



quote of the day

EDITORIAL

Rescue failing but worthy businesses

Early this week Ugandans woke up to the disturbing news that Nakumatt, one of the leading supermarkets in the country, had closed three of its outlets.

This came after Knight Frank terminated the tenancy agreements of Nakumatt at Acacia Mall, Bugolobi Village Mall, and Entebbe Mall. Knight Frank did not confirm whether the termination was due to rent arrears.

The development brings the number of Nakumatt closures to four. The first closure was Nakumatt Katwe three months ago.

The issue:
Failing businesses.

Our view:
Companies should seek business rescue as soon as there are signs of distress. But should they feel uncomfortably distressed, closures or takeovers must be sought aptly.

Nakumatt is also battling another landlord for their Mbarara branch. There are claims that the outlet has amassed rent arrears totalling about Shs2b. Landlords and suppliers alone are seeking to recover about Shs20b from Nakumatt operations in Uganda. The situation is not very different in Kenya where the retail giant is headquartered. Currently, Nakumatt has short-term debts of Kshs18b (Shs622b).

As the branches close, thousands of jobs are lost, and all of us must be worried. With an estimated 500 employees in Uganda, the closure of Nakumatt's branches leaves nearly 180 people without jobs. Many other businesses have not performed any better. They are struggling and closing shop. Just under two years, big businesses in the country quit the industry. Uchumi wound up operations due to poor governance and alleged fraud. Shoprite closed its Naalya branch while Tuskys lost the Bugolobi outlet.

We believe that such businesses must be rescued to mitigate the challenges presented by their closure. In more organised economies, struggling but important companies can be rehabilitated through business rescue. Of course not all businesses can be saved, but when a business offers useful products and jobs to many people, business rescue provides the means by which relief can be negotiated with creditors and employees in order to give it chance of survival.

The process can return the company to profitability and save jobs but also allow the firm to continue trading as an economically maintainable entity.

Such businesses should not be allowed to close, but be supported with all our economic might because with rescue, all affected parties benefit. Creditors receive a better return than they would ordinarily receive from the liquidation of the company. The company moves on once rescue is complete and unemployment related evils averted.

We also think directors of dying businesses must open up and allow new investors to absorb the financial and other shocks of these companies. Companies should seek business rescue as soon as there are signs of distress. But should they feel uncomfortably distressed, closures or takeovers must be sought aptly.