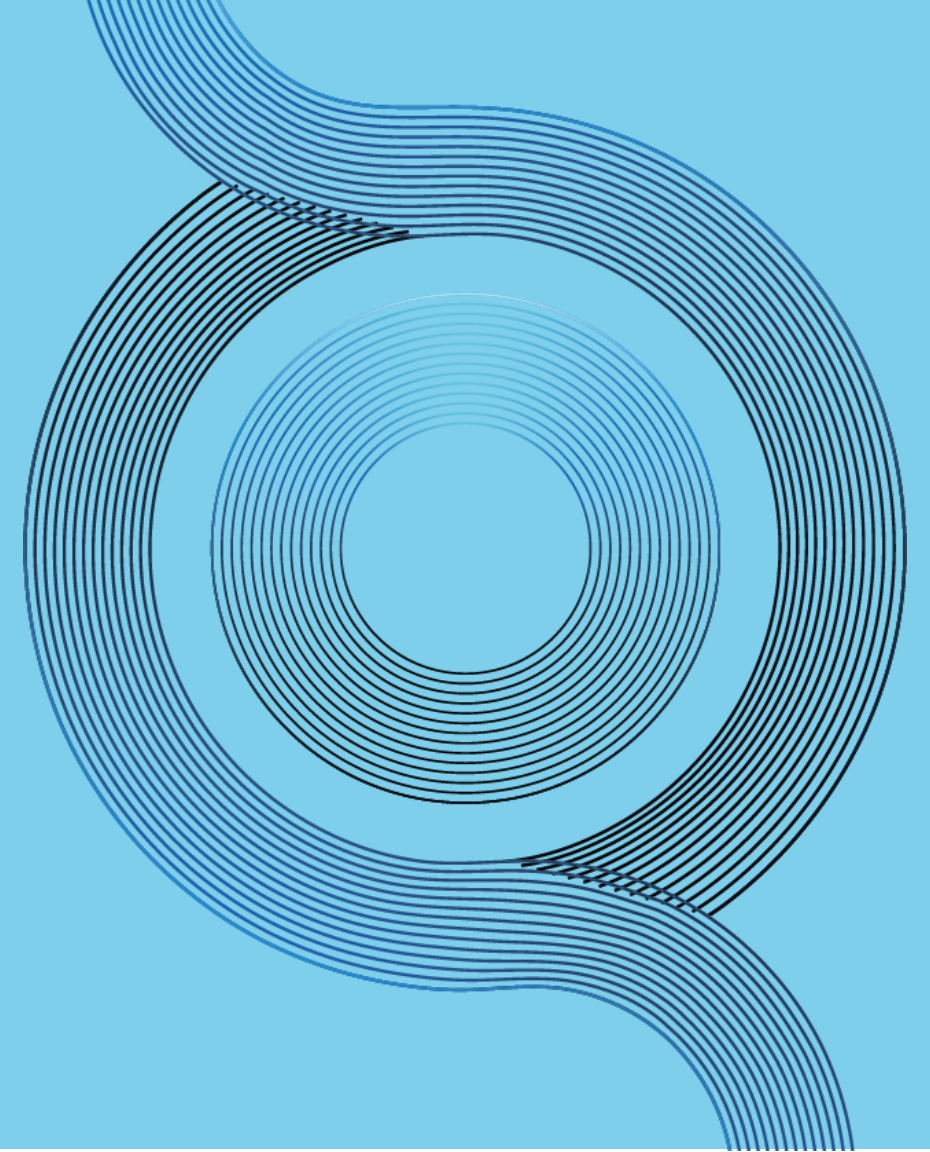


Insolvency regimes and cross-border investment

Zsoka Koczan
EBRD, Office of the Chief Economist

Belgrade, 7 June 2024



Why harmonize insolvency frameworks cross-border?

What happens at exit is key to investment decisions – analysis by backward induction

Investment is the main driver of growth and development

Cross-border investment matters, it has been on the rise and becoming more diversified

Rising geopolitical tensions create threats – and also opportunities for smaller economies

While general provisions on cooperation in civil proceedings (national laws, treaties) are helpful

Specific provisions on cross-border insolvency contribute to legal certainty for trade and investment, support efficient judicial decision making, and influence outcomes e.g. preservation of assets, fair allocation of assets to affected creditors and any successful rescue of the business

Also signal for potential investors

Value of harmonization is larger for smaller economies

Hence **UNCITRAL Model Law on Cross-Border Insolvency** (1997)

Now adopted in 59 states (62 jurisdictions) - in the Balkans in Greece, Montenegro, Romania and Serbia

Insolvency frameworks matter – in particular, for smaller investors and firms: Supporting diversity of investment, dynamisms of entrepreneurs

Reforms of insolvency frameworks boost cross-border investment

- More so for institutional investors (managing large portfolios of minority investments)
- Kliatskova, Savatier and Schmidt (JIMF 2023)
- Using ECB securities holdings statistics by sector + OECD indicators on efficiency of insolvency regulations

Lower transparency, high info barriers and compliance costs deter cross-border investments

- Mainly by reducing investment by smaller, less sophisticated agents
- Boermans and Vermeulen (2020), Carvalho (2022), Sun et al. (2020), Buch et al. (2016)

Insolvency framework reforms benefit SMEs most – supply of bank credit increases

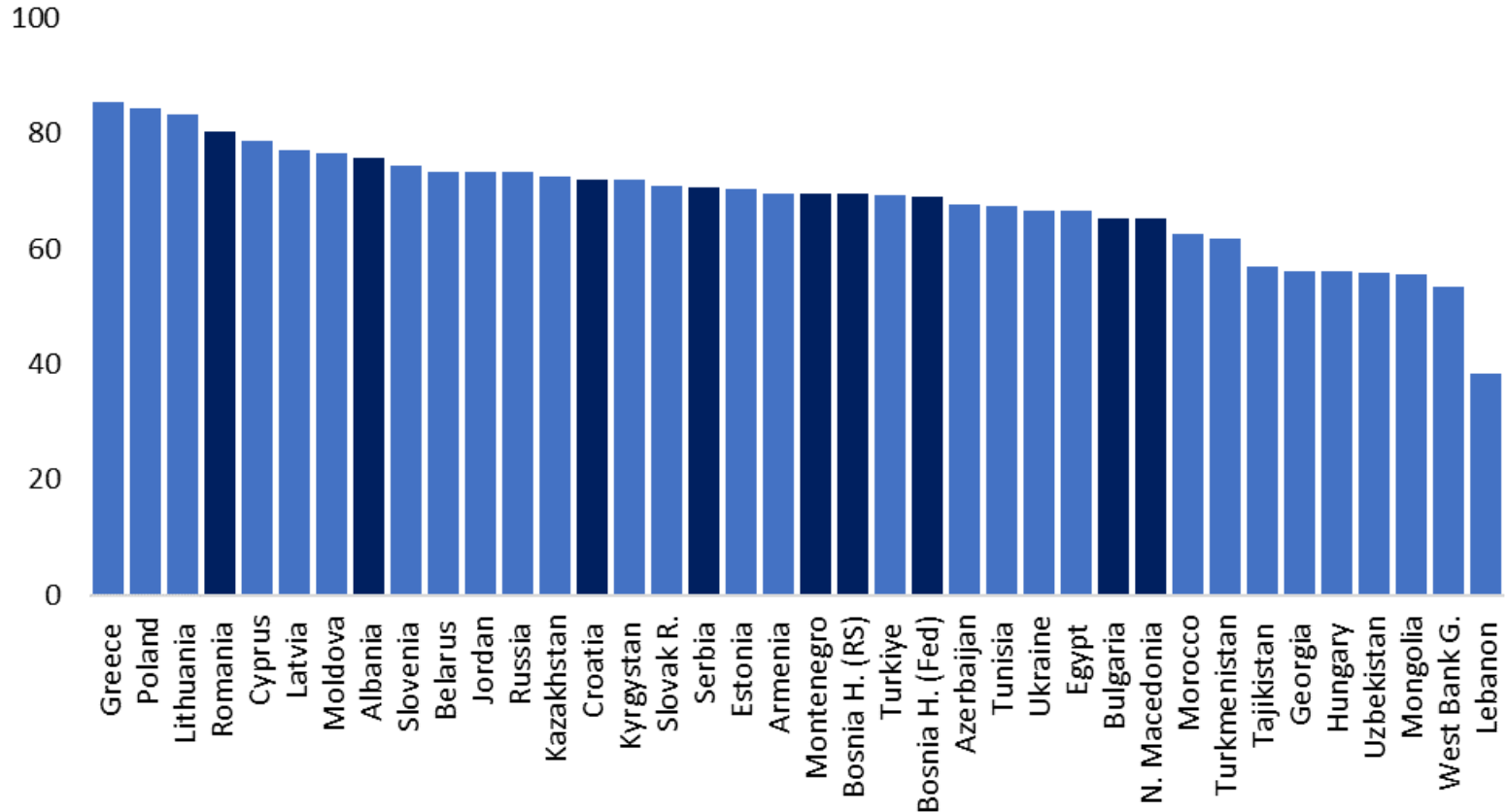
- Haselmann et al. (2009), Haselmann and Wachtel (2010)

Large variation in the quality of insolvency frameworks, as assessed by the EBRD

Economy	Expediency	Professional ethical standards	Efficiency	Universality	Transparency	Negotiability	Value maximisation	Reciprocity	Equal treatment
Albania	High	High					High		
Bosnia H. (Fed.)		Medium				High	High	Medium	
Bosnia H. (RS)							High		
Bulgaria	High	High	High						
Croatia		High				High	High		
Greece	High		High				High		
Montenegro	High	High	High						
North Macedonia		High	High						
Romania	High	High	High						
Serbia	High	High			Medium		Medium		
Slovenia	Medium		High		Medium		High		

Source: Based on data in EBRD Insolvency Assessment on Business Reorganisation Procedures, 2022.

Insolvency framework assessment by the EBRD highlights priorities for improvement



Source: EBRD Insolvency Assessment on Business Reorganisation Procedures, 2022. Includes transparency factor.

What matters for economic growth and development? First and foremost, investment – which, in turn, is determined by governance, skills, infrastructure and more

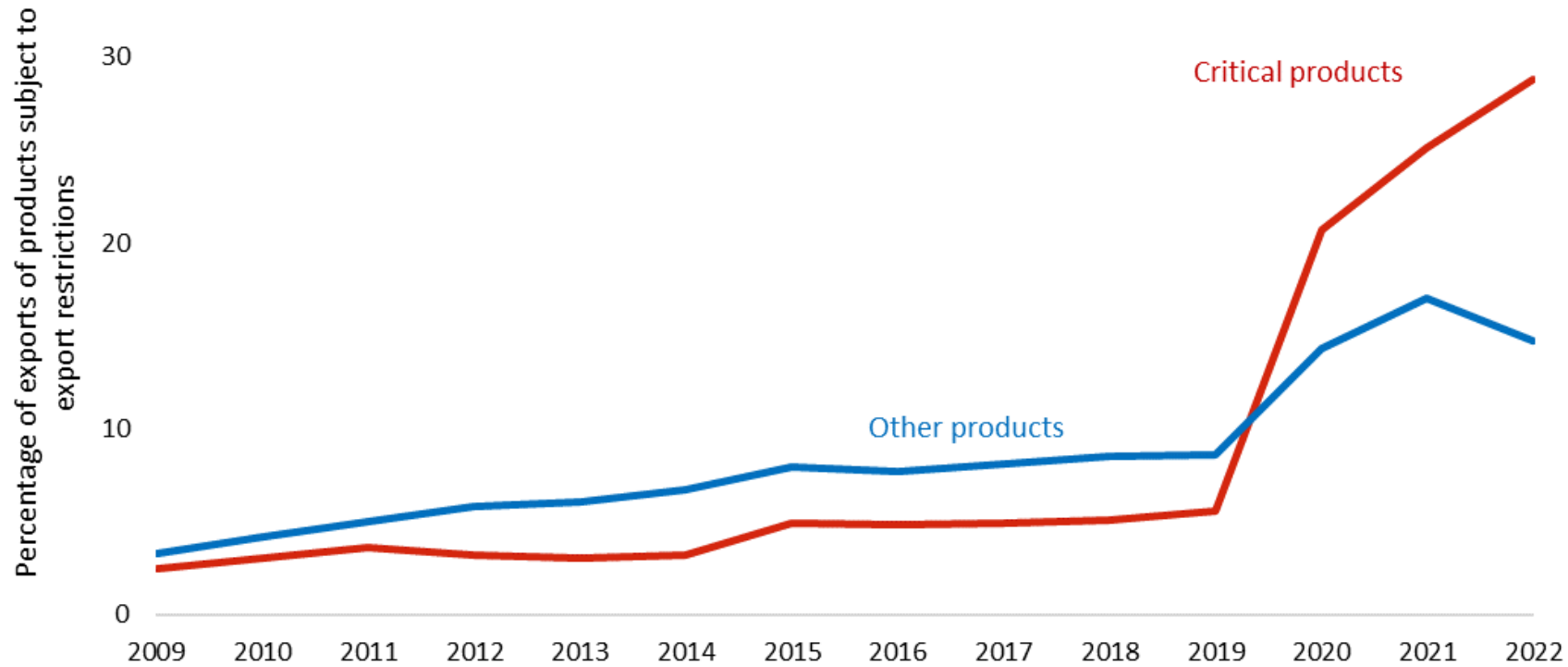
Correlations of growth outperformance episodes: A summary view

Factor	Increases likelihood of out-perf.	Reduces chance of under-perf.	More important since 2008		Makes episodes last longer	Helps ensure "soft landing"
			Supporting out-perf.	Preventing under-perf.		
Investment	++	+	+		++	++
Democratic institutions	+	+	-	+?		
Economic institutions	+	++		-?	+?	+
Openness to trade		+?			+	
Openness to finance		+	-	+	-	
Debt finance	--	-				
Equity finance	++	+		+		
Domestic savings	++	++				+
Infrastructure	+	+				

Source: Plekhanov and Stostad (2018); EBRD(2019). Eight things you should know about middle-income transitions.

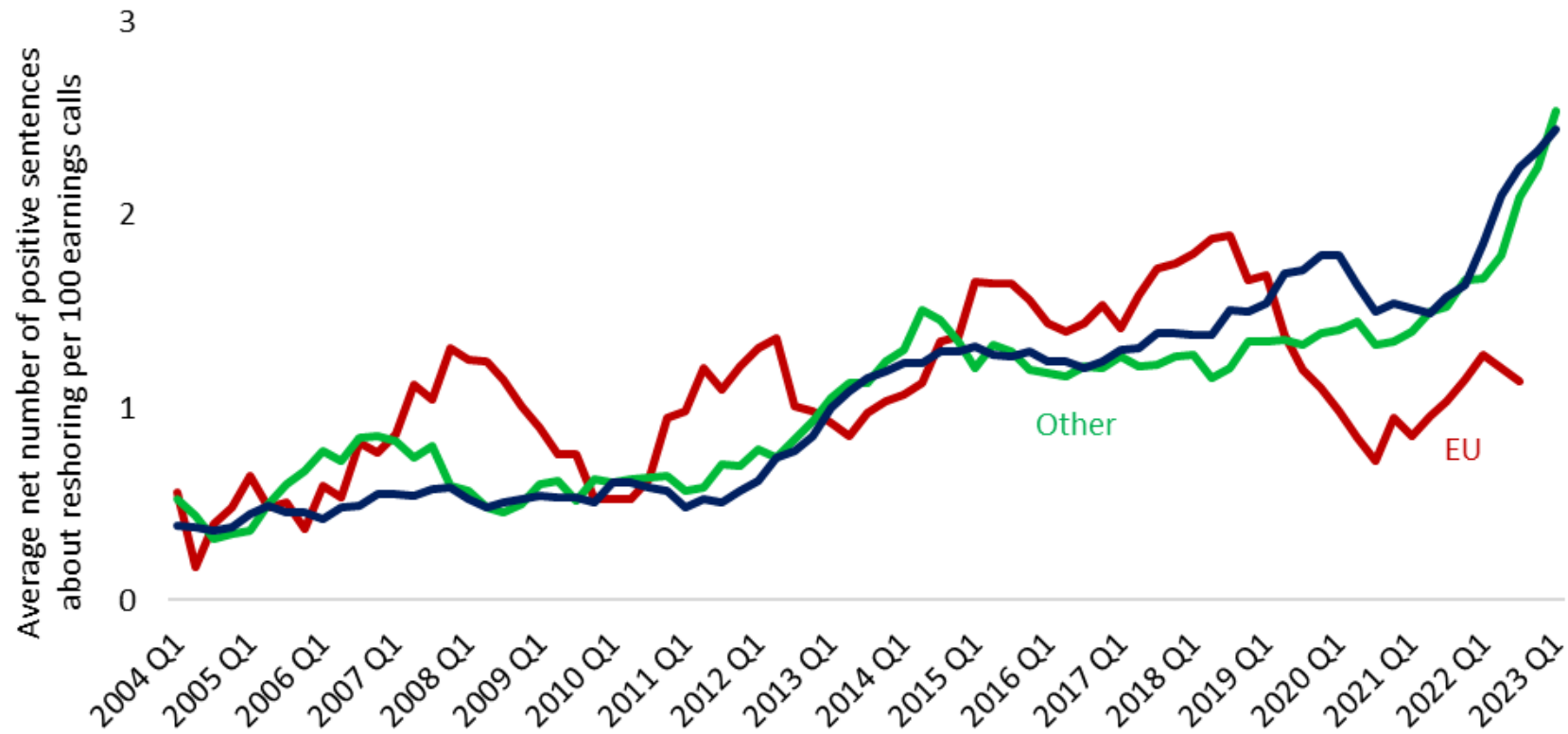
Scramble for resources: Increasing use of export restrictions, fragmentation of supply chains

Risks but also opportunities to leverage new investment relationships



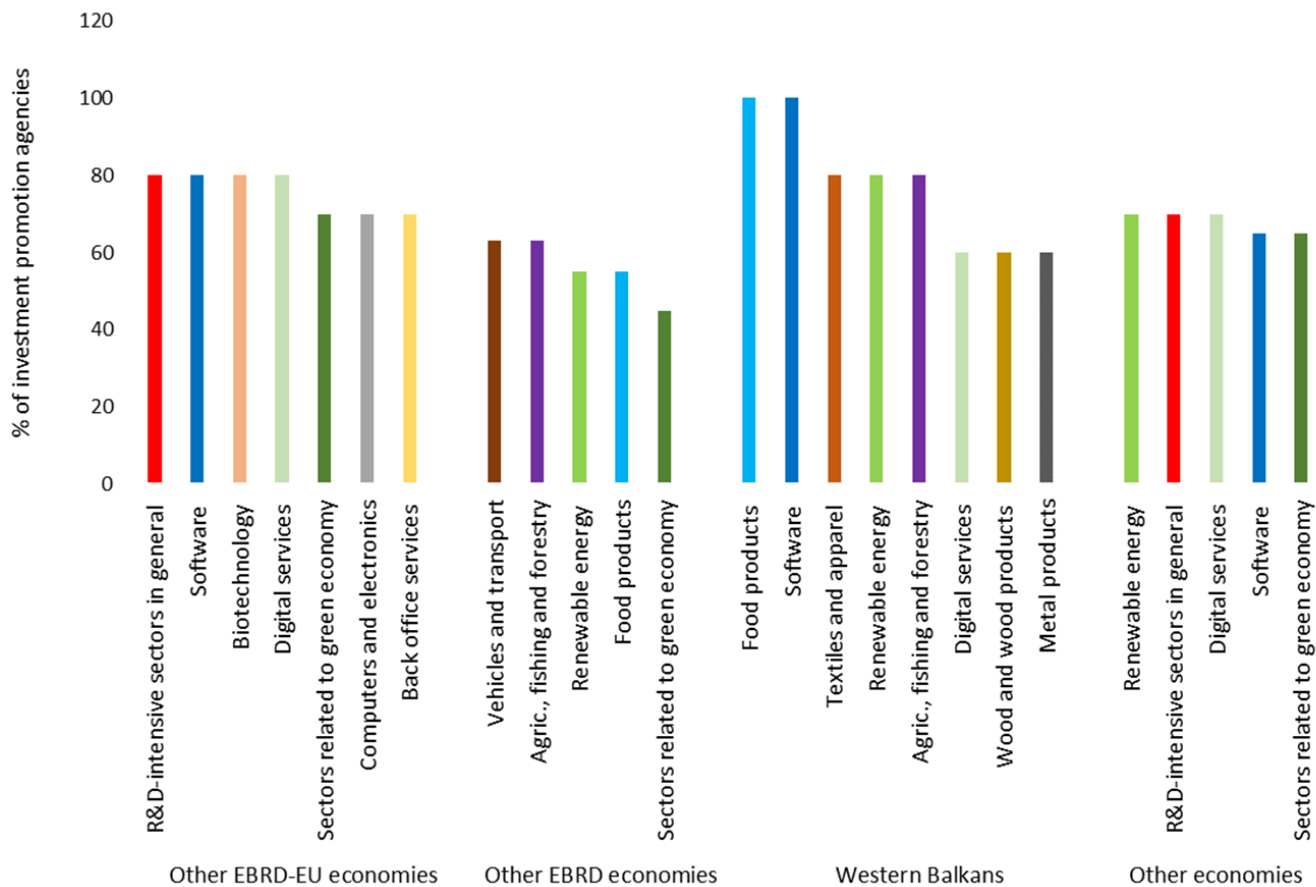
Source: Global Trade Alert (as of 11 Jul 2023), UN Comtrade, US draft list of critical supply chains and authors' calculations.

Reshoring and nearshoring – shortening of supply chains – have been increasingly considered to minimize risks associated with supply of scarce inputs



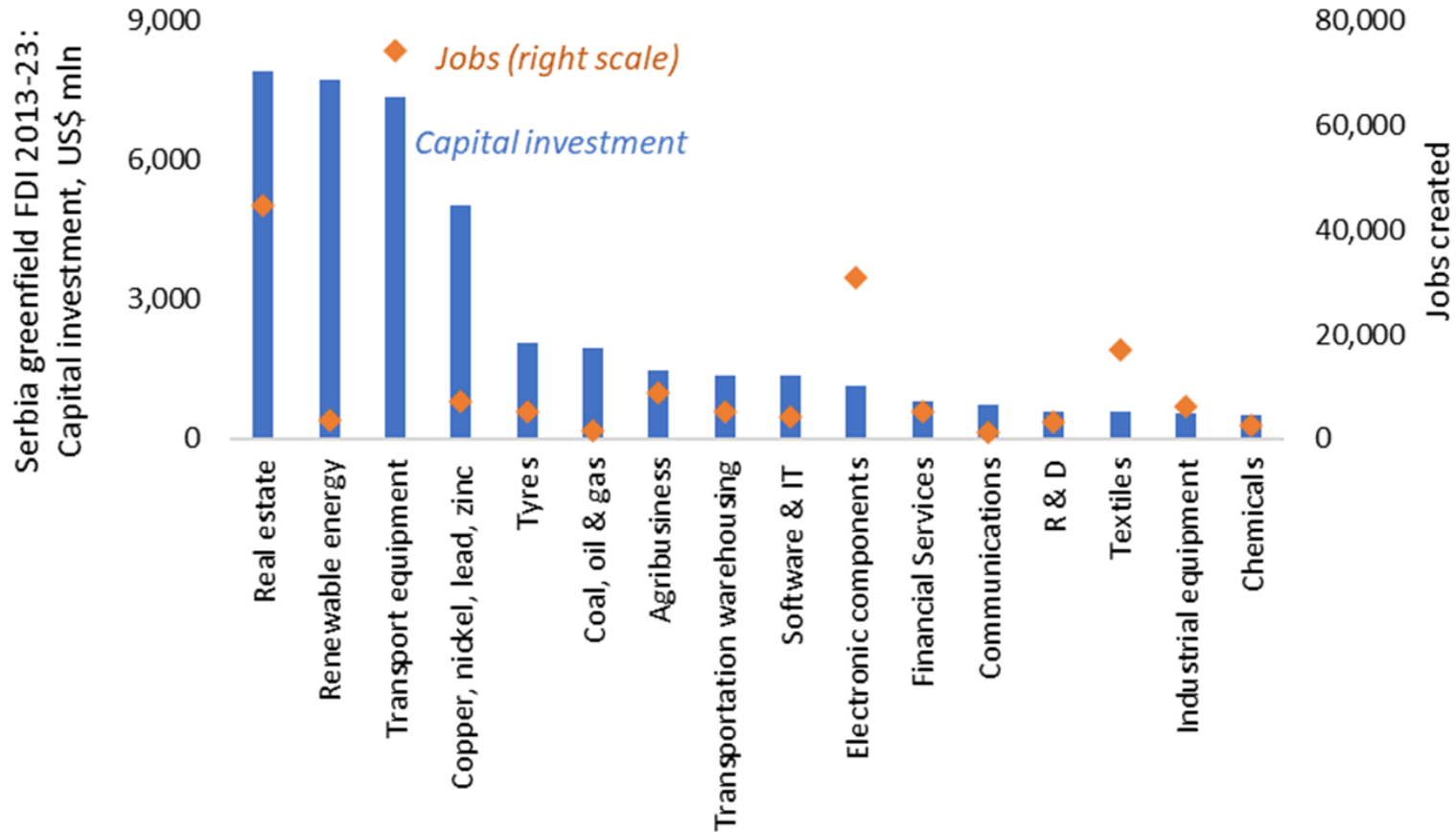
Source: NL Analytics and authors' calculations. Average difference per earnings call between (i) N sentences with reshoring-related keyword + positive word and (ii) N sentences with reshoring-related keyword + negative. Reshoring/nearshoring/onshoring/regionalization/local sourcing/insourcing/localization/local production

Which investments are economies after? Survey of investment promotion agencies



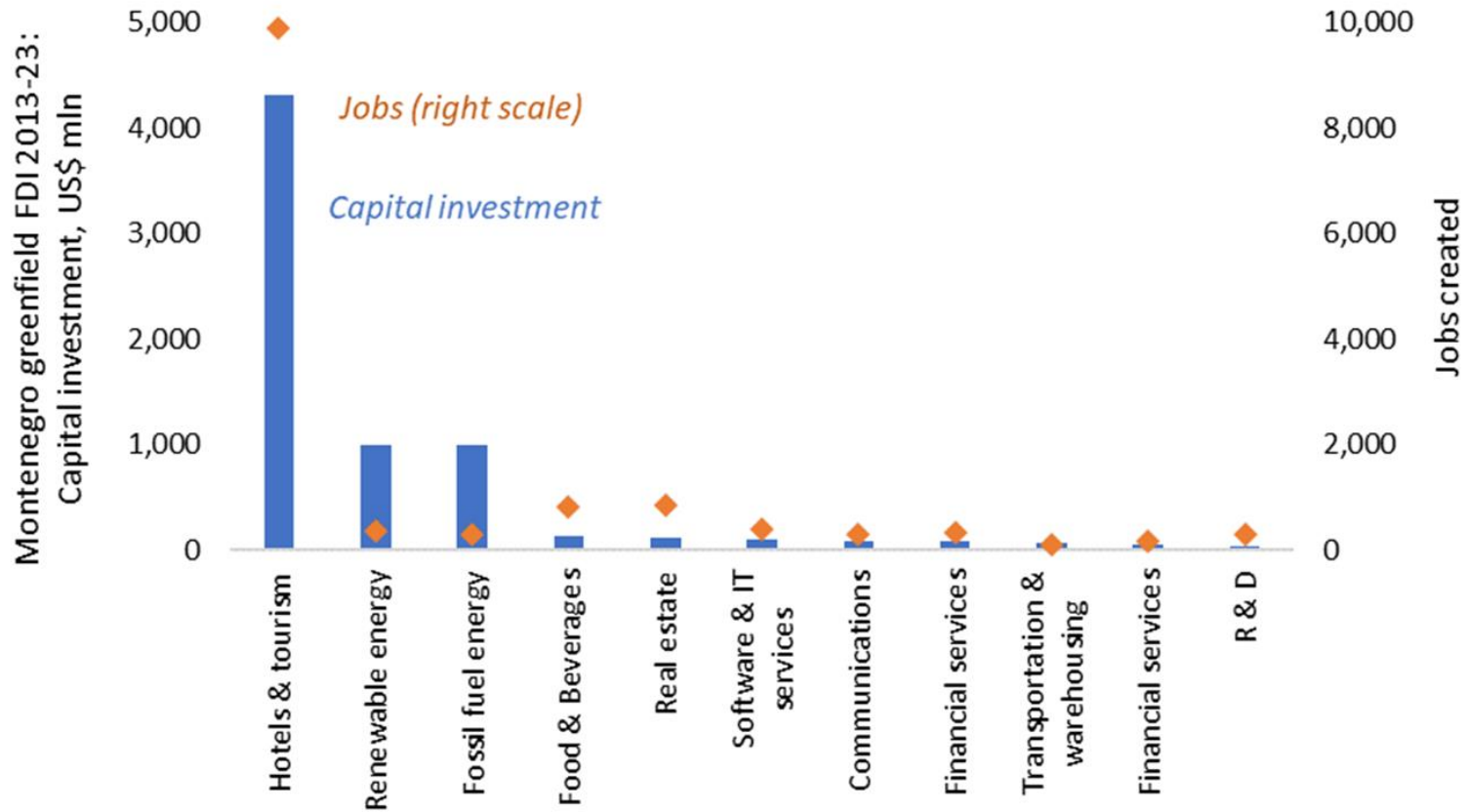
Source: EBRD survey of Investment Promotion Agencies (2023) and authors' calculations.

What do we see to date? In Serbia, diversified FDI profile with substantial investment in real estate, renewables, automotive and metals mining



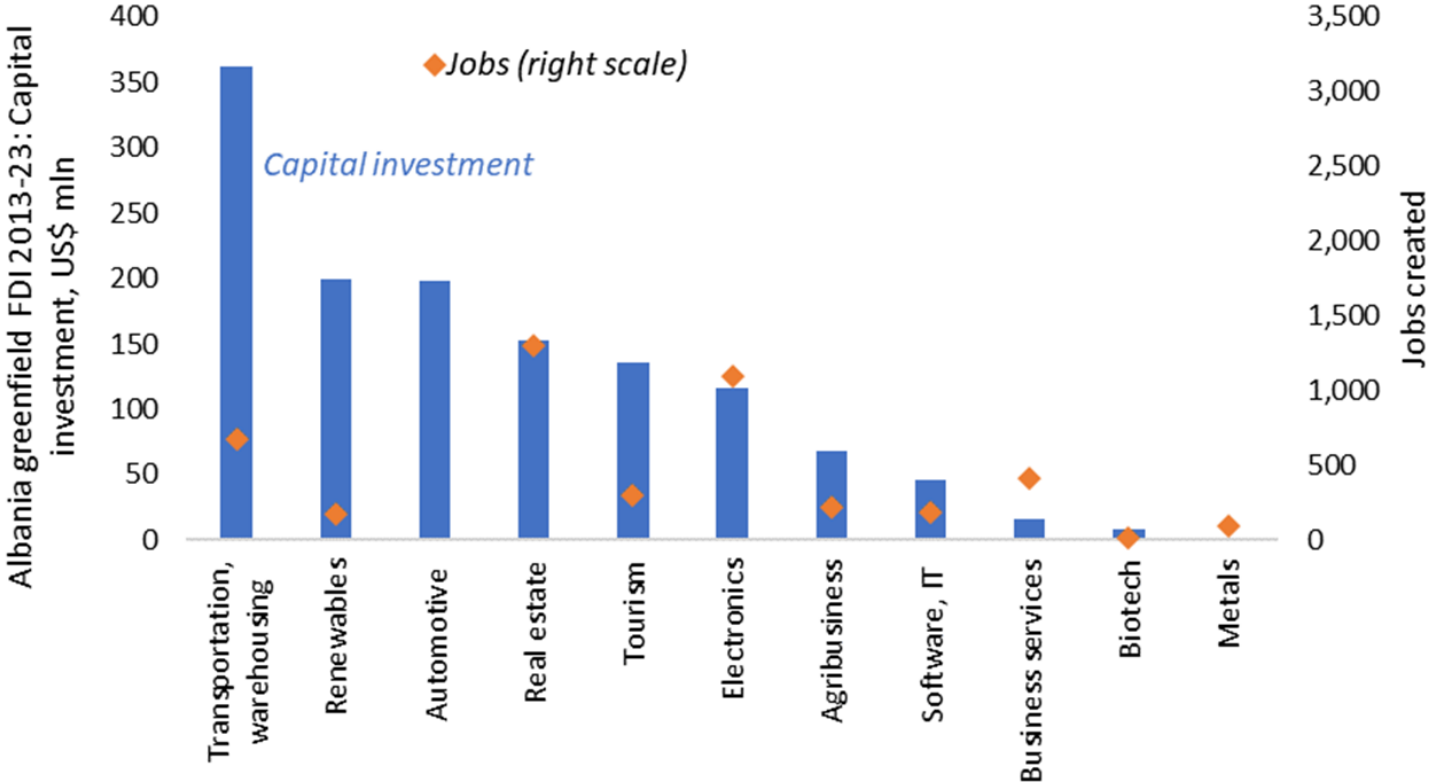
Source: FT fdi markets database and authors' calculations.

In Montenegro, substantial FDI in tourism, renewables and other power



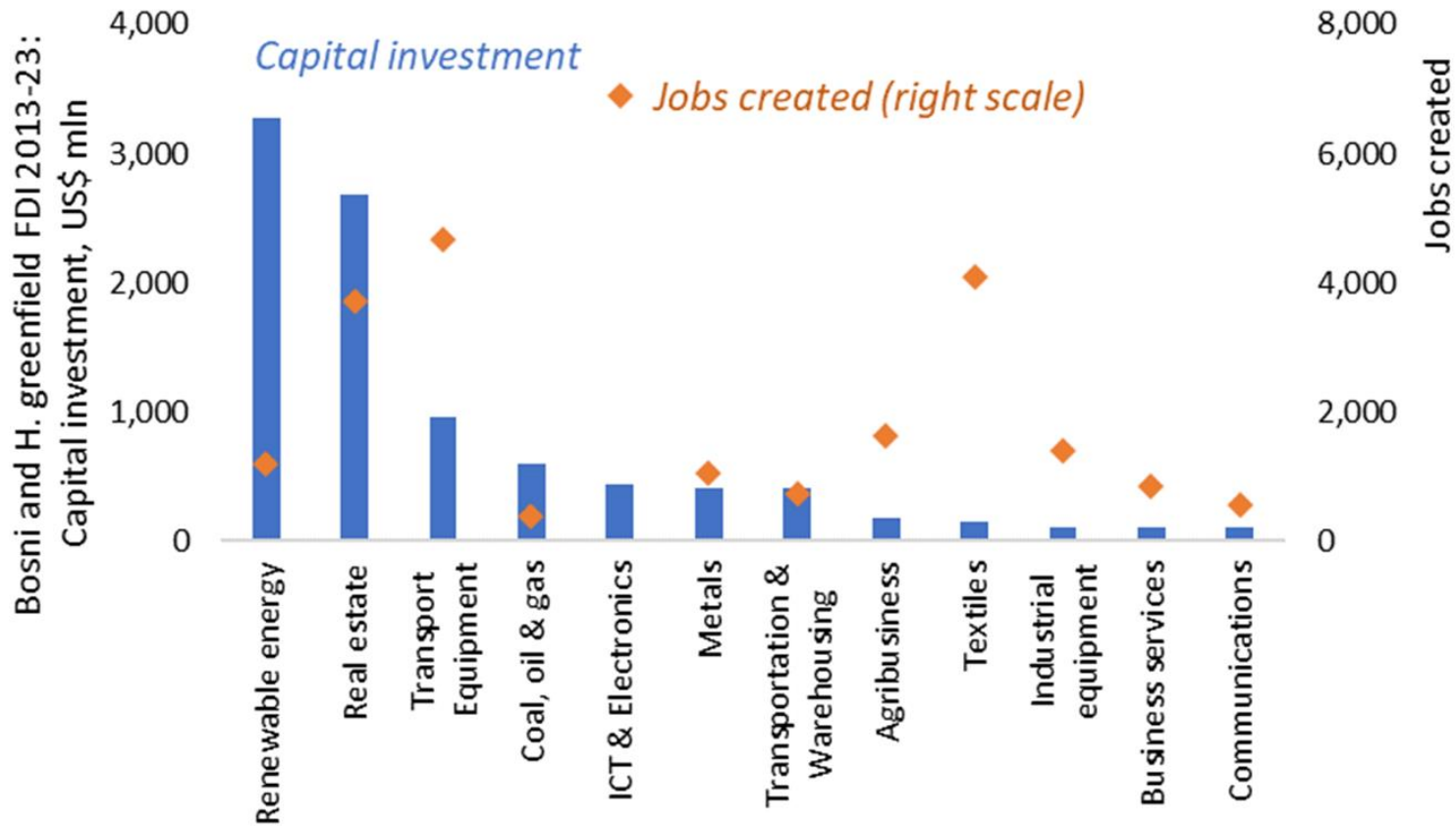
Source: FT fdi markets database and authors' calculations.

In Albania, substantial FDI in logistics, renewables, automotive and tourism



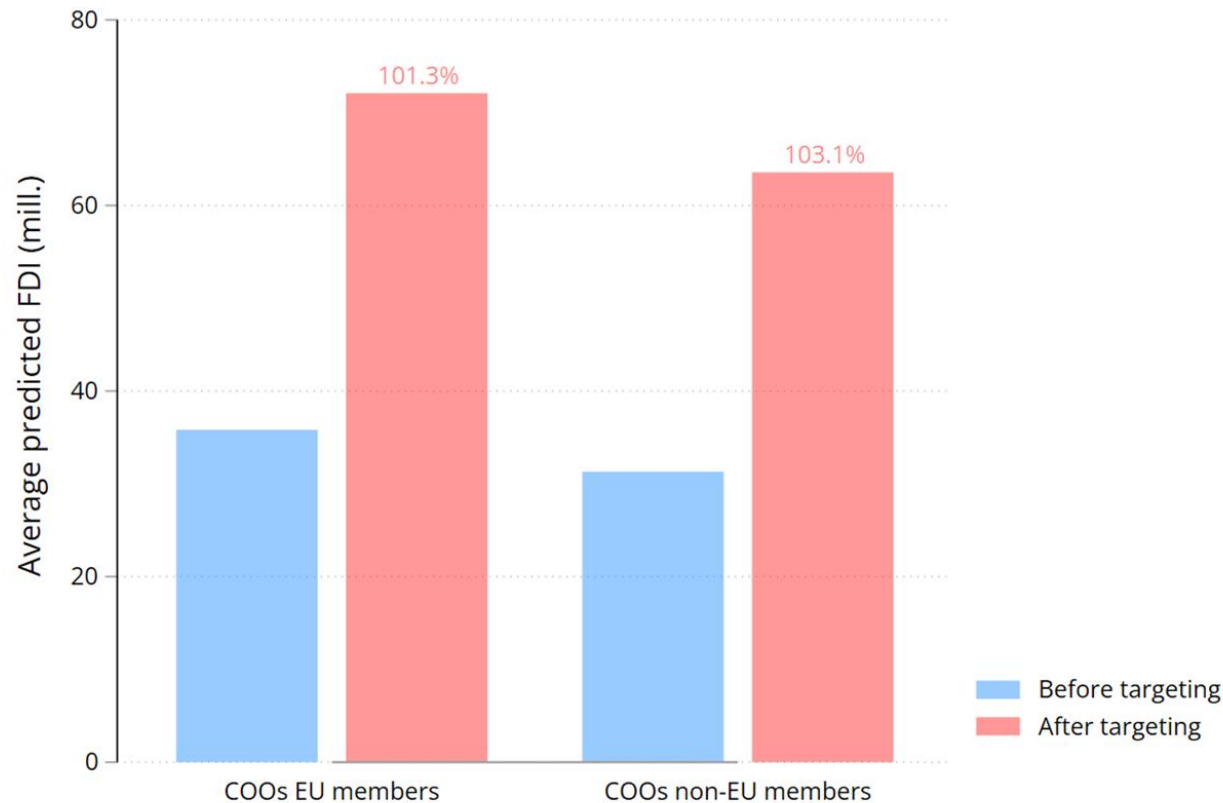
Source: FT fdi markets database and authors' calculations.

In Bosnia and Herzegovina, diversified FDI profile with substantial investment in real estate, renewables, automotive and metals mining



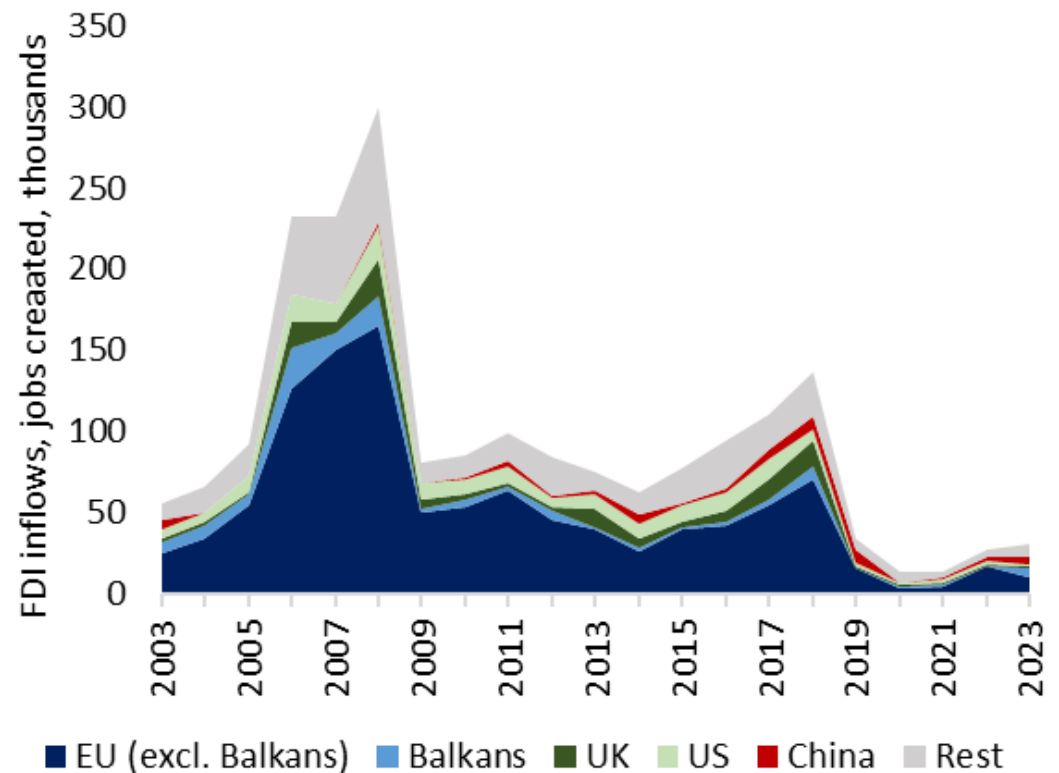
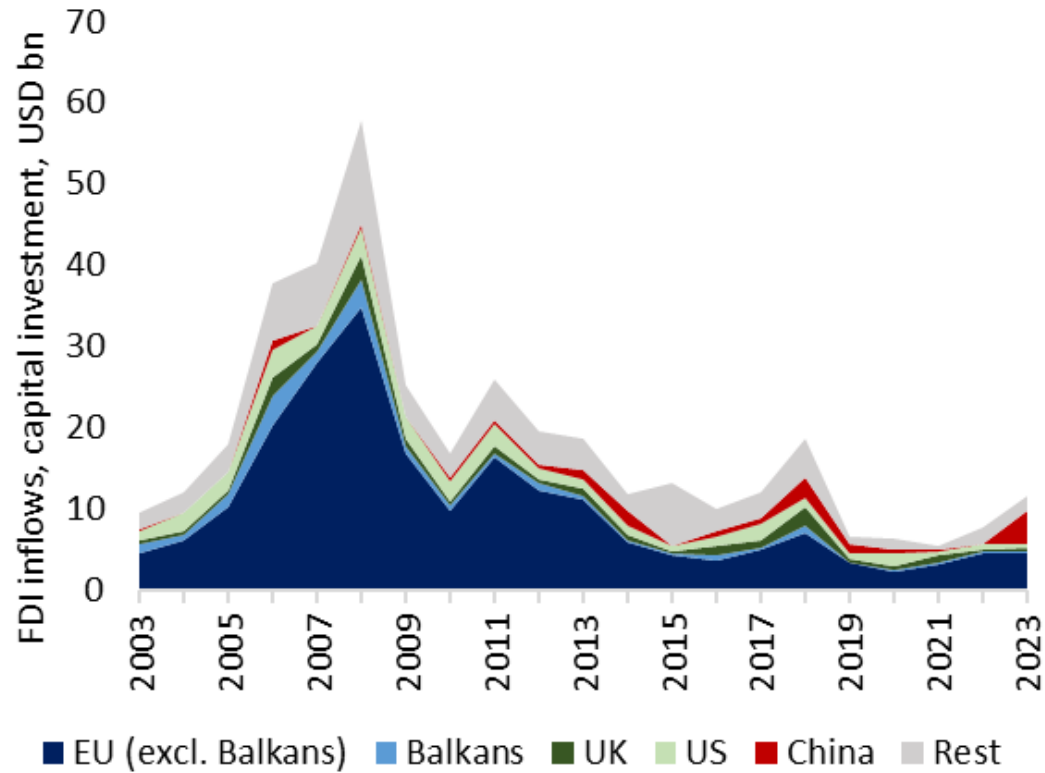
Source: FT fdi markets database and authors' calculations.

Investors are selective, they respond to investment promotion efforts (see also Harding & Javorcik (EJ, 2011) for emerging markets in general)



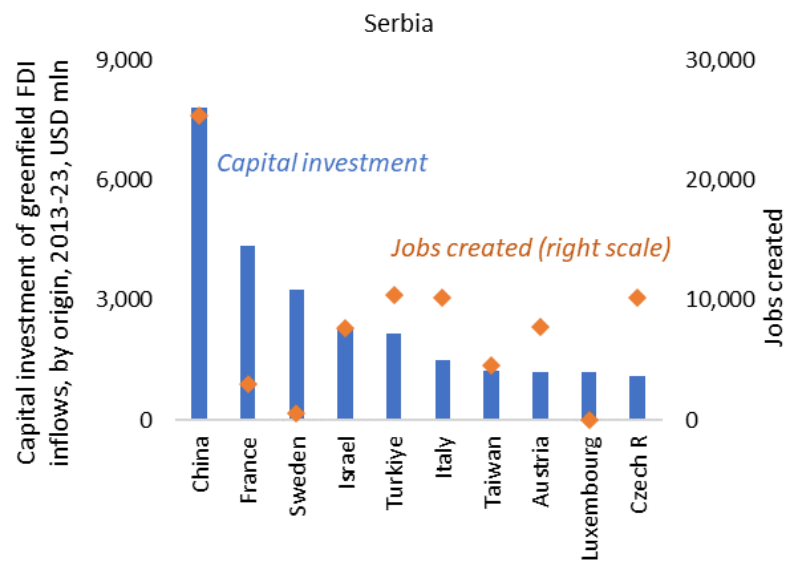
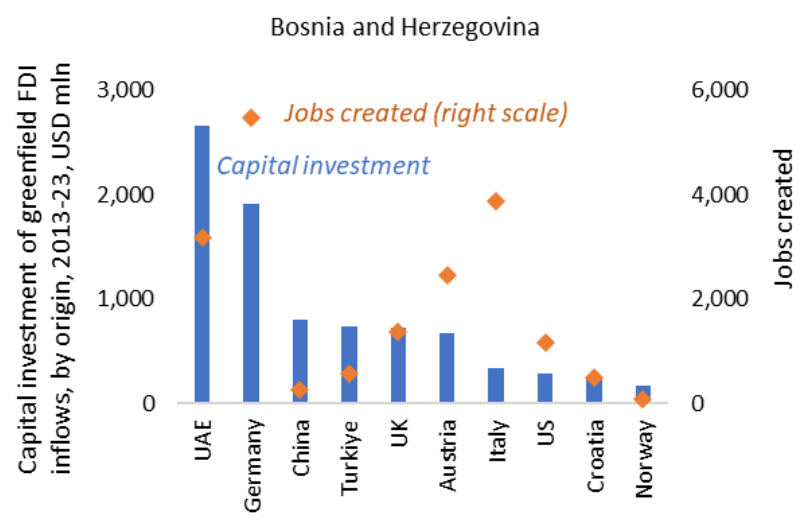
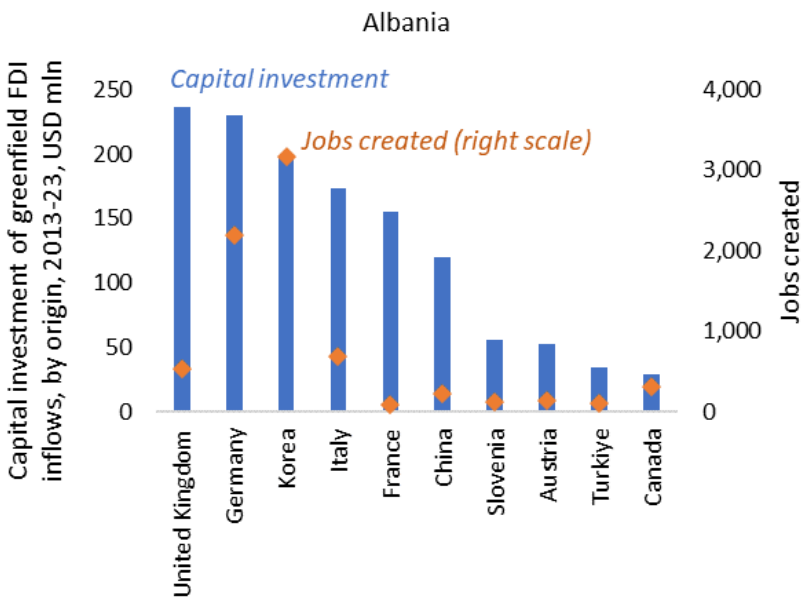
Source: EBRD survey of Investment Promotion Agencies (2023) and authors' calculations. Note: This chart shows average predicted FDI in targeted sectors before and after IPAs started targeting them. It is based on a two-way fixed effects regression, with country x sector and year fixed effects.

Most foreign direct investment to the Balkans from the EU



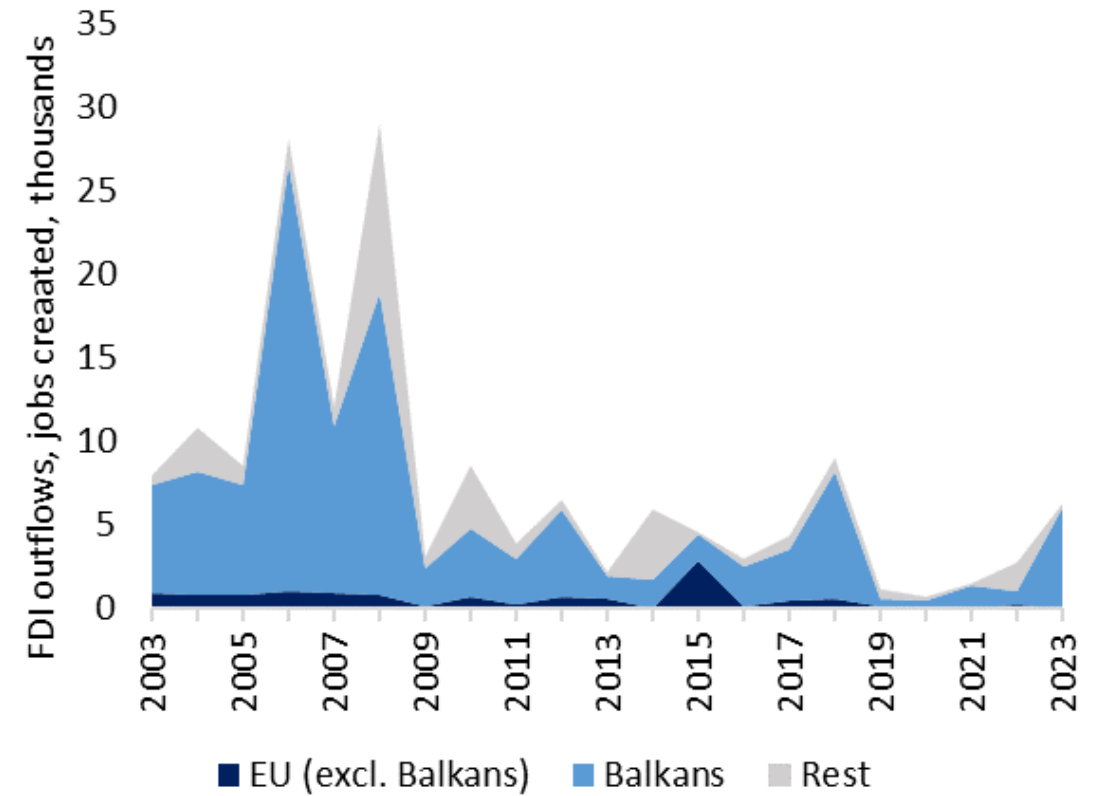
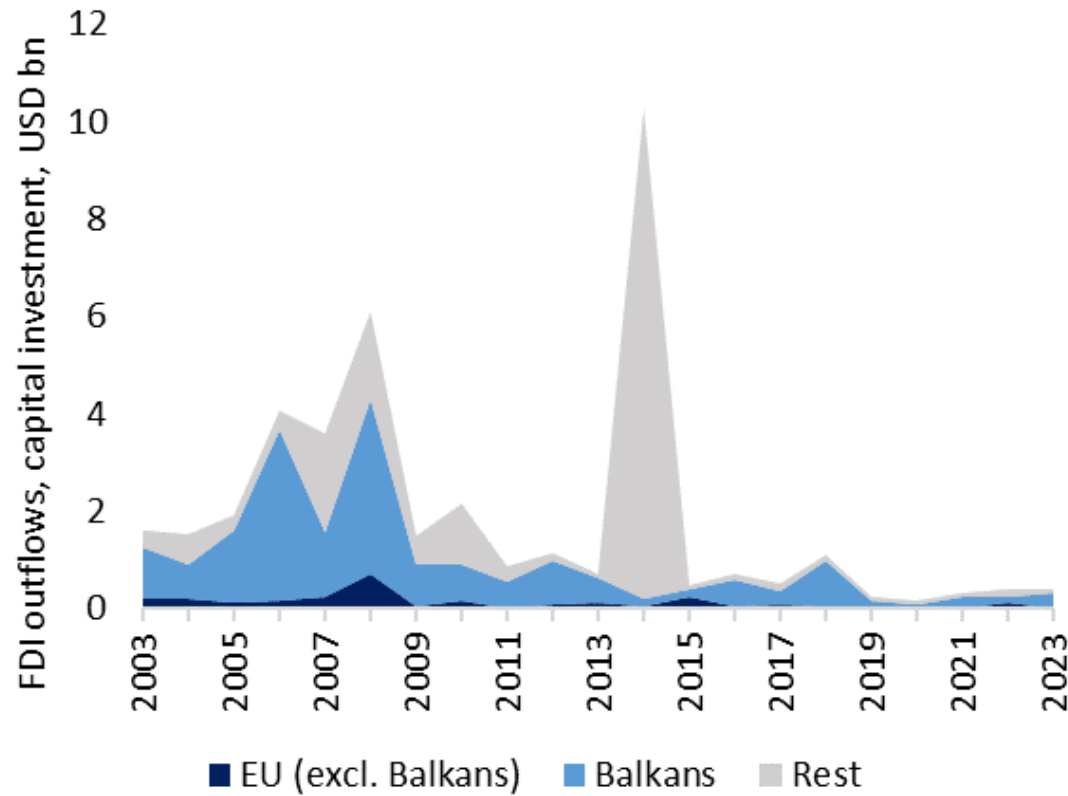
Source: FT fDi markets database and authors' calculations.

But top origin of (large) foreign direct investment varies more than often assumed



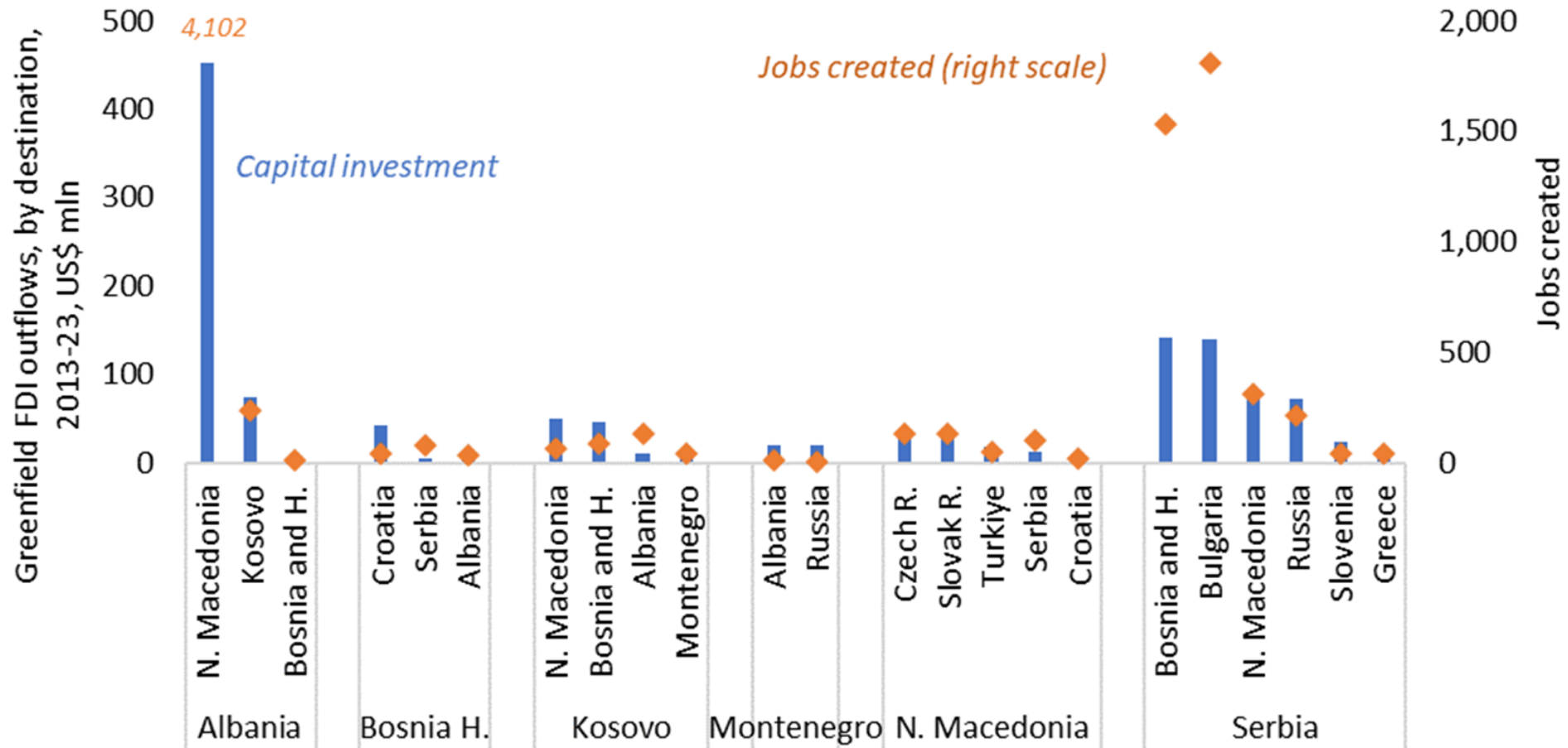
Source: FT fDi markets database and authors' calculations.

Outflows of foreign direct investment from the Balkans mostly stay within the region



Source: FT fDi markets database and authors' calculations.

Top destinations of outward cross-border investment projects also vary, mostly within neighbouring economies



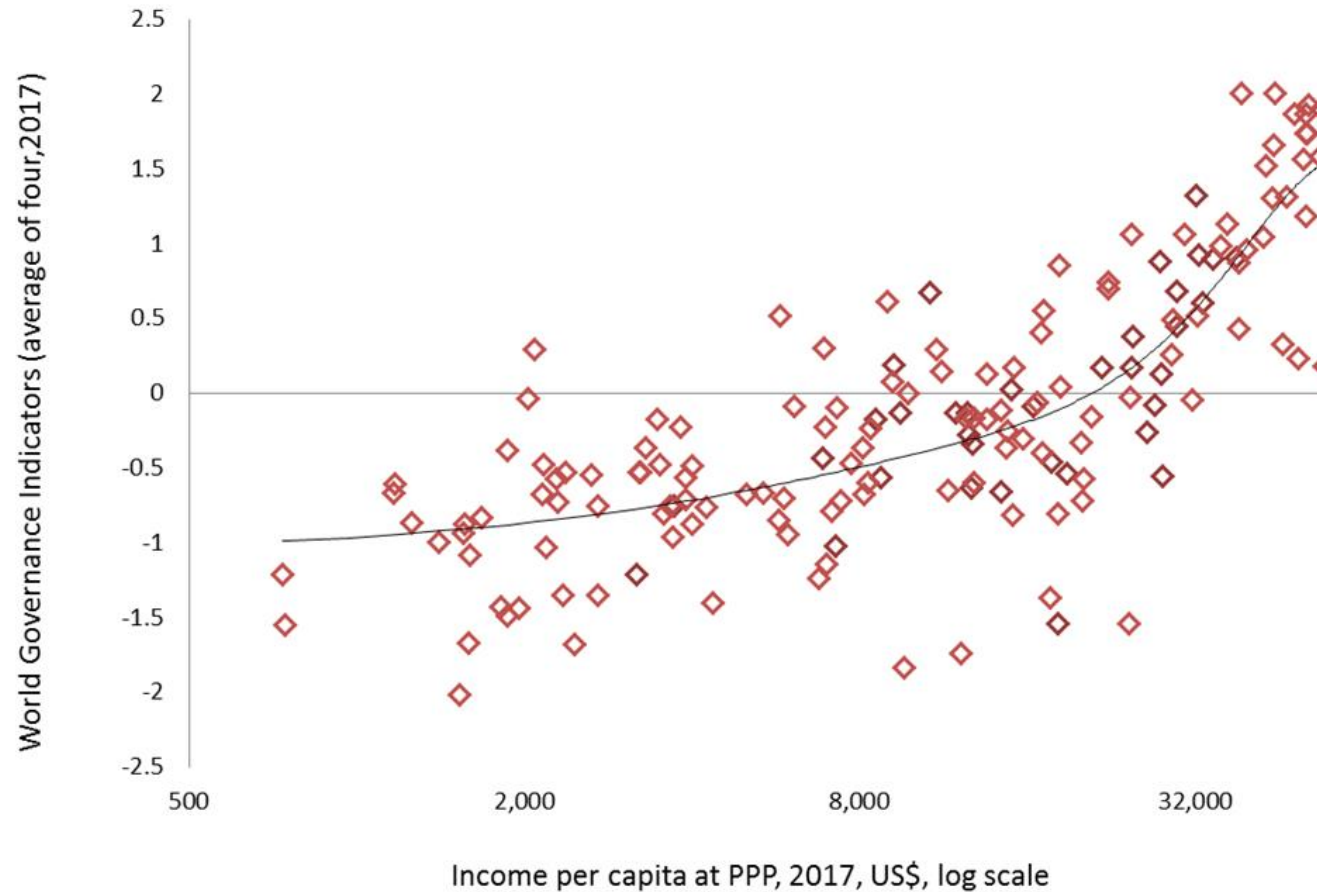
Source: FT fDi markets database and authors' calculations.

Top cross-border investors tend to be a mix of large industrial or construction companies and household-name brands

<i>Economy</i>	Top inwards investors (capital or jobs)					Top outward investors (capital or jobs)				
Serbia	United Alloy (fabricated metals)	Mei Ta Industrial (automotive supplier)	Brose (automotive supplier)	Nidec (electric motors)	Toyo tire	Delta Real Estate	Energoprojekt Entel (construction)	Mlekara Sabac (dairy)	Serbia Telecom	Swisslion-Takovo (eurocrem)

Source: FT fDi markets database and authors' calculations.

As economies develop, growth becomes increasingly reliant on the quality of governance

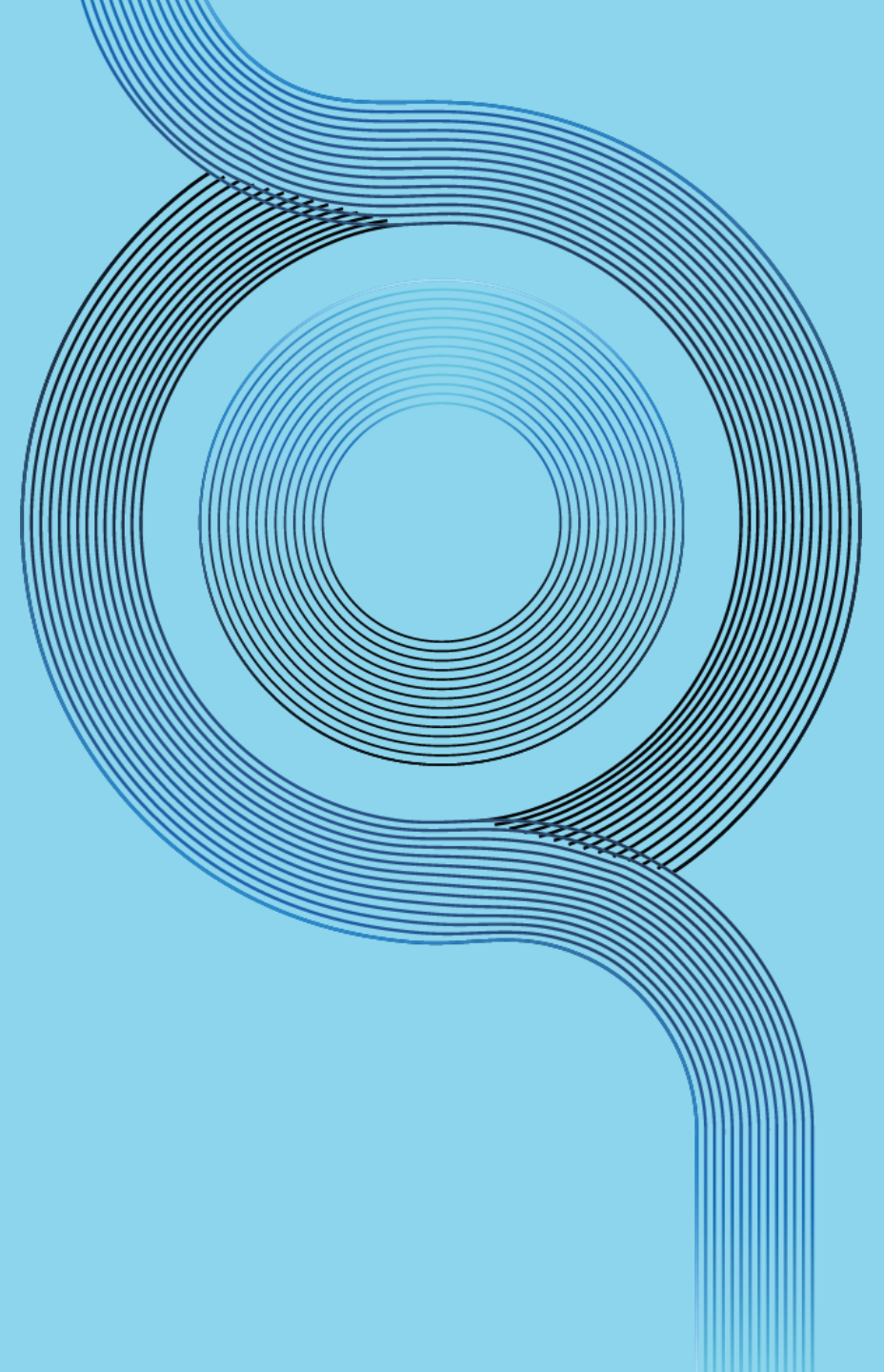


Source: EBRD Transition Report 2019-20 based on World Bank, IMF. Simple average of the Worldwide Governance Indicators of control of corruption, rule of law, regulatory quality and government effectiveness, polynomial fit.

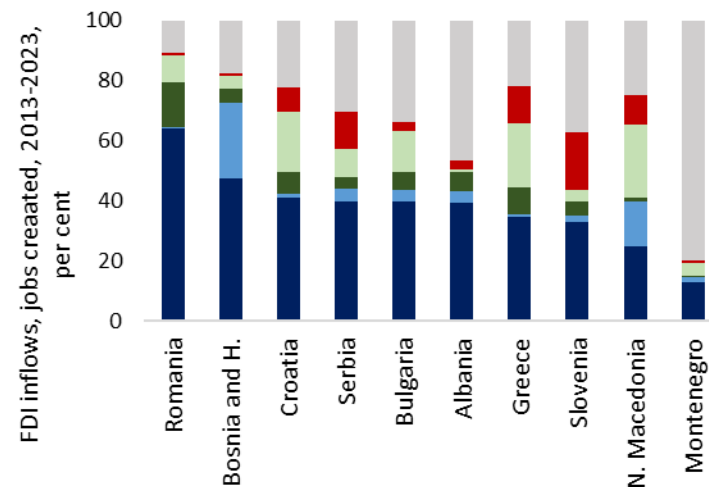
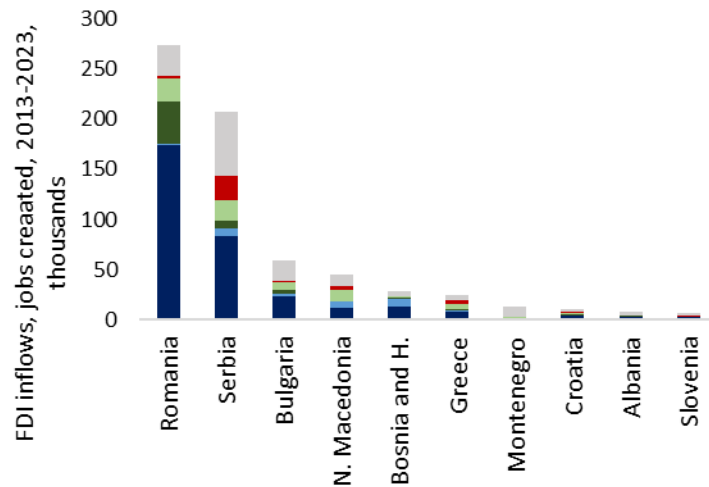
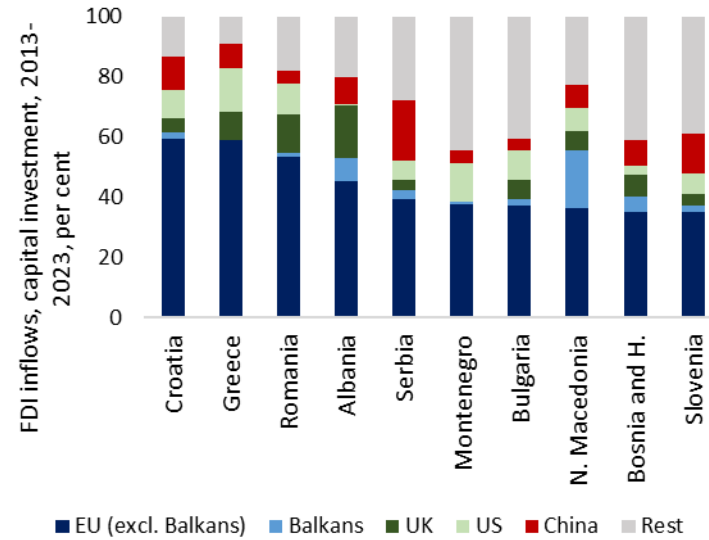
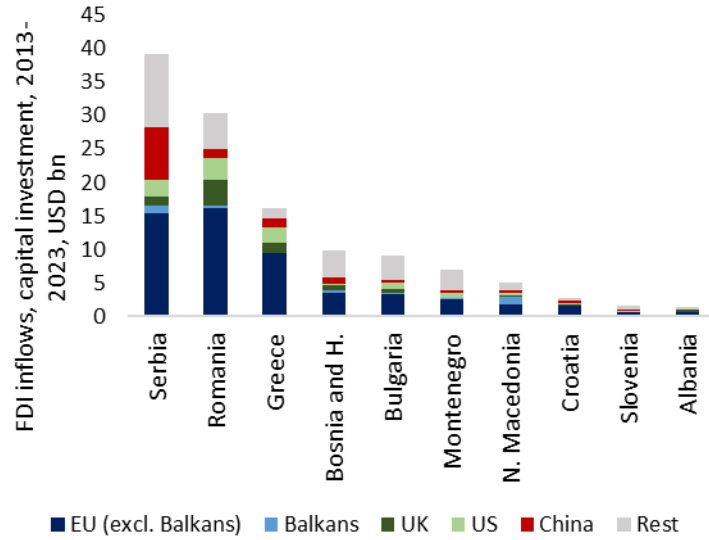
European Bank for Reconstruction and Development

Five Bank Street
London E14 4BG
United Kingdom

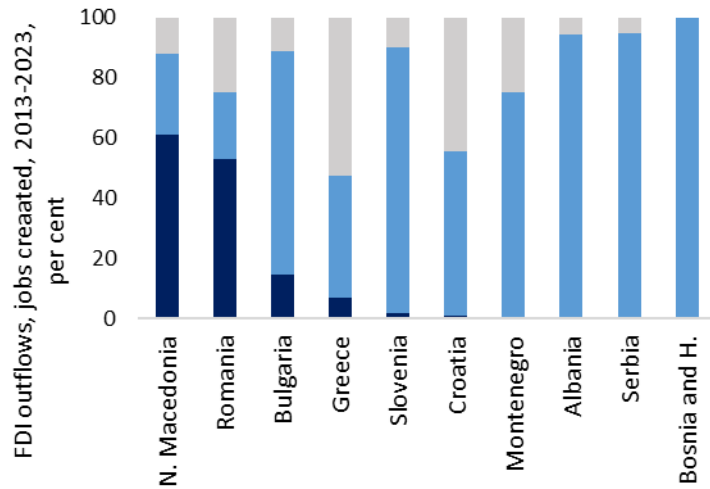
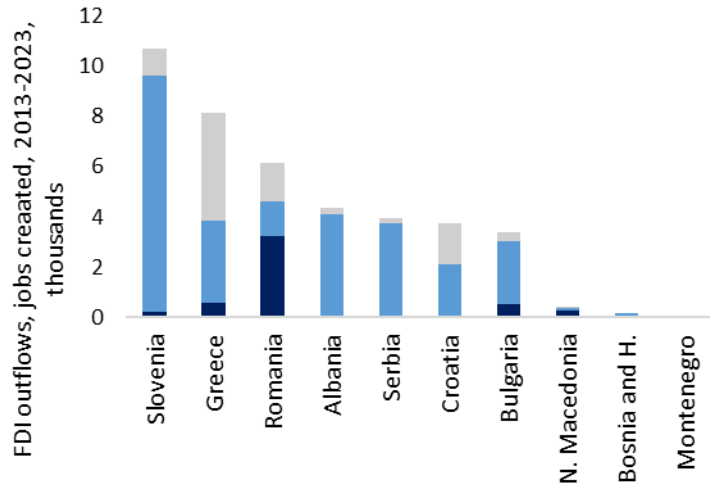
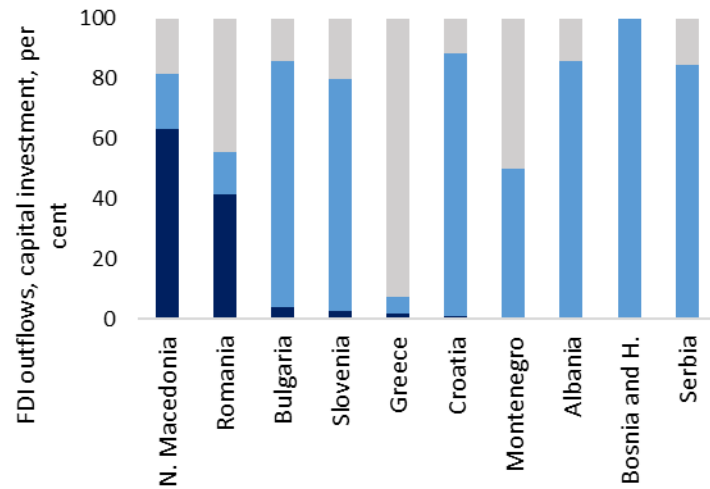
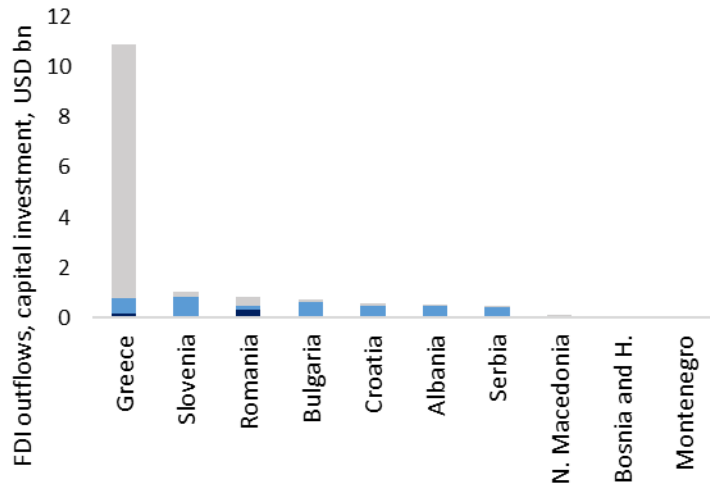
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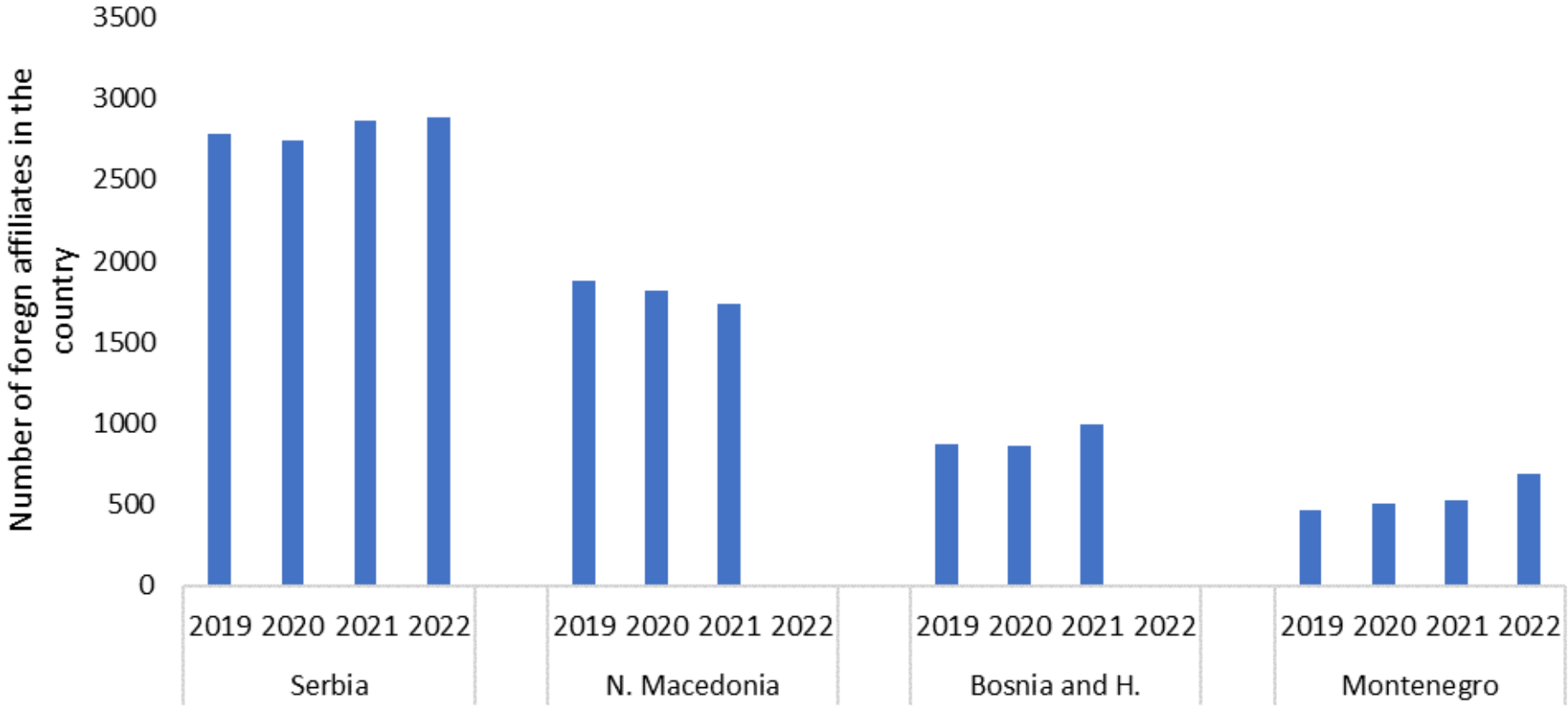
FDI inflows, by origin



FDI outflows, by destination

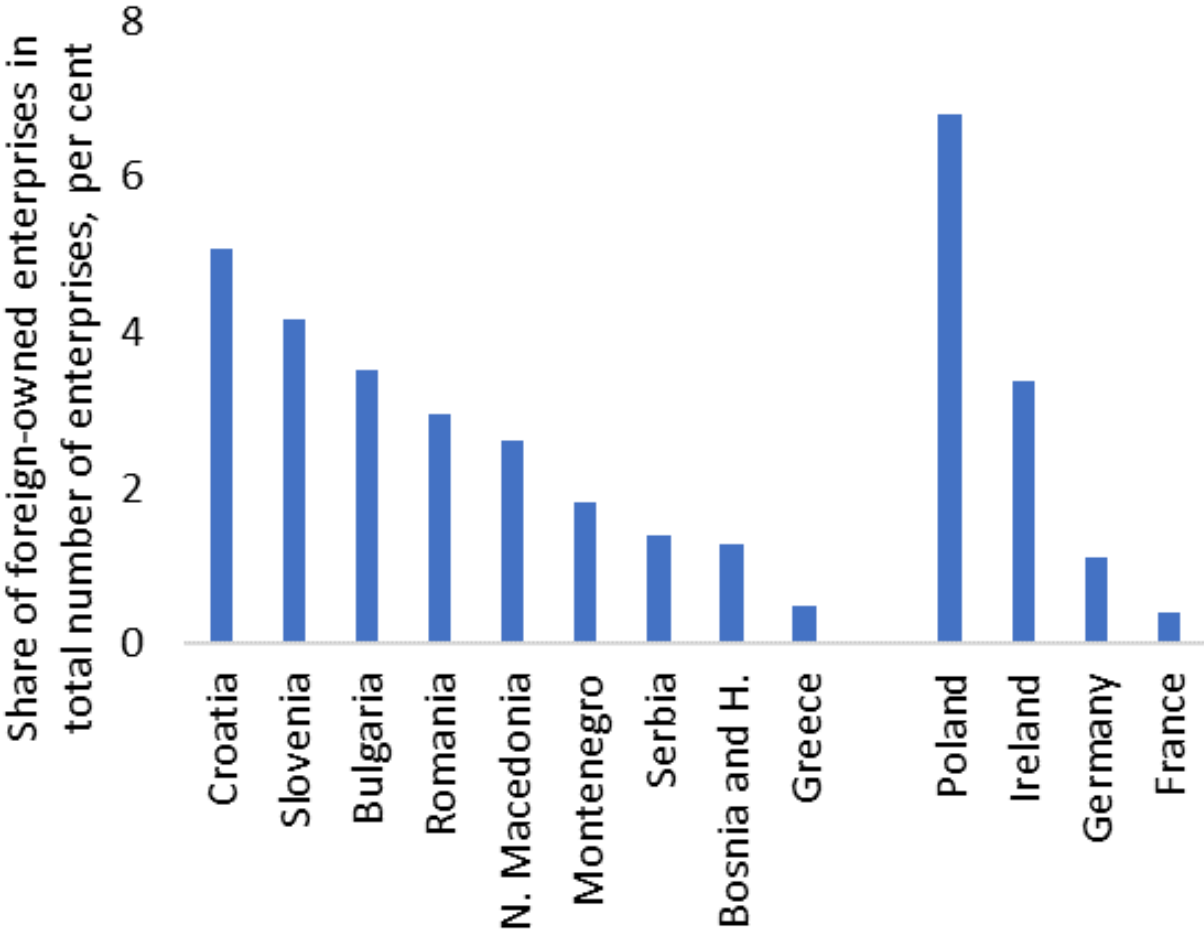


Number of foreign affiliates in the Western Balkans economies



Source: National authorities.

Share of foreign-owned enterprises (+ LITS?)



Source: National authorities.

	Public	SOE	private ba	SO bank	Foreign	Private	UN	SE
Albania	20.5	6.0	1.1	0.4	4.9	47.2	0.2	19.7
Armenia	37.5	5.7	0.7	0.3	1.7	37.2	1.7	15.2
Azerbaij	18.7	11.7	2.5	1.1	2.9	30.0	0.2	32.7
Belarus	30.5	38.0	1.1	1.8	1.4	22.0	0.0	5.3
Bosnia a	20.5	9.4	1.7	0.0	0.9	58.2	0.6	8.8
Bulgaria	13.4	9.6	1.0	0.4	5.2	68.1	0.0	2.2
Croatia	23.0	10.1	0.7	0.2	4.2	55.4	0.0	6.6
Czech Re	21.6	8.5	1.4	0.1	7.3	51.2	0.7	9.2
Estonia	20.1	8.9	0.3	0.0	5.7	57.1	1.3	6.6
Georgia	27.3	7.3	2.3	0.5	0.8	41.9	1.5	18.4
Germany	22.1	6.3	1.2	0.5	0.2	67.7	0.2	2.0
Greece	16.9	1.3	1.3	0.3	0.5	58.9	0.0	20.7
Hungary	19.5	12.9	1.3	0.3	6.8	49.8	0.3	9.1
Jordan	20.2	2.6	0.4	0.4	0.4	54.4	2.2	19.5
Kazakhst	19.2	8.6	1.4	0.8	2.7	51.6	0.7	15.1
Kosovo	24.7	2.8	0.3	0.0	2.2	56.6	1.3	12.2
Kyrgyz R	30.5	13.2	1.0	0.0	1.7	32.8	0.7	20.2
Latvia	20.4	16.9	1.6	0.0	3.5	51.9	1.0	4.7
Lebanon	14.6	0.5	0.2	0.0	1.2	48.9	0.0	34.6
Lithuani	17.3	20.2	0.7	0.9	2.9	42.3	0.2	15.6
Moldova	26.7	19.1	2.8	0.8	4.8	39.8	0.0	6.0
Mongolia	42.2	10.2	2.0	0.7	0.4	29.3	0.4	14.8
Monteneg	21.4	12.3	2.5	0.4	2.5	50.8	1.1	9.1
Morocco	15.7	1.6	0.3	0.0	1.3	39.3	0.3	41.3
North Ma	29.9	7.5	1.0	0.5	4.1	47.1	1.0	9.0
Poland	21.3	8.8	3.0	1.4	8.1	53.2	0.0	4.2
Romania	17.5	5.8	3.7	2.9	3.1	62.6	0.2	4.1
Russia	19.5	15.4	1.8	0.6	0.2	42.4	0.5	19.6
Serbia	24.7	5.9	0.3	0.3	4.5	54.3	0.3	9.5
Slovak R	26.6	5.4	1.4	0.5	9.9	49.2	0.0	7.0
Slovenia	28.9	7.1	0.6	0.2	11.0	45.7	0.6	5.8
Tajikist	51.5	4.9	0.3	1.2	1.5	10.8	0.3	29.3
Tunisia	16.5	3.3	0.0	0.3	4.0	53.1	0.3	22.4
Turkey	13.2	2.2	1.5	0.2	1.0	63.4	0.0	18.4
Uzbekist	42.4	16.8	1.0	1.6	3.6	14.0	0.3	20.4
West Ban	23.1	1.4	1.4	0.0	0.9	49.1	1.4	22.6
Algeria	32.7	18.5	2.0	0.0	1.2	22.8	1.2	21.7

Source: National authorities.