



**INSOLVENCY
LAW ACADEMY**

An Indian Institute of Excellence in Insolvency



Sri Lanka

INSOLVENCY ECO-SYSTEM DEVELOPMENT SUPPORT

Insolvency Law Academy has been invited to share the Indian experience to complement the on-going insolvency reform efforts in Sri Lanka. With this objective, ILA has established the Sri Lanka Initiative, under the guidance of the

ILA Sri Lanka Committee.

The ILA team visited Colombo from April 26th to 28th, 2023. During this visit, meetings were held with various stakeholders to gain a better understanding of Sri Lanka's ongoing efforts to reform its insolvency laws and the best practices adopted by it. It is evident that the banking sector has been able to survive the economic crisis. But as the impact of the economic crisis unfolds in the months to come, there is likely to be a surge in distressed assets, exposing the banks to the risk of loan defaults and a rise in non-performing assets. The present insolvency framework is not designed to provide an effective and efficient resolution to distressed assets. There appears to be an increase in the levels of household debt. It appears the existing personal insolvency law (based on Roman-Dutch law) is not used by lenders or borrowers. Insolvency is considered stigmatic and the concept of a second chance for the unfortunate defaulter has not developed. However, there is a need to gather data and research in this area.

A robust insolvency law can provide a speedy and predictable resolution to distressed assets so that these assets can continue to contribute to the economy. A modern insolvency law that meets global standards but is customised to the Sri Lankan conditions can help rebuild investors' confidence in the Sri Lankan market. Additionally, it can play a crucial role in promoting entrepreneurship by providing a clear path to exit for entrepreneurs who may experience business failure and encouraging them to take risks and innovate.

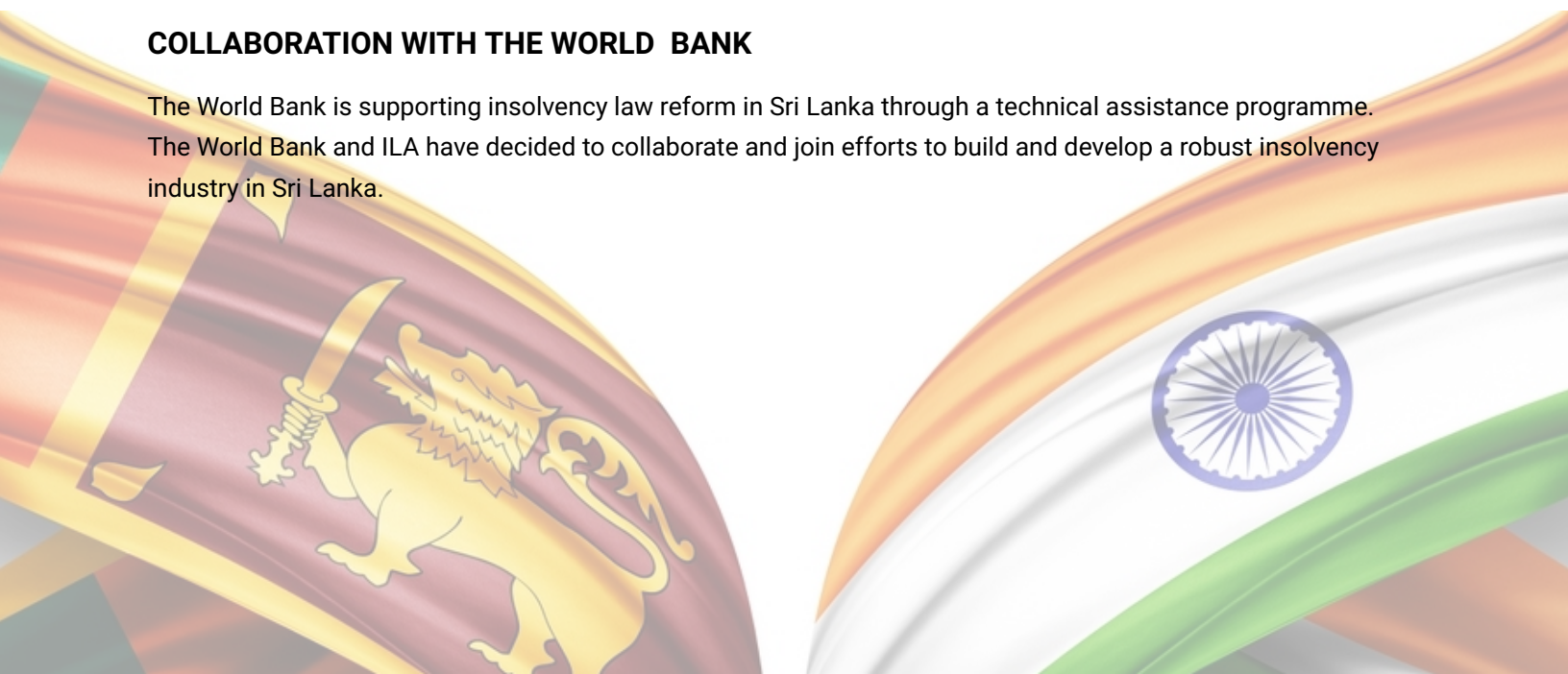
From deliberations held with stakeholders, it emerges that there is a demand for policy action, both legal and regulatory reforms, and a need for learning from the Indian experience under the IBC. In particular, there is a keenness to learn about the legal and regulatory framework under the IBC and the institutional framework comprising an independent insolvency regulator, specialised bankruptcy courts, the new discipline of insolvency professionals, and insolvency utilities. There is interest in learning about the benefits of a specialised, standalone, and comprehensive legislation to deal with the insolvency of corporations and individuals. It was felt that it would be useful to build awareness about the concepts of failure, redemption, and dignified exit. Some stakeholders also expressed an interest in using mediation to resolve insolvency issues.

INSOLVENCY ROUNDTABLE

It was agreed to set up a bi-lateral roundtable by ILA and Business Recovery and Insolvency Practitioners Association of Sri Lanka (BRIPASL) to serve as a platform for continuous dialogue and the exchange of knowledge with ILA.

COLLABORATION WITH THE WORLD BANK

The World Bank is supporting insolvency law reform in Sri Lanka through a technical assistance programme. The World Bank and ILA have decided to collaborate and join efforts to build and develop a robust insolvency industry in Sri Lanka.



INSOLVENCY LAW ACADEMY WILL SHARE THE LEARNINGS FROM THE INDIAN INSOLVENCY LAW REFORM AND ITS IMPLEMENTATION THROUGH A SERIES OF INITIATIVES, IN CONSULTATION WITH THE COUNTER PARTS IN SRI LANKA, AND COORDINATION WITH THE MULTILATERAL AND INTERNATIONAL INSTITUTIONS ENGAGED IN SRI LANKA INSOLVENCY REFORMS.



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