European Commission

Early restructuring and a second chance for entrepreneurs

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Lithuania 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 Lithuania? (1)

Effectiveness of insolvency proceedings

26 Lithuania ranks 26th among EU Member States when it comes to the effectiveness of its insolvency proceedings.

Average length of insolvency proceedings (years)

LT	2.3
EU	2.0

Recovery rate for secured creditors following insolvency proceedings

LT	45.0 %
EU	65.0 %

▶ The most likely outcome for debtors in financial difficulty in Lithuania is **liquidation**.

(1) 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 Lithuania [2]	With the new rules
Insolvency proceedings are lengthy.	✓ Specialisation and training of judges and practitioners, the use of electronic means of communication and adoption of measures to ensure rapid treatment of procedures will improve **its efficiency, reducing their length**.
There are few or non-efficient early warning tools alerting debtors to the risk of insolvency and the urgency to act in order to avoid liquidation.	✓ Debtors will have access to **early warning tools** which can detect a deteriorating business and lead to more restructurings at an early stage. ✓ A culture of resorting early to preventive restructurings will develop.
The creditors are not divided in classes for the adoption of the restructuring plan. As a result, secured creditors can be outvoted and there is less legal certainty for creditors.	✓ As a minimum, **there will be classes of secured and unsecured creditors** in order to ensure that similar rights are treated equitably and that restructuring plans can be adopted while respecting the legitimate interests of creditors.
Although access to fresh money is vital for the rescued company, new financing for companies in the process of early restructuring is not sufficiently protected.	✓ **New financing will be specifically protected** increasing the chances that restructuring will be successful.

[2] 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.