MSMEs Insolvency: The IMF’s View

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OUTLINE

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2. Relevance for IMF mandate
3. Key challenges for MSMEs
4. IMF’s experience with MSMEs debt distress and insolvency
5. IMF policy recommendations for MSMEs insolvency
6. Outlook
1. MACRO-ECONOMIC SIGNIFICANCE OF MSMEs
1. Macro-Economic Significance of MSMEs

- MSMEs typically form a very large segment of businesses in most countries (>90%).
- MSMEs typically have a significant importance for employment and value added.
- MSMEs are more exposed and more vulnerable to economic downturns and shocks.
2. RELEVANCE FOR IMF MANDATE
2. Relevance for IMF Mandate

- IMF may focus on MSMEs debt distress in its surveillance and financing mandate to the extent macro-critical, and if requested under its technical assistance mandate.

- MSMEs overindebtedness and debt distress may inhibit economic growth.

- MSMEs NPLs may threaten financial stability in some countries.

- MSMEs support schemes may threaten public debt sustainability.
3.
KEY CHALLENGES FOR MSMEs
3. Key Challenges for MSMEs

**DEFINITION**
- No uniform definition for MSMEs.

**INSOLVENCY**
- No or limited fresh start for over-indebted entrepreneurs (unincorporated MSMEs).
- Complex, rigid, and costly insolvency regimes.
3. Key Challenges for MSMEs

(continuation)

OTHER

- Higher fixed costs of restructuring for MSMEs.
- Mix of personal and business assets/collateral.

FINANCE

- MSMEs are typically more leveraged than larger corporates.
- Lack of access to finance (including fresh money) for MSMEs.
- Late payment impacts MSMEs liquidity.
4. IMF EXPERIENCE WITH MSMEs DEBT DISTRESS AND INSOLVENCY
4. IMF Experience with MSMEs Debt Distress and Insolvency

- Comprehensive approach was most successful.
- Crisis vs. non-crisis warrants a different approach.
- Targeted insolvency reforms in line with international best practice were necessary.
- Fresh start for honest entrepreneurs was critical.
- Few MSMEs specialized regimes were adopted with mixed results.
4. IMF Experience with MSMEs Debt Distress and Insolvency (continuation)

- Enhanced/hybrid out-of-court workouts worked well because less costly and more flexible to enable early rescue but had mixed results.

- Across-the-board mechanism in systemic crisis came at high fiscal cost.

- Institutional framework needed strengthening (courts, IPs, facilitators).

- Other support (government, tax, banking supervision) was critical.
5. IMF POLICY RECOMMENDATIONS FOR MSMEs INSOLVENCY
5. IMF Policy Recommendations for MSMEs Insolvency
5. IMF Policy Recommendations for MSMEs Insolvency (specific)

**INSOLVENCY**
- Simple, cost effective, and rapid insolvency systems.
- Fresh start within a short period for honest entrepreneurs.

**OUT-OF-COURT**
- Efficient out-of-court regimes with hybrid features enable cost effective and quick resolution.
- In systemic crisis use of standardized approach (in terms of method and not solution).
5. IMF Policy Recommendations for MSMEs Insolvency (general) 

**OTHER**

Other support to create incentives is essential:

- Government (financing and awareness)
- Tax
- Banking supervision

**INSTITUTIONS**

Efficient institutional framework (courts, IPs, facilitators).

**DEBT ENFORCEMENT**

Efficient debt enforcement/foreclosure.
6. OUTLOOK
6. Outlook

World Bank initiative on MSMEs insolvency is welcome.

“UNCITRAL’s work on specific recommendations for SME insolvency regimes should be pursued.” IMF 2015 Staff Discussion Note