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Declines in company liquidations and individual insolvencies encouraging

The latest liquidations and insolvency statistics, recently released by Stats SA, give insight into economic performance and the state of consumer debt in South Africa. Liquidation figures applicable to companies for December 2012, and insolvency statistics relating to individuals and partnerships for November last year offer signs of encouragement.

By Adam Harris 13 Feb 2013

The number of insolvencies, which refers to individuals or partnerships placed under final sequestration after being unable pay their debts, fell to levels last seen pre-January 2008 and decreased by 13.9% in the first 11 months of 2012 compare with the same period in 2011.

After a slight uptick in October, the number of insolvencies decreased by 10.8% year-on-year in November 2012, indicati fewer court orders against people unable to service their debt. One hopes that this is an indication that consumers are bei more prudent in taking on and paying for debt.

At the peak of the crisis, there were 6078 insolvencies for 2009, 3366 for 2011, and 2690 for the first 11 months of 2012.

Voluntary and compulsory liquidations down

Where companies are concerned, the number of liquidations in December 2012 was 39.9% lower than in December 201 A decrease of 42.4% was recorded in the fourth quarter of 2012 compared with the same period in 2011. The number of liquidations in 2012 was down 23.7% on the previous year.

In 2012, voluntary liquidations decreased by 24.5% while compulsory liquidations fell by 16.8% compared with 2011.

This supports the view that more companies are benefitting from the business rescue laws that came into effect in South Africa in May 2011 under the Companies Act of 2008.

Business rescue aims at avoiding liquidations and job losses by providing businesses with protection against creditors wh may want to file for liquidation. It is an opportunity to reorganise and restructure distressed, but viable, companies in orde avoid liquidation.

A compulsory liquidation takes place when a company or close corporation is wound up by an order of the court when liabilities exceed assets, or the entity is unable to pay its debts as and when they fall due for payment. A voluntary liquidati happens when a company resolves of its own accord to wind up its affairs.

Business rescue

Applying for business rescue can provide companies with the opportunity to access interim liquidity to fund its operations while a rescue package is being formulated. It is important for a rescue package to be implemented as soon as possible.

Business rescue offers an alternative to liquidation for financially distressed companies, allowing them to be stabilised and restructured. However, business rescue always depends on there being a source of funding, which means that companie will also need buy-in from their banks and creditors for a business rescue plan to be implemented successfully.

1time Holdings subsidiary 1time Airline applied for business rescue late last year, while one of the first companies to undergo business rescue was Pinnacle Point Group. The latter failed, however, after Pinnacle Point's bankers declined to provide the necessary financial support.

ABOUT THE AUTHOR

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