

Analysis of Insolvency System in Latvia

Extent and economic impact

Amcham Outlook
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Why insolvency matters?



General objectives and features of insolvency system

Objectives

- ✓ Allocation of risk among participants in a market economy in a predictable, equitable, and transparent manner
- ✓ Protection and maximization value for the benefit of all interested parties and the economy in general

Values

- ✓ Predictability
- ✓ Equitable Treatment
- ✓ Transparency
- ✓ Speed
- ✓ Maximazed recovery

Absence of orderly and effective insolvency procedures can exacerbate economic and financial crises

Orderly and effective insolvency system	Ineffective and non-transparent insolvency system
Fosters growth and competitiveness	Speeds down economic growth
Assist in prevention and resolution of financial crises	Affects the future availability and price of credit
Attracts greater investment	Hinders ability for creditors to collect on their claim
Facilitates the rehabilitation of enterprises	Enables unequal treatment of different creditors
Provides an efficient mechanism for the liquidation of enterprises that cannot be rehabilitate	Does not provide adequate protection of the rights of debtors and their employees

Much ado about nothing...Latvian story

Why should I care?

Signals on abuse of insolvency system

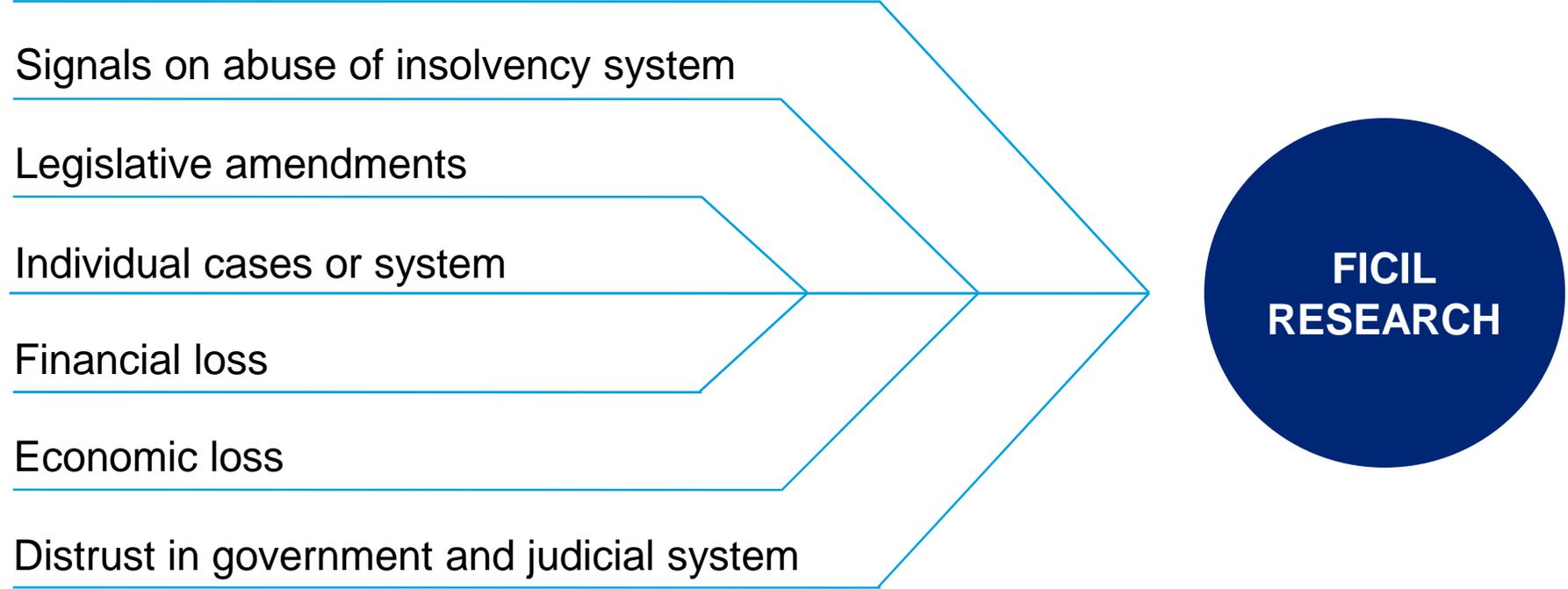
Legislative amendments

Individual cases or system

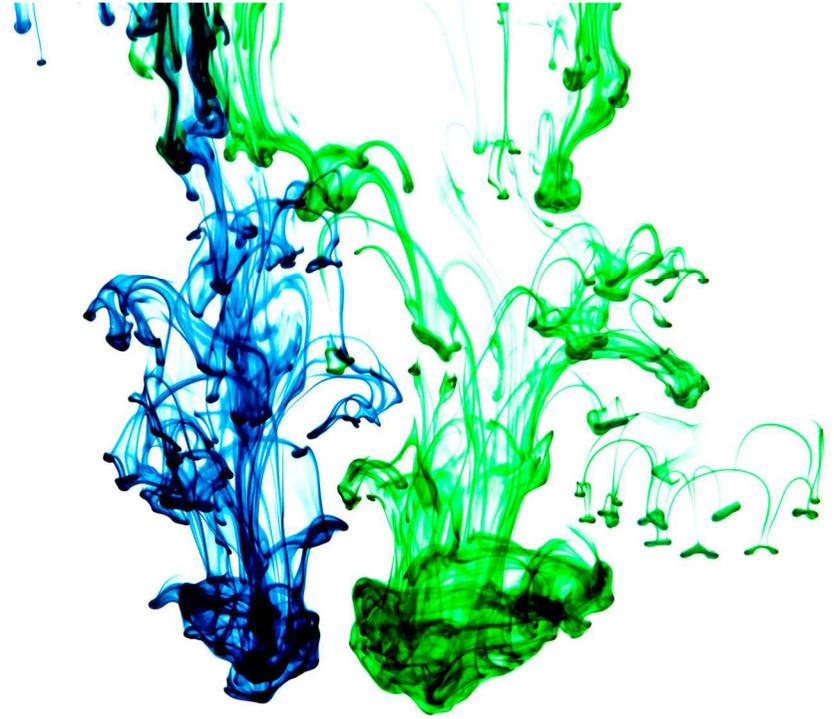
Financial loss

Economic loss

Distrust in government and judicial system



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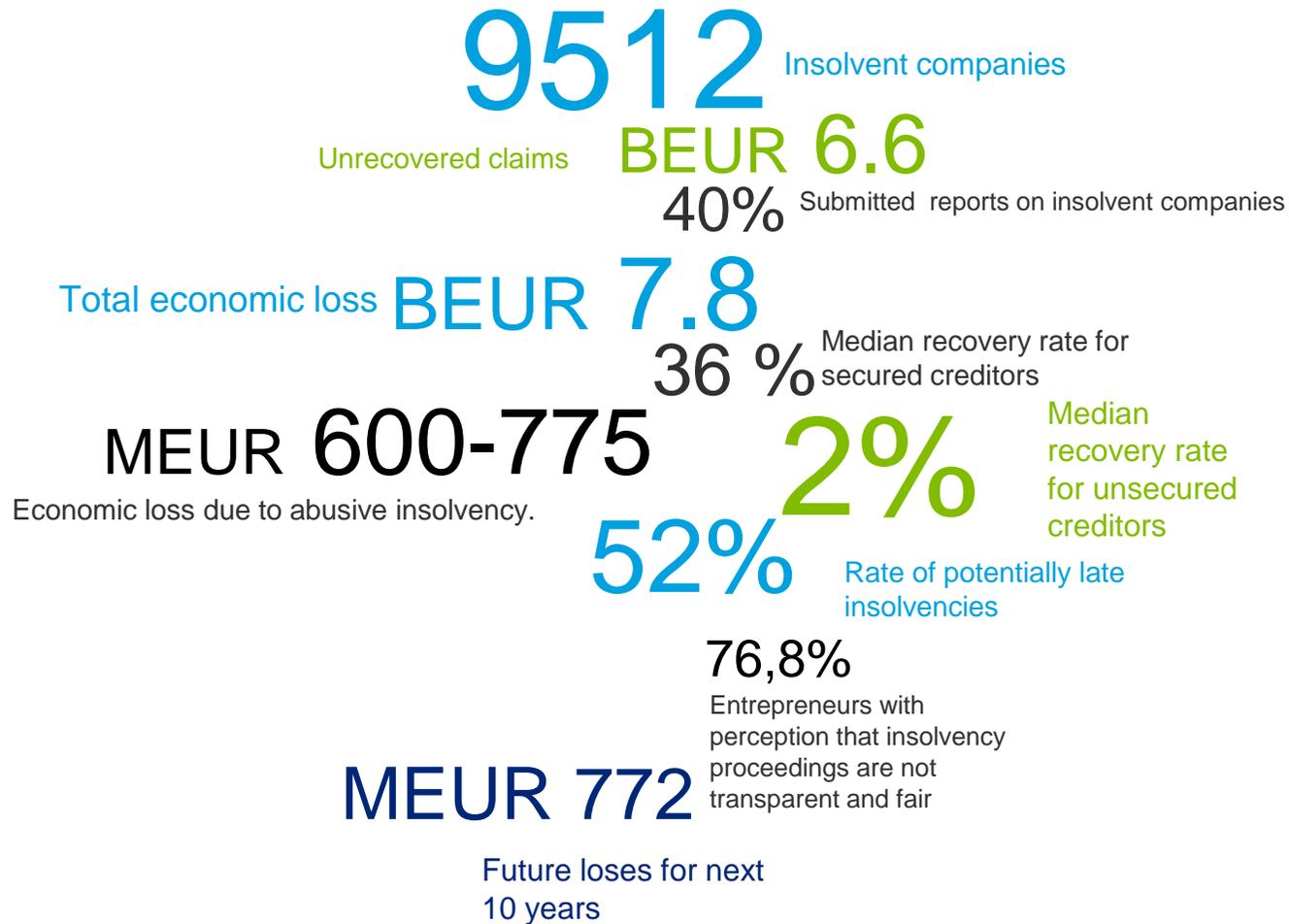
Insolvency system in Latvia

Poor application not the wording of Insolvency Law

Problems identified

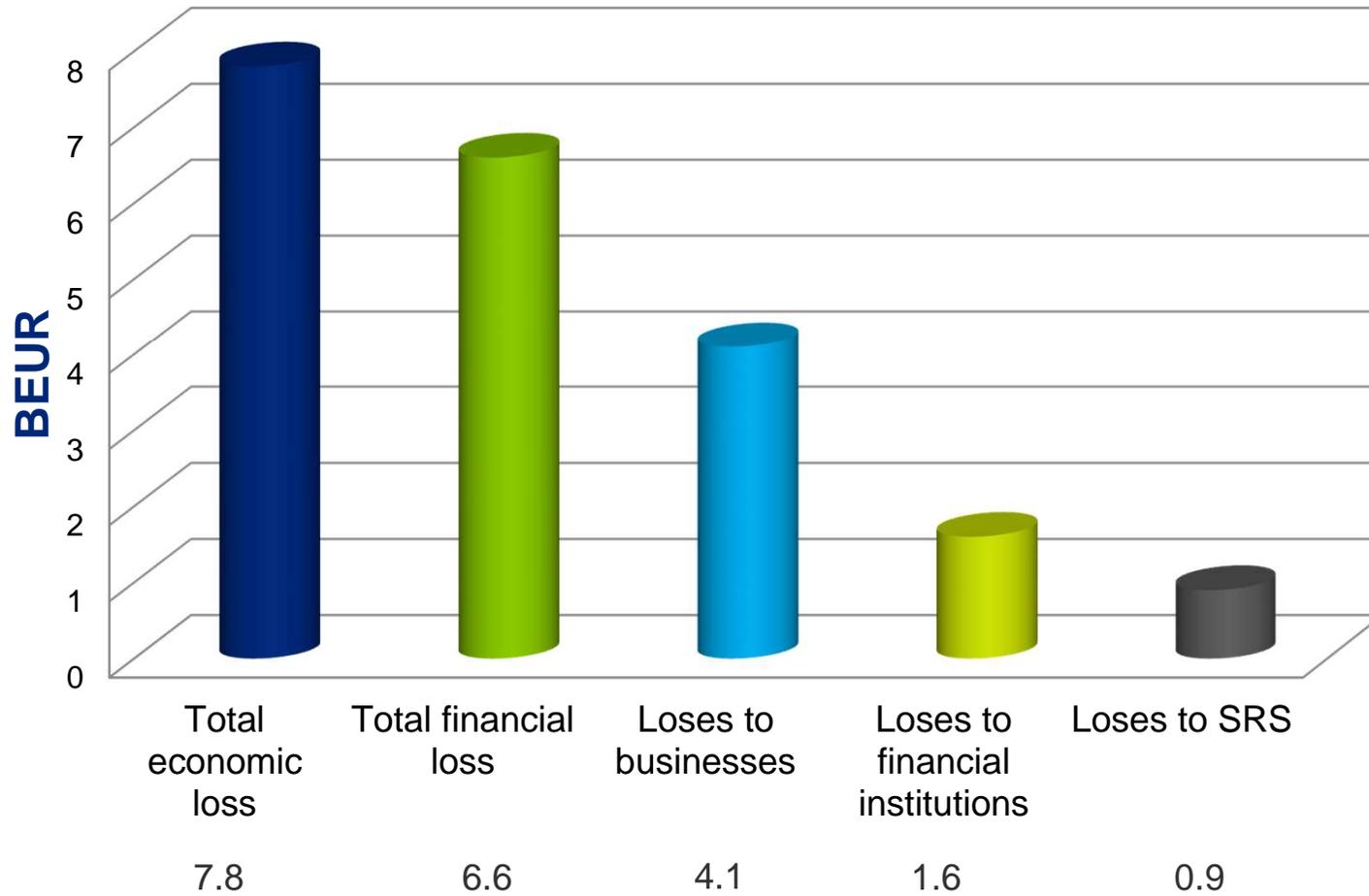
1. There is no system for monitoring and measuring the efficiency of insolvency in Latvia
2. Insolvency proceedings in Latvia during 2008-2014 have resulted in significant financial and economic losses
3. Insolvency recovery rates in Latvia are significantly lower compared to international benchmarks
4. Insolvency abuse can be identified based on a set of indicators, and results in significant economic loss
5. There is a significant amount of late insolvencies which causes significant loss for the business and the creditors
6. There is a risk of future loss if corrective action for improving the efficiency of insolvency system is delayed

Insolvency in numbers 2008-2014



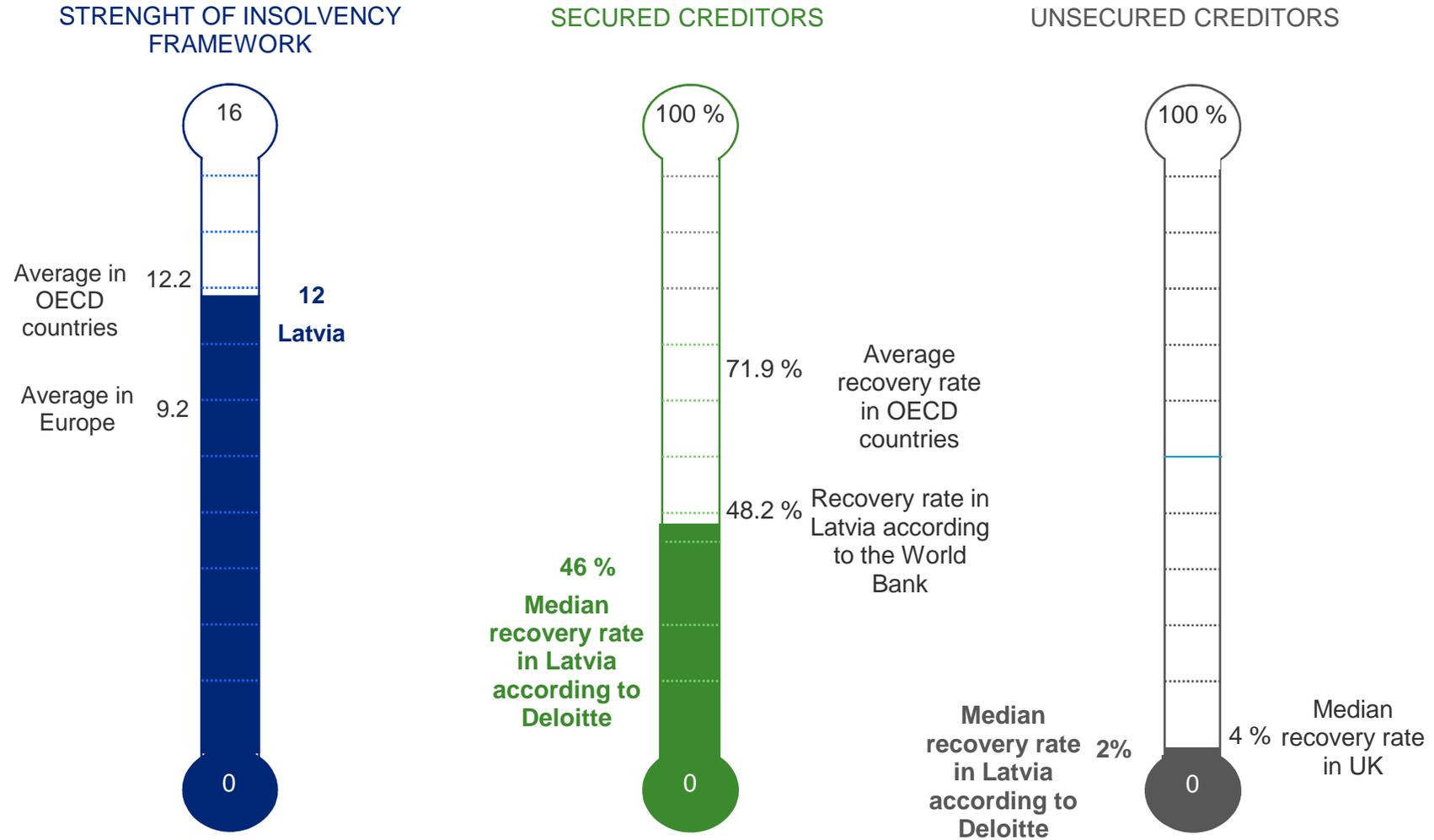
Economic impact of insolvency system

2008-2014



Strength vs efficiency of insolvency system

International benchmarks



Flushed away?

Future of insolvency system



Challenges

1. Building a system for monitoring and measuring efficiency of insolvency procedures
2. Understanding the scale of abuse of insolvency system
3. Educating stakeholders and general public about the insolvency system and in particularly about the insolvencies
4. Strengthening prudent, fast and consequent enforcement of the law by state authorities

Recommendations

1. The system for monitoring efficiency of insolvency system and particular insolvency cases as well as performance of particular insolvency administrators has to be introduced. At least following KPIs has to be observed:
 - Length of insolvency proceedings
 - Costs of insolvency proceedings
 - Recovery rate for both secured and unsecured creditors
2. Fighting economic crimes (including insolvency abuse) has to be defined as high priority
3. The capacity, competence and motivation of the state police has to be significantly increased for investigation the economic crimes
4. The competence of state prosecutors and judges for dealing with economic crimes has to be increased
5. The competency of applying administrative sanctions for late insolvency has to be transferred from the state police to the Insolvency Administration
6. The capacity and efficiency of Insolvency Administration in supervising the insolvency administrators has to be increased
7. The potential role of SRS in fighting abusive insolvency shall be increased
8. Education of general public

Thank you!

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