PART SIX

THE PUBLIC SECTOR, PRIVATIZATION AND CONSUMER PROTECTION

THE PUBLIC SECTOR

This consists of state owned enterprises which are engaged in commercial activities parallel with those of the private sector.

These include:-

- Parastatal bodies
- Public corporations
- Local authorities

Parastatal bodies: These are statutory organizations set up by the government to perform developmental functions. The aim of parastatals is not to make profits but to assist the public in various ways E.g. Marketing boards.

MARKETING BOARDS

These are produce trading organisations set up by the government or by the private individuals to buy agricultural produce from farmers and sell it to consumers. They normally buy from farmers through co-operatives societies.
The main aim of a Marketing Board is to assist small scale farmers, eliminate unhealthy competition between them and to ensure steady supply of essential commodities to consumers.

Statutory marketing boards

These are set up by the government through an act of parliament that defines their areas of operations, functions and status e.g. the Coffee Marketing Board, Lint Marketing Board.

Voluntary Marketing Boards.

These are set up by private individuals. They are non –statutory boards and are often registered as corporate bodies with their powers and areas of operation being defined by Articles and Memorandum of Association.

Types of Marketing Boards

Whether statutory or voluntary in formation, Marketing Boards can be divided into two groups according to the range of products dealt in:

1. Commodity Marketing Board. This handles only one type o agricultural produce eg Coffee Marketing Board, Link Marketing Board.
2. Produce Marketing Board. This handles a wide range of products eg the produce marketing Board of Uganda.
3. Export marketing boards: These concentrate on marketing various agricultural products to foreign markets.
4. Advisory marketing boards: These carry out research about better methods of production and pass on the results of their research to farmers, that is, they advise growers of various products for example Uganda coffee development authority.

Functions of marketing boards

1. Assist farmers by buying the commodities from producers and carrying out marketing activities.
2. Engage in advising farmers on how to produce commodities of a higher quality.
3. By establishing a price stabilizing fund, they play the role of stabilizing price because they provide storage facilities where they store the excess surplus which they release to the market when there are shortages.
4. Offer fair prices and better terms to the producers.
5. Transport produce from rural areas to collecting areas.
6. They grade and standardise produce.
7. Help producers by giving them advice, loans on manageable terms and other marketing facilities like advertising, transport, storage and processing.
8. Carry out research into better production and marketing methods.
9. Offer specialist services and provide inputs such as seeds, pesticides.

Problems of Marketing Boards

1. Price fixing. The boards usually fix prices for farmers without predicting market conditions and as a result loss may be incurred.
2. Problems of transportation during rainy seasons. Also shortage of transport for collecting produces from the production areas.
3. Surplus. Over production by farmers usually leads to lowering prices or wastage.
4. Lack of adequate funds to construct storage facilities as a means of controlling excess supply.
5. Government interference and political instability makes efficient running of the boards difficult.
6. Mismanagement due to inexperience by the appointed managers.
7. Corruption and embezzlement of funds by the officials.
8. Poor quality of produce from the farmers makes marketing of produce on international market difficult.
9. Competition from private buyers makes the work of the board difficult.

HOW MARKETING BOARDS KEEP PRICES STABLE:

Boards keep prices stable by retaining some of the revenue, when prices are high. The money is put into the price stabilization fund, when the prices later fall; the boards continue to pay producers at the old prices meeting the deficit from the price stabilization fund.

Public corporations: These are joint stock companies in which the government holds either all the share capital or the majority of it

An enterprise is said to be a public corporation if:

- 51% of its shares are owned by the government. 49% or less of the shares are owned by the private investors and in this case, the government is said to be the majority shareholder.
- 100% of the shares are owned by the state and in this case, the government is the only shareholder.

They are usually created by the act of parliament, which clearly defines their aims and objectives. Public corporations aim at making profits and these profits are shared by the shareholders and the government.

Examples of public corporations

- National Water and Sewerage Corporation
- Kenya Airways
- National Housing and Construction Company

SIMILARITIES BETWEEN PUBLIC CORPORATIONS AND PARASTATALS:

- They are both formed by the act of parliament thus they owned by the state.
- Management is in hands of people appointed by the government.
- They both provide commercial services.

DIFFERENCES:

- Parastatals are entirely owned by the state while public corporations may be jointly by the state and private individuals.
- Parastatals do not aim at making profits while public corporations aim at making profits.
- Parastatals do not have share capital while public corporations have share capital.

Differences between Public Corporations and Limited Liability Companies

1. Motive: The main objective of a public corporation is to provide essential goods and services i.e. not solely profit motivated whereas the main objective of a limited company is to make profits.
2. Ownership: Public corporations are state owned business units yet limited companies are owned by shareholders.
3. Formation: Public corporations are formed by an Act of Parliament to provide nationwide services whereas limited companies are formed by registration under the Companies Act.
4. Management: Public corporations are controlled by directors appointed by the state while limited companies are controlled by a board of directors who are elected by shareholders.
5. Sharing of profits: The profits of public corporation are enjoyed publicity through provision of public utilities like water, health, education, sewerage disposal etc, yet the profits of limited companies are shared among shareholders according to the shareholdings.
6. Public corporations are mainly opened as statutory monopolies while limited companies are mainly engaged in liberalized business.

Local authorities: These are controlled by the government and provide certain essential services, which the private people are reluctant to invest in due to being unprofitable. Such services include road maintenance, street cleaning, supply of water e.t.c. Examples of local authorities include: Kampala city council, Jinja municipal council Entebbe Municipal council e.t.c.

Ways in which the government gets involved in commerce.

1. By setting up public corporations that operate on commercial lines e.g. Dairy Corporation, National Water and Sewerage Corporation.

2. Through parastatals to perform specific functions within the economy e.g. Marketing Boards, Uganda Development Bank.
3. Through local authorities to provide certain essential services which may seem unprofitable to the private sector e.g. health services, street cleaning, garbage collection and sewage disposal.
4. Through consumer protection by setting up various laws aimed at protecting consumers from exploitation.
5. Through ministries e.g. the Ministry of Tourism, Trade and Industry.
6. By influencing location of certain business enterprises so as to achieve fair and even distribution of industries over the country.
7. Protection of foreign trade through measures like total ban, quotas, exchange control.
8. By imposing taxes through the Uganda Revenue Authority.
9. By setting up necessary infrastructure conducive for commercial activities and industrial development e.g. roads, communication facilities, banks etc.
10. Organizing trade fairs or participating in them to display what a country produces.
11. Through trade missions to expose to the foreign markets what a country produces and also negotiate for the sale of products.

NATIONAL CHAMBER OF COMMERCE

Definition of National Chamber of Commerce

It is a body of business people set-up to specifically promote commerce and industry in a country. In Uganda the national Chamber of Commerce comprises of traders, industrialists, importers, exporters, bankers, insurances, transporters and all those involved in commerce.

Functions of National Chamber of Commerce

i) It links local business people with foreign markets.
ii) It advises members on technical issues concerning business.
iii) It presents collective issues concerning business to the government on behalf of business people.
iv) It assists local business people to look for foreign investment opportunities.
v) It may organise trade fairs both locally and internationally with a major aim of promoting commerce.
vi) It publishes business brochures and magazines with an aim of advertising the products of members.
vii) It ensures that there is harmony amongst the business community by arbitrating over their grievances.

Reasons why government owns some enterprises (Why Public sector?)

1. Provision of essential services like water, electricity etc which would be unaffordable if left in the hands of profit motivated private sector.
2. Some undertakings require huge capital resources which the private sector cannot afford hence government ownership e.g. mining, oil drilling, railway transport etc.
3. Risky operation like manufacturing firearms, printing and minting money cannot be left under the private sector.
4. For consumer protection through the Uganda National Bureau of Statistics (UNBS).

5. For political consideration i.e. as a way to tap foreign assistance like loans, grants, technology.
6. To minimise wasteful competition and duplication of services through state monopolies like Uganda Railway Corporation, National Water and Sewerage Corporation.
7. To provide non prestigious services e.g. sewerage disposal, garbage collection which the private sector may leave out.
8. To boost competition between the public and private sector so as to improve quality of goods and services.
9. Sources of revenue for the government because some state owned enterprises operate or commercial lines and earn profits.
10. To control the economy by minimizing private ownership through nationalization.

Demerits of the Public Sector / state owned enterprises.

1. Lack of profit motives leads to absence of self drive and motivation by administrators.
2. Goods and services rendered by government enterprises are of poor or low quality and there is little incentive to make them better.
3. Government enterprises are usually very large organisation. Diseconomies of scale easily apply to these units.
4. Government owned corporation often enjoy monopolies in their fields, lack of competition leads to inefficiency e.g. water and power supply in Uganda.
5. There is a lot of corporation and management of funds because managers are politically appointed.
6. Some state owned enterprises are loss making and the losses sustained are passed on to the general public in form of increased taxes.
7. They tend to be run under strict bureaucratic administrators (red tape) which leads to delay in decision making.
8. Where competition applies, public enterprises are easily out competed by more efficient private enterprises.
9. If government enterprises are created through nationalisation foreign investors who bring in foreign capital, skills and technology are scared off.

Note: Nationalization is a move taken by the government to take over and control certain firms and industries owned by the private sector.

PUBLIC REVENUE.

Public revenue refers to the total income of a country.

Sources of revenue for the Government.

1. Taxation: Taxes are the main source of government revenue. Taxes may be direct or indirect.
2. Fines i.e. penalties imposed on law breakers.
3. Loans from internal or external borrowing.
4. Gifts, grants or donations offered by friendly development countries.
5. Profits earned by state owned enterprises.
6. Privatisation i.e. the sale of state owned firms to private individuals.
7. Compulsory saving schemes e.g. through the National Social Security Fund (N.S.S.F)
8. Deficit financing i.e. printing more money to finance government obligations.

9. Incomes from government property e.g. from national parks, rent from government buildings.
10. Rates i.e. payments made on urban private property such as land and houses to the government.
11. Licensing of businesses.
12. Fees from services rendered by the government e.g. weighing vehicles, valuing property for private individuals.

NATIONALISATION:

This is the process through which the government may take over ownership and control the enterprises which have been owned by the private sector.

Or: It is the transfer of privately owned enterprises government or state ownership. This can be done for the following purposes:

- To plan and control the economy.
- To support industries which are about to collapse so as to protect the jobs.
- To control strategic industries like the manufacture of firearms.
- To make industries natural monopolies in order to enable them maintain the economy of scale and out put them in hands the government to check on the abuse of monopoly power.

PRIVATISATION

Privatization is the selling of formerly state owned enterprises to the private sector.
It is a result of trade liberalization where the government relaxes various forms of business control and barriers.

FORMS OF PRIVATISATION:

Divesture: This is where the government sells all its shares in an enterprise to the private sector. E.g. the government sold all its shares in Shell Uganda Limited and all its shares in Lake Victoria Bottling Company.

Partial Privatization: This is where the government sells part of its shares in an enterprise to the private sector. In this case the private sector owns the majority of the shares. E.g. in the former U.C.B the government sold 80% of its shares to Stanbic Bank.

Management Privatization: This is where the government leaves the management of an enterprise in the private hands. This can be either local or foreign investors while retaining ownership E.g. Sheraton Hotel is managed by Sheraton International.

Leasing/contractual Privatization: This is where the government passes over the management or ownership of a public enterprise to the private sector for a specific period of time.

Reasons for privatization.

1. To promote efficiency as a result of consumption with the state owned enterprises. Private firms tend to provide better services.
2. To cut on government expenditure on public enterprises. State owned enterprises tend to pose a financial burden on the government budget.

3. To generate revenue from the sale of state owned enterprises so as to finance other key sectors like medical, security and education among others.
4. To eliminate corruption, embezzlement and mismanagement of funds associated with state enterprises.
5. Privatization leads to the expansion of the private sector hence creating more employment opportunities.
6. To attract private investors who bring in foreign capital, skills and technology especially by foreign investors.
7. To widen the taxable base of the country. Government earns more income by taxing the private enterprise.
8. Privatisation encourages hard work, creativity, innovation and improvement in production techniques because of the profit motive.

Arguments against privatisation.

1. Leads to income inequality because income will concentrate in the hands of the rich who can own private enterprises.
2. Private enterprises tend to avoid socially vital but unprofitable sectors of the economy e.g. garbage collection water supply.
3. Because of competition, some firms are pushed out of production which leads to unemployment of resources.
4. Regional imbalance may result because private enterprises tend to concentrate in urban centres where they can reap high profits unlike in rural areas.
5. Because of the profit motive, commodities which fetch high prices but do not contribute to the people's welfare like alcoholic drinks, cigarettes will be givenpriority in production.
6. Profit repatriation will result when firms are owned by Foreign Private Investors.
7. The government may get difficulties in implementing some of the policies if a bigger fraction of the economy is in the hands of the private sector e.g. multi-national enterprises.

Note: Multi-national companies.

These are enterprises whose trading activities are in many countries. The have headquarters in one country but operate subsidiaries in other countries. Examples include; oil companies like shell, Total, Caltex, Kobil, Banks like Barclays, Standard Chartered, Stanbic etc.

Ways in which the government can support the private sector.

1. Physical, social and economic development e.g. roads, power generation, communication facilities.
2. Removal of rigid regulations affecting the private sector e.g. statutory monopolies, price controls, foreign exchange control etc.
3. Provision of economic incentives to private sector e.g. subsidies, tax holidays, export incentives, customs draw backs.
4. Encouraging the financial sector to extent credit to the private sector.
5. Lobbying for markets internally and externally for the goods produced in the country which benefits the private sector.
6. Training and dissemination of information through workshops, seminars.
7. Encouraging the formation of business association to channel the grievances of traders e.g. Kampala City, Traders Association.

8. Ensuring political stability and harmony in the country to create a conducive trading environment for the private sector.

Government control over the private sector.

The government takes the following steps to control the private sector.

1. Establishing the Bureau of standards to set standards for quality of products produced and imported into the country e.g. the Uganda National Bureau of Standards (UNBS)
2. Instituting price controls in form of maximum prices so that private firms do not over charge consumers.
3. Enacting various laws to protect consumers from exploitation by private firms eg sale of goods act, Trade Description Act, Food and Drugs (Public Health) Act, weights and measures act.
4. Trade licensing to ensure that only the right type of people operate businesses.
5. Financial control measures through measures like credit control, import restrictions, heavy taxes on private firms.
6. Exchange controls e.g. directions may be given to commercial banks not to sell foreign currency without permission from the Central bank.

CONSUMER PROTECTION.

This refers to measures taken to ensure that consumers are not cheated of their hard earned money or exploited by traders.

Areas of consumer exploitation by traders.

1. High prices of goods and services. Many businesses tend to sell goods at higher prices. This is because they exaggerate operational expenses such as transport, rent and taxation.
2. Wrong and unstandardized measures weights. Most traders tend to use wrong weights and measurements thus cheating with the aim of making higher profits.
1. Misleading and deceitful / persuasive advertisements. These persuade people to buy goods which they would not have bought.
2. Unhygienic or half-baked foods sold in unclean markets.Many traders tend to sell food stuffs that are half cooked, they even sell meat from unhealthy animals. This is common with roadside traders.
3. Sale of expired drugs. This is common in rural areas where medicine is scarce. Some pretend to be healthy workers and prescribe wrong drugs and doses for certain diseases.
4. Sale of inferior and substandard goods. Some products sold to customers are of poor quality
5. Product adulteration.This involves adding extra material in a product to make it appear larger or heavier with the intention of making even higher profits.
6. Counterfeited products. This involve sale of fake products bearing the brand name of another product.
7. Consumers’ ignorance: Many consumers are ignorant about their rights and therefore traders take advantage of this and exploit them. The government therefore has to come in to assist such people from being exploited.

Need/reasons for consumer protection (Why consumer protestation?)

1. To protect consumers against exploitation by sellers especially during scarcity of goods and services by charging them very high prices.
2. To guard against consumption of poor quality goods, unhygienic goods, expired goods and dangerous or harmful goods.
3. Protect consumers from being cheated by the use of unstandardizedweights and measures.
4. To protect consumers from consuming any type of imports dumped from other countries.
5. To protect consumers from misleading, deceitful and persuasive advertisements with false description.
6. To safe guard consumers from consuming adulterated, substandard and counterfeited products.
7. To protect illiterate consumers and those who are ignorant of their rights.

METHODS OF PROTECTING CONSUMERS.

Consumer protection methods can be done at three levels.

1. Consumer initiated protection.
2. Government initiated protection
3. Manufacturers' initiated protection.

Consumer initiated protection.

1. Through consumer associations: These receive complaints from members concerning the prices and quality of goods and services, investigate them and approach producers or sellers to correct what is wrong.
2. Formation of consumer co-operative societies: These distribute goods and services to members at fair prices and of good quality hence protecting members against dishonest trade practices of individual retailers.
3. Letters to the press: consumers may air out their complaints through the Press. The seller being complained about will usually correct his ways because of fear of the resultant loss of customers.
4. By use of the rule of caveat emptor (consumer be ware) i.e. the consumer should take reasonable steps to ensure that goods are in good condition and of better quality before buying.

Methods employed by government in consumer protection.

1. Trade Description Act. This requires goods sold to the public to bear correct descriptions and trademarks.
2. Fair trading Act. This protects consumers from false trade practices and misleading information concerning transactions.
3. Price control act. In this case, the government fixes minimum prices for certain goods for which especially essential commodities. Traders are therefore not expected to sell beyond the fixed prices.
4. Weights and measures act. Under this, businessmen are required to use recommended weighing scales and measurements when selling goods to consumers. It also requires producers to indicate the proper weights of goods on the packaging materials.
5. Foods and Drugs Act. This law ensures that expired drugs and bad foods are not sold to consumers.

6. The Sale of Goods Act. This is meant to ensure that the goods sold to consumers are of good (acceptable) quality. The act undertakes to close shops of retailers not abiding with the laid down standards.
7. Through the Uganda National Bureau of Standards (UBS) to enforce quality and desired standards. It also checks the correctness of weights and measures used.
8. Through enacting laws aimed at protecting consumers from exploitation like sale of goods Act, Trade Description Act, good and drugs (Public Health) Act, weight and measures Act.
9. Licensing businesses that are lawful and approved to operate. The government can withdraw licences by fixing maximum prices for essential goods and services.
10. Regulating persuasive and misleading advertisements by banning them on television radios and newspapers.
11. Encouraging the formation of business associations to ensure satisfactory standards e.g. Uganda manufacturers Association (UMA).

Manufacturers' initiated consumer protection.

1. Resale Price Maintenance. Manufacturers insist on fixing prices of their products up to the last stage of distribution.
2. Formation of business associations to ensure satisfactory standards for their products e.g. Uganda Manufacturers Association. (UMA)