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.

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. Such cases can include lack of proper due diligence and approval and absence of giving due consideration to possible negative externalities when contracting debt. Financial deregulation in the 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.

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 behavior by sovereign lenders and borrowers is an important line of defense 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 benefitting both sovereign lenders and borrowers.

UNCTAD is the focal point within the United Nations system for dealing with debt issues and it has a long experience in research and analysis, and technical assistance in debt management. With its universal membership and its neutrality, UNCTAD is well placed to promote the formulation of a set of principles to guide sovereign finance by working together with all stakeholders.

In 2008, at the height of the global financial crisis UNCTAD launched an initiative towards this end, with support from the Government of Norway, 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 prominent specialists in law, finance and economics; senior representatives of non-governmental organizations; the private sector and observers from multilateral financial institutions. After a transparent and inclusive dialogue among all stakeholders, a set of draft Principles emerged in May 2011, emphasizing 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. 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.

The initiative gained further momentum from the United Nations General Assembly resolutions which have underlined the importance of the UNCTAD initiative and encouraged all stakeholders to participate in the discussions.
This event will bring together senior policy makers and prominent academia to discuss about debt crisis prevention and management, UNCTAD will present a consolidated version of the Principles on Responsible Sovereign Lending and Borrowing in Doha, thus entering a new phase of the Initiative which aims at providing a forum for debate on responsible financial practices and developing a set of globally accepted principles and practices relating to sovereign financing.

This consolidated version of the Principles is the outcome of a long series of bilateral and regional consultations, as a result of which 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.

The High Level 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.

Policy options for debt crisis prevention and management will be debated. Countries will discuss and share experiences on the links between the Principles and proper debt management including the formulation of debt strategies, the asset and liability framework in public debt management and risk management. Those countries ready to do so will indicate their endorsement of the Principles on Responsible Sovereign Lending and Borrowing and/or commitment to their implementation.

The Panel Discussion on Debt Crises Prevention and Management is conducted as a discussion among representatives of Member States, with the support of high profile experts to explain the rationale behind individual principles and answer questions as needed. The Panel will proceed in two segments, namely (a) debt crisis prevention and management, and (b) the Principles on Responsible Sovereign Lending and Borrowing, the implementation options of the Principles and the linkages with debt management.

5.30 – 5.50 Keynote Speech on debt crisis prevention and management
5.50 – 6.00 Q & A
6.00 – 6.50 Principles on Responsible Sovereign Lending and Borrowing
6.50 – 7.05 Break
7.05 – 8.15 Implementation Options and linkages with debt management
8.15 – 8.30 Concluding remarks

For more information
www.unctadxiii.org
unctadxiii@unctad.org
Follow us on
http://twitter.com/unctadxiii

CONTACT:
Ms. Yuefen LI, Head, Debt and Development Finance Branch,
Division on Globalizations and Development Strategies