Forum (Council, Committee, Assembly): General Assembly 2

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TOPIC 3: The question of conditionality of debt relief for developing nations

[Please consult the GA2 Topic LibGuide for guidance on your research]

I. Introduction to the Topic

Throughout international trade between nations and economic transactions in a country, it is natural for a government to have national debts. National debts are created in circumstances where governments are in need of additional expenditure to improve national social security and national education, or they might need to cover the cost of transportation for international trade, but the government can't always afford such costs. This is because the government has a fixed expenditure, and rapid economic expansions do not always take place in nations. The government then requests for loans from organizations such as the World Bank or the International Monetary Fund (IMF). The problem arises when the government is not able to pay off the debt even in the long run due to its fragile and unstable economy. Then the nation could become eligible to receive debt relief, an economic strategy set by the international financial organizations mentioned previously, to make national debts easier to handle. The impact of the debt relief could be broken down into international, regional, and national perspectives.

- International perspective

Requesting for debt relief will influence the country's reputation and credit score in international trade. The fact that the country's economy can't pay off the debt will discourage foreign investors, and will most likely experience depreciation of the currency, where the value of the country's currency decreases. It will be difficult to gain the trust of other nations during international trade and take advantage of trade. On the other hand, the national debt could indicate the economic growth of a country as government spending which makes a large contribution to the national debt, has a direct relationship with the GDP. The removal of national debt could act as a sign of economic growth, and increase foreign investment from other nations; this will depend on the demand for the country's demand good and economic growth that it experiences after debt relief.

- Regional perspective

One developing country receiving debt relief could influence its neighboring nations in the region; a developing nation will conduct more efficient trade with other countries in the region. This is because debt relief removes a burden for the government and increases the expenditure they could spend to encourage trade between nations. Throughout the international trade between nations, it could decrease the amount of national debts that other nations have.

- National perspective

Debt relief will have a significant impact on the nation. As mentioned, debt relief removes a burden on the government to spend its budget. This will increase spending on infrastructure, public health care, transfer payments, or education. For a developing nation, such effects will benefit the labor, capital, the state of technology, and the resources available in the country.

II. Definition of Key Terms & Concepts

Developing nations

The term developing nations is defined as countries with low standards of living, low levels of Gross National Income (GNI), and high poverty rates. A numerical value of $11,905 is given to specify the level of GNI, which countries below this level are considered to be developing or underdeveloped nations. The United Nations Economic and Social Council and the General Assembly decide upon the list of developing nations and criteria are defined according to the sustainable development goals.

Multilateral Debt Relief Initiative (MDRI)

The Multilateral Debt Relief Initiative (MDRI) originates from the International Monetary Fund (IMF), a proposal to remove the burden of debt from countries that can't afford the amount of the debt with their economic status. Its purpose is to help qualifying countries that meet the completion point made by the IMF such as the Heavily Independent Poor Countries (HIPC) initiative.

Heavily Indebted Poor Countries (HIPC)

The Heavily Indebted Poor Countries (HIPC) initiative is a measure of developing or underdeveloped countries that are economically unstable and eligible to request debt relief. To further proceed with debt relief from the International Monetary Fund (IMF), the developing nations must follow the economic policies that are recommended by the IMF, and the amount of national debt of countries will be reviewed. This initiative aims to help nations fight poverty and recover their economy by financially assisting them through debt relief.

Millennium Development Goals

The Millennium Development Goals (MDG) is a set of goals signed by the United Nations, and the major difference between MDG and sustainable development goals (SDG) is that MDG focused more on developing or underdeveloped nations, to eradicate poverty, disease, discrimination, etc. Many economic initiatives and policies by the World Bank or IMF were based on these MDGs that were set in 2000. Nations targeted to meet these goals by 2015, and MDGs have been extended in the form of SDGs.

III. Key Stakeholders

The International Monetary Fund

The International Monetary Fund is an international organization that aims to improve global economic growth and encourage international trade between countries. The IMF was founded in 1945 and has been acting as a facilitator for lending loans to nations and providing recommendations for economic policies for countries who are experiencing a recession. However, the amount of power that the IMF holds in a country after requesting assistance is massive; the IMF could demand the policies and restructuring of the economy and the government must follow such instructions from the IMF. For developing nations, a request for debt relief could result in a completely different structure of their economies and the consequences are unpredictable.

Latin America and Africa

The majority of nations in the list of developing nations provided by the United Nations are from Latin America and Africa. Nations in Latin America and Africa are experiencing economic growth with improvements in technology, and some could be experiencing extreme poverties and debts. One example could be Venezuela, a country that has been experiencing an extremely high inflation rate for over a decade, has a national debt of $140 million, which is estimated to be 240% of the country's GDP. In the case of Venezuela, their major export, which is oil, has less of restrictions on international trade which is expected to improve the national economy and contribute to the development of the nation. Positive growths of an economy could be shown in nations such as Venezuela, and debt relief will come as huge financial assistance for their growth and quicken the rate of development for such countries.

The World Bank

The World Bank has a large contribution to the conditionality of debt relief for nations. Both the IMF and the World Bank can lend loans to developing nations whose economies are producing GDP below the expected level. The World Bank has divided its debt form into 2 categories for nations; Multilateral and Bilateral debt and Commercial debt, to review developing nations' economies in more broader perspective and provide debt relief. The World Bank works collaboratively with the IMF, and their main goal is to assist financially struggling nations to reach the SDGs set by the UN.

IV. Key Issues Including Background Information

Infeasibility of debt relief as a solution to the root problem

Making the conditionality of debt relief easier for nations to receive could create the same problems. The HIPCs are indebted because of certain circumstances in the past that caused a long-term recession in their economy. Most nations started to invest in industrialization and infrastructure in the 1970s and 1980s and underdeveloped nations had to borrow to afford such prices. As the price of commodities rose continuously and some countries could not take the lead in globalization, nations began to lose their money and they had to sacrifice their economic stability. Furthermore, some nations experienced economic growth, and they continued to live beyond their economic abilities; countries kept borrowing loans to fill in the economic gap and it affected the domestic economies. The increased price level in the economy has resulted in a higher cost of living and as the cost of living rose, the value of debts that they have to pay back increased as well. It didn't only increase the debts but also changed the structure of the economy which made sector management difficult. Debt relief isn't going to ultimately solve the problem that exists in developing nations' economies. It will require a long-term effort of national governments to fix weak economic policies and low exports.

The strict conditionality of debt relief

The International Monetary Fund has very distinguished policies; nations that request debt relief or financial assistance must follow all instructions given by the International Monetary Fund regardless of the outcomes. To be eligible for debt relief, nations must meet the strict conditions of debt relief such as a specific amount of GDP or below or facing an unmanageable debt that is defined by the IMF. The IMF does not specify how much of debt is considered unmanageable and more aspects of the economy can be measured to identify the economy's rate of growth rather than using only GDP.

GDP consists of the amount of spending in a nation, the amount of investment, the government spending, and the net exports. GDP could still be a large number when the country's total exports are smaller than the country's total imports, and lose competitiveness in the international market. This could lead to the creation of national debts as the domestic firms keep losing the competition, but it will not be shown in GDP and the nation could not be eligible to request debt relief. This means some nations need immediate debt relief before they face default, where the national government admits that it can't pay off the debts, and could not receive any assistance from the IMF if they don't meet the specific requirements.

Developing nations that request debt relief will hold an uncreditworthy reputation

They will most likely get rejected if they wish to lend loans again, and other countries will lose faith in those national governments. It means that it would be difficult for them to join free trade agreements, or benefit from international trade as the international market demand for the countries' exports would decrease. Debt relief, whether the conditionality is strict or not, could be economically dangerous for developing nations in the long run, considering the potential harms and trade disadvantages that it can bring to the economy.

Rise of China as the single-largest bilateral creditor to poor countries, as well as the USA

China has issued loans worth a trillion dollars for major domestic infrastructure projects, which the Belt and Road Initiative is one of the main examples of, at high rates. Many of those loans have become distressed by the nation, and Beijing has initially shunned multilateral debt relief efforts.

"Back in 2010, only 5% of China's overseas lending portfolio supported borrowers in financial trouble. Today, that figure stands at 60%, Brad Parks, from AidData, a research lab at William & Mary University in Virginia, told DW"

V. Timeline of Resolutions, Treaties, and Events

Date	Description of event

1970	The United Nations launched a program named the Second United Nations Development Decade in 1970. This was to recognize and identify nations that are developing and require help from other nations. The idea of developing nations started from here.
1996	The IMF and World Bank established a multilateral policy called the Heavily Indebted Poor Countries (HIPC) initiative to financially assist such nations that are suffering from unmanageable debts in 1996.
2000	The member nations in the UN gathered and signed the Millennium Declaration, which was to create a set of development goals to encourage nations to work towards the same measurable goals.
2008	Financial institutions in the United States allowed any American citizen, even credit delinquents, to borrow money based on the prediction that there would be a huge increase in the price of real estate. Instead, the prices dropped drastically and the creditors could not pay back the increased amount of debt. Many corporations and banks went bankrupt and this led to the Great Recession in 2008, and some developing nations which had great potential such as Venezuela or Zimbabwe, have been suffering in economic recession since then. It left many developing nations in unmanageable debt.
24 February 2022	Ukraine-Russian war - Not just limited to the Ukraine-Russian war, but due to crises such as the COVID-19 pandemic and climate change, developing countries, especially Africa, piled on colossal levels of debt to keep their economies afloat. Today, 3.3 billion people live in countries that spend more on interest payments than on education or health, according to the United Nations. Food and energy costs have risen over the years, increasing the cost of living for all developing nations.
12 July 2023	A report has been released by the UN Global Crisis Response Group, entitled A World of Debt, updating the status of conditionality in debt relief, on a total of 52 countries – almost 40 percent of the developing world are in “serious debt trouble”. It also identifies that global public debt reached a record $92 trillion, of which 30% is responsible to developing nations, which is referred to as a “disproportionate amount” by the United Nations Chief.

VI. Possible Challenges & Solutions

Debt relief doesn’t eradicate the root of the problem.

Instead of loosening the conditionality of debt relief and granting debt relief right away, there must be a measure of preparation for developing nations that request debt relief. Their economies must be examined to see whether their domestic economy would grow independently after debt relief. The national governments could establish national policies that will encourage the growth of domestic firms through subsidies or development programs in the nation.

The conditionality of debt relief is too strict.

To overcome the problem of strict conditionalities, the IMF and World Bank should specify how they define the term unmanageable debts and must establish more initiatives and criteria to become more inclusive towards more diverse nations. The financial institutions must review developing nations' competitiveness in the international market, and where the debts are coming from.

Developing nations that request debt relief will hold an uncreditworthy reputation.

Some developing nations must not entirely rely on debt relief. The impact of economic intervention made by the IMF is unknown and unpredictable. The potential and unique export that nations have could lose their competitiveness and lead to an economic recession in the long run. This is because the main industries that support the economy could be privatized after the IMF intervened in the economy. In most cases, the government nationalizes essential and significant industries in a country, such as telecommunications, railways, or fuels to ensure that other nations do not have any control or impact in those fields. Privatization of such industries could lead to huge unemployment in the nation and increase the cost of living for citizens. The negative impact will not only stop there but extend to a point where the national government loses control over their major domestic industries. Developing nations must evaluate their economy before requesting debt relief.

VII. Recommendations for Resolution Writing including Research

When delegates are writing their resolutions regarding this topic, it would be essential to consider the cause and consequences of economic decisions made by the national governments and financial institutes. In economics, any action made in an economy always has a consequence. Delegates are recommended to briefly read some articles regarding the Great Recession, as it is the cornerstone of this issue and the reason for the huge national debts of developing nations. On top of everything, if delegates feel unsure about certain concepts, then please contact the chairs immediately. Many sources that will help the research and writing resolutions are available on the LibGuide.

Countries of target/countries with interest are low-income countries or so-called developing nations. They might view this issue more significantly than other countries, as mentioned in the solution section, 30% of total debts around the world are the responsibilities of low-income countries. Half of global humanity lives in countries that are forced to spend more on servicing their debt which could be vital for the development of health and education, which is nothing less than a development disaster. Governments are not able to use it to finance their expenditures, to protect and invest in their people, and to pave their way to a better future. This ultimately creates a paradox or a debt trap, where the government has to increase its expenditure by lending loans to deal with its heavy debts. Examples include but are not limited to spending on infrastructure, education, transfer payments, or investing in newer technologies.

The recent crisis also caused public debt to grow too much and too fast. In 2022, Russia's invasion caused an oil crisis, which increased the cost of raw materials and energy significantly over the years. Unlike developed nations, the developing world can not afford the increasing cost of supplies that are essential for the production of their domestic goods. This leads to a colossal level of debt for developing national governments.

A resource-rich country such as China might defend itself against the shutdown of efforts for debt relief. Such a financially distressed government would require economic policy reform or a coordinated debt rescheduling with all major creditors. This is significant as some developed nations such as those of P5 or the European Union exacerbate and take advantage of such loans from low-income countries by making them rely heavily on fossil fuels, which was evident in the 2022 oil shock. Arab League nations, which have abundant oil resources and have formed the Organization of the Petroleum Exporting Countries (OPEC), might also be affected by these issues.

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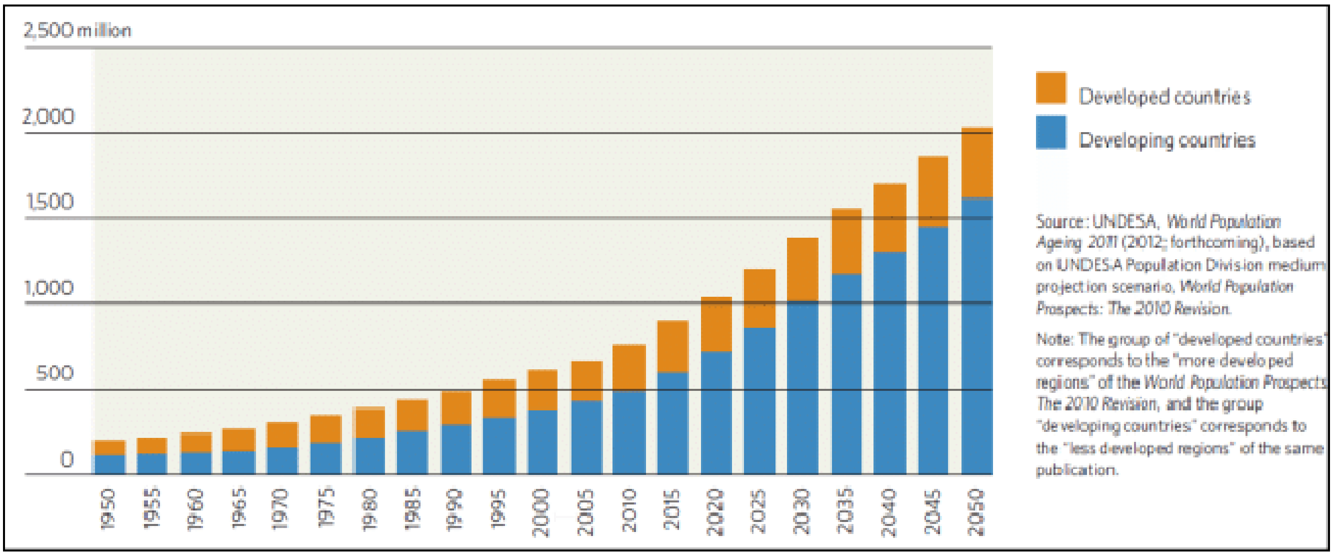
IX: Additional Resources


Developed countries
Developing countries
Least developed countries
Data unavailable


2,500 million
2,000
1,500
1,000
500
0
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1965
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1980
1985
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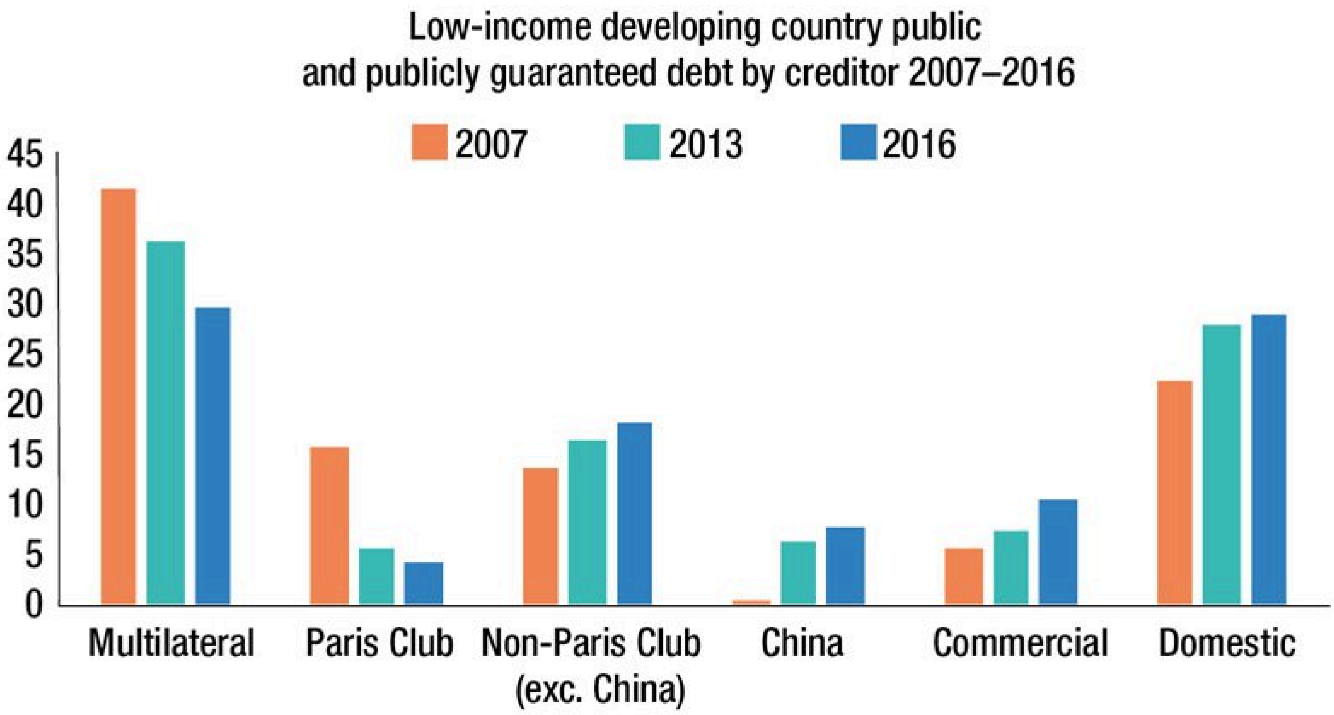
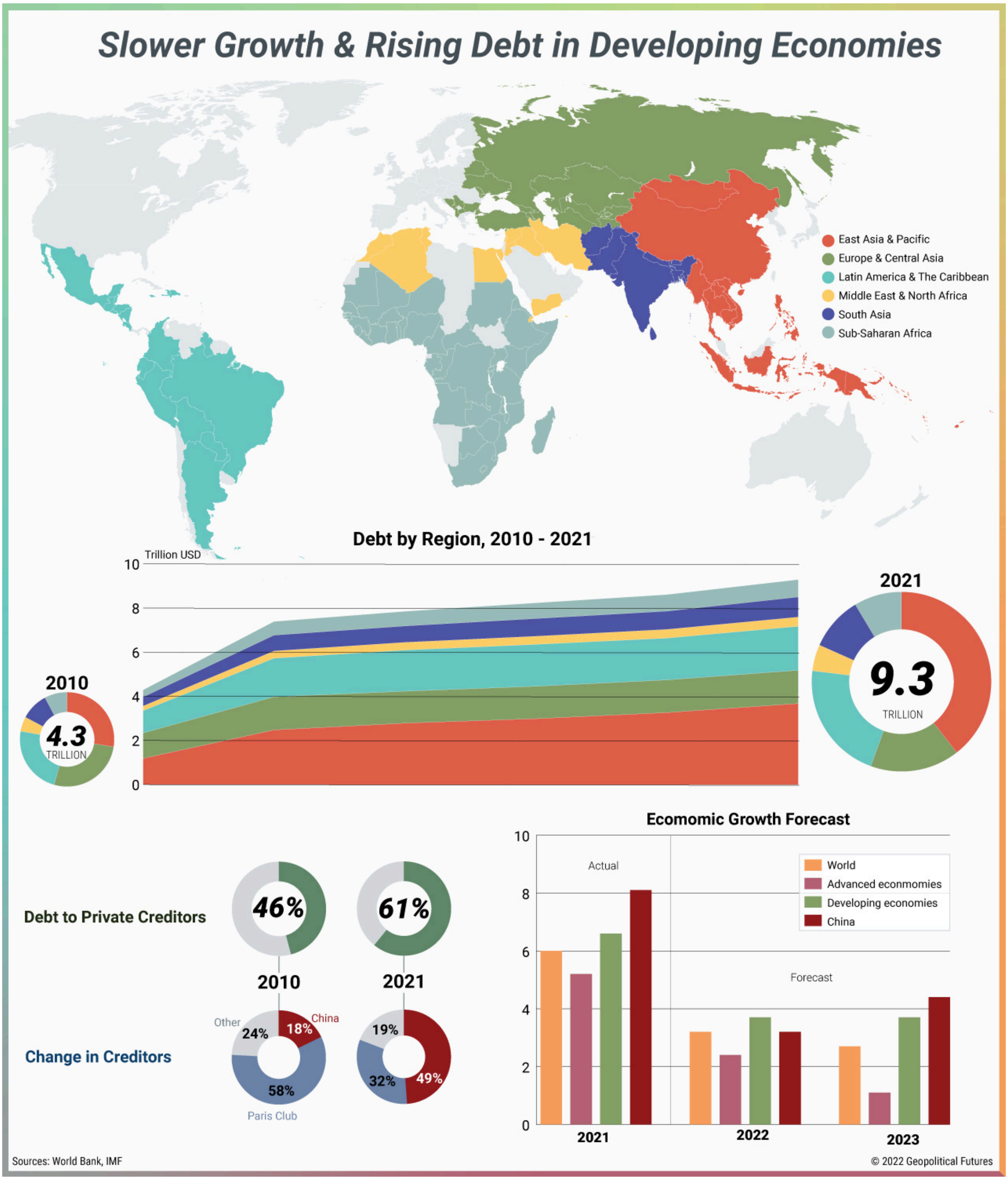
2005
2010
2015
2020
2025
2030
2035
2040
2045
2050
Developed countries
Developing countries
Source: UNDESA, World Population Ageing 2011 (2012; forthcoming), based on UNDESA Population Division medium projection scenario, World Population Prospects: The 2010 Revision.
Note: The group of "developed countries" corresponds to the "more developed regions" of the World Population Prospects The 2010 Revision, and the group "developing countries" corresponds to the "less developed regions" of the same publication.



Source: Macroeconomic Developments and Prospects in Low-Income Developing Countries, IMF policy paper (2018)


Slower Growth & Rising Debt in Developing Economies
East Asia & Pacific
Europe & Central Asia
Latin America & The Caribbean
Middle East & North Africa
South Asia
Sub-Saharan Africa
Debt by Region, 2010 - 2021
Trillion USD
10
8
6
4
2
0
2010
4.3
TRILLION
2021
9.3
TRILLION
Ecomomic Growth Forecast
Actual
Forecast
World
Advanced econmomies
Developing economies
China
2021
2022
2023
Debt to Private Creditors
46%
61%
2010
2021
Change in Creditors
Other
24%
China
18%
58%
Paris Club
19%
32%
49%
Sources: World Bank, IMF
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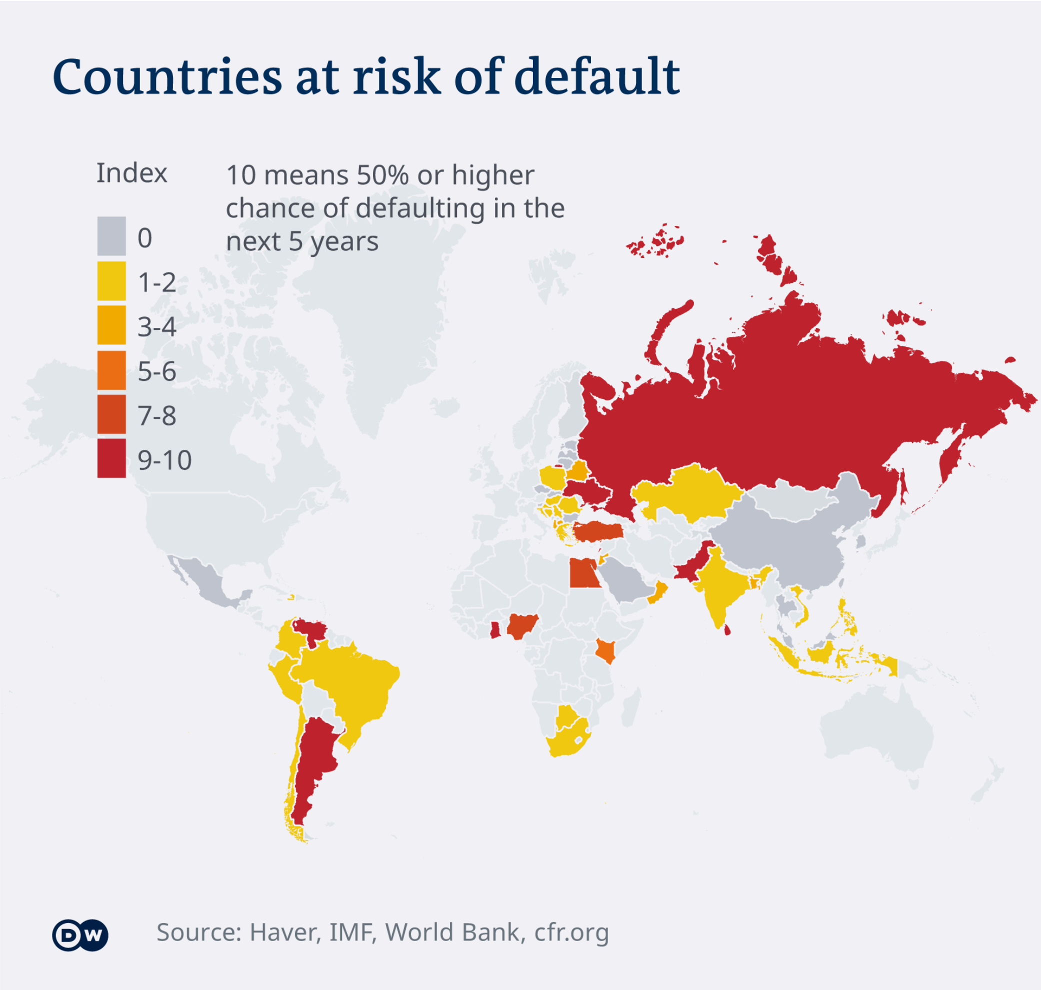

[‘Crushing’ debt crisis spells development disaster for billions: UN chief | UN News]

[A world of debt | UNCTAD]