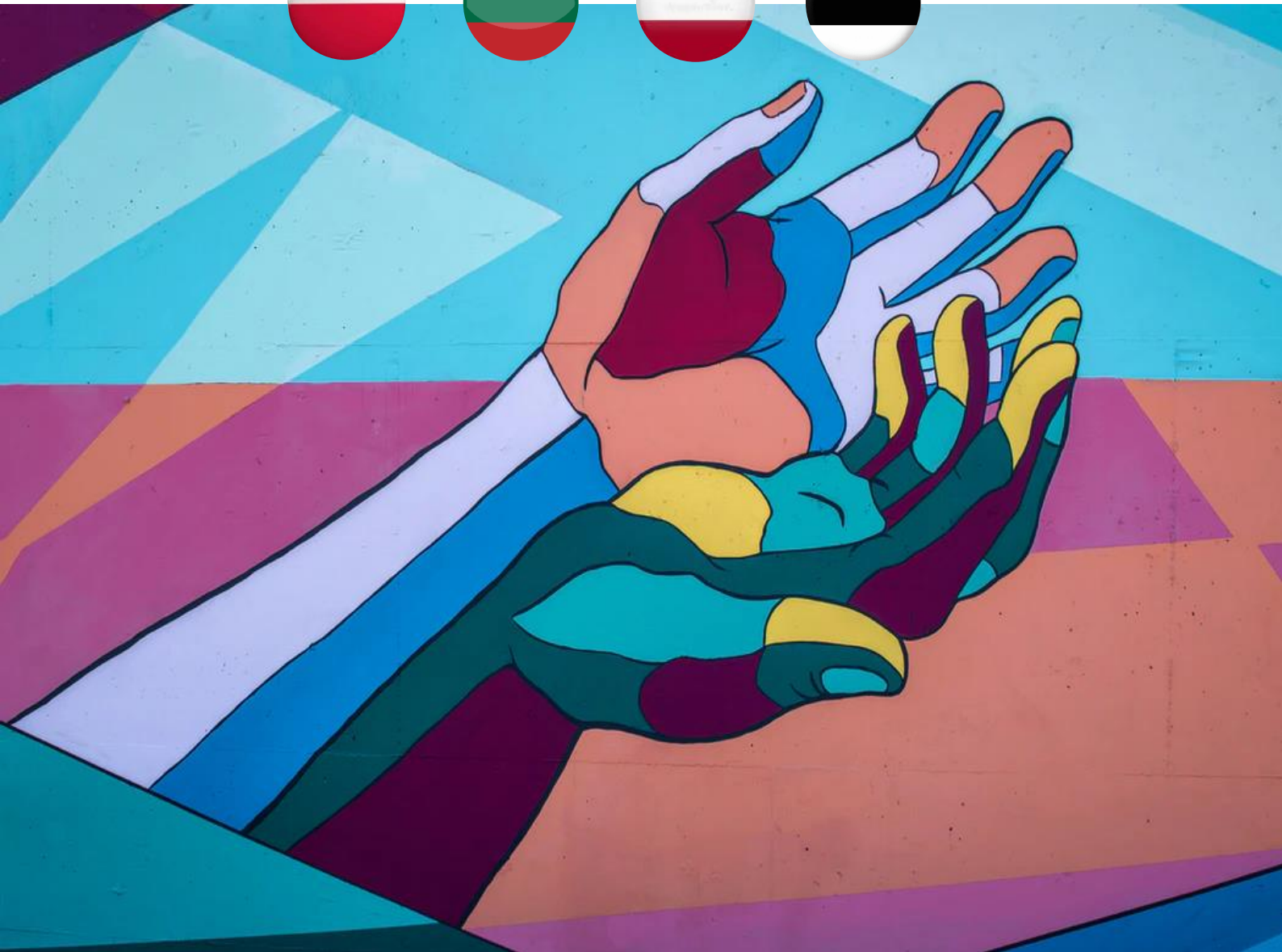


THE ACTIVITIES OF EARLY WARNING, SUPPORT AND SECOND CHANCE

# RestartBSR Manual 2021

**GUIDELINES FOR POLICY MAKERS HOW TO BUILD AND STRENGTHEN THE INSTITUTIONAL ECOSYSTEM TO SUPPORT COMPANIES IN FINANCIAL DIFFICULTIES IN THE BALTIC STATES AND POLAND**





This work is developed under the responsibility of the Interreg Baltic Sea Region project RestartBSR. The opinions expressed and arguments employed herein reflect to the Project outcomes. This document, as well as data and recommendations included herein, are reflected to Baltic Sea region countries perspective. The purpose of the policy recommendations and manual is to guide policy makers and public authorities on relevant policy actions and support measures, promoting how to create better framework conditions for companies in financial distress and for restarters.

What is early warning, support and “second chance” pillar systems for entrepreneurs and companies in crises? How it can be implanted in the Baltic Sea Region countries Poland and the Baltic States? How it should be measured and how best practices from other EU countries could be transferred? Understanding the scale of early warning, support and “second chance” activities, the characteristics of existing obstacles and influencing factors, RestartBSR Manual 2021 is the international reference guide for policy makers to build and strengthen the institutional ecosystem to support companies in financial difficulties in the Baltic States and Poland. The main goal of several years of international experts’ cooperation, despite the challenging conditions of Covid-19, was to develop guidelines that are as accessible and useful as possible to make a significant contribution to the Baltic Sea economies.

The statistical and qualitative data mentioned in the Manual are from the research “Analysis of the best European support, early warning and second-chance systems transferability in the Baltic Sea region countries?”/ 2020/ EM 2019/131 conducted by the RestartBSR project in 2020, based on the official EU statistics.

Artwork on cover page: Tim Mossholder, Colorful Hands 2 of 3 / Article: <https://www.orartswatch.org/painting-the-town-in-newberg/>  
Published on September 25, 2019/ Free to use under the Unsplash License

© RestartBSR Manual 2021, European Union, Baltic States and Poland, 2021

---

*You may copy, download, or print content for your own use, and include excerpts from the Manual in your documents, presentations, blogs, websites, and other materials, providing that the source of the information is RestartBSR Manual 2021.*

## Acknowledgements

This joint publication - RestartBSR Manual 2021, is the outcome of a collective effort of all delegates and representatives of the international Interreg Baltic Sea Region project RestartBSR. During the development of the guidelines, experts provided valuable ideological and experiential input. The experts are thanked for their contribution: Attila von Unruh (“Team-U”, Germany), Bert Overlack (“Team-U”, Germany), Henrik Noes (Restart Swendborg), Morten Møller (“Early Warning Denmark”, Denmark), Gabor Lancz (National Association of Turnaround and Crisis Managers, Hungary), Michael Lynge Hansen (“Early Warning Denmark”), Lene Nyhus Friis (Designskolen Kolding, Denmark), Karel Vanaudenarde (Belgium, “Dyzo”), Franck Hégelé (France, “60 000 Rebonds”), Jacqueline Zuidweg (Netherlands, “MKB Doorstart”), Mathias Poulsen (Designskolen Kolding, Denmark), Alexandra Lindek (Designskolen Kolding, Denmark), Dorota Sało (“Lower Silesian Intermediate Body”, Poland), Eleni Tzoka-Stecka (“Fundacja Firmy Rodzinne”, “Early Warning Poland”, Poland), Agnieszka Simon Adamczewska (“Early Warning Poland”), Dominik Piotrowski (“Early Warning Poland” mentor and entrepreneur, Poland), Konrad Bugiera (“Fundacja Firmy Rodzinne”, Poland), Katarzyna Gierczak Grupinska (“Early Warning Poland”), Ewelina Pisarczyk (“Early Warning Poland” Mentor and Entrepreneur, Poland), Malgorzata Kus (Entrepreneur, Poland), Adam Bujek (“Lower Silesian Intermediate Body”, Poland), Mariusz Tomczak (“Lower Silesian Intermediate Body”, Poland), Saulius Arelis (Visorių Information Technology Park, Lithuania), Alvydas Zagorskis (entrepreneur, “ResearchCity”, Lithuania), Lina Peciure (Vilnius Gediminas Technical University, Lithuania), Lina Bakšienė (Vilnius Gediminas Technical University, Lithuania), Pranas Senapėdis (Lithuania Agency for Science, Innovation and Technology (MITA)), Vilma Puriene (Vilnius Gediminas Technical University, Lithuania), Martynas Survilas (Lithuania Agency for Science, Innovation and Technology (MITA)), Margarita Prokopoviča (Vilnius Gediminas Technical University, Lithuania), Linas Gelažanskas (entrepreneur, “IT Logika”, Lithuania), Justinas Janulevičius (entrepreneur, “INOMIS”, Lithuania), Rasa Milerytė (Visorių Information Technology Park, Lithuania), Vilma Purienė (Vilnius Gediminas Technical University, Lithuania), Elīna Pētersone (Ministry of Economics of the Republic of Latvia), Liene Ozola (Ministry of Justice of the Republic of Latvia), Alla Ličkovska (Insolvency Control Service of the Republic of Latvia), Kristīne Voiniča (Ministry of Finance of the Republic of Latvia), Varis Putniņš (Ministry of Environmental Protection and Regional Development of Latvia), Jekaterina Vanaga (Investment and Development Agency of Latvia), Vilnis Vorobjovs (entrepreneur, “MILDA”, Latvia), Dairis Kandelis (entrepreneur, “KD projekti”, Latvia), Edgars Baranovičs (entrepreneur, “Auctoritas”, Latvia), Juris Lauznis (entrepreneur, “Integris”, Latvia), Eduards Filippovs (Latvian Business Union), Ints Viksna (Latvia Technology Centre), Agnese Kore (Latvia Technology Centre), Renārs Viksna (Financial Industry Association, Head of Restructuring of JSC “SEB banka”, Latvia), Ieva Broka (Latvia Association of Certified Insolvency Administrators, Latvia), Ina Ločmele (entrepreneur, Latvia), Andra Feldmane (The Latvian Association of Local and Regional Governments), Agita Mežjāne (entrepreneur, Latvia), Verners Pelšs (entrepreneur, Latvia), Dairis Kandelis (entrepreneur, Latvia), Inese Olafsona (Latvian Employers Association, Latvia), Ieva Mažuika (Ministry of Justice of the Republic of Latvia), Zanda Jaunskunga (Ministry of Culture of the Republic of Latvia), Guntis Rubins, (Investment and Development Agency of Latvia), Miks Čevers (Ministry of Finance of the Republic of Latvia), Vyacheslav Makarov (Ministry of Welfare of Republic of Latvia), Dace Viksna (entrepreneur, Latvia), Olga Zeile (Ministry of Justice of Republic of Latvia), Lienīte Caune (CBB Consulting Office, Latvia), Kristīne Voiniča (Ministry of Finance of Republic of Latvia), Aiga Balcere (Insolvency Control Service, Latvia), Signe Laķe (Jurmala City Council, Tourism and Business Development Division, Latvia), Laura Cunska-Āboma (Ministry of Welfare of Republic of Latvia), Andra Feldmane (The Latvian Association of Local and Regional Governments), Elīza Spurdziņa (Ministry of Culture of the Republic of Latvia), Ilze Lore (Ministry of Economics of the Republic of Latvia), Helmutis Jauja (lawyer, Latvia), Kaarel Lehstalu (Ministry of Economic Affairs and Communications of the Republic of Estonia), Kaupo Sempelson (Ministry of Economic Affairs and Communications of the Republic of Estonia), Anu Ritson (entrepreneur, Estonia), Eduard Laur (Harju County Entrepreneurship and Development Consultancy, Estonia), Hannes Ojangu (Harju County Entrepreneurship and Development Consultancy Estonia), Ilmar Bruno (West Viru County Development Centre, Estonia), Olavi Leisalu (entrepreneur, Estonia), Gerli Veeleid (entrepreneur, Estonia), Aarne Leisalu (West Viru County Development Centre, Estonia), Ermo Brecher (Rapla County Entrepreneurship and Development Consultancy, Estonia) and all others who contributed to the development of the recommendations.

# TABLE OF CONTENTS

1. Introduction.....	5
Definition and concept of early warning, support and “second chance” .....	5
Context of the EC Directive (EU) 2019/1023 .....	8
2. Obstacles, factors and challenges for the support in the Baltic States and Poland.....	9
Executive summary of Latvia.....	10
Executive summary of Estonia.....	11
Executive summary of Lithuania .....	11
Executive summary of Poland.....	12
Consolidated executive summary of Poland and Baltic States.....	13
Executive summary of the best EU support experience .....	14
3. Regional policy recommendations, based on findings obtained during the RestartBSR project .....	17
4. Leading policy recommendations .....	20
Estonia.....	20
Latvia .....	22
Poland.....	23
Lithuania .....	25
5. Glossary of Terms.....	27

## 1. Introduction

In European business culture, closing a business is seen as a failure that leaves a negative impression on further business. Following the business liquidation or bankruptcy, entrepreneurs in the EU mostly opt for a paid professional job rather than re-establishing their business.<sup>1</sup> However, the experience of liquidation is inspiring - those entrepreneurs who re-establish their business after bankruptcy are experiencing faster growth than start-ups.

Interreg Baltic Sea Region project RestartBSR (hereinafter referred to as the RestartBSR project) finding shows that entrepreneurs who have failed are more successful than start-ups.<sup>2</sup> This points out that an early warning and “second chance” policy that supports companies in difficulty or bankrupt entrepreneurs to start a new business as soon as possible is one of the most promising ways to strengthen existing and create new successful companies and thus jobs after COVID-19 crisis. Several early warning and “second chance” support organizations for SMEs are already operating successfully in Europe, while there are no such support systems in the Baltic States.

The RestartBSR project is very closely linked to Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring regulation, debt cancellation and disqualification with target to increase the efficiency of restructuring, insolvency and debt cancellation proceedings, which requires all Member States of the European Union to provide an early warning tool(s).

The RestartBSR project has united 6 partners - the Ministry of Economics of the Republic of Latvia, the Latvian Technological Centre Foundation, the Polish business support organization “Lower Silesian Intermediate Body”, Design School Kolding, Vilnius Gediminas Technical University and the Estonian business support organization “Harju County Entrepreneurship and Development Consultancy” in order to facilitate the implementation of a business support model in four pilot countries - Latvia, Estonia, Lithuania and Poland, that would meet both the requirements of the above Directive and be the most effective solution for financially distressed companies and its development, implementation, institutions, persons involved in maintenance.

Organization “Lower Silesian Intermediate Body” is the leading partner of RestartBSR project, and all partners has joint with the aim to build institutional capacity to support companies in financial difficulties in the Baltic Sea Region.

### Definition and concept of early warning, support and “second chance”

In economics, an early warning system is generally interpreted as **a system, used to forecast the future performance of a company or country, possible deviations from the plan and to mitigate risks in times of crisis.** An early warning system refers to operations, systems, phenomena, people and other elements that constitute an economic system (ecosystem). The early warning system can identify the current situation and potential risks both qualitatively and quantitatively (Ozgulbas & Koyuncugil, 2010).<sup>3</sup>

---

<sup>1</sup> Global Entrepreneurship Report, GEM 2019/2020

<sup>2</sup> E. Stam, D. B. Audretsch and J. Meijaard, "Renascent Entrepreneurship", ERIM, 2006.

<sup>3</sup> Ozgulbas, N., & Koyuncugil, A. S. (2010) Financial early warning system for risk detection and prevention from financial crisis. In Surveillance Technologies and Early Warning Systems: Data Mining Applications for Risk Detection. In A. S. Koyuncugil, & N. Ozgulbas (Eds.). Surveillance Technologies and Early Warning Systems: Data Mining Applications for Risk Detection (pp. 76–108). New York: Idea Group Inc.

The European Commission points out<sup>4</sup> that **insolvency rules cover a wide range of measures, from early intervention before a company is in serious difficulties, to timely restructuring** to ensure that viable companies are maintained, to liquidation of assets where companies cannot otherwise be rescued and, last, the so-called “second chance” for honest entrepreneurs in the form of debt relief.

Until mid-2021, **no unified definition of support for companies in financial difficulties, early warning and “second chance”, binding for all EU Member States and parties involved, has been identified at EU level.** As other related definitions from the academic, partly governmental and civic sectors point out, legal insolvency proceedings are only a part of a wider system of support, early warning and “second chance”.

In academic environment, **early warning systems and their efficiency have been extensively studied** since the middle of the last century and cover a wide scope of research – at regional, national, sectoral and company level, including SMEs. **There are different conclusions, which are often contradictory.** The studies also draw very specific conclusions on the key factors that provide early warning of potential financial difficulties and insolvency of SMEs. In addition, the increasing technological capabilities of large data processing and the latest generation of business information approaches to data retrieving have increased the accuracy of the EWS. The unifying conclusion of various academic studies is that the logic of early warning systems operation is based on deviations from conventional indicators or finding unusual and untypical behaviour in the subject. Overall, the accuracy of early warning models depends on some basic factors: the reliability of the financial statements, the analyst’s knowledge and experience, knowledge of industry, knowing economic trends within the analysed period, and understanding of company management policy, which are highly variable components in economy.

**To date, neither theoretical studies nor practice have identified a high-reliability crisis identification data mechanism.** However, academic findings also point to the need to use data sets to reveal correlations, based on which further models can be developed. This is especially true for large-scale analytics using sophisticated algorithms for the evolution of classical techniques, such as statistics, model recognition, artificial intelligence, machine learning, etc.

**Academic findings point to the dual systemic nature of the early warning system** - one early warning system refers to the determination of the object’s indicators (tools, models, subsystems, etc.) and the other interacts as a support system for the first system to activate it. Both systems interact with political, civic, academic and industrial environment. Only by interaction of the two systems an efficient result can be achieved. It is not enough to have increasingly efficient tools, models and subsystems in place to be able to identify the companies that need preventive actions to avoid insolvency. **It is equally important to create a support system(s) that launches these tools on a regular basis.**

The previous findings of support, early warning and “second chance” in most of cases have been focused primarily on the research of the legal framework of insolvency from legal point of view, with a secondary and fragmented assessment of the business environment that directly affects the causes of a company’s crisis.

A complete and efficient early warning system supports four main functions: **risk analysis, supervision and warning; distribution and communication including responsiveness.**

The EC puts forward four successive sub-sectors that constitute the process of a company in financial difficulty, considering its broadest possible role: from the moment a company is established, its possible warning, in situations where serious financial problems arise, from the moment when the company is

---

<sup>4</sup> EU Proposal for the Directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures, 2016/0359 (COD).

finally reorganized or liquidated, and the subsequent effects of the company's bankruptcy on the businessman. Thus, the EC conceptual framework has four main sections: (1) **prevention** (early warning systems, support mechanisms), (2) **out-of-court** settlements, (3) **trials**, followed by restructuring or liquidation of the company, (4) **attitude of the businessman towards bankruptcy and "second chance" conditions** (liquidation, termination of activity, debt relief and other consequences). This conceptual approach, as found during the RestartBSR project, is also shared by most pf government sector experts of the Baltic countries and Poland.

When assessing the most appropriate potential support for companies in a crisis, it is also necessary to distinguish separately **what types of crises the companies experience in their different life cycles**. Studies show that all companies periodically go through life cycle caused crises of different origins and, depending on how they manage to handle it, this can lead to financial difficulties and consequent insolvency. Different solutions are possible for each crisis, and **the solutions are largely determined by the internal ability and energy of the company's manager to cope with the crisis**. This academic conclusion is confirmed by the statements of experienced mentors and experts of early warning, support and "second chance" support systems Early Warning Europe (hereinafter referred to as the EWE), "Team-U", "Dyzo", "MKB Doorstart", "60,000 Rebonds", expressed during the RestartBSR project research. The aspects of the reason of the crisis of business need to be considered when assessing the most appropriate support, early warning and "second chance" mechanisms in each country.

None of the in-depth interviews with EWE and other public organizations providing support to companies in difficulty in EU Member States, carried out in scope of the RestartBSR project, mentions the distinction between the company and the businessman, thus all of them express the opinion, existing in expert practice, that **the owner and/or manager of a SME and its vision are the grounds of the company that determine the direction of the company and its ability or inability to cope with the crisis**. It was repeatedly emphasized in the interviews that the struggle of a company in financial difficulties is fought by one person or a small group of people - company owners and/or board members. In 28 interviews with entrepreneurs from different countries, the opinion was unanimous that in the face of financial difficulties, the businessman is left alone, and the severity and responsibility of the current crisis should be borne by the entrepreneurs personally, finding the strength to solve them, whether the company continues to exist or is being liquidated, leaving the debt burden.

The EC Annual Report on SMEs 2018/2019 shows that more than 110 policy initiatives have been adopted in the EU in accordance with the "second chance" principle since 2011, including ten in 2018 and in the first quarter of 2019. **The registered number of policy initiatives, aimed at promotion of the "second chance" and "single market" principles, in the period from 2011 to Q1 2019 has been the smallest.**

**In most of the EU member states, it is still impossible to complete legal insolvency proceedings within one year and to release a company from insolvency proceedings within three years.** Similarly, half of *bona fide* entrepreneurs in EU member states do not have an automatic discharge following liquidation or accelerated insolvency proceedings. Post-insolvency companies are generally defined the same way as start-ups in most of EU member states. However, just over half of EU member states have timely warning and assistance service mechanisms in place to help prevent entrepreneurs' bankruptcy.<sup>5</sup>

---

<sup>5</sup> EU Proposal for the Directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures, 2016/0359 (COD).

## Context of the EC Directive (EU) 2019/1023

The new EC Directive (EU) 2019/1023 on a preventive restructuring scheme and the “second chance”<sup>6</sup> adopted on 20 June 2019 lays down rules (Article 21) that all member states must ensure that over-indebted companies have access to at least one procedure which may lead **to their debt being repaid in full within a maximum period of 3 years**. This will facilitate the “second chance” to start a new business.

The Directive provides for a significant restructuring of the insolvency proceedings by shifting the scales from company liquidation process to company restructuring process. **This is a fundamental difference that transforms the existing insolvency paradigm from a “how to better liquidate” to “how to better restore” approach.**

The Directive assumes specific and detailed actions to be taken in the “Preventive restructuring” and “Insolvency” phases. “Preventive restructuring” is a new, hitherto unregulated phase to which most of the Regulation’s directives are devoted. In turn, the main improvements for the “Insolvency” phase are related to the provision of well-ordered and efficient processes, which are maximally synchronized between the EU member states.

On the other hand, **just one point of the Directive is devoted to the early warning issue**, stating that EU member states need to develop **one or more tools to detect circumstances** that could lead to the possibility of insolvency. This fact largely indicates the Directive’s primary focus on improving the legal framework for restructuring or liquidation of a company in financial difficulty, **leaving prevention support initiatives secondary**. The new Directive emphasizes mainly the need to disclose the circumstances, while the positive experience of EU organizations so far points to the provision of mentoring as the most efficient tool.

The RestartBSR project concludes that **early detection of financial difficulties determines success in coping with the crisis**, and that one of the major obstacles in EU member states is the late recourse of entrepreneurs to seek for help, but according to the information obtained in the RestartBSR project, **crises are different and one of their most spectacular common features is that they are unexpected. A crisis catches most of entrepreneurs unawares**, as in the case of Covid-19, or as a sudden loss of a transaction, due to personal circumstances, which do not provide a preventive possibility to predict it.

To achieve the EC’s objective of increasing the number of restructured companies and “second chances”, it is essential **to consider the insolvency proceedings not only as improving the legal framework but also as a part of a dynamic and complex business environment** that assumes a close cooperation of legal and business environment support experts in the development of both research and policy initiatives.

**The support, early warning and “second chance” ecosystem is not homogeneous**; it is a complex system consisting of both a complex legal framework and a complex and dynamic business environment, affected by both companies’ internal factors and life cycle crises and changing external conditions. This is more pronounced in relation to the Baltic States as small economies, directly open to external influences.

---

<sup>6</sup> Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency)



**The prevention section and pre-court components** within the support, early warning and “second chance” ecosystems in international context **are not supervised and analysed by international political or non-governmental organizations on regular basis.** The OECD also points to an incomplete assessment of current insolvency proceedings, which is currently focused on a formal assessment of the output of the process data in both the World Bank’s Doing Business Index and the EC assessments. The OECD draws attention to three areas where improvements in assessment would be needed: the inclusion of personal costs of the businessman, the assessment of support for prevention mechanisms and barriers to restructuring.

## **2. Obstacles, factors and challenges for the support in the Baltic States and Poland**

One of RestartBSR project findings is that the **existing measurements of insolvency proceedings** of the Baltic States, Poland and EU member states of the EC and the World Bank’s Doing Business Index **should be improved**, considering the OECD guidelines on productivity components and including measurements and key performance indicators for each extended procedural insolvency step.

As discovered during the RestartBSR project, currently, **the insolvency proceedings** in the countries **are one of the most important performance indicators of support, early warning and “second chance” system.** The World Bank’s Doing Business Index (hereinafter referred to also as the “DB” index) is currently one of the most respectable sources for qualitative and reliable comparisons of assessment of the environment of companies in difficulties.

According to the “DB” index, the overall framework of insolvency proceedings is rated the highest in Poland, comparing it among the RestartBSR project countries - the Baltic States and Poland. In Poland, the strength of the insolvency proceedings is evaluated at 87.5% of the maximum possible 100%, followed by Estonia - 81.3%, Latvia - 75%, and Lithuania - 50%.

The percentage of companies, restructuring their operations within insolvency proceedings in Poland is also the highest - 65.6%. The Baltic States lag far behind – In Latvia only 44.6%, in Lithuania - 43.4% and in Estonia - 38.9% of companies restructure their business within insolvency proceedings.

The insolvency proceedings take the longest time in Poland and Lithuania (3 years), while in Latvia their time is the shortest (1.5 years). In Estonia, the insolvency proceedings take 2.3 years, while the OECD average for high-income countries is 1.7 years. The 2016 EC research on insolvency proceedings in the EU<sup>7</sup> emphasizes the need to reduce the duration of insolvency proceedings, as it has been proven that a shorter period for terminating insolvency proceedings provides a better opportunity for a successful “second chance” for the company and the businessman.

Poland also has the highest debt recovery rate - 60.9 cents on US dollar, but does not reach the OECD high-income countries level of 70.2 cents on dollar. In the Baltic States, the recovery rate is the highest in Latvia - 41.4 cents on US dollar, followed by Lithuania with 40.3 cents and Estonia with 36.1 cents on US dollar. The costs of insolvency proceedings, measured in value of property, are the highest in Poland and Lithuania, 15% of the value of debtor’s property, respectively, while they are the lowest in Estonia - 9% and Latvia - 10%.

---

<sup>7</sup> “Research on a new approach to business failure and insolvency Comparative legal analysis of the Member States’ relevant provisions and practices”. EUROPEAN COMMISSION Directorate-General for JUSTICE AND CONSUMERS

The insolvency proceedings quality index is the highest in Poland, with 14 points out of 16. The second highest rate is in Estonia, with 13 points, followed by Latvia with 12 points and Lithuania with 8 points. The OECD average for high-income countries is 11.90 points. Poland, Estonia and Latvia are all above the average.

The EC conducts an annual SME Performance Review, which is one of the main tools used by the EC to monitor and evaluate the progress of EU countries in assessing the SME environment on an annual basis. SMEs make up 99% of the total number of companies in the European Union. The complex SME assessment states that among the RestartBSR project countries, only Latvia's "second chance" system has moved into the area that is assessed as positive current performance and growth in the period from 2008 to 2019, compared to the EU average growth. The assessment of Estonia's "second chance" reveals a high current performance, but in terms of historical progress there is a deterioration compared to the EU average.

Poland has a low current "second chance" assessment, but a growth is observed. In turn, Lithuania has a negative assessment of both the current "second chance" performance and the historical progress compared to the EU average and current growth. Overall, the target countries of the RestartBSR project have a significant potential to improve their existing "second chance" performance against the EU average.

### **Executive summary of Latvia**

The overall internal assessment of Latvian insolvency area experts (both the ones of government sector and business) indicates that support in the field of both prevention and **the legal framework in Latvia is rather incomplete and has little incentive to keep the business strong and stimulating keeping of business.**

Latvia's government sector experts rate the support in legal framework higher, evaluating the support provided to the entrepreneurs in Latvia as rather strong and stimulating business restructuring and/or providing a "second chance" than incomplete and little stimulating.

**In Latvia, the most significant obstacles faced by companies in financial difficulties are the following:** (1) low confidence of the state in entrepreneurs, (2) insufficient efficiency of state and local government support services – the level of efficiency of available tools, services, mechanisms, incentives and (3) their quality. The significant obstacles that have also been identified include (1) economic recession, (2) lack of information on restructuring opportunities, (3) dishonest attitude of entrepreneurs towards the insolvency proceedings, (4) dishonest behaviour of a cooperation partner when it learns about the existing difficulties, (5) insufficient number of support services provided by the state and municipality - lack of available support tools, services, mechanisms, incentives, etc., and (6) difficult access to risk capital for a company in difficulties.

**The factors that significantly affect the implementation of Latvia's support, early warning and "second chance" system** in the country are: (1) lack of the coherence of political will - legal and economic, (2) economic stagnation and recession, (3) entrepreneurs distrust in the efficiency of the support system, (4) low competencies of entrepreneurs pertaining to in business crisis prevention activities (so-called financial literacy, crisis management, etc.), (5) level of corruption in the country, (6) unequal attitude of cooperation partners towards restructuring processes, (7) stability of political regulation, (8) proportion of grey economy in the country, (9) insufficient funding for participation in support on the part of the entrepreneurs, (10) difficult access to risk capital for the entrepreneurs, (11)

low experience and lack of competence to implement support on the part of the government and civil support society - difficulties in ensuring system efficiency, and (12) public disbelief that business failures are the result of good faith.

### Executive summary of Estonia

The overall internal assessment of Estonian experts indicates that support in the field of prevention in Estonia **is rather incomplete and has little incentive to keep business** than strong and stimulating business keeping, while insolvency proceedings in the Estonian legal framework are rated higher, evaluating the support provided as rather strong and stimulating business restructuring and/or providing “second chance” than incomplete and having little incentive.

Estonian government area experts point out that the main reason for insolvencies is **insufficient knowledge and skills of managers**. As the most important obstacles they mention **late reaction of entrepreneurs to seek for support**. Experts also point to the **lack of the number of support services**.

**The most significant factors** influencing the implementation of Estonia’s support, early warning and “second chance” system in the country are: (1) Lengthy insolvency proceeding. Procedure for legal reorganization of companies and restructuring debts is available on only for large companies; (2) Although there is large network of county development centres in Estonia, providing consultancy and advisory services for entrepreneurs, so far no dedicated counselling for entrepreneurs in distress is provided. Partly, because this service is not financed.

Like in Latvia, the attitude of the society and entrepreneurs towards business failures in Estonia is assessed as rather unfavourable than favourable. In turn, the attitude of the state and local government is assessed as rather favourable than unfavourable, which creates suitable preconditions for the necessary support mechanisms to be introduced.

### Executive summary of Lithuania

According to experts, the current support of Lithuania’s support, early warning and “second chance” system, both in the field of prevention and in the legal framework, **is rather incomplete and having little incentive to keep business** than strong and stimulating to keep business.

**The most significant obstacles** faced by entrepreneurs in financial difficulties in Lithuania are: (1) **economic stagnation or recession**, (2) **difficult access to risk capital** for a company in difficulties, (3) **negative public attitude** towards business failures, (4) **time required** for legal insolvency proceedings, (5) the **costs of insolvency administrators** and (6) **inefficient company management of business and its finances**.

Like in Latvia and Estonia, the most significant obstacles in Lithuania are related to the economic recession and lack of financial capital. Unlike neighbouring countries, Lithuania has seen a negative public attitude towards business failures as a significant obstacle.

**The most significant factors** influencing the introduction of Lithuania’s support, early warning and “second chance” system in the country are: (1) **economic stagnation and recession**, (2) **insufficient funding for support** from the part of non-government organizations and (3) **difficult access to risk capital** for entrepreneurs.

The common denominator of the factors and barriers uniting the Baltic States is related to the strong impact of unfavourable external economic environment and insufficient funding.

In Lithuania, the attitude of Lithuanian state and local government policy towards business failures has a more negative assessment than in the other neighbouring countries in the Baltics - the attitude has been evaluated as rather unfavourable than favourable. Entrepreneurs own attitude towards business failures is also assessed as rather unfavourable than favourable. In turn, the public attitude towards business failures is assessed as rather favourable than unfavourable.

Lithuanian entrepreneurs point to similar problems as Estonian and Latvian entrepreneurs do, emphasizing the closed support door in case of even a minor tax debt (<50 EUR), the feeling of being left alone in the struggle for the company's survival and an extreme stress, which leaves a significant drop in productivity when it is most needed. The entrepreneurs have repeatedly emphasized the lack of supportive hand and the fact that business associations, chambers of commerce, associations and other unifying organizations are focused on success and growth, and a company in financial difficulties finds no response and support.

Lithuania has an extensive business support ecosystem, but it is closed for the company being in financial difficulties and in tax debt zone. The existing support system is focused on growth for start-ups and/or companies that are in growth stage.

### **Executive summary of Poland**

In contrast to the Baltic States, Polish experts assessed the support available in Poland in both the prevention and insolvency legal frameworks stage as business stimulating, and it is largely explained by the activity of organization "Early Warning Poland" in Poland. Polish experts point out that the current system is strong within the legal framework for insolvency, but still **needs to be improved to support entrepreneurs in times of financial difficulties**.

Like to the Baltic States, the **main obstacles in Poland** are: (1) **difficult access to risk capital** for a company in difficulties and (2) **late reaction of entrepreneurs** to seek for support. In Poland, other key barriers that have been point out also include (3) **unequal attitude of banks**, (4) **negative public attitude** towards business failures and (5) **negative attitude of entrepreneurs** towards business failures. The current Covid-19 pandemic and the ensuing economic recession have been stressed as a distinctively significant additional obstacle.

**The most significant factors** influencing the implementation of Poland's support, early warning and "second chance" system in the country are: (1) **insufficient funding for participation** in support from the part of entrepreneurs, (2) **low competencies of entrepreneurs** in business crisis prevention activities (including financial literacy, crisis management, etc.) and (3) **high fear of entrepreneurs to recognize** the inability to cope with the crisis in the company.

Polish experts, like Estonian experts, point to the low competence of entrepreneurs in business crisis prevention activities (including financial literacy, crisis management, etc.) and the high fear of entrepreneurs to acknowledge the inability to cope with the crisis in the company.

Polish experts assess the public's attitude towards business failures in Poland as rather favourable than unfavourable and point to the success of "Early Warning Poland", which is rated to the highest score, and the Ministry of Economy of Poland plans to expand it by setting up a regional network.

The Polish companies interviewed during the RestartBSR project, whose companies were facing financial difficulties, mentioned that the present success of their companies is largely due to the support of mentors from “Early Warning Poland”.

### **Consolidated executive summary of Poland and Baltic States**

RestartBSR project has found a significant difference between Polish and Baltic entrepreneurs, that Polish entrepreneurs are grateful for the support provided by “Early Warning Poland” and wish to get involved or are already involved in further support for others to help, unlike Baltic entrepreneurs that have a negative experience of the experienced crisis and for that an intense emotional bitterness about the gained experience remained.

In EU countries, the entrepreneurs that have received support (from any of existing EU support organizations), and successfully overcome their business crises **value the psychological support provided significantly higher than the use of specific analytical tools and/or mechanisms**. The proportion of support most often mentioned by the entrepreneurs is 80% for psychological support and 20% for technical support. This can be explained to some extent by the high level of stress of the entrepreneurs in crisis situations and the loss of productivity in the conditions of crisis and stress.

The support, early warning and “second chance” **ecosystem is different in the Baltic States and Poland**. In Poland, both government experts and entrepreneurs assess the existing support of both prevention and insolvency legal framework stage as business stimulating, unlike in the Baltic States. This assessment is largely explained by the highly successful operation of the organization “Early Warning Poland” in Poland, which supports entrepreneurs directly in the insolvency prevention phase and provides mentoring services during the insolvency legal framework phase, if necessary.

In the Baltic States, there are also various (different from the EWE approach) support tools for companies in financial difficulties, such as educational measures on insolvency proceedings, national taxpayers rating system, information available from the credit register, guidelines for the cases of out-of-court settlements, possibility to turn to insolvency support organizations for support anonymously, legal and out-of-court protection process, consultations in business support organizations, consultation opportunities in county development centres and rural development support funds, as well as consultations available in business consulting companies.

The entrepreneurs interviewed in scope of the RestartBSR project in the Baltics fragmentarily evaluate the support provided by the institutions of the Baltic States in the period when the entrepreneurs (company) are in financial difficulties. In turn, Polish entrepreneurs highly appreciate the support of the organization “Early Warning Poland”, which, to cite the entrepreneurs, has protected their companies from liquidation.

**In the Baltics, the support tools for companies in financial difficulties are rather analytical than mentor support-oriented, and this marks the most significant difference between Poland and the Baltic States.**

One of the companies in financial difficulties, interviewed within the RestartBSR project, was in incubation program for start-ups and, in contrast to the other Baltic entrepreneurs, highly appreciated the support the company was currently receiving, and largely **because of mentoring and networking services offered by the incubator environment**.

Overall, the entrepreneurs indicated that in all Baltic countries the business environment has intensive and positively stimulating support, however, it is not available to a company in financial difficulties if the company has even a minor tax debt (starting from 50 EUR). Thus, a common narrative of the Baltic problem have been outlined - a locked support door at the time when the company needs it the most and the entrepreneurs faces a holistic problem stigma, when, according to all entrepreneurs involved in the study, the businessman has to face not only the company's, but also its private life-related crises, leading to a significant drop in productivity (up to 90%), which further pushes companies into financial and problem stigma.

Additionally, in Latvia, unlike in Lithuania and Estonia, a disagreement between the administration (support provider) and entrepreneurs (support recipients) has been marked. In future, such a difference of opinion between the government and industry could stimulate a communication and feedback gap between entrepreneurs and public authorities, which is better to avoid as a preventive measure.

If to consolidated findings from regional perspective, the most significant obstacles faced by entrepreneurs in financial difficulties in the Baltic States and Poland have been levelled out as follows: (1) lack of information on restructuring opportunities, (2) insufficient efficiency of state and local government support services – the level of effectiveness of the available tools, services, mechanisms, and incentives level, (3) insufficient number of support services provided by the state and local government - lack of the available support tools, services, mechanisms, incentives, etc., (4) economic stagnation or recession, dishonest behaviour of the cooperation partner, learning on the difficulties in place, and (5) low availability of risk capital for a company in difficulties.

In addition, the late reaction of entrepreneurs to seek for support, especially emphasized by Polish and Estonian experts, is a significant obstacle.

Overall, both in the Baltic States and Poland, the public's attitude towards business failures is assessed as rather unfavourable than favourable. In turn, the attitude of state and local government policy towards business failures is rather favourable than unfavourable.

The most negatively assessed are the Baltic and Polish entrepreneurs' own attitudes towards business failures, which indicate that the attitudes towards business failures are rather unfavourable than favourable, and which mark the necessary reorientation of attitudes of businesses towards failures in all countries from blocking experience to the experience that would provide for successful business in the future.

### **Executive summary of the best EU support experience**

In the EU, there are several early warning, support and “second chance” organizations. The RestartBSR project carried out an in-depth evaluation of the six best systems in the EU: (1) in Germany, the “Team U” system; (2) in Denmark, the “Early Warning Denmark” system; (3) in Sweden, the “Företagsjouren” system; (4) in Belgium, the “Dyzo” system; (5) in France, the “60 000 Rebonds” system; (6) in the Netherlands, the “MKB Doorstart” system. These EU support, early warning and “second chance” models aim to provide advice to companies and entrepreneurs in financial difficulties, provide mentoring services for corporate restructuring, provide services for the rapid cessation of a business that cannot be rescued and start a new business.

The number of services provided by EU support, early warning and “second chance” support organizations identified in the RestartBSR project is very wide and covers a wide range of financial pre-crisis, crisis and post-crisis situations, from early warning when a company is not yet in crisis, but

stagnant to the support of the entrepreneurs when the latter is planning or has started another business after bankruptcy.

Some of the EU support organizations have their own specific support focus. For example, “MKB Doorstart” is very successful in cooperating with banks and is able to assist the entrepreneurs not only in the core of crisis, but also at a very early stage, when the company does not yet have direct financial difficulties, but the bank indicates early signs of risk. In turn, the “60,000 Rebonds” in France supports the entrepreneurs after bankruptcy situations, helping to restore self-confidence and to start a new business.

One of the largest of support systems is EWE, which operates in many countries, including Poland and Denmark. EWE uses the conceptual framework of support, early warning and “second chance”, defined by the EC and the OECD. In accordance with the defined model and its name, EWE’s activities provide support at an early warning stage by alerting the company before the start of financial difficulties.

However, according to the interviews with the entrepreneurs and support organizations experts, the activities of the organization are much broader and primarily provide support to companies in a financial crisis situation, helping to resolve it. In a broader sense, it provides support to the company or the entrepreneurs throughout the entire cycle of financial difficulties, from the first signs of financial difficulties to the foundation of a new company and providing for its growth if the previous company has been liquidated during the process.

Most of experts of EU support organizations point to the need to expand the activity, with a particular focus on prevention, early warning, entrepreneurs’ capacity improving, ensuring that the entrepreneurs turn to support in a timely manner, as time in crisis, as emphasized by absolutely all experts in support organizations, is the key component of how well a company succeeds in resolving a crisis. The most common reason for not doing so is limited financial resources available to the organization and the high demand for support services for the company in acute financial crisis, which forces the organization to focus the available resources on crisis solving here and now. It is likely that the priority for dealing with acute cases has been more pronounced at the time of conducting the RestartBSR project due to the shocks to companies caused by the Covid-19 crisis.

All support organizations have more in common than a different, and the most important component, which is emphasized by all organizations, is the presence of capable, knowledgeable and professionally trained consultants and mentors. The organizations emphasize the importance of company’s trust in the organization and mentor and that confidentiality and anonymity is guaranteed to the businessman. It is very important that the mentor that supports the businessman has business experience, including crisis management.

Part of organizations are funded by the state and EU development funds, part of organizations operates as shared funding organizations, where a part of the budget is allocated from donations, state or local government, EU development funds and a part of the funding is obtained for services provided and/or support programs. Some organizations earn additional income by cooperating with other institutions, providing them with a generalized expertise. The organization “Team U” has one of the most advanced funding models, where in addition to donations and revenues from services provided, the organization acts as a venture capital for the supported companies and is able to obtain additional funds from this activity.

Regarding the quality of the organization's work, absolutely all entrepreneurs that received support from support organizations expressed the highest appreciation and gratitude for the support provided, often stating that the organization helped them save their company, therefore, differences in the quality at the individual level between organizations have not been identified within the RestartBSR project.

As regards the organization of support activities, all support organizations have developed their own unique, methodology-based approach, which is obviously efficient in terms of the result - the support provided to entrepreneurs. To evaluate in detail the tools, methods, models and approaches offered by organizations, in-depth research is needed.

According to RestartBSR project findings and the practice of EWE and other similar organizations, entrepreneurs do not seek for help at an early stage. There are two additional factors enhancing this: the risk of losing control of their business if they seek a financial arrangement with creditors, and more importantly, the psychological trauma of recognizing defeat.

The organization “Team U” operates most economically, helping an average of 4,800 companies and entrepreneurs at the lowest cost per support contact per year.

The German support organization “Team U” uses the CRM model, tested in modern customer relationship management, which is probably one of the key components without other efficiency approaches, to create the most economically optimal support model compared to other EU organizations.

Overall, all the support, early warning and “second chance” organizations considered offer advisory support to the entrepreneurs that has experienced financial difficulties in the company in some way. The support organizations act as a missing link between the experts and specialists that professionally assist to the entrepreneurs in developing the most optimal growth roadmap in a crisis, pre-crisis or post-crisis situation.

The necessity for such a support appears because of several situation-specific aspects:

- 1) An entrepreneur in financial difficulties is in a high stress situation, which requires quick action, that, in turn, creates additional stress,
- 2) An entrepreneur acts outside its area of competence, which is already related to legal aspects,
- 3) In financial crisis situation, the entrepreneur does not have access to financial resources for business and legal consultants,
- 4) The entrepreneur is often already in tax debt zone, which further closes the door to available potential support and/or potential growth.

These specific circumstances of the situation have an extremely strong impact on the businessman and its ability to act productively in times of crisis, when a fast and constructive action is crucial to resolve the crisis.

The entrepreneur also often has no previous experience in crisis management. The entrepreneurs, who had experienced crises in the past, indicated that previous experience helped them to deal with the situation in a more constructive way and to be much better prepared. In turn, the entrepreneurs that faced crisis for the first time, report extremely high levels of stress and relative paralysis of operations and stigma.

A significant influencing factor not only in the Baltic States and Poland, but also in the entire EU, is the negative public attitude towards business failures. It is concluded that action is needed to change public attitudes towards business failure, which is fundamental in the context of support, early warning and the development of a “second chance” support system.



### 3. Regional policy recommendations, based on findings obtained during the RestartBSR project

**In the Baltic States, it is necessary to introduce an organization of support, early warning and “second chance” promotion as soon as possible. Within the framework of the RestartBSR project findings, interviews with entrepreneurs have provided clear evidence of the need for such a support organization.**

For early warning systems to be efficient, they need to actively involve risk groups, promote public education and awareness of risks, distribute warnings efficiently, and ensure continuous monitoring. A comprehensive and efficient organization of early warning system should have four main functions: **risk analysis, monitoring and warning, distribution and communication, and responsiveness, which includes support.**

The RestartBSR project findings **has not identified reasons for the Baltic States to develop their own, new unique support model**, as the available support models, existing in the EU and developed over several years, as concluded in the RestartBSR project, are effective and efficient.

The RestartBSR project findings **has not identified any significant obstacles** to the operation of any of the existing EU models in the Baltic States, especially given the successful pilot project of EW Poland, using EWE’s basic principles and circumstances that the “Team U” support model has already been informally operating in Estonia.

The RestartBSR project **identified that an existing model from Poland (EWE) or Germany (TeamU) could support Baltic entrepreneurs.** It is possible that international synergies can provide high added value, but pilot projects would be needed to prove such a hypothesis.

The upcoming organizations in the Baltic States **would need to consider adapting existing EU pillar model that already provides the widest possible support**, including early warning at its core and extensive support, including group support, for the entrepreneur to start a new business after bankruptcy. Currently, the organization “Team U” has one of the most advanced, most economic and extensive support models.

The Baltic States and Poland should **thoroughly assess the possibility of obtaining funding for the establishment and operation of a support organization** not only from the budgets of state and EU target funds, but also using other possible funding, based on the successful examples of other EU support organizations, like “Team U”. By raising budget in addition to dotation from national and EU funds, it would be possible to provide more support, which is currently one of the main challenges for EU support organizations.

Learning from the good practice of Poland and the experience of support organizations of the EU countries, it would be necessary for the Baltic States **to provide resources for public relations and advertising communication from the very beginning**, informing entrepreneurs about the possibility to receive support.

The Baltic States and Poland **should consider introducing modern customer management tools and systems in support organizations, such as CRM and others**, that help ensure the organisation’s economic productivity, inspired by the operations of the good practice transfer organization “Team U”.

The RestartBSR project has identified that the upcoming support organization **should be independent** of public authorities in its operations - it should be neutral, independent, reliable and data-anonymous.

Thus, the recommended newly established **support organization in the Baltic States should have the following characteristics:**

- (1) **Shared funding organization**, which is, in ideal situation, able to attract partial funding,
- (2) **A high awareness and reputation organization** with a high reputation leader, consultant, volunteer mentor and expert cooperation model organization,
- (3) **Extensive and high-quality public relations communication organization** that provides the organization with a wide recognition and helps to change the perception of business failures in the society,
- (4) **Based on a productive and high-quality customer relationship management model(s)**, that helps the organization to become more efficient,
- (5) **Strong and an approbated training program** for consultants and mentors,
- (6) **Full insolvency cycle support organization**, including support services in both early warning and post-bankruptcy situations,
- (7) **Highly discreet, neutral and confidential** against potentially repressive state institutions,
- (8) **Extensive networking** with banks, public authorities and other organizations seeking solutions to customers' debt problems,
- (9) **Based on the best practice** model of EU support organizations.

At the moment, **it is premature to shift the scales of support to the field of artificial intelligence diagnostics**, as so far neither theoretical research nor a practical mechanism for identifying high-reliability crisis identification data is identified. The existing best practices of EU support organizations, as well as countless other academic studies, point to the irrationality of the person who runs a business, firstly, and secondly, to its crucial role in being able to resolve (or not to resolve) the crisis, pertaining to the company. Best practice of EU support organizations shows that a combined support model, balancing psychological issues, data analysis and networking and cooperation support models, is currently the best-known way to support a entrepreneur/ company in a potential or current crisis.

To introduce support, early warning and “second chance” systems successfully and efficiently in the Baltic States and to improve the support of Poland and other EU member states, it is recommended that the EC and member states **agree on a common clear definition of support, early warning and “second chance”, as well as its elements and measurable values.**

It is recommended that the Baltic States evaluate in detail the possibilities of introducing support models EWE and/ or “TEAM U” of the support systems. The “TEAM U” model is the most economically optimal and service-efficient of the EU support models currently available. It is recommended to make detailed projective comparisons of the operations and economic benefits of both models, developing the basic principles of the Baltic States support organization.

The Ministries of Economy of the Baltic States and Poland are recommended to thoroughly assess the possibilities of obtaining funding for the establishment and operation of a support organization not only from the budgets of state and EU target funds, but also using other possible funding, based on successful examples of other EU support organizations. By raising the budget in addition to dotation from state and EU funds, it would be possible to provide a wider support, which is currently one of the main challenges for EU support organizations.

For the early warning system in the Baltic States to be efficient, it is recommended **to ensure that the Baltic support organization has four main support functions from the very beginning:** risk analysis, monitoring and warning, information distribution and communication and responsiveness that

includes support to companies and entrepreneurs in its broadest sense, as considered within the RestartBSR project.

When introducing the guidelines of the new EC Directive<sup>8</sup> to the national regulation of the Baltic States and Poland, it is recommended to consider the insolvency proceedings not only in the context of improving the legal framework, but also as a part of a dynamic and complex business environment, which is mainly the cause of a potential or current crisis in the company in cases of in cases of fair insolvency, assuming close cooperation between experts in both the legal and business support sectors, both in research and in the development of policy initiatives.

---

<sup>8</sup> Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

## 4. Leading policy recommendations for the states

### **LEADING POLICY RECOMMENDATIONS FOR THE COUNTRIES HOW TO BUILD AND STRENGTHEN THE INSTITUTIONAL ECOSYSTEM TO SUPPORT COMPANIES IN FINANCIAL DIFFICULTIES IN THE BALTIC STATES AND POLAND**

During the RestartBSR project, a lot of recommendations were developed for policy implementers in Latvia, Estonia, Lithuania, and Poland on building or strengthening institutional capacity to support companies in financial difficulties. The following leading recommendations were highlighted in the RestartBSR project as the most important ones to be realized in each of the countries.

#### **Estonia**

1. **To ensure periodical automatically generated company health-check reports** and nudging entrepreneurs to take actions.

Aim of the AI and machine learning reports: (a) provide homogeneous information's for all stakeholders – owners, council, and board members; (b) EW alerts and health report, would be accompanied with suggestion whom entrepreneur can contact for advisory service.

2. **To develop marketing and communications** for Early Warning/ Restart advisory service to entrepreneurs and first-tier contacts, so in case unexpected situation occur, entrepreneurs know where to seek for advice. First-tier contacts - family members and friends who have knowledge, whom to suggest to entrepreneur to contact. Among other communication options to develop one single portal for entrepreneurs where all information concerning entrepreneurship can be easily found, including EW counselling service provider contacts.

3. **To strengthen cooperation with external stakeholders**, e.g., accounting service providers, auditors, banks, etc. Aim of the cooperation: Use external stakeholders to influence entrepreneur in crisis to seek for help.

4. **To sustain developed competency model for consultants and mentors**. Continuously improve counselling process description and required tools. Standard training materials for consultants and mentors to ensure high level of counselling. Set up internal “certification” of both consultants and mentors.

5. **Re-define mentors' role and develop motivation package for mentors**. Evaluate options to use mentors and consultants from other services which aiming for similar goals like Early Warning and Restart. Motivation ideas Including: “certification” for mentors & networking and experience sharing. etc.

6. **To evaluate funding options, including public and private funding**, support for Early Warning Alert systems and Advise systems.

7. **To develop psychological counselling services for former business owners** who has went through bankruptcy process. Evaluate options to involve partner who could provide this service.

8. **Initiate “AA style” support group system** for former business owner who suffer from stress.

9. **To develop second chance apprenticeship.** After bankruptcy owner faces lack of self-confidence and lack of trust from business partners. To regain self-confidence one need time and opportunity to do something purposeful. By securing a purposeful job for entrepreneur we give him: (a) opportunity to have income, (b) time to go through cycle of renewal, and (c) regain self-confidence and trust of partners.

## Latvia

1. **To ensure strong political will** and decision to implement Directive (EU) 2019/1023 essentially not only formally, with complementing RESTART activities.
2. **To implement a two-level system:** coordination and executor.
3. **Implement one central coordination unit** - respected by Ministries of Economics, Finances, Justice, State Tax office and other relevant organizations. The central coordination unit should be state governed or state delegated function executor. The coordination unit supervises the executor level.
4. **Ensure executor level** – one or several private institutions that provide RESTART services to companies in distress situations.
5. **Ensure financing** – the best option state budget, as it will ensure long term solution and reduce risk of dishonest decisions taken by executor level institutions. Other options: structural funds, private organization co-financing or Horizon Europe Framework projects.
6. To avoid and limit the number of entrepreneurs in distress situations, **develop of entrepreneurial' education system that includes financial wellness, design thinking and business ethics**. The course should be online, free of charge and managed by the central coordination unit. The course can be accessible also through the State Tax office webpage, organizations working directly with entrepreneurs (agencies, associations, etc.)
7. **Ensure identification of companies in distress situation:** entrepreneurs by themselves, banks or other financial institutions, machine learning – analysing of report data submitted to state tax office, publicly available data.
8. **Ensure advertisement** – web solutions with high search engine ranking, social networks, traditional media. Clear and simple message.
9. **Ensure coordination unit**, executor units, mentors – with high reputation.
10. **Provide and ensure confidentiality and data protection at every step.**

## Poland

### Recommendations for the effective organization of the early warning system in Poland:

1. **Creation of free or low-paid consultancy for entrepreneurs** (preferably locally information on where to get help, and professional advice in macroregions), where they will be able to obtain information on the restructuring process, available tools, including financial and mentoring, and the possibility of obtaining help as well as on the subject of bankruptcy proceedings.
2. **Development of an AI** (artificial intelligence) **early warning system** - together with other players of the ecosystem for diagnosis in the form of a self-diagnostic test for entrepreneurs (signs of the crisis phase - green, yellow, red alert) - should be anonymous, safe and not recorded in any state database data - due to the low level of trust in public institutions.
3. **Development of a promotional and information campaign on a national scale**, where enterprises in a crisis can obtain the above-mentioned diagnosis and further real information on the aid process - after the development and implementation of the aid system and the appointment of information points.
4. **Affiliation and collaboration with an existing international network of mentors** (with the possibility of cross-border education, exchange of experiences and possible international mentoring (possibility of cooperation within the EWE network, with the participation of the Polish public institution coordinating the support)).
5. **Use of the Early Warning Europe e-learning platform** that consolidates all tools supporting entrepreneurs in crisis, including tools developed in Restart BSR.
6. **Providing regular financial and organizational support from decision makers** in order to maintain the continuity of the system operation - at the EU and national level.
7. **Raising awareness** of entrepreneurs through the financing system and conducting trainings **on how to manage finances, a company in crisis**, how to run a company that is struggling with financial difficulties (introductory training such as a driving course for everyone willing to learn). Preferably an e-learning system and thematic webinars.
8. **Organization of a network of support groups for entrepreneurs** - let's talk about failure and problems (e.g., employers' organizations, business clubs, etc.).
9. **The need to obtain support at the policy level** in the European Union (knowledge, best practices, money).
10. **Providing psychological support for entrepreneurs** - soft skills, psychological tools and knowledge for consultants and mentors who, if necessary, are psychologists - taking this factor into account in building the support system.

## **Recommendations for the government to support the early warning system in Poland:**

1. **Further work on the Restructuring and Recovery Law, Consumer Bankruptcy Law - clarification of the provisions.**
2. **Adaptation of support solutions and support tools for micro and small businesses.**  
Simplifying the restructuring process and reducing costs.
3. **Creation of new national programs** to finance the initiative of creating a system of assistance
4. **Establishing a dialogue with financing institutions** / banks regarding the obligation to inform about the place created for enterprises in crisis, where they can obtain help and support.
5. **Creation of a system of so-called whistleblowers** - ZUS, Tax Office, accounting companies, which would be obliged to inform the company about the threatened situation and the place where it can get help.
6. **Strengthening the out-of-court negotiation** process with creditors.
7. **Ensuring statutory protection of the company against debt collection** for the duration of negotiations with creditors (e.g., 4 months, analogous to COVID-19).
8. **Implementation of the "Professional Restart" or "Early Warning System" programs** (implemented by the Polish Agency for Enterprise Development) into a continuous support system, including mentoring as a key success factor (not project activities on small-scale enterprises).
9. **Strengthening the Social Dialogue Councils** - the voice of entrepreneurs - in creating solutions to help in the crisis and for restarters.
10. **Maintaining the system of loans and guarantees** (introduced during the COVID-19 period) to save companies in a crisis.



## **Lithuania**

1. **To develop support mechanism that provides alerts before problem arises.** Possible sources - financial, statistical, market, seasonal data, habits of consumers, etc.
2. **Improve entrepreneur's financial and crises management literacy** - risk and crisis management.
3. **To ensure one stop information online** for entrepreneurs in difficulties.
4. **To raise awareness of exiting support mechanisms accessible for companies,** who have financial difficulties and **to develop new mechanisms and tools.**
5. **To ensure mentorship programme during instability period** for company.
6. **To ensure entrepreneurs ability to express themselves,** to get support and be inspired, that problem can be solved.
7. **Encourage companies to communicate with each other and share their experiences,** also failures - what they would have been done differently.
8. **Ensure awareness of available support** that it can be used when needed.
9. **Make insolvency process in Lithuania less complicated,** by creating a simplified insolvency management process.
10. To make actions **to change business culture of being afraid of failure.**

When introducing the guidelines of the new EC Directive<sup>9</sup> to the national regulation of the Baltics and Poland pertaining to the artificial intelligence mechanism for early warning data, it is recommended to consider the numerous academic studies conducted in this field for more than half a century, basing the mechanism on maximally rationale econometric and risk analysis-based models. It is recommended that the Baltic States and, if possible, Poland conduct a joint, in-depth research to identify the most efficient models.

It is recommended to conduct in-depth research to detect the efficiency of support organizations, revealing the number of cases of companies' insolvency in the countries that have been a coincidence of unexpected circumstances (a sudden crisis, dishonest actions of business partners, personal crises of the businessman that significantly affected its business (illness, tragedy, etc.)), and the proportion of companies' financial or crisis management incompetence. The findings of such research will provide a better understanding of early warning and "second chance" environments and thus the efficiency of support organizations, providing a better support to business environments.

The RestartBSR project recommends to improve regular annual assessment of support, early warning and "second chance" systems, including more detailed and sophisticated evaluation components in both international and national level country evaluations. The RestartBSR outlines some of the necessary improvements, but their complete development would require a wider team of international experts. Such improved assessments would allow the EU member states to evolutionary improve their support systems, thus improving both the EU and national business environment and the economy overall.

---

<sup>9</sup> Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

## 5. Glossary of Terms

<b>RestartBSR project</b>	<p>Interreg Baltic Sea Region project RestartBSR.</p> <p>The RestartBSR project is very closely linked to Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring regulation, debt cancellation and disqualification with target to increase the efficiency of restructuring, insolvency and debt cancellation proceedings, which requires all Member States of the European Union to provide an early warning tool (s).</p> <p>The RestartBSR project has united 6 partners - the Ministry of Economics of the Republic of Latvia, the Latvian Technological Centre Foundation, the Polish business support organization “Lower Silesian Intermediate Body”, Design School Kolding, Vilnius Gediminas Technical University and the Estonian business support organization “Harju County Entrepreneurship and Development Consultancy” in order to facilitate the implementation of a business support model in four pilot countries - Latvia, Estonia, Lithuania and Poland, that would meet both the requirements of the above Directive and be the most effective solution for financially distressed companies and its development, implementation, institutions, persons involved in maintenance.</p> <p>Organization “Lower Silesian Intermediate Body” is the leading partner of RestartBSR project, and all partners has joint with the aim to build institutional capacity to support companies in financial difficulties in the Baltic Sea Region.</p>
<b>Restart BSR Research</b>	<p>The RestartBSR conducted research in 2020 “Analysis of the best European support, early warning and second-chance systems transferability in the Baltic Sea region countries”/ 2020/ EM 2019/131</p>
<b>EU early warning, support and “second chance” best practice</b>	<p>The RestartBSR project has identified 6 systems as the best EU support, early warning and “second chance” systems that have been established: 1) in Germany, the “Team U” system; 2) in Denmark, the Early Warning Denmark system; 3) in Sweden, the “Företagsjouren” system; 4) in Belgium, the “Dyzo” system; 5) in France, the “60,000 Rebonds” system; 6) in the Netherlands, the “MKB Doorstart” system. The purpose of these European support, early warning and “second chance” systems is to provide advice to companies and businessmen in financial difficulties, to provide mentoring services for company restructuring, to provide services for fast termination of a business that cannot be rescued, or to start a new business.</p>
<b>RestartBSR countries</b>	<p>Poland, Latvia, Lithuania and Estonia</p>
<b>OECD</b>	<p>The Organisation for Economic Co-operation and Development</p>
<b>EC</b>	<p>European Commission</p>
<b>EU</b>	<p>European Union</p>
<b>EWE</b>	<p>The Organization “Early Warning Europe”</p>
<b>EWS</b>	<p>Early Warning System</p>

<b>SME<sup>10</sup></b>	<p>A micro-enterprise is an enterprise that employs fewer than 10 persons and annual turnover (revenue over a specified period) or balance sheet (statement of assets and liabilities of the enterprise) of which does not exceed EUR 2 million.</p> <p>A small enterprise is an enterprise that employs fewer than 50 persons and annual turnover or balance sheet total of which does not exceed EUR 10 million.</p> <p>A medium-sized enterprise is an enterprise that employs fewer than 250 persons and annual turnover of which does not exceed EUR 50 million or balance sheet total of which does not exceed EUR 43 million.</p>
<b>Company in financial difficulties</b>	A company with limited ability to settle its liabilities/payments and/or to make profit.
<b>AI</b>	Artificial intelligence

---

<sup>10</sup> <https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/>

# ProjectBSR Manual 2021

## GUIDELINES FOR POLICY MAKERS HOW TO BUILD AND STRENGTHEN THE INSTITUTIONAL ECOSYSTEM TO SUPPORT COMPANIES IN FINANCIAL DIFFICULTIES IN THE BALTIC STATES AND POLAND

What is early warning, support and “second chance” pillar systems for entrepreneurs and companies in crises? How it can be implanted in the Baltic Sea Region countries Poland and the Baltic States? How it should be measured and how best practices from other EU countries could be transferred? Understanding the scale of early warning, support and “second chance” activities, the characteristics of existing obstacles and influencing factors, RestartBSR Manual 2021 is the international reference guide for policy makers to build and strengthen the institutional ecosystem to support companies in financial difficulties in the Baltic States and Poland. The main goal of several years of international experts’ cooperation, despite the challenging conditions of Covid-19, was to develop guidelines that are as accessible and useful as possible to make a significant contribution to the Baltic Sea economies.

