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Development-centred globalization:

Towards inclusive and sustainable growth and development

Panel discussion: Debt Crises Prevention and Management

Note by the UNCTAD secretariat

Sunday, 22 April 2012, 5.30 p.m.–8.30 p.m.

I. Background

1. There is an asymmetry between rules governing international trade and those governing international financing. Rules and regulations for international trade are detailed and clear-cut while they are sparse for international finance, including sovereign borrowing and lending to sovereigns, even though total public debt of developed and developing countries has been much higher than the total value of world trade.
2. Sovereign financing is a double-edged sword. It can be a powerful tool for promoting economic development, but it can also lead to debt distress and serious destruction of economic value. Countries are at risk of suffering from debt distress if public debt is not handled responsibly, for example (a) instances of lack of proper due diligence and approval; and (b) absence of giving due consideration to possible negative externalities when contracting debt. Financial deregulation in past decades has encouraged excessive risk-taking and accentuated herd behaviour, making sovereign financing ever more treacherous than before. In addition, global interconnectedness and the change in debt composition from predominantly syndicated bank lending to bond financing have made contagion swifter, more severe and larger in scale.
3. Lack of globally agreed rules and regulations guiding sovereign financing have contributed to many instances of irresponsible sovereign borrowing and lending to sovereigns. There was actually unprecedented risk-taking by lenders and borrowers during the boom years before the crisis, with responsibility and accountability missing on both sides. Responsible behaviour by sovereign lenders and borrowers is the first line of defence against debt crisis and is crucial to the promotion of sustainable and good-quality finance.

A set of principles that can fill in this gap in the rules that guide sovereign financing would consist of a public good benefiting both sovereign lenders and borrowers.

4. UNCTAD is the focal point within the United Nations system for dealing with debt issues and it has long experience in research and analysis, and technical assistance in debt management. With its universal and equal membership and its neutrality as being neither creditor nor borrower, UNCTAD is well poised to undertake the task of formulating a set of principles to guide sovereign finance by working together with all stakeholders.

5. In 2008, at the height of the global financial crisis, UNCTAD launched the initiative through the establishment of an Expert Group to formulate the draft of the Principles on Responsible Sovereign Lending and Borrowing. The Expert Group is composed of (a) prominent specialists in law, finance and economics; (b) senior representatives of non-governmental organizations; and (c) the private sector and observers from multilateral financial institutions. After more than a year's open, transparent and inclusive dialogue among all stakeholders, a set of draft Principles emerged in May 2011, which was holistic and emphasized co-responsibility between lenders and borrowers in the field of sovereign financing on a global basis. The first draft was further reviewed at various high-level regional consultative meetings organized to seek feedback from member States. Views and proposals from these meetings and comments received from governments and debt experts were taken into consideration and resulted in the second draft of the Principles issued in November 2011.

6. The initiative gained further momentum from the United Nations General Assembly resolutions, which have repeatedly underlined the importance of the UNCTAD initiative and encouraged all stakeholders to participate in the discussions.

II. Purpose

7. UNCTAD will present a consolidated version of the Principles on Responsible Sovereign Lending and Borrowing at UNCTAD XIII in Doha, thus entering a new phase of the initiative, which aims at providing a forum for debate on responsible practices and developing a set of globally accepted principles and practices relating to sovereign financing.

8. This consolidated version of the Principles is the outcome of a long series of bilateral and regional consultations with experts and governments on its contents and objectives. More than 60 countries have been consulted during this exercise. All essential observations from such consultations have been fed back to the initiative's Expert Group and this has resulted in substantial refinements of the Principles.

9. Throughout these consultations, a growing number of countries and experts are converging around both the need for and the content of these Principles. Thus, a new phase of consensus-building geared towards engaging member States in endorsing and implementing these Principles is now starting.

10. In an attempt to spur the new endorsement phase of the Initiative on Responsible Sovereign Financing, the Panel Discussion on Debt Crises Prevention and Management will highlight the growing consensus stemming from the consultations conducted. The intervention of focus countries supporting them before, during and after UNCTAD XIII would represent a success in terms of global coordination on debt issues.

III. Outcome

11. Countries ready to do so would indicate their endorsement of the Principles and/or commitment to their implementation. Countries will also discuss and share experiences on the links between the principle and proper debt management including the formulation of debt strategies, the asset and liability framework in public debt management and risk management,.

IV. Organization

12. The Panel Discussion on Debt Crises Prevention and Management is conducted as a discussion among representatives of member States. High-profile experts will be present to explain the rationale behind individual principles and answer questions as needed. The event has two sessions built around the central theme of the prevention – through the Principles – and the management of sovereign debt crises. These sessions will entail reflections on (a) the Principles on Responsible Sovereign Lending and Borrowing, and (b) the implementation options of the Principles and the linkages with debt management.

Agenda

5.30 p.m. – 5.50 p.m.	Keynote Speech
5.50 p.m. – 6.50 p.m.	Principles on Responsible Sovereign Lending and Borrowing
6.50 p.m. – 7.05 p.m.	Break
7.05 p.m. – 8.15 p.m.	Implementation Options and linkages with debt management
8.15 p.m. – 8.30 p.m.	Concluding remarks

V. Documents

13. Documents include:

- (a) Consolidated version of the Principles on Responsible Sovereign Lending and Borrowing;
- (b) Support documents on the implementation of the Principles; and
- (c) Academic papers on the prevention and management of debt crises.

VI. Contact

14. The contact person is Ms. Yuefen Li, Head, Debt and Development Finance Branch, Division on Globalization and Development Strategies.
