

**Kobre & Kim's Cross-Border
Disputes Team**

FEBRUARY 15, 2024

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Non-Traditional Sovereign Debt Defaults Recovery Strategies for International Bondholders

As sovereign defaults rise - Ethiopia defaulted recently in December 2023 - distressed investors are seeing more opportunities to improve the value of their claims and enforce against sovereigns. Cross-border strategies targeting unconventional vulnerabilities around the world could lead to the highest chances of success.

Sovereign defaults are increasing influenced by increased government spending post-pandemic, geopolitical risk, and climate change. Most recently, **Ethiopia defaulted on its debt in December 2023**, joining eleven other African countries. This has created opportunities for distressed investors experienced in enforcing against sovereigns.

Bondholders may be able to improve the value of their claims by deploying strategies targeting unconventional vulnerabilities around the world:

1. **Sovereign Wealth.** An increasing number of sovereigns hold significant pools of liquid assets outside their borders in sovereign wealth funds, often in creditor-friendly jurisdictions with a favorable legal landscape for enforcement. Depending on the structure and purpose of the fund, which can determine whether the fund's assets are considered property of the sovereign itself and whether they are exempt from sovereign immunity, steps can be taken to put such funds in jeopardy.
2. **Future Receivables.** When the sovereign is owed money from contracts or unrelated legal claims, a court-appointed receiver may allow creditors to take control of future receivables, preserving them for monetization while shielding them from competing creditors. Various jurisdictions' laws allow receiverships to gather receivables as they accrue over time and then pass them along to the creditor. This could increase both the recoverability and value of bondholders' claim.
3. **Alternate Pathways.** Investors should pursue strategies such as applying for judicial discovery to identify the worldwide assets of a sovereign; pursuing assets of state-owned companies as the state's "alter ego"; and identifying state-owned real property used for commercial, rather than diplomatic, purposes. They can also go beyond assets to strike alliances or impact relationships with other government and quasi-government bodies, such as the World Bank. All these creative strategies that improve the prospects of recovery can

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also increase the traded value of the claims.

For investors pursuing defaulted sovereigns, an unconventional cross-border enforcement strategy may increase their chances of achieving a desired return.

About Kobre & Kim

Kobre & Kim is a conflict-free global law firm focused on disputes and investigations, often involving fraud and misconduct. The firm:

- Acts on behalf of creditors to monetize high-value bonds, loans, judgments, and arbitration awards, with most of our matters involving claims with face values of US \$100 million+ to several billion USD.
- Has extensive experience handling claims and enforcement matters against sovereign governments and related entities, and understands the unique issues and opportunities in such enforcement campaigns.
- Is able to act in jurisdictions across North and South America, EMEA, Asia, and key offshore financial centers in cases involving closely coordinated, cross-border proceedings.