

Study by the International Monetary Fund shows that Latvia is on the right path towards improving the field of insolvency

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Press release

On Thursday, February 14, during the press conference organized by the Ministry of Justice Janis Bordans, the Minister of Justice, and Laila Medina, the Deputy State Secretary on Law Policy Affairs, presented the main conclusions and recommendations from the Assessment of the Latvian Insolvency Regulation carried out by the International Monetary Fund (IMF), as well as outlined the main priorities in the field of insolvency and plans for further development.

Janis Bordans, the Minister of Justice, appreciated the work done in the field of insolvency since 2014: “The fact that from the very onset of these reforms we focused not on difficulties but on public interests instead, has resulted in a successfully finished first stage of the insolvency reforms. This is a significant turning point in ensuring stable and trustworthy justice environment to contribute to the economic development of Latvia. We are proud that the overall assessment of the IMF is positive. Their conclusions clearly show that Latvia is on the right path towards improving the field of insolvency. However, a lot of things must be done in future – we must keep on working on developing the insolvency system and improving business culture. But the acknowledgement of the IMF that field of insolvency is now stronger makes us motivated for further efforts.”

The main task in the next stage is to improve processes giving companies and natural persons facing financial difficulties a “second chance”. First, there will be improved regulation of the legal protection process and solutions will be sought how to encourage entrepreneurs to solve their financial problems in a timely manner. Second, it will be necessary to improve the regulation of the natural persons insolvency proceedings to ease this process. Third, further thinking will be required to improve the national information system in order to maximize the use of the available resources. The effective use of information and communication technologies in the field of justice will serve in the interests of promoting the principle of transparency in the field of insolvency and allow to create an entrepreneur-friendly infrastructure, offer of public services and ensure business environment safety.

Laila Medina, the Deputy State Secretary on Law Policy Affairs, presented the main conclusions from the IMF's study and planned steps in improving the insolvency regulation, highlighting: “The IMF admitted that the crisis in the field of insolvency is over and there are no more “fires to be put out” requiring immediate measures to stop illegal activities in the field. There are first positive results observed and it is time now for improvements.”

The IMF noted in the study report that Latvian authorities have achieved a great progress in creating effective and safe insolvency system; there are also specific recommendations for further raising of the efficiency of the insolvency system (these may be divided in five principal groups of recommendations).

First, the IMF especially appreciated improvements in the regulation and supervision of operations of insolvency proceedings administrators. High praise was paid to qualification requirements, including course of examination, requirement to renew the office certificate, increased supervision by the Insolvency Control Service, as well as the system of appointing insolvency proceedings administrators. Further improvement steps refer to the assessment of reputation of administrators; requirements for office certificate renewal; insurance; compensation of insolvency proceedings administrators.

The second group of recommendations refer to the legal protection process or debt restructuring. The IMF admitted that the legal protection process in Latvia is overall good and complies with the international practice, but the use thereof is very limited and solutions must be sought so that entrepreneurs would not come to insolvency, but instead could efficiently restructure their operations and use the aforementioned “second chance” for restoring viable companies and ensure long-term development.

The third group of recommendations is related to the large number of non-active or s-called “empty” insolvency cases in Latvia – when companies with no assets are involved in the insolvency proceedings. The IMF concluded that this situation can be explained by factors not associated with the insolvency system. The situation can be rectified by seeking legislation solutions how to reduce the use of “fictitious companies” so popular in Latvia, ensuring options for liquidation thereof. Overall law enforcement authorities

must carry out an in-depth assessment whether in cases with no assets the insolvency is not a deliberate choice; it is important to see that such cases are handed over to law enforcement authorities for opening of criminal proceedings.

The fourth group of recommendations is directed towards the fact that stimulation of sale of companies could increase efficiency of liquidation regiment. Currently as a result of liquidation the insolvent company is sold share by share, which shows low efficiency. It shall be necessary to review the insolvency regulation and methodology, ensuring a chance to pay the highest priority to selling a company or a company's department as a whole.

Finally, the IMF recommends improving the data recording methodology in insolvency proceedings.

Additional information:

The study was conducted within project "Justice for Growth" and shapes a part of a larger scale assessment of the Latvian justice system. The assessment is divided in three separate levels, carried out by international institutions with experience in the respective field.

The main purpose of project "Justice for Growth" carried out by the Court Administration is to improve the environment of commercial activity, increasing the competence of courts and law enforcement authorities. The Ministry of Justice is the authority-in-charge for the project implementation. The ESF provides 85% of the project's funding; the remaining 15% are funded by the State budget.

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