THE CHALLENGES OF CORONA IN JOINT VENTURES AND THE FOOTPATH

A Global Perspective

A joint venture involves two or more businesses pooling their resources and expertise to achieve a particular goal. The risks and rewards of the enterprise are also shared. As the COVID-19 eruption has progressed into a worldwide economic shutdown, businesses are re-evaluating their operating plans in order to continue worthwhile and see the possibility of revamping. This is particularly true for joint venture (JV) businesses, which are owned and jointly controlled by two or more partners or equity holders.

With the present commercial cessation, many joint ventures face forthcoming liquidity challenges, as revenue sources dry up and operating costs stand up. As to the fact that many joint ventures do not, however, have third-party credit facilities. Instead, partners are relied upon to provide funding or additional capital contributions to the business when needed. The same has been under jeopardy in this challenging time of Corona eruption, as many parties fail to honor their contractual obligations and businesses are not running in the desired projection.

The available solutions to these issues are often collaborative and creative. Each of these decisions presents a meaningful risk for disagreement or "deadlock" among the joint venture partners that can place the existence and direction of the Joint venture in jeopardy due to a common mismatching of the vision for their business

On the other hand, many companies work with their business partners or even competitors to produce equipment needed to battle COVID-19 without anticipating the risk of antitrust and the actions for lawsuits resulting from contractual divergencies. Rather, the collaborations may be entered in good faith and structured to align with the best practices and the established judicial and regulatory guidelines. Joint venture partners should be carefully evaluating the nature and magnitude of their various capital contribution requirements to JVs. At the same time, assessing the current financial ability of the partners to determine if they will be able to satisfy their portion of the capital needed by the JV before making any commitment thereunder.

Since successful Joint ventures are founded on shared objectives. The partners' risk/reward strategies must be aligned to ensure both derive value from the arrangement. Frequent communication is required to foster a feeling of belonging amongst employees on both sides, parties should also be aware of probable deviations in business culture and decisionmaking processes and deal with any issues that arise (like COVID-19) in a flexible manner.

There is also the need for parties intending to form a venture to unanimously agree on the terms that should be clearly demarcated like duration of the venture, performance norms, and governance processes. A joint venture board should be established and agreement reached as to the scale of investment required from each party on whether the parties will extract surplus cash or reinvest it into the business, along with a potential exit strategy, are other significant considerations. This will not only save the progress to the business target but also for the protection of partner's interests in the event there are divergencies of opinions or interests.

A Tanzanian Perspective

In Tanzania, the case is different where we have seen many joint ventures being entered to. The country has never been on lockdown and the experience of covid has not impacted much on businesses as it has to the neighboring countries.

Regardless of the economic turmoil shaped by the pandemic leaving deep scars on the world economy, it's no reason for businesses to forget the deep-rooted built proper practice as joint ventures have long been practiced for various reasons such as expansion, increased market share, pooling risk, sharing costs. Thus, Partners should conduct due diligence and valuation; have a defined scope of the venture, defined goals, the manner of managing both anticipatory and anticipatory risks, financial obligations and rights, liquidity rights and obligations, management and any other business commitment.