- In trying to develop a leadership/governance and management structure for their co-operative, the members may be guided by the following model, which also shows the reporting arrangements between the various organs.



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- ❑ The basic structure of co-operative leadership and management has three parts or organs.
 - ❑ The members of the co-operative society
 - ❑ The board/committees put in place by the members to lead their co-operative
 - ❑ The staff who are hired by the board/committee to handle the day – to – day operations.

Model leadership/governance & mgt structure a co-op



Key



Reporting Relationship



Supervisory Relationship.

Duties and Responsibilities of the different organs in the leadership & mgt

- No organ should see itself as being more important than others or independent of others. Rather, it should be part and parcel of a total system that must function in tandem if the co-operative's objectives are to be achieved.

Annual General Meeting (AGM)

- ❑ ***Composition*** All fully paid up members of the Co-operative
- ❑ ***Duties and Responsibilities***
- ❑ Approves the mission /vision and objectives of the co-operative,
- ❑ Protects the rights of members,
- ❑ Provides overall direction of the co-operative's operations through provisions,



in the governance documents,

- ❑ Elects the committee and the audit / supervisory committee,
- ❑ Approves accounts of the co-operative,
- ❑ Approves business plan, annual plans, and budgets proposed by the committee

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- ❑ Approves operating and lending policies,
 - ❑ Approves interest rates policies proposed by the board,
 - ❑ Approves appointment of auditors and their pay,
 - ❑ Undertakes any other general business deemed necessary for the good of the co-operative,

The Committee

- The Committee is the principal leadership / governance organ of the co-operative. As it is not practical for all the members of the organization to keep oversight, the Committee directs the affairs of the co-operative on behalf of its general membership.
- ***Composition: The*** Committee's composition is determined by the Annual General Meeting, which elects its members.

the committee

- ❑ Defines mission /vision, strategic objectives, and policies of co-operative, and ensures that plans conform to them
- ❑ Reviews and approves business plans & budgets before presenting to AGM
- ❑ Supervises management in the execution of approved plans


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- ❑ Mobilizes resources for the co-operative on behalf of the members
 - ❑ Appoints, appraises and disciplines management
 - ❑ Determines rate of interest, on management's advice.
 - ❑ Monitors the activities of committees
 - ❑ In some cases, draws up long term and annual plans

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- Depending on the size of the co-operative and the nature of its business, the committee may with the authority of the AGM create a number of sub-committees like Loans, Planning/Evaluation, Human Resource; Business Development and Disciplinary sub-committees to enable it do a better job.

Audit / Supervisory Committee

- For purposes of ensuring good governance, it has become necessary to have another organ known as The Audit /Supervisory Committee which consists of two to three people who are charged with the responsibility of checking on the consistency of the actual operations of the co-operative, and to ensure they support its vision, mission and strategic objectives.

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- The Audit / Supervisory committee is also charged with ensuring that the financial affairs of the organization are handled with prudence, due care and transparency.
 - **Composition:** Two or three people elected by the AGM. The members must not be members of other committee(s) or any of its sub-committees nor members of the management staff.

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- They must have strong financial skills with a deeper understanding of the co-operative and its business. The Audit Committee members should preferably include one woman and youth.

Duties and Responsibilities

- ❑ Checks for consistencies in the co-operative's financial and operating records
- ❑ Authenticates the co-operative's financial reports
- ❑ Ensures that the co-operative's operating policies and procedures, and expenditure controls are followed
- ❑ Ensures prudent Asset and Liquidity controls
- ❑ Regularly inspects books, records and transaction documents of the co-operative⁶⁸

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- ❑ Monitors operations, especially the related financial documents and records.
 - ❑ Checks operations of all co-operative's departments, managers and officers for compliance with the set policies, rules and standards.

Management Staff

- ***Composition:*** Professional people hired by the Committee and paid a salary or commission for their services.
- ***Duties and Responsibilities:***
- Appointed and supervised by the board/committee, the Management Staff performs the following duties and responsibilities:

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- ❑ Translating the mission and objectives into actions.
 - ❑ Preparing Business plans, annual plans and budgets
 - ❑ Maintaining books, records and accurate accounts
 - ❑ Making periodic financial and operating reports
 - ❑ Implementing policies and operating programmes of the co-operative

Copy of the act, regulations , byelaws etc (s.21)

- Every registered society shall keep a copy of this act and of the regulations made under it and of its byelaws and a list of its members open to inspection by any person, free of charge at all reasonable times during business hours at the office of the society.

Records to be kept by a registered society (reg 12)

- 1) A registered society shall keep up to date proper books of accounts and such other records as the registrar may from time to time direct.
- 2) all societies shall keep the following records:
 - A register of members showing:
The name membership no.
address and occupation of each member

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- The date on which each member was admitted to membership;
 - Shareholding of each member;
 - The date on which any member ceased to be a member and the nominee or nominees of each member, if any, appointed in accordance with reg.10

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- ❑ Minutes of proceedings at general meetings
 - ❑ Minutes of proceedings at committee meeting;
 - ❑ Acash book showing the details of all money received and all money expended or paid out in any way what so ever by the society;
 - ❑ In case of society dealing in milk a milk ledger showing details of all milk sold by



The members through the society ; and a register of fixed assets of the society

Reg 3: a registered society shall draw up its annual accounts and balance sheet in such a form as shall comply with generally accepted accounting procedures and practices.

Why the need for audit ,annual returns and accounts

- To provide members with an account of stewardship of the cooperative by the governing body and management, ensuring timely, understandable ,relevant ,reliable ,comparable and transparent information on the cooperative's activities, performance and financial position.

Audit ,annual returns and accounts(s.22)

- According to section 22 (1-7) Cooperative societies act cap 112, every registered cooperative society shall cause its accounts to be audited at least once in every year by an auditor appointed by the AGM and approved by the Registrar, and the cost of the audit shall be borne by the society ;except that-

contn

- ❑ a) no auditor chosen by a registered society to audit its books shall perform that function for more than three annual audits in succession unless authorized by the registrar;
- ❑ 22(2) audits shall be conducted in accordance with the International Standards on Auditing (ISA).

contn

- And, in addition ,include audit of management efficiency.

22(3)The auditor shall at all times have access to all books ,accounts ,papers and securities of a registered society, and every officer of the society shall furnish such information in regard to the transactions of the society as the auditor may require.

contn

- 22(5) every auditor appointed under subsection(1) shall submit a detailed audit report of the accounts and balance sheet to the committee and a true copy of the accounts and balance sheet to the registrar 3 months after its financial year prepared in compliance with generally accepted professional audit standards and, in addition ,include the auditor's opinion

contn

- ❑ On whether or not the business administration of the society has been conducted-
- ❑ a) Efficiently
- ❑ b) in accordance with the Cooperative principles and the auditing and accounting provisions of this act; and
- ❑ c) in accordance with its objectives ,byelaws and any other decisions made by the AGM

contn

- 22(7) where a registered society fails to cause its accounts to be audited in accordance with subsections (1), (2) & (5), the committee of that society shall be deemed to have relinquished its offices; and the registrar shall convene a SGM to elect anew committee unless the registrar is satisfied that the failure was due to circumstances beyond the committee's control.

cont

- Section 23:
- (1) no person ,not being a registrar or deputy or assistant registrar of cooperative societies shall be appointed/approved as an auditor for the audit of the accounts of a registered society unless that person, or in case of a firm, every partner of that firm, is a member of a recognised accounting body.

What to take care of in cooperative financial reports Preparation

- ❑ Provide for 10% of net surplus/gain for statutory Reserves (Regulation 34.1)
- ❑ National cooperative education fund of 1% of the turn over of the society (sec.49)
- ❑ 5% of surplus should be reserved for share transfer funds (Regulation 43)
- ❑ 5% of surplus should be reserved for development /revolving fund(Regul.36.1)

Appropriation of net surplus

- ❑ 60% patronage bonus
- ❑ 20% incentive bonus
- ❑ 10% on the shares of paid up capital towards dividends (Regulation 40)
- ❑ 10% development fund

contn

- Cooperative financial reporting provides only a partial picture to the member and so additional non- financial information is of high importance to report users (members especially) in understanding the activities and performance of a cooperative society.

Estimates and expenditure(s.24)

- (1) Every committee of a registered society shall cause estimates of the society's income and expenditure of both revenue and capital to be prepared for the coming 12 months at least 3 months before the end of its financial year.
- 2) A copy of those estimates shall be sent to the registrar for an opinion before they are submitted to the general meeting.

contn

- ❑ (ss.4)No development capital expenditure shall be made by a registered society before the committee's estimates have been approved by a general meeting
- ❑ Ss.5)if a society contravenes or fails to comply with the provisions above ,it commits an offence and is liable to a fine of 5000/= and 500 for each day the offence is continued.

cont

- Holding of AGM should take place within 90 days following the closure of the FY (reg 18)

Byelaws to bind members(s.30)

- 1) the bye laws of a registered society shall, when registered, bind society and its members to the same extent as if they were signed by each member, and contain obligations on the part of each member, his or her heirs, executors, administrators and assignees, to observe all the provisions of the byelaws.

Imposition of fines(s.32)

- 1) the byelaws of a registered society may, subject to any regulations made under the act, provide for the imposition of fines on its members for any infringement of its byelaws; but no such fine shall be imposed upon any member until written notice of intention to impose the fine and the reason for it has been transmitted to him or her and he or she has had an opportunity of showing cause vs imposition of fine.

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- 2) Any such fine may be recovered by suit in any competent court.
- 4) A member shall not be deemed to have infringed the byelaws of a registered society by reason of his or her having failed to deliver produce/milk to the society if that failure was due to the fact that before becoming a member of the society, the member had contracted to deliver the produce to some other person.

Cancellation for other reasons(s.57)

- ❑ The registrar may, on his or her motion, by order in writing, cancel the registration of any society, if satisfied that-
- ❑ The registration was obtained by fraud or mistake
- ❑ The society exists for an illegal purpose
- ❑ The society has wilfully, after notice by the registrar, contravened any of the provisions of the act, regulations or the bye laws.

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- ❑ The society is no longer operating in accordance with the cooperative principles
 - ❑ The no of members of the society has fall below the minimum required by this act or the society has not commenced operations or has ceased to operate for 2 consecutive years.
 - ❑ Ss.2) a society shall liquidate when 2/3 of its share capital has been lost, unless it can convince the registrar the loss will be

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- Made good with 6months from the date of discovery of insolvency.

Conclusion

- ❑ Co-operatives continue to be an important means often the only ones available where by the poor as well as those better off but at perpetual risk of becoming poor, have been able to achieve economic security and an acceptable standard of living and quality of life(ICA,1996).

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ALL FOR ONE,
ONE FOR ALL !!

Thank You

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