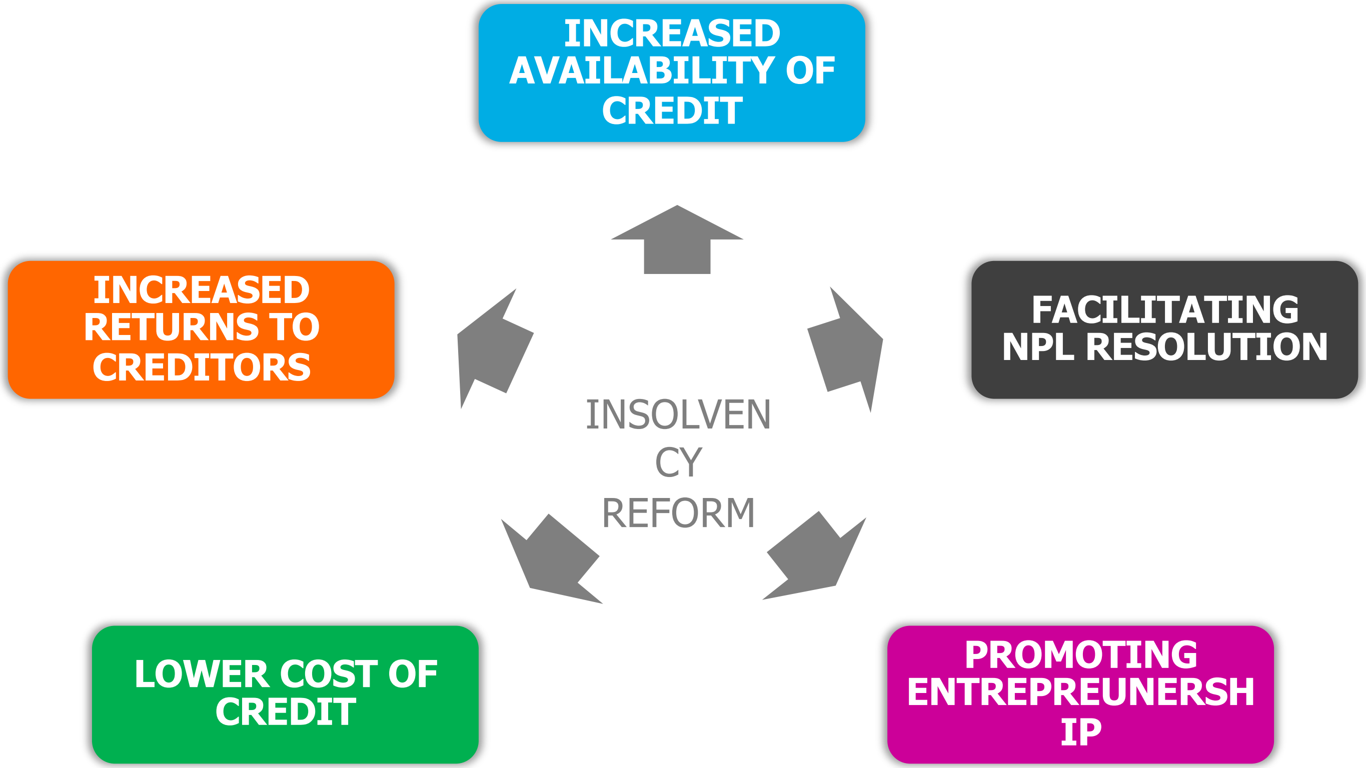
WORLD BANK GROUP
Finance, Competitiveness & Innovation

World Bank Group ICR Principles

Antonia Menezes
Senior Financial Sector Specialist
Financial Inclusion, Infrastructure & Access

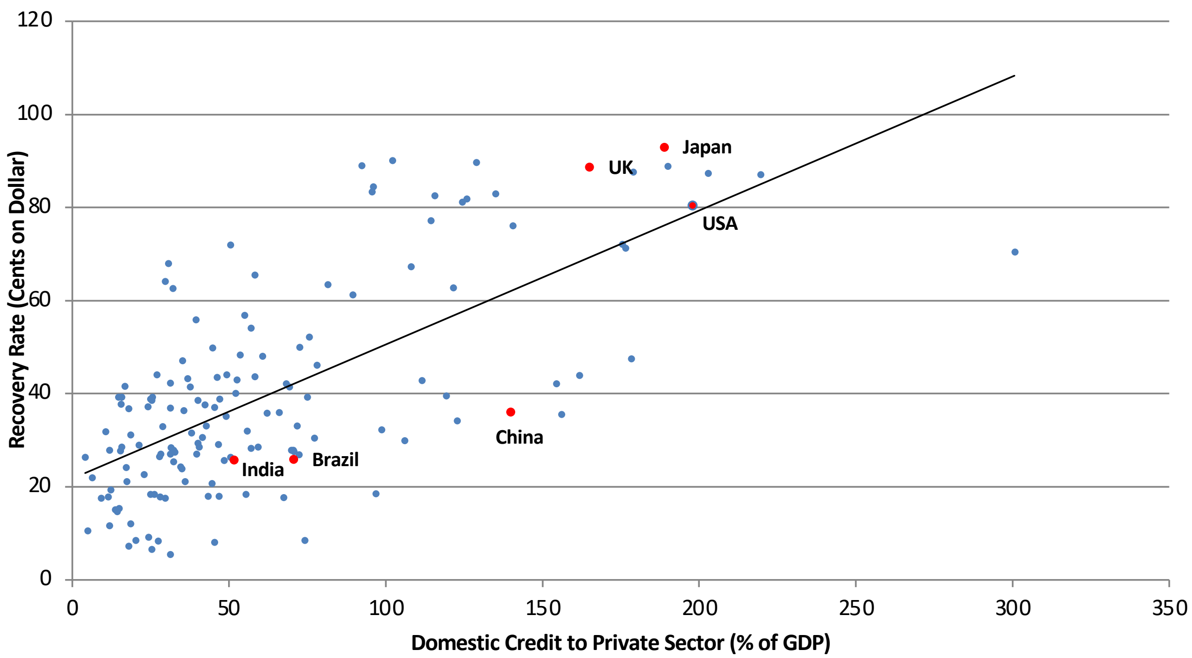
The Benefits of Efficient Insolvency Systems



Poor Recovery Rate Influences Credit Availability

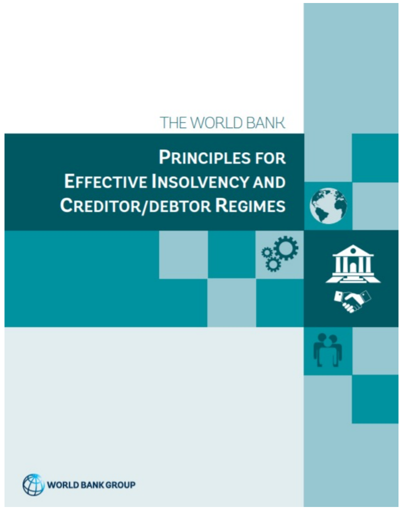
- ✓ There is a positive correlation between domestic credit and recovery rate in economies where the creditors' rights are less sound

Correlation Between Recovery Rate and Domestic Credit to Private Sector (as a percentage of GDP)

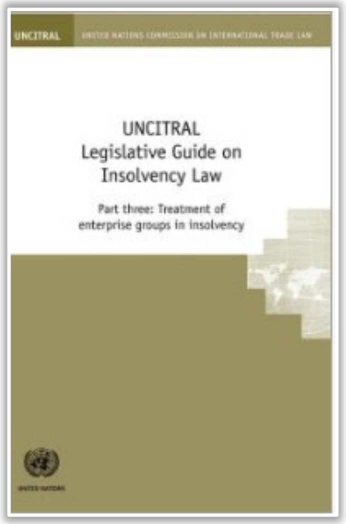


International Standard Setter

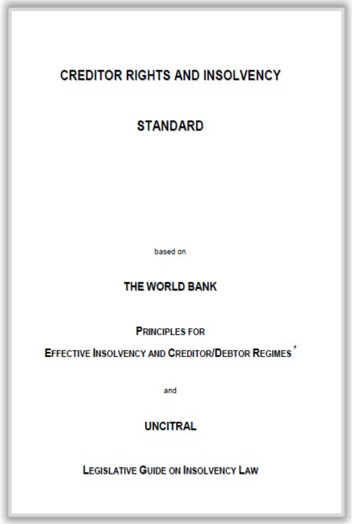
✓ Key International Instruments that Guide and Effective Insolvency Regimes



ICR Principles



UNCITRAL Legislative Guide


CREDITOR RIGHTS AND INSOLVENCY

STANDARD

based on

THE WORLD BANK

PRINCIPLES FOR

EFFECTIVE INSOLVENCY AND CREDITOR/DEBTOR REGIMES'

and

UNCITRAL

LEGISLATIVE GUIDE ON INSOLVENCY LAW

Unified Standard for ICR

Insolvency & Restructuring Work Streams

Standard Setting

- Set global standard for ICR systems - World Bank ICR Principles together with UNCITRAL Legislative Guide
- Convene Task Force Meetings to Advise Bank

Diagnostics

- Conduct ICR ROSCs
- Conduct FSAPs with WB and IMF colleagues
- Conduct Financial Sector Development Strategies

Technical Assistance

- Review and advise on corporate and personal insolvency regimes
- Helping design out-of-court workout and debt recovery frameworks
- Providing capacity building for key insolvency practitioners and judges

Financing

- Provide support under budget support loans requiring regulatory reforms
- Provide support under specific loans to support insolvency reforms

Research and Knowledge

- Design manuals for judges, insolvency & ADR practitioners
- Undertake collaborative research on economic impact of insolvency and ADR
- Organize regional and international conferences/workshops

World Bank Group Crisis Notes

Equitable Growth, Finance and Institutions
COVID-19 Notes
Finance Series
WORLD BANK GROUP

COVID-19 Outbreak: Implications on Corporate and Individual Insolvency[1]

April 13, 2020

The COVID-19 pandemic has impacted firms by reducing demand for their products and services, disrupting the supply of inputs and tightening the provision of credit. Individuals are also experiencing a sharp decrease in income as unemployment grows. This is already resulting in shocks to the financial system in the form of increases in non-performing loans, insolvency filings, unnecessary liquidations and asset fire-sales. Government responses so far have been a mix of regulatory forbearance, higher barriers to entry into formal insolvency proceedings and the extension of procedural deadlines. The World Bank – as an FSB standard setter in the field of insolvency – can play a role in mitigating the crisis through supporting rapid actions in the insolvency sphere. The insolvency system can facilitate recovery as a channel for resolving debt-overhang and preserving employment.

Equitable Growth, Finance and Institutions
COVID-19 Notes
Finance Series
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COVID-19 Outbreak: Corporate Insolvency
How Can Out-of-Court Workouts Help?[1]

May 15, 2020

The COVID-19 crisis has affected firms' liquidity and balance sheet. Many firms are expected to become insolvent. The surge in the number of bankruptcy cases is likely to result in higher costs, longer procedures and worse capital reallocation decisions, something especially problematic in countries with weak insolvency systems. This note describes the benefits of Out-of-Court Workouts (OCWs) as complements or alternatives to the larger insolvency system. While OCWs cannot fully replace insolvency systems, the note highlights the benefits they provide to help firms restructure their debts, as well as the key features which help these frameworks succeed.

Equitable Growth, Finance and Institutions
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The Calm Before the Storm: Early Evidence on Business Insolvency Filings After the Onset of COVID-19[1]

February 25, 2021

The COVID-19 pandemic brought forward an unprecedented economic contraction. Recessions, in turn, have typically been accompanied by an increase in the number of firms using the insolvency system. This note explores the early impact the pandemic has had on business insolvency filings, based on information from a newly created dataset. Contrary to early expectations, most economies surveyed have experienced a decline in the number of business insolvencies relative to Q2 and Q3 of 2019. shows that legal reasons may have played a key role in this decline as almost all economies covered introduced emergency measures making it more difficult to push a debtor into insolvency. Looking forward, the note explores evidence from previous crisis together with underlying factors -such as lower sales, higher unemployment, firm liquidity challenges, and heightened corporate vulnerabilities- to investigate whether the risk of a wave of insolvencies has disappeared. The analysis suggests that a rise in insolvency filings is likely to have just been postponed, renewing the calls to strengthen insolvency frameworks in EMDEs.

Equitable Growth, Finance and Institutions
COVID-19 Notes
Finance Series
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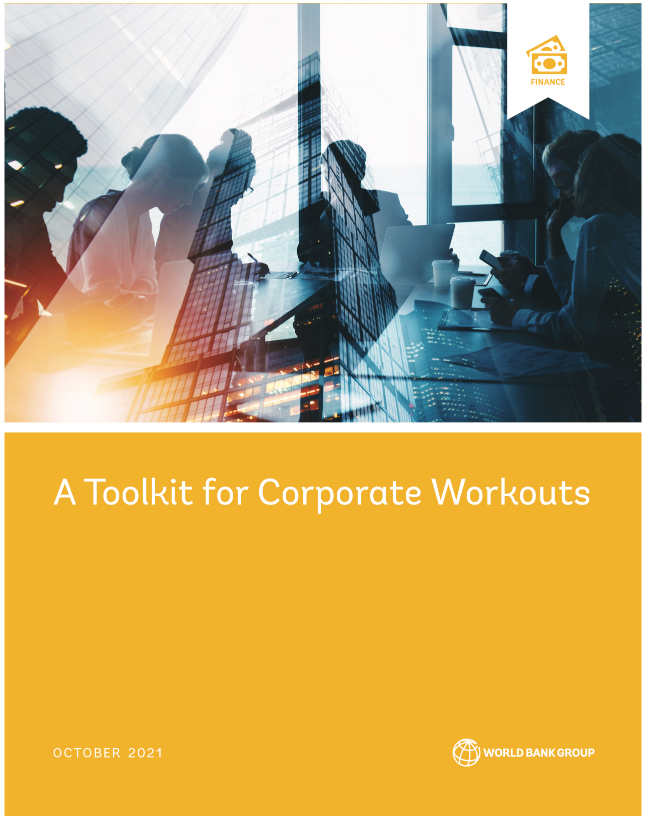
Overview of Insolvency and Debt Restructuring Reforms in Response to the COVID-19 Pandemic and Past Financial Crises: Lessons for Emerging Markets[1]

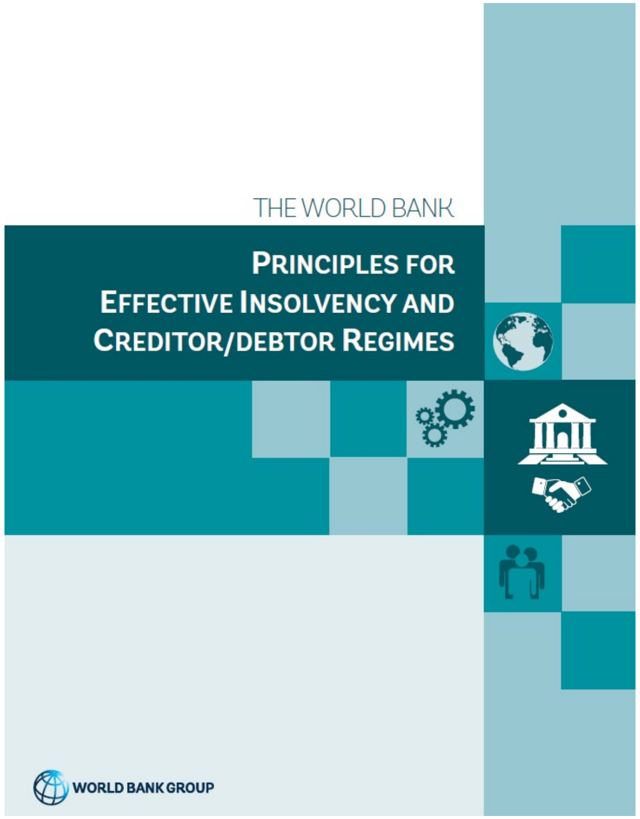
March 8, 2021

This note is part of the series of COVID-19 Notes developed by the World Bank Group's Equitable Growth, Finance and Institutions (EFI) team.[2] By highlighting concrete examples of insolvency and debt restructuring reforms undertaken in response to the COVID-19 pandemic as well as past crises, this note highlights the importance of sound insolvency and debt restructuring regimes which are lacking in many emerging markets. Countries with under-developed or nascent insolvency frameworks should consider prioritizing the reforms covered in this note to improve their readiness to deal with a spike in business insolvencies.

Recent Publications – WBG Insolvency



A Toolkit for Corporate Workouts (2021)

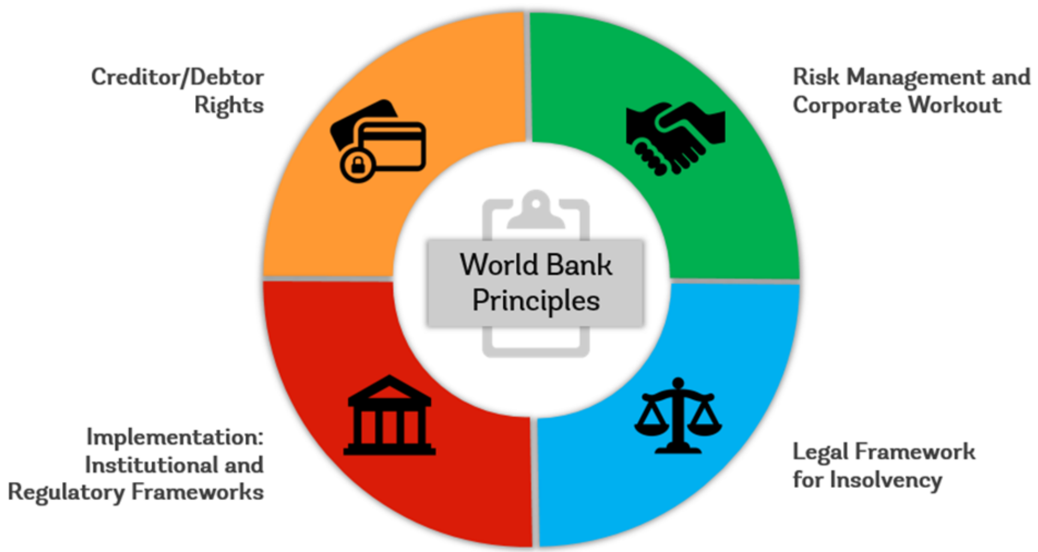


WBG Principles for Effective Insolvency and Creditor / Debtor Regimes (2021)

World Bank ICR Principles

- ✓ We assist governments in improving their credit environments through the development of more effective insolvency systems.
- ✓ This is achieved through international standard-setting, detailed diagnostics, and technical assistance for implementation.
- ✓ Principles are **flexible and does not offer detailed prescriptions for national systems**

The World Bank Principles for
Effective Insolvency and Creditor/Debtor Regimes



Treatment of MSME Insolvency

- ✓ The new revision to the Principles focuses on **helping policymakers build and improve insolvency systems so that they support micro, small and medium enterprises (MSMEs).**
- ✓ Employ more than one-third of the world's total labor force and generate economic value representing about 52% of private sector value added globally.
- ✓ $5.2 trillion funding gap for formal MSMEs and $2.9 trillion funding gap for informal MSMEs.
- ✓ MSMEs comprise the backbone of the economy in the developing world. Yet, MSME insolvency raises unique concerns:

- Nature of enterprise
- Relationship between potential legal entity and natural person (proprietor)
- Lack of formal records
- Lack of assets

Treatment of MSME Insolvency

Core Elements

- Convenient, inexpensive and easily accessible
- Minimize procedural formalities
- Approval of reorganization plans by majority of creditors but addressing creditor passivity
- Management of business by debtor (independent supervisor where warranted)
- Discharge of good faith natural person entrepreneur
- Institutional considerations

UNCITRAL-INSOL-WBG Multinational Judicial Colloquium

United Nations
UNCITRAL

INSOL International

WORLD BANK GROUP

invite

Judges, Regulators & Justice Officials
who have an interest in Judicial Co-operation
and the development and improvement of
laws dealing with insolvency proceedings including
Multinational and Cross-Border Insolvencies,
Rehabilitations, Reconstructions and Bankruptcies

to the

THIRTEENTH
MULTINATIONAL JUDICIAL
COLLOQUIUM

WBG-INSOL Judicial Insolvency Program

1. eLearning on Principles and Theory of Insolvency Law with knowledge test
2. “Peer to peer” webinars or face-to-face learning on domestic insolvency regime
3. Regional knowledge fora on topical issues to build judicial ties and cooperation across borders

More information: www.worldbank.org/insolvency

Residential workshop for India’s National Company Law Tribunals and Appellate Tribunal members organized by the World Bank Group and INSOL International (March 5, 2020)

Avoidance Transactions

C11.1 After the commencement of an insolvency proceeding, transactions by the debtor that are not consistent with the debtor's ordinary course of business or engaged in as part of an approved administration should be avoided (cancelled), with narrow exceptions protecting parties who lacked notice.

C11.2 Certain transactions prior to the application for or the date of commencement of the insolvency proceeding should be avoidable (cancelable), including fraudulent and preferential transfers made when the enterprise was insolvent or that rendered the enterprise insolvent.

C11.3 The suspect period, during which payments are presumed to be preferential and may be set aside, should be reasonably short in respect to general creditors to avoid disrupting normal commercial and credit relations, but the period may be longer in the case of gifts or where the person receiving the transfer is closely related to the debtor or its owners.

THANK YOU

amenezes1@ifc.org

www.worldbank.org/insolvency