



Eighth UNCTAD Debt Management Conference

Geneva, 14 - 16 November 2011

Debt Resolution Mechanisms: Should there be a Statutory Mechanism for Resolving Debt Crises?

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

Should there be a Statutory Mechanism for Resolving Debt Crisis?

UNCTAD-DMFAS

Geneva, November 2011

Yes

A Statutory Mechanism for Resolving Debt Crises



1. Learning from history
2. What would make a difference?
3. Where are we in the process?
4. A small step for a man...

1. Learning from history

“Third World” Debt Crisis from 1982 until 2011

- Denial of solvency risk
- Pour in fresh money
- Shift risk to the public sector
- Mission creep towards relief under serial Paris Club terms
- Extend relief to near complete write-downs under HIPC/MDRI

Greek /Euro crisis 2009- 2011

- Denial of solvency risk
- Bilateral and EFSF crisis financing
- ECB intervention
- 21% relief offer from IIF
- 50% demand by EU governments
- go beyond 50% for a considerably smaller number of creditors

1. Learning from history



- Loss of precious time
- Increase costs of ultimate write-off
- Increase social costs to debtor
- Shift costs from the private to the public sector
- Provide incentive towards risky lending
- A one-time write-off is no solution to a systemic problem

2. What would make a difference?



A fair and efficient process will obey three principles:

- Comprehensive process
- Independent assessment of the sovereign debtor's need for relief.
- Independent Decision making on debt relief.

2. What would make a difference?



Independent decision making can function through

- ❖ an insolvency court
- ❖ ad-hoc arbitration process
- Intermediary steps like a mediation process (Indonesia 1969)
- Sovereign debt management has always been informal and driven by solutions to individual cases.
- Debtors do not logically have to comply with rules defined by their creditors - as long as they define alternatives.

3. Where are we in the process?



- Academic proposals and Swiss government's initiative since the 1980ies
- UN Financing for Development Conferences 2002 and 2009
- IMF's SDRM in 2001-3
- UN Conference on the Global Financial Crisis
- Governments of Norway and Germany have committed to work towards the establishment of an international insolvency framework
- UNCTAD project on responsible Borrowing and Lending

4. A small step for a man...



Roundtable at the 8th UNCTAD Debt Management Conference, Geneva

Practical options for a fair global debt workout

Wednesday, 16 November 2011,
2.30 p.m. to 4 p.m.

Palais des Nations, Room XXIII