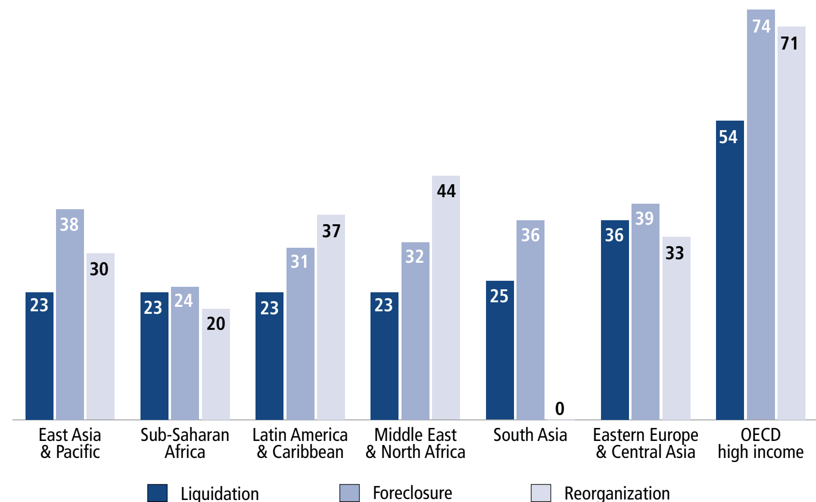
Resolving insolvency
(formerly closing a business)

The Philippines adopted an insolvency law in 1909—and only revisited it a century later, in the wake of the global recession. Many companies were facing financial difficulties, and it quickly became clear that the bankruptcy system was ill equipped to help them recover. Because it lacked well-defined reorganization provisions, creditors favored liquidation, hoping to recover at least part of their investments. The government repealed the century-old law and passed a new one, in July 2010. The new law establishes procedures and requirements for court-supervised, prenegotiated and out-of-court reorganization and liquidation proceedings. This may enable viable businesses to continue operating and creditors to recover their investments faster and at a lower cost than in the past. That may in time lead to a higher recovery rate, now only 4.7 cents on the dollar.[1]

FIGURE 1 No matter the procedure, recovery rates are highest in OECD high-income economies
Average recovery rate (cents on the dollar)



Source: Doing Business database.

The global financial crisis spurred bankruptcy reforms around the world. Struggling with a drop in demand and business revenue, many businesses could not be saved because they lacked access to additional credit or because creditors themselves were in financial distress.[2] Bankruptcies increased sharply in economies such as Romania, testing their insolvency systems in unprecedented ways.[3] Since the onset of the crisis in 2008/09, no fewer than 65 economies have made changes in their insolvency regimes.

Systems for resolving insolvency are most efficient in OECD high-income economies, with proceedings taking 1.7 years and costing 9% of the value of the total assets of the debtor's estate on average. In 21 of 31 OECD high-income economies businesses similar to that in the *Doing Business* case study are likely to pursue reorganization rather than liquidation or be subject to foreclosure proceedings by creditors (figure 1). In 22 OECD high-income economies businesses have a chance to survive as a going concern. In some the recovery rate is 85 cents on the dollar or more, compared with a global average of 37 cents (table 1). These economies also continue to strengthen their insolvency legislation. Denmark and Italy are recent examples.

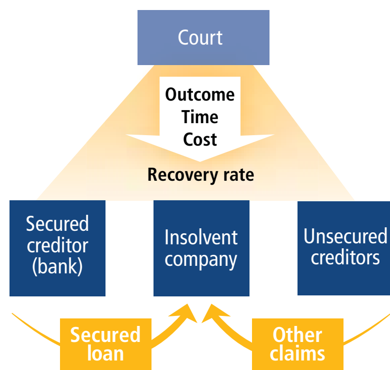
Firms finance their operations through a combination of debt and equity. Debt contracts, like any other, have to be enforced. Over the centuries economies have introduced a variety of legal mechanisms and institutions that allow lenders to recover their investment from the borrower without resorting to violence. Economies with good bankruptcy procedures are those that maximize the total value of recovered debt—to be divided among the debtor, the main creditors and possibly the shareholders—and make it

TABLE 1 Where is resolving insolvency easy—and where not?

Recovery rate			
Easiest		Most difficult	
Japan	92.7	São Tomé and Príncipe	7.4
Singapore	91.3	Angola	6.9
Canada	90.7	Venezuela, RB	6.2
Norway	90.6	Haiti	5.8
Finland	89.1	Philippines	4.7
United Kingdom	88.6	Micronesia, Fed. Sts.	3.4
Netherlands	87.7	Rwanda	3.2
Belgium	87.3	Congo, Dem. Rep.	1.2
Denmark	87.3	Central African Republic	0.0
Ireland	86.9	Chad	0.0

Note: Rankings are based on the recovery rate: how many cents on the dollar creditors recover from an insolvent firm as calculated by *Doing Business*. See the data notes for details.
Source: Doing Business database.

FIGURE 2 What are the time, cost and outcome of the insolvency proceedings against a local company?



possible to do so at a low cost.[4] Economies with less efficient and more costly insolvency procedures generally have lower recovery rates. Many of these are in Sub-Saharan Africa, where the average recovery rate is 23 cents on the dollar, and in Latin America and the Caribbean, where it is 33 cents.

Lower bankruptcy costs can help keep efficient firms in existence while simultaneously encouraging the creation of new firms and promoting healthy competition in the economy.[5] And a good insolvency regime, by reducing the stigma of bankruptcy for both firms and individuals, encourages entrepreneurs to take risks and innovate. That stigma still holds in some regions, especially the Middle East and North Africa.[6] Economies in that region generally have weaker restructuring and liquidation systems than those in most other regions. Many of the region's bankruptcy laws are outdated, and none comply with international good practice standards on insolvency.[7]

How insolvencies are resolved matters for the health of an economy. But each one is also the story of individuals—business owners and their employees. Consider this scenario. Five years ago John decided to run a hotel as a business venture in New York. He took a loan from a local bank and bought the hotel building, using it as security for the loan. The hotel was quite profitable for several years. But tourism began to drop off as a result of the financial crisis, and John started to notice a downturn in revenues. He expected that the hotel would be unable to generate enough revenues in the next 2 years to cover its operating expenses and pay back its loan to the bank. John's main objective was to try to keep the hotel operating and all his staff members employed—not an unrealistic goal in an economy like the United States, where the insolvency system is designed to encourage businesses to undergo reorganization when faced with financial difficulties.

This is the standardized insolvency case, involving a main secured creditor and several unsecured ones, that *Doing Business* studies. *Doing Business* measures the time, cost and outcome of insolvency proceedings involving domestic entities (figure 2). The value of the firm in the *Doing Business* case scenario is assumed to be 30% greater if sold as a going concern. The data are derived from survey responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems. The name of the indicator set was changed this year from closing a business to resolving insolvency to reflect the fact that the case assesses the efficiency of insolvency proceedings (including foreclosure proceedings) and takes into consideration different outcomes—that is, piecemeal sale or sale as a going concern. The ranking on the ease of resolving insolvency is based on the recovery rate. Swift, low-cost proceedings leading to the continuation of viable businesses characterize the top-performing economies. *Doing Business* does not measure insolvency proceedings of individuals or financial institutions.[8]

WHY DOES A GOOD INSOLVENCY REGIME MATTER?

Keeping viable businesses operating is among the most important goals of bankruptcy systems. A good insolvency regime should inhibit premature liquidation of sustainable businesses.[9] It should also discourage lenders from issuing high-risk loans—and managers and shareholders from taking imprudent loans and making other reckless financial decisions.[10] A firm suffering from bad management choices or a temporary economic downturn may still be turned around. When it is, all stakeholders benefit. Creditors can recover a larger part of their investment, more employees keep their jobs, and the network of suppliers and customers is preserved.

Some studies find that stronger regulatory protections for creditors—such as a higher priority order in receiving proceeds from the sale of a debtor's assets and the ability to actively participate in the insolvency proceedings—are associated with lower costs of debt as well as a significant increase in the aggregate level of credit.[11] If in a case of bankruptcy creditors can recover most of their investments, they can keep reinvesting in viable firms, improving companies' access to credit. Similarly, if a bankruptcy regime respects the absolute priority of claims, this allows secured creditors to continue lending and maintains confidence in the bankruptcy system.[12]

Economy-specific research has shown that insolvency reforms that encourage debt restructuring and reorganization reduce both failure rates among small and medium-size enterprises and the liquidation of profitable businesses. After Belgium introduced a new bankruptcy law in 1997 that encouraged corporate rehabilitation rather than liquidation, bankruptcies among small and medium-size enterprises fell by 8.4%.[13] Similar results have been observed in Thailand and Colombia.[14] In Thailand evidence suggests that reform of the bankruptcy laws reduced the expected costs of financial distress. In Colombia bankruptcy reform made reorganization an attractive option for distressed but viable firms by reducing its costs, although this mainly benefited larger firms. About 40% of firms filing for reorganization under the old bankruptcy law underwent liquidation, while only about 26% did so under the new law. Research has also shown that bankruptcy reform can aid in the quick recovery of an economy during a recession, as in Chile during the early 1980s and in Colombia in 1999.[15]

Even when bankruptcy laws are similar across economies, the use of bankruptcy procedures can differ because of differences in the efficiency of debt enforcement. If courts cannot be used effectively in a case of default, creditors and debtors are likely to engage in informal negotiations outside of court. And in economies with weak judiciary systems borrowers are more likely to exhibit risky financial behavior, which could lead to

more defaults and higher levels of financial distress. Conversely, if a legal system is strong and debt enforcement procedures are well observed, debtors and borrowers are more likely to avoid taking unnecessary risks and to make prudent financial decisions.[16]

REGULATORY REFORMS AND GLOBAL GOOD PRACTICES

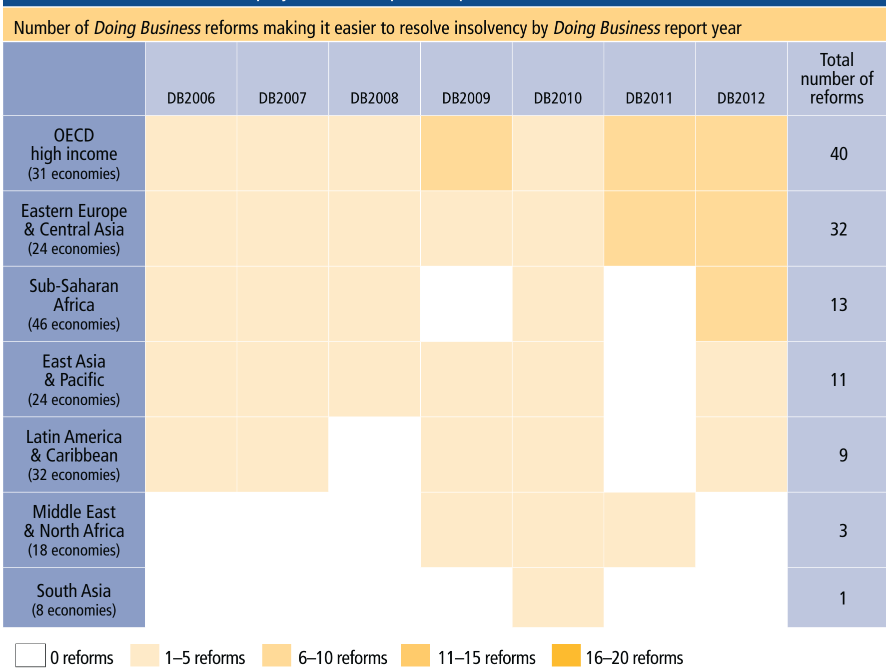
In the past 7 years *Doing Business* recorded 109 insolvency reforms, most of them in OECD high-income economies and in Eastern Europe and Central Asia. Sub-Saharan Africa has seen a recent surge in bankruptcy reforms, many of them aimed at overhauling an outdated system or introducing new legislation (figure 3). In 2010/11 Cape Verde and Malawi passed new bankruptcy laws. Burundi amended its commercial code to establish foreclosure proceedings, and Namibia adopted a company act that regulates liquidation proceedings (table 2). And economies are continuing to adopt legislation to streamline insolvency and simplify debt enforcement proceedings. In January 2011 Belarus adopted a new law that would streamline the liquidation process, though it may be too early to assess its impact on insolvency proceedings.

From the changes in insolvency regimes over the years—whether motivated by economic or financial crises or part of broader judicial or legal reforms—several trends and good practices have emerged. Among these is a unified international good practice standard on creditor rights and insolvency set forth by the World Bank and the United Nations Commission on International Trade Law (UNCITRAL). Good practices in many economies are aimed at improving both the efficiency and the outcome of insolvency proceedings (table 3). These include setting time limits for insolvency proceedings, introducing specialized courts and establishing new reorganization proceedings.

Setting time limits

Establishing time limits for proceedings can enhance the efficiency of the insolvency process. Long proceedings reduce creditors' chances of recovering outstanding debt and can create unnecessary uncertainty for all parties involved.[17] Efficient insolvency processes increase debt recovery by creditors by

FIGURE 3 Pace of bankruptcy reform has picked up in Sub-Saharan Africa



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.

Source: Doing Business database.

TABLE 2 Who made resolving insolvency easier in 2010/11—and what did they do?

Feature	Economies	Some highlights
Eliminated formalities or introduced or tightened time limits	Armenia; Austria; Cape Verde; Colombia; France; Latvia; Lithuania; FYR Macedonia; Malawi; Montenegro; Poland; Romania; Slovenia; Switzerland; Ukraine	Cape Verde passed a new bankruptcy law that set a time limit of 12 months for a liquidation process.
Regulated the profession of insolvency administrators	Armenia; Australia; Cape Verde; Lithuania; Namibia; Serbia; Slovenia	Namibia established qualification requirements and professional duties for liquidators, as well as remuneration requirements.
Established or promoted reorganization, liquidation or foreclosure procedures	Burundi; Denmark; Italy; Montenegro; Namibia; Philippines; South Africa	Italy introduced provisions encouraging the use of debt restructuring agreements.
Granted priority to secured creditors	Bulgaria; Lithuania; Moldova; Poland	Lithuania introduced a requirement that secured creditors' claims be satisfied first from the proceeds of the sale of a company's secured assets.
Established specialized courts	Israel; Malaysia; Sierra Leone	Malaysia established dedicated commercial courts to handle foreclosure proceedings.
Increased transparency of insolvency system	Bulgaria; FYR Macedonia	Bulgaria introduced a requirement for commercial registers to make bankruptcy petitions publicly available.
Introduced framework for out-of-court restructurings	Slovenia	Slovenia amended its insolvency law, introducing an option for out-of-court restructuring.

Source: Doing Business database.

TABLE 3 Good practices around the world in making it easy to resolve insolvency

Practice	Economies[a]	Examples
Allowing creditors' committees a say in relevant decisions	103	Bulgaria; Philippines; South Africa
Requiring professional or academic qualifications for insolvency administrators by law	64	Cape Verde; Namibia
Providing a legal framework for out-of-court workouts	45	Italy; Philippines

a. Among 183 economies surveyed.

Source: Doing Business database.

making it more difficult for the shareholders of a company to sell its assets at an unreasonably low price to a second company they own.

In the past 7 years 37 economies either tightened time limits for insolvency proceedings or introduced such limits for the first time. Cape Verde's new bankruptcy law established a 12-month time frame for liquidation proceedings. Under certain circumstances the proceedings can be extended for another 180 days, but only at the discretion of the judge. Lithuania set a time limit of 6 months for creditors to submit a reorganization plan to the court and a time limit of 1 month for the court to approve or reject the petition for initiation of reorganization proceedings. Reforms like these reduced the average time to recover debt in Eastern Europe and Central Asia over the past 6 years (figure 4). In December 2010 Colombia set a time limit of 4 months for signing a reorganization agreement. It also introduced an electronic filing

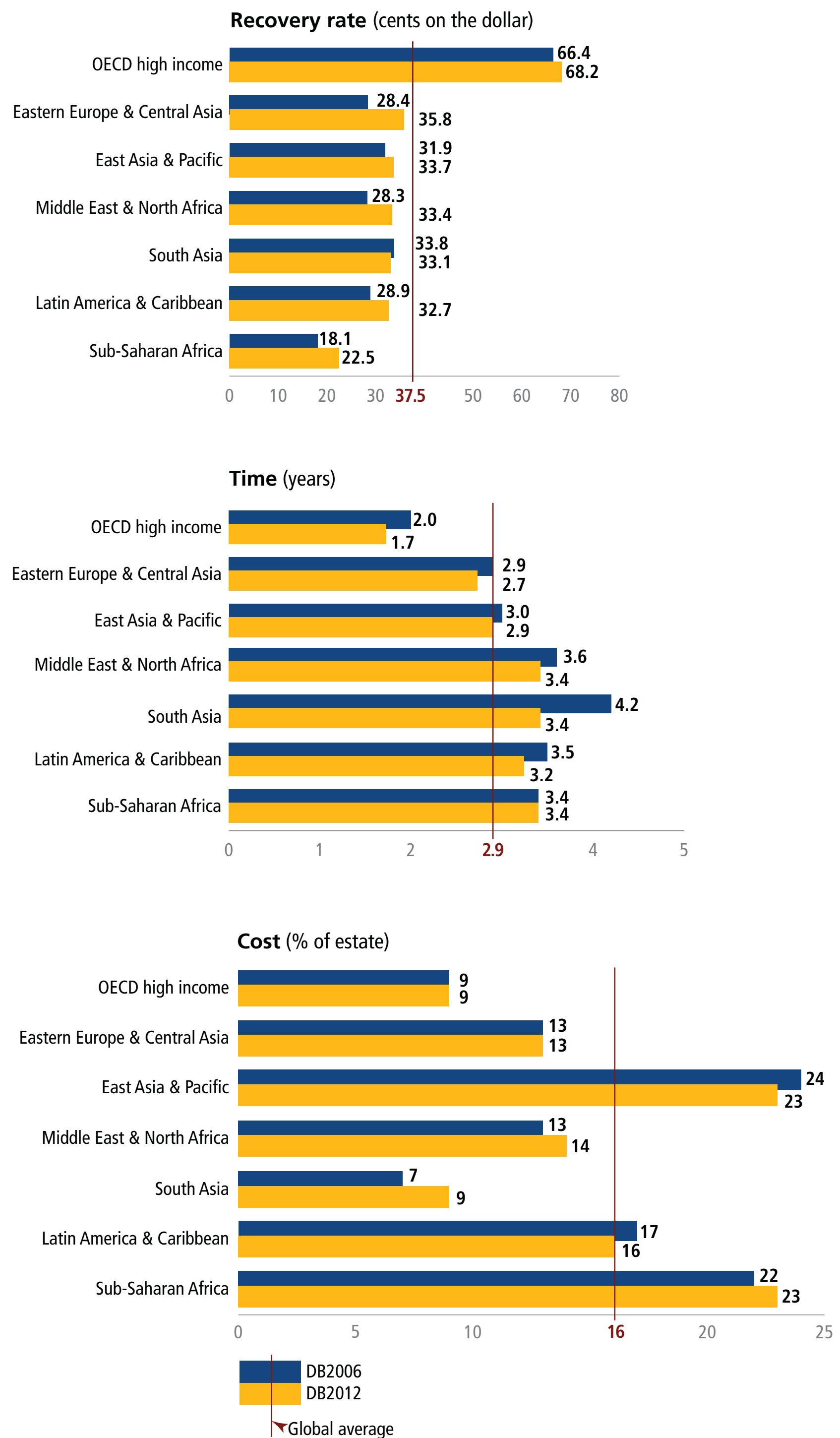
TABLE 4 Who makes resolving insolvency easy—and who does not?

Time (years)			
Fastest		Slowest	
Ireland	0.4	Micronesia, Fed. Sts.	5.3
Japan	0.6	Indonesia	5.5
Canada	0.8	Haiti	5.7
Singapore	0.8	Philippines	5.7
Belgium	0.9	Belarus	5.8
Finland	0.9	Cambodia	6.0
Norway	0.9	Angola	6.2
Australia	1.0	São Tomé and Príncipe	6.2
Belize	1.0	India	7.0
Denmark	1.0	Mauritania	8.0

Cost (% of estate)			
Least		Most	
Colombia	1	Samoa	38
Kuwait	1	Solomon Islands	38
Norway	1	Vanuatu	38
Singapore	1	Venezuela, RB	38
Armenia	4	Sierra Leone	42
Bahamas, The	4	Ukraine	42
Belgium	4	Liberia	43
Brunei Darussalam	4	Rwanda	50
Canada	4	Chad	60
Denmark	4	Central African Republic	76

Source: Doing Business database.

FIGURE 4 Big increase in recovery rate in Eastern Europe and Central Asia
Regional averages in resolving insolvency



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies.

Source: Doing Business database.

system to make insolvency cases speedier and more transparent.

Promoting specialized courts

Many economies face more insolvencies than they can reasonably handle. Jamaica has a 3-year backlog of insolvency cases. Promoting specialized courts is among the most efficient ways to ensure that insolvency cases receive attention more quickly. It also improves the quality of the judicial system, because it allows judges to specialize in hearing insolvency cases and thus better equips them to make informed decisions.

Five economies have introduced specialized courts since 2005. In 2009 Romania created special insolvency departments within tribunals. In September 2009 Malaysia established specialized civil and commercial courts in Kuala Lumpur that handle only foreclosure proceedings. This reduced the length of proceedings from 2.25 years to 1.5 years. In December 2010 Israel established an economic department at the district court of Tel Aviv. The aim was to create a more permanent and efficient judicial system dedicated to handling economic disputes. Its judges can hear corporate petitions and facilitate settlements with creditors. The new system is likely to speed up insolvency proceedings.

To ease the burden on courts in the wake of the financial crisis, Latvia, Romania and Slovenia introduced out-of-court debt restructuring options. Now creditors and debtors can more easily agree to change the terms of debt repayments, allowing the debtors to continue to do business without initiating insolvency proceedings in court. This has freed up more resources in the court system.[18] Out-of-court mechanisms also allow creditors and debtors to address collective action problems through the provision of standstills or moratoriums. And they can encourage transparency and good faith in negotiations.

Establishing effective reorganization proceedings

In 101 of the 168 practice economies (those with at least 1 bankruptcy case over the past 5 years), foreclosure and liquidation are the proceedings most commonly used to resolve insolvency. These proceedings usually provide no option for formally restructuring a company's debt in a way that allows the business to continue operating—even for a business that is potentially viable. But things are looking up: 21 economies have established reorganization proceedings since 2005. Spain passed a new law in 2009 facilitating out-of-court debt restructuring. Denmark amended its bankruptcy act in April 2011 to allow both debtors and creditors to file for reorganization at the bankruptcy court in case of insolvency. South Africa did the same in May 2011.

Italy introduced legal provisions in July 2010 encouraging the use of debt restructuring agreements and reorganization plans certified by a specialized auditor as an alternative to bankruptcy proceedings. Latvia introduced reorganization proceedings in November 2010, and now companies are more likely to continue operating as a going concern rather than being sold piecemeal. Austria passed a new insolvency act in July 2010 aimed mainly at making it easier to restructure insolvent companies and to avoid, when possible, their winding-up and liquidation.[19]

Germany will soon follow suit. In February 2011 its government issued a draft bill to facilitate the recapitalization of companies facing insolvency.[20] This follows previously implemented reforms that made it easier for debtors to maintain their business as a going concern. Seven economies in Eastern Europe and Central Asia implemented insolvency reforms with a similar aim over the past 3 years. Today 11 of 24 economies in the region have proceedings that favor reorganization in times of financial distress.

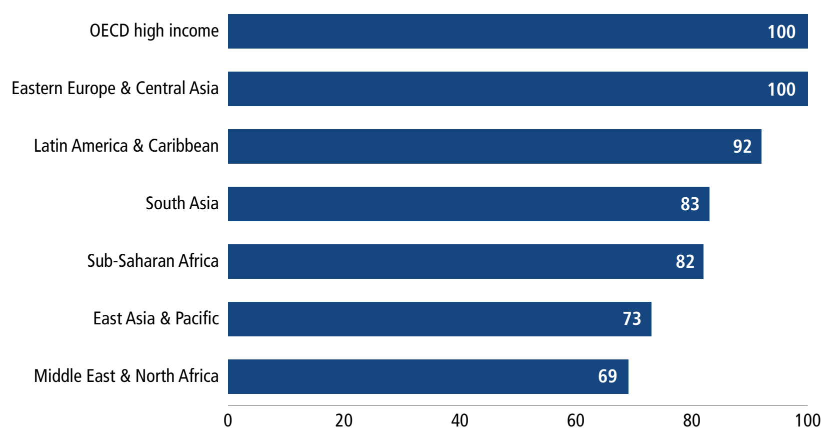
All these changes make sense. Among the economies where resolving insolvency is fastest, the majority have systems where reorganization is more likely than foreclosure or liquidation.

Protecting secured creditors

Research has shown that if secured creditors are not protected or granted priority under the law, they will have less incentive to lend in the future. That leads to a less developed credit market.[21] Several insolvency reforms in 2010/11 addressed this concern. Moldova amended its insolvency law in July 2010 to allow secured creditors to seek enforcement of individual claims in the course of insolvency proceedings. Similarly, Lithuania's Law on Reorganization of Enterprises, amended in October 2010, requires that secured creditors' claims be satisfied first from the proceeds of the sale of the debtor's secured assets. Bulgaria amended its commerce act in January 2011 to give priority to secured creditors in appealing court decisions declaring bankruptcy when the debtor's assets are insufficient to cover the initial expenses.

Creditors' committees are another way to increase creditors' say in bankruptcy proceedings. In some cases creditors participate

FIGURE 5 Courts in many economies are required by law to publicize the start of insolvency proceedings



Note: The data sample includes 151 economies.
Source: Doing Business database.

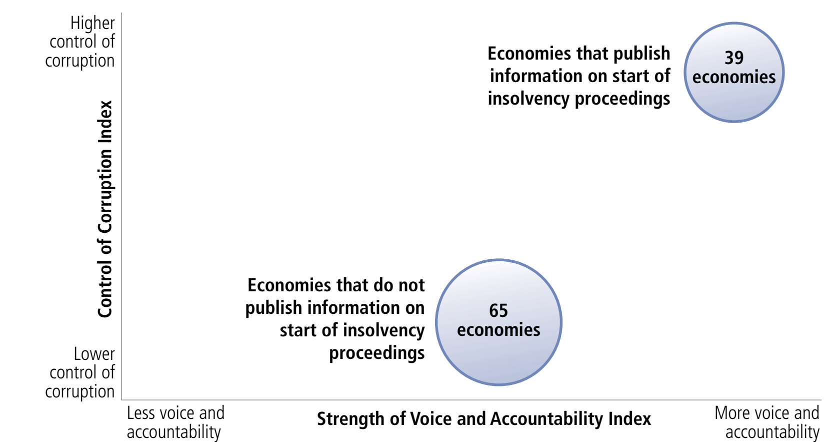
in the preparation of a reorganization plan or determine the fees of the insolvency administrator. In Slovenia amendments to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act that entered into force in July 2010 improved the position of creditors and creditors' committees. For example, a creditors' committee may agree to a new meeting place outside the court where the insolvency process is being carried out.

Increasing transparency

The former Yugoslav Republic of Macedonia and Bulgaria took steps to improve the transparency of their insolvency systems in the past year. In FYR Macedonia bankruptcy trustees are required to use an electronic system—an "e-bankruptcy system"—to record all phases and process actions during bankruptcy proceedings. Bulgaria's commerce act now requires that a bankruptcy petition filed by an insolvent debtor be made publicly available in the commercial register. Publicizing the initiation of insolvency proceedings is particularly important, since an insolvency case affects many parties, especially creditors. Doing so brings transparency to the proceedings and helps ensure that all affected parties are equally well informed.[22]

As a company enters insolvency proceedings, its creditors, employees and suppliers—and even the government as tax collector—line up to file outstanding claims.

FIGURE 6 Greater transparency in insolvency processes is strongly associated with perceptions of greater accountability and lower corruption



Note: Relationship is significant at the 5% level after controlling for income per capita. The data sample includes 104 economies.
Source: Doing Business database; World Bank, Worldwide Governance Indicators (2009 data).

As part of the insolvency process, an officially appointed receiver often publicizes these claims, to ensure that everyone with a potential claim can come forward. In addition, publishing the existence of insolvency proceedings alerts third parties, who may be interested in doing business with the company, to the fact the company is in financial distress. This allows third parties to better assess whether they want to do business with the company.

This year *Doing Business* collected additional data on what information courts are legally required to make public in insolvency proceedings. In a sample of 151 economies it found that courts in 75% of the economies are required to publicize the initiation of insolvency proceedings. Such requirements are least common in the Middle East and North Africa and East Asia and the Pacific (figure 5). Data show that publicizing the initiation of insolvency proceedings is strongly associated with perceptions of greater voice and accountability—reflecting perceptions of citizens' ability to participate in selecting their government as well as freedom of expression, freedom of association and a free media—and perceptions of lower corruption (figure 6).

DATA NOTES ON RESOLVING INSOLVENCY (FORMERLY CLOSING A BUSINESS)

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic entities. *The name of this indicator set was changed from closing a business to resolving insolvency to more accurately reflect the content of the indicators. The indicators did not change in content or scope.* The data are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems. The ranking on the ease of resolving insolvency is based on the recovery rate (figure A.1).

To make the data comparable across economies, several assumptions about the business and the case are used.

Assumptions about the business

The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned, with the founder, who is also the chairman of the supervisory board, owning 51% (no other shareholder holds more than 5% of shares).
- Has downtown real estate, where it runs a hotel, as its major asset. The hotel is valued at 100 times income per capita or $200,000, whichever is larger.
- Has a professional general manager.
- Has 201 employees and 50 suppliers, each of which is owed money for the last delivery.
- Has a 10-year loan agreement with a domestic bank secured by a universal business charge (for example, a floating charge) in economies where such collateral is recognized or by the hotel property. If the laws of the economy do not specifically provide for a universal business charge but contracts commonly use some other provision to that effect, this provision is specified in the loan agreement.
- Has observed the payment schedule and all other conditions of the loan up to now.
- Has a mortgage, with the value of the mortgage principal being exactly equal to the market value of the hotel.

TABLE A.1	What do the resolving insolvency indicators measure?
Time required to recover debt (years)	
Measured in calendar years	
Appeals and requests for extension are included	
Cost required to recover debt (% of debtor's estate)	
Measured as percentage of estate value	
Court fees	
Fees of insolvency administrators	
Lawyers' fees	
Assessors' and auctioneers' fees	
Other related fees	
Recovery rate for creditors (cents on the dollar)	
Measures the cents on the dollar recovered by creditors	
Present value of debt recovered	
Official costs of the insolvency proceedings are deducted	
Depreciation of furniture is taken into account	
Outcome for the business (survival or not) affects the maximum value that can be recovered	

Assumptions about the case

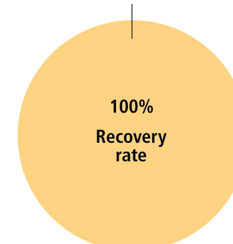
The business is experiencing liquidity problems. The company's loss in 2010 reduced its net worth to a negative figure. It is January 1, 2011. There is no cash to pay the bank interest or principal in full, due the next day, January 2. The business will therefore default on its loan. Management believes that losses will be incurred in 2011 and 2012 as well.

The amount outstanding under the loan agreement is exactly equal to the market value of the hotel business and represents 74% of the company's total debt. The other 26% of its debt is held by unsecured creditors (suppliers, employees, tax authorities).

The company has too many creditors to negotiate an informal out-of-court workout. The following options are available: a judicial procedure aimed at the rehabilitation or reorganization of the company to permit its continued operation; a judicial procedure aimed at the liquidation or winding-up of the company; or a debt enforcement or foreclosure procedure against the company, enforced either in court (or through another government authority) or out of court (for example, by appointing a receiver).

FIGURE A.1 Resolving insolvency: time, cost and outcome of bankruptcy of a local company

Rankings are based on 1 indicator



Note: Time and cost do not count separately for the rankings.

Assumptions about the parties

The bank wants to recover as much as possible of its loan, as quickly and cheaply as possible. The unsecured creditors will do everything permitted under the applicable laws to avoid a piecemeal sale of the assets. The majority shareholder wants to keep the company operating and under its control. Management wants to keep the company operating and preserve its employees' jobs. All the parties are local entities or citizens; no foreign parties are involved.

Time

Time for creditors to recover their credit is recorded in calendar years (table A.1). The period of time measured by *Doing Business* is from the company's default until the payment of some or all of the money owed to the bank. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration.

Cost

The cost of the proceedings is recorded as a percentage of the value of the debtor's estate. The cost is calculated on the basis of questionnaire responses and includes court fees and government levies; fees of insolvency administrators, auctioneers, assessors and lawyers; and all other fees and costs.

Outcome

Recovery by creditors depends on whether the hotel business emerges from the proceedings as a going concern or the company's assets

are sold piecemeal. If the business keeps operating, no value is lost and the bank can satisfy its claim in full, or recover 100 cents on the dollar. If the assets are sold piecemeal, the maximum amount that can be recovered will not exceed 70% of the bank's claim, which translates into 70 cents on the dollar.

Recovery rate

The recovery rate is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. The calculation takes into account the outcome: whether the business emerges from the proceedings as a going concern or the assets are sold piecemeal. Then the costs of the proceedings are deducted (1 cent for each percentage point of the value of the debtor's estate). Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account, including the loss of value due to depreciation of the hotel furniture. Consistent with international accounting practice, the annual depreciation rate for furniture is taken to be 20%. The furniture is assumed to account for a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, based on end-2010 lending rates from the International Monetary Fund's *International Financial Statistics*, supplemented with data from central banks and the Economist Intelligence Unit.

No practice

If an economy had zero cases a year over the past 5 years involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure), the economy receives a "no practice" ranking. This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for "no practice" economies is zero.

This methodology was developed in Djankov and others (2008) and is adopted here with minor changes.

NOTES

1. The term *recovery rate* in this chapter refers to cents on the dollar recouped by creditors through insolvency proceedings, as measured by the *Doing Business* case study for resolving insolvency. See the data notes for further details.
2. Gramatikov and Vriesendorp 2010.
3. In Romania the number of bankruptcy cases at the beginning of 2009 was about 5,000, 50% more than in 2008. In the first half of 2009 the number rose to 12,500. The number of bankruptcy cases was expected to exceed 20,000 by the end of 2010. See Tuleașcă (2009).
4. See Djankov (2009).
5. See Cirmizi, Klapper and Uttamchandani (2010).
6. See Hawkamah and others (2009).
7. See Uttamchandani (2010).
8. See Djankov and others (2008).
9. See Djankov and others (2008).
10. See Claessens and Klapper (2003).
11. Funchal 2008.
12. See Djankov (2009).
13. Dewaelheyns and Van Hulle 2006.
14. Foley 1999; Giné and Love 2006.
15. Bergoeing and others 2007; Giné and Love 2006.
16. See Claessens and Klapper (2003).
17. See Cirmizi, Klapper and Uttamchandani (2010).
18. Latvia, Ministry of Justice, "Guidelines for Out-of-Court Debt Restructuring in Latvia," http://www.tm.gov.lv.
19. See Steiner and Winkler (2011).
20. See Conrads (2011).
21. See Claessens and Klapper (2003).
22. See UNCITRAL (2004).

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