THE REPUBLIC OF UGANDA,

IN THE HIGH COURT OF UGANDA AT KAMPALA

(COMMERCIAL DIVISION)

HCCS NO 763 OF 2007 AND 278 OF 2010

EQUATOR TOURING SERVICES LTD}.....PLAINTIFF

VS

KAMPALA CITY COUNCIL)......DEFENDANT

BEFORE HON. MR. JUSTICE CHRISTOPHER MADRAMA IZAMA

JUDGMENT

This Judgment arises from agreed facts and issues framed by the parties in a joint scheduling memorandum filed on court record on 25 March 2014. It would be sufficient to refer to the agreed facts and issues for trial.

The Plaintiff's facts are that the Defendant advertised a tender for the management of the Nakivubo Park Yard Market in the monitor newspaper in 1999. The Plaintiff applied and was awarded the tender by the Defendant. The Plaintiff accepted the offer for the award of the said tender. The Plaintiff entered into a market management agreement with the Defendant for Owino Park Yard market on 15 December 2000 at a consideration of Uganda shillings 9,586,500/= to the Plaintiff, Uganda shillings 4,108,500/= payable to the trustees of Nakivubo War Memorial Stadium, and Uganda shillings 2,805,000/= payable to the Uganda Revenue Authority. The Plaintiff made payments of the consideration for the duration of the contract. The contract was extended on 1 April 2005 for another three years at a monthly consideration of Uganda shillings 15,434,500/=. Under the contract extension, a security deposit for the sum of Uganda shillings 30,869,900/= was paid to the Defendant by the Plaintiff. The Defendant proposed a settlement of the matter out of court on 19 December 2012 which was accepted by the Plaintiff. The Defendant's Management Executive Committee requested that court pronounces itself on the validity and legality of the contract.

The agreed Defendants facts are that the Plaintiff and the Defendant executed a three-year management contract in respect of Nakivubo Park Yard Market on 1 April 2005 at a monthly consideration of Uganda shillings 15,434,500/=. The Plaintiff subsequently assigned its obligations to a third party without the previous written consent of the Defendant and defaulted on remittance of monies to the Defendant to the tune of Uganda shillings 284,612,366/= plus VAT. In January 2008, the Defendant terminated the said management contract. In a bid to amicably settle the matter, the Defendant's Management Executive Committee requested that

court pronounces itself on the validity and legality of the contract between the Plaintiff and the Defendant.

The summary of relevant facts of the Plaintiffs claim were that the contract described above entered into by the parties was legal and valid and its termination was wrongful and illegal for which the Plaintiff seeks compensation. The documents in support of the Plaintiff's case and in support of the Defendants defence were agreed to and listed in the joint scheduling memorandum.

The agreed issue for determination are two and are as follows:

- 1. Whether the contract for the management of Nakivubo Park Yard market entered into by the parties was a valid and legal contract?
- 2. Whether gazetting is a requirement for a market to be established under the laws of Uganda?

The Plaintiff is represented by Messieurs Bwango Araali and Company Advocates while the Defendant is represented by Sendege, Senyondo and Company Advocates. Pursuant to the agreement in the joint scheduling memorandum executed by Counsel of the parties, they addressed the court in written submissions.

I will make no reference to the additional summary of facts contained in the written submissions of the Plaintiff's Counsel since the facts which were agreed to and endorsed by both parties have been set up above.

On the **first issue of whether the contract entered into by the parties for the management of Nakivubo Park Yard Market was a valid an legal contract**, Counsel relied on section 10 (1) of the Contract Act No. 7 of 2010 of the laws of Uganda which defines a contract as an agreement made with the free consent of the parties with capacity to contract for a lawful consideration and with a lawful object, with the intention to be legally bound. The Plaintiff's Counsel relied on the case of **JK Patel versus Spear Motors Limited SCCA number 4 of 1991** and **Blackstone's Law Dictionary 8th edition** for the definition of a contract.

The Plaintiff's Counsel submitted that the Defendant advertised an invitation to interested parties a revenue collection tender for the management, control and maintenance of Nakivubo Owino Park Yard Market in a nationally circulating newspaper which the Plaintiff responded to. The Plaintiffs bid was considered successful and the Defendant made an offer of the tender to the Plaintiff who accepted the same. All the above culminated into a written contract which was signed by the party's representatives and the Plaintiff thereafter commenced on the performance of its obligations under the contract. Counsel further submitted that there was evidence of an offer made to the Plaintiff, a duly registered company under the laws of Uganda by the Defendant, and the acceptance of the offer by the Plaintiff, a written contract duly signed by the parties, and receipts to show payment of the consideration agreed upon.

Decision of Hon. Mr. Justice Christopher Madrama

The reasons given in the termination letter written by the Defendant was that the contract to manage Park Yard Market was ending in less than three months. The second reason was that the Inspector General of Government wrote stopping the assignment of the control of the market to Messieurs Kampala United Park Yard Cooperative Savings Credit Society Ltd. The Plaintiff's Counsel submitted that it was important to note that the contract was first signed in December 1999 and was routinely extended by the Defendant until 2008 when it was summarily and illegally terminated. The Defendant duly and without reservations received and enjoyed payments made to it by the Plaintiff under the contract for an uninterrupted period of more than eight years. The payments remitted by the Plaintiff to the Defendant under the contract amounted to Uganda shillings 1,000,000,000/=. He contended that this perhaps explains the willingness on the part of the parties to amicably settle the suit out of court. Consequently there was evidence of a legal and valid contract and it follows that there was a legal and valid contract between the parties and the court should find as such.

In reply the Defendants Counsel emphasised that as Counsel for the Defendant they were not involved in the framing of the issues. The issues were framed jointly by the Plaintiff's Counsel and the legal Department of the Defendant authority. They took exception to the conduct of the Plaintiff's Counsel who circumvented Counsel on record and dealt directly with the Defendant client. Furthermore the Defendant's Counsel expressed discomfort with issue number two but without prejudice to their misgivings submitted on both agreed issues.

First of all the Defendants Counsel maintained that the Plaintiff's Counsel dwelt on facts in his written submissions not pleaded in the plaint and as such cunningly departed from the pleadings and from the questions of law agreed upon by the parties in a 3rd of February 2014 consent agreement and was therefore testifying from the bar. The purpose of the consent was to strictly refer the two questions of law to court for determination. Counsel therefore invited the court to disregard matters of fact in which no evidence was called. Moreover they do not form part of the Plaintiff's pleadings and are a departure from pleadings and amount to smuggling evidence on court record contrary to Order 6 rule 7 of the Civil Procedure Rules. Counsel relied on the case of **Interfreight Forwarders (U) Ltd versus East African Development Bank Civil Appeal No. 33 of 1992** which emphasises that pleadings are a system through which parties operate to define the real matters in controversy with clarity and upon which they can prepare and present their respective cases for the court to adjudicate.

On the first issue of whether the contract for the management of Nakivubo Park Yard Market entered into by the parties was a valid and legal contract the Defendant's case is that there was no legally binding contract between the parties due to non-compliance with the law on contracting by and with government agencies. Particularly the law is article 119 (5) of the Constitution of the Republic of Uganda which provides that no agreement, contract, treaty, convention or document by whatever name called, to which the government is a party or in respect of which the

government has an interest, shall be concluded without the legal advice from the Attorney General, except in such cases and subject to such conditions as Parliament may by law prescribe.

The Defendants Counsel further relied on the Constitution (Exemption of Particular Contracts from Attorney General's Advice) Instrument, Statutory Instrument -**Constitution 12** and paragraph 2 thereof which exempts an agreement or contract involving an amount of 50 million shillings or less. Secondly the Attorney General may direct that any agreement or contract to which the subparagraph applies shall be subject to legal advice by the Attorney General and thirdly a government party to an agreement or contract to which paragraph 1 dealing with exemptions of a contract of 50 million applies may seek legal advice of the Attorney General on the contract or agreement. The contract between the defunct Kampala City Council and the Plaintiff was not subjected to the opinion of the Attorney General and was in breach of the constitution. The Local Governments (Public Procurement and Disposal of Public Assets (Regulations, 2006 specifically in regulation 86 (2) (f) provides that a contract document, purchase order, the letter of bid acceptance or other communication in any form conveying acceptance of a bid that binds a procuring and disposing entity to a contract with the bidder, shall not be issued prior to approval by all relevant agencies including the Attorney General. Counsel relied on the case of Nsimbe Holdings Limited versus Attorney General and another **Constitutional Petition Number 2 of 2006.** The Defendants defence is that the contract in issue was not submitted to the Attorney General for advise in accordance with article 119 (5) of the Constitution of the Republic of Uganda. The decision of the Attorney General was deliberate and intended to ensure compliance with the law regarding public procurement, disposal or other dealings by government and its agencies.

Secondly there was no valid and enforceable contract between the parties as the services were procured in violation of the mandatory provisions of the **Public Procurement and Disposal of Public Assets Act 2003 (PPDA Act)**. Section 3 thereof provides that the contract means an agreement between a procuring and disposing entity and the provider, resulting from the application of the appropriate and approved procurement or disposal procedures and proceedings as the case may be, concluded pursuant to a bid award decision of the contracts committee or any other appropriate authority. The procurement of the Plaintiff's contract did not comply with the PPDA Act and regulations made there under and were therefore illegal. The defence further relies on the case of **Makula International Ltd versus His Eminence Cardinal Nsubuga and another [1982] HCB 11** where the Court of Appeal held that a court of law cannot sanction what is illegal and illegality once brought to the attention of the court, overrides all questions of pleading, including admissions made thereon. On the basis of article 119 of the Constitution of the Republic of Uganda and the provisions of the PPDA Act, there is no legally binding contract for the management of Nakivubo Park Yard Market.

In rejoinder the Plaintiff's Counsel submitted that he relied on the facts and issues contained in the joint scheduling memorandum duly endorsed by Counsel of both parties. He reiterated submissions that there was a valid and legal contract between the parties.

As far as the provisions of article 119 (5) of the Constitution is concerned, the Plaintiff's Counsel relied on the **Constitution (Exemption of Particular Contracts from Attorney General's Legal Advice) Instrument, Statutory Instrument – Constitution 12** which provides that an agreement, or contract involving an amount of 50 million shillings or less is exempted from the application of article 119 (5) of the Constitution.

On this issue the contract between the parties was for a monthly consideration of **Uganda shillings 15,434,500**/= which sum is clearly less than 50 million shillings and did not require the legal advice of the Attorney General. This also answers the requirement under the **Local Governments (Public Procurement and Disposal of Public Assets) Regulations 2006** which provides that a letter of the acceptance or other communication in any form conveying acceptance of the bid that binds a procuring and disposing entity to a contract with the bidder, shall not be issued prior to the approval by all relevant agencies including the Attorney General. Secondly the **Local Governments (Public Procurement and Disposal of Public Assets) Regulations 2006** is inapplicable to the contract because the contract was first signed in the year 2000 and extended in 2005 long before the enactment of the regulations. The regulations cannot have any retrospective effect.

On the question of whether the services of the Plaintiff were procured in violation of the mandatory provisions of section 55 of the Public Procurement and Disposal of Public Assets Act 2003, this proposition is advanced by the Defendant on the premise that there is no evidence on record to prove that the Contracts Committee of the Defendant approved the contract. The Public Procurement and Disposal of Public Assets Act of 2003 was enacted after the contract between the parties had been signed in the year 2000 and in fact the contract had partly been performed for at least three years. Counsel submitted that the offer to the Plaintiff to manage was first awarded by the Kampala District Tender Board at its first meeting held on 14 July 2000 and minute LGTB 3/14/2000. The letter was signed by the secretary of Kampala District Tender Board and contract was signed by the parties on 15 December 2000. The contract was extended by a meeting held on 15 March 2005 and an offer letter was issued by the Defendant on 18 March 2005. At the time of the offer to manage the market the relevant applicable rules to the contract was the Local Governments Act cap 245 and the Local Governments (Financial and Accounting) Regulations. Under section 91 (1) of the Local Governments Act, the District Tender Board is created. Subsection 7 provides that in the performance of its functions it shall conform to the standards established by the Central Tender Board for procurement of goods, services and works as shall be guided by the Local Government Financial and Accounting Regulations. Under regulation 75 thereof it could award tenders for all contracts for works, services and goods and shall decide on the disposal of local government assets within its area of jurisdiction. Consequently the Plaintiff's Counsel maintained that the requisite legal procedures were properly followed in the award of the tender to the Plaintiff by the Defendant to manage Nakivubo Park Yard Market on behalf of the Defendant in the year 2000. This resulted into a written contract dated 15th of December 2000 which was extended on 1 April 2005. Kampala District Tender Board was the authority vested with the powers to award the contract and therefore the contract was not in violation of the Public Procurement and Disposal of Public Assets Act of 2003.

Counsel further relied on the case of **Cullimore vs. Lyme Regis Corporation [1961] 3 All ER 1008** cited with approval in **Finishing Touches Ltd versus Attorney General of Uganda HCCS 144 of 2010** for the proposition that failure to comply with a statute which requires a public duty to be performed in a certain manner or within a certain time or under other specified conditions should be regarded as directory only in cases where injustice or inconvenience to others with no control over those exercising the duty would result if such requirement were held to be mandatory. Secondly the question of illegality was raised when the services of the Plaintiff had been utilised and by the Defendants who had enjoyed the services.

Whether gazetting is a requirement for a market to be established under the laws of Uganda?

On this issue the Plaintiff's Counsel relied on the Markets Act cap 94 laws of Uganda whose preamble provides that it is an Act to provide for the establishment and management of markets. Section 1 (1) thereof deals with establishment and control of markets. It provides that no person or authority other than the administration of a district, a municipal Council, or a town Council shall establish or maintain a market. Under section 1 (2) the administration of the district may establish and maintain markets within the area of its jurisdiction and shall control and manage such markets or assign the control and management in such person or authority as it may deem fit except that in urban areas markets shall be established, maintained and controlled by the municipal or town Councils established in the area. On the basis of the law the Plaintiff's Counsel maintains that it is not mentioned anywhere that a market should be gazetted before it is established. Counsel invited the court to find that the gazetting is not a requirement for a market to be established under the laws of Uganda.

In reply on this issue learned Counsel for the defence conceded that they had not found any provision requiring gazetting before establishing a market. Paragraph 4 of the Local Governments (Kampala City Council) (Markets) Ordinance number 15 of 2006 only requires that a person maintains a market within the jurisdiction of the Council after being issued with a market licence. Whether or not Nakivubo Market Park Yard required the issuance of a market licence before its establishment was the appropriate issue that ought to have been framed by the parties instead of the current issue which specifically concerns gazetting. Unfortunately the issue was framed jointly by Counsel for the Plaintiff and the legal Department of the Defendant. As

Counsel for the Defendant, cannot rephrase this issue at such a late stage he submitted that it was up to the court to determine the question.

In rejoinder the Plaintiff's Counsel submitted that the Defendants Counsel conceded that there was no requirement for a market to be gazetted before it is established and there was no need to make any rejoinder on the submissions.

Resolution of issues

I have carefully considered the first issue, the agreed facts and documents, submissions of Counsel and authorities cited. The first issue deals with whether there was a legal contract between the parties.

According to the agreed documents and trial bundle, the initial contract between the parties was executed on 15 December 2000. Under paragraph 12 thereof it was agreed that the contract would be for a period of two years with effect from 15 December 2000 and to be revised every year. The contract or agreement between the Council and the manager was for the performance by the contractor of controlling and maintaining markets in Kampala. Subsequently on the 1 of April 2005 another contract was executed between the parties. The preamble thereof provided that the Council is unable to consider fresh bids due to a pending civil suit against it. It provided that the Council through the Kampala District Tender Board has agreed to extend the period of the Plaintiff's services contract to manage the market. It provided that the contract shall be for a period of three years effective from the 1st day of April 2005 subject to the court ruling in the case against the Council. Furthermore under clause 4 thereof it is provided that the contractor shall pay to the Council a monthly contract sum of **Uganda shillings 15,434,500**/= and each payment inclusive of VAT shall be made not later than the 7th of each month.

Without considering the issue of whether the contract was awarded with the advice of the Attorney General, it is apparent that the previous contract had expired. Secondly the contract of 2005 clearly stipulates that no bids were considered to make the award of contract to manage the market. Thirdly the Plaintiff has conceded in the written submissions by submitting on the issue of no advice sought from the Attorney General when the award was made that no advice was sought. The preamble clearly provided that the contract granted by Kampala District Tender Board had since expired. There was a civil suit pending at the time the contract was executed and the parties clearly stipulated that the contract would be subject to the outcome of the suit. The primary question arising from the contract document of 2005 is whether it was a requirement to invite bids for the management of the market. The answer appears from the citations/preamble to the market management agreement which provides inter alia as follows:

"M/S Equator Touring Services Ltd was providing the service after it was granted the contract by the Kampala District Tender Board but which contract has since expired and..."

The Council is unable to consider fresh bids due to a pending suit against it.

The Council through the Kampala District Tender Board has agreed to extend the period of Messieurs Equator Touring Services Contract to manage the Nakivubo Park Yard Market as stipulated herein but in any case subject to the court ruling in the pending case and..."

It was therefore apparent that if there were fresh bids which the document on the face of it claims, the Council was unable to consider them due to a pending suit. By inference the pending suit had something to do with bids or the issue of management of markets. It is also apparent and the specific reference is made to the fact that it was desirable to provide services by the contractor in accordance with the agreement to be executed, the general conditions governing such contracts, the Tender Board's letter of offer and the Contractor's letter of acceptance. The documents were stipulated as annexed to the contract document. However these documents have not been included in the contract document availed in the trial bundle. It was however agreed in correspondence availed to the court in the trial bundle that the civil suit was supposed to be resolved on the question of legality of the contract between Equator Touring Services Ltd and Kampala City Council. It was further suggested that the new Nakivubo Park Yard Market was always an illegal market. Notwithstanding the alleged illegality of the market, the question of tendering was considered by the parties under the PPDA Act 2003. Section 2 (1) of the PPDA Act provides that it shall apply to all public procurement and disposal activities. Section 98 (3) of the PPDA Act provides that it shall take precedence over all other enactments establishing tender boards or like mechanisms and the responsible procuring and disposing entities shall within 12 months after the Act come into force bring their practices in conformity with the Act. It further under section 99 thereof repealed the Public Finance Procurement Regulations. The Act was to commence on a date to be appointed by the Minister by statutory instrument. Furthermore section 98 (2) provides that all legal obligations, proceedings and claims pending in respect of the Central Tender Board shall be continued or enforced by or against the authority in the same manner as they would have been continued or enforced if this Act had been in force at the time when the cause of action arose. Under statutory instrument 2003 No. 10 the Public Procurement and Disposal of Public Assets Act (Commencement) Instrument, 2003 the Minister appointed the 21st day of February 2003 as the date on which the Act came into force. Section 24 of the PPDA Act provides that tender boards in the case of local governments mentioned in section 92 to 95 of the Local Governments Act shall be a procuring and disposing entity. Consequently at the time the contract was executed section 55 of the Public Procurement and Disposal of Public Assets Act 2003 applied to local governments. Section 55 provides that all public procurement and disposal shall be carried out in accordance with the rules set out in the Act and any regulations and guidelines made under the Act. The action of the Defendant implied that it did not comply with the regulations and the Act to invite bids from the public and award the tender in accordance with the law. Furthermore The Public Procurement and Disposal of Public Assets Regulations, 2003 Regulation 2 thereof provides that the regulation shall apply to all public procurement and disposal activities.

Secondly the fact that the Defendant authority is bound by article 119 (5) of the Constitution is conceded in the submissions of the Plaintiffs Counsel. Any contract affecting or binding a procuring and disposal entity has to be cleared by the Attorney General under article 119 of the Constitution of the Republic of Uganda. Article 119 (5) of the Constitution of the Republic of Uganda provides that no agreement, contract, treaty or convention or document by whatever name called to which the government is a party or in respect of which the government has an interest, shall be concluded without the legal advice from the Attorney General. This article was considered by the Constitutional Court of Uganda in the case of Nsimbe Holdings Limited versus Attorney General and Inspector General of Government in Constitutional Petition Number 2 of 2006 when the court considered whether a contract executed without the input of the Attorney General was a nullity (where the government is a party). The Constitutional Court held that it was unconstitutional for NSSF to enter into a merger agreement without submitting such an agreement to the Attorney General for legal advice. They further held that by virtue of article 2 of the Constitution, any law or act that contravenes the Constitution is void to the extent of the inconsistency and the merger agreement was in contravention of the Constitution and was null and void.

The Plaintiff's answer is simply that under The Constitution (Exemption of Particular Contracts from Attorney General's Legal Advice) Instrument, Statutory Instrument – Constitution 12, a contract in the sum of **Uganda shillings 50,000,000**/= or less is exempted from the application of article 119 (5) of the Constitution.

The contract document executed on 1 April 2005 clearly stipulates that it is for a period of three years from 1 April 2005 subject to court ruling in the case against the Council. Secondly the contract was to pay to the Council a monthly contract sum of Uganda shillings 15,434,500/= inclusive of VAT. This translates into a yearly sum of Uganda shillings 185,214,000/=. For a period of three years it amounts to a sum of Uganda shillings 555,642,000/=. The contract sum is assessed for the duration of the contract. The Constitution (Exemption of Particular Contracts from Attorney General's Legal Advice) Instrument, Statutory Instrument – Constitution 12, and specifically paragraph 2 (1) provides as follows:

"(1) An agreement or contract involving an amount of fifty million shillings or less is exempted from the application of article 119(5) of the Constitution."

By using the phrase "an agreement or contract involving an amount of 50 million shillings and less", the exemption clearly involves the entire contract or value of the contract. The argument of the Plaintiff's Counsel is therefore untenable. According to the case of **Nsimbe Holdings Limited versus Attorney General and Inspector General of Government in Constitutional Petition Number 2 of 2006,** such a contract is a nullity for being inconsistent with article 2 of

the Constitution of the Republic of Uganda which gives supremacy to any provision of the Constitution and any law or act which is inconsistent with an article of the Constitution is null and void to the extent of the inconsistency. In the premises the Plaintiff's counter argument based on the amount of the contract cannot hold water leading to the inevitable conclusion that the contract agreed upon in the trial bundle dated 1st of April 2005 between Kampala City Council and Equator Touring Services Ltd is a nullity. This is notwithstanding the fact that services could have been provided. Furthermore I agree that the authority of Makula International versus His **Eminence Cardinal Nsubuga [1982] HCB 11** is applicable. In that case the principle applies at the point where the matter reaches the court. Court does not sanction what is illegal. Where the act has taken place, the court can declare that the contract was illegal or that the act done in disregard of article 119 of the constitution is a nullity. The case of **Finishing Touches versus Attorney General** considered whether something done in disregard of a mandatory directive was mandatory or directory. On the other hand in the case of **Nsimbe Holdings versus Attorney General** (supra) the Constitutional Court held that anything done in contravention of article 119 was null and void. In the premises the case of Nsimbe Holdings versus Attorney General (supra) is binding on this court and is distinguishable from that of **Finishing Touches versus Attorney General** and another (supra). Furthermore what was contravened in the case of Nsimbe Holdings Limited versus Attorney General and another (supra) was a provision of the Constitution whereas in the case of **Finishing Touches versus Attorney General** (supra) the court dealt with the provisions of the PPDA Act and regulations made there under. In that case the services provided by the Plaintiff had been consumed and appreciated by the relevant ministry. In this case I was not addressed on whether the services had been consumed for purposes of upholding a claim for payment for services consumed. If that were the case, what the court would consider is whether the Plaintiff could succeed in making a claim for payment of services rendered despite the fact that there was breach of a provision of the law. That is not the question for determination in this case. In the premises and on the basis of the issue as framed in the joint scheduling memorandum coupled with the limited facts agreed to, the contract dated 1st of April 2005 between the parties is a nullity and the first issue is answered in the negative.

The second question is whether it was a requirement to Gazette a market before it is established under the laws of Uganda.

A reading of the Markets Act cap 94 does not deal with the question of gazetting. Section 1 (2) provides that:

"The administration of a district in the establish and maintain markets within the area of its jurisdiction and shall control and manage such markets or vest their control and management in such person or authority as it may deem fit; except that in the urban areas mentioned in the schedule to the Act, markets shall be established, maintained, controlled and managed by the municipal Council town Council as the case may be established in the area."

The mode of establishment of the market is not provided for. It is only byelaws passed for the regulation of markets which are to be gazetted. A reading of the Markets Act shows that gazetting is not prescribed as a method of establishing a market. In scheduled urban areas markets shall be managed by the town or municipal Councils. Each party shall bear its own costs of the suit.

Judgment delivered on the 2nd of May 2014

Christopher Madrama Izama

Judge

Judgment delivered in the presence of:

Badru Bwango for the Plaintiff

Nobody for the Defendant

Charles Okuni: Court Clerk

Christopher Madrama Izama

Judge

2 May 2014