Forum: The General Assembly (IV)

Issue: Holding organizations of foreign financial facilitation accountable for debt traps

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Introduction

Unstable and unsustainable international debt haunts the developing, modern world, and is fast becoming a core obstacle. Major debt has been the driving motor of the global economy, and in this vessel of loans, failed investments, and sky-high interest rates, underdeveloped nations are at threat. An example of one of these such nations is Sri Lanka, whose $ 1 billion dollar debt had to give up its ports to China-owned companies.

Due to a lack of backing productive and long-term investment, the need for finances to develop sturdier infrastructure arises in third world countries and underdeveloped nations. Inadequate income fails to equate to the debt owed, leaving the country in reliance for more financements. This reliance takes up the form of debt in billions of dollars (ranging from $1 million USD [Montesserat] to $456.18 billion USD [Belgium], this continued dependence of world economic growth on debt - for the most part fuelling short-term speculative rather than long-term productive investments - is a constant source of instability as well as escalating income inequities.

The centre of these income inequalities leads to a vicious cycle of unpaid loans, increasing debts, and weak economic growth. These cycles, named debt traps, are constant across multiple developing countries with sub-bar infrastructure requiring billions of dollars to strengthen. These debts can be found in every country in the world: even the superpowers the United States of America and the United Kingdom included in the top 5 debtors (IMF).

In a worldwide trend, these debt traps have been seen to be instigated by two main organisations: the International Monetary Fund (IMF) and the World Bank.

Definition of Key Terms

Debt Trap

A debt trap is a situation in which a borrower is led into a cycle of re-borrowing their loan payments because they are unable to afford the scheduled payments on the principal of a loan.

Debt Trap Diplomacy

A tactic employed by China to trap underdeveloped countries like Africa to borrow much needed money for infrastructure projects.

International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an organization that works to promote global monetary cooperation, secure financial stability, expedite international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The World Bank

The World Bank is an international financial institution that provides loans and grants to the governments of poorer countries for the purpose of pursuing capital projects. Such projects will create long-term infrastructure for the indebted nations.

The Marshall Plan

The Marshall Plan (European Recovery Program, ERP) was an American program passed in 1948 to aid Western Europe. $12 billion dollars (nearly $100 billion in 2018 US dollars) was given to help rebuild Western European economies after the end of World War II. This gave the United States a considerable amount of control over communist economies.

Jubilee Debt Campaign (JDC)

The Jubilee Debt Campaign is a partnership of national organisations and local groups around the UK who calls for the cancellation of unfair and unpayable debts of the poorest countries.

Debt Restructuring

Debt restructuring is a process that helps sovereign organisations facing monetary complications (debts, loans, etc.,) reduce and renegotiate its debts to improve its financial conditions or restore the debts so that it can continue to function.

Transparency

Transparency in the financial sector is the extent to which investors have the necessary financial information about a company such as price levels, and financial reports.

Sparse Consultation

Sparse consultation is one of the actions that the IMF and World Bank are accused of performing. It is basically loaning large sums of money without discussing with the indebted countries about how the interest will work, repayment of interest, and how the road to the debt restructure will be laid out.

Debt Restructuring

Debt restructuring is the process where there is a bi-lateral conference to discuss the terms of the investment, the interest, and allows the loaner and the loanee to ameliorate the loanee's cash flow problems and financial distress to reduce and negotiate future debts so the loanee can resume operations.

The Belt & Road Initiative (BRI)

Also known as the The People's Republic if China Belt and Road Initiative, it is a project initiated by China in 2013 to connect Asia with African, Middle Eastern, American, and European nations via land and water pathways to ensure a better trade route amongst said countries. With these routes, the Initiative aims to increase economic growth of China. The main subsidies of the BRI are private owned banks and operations under China and the IMF, totaling an estimate of $1 trillion dollars in investment. 40% of external debt is owed to the BRI.

History

The foundations of the World Bank Group (WBG, WB) and the International Monetary Fund (IMF)

Founded in 1944~1945, the World Bank Group (WBG, WB) and the International Monetary Fund (IMF) are twin intergovernmental institutions that became influential in shaping the structure of the world's development and financial order. Initially created with the intention of rebuilding the international economic system following World War II, the institutions periodically gave out loans to countries that had financial problems. One of the biggest member nations was the United States of America.

Rising Debts of Developing Countries

Throughout the 70’s, developing countries saw their debts rise to tremendous amounts. This was due to the financial conditions of the loans being extremely favourable to the country, i.e., how the debt would be repaid, and at what interest rate. These developing countries were encouraged to take on loans by the IMF, and by the governments of more developed countries. However, there was a sudden shift in the equation of debt and repayment at the end of 1979. The US Treasury imposed a sudden rise in interest rates as neoliberal policies came into effect. This sudden jump in *interest* rates, completely threw the debt equation off balance. The creditors started to make huge profits.

Large Loans from the IMF

Because the governments that loaned money at that point started to borrow more considerable amounts (from the IMF) in order to begin to take on debts which had initially been taken out by the private sector but which the government agreed to take over.

Debt-Trap Diplomacy

Countries such as the People’s Republic of China and the United States of America, started to take over the policies of the IMF and took control of some of the largest votes in both the IMF and the World Bank and gained the power to utilize the organizations as a way of acquiring the indebtedness of lesser developed nations. These latter nations have ongoing difficulties on strengthening their infrastructure, therefore the funds can be released in order to aid these nations. However, restructuring is not developed to alleviate the debt.

Key Issues

Lack of Transparency, and Reckless Lending with Sparse Consultation

The IMF has been criticised for its lack of transparency, imposing policy with little or no consultation with the affected (loan recipient) countries, and encouraging reckless lending. These are key issues in the world of finance, as it could cripple countries in ways like inversely proportional poverty and economic values.

Lack of Transparency

The International Monetary Fund has been heralded as a powerful organization and sets standards and norms for the global community, including advocating for fiscal transparency. Ironically, a key issue of the The IMF is its lack of transparency. There are serious deficits in the IMF's transparency, even allowing for some secrecy given the sensitive nature of the IMF's work. This is because of the IMF's role as confidential adviser to the authorities of its member countries must not be compromised.

Because being both as an adviser and a fund, the IMF mandates that its member countries submit detailed financial data on a regular basis. Although the IMF requires this of its member countries, the IMF itself has no specific policy on transparency and disclosure. Its Articles of Agreement only authorized the publication of an annual report. As a result it did not publish or make public any documents relating to its work with individual member countries, nor full information about its own internal structure, activities or finances.

By this, the IMF is void of its Transparency Policy Decision, which only covers the publication of 24 types of documents by the organization, but contains no recognition of the right of access to information. The transparency issue is a key problem because it violates the first principle of the Transparency Charter for International Financial Institutions: on the right of access.

Transparency from the IMF to its member nations is key because it builds trust between the Fund and the nation. This transparency helps the nations' economies function better and makes them less vulnerable to crises, such as debt traps. The transparency issue leads to the second key issue: reckless lending with sparse consultation.

Reckless Lending with Sparse Consultation

The IMF has been accused of encouraging reckless lending by extending $93bn (£75bn) of loans to 18 financially troubled countries[1]. The Fund is also said to have given these loans without constructing debt restructuring programmes first. This is risky, as the extended loans will only leave the indebted countries with a bigger amount to repay, which is near-impossible in their current states. In addition, the absence of debt restructuring programmes cripple the countries because these programmes help reduce and renegotiate its debts to continue building infrastructure. This hinders the development of a nation, because it is left in debt, and has no solution to repay the loaner country.

[1] Argentina;' Afghanistan; Angola; Cameroon; Central African Republic; Chad; Ecuador; Egypt; Ghana; Jordan; Mauritania; Mongolia; Pakistan; São Tomé and Príncipe; Sierra Leone; Sri Lanka; Tunisia; and Ukraine.

The IMF has also been accused of sparse consultation with its member nations building up to a loan, or an extension. There was a case of this between South Korea and the IMF. The issue was that the IMF insisted that all Korean presidential candidates immediately “endorse” an agreement which they had no part in drafting or negotiating, and no time to understand. This process is called debt restructuring. These processes usually consists of the initial loan by the IMF, and the loaner and the loanee negotiating future debts so the loanee can resume operations. However, this sparse consultation resulted in the absence of this restructuring process.

Major Parties Involved and Their Views

The United States of America

There is strong support from the United States of America as the U.S. holds 18% of all votes in the IMF and 15% of all votes in the World Bank. The IMF can be utilized by the US as a medium into the political sector of countries via economic pathways, hence, the IMF is heavily relied on by the United States of America. This is also why the United States keeps strong ties with the IMF.

During President Obama’s presidency, the US and the IMF signed a package deal for a monetary contribution for emergency usage. The package would increase the US quota contribution to the IMF by about $8 billion, and raise an emergency line of credit for the Fund by nearly $100 billion. This move was to gain a special allocation of the IMF's synthetic reserve asset, Special Drawing Rights (SDRs), and who gets to take out from that reserve.

If a Marshall Plan were to be enacted by the United States today, it would greatly favour them, as due to the certain lacking of some assets (as identified in Key Issues) in the IMF. This would give the equivalent of both a political and economic monopoly to the States. However, the United States of America's stance on the IMF's deficiencies, is as of now: neutral.

The People's Republic of China

The IMF is a core component to the retention of China's Belt and Road Initiative (BRI). Because the BRI has the potential to act as a source of growth and foster strong international relations, achieving these goals require strong policy frameworks between partner countries. This is where the IMF happens to be beneficial to the BRI. With this, the BRI can fully reach its potential. China has characterized its BRI initiative as a win-win for its desires to become an international trade leader and to develop its economie's desire to fund more infrastructure.

To personal debt, President Xi JingPing stated that he was prioritizing fighting China's battle of limiting financing risk and reducing poverty. In China's standpoint, loaning to developing nations in the international community would help China further reduce risky loans and ensure payable return on the investment, loaning to developing and underdeveloped nations would in turn give China a hand in those nations' political and economical decisions. For example, China has loaned US$10 billion (S$13 billion) to debt-stricken Ecuador over the past six years for energy and infrastructure projects, which was part of a global effort by Beijing to fund development in poor countries that are rich with natural resources. This also happens across Asia, with the BRI taking advantage of such nations.

The People's Republic of China has greatly used the IMF as a front for its actions with the BRI. This includes, “debt traps,” carried out by China. However, the official statement from China has been neutral, and the IMF has only been used to strengthen pre-existing infrastructure, and fund further projects.

The Republic of Maldives

The Republic of Maldives is one of the many nations that have been greatly hit by the BRI of China, and after the loan from China, its total debt (% of GDP) has risen 50% from 2016 (from before BRI to after BRI). Maldives is a developing nation, and needs funding to further improve its economy and tourism business, and with the presence of a debt totatling 150% of their total GDP, it is quite difficult to do so. The Republic of Maldives wishes to resolve this problem as quickly as possible.

The Islamic Republic of Pakistan

The Islamic Republic of Pakistan is one of the nations whose debt to the People's Republic of China BRI exceeds that to the IMF. Due to a hurry to improve foreign exchange reserves and bridge a financing gap between the commercial and financial sector, the South Asian nation now owes $6.7 billion in commercial loans to China over the three years through June 2022. Pakistan has taken short term deals and these deals were only enough to fix its problems, not pay back China. If this debt trap situation were to continue, China will eventually hold a significant amount of power in the majority of Pakistan's pillars of economy. The Islamic Republic of Pakistan wishes a speedy resolution to this problem.

Timeline of Relevant Resolutions, Treaties and Events

Date	Description of event

Circa July, 1994	**The Establishment of the World Bank** The World Bank is founded around the same time as the IMF as a joint operation to alleviate the damage done to international economies by WWII.
December 27, 1945	**Establishment of The International Money Fund (IMF)** The IMF is found and tasked with the job of rebuilding national economies after the damage left by WWII.
Circa 1970-1980	**Rising Debts, and Extensive Loaning**
September 10, 2015	**Resolution 72/204 - Resolution on principles to guide sovereign debt restructuring processes** This resolution contains nine principles that have been adopted as the bases for legal mechanisms. These principles are outlined in a way to help developing countries from debt-traps and to prevent further damage from extended loans.
December 20, 2017	**Resolution 63/319 - Resolution on external debt sustainability and development** This resolution focuses on slowing impending debt traps by providing a framework to handle debts without hindering the development of infrastructure in heavily debt stricken counties.

Evaluation of Previous Attempts to Resolve the Issue

General Assembly Resolution, *Basic Principles on Sovereign Debt Restructuring Processes*, A/RES/69/319 (29 September 2015) - The United Nations General Assembly adopted a resolution on principles to guide sovereign debt restructuring processes on the afternoon of 10 September. Debt restructuring processes are crucial to the redevelopment of a country stricken with debt. This resolution effectively attempts to solve the problems left by the IMF (above) on lending excessive amounts.

General Assembly Resolution, *External debt sustainability and development, A/RES/72/204* (23 January 2018) - This resolution on external debt sustainability and development does not necessarily focus on helping a country get out of debt traps, but it is useful in the way that it helps countries maintain their debt and infrastructure development simultaneously.

Both resolutions 69/319 and 72/204 have attempted to solve the problems before and after a debt trap; however, they don't hold the instigators of the debt traps accountable. This is a hole in these resolutions.

Thought this resolution isn't technically one drafted by the United Nations, it works as well to stabilize countries debts. This is the European Parliament resolution of 17 April 2018, which reads to enhance developing countries' debt sustainability. This resolution refers to resolution 69/319, and uses it as a base to build up on its own resolution. The resolution effectively addresses that there is ongoing infrastructure projects that, "requires massive investment," and that the repaid, "annual funding gap being currently estimated at around USD 2.5 trillion." This is a big issue which the resolution attempts to resolve.

Possible Solutions

A possible solution to this is to create a resolution that directly addresses the instigators of financial facilitation, i.e., the IMF and the World Bank. Seeing that the main problem within these two institutions are lack of transparency and reckless with sparse consultation, they should be tackled immediately to ensure that indebted countries have a way out of debt traps. To address the issue of lack of transparency, delegates could draft a resolution that calls for a review of the rules and regulations of the IMF, and how these rules/regulations could be better implemented/reviewed.

As a last resort-type solution, delegates could also vy to build foundations like the Jubilee Debt campaign, which could be beneficial to developing nations who cannot repay debts. However, delegates should keep in mind that they have to find countries willing to donate to such a fund, and what they (these countries) would benefit from this donation.

Questions A Resolution Must Answer

- How will aid and support be provided to people living under debt-stricken countries?
- How will countries effectively get out of debt traps?
- What measures can be taken to mitigate the damage done by debt traps?
- What should the consequences be for facilitators of debt traps, i.e., the IMF?
- How should policies and regulations within the IMF be enforced to prevent further damage via debt traps?

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