



# Early restructuring and a second chance for entrepreneurs

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## Croatia Country fact sheet

**Every year in the EU, 200 000 firms go bankrupt, resulting in over 1.7 million people losing their jobs.**

A well-functioning insolvency framework is essential to support growth and business creation. That is why the European Commission is putting forward modern and streamlined insolvency rules that will facilitate restructuring, give businesses a second chance and improve the efficiency of restructuring, insolvency and debt discharge procedures.

### The proposed approach is expected to:

- ✓ Cut down the number of jobs lost due to bankruptcy;
- ✓ Bring more legal certainty for cross-border investors;
- ✓ Turn bad debt into performing credit to facilitate lending;
- ✓ Allow entrepreneurs to restart business activities, to keep innovation going and create an additional three million jobs across the EU.

### What is the situation currently in Croatia? <sup>(1)</sup>

#### Effectiveness of insolvency proceedings

24

Croatia ranks 24<sup>th</sup> among EU Member States when it comes to the effectiveness of its insolvency proceedings.

#### Average length of insolvency proceedings (years)

HR

3.1

EU

2.0

#### Recovery rate for secured creditors following insolvency proceedings

HR

33.7%

EU

65.0%

► The most likely outcome for debtors in financial difficulty in Croatia is **liquidation**.

<sup>(1)</sup> All figures are according to the World Bank report, *Doing Business 2017: Equal Opportunity for All*: <http://www.doingbusiness.org/%7E/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>.

## What will the new rules improve?

The situation today in Croatia <sup>(?)</sup>	With the new rules
<p>There are few early warning tools alerting debtors to the risk of insolvency and the urgency to act in order to avoid liquidation.</p>	<ul style="list-style-type: none"> <li>✓ Debtors can have better access to <b>early warning tools</b>, which can detect a deteriorating development and lead to more restructurings at an early stage.</li> <li>✓ Develop a culture of preventive restructurings.</li> </ul>
<p>Insolvency proceedings are in general very long and there is still room to improve their efficiency.</p>	<ul style="list-style-type: none"> <li>✓ Rapid treatment of procedures, use of electronic means of communication and rules on remuneration and supervision of insolvency practitioners will improve the efficiency of procedures and reduce their length.</li> </ul>
<p>Early restructuring proceedings require full court involvement, from formally opening the procedure - including the appointment of an insolvency practitioner and voting on a plan - to the confirmation of the plan by the court.</p>	<ul style="list-style-type: none"> <li>✓ <b>Flexible preventive restructuring frameworks</b> can reduce the length and cost of court proceedings. Certain steps of the procedure should take place out of court. Where necessary, the courts must be involved to safeguard the interests of third parties.</li> </ul>
<p>Dissenting minorities of creditors can unfairly obstruct the restructuring process.</p>	<ul style="list-style-type: none"> <li>✓ <b>Dissenting classes of creditors and shareholders can be outvoted under strict conditions</b> in order not to jeopardise restructuring, while safeguarding their legitimate interests. Secured creditors will also be covered by the restructuring plan.</li> </ul>

<sup>(?)</sup> Information on current framework according to the Member States' responses on the implementation of the 2014 Commission Recommendation, an INSOL Europe Study of January 2014 and a comparative legal study carried out by the University of Leeds of January 2016.