



# MSMEs Insolvency: The IMF's View

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*The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.*

# OUTLINE

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1. Macro-economic significance of MSMEs
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.

A large, solid blue geometric shape, resembling a parallelogram or a trapezoid, is positioned on the right side of the slide. It has a diagonal line running from the top-left corner towards the bottom-right corner, creating a sense of depth and movement.

# 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.

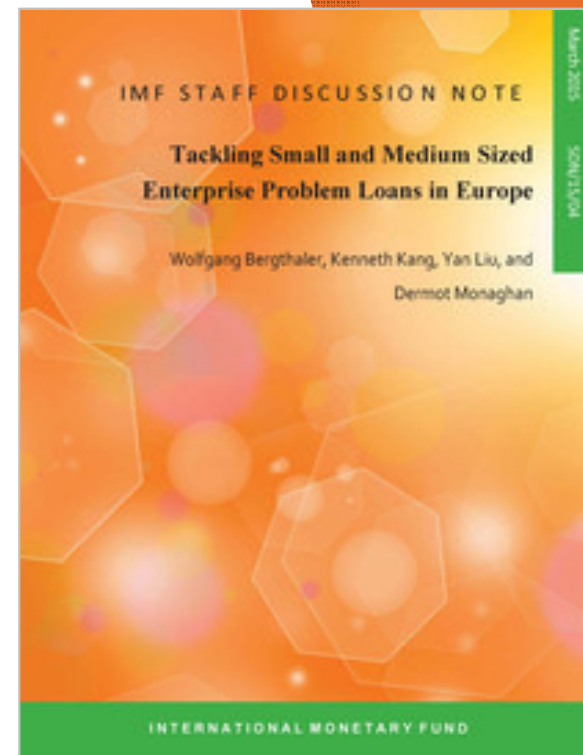
## 4. IMF Experience with MSMEs Debt Distress and Insolvency *(continuation)*

- 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) *(continuation)*

### 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) *(continuation)*

### 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