



USAID | **BOSNIA-HERZEGOVINA**

**BANKRUPTCY BROCHURES FOR
WORKERS, CREDITORS AND MANAGERS**

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Chemonics International, Inc.
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Chemonics International, Inc. and its subcontractors, Emerging Markets Group, Ltd. and the National Center for State Courts, were selected to implement USAID's Fostering an Investment and Lender-Friendly Environment (FILE) commercial law project in Bosnia and Herzegovina (BiH). The project, which was designed to run approximately three years, covers a variety of commercial law issues, including bankruptcy law and court administration.

From its inception, FILE has sought to educate critical stakeholders on the substance and benefits of BiH's new bankruptcy laws. These efforts, as well as other interventions by FILE's bankruptcy team, have led to the successful reorganization and liquidation of several debtor companies, thereby resolving debt, creating new jobs, and returning assets to productive use.

While many successes have been achieved, there is a continuing need to educate stakeholders - particularly workers, creditors, and company managers - on the benefits of bankruptcy. Accordingly, FILE has developed a series of bankruptcy brochures targeting these groups and their specific needs and interests in bankruptcy. In so doing, FILE hopes to promote greater understanding of bankruptcy among these interest groups, and to foster greater "buy in" of bankruptcy as an alternative for resolving the outstanding debts of companies in financial distress.

Three bankruptcy brochures, targeting workers, creditors, and company managers, respectively, have been developed and are attached to this report. The brochures will be distributed to the target groups upon USAID's review and approval of content.

MAXIMIZING RECOVERY OF PROBLEM LOANS THROUGH BANKRUPTCY

B. Bankruptcy as a Method to Recover Debts

BiH has modern bankruptcy laws that are working very well and are helping creditors increase their collections of problem loans. These laws provide clear procedures and a fair system for resolving creditors' claims. Bankruptcy is not the disease but the cure.

When a company is in financial difficulty and unable to timely pay its debts, bankruptcy is often the best way for creditors to maximize their recovery of loans to the company. There are now two methods that BiH creditors can use to recover their loans to insolvent companies: bankruptcy reorganization and liquidation. In a bankruptcy reorganization proceeding, management is replaced, new investment or financing is obtained, and a plan to pay creditors is put in place. In a bankruptcy liquidation proceeding, assets from an insolvent business are sold and the proceeds are paid to creditors.

New BiH Bankruptcy Laws

Bosnia and Herzegovina started implementation of new Bankruptcy Laws in 2003. The law is being successfully applied by bankruptcy judges in 15 commercial divisions at first instance courts in Sarajevo, Banja Luka, Tuzla, Zenica, Mostar, Doboj, Trebinje, Siroki Brijeg, Livno, Travnik, Orasje, Gorazde, Bijeljina, Sokolac and Bihac.

The law has led to numerous company restructurings that have maximized returns to creditors and saved Jobs as well as liquidations that have paid creditors and transferred assets to productive use.

RESTRUCTURING COMPANIES AND MAXIMIZING PAYMENT TO CREDITORS

C. Bankruptcy as a Method to Restructure a Company and Deal with Creditors

When a company is in financial difficulty and unable to timely pay its debts, bankruptcy is often the best way to improve the situation. The BiH Bankruptcy Laws provide that BiH companies can reorganize the company or liquidate its assets in an orderly manner. In a bankruptcy reorganization proceeding, new investment or financing is obtained, and a plan to continue operations and pay creditors is put in place. In a bankruptcy liquidation proceeding, assets from an insolvent business are sold by a trustee and the proceeds are paid to creditors.

BiH has modern bankruptcy laws that are working very well and are helping companies improve the finances and operations or providing for an organized way to close the business and sell assets and pay proceeds to creditors. These laws provide clear procedures and a fair system for resolving creditors' claims. Bankruptcy is not the disease but the cure.

Bosnia and Herzegovina started implementation of new Bankruptcy Laws in 2003. The law is being successfully applied by bankruptcy judges in 15 commercial divisions at first instance courts in Sarajevo, Banja Luka, Tuzla, Zenica, Mostar, Dobo, Trebinje, Siroki Brijeg, Livno, Travnik, Orasje, Gorazde, Bijeljina, Sokolac and Bihac.

The law has led to numerous company restructurings that have maximized returns to creditors and saved Jobs as well as liquidations that have paid creditors and transferred assets to productive use.

USING BANKRUPTCY TO SAVE COMPANIES AND JOBS

D. Bankruptcy as a Tool to Save BiH Businesses

Bankruptcy is often the best way to revive a failing business, attract investment, and save jobs. There are now two methods that BiH creditors can use to recover their loans to insolvent companies: bankruptcy reorganization and liquidation. In a bankruptcy reorganization proceeding, management is replaced, new investment or financing is obtained, and a plan to expand the business is put in place. In a bankruptcy liquidation proceeding, assets from an insolvent business are sold to a business that can use them productively.

BiH has modern bankruptcy laws that are working very well and are saving companies and jobs. These laws provide clear procedures and a fair system for resolving workers' and other creditors' claims.

Bankruptcy also provides an effective way to avoid the difficulties encountered in privatization. It provides a court-endorsed instrument for transferring the assets of a restructured business to a new investor free and clear of the distressed company's unmanageable debt load.

Bankruptcy Restores Life to Unis Tadv

Without a successful bankruptcy procedure Unis Tadv would be out of business with all workers unemployed. But bankruptcy reorganization of the formerly state-owned enterprise has revitalized the company, producing a number of important benefits for the company and its community:

160 employees received their first paychecks in three years the month bankruptcy opened

Monthly payroll of 115,000 KM, including all social contributions, has been met on time without interruption for the last 14 months

Production was restarted and increased by 30% above pre-bankruptcy levels

Monthly revenues of 200,000 EUR are exclusively from exports to the EU

Unis Tadv fully privatized, with workers owning 67% and major secured creditor owning 33%

The new investor guaranteed employment of 160 workers for five years