

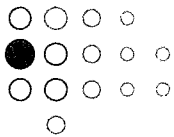
# Resolving Sovereign Debt Crises

## Towards a Fair and Transparent International Insolvency Framework

**JÜRGEN KAISER**  
September 2010

- Due to the global financial crisis, external sovereign debt has again become a problem to a broad range of countries – from European high-income countries to the poorest states on earth – even after they had obtained debt relief through existing multilateral initiatives.
- Despite long-standing experiences with sovereign insolvencies, however, no mechanism presently exists to deal with the complex debt structures of many countries in a comprehensive way. Existing debt workout procedures – such as the Paris Club, HIPC/MDRI, or Brady-style debt conversion – have either been one-off exercises not meant to be applied as a permanent mechanism, or they are reinforcing collective action problems for being piecemeal in character.
- This study therefore argues to apply principles and procedures of domestic insolvency to sovereigns, in order to reach a fair and sustainable debt workout. It explains the principles of an ad-hoc or an institutionalised framework, and describes the possibilities to obtain political support and technical advice for countries that may find themselves in need of an orderly debt workout process.

**C 264486**



**Contents**

1 240 279 728

**Introduction: Greece and the Resurgence of Sovereign Debt. . . . .3**

**1. The Persistence of Sovereign Debt as Systemic Problem in the Global South . . . . .3**

**2. Debt Management from the Crisis of the 1980s to the Debt Sustainability Framework. . . . .4**

2.1 The Paris and London Clubs. . . . .5

2.2 The Heavily Indebted Countries Initiative and the Multilateral Debt Relief Initiative . . . .6

2.3 Non-negotiated Debt Reductions . . . . .8

2.4 The Debt Sustainability Framework: Preventing Future Debt Crisis? . . . . .9

**3. Shortcomings of Current Sovereign Debt Management: The Need for Reform . . . . .10**

3.1 Paying the Price for Inefficient Crisis Resolution . . . . .10

3.2 Incoherence between Various Negotiation Fora . . . . .11

3.3 Conflicts of Interests on the Creditors' Side. . . . .13

3.4 Creditors as Insolvency Judges . . . . .13

**4. Main Proposals for International Insolvency Procedures . . . . .16**

4.1 Principles for Settling Sovereign Debt Disputes . . . . .16

4.2 Ad-hoc Arbitration Process . . . . .17

4.3 The Sovereign Debt Restructuring Mechanism and Its Impact on the Global Debate . .18

4.4 An International Insolvency Court . . . . .20

4.5 Pros and Cons of the Above Options. . . . .22

**5. The Political Debate . . . . .23**

5.1 From Adam Smith to »Financing for Development«:  
Calls for a Sovereign Insolvency Framework. . . . .23

5.2 Existing Multilateral and National Political Commitments . . . . .26

**6. Practical Steps towards Resolving a Sovereign Debt Crisis. . . . .28**

6.1 Political and Legal Scope for Debtor Governments. . . . .28

6.2 A Step-by-Step Guide to a Fair and Transparent Debt Workout Procedure. . . . .29

6.3 Political Support for Governments Seeking a Fair and Comprehensive Debt Workout .31

6.4 Dealing with Arguments against an International Insolvency Framework. . . . .32

**Selected Bibliography and Internet Links . . . . .35**

**Literature . . . . .36**

**Glossary . . . . .38**

**List of Abbreviations . . . . .39**