



Promoting Responsible Sovereign Lending and Borrowing

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Overview

- Asymmetry between rules governing international trade and those governing sovereign financing :Myths about sovereign financing
- Characteristics of modern financing
- Attempts to establish rules and principles
- Debt crisis prevention is the aim of the UNCTAD initiative
- What UNCTAD has achieved so far

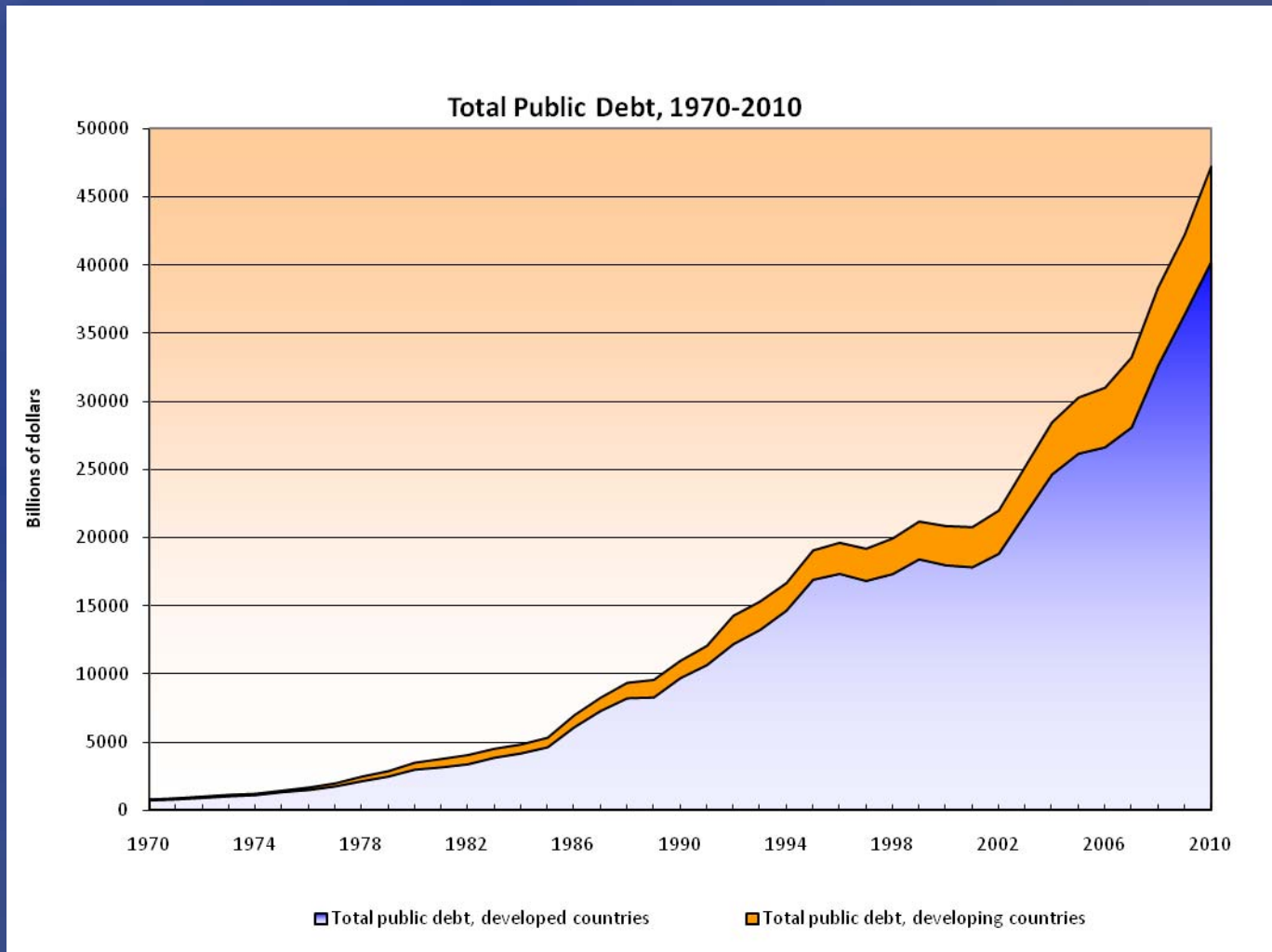


Asymmetry in rules governing international trade and those governing Sovereign financing

- Rules and regulations for international trade (detailed and clear cut)
- Rules for sovereign financing (sparse and more via moral suasion)



Total public debt was almost 3 times of world trade in 2009

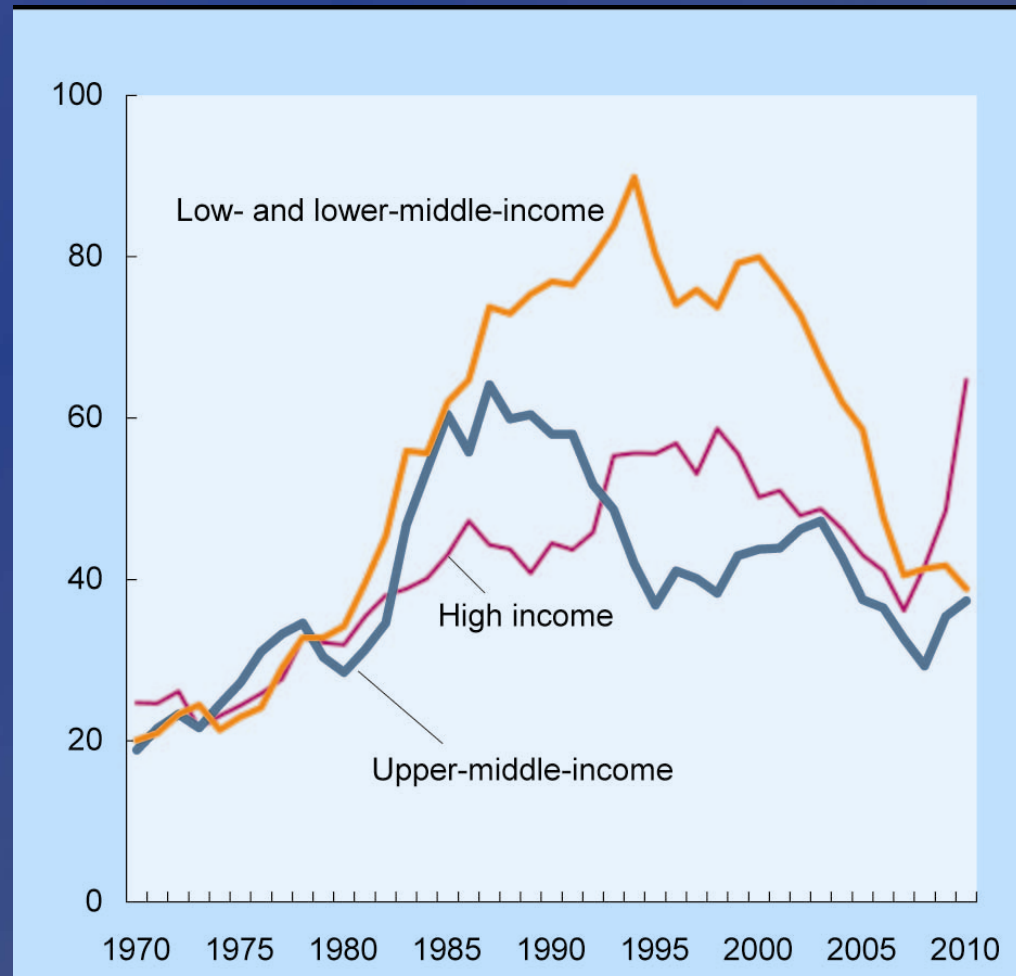




Recent trends in public debt in developed and developing countries

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Ratio of public debt to GDP by income group, 1970–2010
(Median, in per cent) (TDR 2011)





Myth about Sovereign financing

- 1970s: “Countries don’t go bust ”;
- Up to 2008: only developing countries go bust (Basel accords: risk free OECD government obligations);
- Credit rating agencies know better the sovereign risks (Basel II)



Characteristics of Modern Financing

- Overzealousness and excessive risk-taking on the part of lenders and borrowers during good years
- Financial interconnectedness makes contagion swifter , more severe and larger in scale
- Increasing financial instability will stay
- Fallible market and lack of prophets of debt crises
- Lack of financial sophistication of some LIC borrowers
- LICs' vulnerability to external shocks
- Changing debt composition



Financial deregulation was one of the main factors leading to the global crisis

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- Financial deregulation: (TDR 2011)
 - Led to a large, opaque and undercapitalized “shadow banking system”
 - Increased the concentration in the traditional banking segment in a few “to big to fail” (and “too powerful to regulate”) institutions
 - Reduced the diversity of the financial system and increased the systemic risk
- While government regulation has weakened, its lender-of-last-resort support to the financial system has increased, and even extends to the shadow banking system.



What are the objectives of UNCTAD Principles?

- Debt crisis prevention
- Enhance financial stability and long term sustainability
- Contribute to good debt management





A paradigm shift in debt crisis prevention: emphasis on responsible behaviour as the first line of defense

- To set principles and norms of prudent and responsible lending and borrowing and encourage behavioral change.
- Lenders and borrowers are both held responsible. Debtors' problems are also those of the creditors



UNCTAD initiative to fill in a gap

- Unlike international trade, there are no globally accepted rules for sovereign financing
- Over the years, multilateral institutions, NGOs, and the private sector have tried to tackle the problem and to fill in the void, yet with no comprehensive approach and limiting to certain groups of countries or certain instruments



Why UNCTAD?

- **Neutrality: neither creditor nor borrower**
- **Universal and equal membership**
- **Developmental approach**



Transparent and inclusive approach by UNCTAD

- An expert group was set up comprising eminent representatives of all stakeholders with very different views
- Bern and Berlin meetings
- All discussions and exchanges have been reported and taken into consideration



United Nations General Assembly resolution

adopted in Feb. 2011(A/65/144)

.....encourages Member States, the Bretton Woods institutions, the regional development banks and other relevant multilateral financial institutions and stakeholders to pursue the ongoing discussions within the framework of the initiative of the United Nations Conference on Trade and Development to promote responsible sovereign lending and borrowing, taking into account the work on this issue carried out by other organizations and forums. (paragraph 3)



LDC IV: Programme of Action

para 120: “Long-term sustainability of debt depends on, inter alia, responsible lending and borrowing by all creditors and debtors, sustainable economic growth,.....” 2011 in Istanbul



Strong support from countries

Support from both developed and developing has been encouraging.





UNCTAD initiative on promoting Responsible Sovereign Lending and Borrowing

After more a year's in-depth exchanges of views in the expert group composed of world famous experts, the draft principles were released in May 2011



What are new with the UNCTAD principles?

- A. Universal and holistic
- B. Co-responsibility. Explicit responsibilities of lenders and borrowers
- C. Well rooted in domestic laws



Possible ways of triggering implementation

- 1) Through declarations, a treaty making process could be initiated;
- 2) Soft law instruments can have an influence on the creation of customary international law, and
- 3) countries may adopt the *Principles* unilaterally.



The need of a fair, orderly and faster debt work out system



You are welcome to participate in
UNCTAD 8th Debt Management
Conference, 14-16 November in
Geneva.

Thank you