

Hawkamah and World Bank supported by INSOL and OECD Launch Regional Task Force on Developing Sound Insolvency and Creditor Rights Systems

Market efficiency, Corporate Governance and Insolvency Frameworks and Practices are closely linked. A well designed corporate governance framework should be complemented by an efficient insolvency framework and practices and by effective enforcement of creditor rights

In order to take stock of the existing MENA frameworks and practices and to raise awareness of international best practices on insolvency, Hawkamah Institute for Corporate Governance and the World Bank supported by INSOL International and the Organization for Economic Development (OECD) established a Task Force on Insolvency and Creditor Rights Systems. The Task Force will develop a MENA Policy Brief based on an individual country analysis of the Legal Framework for Insolvency and Creditor Rights, along with recommendations and policy options for consideration by MENA policy makers.

The Task Force will consist of experts and officials from the MENA countries, the World Bank, INSOL, OECD, PwC and will include representatives of MENA government agencies, banks, judiciary, regulators, the financial sector and insolvency professionals.

The Task Force aims to conduct an assessment of Country Level Insolvency and Creditor Rights systems in the MENA region and will propose recommendations on improving the systems and making them more effective. This assessment is based on the methodology of the World Bank's Report on Observance of Standards and Codes (ROSC) program and the World Bank Principles on Effective Insolvency and Creditor Rights Systems.

Market efficiency, corporate governance and insolvency are

closely linked. As experience from both developed and emerging markets has shown, the corporate governance framework should be complemented by an effective, efficient insolvency framework and by effective enforcement of creditor rights.

Corporate governance in insolvent enterprises poses specific challenges. Legal frameworks often impose on directors of insolvent enterprises to act in the interests of creditors, and provide the latter with a specific role in the governance of distressed debtors. Importantly, effective insolvency systems, based on developed legal frameworks and relying on a sound judicial system play a critical role for orderly exit of insolvent corporations and for the efficient reallocation of resources.

Dr. Nasser Saidi, Executive Director of Hawkamah, said, "There is a clear underlying link between insolvency, corporate governance, foreign investment and access to capital. Indeed, companies with a good corporate governance record reduce the risks of lenders and are often able to borrow more and on more favorable terms than their competitors with a poor governance record. Efforts are needed to build more sophisticated insolvency laws in the MENA region and the institutional capacity required for their implementation. There is a need to reduce the stigma of insolvency and make it possible for debtors to restart business on a clean slate after a failure."

Mr. Mahesh Uttamchandani Senior Counsel and Head of World Bank Global Insolvency Initiative, commented, "After many years of working with countries to develop sound insolvency systems, we now know that sound insolvency systems are necessary both to help avoid and manage crisis situations and to broaden and deepen credit markets. Good economic times present a unique opportunity to reform insolvency systems so as to avoid systemic problems when global liquidity tightens and to ensure as broad a range of financial intermediation as possible."

Mr. Sumant Batra, Vice President of INSOL International, said "It is a privilege for INSOL International to be associated with this initiative on international cooperation on insolvency reforms in the MENA region. INSOL is an independent international federation of national association of accountants and lawyers, It is one of its mission to encourage greater international cooperation and communication amongst the insolvency profession. INSOL hopes to contribute in the

development of insolvency profession in the region by facilitating the exchange of information and ideas.”