



Florida High Schools Model United Nations

FHSMUN VIRTUAL 1

GENERAL ASSEMBLY SECOND COMMITTEE

EXTERNAL DEBT AND DEVELOPMENT<sup>1</sup>

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*“Emphasizing debt sustainability is essential for underpinning growth, and underlining the importance of debt sustainability and effective debt management to the efforts to achieve national development goals, including the Millennium Development Goals...”*<sup>2</sup>

## Introduction

External debt remains a fundamental obstacle to sustainable development for many countries, particularly those designated as developing countries. When member states in the Global South<sup>3</sup> are confronted by mounting and unattainable debt payments, governments, business groups, workers, non-governmental organizations (NGOs) and related civil society representatives must consider the need to refinance or canceling of debt in order for member states to respond to and provide adequate resources to their citizens in the fight against pandemics and epidemics.<sup>4</sup> Lenders must be extremely conscious of the potential harsh realities of the impact their demands may cause, especially in light of the growing economic down-turn for member states in the Global South which has hindered sustainable development and brought upon an economic down-turn in numerous member states. Delegates to the General Assembly Second Committee must diligently and dexterously negotiate to devise a comprehensive framework for resolving the myriad complexities and obstacles embedded within the problems of refinancing or cancelling external debt and development in the Global South region in light of the impacts made by global pandemic and epidemics.

## Scale of the Problem

External indebtedness is not a new phenomenon, nor are the economic, political, security, and social problems that are exacerbated by persistently high levels of indebtedness. However, neither is the concept of refinancing or cancelling a member state's debt. The primary focus within the UN System and related international financial institutions (IFIs), including the

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<sup>2</sup> United Nations General Assembly (UNGA), A/C.2/64/L.69 Draft resolution “External debt sustainability and development” December 7, 2009 p. 2.

<sup>3</sup> The Global South encompasses Asia (with the exception of Japan, Hong Kong, Macau, Singapore, South Korea and Taiwan), Central America, South America, Mexico, Africa, and the Middle East (with the exception of Israel)

<sup>4</sup> An epidemic is defined as being a disease that affects numerous people within a community, population, or a region. A pandemic is an epidemic that is spread over multiple countries or continents.

International Monetary Fund (IMF) and the World Bank Group, is overwhelming on the problems that external indebtedness poses for developing countries, especially the Least Developed Countries (LDCs). “Total external debt stocks of developing countries and transition economies are estimated to have reached \$7.64 trillion [USD] in 2017, having grown at an average yearly rate of 8.5 per cent between 2008 and 2017.”<sup>5</sup> Global indebtedness also rose from \$168 trillion [USD] at the end of 2008 to approximately \$247 trillion [USD] ten years later.<sup>6</sup> Highly developed countries are not immune to the perils of rising indebtedness, however. One criterion for acceding to the European Monetary Union (EMU) has always been maintaining public debt below 60% of total national income, expressed either as Gross Domestic Product (GDP) or Gross National Income (GNI)<sup>7</sup>. Furthermore, concerns about the US government’s ability to pay off its enormous and escalating debt of over \$22 trillion USD may influence potential creditor countries, including China, Japan, and European Union (EU) countries, to restrict their lending to the United States.<sup>8</sup>

Critically, the composition of debt is evolving quite rapidly. Private creditors own increasingly greater percentages of external debt throughout the developing world, with 2009 data “varying from 21 per cent in sub-Saharan Africa to 78 per cent in Latin America and the Caribbean.”<sup>9</sup> One reason why the composition of this external debt is so critical is that private creditors are generally much stricter with their repayment schedules than governments; private creditors can be persuaded to write down debt in specific circumstances that will be analyzed in greater detail below but the prevailing impression is that private creditors and investors resent debt forgiveness. Equally important is that during the contemporary economic recession or slowdown, Foreign Direct Investment (FDI), essentially private investment by transnational corporations (TNCs) and large investment firms, fell by 50% in 2008 with further cuts in 2009.<sup>10</sup> Official Development Assistance (ODA) and Foreign Direct Investment (FDI) flows are both critical components of sustainable economic development for a number of developing and emerging market countries; delegates to the General Assembly Second Committee may wish to examine current trends in both Official Development Assistance (ODA) and Foreign Direct Investment (FDI).

## **Contracting debt**

Governments and businesses frequently contract debts in an attempt to jumpstart new development projects and initiatives. While these debts are contracted under presumably laudatory premises, it is clear that many debt repayment schedules are based more upon ideal circumstances rather than the harsh and volatile realities that many countries and businesses confront. Development priorities may shift as governments change, development projects may take longer than projected to produce significant economic benefits, and recessions, including the contemporary global economic slowdown, may disrupt development projects and further delay debt repayment. In other situations, governments and businesses contract debts for

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<sup>5</sup> António Guterres, “Report of the Secretary-General: External debt sustainability and development”, A/73/180, July 30, 2019, p. 7.

<sup>6</sup> Guterres, A/73/180, July 30, 2019, p. 4.

<sup>7</sup> *BBC News*, “Special Report: The EMU criteria” March 19, 1998.

<sup>8</sup> *National Public Radio (NPR)*, “US National Debt Hits Record \$22 Trillion”, February 13, 2019.

<sup>9</sup> Ban Ki-moon, A/64/167 July 24, 2009 p. 3.

<sup>10</sup> Ban Ki-moon, A/64/167 July 24, 2009 p. 4.

military expenditures or questionable investments, often with little consideration for future repayment schedules.

In the least defensible situations, governments, international banks, and transnational corporations (TNCs) strive to use their influence and resources to cajole and/or even coerce national governments and businesses to contract loans for development, even when those loans only benefit very narrow segments of society. John Perkins, a self-proclaimed former “economic hit man”, argues that his work in Indonesia in the 1970s conformed exactly to this last pattern. “The World Bank, its affiliates, and the Suharto government appreciated MAIN’s willingness to provide reports necessary for securing huge loans that would benefit US corporations and the Indonesian rulers. They did not care that these loans would leave the country deeply indebted.”<sup>11</sup>

While it would seem that private debts would presumably be the responsibility of the corporations or other private entities that contracted the debt, private debt, in reality, often becomes public debt. Governments often provide guarantees and/or financial assistance to large corporations or culturally or historically critical entities, transforming formerly private debt into public debt. UN Secretary-General Ban Ki-moon previously noted that “with regard to the United Arab Emirates, while official statistics report no private external debt, it issued \$100 billion of publicly guaranteed corporate debt between 2006 and 2008, making it one of the largest issues of external corporate debt in the emerging world.”<sup>12</sup> When governments guarantee private debt, these accumulated responsibilities may further erode public resources and the government’s creditworthiness in the eyes of donor governments, development banks, and other lenders while shielding corporate leaders from the consequences of contracting the original debt.

## **How Debt Impedes and Prevents Development**

When governments and businesses directly confront the impact of their impending debt payments, economists, financial officers, and policy-makers must undertake difficult fiscal decisions with profound consequences. Cash-strapped governments may have to reduce government spending on education, health care, environmental protection, and even infrastructure projects, although these budget cuts rarely adversely affect the military. Many of the loans received by governments come from the International Monetary Fund (IMF) and the World Bank Group and in the past have included strict repayment schedules and austerity measures, often called Structural Adjustment Programs (SAPs). Steve Gloyd analyzes the impact of SAPs on many developing countries, especially the 50 poorest countries known as the Least Developed Countries (LDCs), and concludes that “the overall social impact of SAPs has been devastating for the poor....Health services for the poor were particularly hard hit by the SAPs.”<sup>13</sup> Richard Kim further notes that “in 1995 ... the IMF forced Haiti to cut its rice tariff from 35 percent to 3 percent, leading to a massive increase in rice-dumping, the vast

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<sup>11</sup> John Perkins, *The Secret History of the American Empire: The Truth About Economic Hit Men, Jackals, and How to Change the World* Plume Books New York May 2008 p. 30.

<sup>12</sup> Ban Ki-moon, A/64/167 July 24, 2009 p. 8.

<sup>13</sup> Steve Gloyd, “Sapping the Poor: The Impact of Structural Adjustment Programs” from Meredith Fort, Mary Anne Mercer, and Oscar Gish, eds., *Sickness and Wealth: The Corporate Assault on Global Health* South End Press Cambridge, Massachusetts 2004 p. 50.

majority of which came from the United States.”<sup>14</sup> Public outcry about the detrimental impacts of SAPs prompted the IMF and World Bank Group to reform their lending procedures and policies over time but not before these SAPs led to devastating outcomes for tens of millions of very poor people around the world.

When external indebtedness reaches such a point that it impedes and ultimately prevents development, this indebtedness can eventually plunge economies into prolonged recession, topple governments, and create situations where development is virtually impossible. In Latin America, the 1980s is frequently referred to as “the lost decade” because economic development was often restricted by dictatorships, many run by military *juntas*, that implemented misguided policies and contracted enormous debts that had to be repaid. The first country that exposed the fragility of the worldwide debt financing system was Mexico when the Mexican government announced in August 1982 that it would suspend its debt payments. Nobel laureate Paul Krugman notes that “by 1986 Mexican real income per capita was 10 percent lower than it had been in 1981, and real wages, eroded by an average inflation rate of more than 70 percent over the preceding four years, were 30 percent below their pre-crisis level.”<sup>15</sup> Mexico garnered more attention from international bankers and financial analysts throughout the mid-1980s but many other Latin American countries experienced significant erosions of real wages and consequent purchasing power as well as a decade of delayed development. In the 1990s, Latin American governments and businesses would strive to finance greater development through attracting more foreign investment as well as by contracting new loans from the IMF, World Bank Group, regional development banks, and private international banks. Robert Edgar notes, however, that “in 1997, before Hurricane Mitch, Nicaragua spent more than half its revenue on debt payments.”<sup>16</sup> While the opening years of the 1990s appeared promising, the façade of equitable and sustainable development would be ripped aside by the early years of the 2000s, especially in Argentina.

When governments face extremely high debt service payments, they frequently have to devote considerable resources, including foreign currency reserves, to meeting these debt service payments. Quite often, highly indebted countries experience a serious deterioration of their international credit rating and thus face very high interest rates; in March 1995, in light of the infamous *tequila* bond and debt crisis, “Mexico was paying investors an interest of 75 percent.”<sup>17</sup> Governments may also be tempted to print huge sums of money in an attempt to meet debt service payments; in critical cases such as Germany in 1923 and Argentina in 1989, massive printing of currency, at least due in part to escalating debt service payments, led to hyperinflation, with Argentina experiencing annual inflation rates of over 3,000 percent at the end of the 1980s.<sup>18</sup>

In December 2001 and January 2002, Buenos Aires, Argentina may have been the least hospitable place for heads of state in the entire world; Argentina had 5 different presidents within a month’s time. Argentina’s political crisis stemmed from its external debt to the IMF,

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<sup>14</sup> Richard Kim, “IMF to Haiti: Freeze Public Wages” *The Nation* January 15, 2010.

<sup>15</sup> Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* W.W. Norton & Co. New York 2009 p. 34.

<sup>16</sup> Robert W. Edgar, “Jubilee 2000: Paying OUR Debts” *The Nation* April 5, 2000.

<sup>17</sup> Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* 2009 p. 48.

<sup>18</sup> Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* 2009 p. 41.

World Bank, and international development banks and its inability to maintain the inflexible 1:1 convertibility/exchange rate with the US dollar. Krugman notes that the results of the 2001-02 economic collapse as being “catastrophic”: “real GDP fell 11 percent in 2002, after falling 4 percent in 2001. Overall, the size of the Argentine economy declined 18 percent between 1998 and 2002, a Great Depression-scale contraction.”<sup>19</sup> Eventually, the Argentine political elite yielded to popular pressure and defaulted on its debt repayment schedule to the IMF.<sup>20</sup> The Argentine economy would finally recover and experience real and sustained growth, permitting Argentina to repay its IMF loans early, after the Argentine government convinced domestic and international bondholders to accept a significant debt swap and drawdown. President Néstor Kirchner then indicated that “his main aim in repaying debt is to avoid further IMF restraint on his policies.”<sup>21</sup> While enjoying greater autonomy from IMF and World Bank policies is indubitably beneficial to many politicians, antagonistic relations with the IMF, World Bank Group, and international development banks proved problematic for Argentina going forward.

After restructuring much of its debt in 2005 and 2010, Argentina was sued in US courts as much of its debt was owned by US citizens and financial institutions, including NML Capital. In June 2014, the US Supreme Court ruled in favor of NML Capital that Argentina needed to repay the full amount of the debt owed on a number of bonds. Then Secretary-General Ban Ki-moon noted that “the case of the *Republic of Argentina v. NML Capital Ltd.* Set important new legal precedents ... and represents a significant setback for international sovereign debt restructuring. The rulings remove financial incentives for creditors to participate in orderly debt workouts and will make future debt restructuring more difficult...”<sup>22</sup>

Latin American countries are by no means the only states to experience serious debt crises; African countries are currently experiencing considerable debt crises. In the late 1990s, many Asian countries, including Indonesia, and Russia experienced major debt crises. In fact, as different countries experienced debt crises and unprecedented currency volatility, these crises began spreading across the globe in a phenomenon known as “financial contagion.” During the contemporary economic crisis, “financial contagion” has reared its undesired head again, including in the recent debt crisis in Dubai as well as in countries such as Greece and Ireland in the European Union (EU). One recent prediction is that “if Greece were to default on its debts, investors would run from other European countries with low growth and big debts — pushing some of the weaker ones into a crisis of their own.”<sup>23</sup> Fears of “financial contagion” may be critical to convincing governments, bankers, and NGO’s to forge common solutions to their collective problems, particularly if creditors become more cognizant of the deleterious situation caused by the poverty trap.

Persistently high levels of indebtedness may create the infamous poverty trap whereby very poor individuals or countries cannot escape poverty because they must consume all of their disposable resources to meet basic needs or provide legally required services. Quite often, in fact, these poor individuals and countries must borrow against tomorrow simply to

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<sup>19</sup> Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* 2009 p. 99.

<sup>20</sup> *BBC News*, “Argentine press attacks IMF over loans” November 15, 2002.

<sup>21</sup> *The Economist*, “Néstor Unbound” December 20, 2005.

<sup>22</sup> Ban Ki-moon, A/69/167 p. 14.

<sup>23</sup> *New York Times*, “After Dubai” January 17, 2010.

meet the exigencies of today, all the way slipping deeper into long-term structural poverty. Providing sustained foreign aid, particularly in the form of Official Development Assistance (ODA) rather than through loans, may provide developing countries with the fiscal and policy space necessary to implement effective poverty reduction and development strategies. Jeffrey D. Sachs, Special Advisor to the Secretary-General on the Millennium Development Goals (MDGs) asserted in 2005 that “it is time for debts of the highly indebted poor countries to be cancelled outright as part of the financing package for the Millennium Goals-based poverty reduction strategies.”<sup>24</sup> Convincing donors, whether governments, private banks, or private investment firms, to cancel debts is a major component of the development strategies of many developing country governments as well as NGOs from around the world.

## Global Pandemics’ Impact on Debt and Development

When governments face unexpected events that impede on years-long planned budget spending and are obligated to pay loan payments, monetary reserves often take a hit and can plunge stable economies into recessions. One of the largest unprecedented events that can impact the global economy within a matter of days is a pandemic. The very definition of the term *pandemic* has become subjected to controversy over the last few years. In a statement released by the World Health Organization (WHO) in July 2011, “A pandemic is defined as an epidemic occurring worldwide, or over a very wide area, crossing international boundaries and usually affecting a large number of people.”<sup>25</sup> Pandemic’s are often coined as serious public health events that threaten international public health, which, under the International Health Regulations (IHR), can be classified as Public Health Emergencies of International Concern (PHEIC), which is the WHO’s highest levels of alarm. However, coining an emerging outbreak as a *pandemic* often places Member States in challenging positions and has imprinted negative views on the international community over the years, and led to an increased scrutiny of the WHO and global leaders.

Previous experiences of declaring an outbreak as a pandemic or global outbreak too early has led to extreme backlash against the WHO for monetizing public fear with private pharmaceutical companies directly benefiting from such declarations. A direct example of this was during the Influenza A, otherwise known as H1N1, outbreak in 2009. Evolving to an extent not previously identified in animals or people before, the virus proved challenging. At the beginning of the new H1N1 outbreak, WHO Director-General Dr. Margaret Chan announced the start of the pandemic on 11 June 2009: “the pandemic would be of moderate severity... we do not expect to see a sudden or dramatic jump in the number of severe or fatal infections.”<sup>26</sup> While the WHO did not anticipate a large volume of severe or fatal infections, the WHO consistently reminded the public that the “majority of patients experienced mild symptoms and made a rapid and full recovery, even without medical treatment.”<sup>27</sup>

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<sup>24</sup> Jeffrey D. Sachs, *The End of Poverty: Economic Possibilities for Our Time* Penguin Press New York 2005 p. 281.

<sup>25</sup>(WHO | The classical definition of a pandemic is not elusive, 2020)

<https://www.who.int/bulletin/volumes/89/7/11-088815/en/#:~:text=A%20pandemic%20is%20defined%20as,are%20not%20considered%20pandemics.>

<sup>26</sup>(WHO | The international response to the influenza pandemic: WHO responds to the critics, 2020)

[https://www.who.int/csr/disease/swineflu/notes/briefing\\_20100610/en/](https://www.who.int/csr/disease/swineflu/notes/briefing_20100610/en/)

<sup>27</sup>(WHO | The international response to the influenza pandemic: WHO responds to the critics, 2020)

[https://www.who.int/csr/disease/swineflu/notes/briefing\\_20100610/en/](https://www.who.int/csr/disease/swineflu/notes/briefing_20100610/en/)

However, regardless of this and the viruses' unique changing epidemiological patterns, the WHO invested in vaccinations and antiviral treatment that ended up not being used due to a large percentage of patients being able to make a full recovery without medical treatment. This provoked public outcry and suspicion over the handling of funds, especially in light of the growing recession and global economic crisis. Due to the rate of the spread of the illness, people stayed confined to their own houses in order to avoid contracting the illness.

At the beginnings of the outbreak, Argentina was the hardest hit country in the Global South. With a dependent economy relying on tourism, public service, and transport, Argentina's economy was hit the hardest in the Global South. A drop in the number of tourists, as well as local citizens not visiting restaurants, bars, and events contributed to a drop in the Argentine GDP from \$361.6 billion in 2008 to \$333 billion in 2009, and a fall of GDP per capita growth percent of 3.0 in 2008 to -6.9 in 2009.<sup>28</sup> Globally, the H1N1 virus outbreak led to a substantial economic burden totaling to an estimated \$87.1 billion, with \$10.4 billion spent in direct medical costs.<sup>29</sup>

Another example of a financial impact on the global economy from an emerging virus is the West African Ebola Virus of 2014-2016. Spanning across three years, the epidemic was the first and largest epidemic of its kind, with a death count of more than 11,300 people in Guinea, Liberia, and Sierra Leone. While classified as an epidemic, the WHO declared the virus to be a "public health emergency of international concern."<sup>30</sup> However, unlike the H1N1 virus, the Ebola virus primarily impacted Member States in West Africa. In the three countries alone — Guinea, Liberia and Sierra Leone — the Ebola Outbreak led to over \$2.8 billion lost in the overall gross domestic product (GDP).<sup>31</sup> This comes from lower investment and resulted in substantial loss in growth through the private sector, agricultural production, and cross-border trade. In response to the outbreak, Member States such as the United States, the United Kingdom, and Germany were among the top donors in combatting the outbreak of the West African Ebola Virus – with donations totaling more than \$3.622 billion.<sup>32</sup>

Despite this economic response, the support did little to combat the long-lasting economic consequences resulting from the outbreak. Economic shocks impacted and still linger in areas of investment, production, consumption, and commodities as well: "The mortality per capita has been 5 per 10000, and the GDP impact per capita has been reduced by an average of \$125 per person in the three countries."<sup>33</sup> The decline in the price of commodities such as iron ore and gold crept into local households in these three countries and has increased unemployment rates drastically, impacted education, and increased food insecurity: "Close to 10 percent of Guinean households have withdrawn their children from

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<sup>28</sup>Worldbank, Found at:

<https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.PCAP.KD.ZG&country=ARG>

<sup>29</sup> PMC, "Influenza Update" Found at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3278149/>

<sup>30</sup> <https://www.who.int/csr/disease/ebola/ebola-6-months/en/>

<sup>31</sup> Worldbank, (2014-2015 West Africa Ebola Crisis: Impact Update, 2020) Found at:

<https://www.worldbank.org/en/topic/macroeconomics/publication/2014-2015-west-africa-ebola-crisis-impact-update>

<sup>32</sup> CDC, "The Cost of the Ebola Epidemic"

Found at: [https://www.cdc.gov/vhf/ebola/history/2014-2016-outbreak/cost-of-](https://www.cdc.gov/vhf/ebola/history/2014-2016-outbreak/cost-of-ebola.html#:~:text=Aside%20from%20the%20devastating%20health,4%20of%20the%20three%20countries.)

[ebola.html#:~:text=Aside%20from%20the%20devastating%20health,4%20of%20the%20three%20countries.](https://www.cdc.gov/vhf/ebola/history/2014-2016-outbreak/cost-of-ebola.html#:~:text=Aside%20from%20the%20devastating%20health,4%20of%20the%20three%20countries.)

<sup>33</sup>Worldbank, (2014-2015 West Africa Ebola Crisis: Impact Update, 2020) Found at:

<https://www.worldbank.org/en/topic/macroeconomics/publication/2014-2015-west-africa-ebola-crisis-impact-update>

school... In Sierra Leone, 9,000 wage workers and 170,000 self-employed workers outside of agriculture are no longer working.”<sup>34</sup> Regardless of the need for aid, private investors lost confidence. As a result of the Ebola outbreak, financial strain was put onto Member States impacted by the virus – “Financing gaps for the three core countries reached more than \$600 million over the two years. The deficits as a share of GDP are estimated at 9.4 percent in Guinea, 8.5 percent in Liberia, and 4.8 percent in Sierra Leone in 2015.”<sup>35</sup>

Emerging in late November of 2019, SARS-CoV-2, the viral cause of coronavirus disease (COVID-19), has impacted the international community drastically — with over 18.8 million confirmed cases globally, the virus has impeded, taken away, and altered millions of lives. Declared as a pandemic officially by WHO on 11 March 2020, the emergence of COVID-19 has had detrimental impacts on the global economy overall and particularly economies in the Global South. With a halt on daily operations in numerous countries, COVID-19 threatens to expose numerous Member States to increased food insecurity, governmental instability, sustainable development setback, and deep recessions that will alter their ability to pay back or support their country adequately — all while combatting a virus.

Even before COVID-19, the Global South had been impacted by high levels of indebtedness and prone to external shocks despite talks of debt refinancing or total debt forgiveness. According to the World Bank in 2019, debt climbed to a record of US\$55 Trillion in 2018.<sup>36</sup> This proves to be detrimental in how Member States can respond and be impacted to financial shocks. In the same study conducted by the World Bank Group, the findings found that debt-to-GDP ratio of developing countries “has climbed 54 percentage points to 168 percentage points... On average, that ratio has risen about seven percentage points a year --- nearly three times as fast it did during the Latin America debt crisis of the 1970s.”<sup>37</sup>

While low interest rates can negate these effects, it is not a long-term strategy to sustainably combat crushing defects. Large debt surges tend to coincide with financial crises in a developing country’s economy which therefore impacts the population at a grand scale. Due to the increasing pressure to pay back bone crushing debt levels, Member States with the highest payments are forced to cut public spending: “Jubilee Debt Campaign has also calculated that in the 15 countries with the highest debt programs, in ten of them public spending per person fell between 2016 and 2018. Across the 15, public spending fell by an average of 4%.”<sup>38</sup> These SAPs also have ripple effects beyond the Member State’s borders since crushing debt and cutting spending tends to have an impact in global commodity prices: in mid-2014, the fall in global commodity prices led to a reduced income for many countries

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<sup>34</sup>Worldbank, (2014-2015 West Africa Ebola Crisis: Impact Update, 2020) Found at:

<https://www.worldbank.org/en/topic/macroeconomics/publication/2014-2015-west-africa-ebola-crisis-impact-update>

<sup>35</sup> Worldbank, (2014-2015 West Africa Ebola Crisis: Impact Update, 2020) Found at:

<https://www.worldbank.org/en/topic/macroeconomics/publication/2014-2015-west-africa-ebola-crisis-impact-update>

<sup>36</sup> Worldbank, “Global Wave of Debt Is Largest, Fastest in 50 years” Found at:

<https://www.worldbank.org/en/news/press-release/2019/12/19/debt-surge-in-emerging-and-developing-economies-is-largest-fastest-in-50-years>

<sup>37</sup>Worldbank, “Global Wave of Debt Is Largest, Fastest in 50 years” Found at:

<https://www.worldbank.org/en/news/press-release/2019/12/19/debt-surge-in-emerging-and-developing-economies-is-largest-fastest-in-50-years>

<sup>38</sup> CADTM, Jubilee Debt Campaign, “Crisis deepens as global South debt payments increase by 85%” Found at:

<https://www.cadtm.org/Crisis-deepens-as-global-South-debt-payments-increase-by-85>

and contributed to a drop in exchange rates against the US dollar.<sup>39</sup> Notably, most debt payments are to be owed via the US dollar thus increasing the debt payment size – inherently, creating a “Catch-22” situation.

Most recently, an announcement was made by Secretary-General Antonio Guterres on 23 March 2020<sup>40</sup> which called upon G-20 member states to think about “solidarity not exclusion” and to disregard any notion of business-as-usual. The Secretary-General reminded members of the G-20 that they account for 85% of the world’s GDP. The Secretary-General called for the creation of two large-scale stimulus packages: the first called for scaling-up cash transfer measures, fiscal stimulus, low interest rates, access to credit in order to help developing countries cope with the damaging effects of the crisis; the second called for immediate liquidity relief to the private and financial sector in the form of trade credits.<sup>41</sup>

The Secretary-General also called for debt restructuring to be a priority. As a result, in order to preserve financial security, temporary economic relief was passed by the G20 Leaders’ Summit and the G20 Action Plan on 15 April 2020 that outlines specific actions coming from temporary suspension of debt service (payment) for seventy-six countries in the Global South.<sup>42</sup> This would suspend an estimated \$20 billion out of the \$3.4 trillion due by the end of 2021. While this does not suspend payments to private entities nor multilateral debt payments, the effects of temporarily suspending payments can offset the crushing demands of the private sector. However, a temporary suspension of payments will not fix the incoming economic crisis and recession in numerous Member States in the Global South.

Member States are encouraged to explore the options of debt forgiveness as a response to the crushing and bruising effects of COVID-19 on debt-ridden economies. As a direct result from the emergence of COVID-19, Latin American member states are at risk of a huge loss of substantial growth, with an estimated 7.2% loss that threatens to reverse development goals and tip millions back into poverty.<sup>43</sup> Developing and newly emerging markets will be stalled due to pressure on others markets’ health care systems, trade and tourism, capital flows, and crushing debt with confiscating financial conditions.

## **Preventing Moral Hazard**

The prevailing argument against writing down or forgiving debt is that it will encourage further profligate behavior by the borrowers. Economists refer to the encouragement of future misbehavior by insulating actors from their poor choices or decisions as moral hazards. Given the responsibility of many bankers in creating many of the current problems that countries,

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<sup>39</sup> CADTM, Jubilee Debt Campaign, “Crisis deepens as global South debt payments increase by 85%” Found at: <https://www.cadtm.org/Crisis-deepens-as-global-South-debt-payments-increase-by-85>

<sup>40</sup> António Guterres, Note to Correspondents: Letter from the Secretary-General to G-20 Members, 23 March 2020, <https://www.un.org/sg/en/content/sg/note-correspondents/2020-03-24/note-correspondents-letter-the-secretary-general-g-20-members>

<sup>41</sup> António Guterres, Note to Correspondents: Letter from the Secretary-General to G-20 Members, 23 March 2020, <https://www.un.org/sg/en/content/sg/note-correspondents/2020-03-24/note-correspondents-letter-the-secretary-general-g-20-members>

<sup>42</sup> G20 Finance Ministers and Central Bank Governors, Communiqué, 15 April 2020, [https://g20.org/en/media/Documents/G20\\_FMCBG\\_Communiq  \\_EN%20\(2\).pdf](https://g20.org/en/media/Documents/G20_FMCBG_Communiq  _EN%20(2).pdf)

<sup>43</sup> Worldbank, “The Global Economic Outlook During the COVID-19 Pandemic: A Changed World” 8 June 2020. Found at: <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>

businesses, and workers are confronting today, rhetorical flourishes about moral hazard may lose some of their impact.<sup>44</sup> The IMF and the World Bank addressed these dimensions a few years at a meeting of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries. Regarding the 2005 G8 proposal to cancel the debts of Highly Indebted Poor Countries (HIPC) that had reached the completion point of the HIPC Initiative criteria, IMF and World Bank negotiators stated that:

“moral hazards and equity concerns associated with previous debt relief would be avoided since ‘gross assistance flows’ from IDA [International Development Agency] to eligible countries would be reduced by the volume of debt relief.”<sup>45</sup>

Discouraging unsustainable borrowing in the future is important but it must not be used as a rationale to prevent the cancellation of external debts for developing countries.

### **Hey Brother, Can You Spare Ten Billion Dollars? Debt Restructuring, Debt Forgiveness and Debt Relief**

Debt burdens that are unsustainable prevent countries and businesses from targeting their resources to productive enterprises. Governments and many non-governmental organizations (NGOs) have campaigned for years to achieve debt forgiveness and debt relief but persuading bankers and creditors to write down or outright forgive debt is often challenging. Responding to criticisms, the IMF and the World Bank launched the Heavily Indebted Poor Countries (HIPC) Initiative in 1996; according to Jeffrey Sachs, “the HIPC Initiative itself was a recognition that the structural adjustment era had failed to deliver its promises of economic development and growth to the world’s poorest nations.”<sup>46</sup> To qualify for the HIPC, developing countries already had to have sustained debt-to-export ratios of greater than 150% and focus on the implementation of Poverty Reduction Strategy Papers (PRSPs); once the countries qualify for assistance, the World Bank then monitors their progress until such a point where the country reaches a “decision point” where the World Bank then must assess whether the country is likely to reach a “completion point” whereby its remaining debt may be fully cancelled.<sup>47</sup> While the HIPC Initiative improved the situation for highly indebted poor countries such as Bolivia and Uganda, the poster children for the HIPC in the late 1990’s, it soon became clear that real debt relief would need to be even greater if these highly indebted poor countries were to achieve sustainable economic development and growth. Throughout the late 1990’s, increased calls for enhanced debt relief would eventually culminate in the Jubilee 2000 movement.

Jubilee 2000 was arguably the most celebrated economic movement of the late twentieth and early twenty first centuries. Celebrities such as Bono and the late Muhammad Ali joined the late Pope John Paul II and a host of academics, civil society representatives, NGOs, and a growing number of politicians in wealthy countries to call for immediate debt relief for the poorest countries of the world. The Jubilee 2000 movement aimed its most intense

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<sup>44</sup> John Ydstie, “Bankers Admit Mistakes in Financial Crisis” National Public Radio (NPR) January 13, 2010.

<sup>45</sup> IMF and World Bank, “Note on the G8 Debt Relief Proposal Assessment of Costs, Implementation Issues, and Financing Options” DC2005-0023 September 21, 2005 p. 2.

<sup>46</sup> Jeffrey D. Sachs, *The End of Poverty* 2005 p. 342.

<sup>47</sup> World Bank, “(HIPC) The Enhanced Heavily Indebted Poor Countries Initiative” September 28, 2009. Found at: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20260411~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html>

pressure at the annual meeting of the Group of 8 (G8) countries in Japan in July 2000.<sup>48</sup> Jeffrey Sachs served as one of the economic advisors to Jubilee 2000 and noted that “as in many circumstances, the successful campaign to drop the debt achieved perhaps two thirds of what is truly needed, but it was two thirds more than what was deemed possible before we began.”<sup>49</sup> The Jubilee movement continued past its origins in the late 1990s and continues to push for total debt relief for the world’s poorest countries.<sup>50</sup>

As wealthy countries and international financial institutions (IFIs) reform their lending practices, the actions of the Paris Club of the G8 and related countries will invariably come under further scrutiny.<sup>51</sup> The Paris Club first formally convened in 1956 when the government of Argentina agreed to meet with its creditors in Paris. Today, the Paris Club consists of 19 countries that coordinate debt relief issues for many developing countries through the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The Paris Club member states also use the World Bank Debt Sustainability Framework (DSF) to mitigate against burdening developing countries with excessive and unsustainable debt loads. Per Paris Club guidelines, “all creditors, whether sovereign or private, also have an important role to play in this matter by adopting sustainable lending policies. Paris Club creditors consider that creditor coordination is key to ensure the protection of long-term debt sustainability in low-income countries.”<sup>52</sup> In 2006, Nigeria became the first African country to pay off its outstanding external debt after it negotiated down some of the debt that had been accrued under the dictatorial regime of Sani Abacha as well as other military dictatorships. “Nigeria agreed to pay the Paris Club \$12.4bn (£8.2bn) in exchange for the remainder of its \$30bn official debts being written off.”<sup>53</sup> According to World Bank statistics, nominal debt service relief provided to 29 HIPC countries that reached their decision points has totaled \$62 billion and HIPC assistance has permitted highly indebted developing countries to reduce their debt service payments and simultaneously increase their poverty reduction expenditures to nearly \$15 billion in 2005, 5 times the amount spent on debt service payments.<sup>54</sup> In May 2014, the Paris Club and Argentina agreed to a debt arrears repayment plan of \$9.7 billion USD over a five year period, which gave Argentina “breathing space to continue its [economic] reforms, while the Paris Club deal ... normalizes Argentina’s relations with the international financial community.”<sup>55</sup> As other developing countries strive to pay off their outstanding external debts, it is clear that cooperation with the Paris Club will be essential to successful resolution of these potentially crippling debts.

In April 2009, the G-20 countries requested changes or revisions to the IMF/World Bank Debt Sustainability Framework (DSF), particularly calling for a more flexible overall

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<sup>48</sup> *BBC News*, “G8 urged to honour debt promise” July 19, 2000.

<sup>49</sup> Jeffrey D. Sachs, *The End of Poverty* New York 2005 p. 343.

<sup>50</sup> Jubilee USA. <http://www.jubileeusa.org/>

<sup>51</sup> Paris Club member-states: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom, and the US.

<sup>52</sup> Paris Club, “Debt sustainability challenges for low-income countries” 2010.

Found at: <http://www.clubdeparis.org/sections/themes-strategiques/2009-defis-soutenabilite>

<sup>53</sup> *BBC News*, “Nigeria settles its Paris Club debt” April 21, 2006.

<sup>54</sup> World Bank, “The Enhanced HIPC Initiative – Overview”.

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:21254881~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043~isCURL:Y,00.html>

<sup>55</sup> Ban Ki-moon, A/69/167 July 22, 2014 p. 7.

framework that would more accurately differentiate between debts contracted for short-term fiscal deficits versus longer-term development initiatives. Secretary-General Ban Ki-moon concludes that “a more flexible Debt Sustainability Framework which allows for higher debt thresholds when external borrowing is used to finance high-return investment projects would be desirable as it would recognize that not every increase in debt leads to a reduction in government wealth.”<sup>56</sup> Assessing the potential development impact of any loan must be a critical component of any borrowing strategy as well as a serious consideration for loan approval.

Throughout the most recent global economic crisis and much of its immediate aftermath, analyses of the causes and consequences of the crisis focused on previously obscure forms of debt restructuring, including credit default swaps (CDOs) and collateralized debt obligations (CDOs), or financial “weapons of mass destruction” in the words of Warren Buffett. Lenders, including international financial institutions (IFIs) including the International Monetary Fund (IMF), have proposed to “maintain a market-based approach” to sovereign debt restructuring “centered on debt contracts, accompanied by debt reprofiling.” This “reprofiling would be employed in circumstances in which the IMF member country has lost market access and IMF judges debt to be sustainable but not with high probability.”<sup>57</sup> Given the unethical, and potentially fraudulent, behavior of the credit ratings agencies<sup>58</sup> and the devastating impacts that credit downgrades and defaults can have on countries’ economic health, widespread acceptance of derivatives and in debt restructuring would be most enhanced through reform of the rating agencies’ policies, as established through the 2008 Code of Conduct Fundamentals for Credit Rating Agencies that was developed by the International Organization of Securities Commissions and adopted at the 2009 London G20 Summit.

## **Debt Management**

While debt relief and forgiveness are vital elements of addressing the problems of external indebtedness and sustainable development, governments and businesses that are indebted must also establish and implement effective debt management policies. Fiscal decisions must be orchestrated in such a fashion that governments and businesses reach debt sustainability thresholds while continuing to fund critical development programs. As governments emerge from previously unsustainable debt burdens, they “are frequently faced with new and conflicting proposals from the market, and other bilateral creditors, in new financing options, while, in many cases, lacking a coherent framework to fully assess the related costs and risks. Poor financial choices, including the terms on which new debt is contracted, could contribute to the re-emergence of debt vulnerabilities in these countries, putting sustainability at risk.”<sup>59</sup> Ensuring that debt loads are managed properly and that economic and human development is not stalled or prevented by poorly managed fiscal decisions must be priorities for all governments. Delegates to the General Assembly Second Committee may also note that the comparative debt loads between countries vary enormously and many highly developed countries maintain higher overall debt thresholds than many

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<sup>56</sup> Ban Ki-moon, A/64/167 July 24, 2009 p. 14.

<sup>57</sup> Ban Ki-moon, A/69/167 July 22, 2014 pp. 14-15.

<sup>58</sup> *Economist*, “The other vampires” May 13, 2010.

<sup>59</sup> World Bank, “Debt Management Stakeholder’s Conference” Oslo, Norway March 5-6, 2008.

developing countries when assessed as a percentage of Gross Domestic Product (GDP) or Gross National Income (GNI). As alluded to previously, though, the respective, perceived, credit worthiness of countries may dramatically affect their access to capital and debt restructuring. The Eurozone crisis, particularly focusing on Greece, on the United Kingdom in the wake of the so-called “Brexit” vote in the summer of 2016 and the economic chaos in Venezuela<sup>60</sup> are all highly uncertain, and potentially troubling, questions that delegates may wish to consider as they deliberate.

## **UN System Actions**

The UN System’s ability to redress the problems associated with external debt will only be maximized if all relevant UN agencies and bodies coordinate their policies to the fullest extent possible. Within the UN System, the Financing for Development (FtD) Office, the General Assembly (UNGA), and the Economic and Social Council (ECOSOC) are the leading bodies tasked with addressing the topic of external debt and development. The UN System, in collaboration with the Bretton Woods institutions of the IMF, World Bank, and the World Trade Organization (WTO), formerly the General Agreement on Tariffs and Trade (GATT), organized a series of high-level conferences related to the topic of external debt and development, including the Doha Review Conference (November 29 – December 2, 2008) that served as a follow-up to the International Conference on Financing for Development in Monterrey, Mexico in March 2002. Addis Ababa, Ethiopia hosted the Third International Conference on Financing for Development from July 13-16, 2015; delegates to the General Assembly Second Committee may wish to review the relevant documents and commitments from the Addis Ababa conference.<sup>61</sup>

The UN System, often through the Department of Economic and Social Affairs (DESA), also frequently convenes expert group meetings on topics such as external debt restructuring as well as the debt problems faced by small vulnerable states.<sup>62</sup> Addressing the specific concerns of different states on the topic of external debt and its impact on human and social development ultimately requires both flexibility within the UN System and constant and direct interaction with not only its member states but the broader array of local, national, and international partners, including civil society representatives, international financial institutions (IFIs) and development experts and practitioners.

## **Conclusion**

External debt continues to pose serious problems for development initiatives around the world. Governments and businesses must convince their respective creditors that creating a mutually acceptable debt sustainability framework with the potential for debt cancellation and/or forgiveness will be essential to any comprehensive solution to the debt dilemma. Debt forgiveness is clearly essential for most countries within the Global South but may become increasingly important for middle-income developing countries and even highly developed countries that are heavily indebted. In light of the COVID-19 pandemic, the G-20 and

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<sup>60</sup> Ricardo Hausmann & Mark Walker, “Restructuring Venezuelan debt: Navigating new rules” World Economic Forum October 12, 2016.

<sup>61</sup> Third International Conference on Financing for Development: <http://www.un.org/esa/ffd/ffd3/>

<sup>62</sup> United Nations Department of Economic and Social Affairs (DESA), “Financing for Development: External Debt” 2017.

numerous UN organizations have come together to provide temporary financial relief, however, debt forgiveness and debt restricting must be considered in the long-run. Ultimately, however, governments and their related development partners must consider more effective ways to achieve sustainable development without contracting such imposing debt burdens.

### **Guiding Questions:**

1. What is the current fiscal situation for your country? How much external debt does your country currently owe, and did that amount increase during the current global economic recession/slowdown?
2. What are the contemporary political debates in your country about budget deficits and/or surpluses as well as short and long-term debt repayment? What is the current rating of your country's sovereign debt? How might your country maintain and/or improve this rating without adversely affecting quality of life factors for your citizens?
3. What are the positives and negatives of refinancing or cancelling debt for Member States in the Global South?
4. Do countries have both legal and moral obligations to repay any outstanding external debt? If the original debt was contracted by a military dictatorship, particularly one that committed serious human rights violations against its own population, do succeeding governments have to repay all of the debt accrued by that dictatorship?
5. How might international financial institutions (IFIs) and commercial banks amend or reform their lending practices to mitigate against unsustainable debt burdens for developing countries in the Global South?
6. How effective have recent changes to the IMF/World Bank Debt Sustainability Framework (DSF) been in establishing more sustainable debt thresholds for developing countries? Are the current Enhanced Highly Indebted Poor Countries (HIPC) Initiative criteria truly reflective of the needs and situations of highly indebted developing countries, especially the world's Least Developed Countries (LDCs)?

### **Resolutions:**

UN Security Council Resolution 2543 (2020)

UN General Assembly resolution 74/270 (A/RES/74/270), "Global solidarity to fight the coronavirus disease 2019 (COVID-19)"

UN General Assembly resolution 73/221 (A/RES/73/221), "External debt sustainability and development" December 20, 2018.

UN General Assembly resolution 73/220 (A/RES/73/220), "International financial system and development" December 20, 2018.

UN General Assembly resolution 68/304 (A/RES/68/304), "Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes" September 9, 2014.

UN General Assembly resolution 63/206 (A/RES/63/206), “Towards a durable solution to the debt problem of developing countries” December 19, 2008.

### **Reports of the Secretary-General:**

António Guterres, “Report of the Secretary-General: Follow-up to and implementation of the Outcomes of the International Conferences on Financing for Development”, (A/74/260), July 30, 2019.

António Guterres, “Report of the Secretary-General: External debt sustainability and development” (A/73/180), July 16, 2018.

Ban Ki-moon, “Report of the Secretary-General: Outcome of the Third International Conference on Financing for Development” (A/70/320) August 13, 2015.

Ban Ki-moon, “Report of the Secretary-General: External debt sustainability and development” (A/69/167) July 22, 2014.

Ban Ki-moon, “Report of the Secretary-General: Towards a durable solution to the debt problem of developing countries” (A/64/167) July 24, 2009.