

General Assembly 2: Economic & Financial Affairs Council

The Issue of Countries Issuing Predatory Debts

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Model United Nations 2024

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Introduction

It is a saddening fact that billions of dollars that are imposed on developing countries in hopes of implementing an innovative infrastructure-development often lead to predatory debts that are directly proportional to a country's credit availability and borrowing costs which eventually affects the country's economy as a whole. These predatory debts are often caused by politicians blinded by the large sum of debts and taking inconsiderate measures, promising the lenders with a project that will lead them both to a "win-win" situation even when the details of the process, or a specific plan has not been communicated within these deals. These cases eventually lead countries to default on their debt where governments are unable, or unwilling to pay back its debt which leads to more complex economic crises.

Other prominent factors that need to be discussed is how countries face these predatory debts when governments face difficulties such as an economic decline, uneconomic use of the funds, political instabilities or rising interest rates (which increases a country's interest payments a country needs to pay on the debts) that's when they reach a default on their debts.

Definition of Key Terms

Predatory debts

Imposing unfair, deceptive or abusive loan terms on borrowers. The use of unfair tactics used by some people to dupe others into mortgage loans that they can't afford.

Austerity

Governments having sovereignty in spending

Default on its debt

When a borrower stops making required payments on a debt

Global debt

Total amount of money owed by all sectors including governments, businesses and households

Budget deficit

Occur when government tax spendings is higher than the generated revenue in the economy. Budget deficits that are allowed to accrue over time form national debt, the total money a government has borrowed³.

Interest

Price you pay to borrow money or the return earned on an investment.

Exchange rate

Which one currency is exchanged for another currency.

Background Information

When discussing predatory debts, it's crucial to consider the different situations countries are in. Some factors that need to be taken into account:

It is especially challenging for countries that have their debt denominated in a foreign currency to pay their debts as it raises the exchange rate risk. Defaulting on debt may benefit a country in the short-term, but having a reputation of being a debtor makes borrowing money in the future more difficult. Countries receive credit ratings which define their financial position that can be analyzed. Many long-term solutions strongly rely on a country's economic productivity and development as well as their capability to obliterate factors that led to the initial default. An example of these long term solutions is South Korea's economic miracle in the 20th century. Strategic investments in education, infrastructure, export-led growth, effective governance, and institutional reforms eradicated initial economic challenges, fostering sustained productivity and development. Noting that many of the financial crises are root causes of interdisciplinary issues of individual countries, many institutions such as the IMF and World Bank share a general criteria and objective of "reducing corruption, increasing taxes, nationalizing assets and austerity" Despite these institutes seeming like charitable organizations to help the economy, ultimately, they are groups of creditors trying to receive their debts back. Countries are then left with no choice but to accept any deals regardless of the nations' interests. For example, less than 10% of the bailout money was contributing to aid the economy and citizens whilst the majority of the funds were poured into the European banks. China and IMF's race for credit influence can further complicate debt recovery for debiting countries. Despite China's economic contributions beyond debt, particularly through initiatives like the Belt and Road, numerous nations express apprehension about the BRI posing potential risks as a Trojan horse for China-driven development and potential military expansion.

Current situation:

With the current global debt reaching a record high of \$307 trillion it has increased strains for low-income countries such as Sri Lanka, Pakistan, Egypt more than ever. The situation aggravates as Global economic growth is presumed to slow down by 3%.

Opposing Voices:

Many nations have raised suspicions of the IMF and World Bank of schemes utilizing funds to benefit European banks. Proper communication is key to sustain a country's financial stability whilst ensuring that one isn't too economically reliant to these institutions. Strong opposing voices such as the Asia Pacific Research Network has already claimed that the "We reject IMF-WBG's deceitful lending solutions to eradicate poverty by continuing to advance the implementation of neoliberal policies under the guise of loan conditionalities. It's a debt trap"

Major Parties involved and their views

International Monetary Fund (IMF)

Member-based organization with member nations contributing a certain amount of fund to help extend credit

World Bank

Similar idea to the IMF but mainly focuses on LEDC and poorer countries with an objective of eradicating poverty. The World Bank works to prevent predatory debt by promoting responsible lending practices, providing financial assistance with transparent terms, and offering debt management support to member countries.

Paris Club

“Group of developed creditor Nations that account for over half of poor country debts”. Their goal is to coordinate appropriate measures and responses to defaults. Some major countries in the Paris agreement includes Australia, Canada, Switzerland, South Korea, United States and United Kingdom.

Sri Lanka

On October 13, 2023 a BBC article reported Sri Lanka’s confirmation of a deal with China of \$4.2 billion of debt where over 52% of it is owed to China. This new deal allows Sri Lanka to access funds of \$3 billion with the International Monetary Fund (IMF). Some concerns still revolve around as annual meetings at the IMF and World Bank stated that Sri Lanka has struggled to reach a consensus as they expressed their concerns of China negotiating special terms regarding loans. Predatory loans is one concerning aspect.

Myanmar

Myanmar faced one of the most dramatic economic fluctuations in affects to the Myanmar coup in 2021 under the purpose of inflaming the ethno-religious strife. Some economic consequences that followed include foreign investors walking out, and general order companies to convert their foreign exchange accounts into Myanmar kyat. Just a few days after the coup in February 7, 2021, an article by Nikkei Asia stated Myanmar’s Aung San Suu Kyi’s government who was ousted on Feb 1 managed to decrease their debt to China by 26% and increase trade deficits in attempts to defend the economy especially during a time when the military began increasing their sovereignty.

China:

China is the biggest lending country with a massive credit influence. They currently account for nearly 20% of poor country debts. China also implemented massive infrastructure projects initiated by President Xi Jinping of the Belt and Road Initiative (BRI) in aims of creating a “vast network of railways, energy pipelines, highways and streamlined border crossing”.

Pakistan

Currently plans to raise 215 billion rupees (USD 750 million) to meet loans set by the IMF in ways such as raising taxes and lifting interest rates by 22% in the midst of attempting to combat poverty. Pakistan has especially faced a dramatic depletion in the value of their currency leading many Pakistan’s foreign exchange reserves to hypothesize that Pakistan is headed towards a default. Moreover, in 2022, Pakistan faced a devastating flood that scarred them with \$40billion in damages, making it an extreme challenge for the government to follow IMF’s conditions. To this the IMF held discussions to establish funds from a \$7billion bailout designed to prevent economic meltdown.

Timeline of Relevant Events

Date	Description
1902	<p>Venezuelan crisis An example of creditor countries utilizing violence to recollect assets that were borrowed; Germany and Italy implemented a naval blockade on Venezuela for overdue payment</p>
1980	<p>Latin American debt crisis Many Latin American countries, such as Mexico, Brazil, and Argentina, faced severe economic challenges due to high levels of foreign debt. This crisis marked the beginning of a series of debt-related issues in developing countries.</p>
1997	<p>Asian financial crisis Several Asian economies, including Thailand, South Korea, and Indonesia, faced economic turmoil triggered by a combination of factors, including high levels of debt, currency devaluations, and financial market instability.</p>

Date	Description
1996-2000s	<p>Highly Indebted Poor Countries (HIPC) Initiative The HIPC Initiative, launched by the World Bank and the International Monetary Fund (IMF), aimed to reduce the debt burdens of heavily indebted poor countries, allowing them to achieve sustainable economic growth.</p>
2008	<p>Greece defaults on its own debt When Greece faced a default within their own debts, the Institute of International Finance agreed to a 53.5% haircut on Greece's debt holdings. Massive protests were held by citizens in the streets. .</p>
2009	<p>United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development Heads of State and Government and High Representatives met in New York to discuss matters of the economic crisis. It addresses the importance of cooperation and strong partnership and the effects on humanitarian resources and assistance. Outcome report: https://www.un.org/esa/ffd/wp-content/uploads/2014/09/Outcome_2009.pdf</p>
2010-2012	<p>Eurozone Debt Crisis Several European countries, including Greece, Ireland, Portugal, Spain, and Italy, faced significant debt challenges, leading to bailouts and austerity measures. Predatory lending practices by some financial institutions came under scrutiny.</p>
2017	<p>China's Belt and Road Initiative China's ambitious infrastructure investment program, the Belt and Road Initiative (BRI), raised concerns about debt sustainability in recipient countries. Some critics argue that China engages in predatory lending, taking advantage of weaker economies.</p>

2020	<p>Debt Challenges Amid the Pandemic</p> <p>The economic fallout from the COVID-19 pandemic led to increased debt levels for many countries, especially in the developing world. Calls for debt relief and restructuring gained prominence.</p>
2021	<p>Global Debt Relief Initiatives</p> <p>Discussions and initiatives emerged regarding providing debt relief to countries struggling with the economic impacts of the pandemic. Efforts were made to address the debt vulnerabilities of low-income countries.</p>

Related UN Treaties and Events

Treaties:

International Convention for the Suppression of the Financing of Terrorism

Adopted by UN GA4 assembly on December 9, 1999. Signed on behalf of USA on January 10, 2000. Considers the effects of financing terrorism to the international committee as a whole. Some Operative clauses in the resolution:

Article 5

1. Each State Party, in accordance with its domestic legal principles, shall take the necessary measures to enable a legal entity located in its territory or organized under its laws to be held liable when a person responsible for the management or control of that legal entity has, in that capacity, committed an offence set forth in article 2. Such liability may be criminal, civil or administrative.

Some preambles in the resolution:

→ Being convinced of the urgent need to enhance international cooperation among States in devising and adopting effective measures for the prevention of the financing of terrorism, as well as for its suppression through the prosecution and punishment of its perpetrators,

→ Noting that the Declaration on Measures to Eliminate International Terrorism also encouraged States to review urgently the scope of the existing international legal provisions on the prevention, repression and elimination of terrorism in all its forms and manifestations, with the aim of ensuring that there is a comprehensive legal framework covering all aspects of the matter,

Full resolution link: <https://treaties.un.org/doc/db/terrorism/english-18-11.pdf>

The United Nations Convention on the Law of Non-Navigational Uses of International Watercourses (1997)

It aims to establish a framework for the equitable use of water resources shared by many nations. This convention aims to prevent the misuse of water resources to exert economic pressure on borrowing countries. The treaty highlights the significance of cooperation among riparian states by encouraging countries to work together to settle disputes and equitably distribute resources which can aid financial assistance between countries.
https://legal.un.org/ilc/texts/instruments/english/conventions/8_3_1997.pdf

The UN Guiding Principles on Foreign Debt and Finance for Development

It was adopted as a set of non-binding guidelines to assist countries in managing their external debt and financial obligations. The Guiding Principles emphasize the importance of debt sustainability, transparency, and the protection of the rights of borrowing countries. Promoting responsible lending and borrowing practices can help mitigate the risks associated with predatory debts and ensure that countries can effectively manage their debt obligations.

In resolution 2004/18, the Commission on Human Rights requested an Independent Expert to draft general guidelines on the effects of foreign debt.

In its decision 2/109, the Human Rights Council requested the OHCHR to convene an expert consultation to contribute to the process of drafting the general Guidelines.

With the support of OHCHR, the Independent Expert held four regional consultations between June 2010 and June 2011 with Latin America, the Caribbean, Africa, Asia Pacific, and Western Europe.

In November 2011, the Independent Expert convened an expert meeting to review new guideline principles that had been based on the insights from the regional consultations.

<https://www.ohchr.org/en/documents/reports/ahrc2023-guiding-principles-foreign-debt-and-human-rights>

Previous Attempts to solve the issue

The UN Department of Economic and Social Affairs (DESA) works in Intergovernmental Support Analysis and Capacity building, helping countries make informed decisions through publications and databases provided by the various support of UN GAs, ECOSOC and other bodies.

UN DESA Website: <https://www.un.org/en/desa>

The World Bank and the International Monetary Fund (IMF) established the Debt Relief for Heavily Indebted Poor Countries (HIPC) Initiative in 1996. The HIPC Initiative aimed to provide debt relief initiatives and policies aimed at addressing unsustainable debt burdens allowing them to devote more resources to social and economic development.

HIPC Initiative: <https://www.imf.org/en/About/Factsheets/Sheets/2023/Debt-relief-under-the-heavily-indebted-poor-countries-initiative-HIPC>

The United Nations Conference on Trade and Development (UNCTAD) is an intergovernmental body established by the United Nations General Assembly in 1964. It is part of the UN Secretariat and supports developing countries to a more fair and effective economy. UNCTAD's research reports and publications cover topics related to international finance, debt management, and sustainable development, offering authoritative perspectives on addressing predatory debts:

Debt Restructuring Support: When countries face unsustainable debt burdens, UNCTAD assists in debt restructuring. This involves negotiations between the debtor country and its creditors to modify the terms of the debt including extending due dates or reducing interest rates.

International Cooperation: The organization fosters international cooperation on debt management issues by working with other UN bodies including, international financial institutions, regional banks, and civil society organizations, to coordinate efforts against predatory debts.

https://unctad.org/system/files/official-document/tdr2023ch5_en.pdf

Possible Solutions

As mentioned in the background information section, approaching debiting countries is an extremely political move, especially now with major powers holding major accounts of the default countries racing for more credit influence. This means careful investments should be made to prevent economic corruption in countries and proper communication with creditors and debtors, which again, can be very political.

Refinancing

Refinancing is the process of revising and replacing the terms of an existing credit agreement. Refinancing can potentially reduce the financial strain caused by high interest rates, excessive fees, and aggressive collection practices debts by securing a loan with more favorable conditions. Refinancing can be done through consolidation of loans, negotiating with creditors to extend maturity dates, lowering the interest rate, working out a new repayment plan, or settling the debt for less than the amount owed. Or a “haircut” where the debt itself is reduced. For the agreement to be successful, there must be high transparency within the credit agreement between the lender and borrower which ensures that both parties understand the terms and conditions of the agreement, as well as the risks involved.

Proper research and consideration measures before agreeing to terms

Excessive risk-taking is the principal cause of these economic crises. The first step is to conduct research in developing countries to increase financial literacy and actuarial literacy on predatory lending. The types of predatory indebtedness that exist in these nations include high-interest loans, exploitative microfinance programs, and other forms of abusive lending need to be examined before taking action.

Suggested Reading

IMF and WB attempts to solve predatory debts:

<https://www.aprnet.org/imf-and-wb-predatory-solutions-do-not-address-global-poverty-and-debt-crisis/>

General information about predatory debts, countries past actions, and countries that faced the issue:

https://en.wikipedia.org/wiki/Debt-trap_diplomacy

Previous solutions to predatory debts in developing countries:

<https://repositorio.cepal.org/bitstreams/024e040e-d5e4-443f-9337-64e84936d9e9/download>

Developing countries that are trapped in debt crisis:

<https://www.cadtm.org/Developing-countries-are-trapped-in-a-new-debt-crisis-World-Bank>

China's Debt Trap diplomacy, countries that are affected by the debt trap:

<https://bestdiplomats.org/china-debt-trap-diplomacy/>

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