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Insolvency Laws

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Why Insolvency Law Matters for Infrastructure Projects

When considering financing for any infrastructure project, all parties involved must understand the host country's insolvency laws. To attract private sector investment, the host country needs transparent, efficient and fair insolvency laws that align with increasingly standardized international principles.

Key issues that will need to be addressed when contemplating an infrastructure project are:

- What happens if the project company, or another party to the project, becomes insolvent?
- Is there a clear definition of insolvency in the host country law?
- Are there clear procedures for appointment of liquidators?
- Whether it is possible to intervene prior to liquidation and appoint administrators to try and get the business back to being viable
- Is there a clear prioritization between different creditors? - (for more on creditors' rights and taking security in PPP Projects, go to [Lender Issues - taking security](#))
- What will happen to project assets (will they automatically vest back in the state)?
- Can the state step in and take over the project prior to actual insolvency (as is the case, for example in England and Wales in the water, power and rail sectors)?

International Standards and Resources

The World Bank, in its capacity as the international community's standard setter (under the Financial Stability Forum) for insolvency and creditor rights ("ICR") systems, has coordinated the effort to articulate a set of assessment standards (the "Principles") regarding ICR regimes. The Principles are used for, among other things, the preparation of ICR Reports on the Observance of Standards and Codes (ROSCs) under the joint World Bank/IMF international financial architecture program. This as well as other relevant information can be found on the [World Bank Global Insolvency Law Database](#) under Principles and Guidelines.

The ROSC program operationalizes a number of normative instruments in the ICR sphere, including the Principles and the detailed UNCITRAL Legislative Recommendations on insolvency that provide specific guidance on the content of an insolvency law, with an extensive discussion of various options and approaches:

- in English - [Uncitral Legislative Guide and Model Law on Insolvency](#),
- in French - [Insolvabilité - Guide législatif et Loi typ de la CNUDCI](#),
- in Spanish - [Insolvencia - Guía Legislativa/ Ley Modelo de la CNUDMI](#)

Effective creditor and debtor rights and insolvency systems are an important element of financial system stability. The World Bank Group accordingly has been working with partner organizations to develop principles for insolvency and creditor and debtor rights systems, see [Principles for Effective Insolvency and Creditor/Debtor Regimes](#).

Additional guidelines on designing systems that adequately address insolvency and creditor rights can be found on the website for [European Bank for Reconstruction and Development](#).

Specific examples of national laws can be found at [Business Ready](#) (Replacing Doing Business).

Related Content

- [Laws and Regulations](#)
- [PPP Legal Foundations - Further Reading](#)
- [Legislation and Laws - General and Sector Specific](#)
- [Regulatory Systems and Sector Overview](#)
- [Country Profiles](#)

Additional Resources

- [EBRD Covid-19 Response: Financial Restructuring and Insolvency Discussion Paper](#)
- [PPP Reference Guide](#)

- [Country Profiles](#)
- [Asset Recycling Guide: Tools and References](#)

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