

Systems for Promoting Responsible Sovereign Lending and Borrowing

- **Strengthening of systems for ensuring responsible lending and borrowing to and from governments is vital in order to prevent future accumulation of unsustainable debt levels**
 - Unfortunately the capacity needed in the work related to the strengthening of mechanisms for debt crisis resolution is great and therefore the work on the strengthening of responsibility to some degree take a backseat and
 - there is not a lot of appetite for introduction of regulations that will ensure responsibility on the part of rich countries
 - It is vital that the work towards the establishment of a global consensus on principles for responsible lending and borrowing and an accompanying system for ensuring compliance with these principles gets more headway
- Addis Ababa Action Agenda (2015):
 - Para 97 states that:
 - “We will work towards a global consensus on guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, building on existing initiatives”
 - https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf
 - This ambition have still to be materialized in a concrete global consensus **as to what constitutes a responsible lender or borrower**
- **Transparency**
 - https://jubileedebt.org.uk/wp/wp-content/uploads/2019/04/Transparency-of-loans-to-governments_04.19.pdf
 - <https://www.oecd.org/finance/oecd-debt-transparency-initiative.htm>
 - <https://www.iif.com/Portals/0/Files/Principles%20for%20Debt%20Transparency.pdf>
- **Principles for responsible lending and borrowing**
 - UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing
 - https://unctad.org/system/files/official-document/gdsddf2012misc1_en.pdf
 - G20 Operational Guidelines (attached)
 - The Norwegian Sovereign Wealth Funds system for approval of issuers of government bonds (note that the English version is slightly less detailed than the Norwegian version, so maybe just do a google translation. The part on the operationalization is also omitted from this official document unfortunately)
 - <https://www.nbim.no/no/oljefondet/slik-er-fondet-investert/risikostyring/>
 - Different IMF & World Bank Frameworks can be relevant for responsible lending practices such as the joint IMF/WB Debt Sustainability Framework and Analysis, Debt Limits Policy and Lending into Arrears Policy

- <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries>

- Existing frameworks apply to a variety of actors
 - Bilateral lenders (rich countries lending money)
 - Borrowing sovereigns
 - Multilateral institutions like the IMF, World Bank and other regional investment institutions
 - Private lenders
 - Government bonds, loans
- At the moment lending from **private lenders** to sovereign borrowers in the global south make up some of the debt that creates the most trouble globally and for the population of those countries saddled with unsustainable sovereign debt
- Strengthening systems for responsibility in lending from private investors to sovereigns is therefore some of the most important areas to look at when it comes to the strengthening of responsibility
- One example such example is as mentioned Norwegian Sovereign Pension Fund Globals system for due diligence
 - This systems is set up as a set of principles and an operationalization that aims at ensuring compliance with these principles
 - Specifically these principles aimt at taking into account transparency and accountability of the borrowing government, **to debt sustainability and ability to withstand financial shocks, risk related to corruption or other illicit financial aspects of government spending, rule of law and political stability, labour rights, standard of living and other social aspects** among others
 - A committee within the Norwegian Central Banks Investment Management prepares an analysis of each issuer that complies with these criteria defining borrowing responsibility and presents this to **the board of of the Central Bank** which then decides to approve the issuer in question for investments or not
 - The approval is then subject to continuous monitoring. If the issuer status on criteria changes the issuer is then subject to a new approval or lack thereof
 - The approved issuers make up the investments universe of sovereign bond investments
- This is one example of what systems for ensuring responsible lending could look like, but there could of course be different ways of setting up such a system
- The flipside of the coin is that a strict system of due diligence such as this one might exclude some (possibly quite a few) countries from important investment possibilities. This is a difficult aspect that needs to be taken into consideration.
- The common denominator of the abovementioned frameworks and systems are they are too weakly implemented, or lacking altogether, in order to secure responsibility in sovereign lending and borrowing globally. These systems need to be strengthened and we should continue to work to make that happen!