

## *UNCTAD INITIATIVES ON RESPONSIBLE SOVEREIGN FINANCING PRINCIPLES AND DEBT WORKOUT MECHANISM*

*Briefing Notes - 2013*

In 2009, as the focal point of the United Nations system on debt issues, UNCTAD began an initiative promoting responsible sovereign financing. The absence of formal international law in sovereign debts governance called for a coherent set of principles with a universal applicability. This initiative was undertaken in response to the increasing concerns following a decade of financial deregulation and the frequent occurrence of debt crises. The Principles on promoting Responsible Lending and Borrowing (PRSLB) were thus elaborated with a view to reducing the prevalence of debt crises by focusing essentially (but not exclusively) on debt crisis prevention.

The first phase of this initiative encompassed the design of a set of Principles promoting Responsible Sovereign lending and

borrowing. This normative contribution identifies the basic general principles applied to sovereign lending and borrowing and also elaborates on the implications of these standards with the objective of promoting a set of internationally agreed and a widely endorsed principles.

The PRSLB were elaborated in an inclusive and transparent way. They were initially designed by an UNCTAD coordinated expert group composed of 14 world renowned academics and professionals from the private sector, representatives of the NGOs, observers from the IMF, the World Bank and the Paris Club. The draft Principles were then circulated to all the UN Member States and discussed in regional meetings in Asia, Latin America, the Middle-East and Africa and bilaterally with interested EU countries, the US, and Norway. In total,

### *UNCTAD's Work on external debt in the General Assembly*

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The General Assembly has been supporting the initiative through its resolutions on external debt.

Every year Member States representatives from all 193 countries debate, formulate and approve the terms of UNCTAD's fields of activities in the area of sovereign debt.

For the past three years, Members States repeatedly stressed "the importance of responsible lending and borrowing", emphasizing that creditors and debtors must share responsibility for preventing unsustainable debt situations, and encouraging Member States, the Bretton Woods institutions and other relevant multilateral financial institutions and stakeholders work together within the UN framework.

more than 68 countries have actively participated in the drafting of the PRSLB.

Since their opening for endorsement in April 2012, the PRSLB, which are voluntary principles, have been endorsed by 13 countries including Argentina, Brazil, Cameroon, Colombia (pre endorsed), Gabon, Germany, Honduras, Italy, Mauritania, Morocco, Nepal, Norway and Paraguay. More countries are actively going through domestic consultations regarding their endorsement. UNCTAD is currently working on the guidelines for the implementation of the PRSLB.

As part of the second phase of the initiative, UNCTAD is now embarking on sovereign default resolutions. Following the 2008 economic crisis and its negative consequences on the debt situation of many countries, the new GA resolution 2012 has given the UN the explicit mandate to work on the debt workout mechanism (OP27) together with relevant international institutions.

UNCTAD, which has been working on the topic for decades, has just started in January a multi-million dollar project on sovereign debt restructuring.

This initiative began in January 2013 with a brainstorming meeting leading to a general acknowledgement of the issues to be resolved. Procrastination, creditor coordination and forum fragmentation were identified as encapsulating the heart of the concerns in this field. Further to this meeting, UNCTAD gathered a Working Group composed of around 20 highly renowned specialists in charge of designing the DWM, one building block at a time. The first element on the rules of engagement post default is in the course of elaboration. Member States are welcome to join the initiative and provide input on a regular or ad-hoc basis prior each building block's release.

The support for UNCTAD's initiative was reiterated during the 2012 Doha Conference leading to the adoption of UNCTAD's mandate for the next four years. Member States agreed that "adequate regulation and supervision of financial markets and debt management and promotion of responsible sovereign lending and borrowing can play important roles in regard to promoting financial stability as well as with respect to crisis prevention and resolution mechanisms."

FOR MORE INFORMATION ON THE INITIATIVES ON  
*RESPONSIBLE SOVEREIGN FINANCING*  
*PRSLB & DMW*

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