Search for simplicity

Global trends in MSME insolvency reform are focused on making restructuring and liquidation processes more straightforward, says Sonali Abeyratne

The global economy continues to face significant volatility. While headline inflation is beginning to stabilise, there are major downside risks arising from geopolitical tension, fluctuations in trade and other foreign policy positions, and the realignment of supply chains away from the market convergence of the past.[1] In its latest global growth forecast, the International Monetary Fund projects the global growth rate to remain resilient, but stagnant, at 3.1% in 2026.

In this state of fluctuation, uncertainty and change, effective restructuring and insolvency systems can help provide stability to distressed entities. Accordingly, there are flow-on benefits for the economy, including jobs maintenance and growth.

The economic challenges since the Covid-19 pandemic have sparked a continuous period of restructuring and insolvency reform over the past six years. A particular focus of reform has been on creating simplified processes for micro, small and medium-sized enterprises (MSMEs) to restructure and, where that is not possible, to liquidate. MSME insolvency reform is especially important because these entities, according to the World Bank, make up more than 90% of businesses and 50% of employment worldwide. Indeed, by supporting job creation and entrepreneurship, MSMEs ultimately sustain both the global economy and individual livelihoods.

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Insolvency proceedings and MSMEs

The formal restructuring and insolvency proceedings that exist today are often unsuited to MSMEs because MSMEs typically lack sufficient resources to cover the costs and fees of the proceedings. Simplified rescue and insolvency alternatives for MSMEs are therefore recommended as a core feature of insolvency and restructuring reform processes proposed by the World Bank and the United Nations Commission on International Trade Law (UNCITRAL).

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Early MSME reforms were introduced during Covid-19 in the United States (under Subchapter V of Chapter 11 of the Bankruptcy Code) as well as in Australia, India, Myanmar and Singapore. Spain followed suit in September 2022 with a new simplified insolvency system for micro enterprises under the Insolvency Law. An important feature of this system, designed to minimise costs and preserve working capital for a distressed micro enterprise, is the use of standardised forms and online court communication (including hearings and summonses). Similarly, an online platform facilitates the filing of a realisation plan by the debtor and auctions designed to maximise asset sales in the interests of creditors in a liquidation scenario.

Chile also introduced a new simplified reorganisation procedure for MSMEs under Law No. 21,563, which came into force on 11 August 2023. The new process includes lower access costs, a separate list of supervisors with specific expertise in the simplified procedure (with lower fees), a longer financial protection period (during which ▶

liquidation cannot be requested or declared, and executions cannot be brought), and the absence of creditors' meetings unless requested by 30% of voting creditors. There is also a simplified liquidation process, which replaces the seizure phase with a voluntary asset handover and online auction platforms to enhance recoveries and lower costs.

MSME insolvency reform in Africa

In Rwanda, Law No. 022/2025 was enacted on 25 August 2025, and provides for simplified reorganisation and simplified liquidation options for MSMEs to take effect from late February 2026. A key feature of the Law is the focus on speed and efficiency. The entire process is digital, with electronic platforms and communication designed to save time and costs. Further, in an improvement to the MSME insolvency systems introduced in earlier years in other jurisdictions, the Law also expressly provides for debtors to raise business rescue finance during a simplified reorganisation process.

The reforms in Rwanda complement the Uniform Insolvency Act framework adopted in December 2015 by the Organisation for the Harmonisation of Business Law in Africa (OHADA) – which, to date, has 17 West and Central African Member States – with support from the World Bank. The Act includes simplified proceedings for small businesses, which can now make use of streamlined preventive settlements, judicial recovery and winding up with simplified commencement, and shorter durations compared with standard proceedings.

EU countries could develop their own MSME restructuring and insolvency frameworks

Activity in the EU

Simplified rescue and insolvency processes for MSMEs were originally proposed in the new draft EU Directive on the Harmonisation of Certain Aspects of Insolvency Law, released in December 2022. But over a two-year stakeholder consultation process, consensus on the form of the simplified processes could not be reached and these measures were excluded from the final text circulated by the European Parliament and the European Council in December 2025. Given the pace of global reforms, however, it remains possible that individual EU nations may elect to introduce their own bespoke MSME restructuring and insolvency frameworks in coming years.

Early-warning tools can serve as a valuable complement to MSME reforms. They help business owners to detect signs of financial distress at an early stage and take mitigating steps that may avert a slide into insolvency.

These tools are a feature of the EU Preventive Restructuring Directive. Member States are required to adopt the tools under Article 3 to "incentivise debtors that start to experience financial difficulties to take early action", with a view to avoiding insolvency.

In pursuit of that requirement, Malta introduced a new Self-Assessment Insolvency Tool – which allows businesses to proactively evaluate their financial condition with reference to cash flow, supplier relationships, payment practices and other measures – in November 2024. Additionally, Malta's Insolvency and Receivership Service introduced a new alert mechanism to indicate insolvency risk when a business falls into arrears on tax, social security or utility payments, fails to make timely fiscal filings or fails to submit annual financial statements.

INSOL International will continue to advocate for MSME restructuring and insolvency reforms as a key feature of best practice, working closely with our partner organisations such as the World Bank, UNCITRAL and the Asian Development Bank. The experience and technical capability of our member associations, including R3, can play an important part in the law reform process. It can also support the pursuit of capacity-building initiatives such as the judicial and practitioner training necessary to ensure the effective operation and administration of new reforms.

1. *Global Economic Prospects*, World Bank, January 2026

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