



Common uses and financing of companies limited by guarantee

By Geoffrey E. Odongo



A company limited by guarantee is a company that does not have a share capital. The liability of its members is limited by the company's articles of association to the amount that the members undertake, by those articles, to contribute to the assets of the company in the event of liquidation of the Company;

A company limited by guarantee is a suitable entity for purposes such as:

For clubs and similar associations

Social clubs and sports clubs, although capable of registration as unincorporated entities, may opt to be registered as a company limited by guarantee. Such incorporation brings with it the advantage of creating an entity with distinct legal personality from its members. In addition, a company limited by guarantee assures members of limited liability.

Scientific research organizations

These are entities engaged in the undertaking of research and development for which incorporation as a company limited by guarantee may ease access to grants and donations.

Trade associations

These are entities formed for the purpose of furthering the trade interests of their members. Such entities assist their members by providing a forum for discussion and lobbying of government, the sharing of information, research, legal advice and training together with the creation of codes of practice and standards. A company limited by guarantee is particularly suitable for a trade association if its principal function is the mutual benefit of its members, rather than the realization of profit.

Charities

These are entities that are set up to provide help or raise money for charitable purposes. Such purposes may include the advancement of health, providing relief to those in need on account of youth, age, ill-health, disability, financial hardship or other disadvantage.

Methods of financing a company limited by guarantee

A company limited by guarantee may be financed in a number of ways including through:

1. Membership fees and subscriptions

Where a company limited by guarantee sources funds through membership fees and subscriptions, such mode of raising of funds will have been provided for in the articles of association of the company.

In the case of companies limited by guarantee that provide for a membership fee, an application for membership is construed as an offer by a prospective member to join the company which on acceptance by the company becomes subject to a contract pursuant to the terms of the company articles of association. It must therefore be made clear to prospective members that aside from the membership fee and future subscription payable acceptance by the company means the member

will be bound by the terms of the company as set out in its articles of association.

2. Grants and donations

A company limited by guarantee may be eligible for grants from other entities set up to benefit organizations operating under a not-for-profit model.

A company limited by guarantee may also benefit from donations to it from individuals and other entities.

3. Loans

Where the articles of association of a company limited by guarantee makes provision, it may borrow money from banks and other financial institutions. It may also enter into loan agreements with particular individuals or entities.

4. Venture capital

A company limited by guarantee that is engaged in research and development which may lead to or facilitate an extension of any class or classes of trade may in certain instances access venture capital. This is common for technology start-up companies which need to utilize significant sums in developing a technology, in the hope that the innovation will in the long term generate a significant profit.

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