



Investment Clubs in Uganda

Options for legal status

1. Introduction

There has been a proliferation of investment clubs in Uganda in the past 5 years. According to data from the Investment Clubs Association of Uganda, there were over 20,000 such clubs by the end of 2019. These clubs are gaining traction as alternative sources of finances for small and medium enterprises in a country where the uptake of banking services that can unlock access to credit is very low. Investment clubs in Uganda are largely informal, without legal personality and only bound together by the trust the respective members have in each other. Investment clubs are however likely to be more transformative if they formalize their legal status. This article highlights some of the legal options for achieving this.

2. What are investment clubs?

Investment clubs represent groups of people who come together and pool resources for investment. Many such clubs in Uganda lack legal personality. As such, their ability to expand activities including accessing additional funds in the form of credit using their savings as seed capital is restrained. It is for this reason that this article encourages investment clubs in Uganda to formalize their legal status.

3. Choice of legal form

An investment club can have separate legal personality from its members insulating them from the liabilities and obligations of the club. The club can also exist without legal personality in which case its activities would be carried out through its members. In such instances, the club members usually designate a select few to act on their behalf including opening up bank accounts as well as holding club property. These members are jointly and severally liable in respect of the obligations of the club activities.

4. Self-help groups

The law in Uganda recognizes the existence of investment clubs though it refers to them as self-help groups. Under the Tier 4 Microfinance Institutions and Money Lenders Act 2016, these groups can be started for purposes of mobilizing and managing own savings, providing interest bearing loans to its members, offering a limited form of insurance to its members and sharing out member equity at least once a year in proportion to the savings.

Though the law requires these groups to be registered with the respective local governments, this rarely happens. Registration is intended to facilitate supervision of these clubs hence mitigating the mismanagement and misappropriation of funds. Registration may also facilitate the transition of the group to a formal entity. Although a step in the right direction, this registration by the clubs/groups does not confer legal personality.

5. Company

An investment club can be established as a company. A company has separate legal personality thus shielding the owners from its liabilities and obligations. There are several advantages running an investment club as a company though there are also additional regulatory compliance burdens.

6. Partnerships

An investment club can also be structured as a partnership. The formation and registration of partnerships in Uganda is governed by the Partnerships Act of 2010. There are two types of partnerships namely general partnerships and limited liability partnerships.

General partnerships can have up to 50 partners for professional partnerships and 20 for non-professional partnerships. All partners have unlimited liability and are jointly and severally liable in respect of the debts and obligations for partnership activities.

Limited liability partnerships (LLPs) consist of not more than 20 persons but have one or more persons called general partners. The general partners are those responsible for the day-to-day management of the limited partnership and are liable for the company's financial obligations, including debts and litigation. An LLP must additionally have two or more persons called limited liability partners who must contribute a stated amount of capital to the firm and are not liable for the debts or obligations of the firm beyond the amount of the capital contributed.

7. Cooperatives

Investment clubs can take the form of Cooperatives. These are governed by the Cooperative Societies Act Cap 112 which defines a cooperative union as a registered society under the Act, the membership of which is restricted to primary societies. Primary societies refer to smaller groups of individuals who have attained 18 years, resident within the area the intended cooperative is to operate and have registered with the registrar of cooperative societies. Therefore, members belonging to an investment club and fit the above criteria can choose to register a primary society and subsequently formulate a cooperative society with other likeminded primary societies. The management of such entity is governed by byelaws as signed by the members. Cooperative societies have been prominent among farming societies where they enable small holder farmers to market their produce collectively. A Cooperative society has legal personality.

8. Savings and Credit Cooperatives (SACCOs)

Investment clubs can be organized as SACCOs. Previously regulated under the Cooperative Societies Act, SACCOs are now under the Tier 4 Microfinance Institutions and Money Lenders Act of 2016 which provides for the procedures for their formation, registration and management. In order to conduct financial services business, a SACCO is required to be licensed by Uganda Microfinance Regulatory Authority. The Authority has since issued regulations to govern the management and licensing of SACCOs.

SACCOs involve members coming together for the object of promoting their economic and social interests in accordance with cooperative principles. They rely on their members contributions in form of savings and shares as the main source of capital. They then use this capital to lend to their members usually at low interest rates. People who join SACCOs are often motivated by two objectives, to earn a dividend as return on their savings with the SACCO and also to access affordable loans leveraging on their accumulated savings.

It is notable that SACCOs are exempted from paying income tax on their commercial returns and also have legal personality.

9. Conclusion

The foregoing discussion is not an exhaustive illustration of all the legal forms investment clubs can explore. This notwithstanding, it is apparent there is benefit in terms of streamlined operations where the club has separate legal personality with its existence and operations demarcated from its members.

Cristal Advocates accepts no responsibility for any loss occasioned to any person acting or refraining from acting as a result of material contained in this publication. Further advice should be taken before relying on the contents of this publication.



Contacts for this Publication



Denis Yekoyasi Kakembo

dkakembo@crystaladvocates.com
+256 751 834 168

Denis is the Managing Partner at Cristal Advocates where he also leads the energy and tax practice. He is qualified both as a Lawyer and Chartered Accountant with vast experience serving various industries in Sub Saharan Africa. Before joining Cristal Advocates, he had worked for close to 10 years with Deloitte and Touche where he started his career and rose to senior managerial positions.

At Deloitte, he lived and worked in Uganda, Kenya, Tanzania and the United Kingdom for over 6 years and subsequently became the firm's chief of staff for the Energy and Resources Industry Group seeing him play a lead advisory role in Uganda, Kenya, Tanzania, Mozambique, South Sudan, Somalia and Ethiopia.

Denis is widely published and a regular commentator in the local, regional and international media and speaker at various forums regarding the taxation and financing of energy projects as well as the protection of large capital projects within the framework of international investment law.

He holds a Master of Laws degree in Petroleum Taxation and Finance from the University of Dundee in the United Kingdom, a Post Graduate Diploma in Legal Practice and a Bachelor of Laws degree from Makerere University. ■



Edgar Mugarura

Co-Author

emugarura@crystaladvocates.com
+256 774 853 801

Edgar is a Legal Trainee under the firm's Graduate Trainee Program. He holds a Bachelor of Laws Degree from Makerere University. He is finalizing his studies at the Law Development Centre for the award of a Post Graduate Diploma in Legal Practice. ■



- Energy & Infrastructure
- Business support
- Employment
- Banking & Finance
- School of Professional Excellence
- Tax
- Company Secretarial & Trustee Services
- Public Law & Policy Advocacy
- Dispute Resolution
- Corporate and Commercial

Contact us

Cristal Advocates
32 Lumumba Avenue
4th Floor, Padre Pio House
Lumumba Avenue

P.O. Box 1769 Kampala, Uganda
Tel: +256 (414) 671 274
Email: admin@cristaladvocates.com
www.cristaladvocates.com