



Forum for Asian Insolvency Reform meeting

Opening address by

Mr. Eric Burgeat
Director, Center for Co-operation with Non-Members
Organisation for Economic Co-operation and Development

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Minister Prijadi Praptosuhardjo, Minister Yusril Ihza Mahendra, distinguished guests, ladies and gentlemen,

It is for me a great honour and pleasure to join with you, Ministers, and with my colleague from the ADB, Mr. Pitney, in opening this First Forum for Asian Insolvency Reform. It is also a pleasure to thank you and your colleagues in the Ministry of Finance and in the Ministry of Justice and Human Rights of Indonesia for the very successful preparation of this meeting, and your superb hospitality. I am also pleased to thank our partners in this new venture, the Asian Development Bank and APEC, the Government of Japan, the Australian Treasury and the Australian Agency for International Development, for their continuing intellectual and financial support. Without such support, indeed, it would have just been impossible to undertake this initiative!

But pleasure, as often, comes along with some challenges...

...firstly, Minister, because your opening speech has set a very high standard for our subsequent interventions, and second, because insolvency reform is a highly complex matter as many participants have rightly highlighted, in the excellent papers prepared for this meeting. I will therefore not take the risk of adventuring myself into the various substantive issues on the agenda for the meeting. Rather, I will limit myself to sharing with you some comments on the broader context in which this initiative takes place, and explain why it is important for us, at the OECD in particular.

First, insolvency reform matters in Asia, on its own merits, and as part of a broader agenda of economic reform and restructuring. Second, the FAIR process fits well with and indeed illustrates the OECD method of co-operation with non-Members. In that sense, its performance will be a critical test for us. Let me elaborate briefly on these two points.

Insolvency reform matters...

Why does insolvency reform matter in Asia? Before the 1998 crisis, Asian economies had not developed effective and comprehensive mechanisms for dealing with corporate insolvency. During the rapid economic growth prior to the crisis, such a mechanism was not viewed as

necessary, as insolvency cases were relatively limited in numbers and could be handled by an ad hoc, informal approach. The crisis changed the scene completely. An efficient and effective insolvency system is now perceived as critical to achieving sustainable economic development. This was a clear conclusion of the Sidney meeting, the precursor to our meeting today.

Insolvency procedures are, in one sense, a method to reallocate financial, human and other kinds of resources. Therefore, effective insolvency systems contribute to the efficient use of economic resources and to enhancing the productivity of the economy.

Second, an effective insolvency system creates discipline for corporate management, encourages shareholders vigilance, and promotes sound competition between corporations. It thereby contributes to create resilient capital structures, more able to withstand cyclical or even systemic shocks. A robust economy needs competition. However, competition inevitably creates failures. As Schumpeter has taught us, economic dynamism is a process of creative destruction. Without a system to deal with such failures smoothly, economic growth cannot be sustainable.

Third, an effective insolvency system is necessary to attract new money into the economy. The recent Asian crisis made creditors realise that the lack of such a system is a significant risk. Some of these creditors have for a long time operated in the belief that governments would pick up the bill. After 1998, this assumption cannot hold anymore. That is why lenders, who were first out the door in 1998 have been slow to come back.

... and is part of a broader reform agenda

Insolvency reform should also be seen as a critical component of a broader agenda of economic reform and restructuring. To regain confidence of domestic and foreign investors and attract new money for new businesses and jobs, a major reform effort is needed on a wide range of policy areas. The challenge is to establish or consolidate the network of institutions that any market economy needs to flourish. Let me just enumerate a few: reform of the banking sector and of its supervision, development of equity markets, strengthening the rule of law and its enforcement, good governance, including corporate governance (for which we have a major initiative in Asia with the World Bank), fighting corruption, and also developing efficient social safety nets, etc... The reform agenda is challenging, ever more so when one realises that it has to be implemented in a comprehensive manner. To a large extent, indeed, the success of insolvency reform and its implementation will depend on progress achieved on all those many other fronts. And, of course, results will not be delivered overnight. And there is a clear risk there: complacency, reform fatigue, or a piecemeal approach to reform are perhaps the worst enemies of Asian economies today, especially at a time when major areas in the world economy are showing some signs of slowdown. We should probably keep those broader requirements and constraints in mind in our deliberations today and tomorrow.

The FAIR process: a powerful instrument of change

Finally, let me say that this meeting and the concept of the Forum fits very well our OECD method of co-operation with non Members. The OECD is a multilateral organisation of just 30 Members. It is global, but not universal. It can be seen as a co-operative allowing policy makers to exchange their analyses and share their concerns so as to help each other improve their policy making, in a constant effort to reform and adjust our economies to changing opportunities and constraints. Increasingly, a number of interested non Members, from beyond the OECD area, are invited to share in this process of co-operation through various programmes at global or regional

level. The meeting today, organized under our new Asian Regional Programme, provides a good illustration of our approach:

First, we want our dialogue to be action-oriented. We do not pursue dialogue for the sake of talking but in order to contribute to better policy making. In that respect I note that FAIR is not a Forum “on” Insolvency Reform, but indeed a Forum “for” Insolvency Reform.

Second, we all know that there is no “one-size fits all” reform package. That was also a strong conclusion of the Sydney meeting as far as insolvency reform is concerned. But it is true of most other policy areas. This is why the exchange of views and experience from within and outside the Asian region, on a multilateral basis, can be such a powerful instrument of co-operation and of change.

Third, we wish to build continuity in our dialogue and co-operation with non Members. This meeting indeed is not a one-off event. It marks the beginning of a continuing collective effort. I hope that the interaction amongst participants will not stop at the doors of the meeting room. Reformers across the world need to help each other through permanent networking.

Finally, we wish to develop our activities as much as possible in partnership with others. This, again, is another salient characteristic of today’s event. Let me say again how pleased we are in particular that Indonesia has joined in this partnership so actively and efficiently, and we look forward to its increasingly active role in our programmes of co-operation with non Members.

As you can see, we, at the OECD, have high expectations for this meeting. But as I know that it has been so well prepared and organized, I have really no worry concerning its success and the future of the Forum. I therefore wish all of us an interesting and enjoyable discussion.

Thank you for your attention.