Economic and Social Council

Chair Report

CACMUN

Forum: Economic and Social Council

Issue: Implementing measures to combat the ongoing LEDC debt crisis

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Introduction

According to the International Monetary Fund about 40% of countries (mainly LEDC's) are in debt or in debt distress making this a very pressing issue in our world today. Less economically developed countries (LEDCs) are nations with a low gross domestic product (GDP), a low standard of living, as well as lower levels of industrialization. To classify an LEDC one must consider many factors such as, economic stability, education, healthcare, and income levels. Countries classified as LEDCs are often victims of the debt crisis. A debt crisis is when the government is unable to pay back its governmental debt.

There are many things that can cause a debt crisis in a LEDC, such as high levels of external borrowing. LEDC's often struggle to finance their investments and projects leading them to rely on an external source of funding. This can lead to the accumulation of debt on the LEDC as the loans are not equivalent to economic growth. Additionally, issues with management such as corruption and lack of budget discipline can lead to loss of public funds. The same public funds that are expected to provide for the citizens as well as repay the debt. Finally, the economic vulnerability in LEDC's makes them vulnerable to price fluctuations making it even more difficult for these countries to repay their debt.

Debt crises are very detrimental due to the severe economic impacts on multiple entities in the country such as banks, investors, and the strength of the economy. This debt can significantly reduce economic growth as the government is forced to stop spending money on investments. Additionally the government's social spending decreases and necessities such as education, healthcare, and other social programs are neglected, consequently impacting the well being of the citizens. Furthermore the negative effects of the debt crisis contribute to the poverty trap by leading to higher poverty levels as well as increasing income inequality.

Definition of Key Terms

Debt Crisis

The government is unable to pay back its governmental debt.

Less Economically Developed Countries (LEDC's)

Less economically developed countries are nations with low industrialization, low GDP, and high poverty levels.

Debt Distress

When a country struggles to meet its debt obligations.

Gross Domestic Product (GDP)

Total value of all goods and services produced within a country during a specific period.

Debt Transparency

Clear and comprehensive reporting of a country's debt.

Debt Relief

Measures that reduce or restructure a country's debt burden.

Fiscal Policy

Governments use spending and taxation to maintain debt sustainability.

Economic Reforms

Structural changes aimed at improving a country's economic performance.

Sovereign Debt

Money borrowed by a national government.

Creditors

Individuals or institutions that lend money

Sustainable Development

Meeting present needs without compromising future generations needs.

Poverty Trap

Individuals or countries remain in poverty due to a lack of resources, opportunities, or debt.

Economic Stability

Condition of steady growth, low inflation, and low unemployment.

Austerity Measures

Policies aimed at reducing government deficits through spending cuts and tax increases

Major Countries and Organizations Involved

United States of America

The United States plays a crucial role in helping combat debt crises in LEDCs. To begin, the US funds programs such as the Heavily Indebted Poor Countries (HIPC) program and the Multilateral Debt Relief Initiative (MDRI). These programs are used in LEDC's to help with debt relief as well as restructuring the country's infrastructure. Additionally when an LEDC's must develop critical infrastructure the US often donates grants and developmental assistance to ensure that the LEDCs are receiving funding while accumulating more debt. The US also uses its power to promote transparency as it prevents corruption and misuse of public funding as well as responsible lending.

China

China plays a significant role in helping combat debt crises in LEDCs. By becoming a major development finance China has created and funded initiatives such as the belt and road initiative that over 150 countries are participating in. China also fosters trade with LEDCs which can significantly enhance their economic stability and help the LEDC deal with debt relief and sustainability. China has also entered into multiple bilateral agreements in which they provide financial support and create debt relief measures specific to the LEDC.

Germany

Germany also takes on a significant role in helping combat debt crises in LEDCs. Germany actively participates in international forums such as the G7 (Group of 7)and the G20 (Group of 20) . With this power Germany advocates for global financial architecture and initiatives that aim to promote balanced debt management. Germany also provides technical assistance to LEDCs by providing training regarding debt management, fiscal policy, and more. Additionally Germany encourages sustainable development meaning all their investments are meant to have long term economic benefits.

International Monetary Fund

The international monetary fund has a big influence on the debt crisis in LEDC's. By providing emergency financing the IMF is able to help LEDC's who are in a liquidity crisis. This helps these countries deal with their financial crisis while still maintaining economic stability. The IMF also conducts data sustainability assessment. These tests are meant to evaluate the sustainability of the country's debt levels which is critical. Additionally the IMF plays a role in the negotiations between creditors and countries to ensure that resolutions are in place to combat debt crises.

World Bank

The World Bank is another organization that plays a very large role in managing the debt crisis in LEDC's. The world bank emphasizes poverty reduction as well as promotes sustainable lending and borrowing. This means that the development projects they fund are meant to have long term economic growth. The world bank also provides policy advice. This advice is for the governments to help them manage public debt and increase transparency. Additionally the World Bank provides reliable research and data regarding debt sustainability.

Paris Club

The Paris club is another organization that plays an important role regarding the debt crisis in LEDC's. For starters the Paris club is a group of countries that are creditors, meaning that these countries facilitate debt restructuring for countries in financial crisis. Being an informal organization the Paris Club is a lot more flexible with their debt conditions. Meaning they can reschedule the payment time, as well as reduce the interest rate, making it much easier for the LEDC. Additionally the Paris Club encourages transparency in debt negotiations ensuring that all the conditions are extremely clear.

Timeline of Events

Date	Description of Event
1982	**Latin American Debt Crisis:** Several countries in the Latin American region ended up defaulting on their debt obligations because they were struggling with high interest rates and a decline in commodity prices. This crisis led to a decade of financial struggles for Latin American Economies.
1989	**Brady Plan:** This plan was introduced by the United States. This plan was introduced to address the Latin American debt crisis. The point of this plan was to convert the commercial bank loans into bonds. This was all backed up by the US treasury securities.
1996	**Heavily Indebted Poor Countries (HIPC) Initiative:** This initiative was launched by the IMF and the World Bank to provide debt relief to LEDC's. The goal was to reduce the debt burden so that these countries have the ability to invest in poverty reduction and social programs.
2005	**Multilateral Debt Relief Initiative (MDRI):** this was established to provide 100% debt relief to the debts owed to the IMF, World Bank and African Development Fund. This helps free up resources so the funding can go towards more helpful initiatives.
2013	**Launch of the G20 DSSI:** Launch of the G20 Debt Service suspension initiative was to help eligible countries suspend debt service payments. Initiative aimed to provide financial relief to countries facing economic challenges.
2015	**Addis Ababa Action Agenda:** this plan emphasized the need for sustainable development goals. The purpose is to address debt sustainability.
2020	**COVID-19 Pandemic and Economic Impact:** This pandemic increased debt levels and financial distress in LEDC's. This is because countries were facing significant declines in revenue. This led to calls for urgent debt relief and restructuring.
April 2020	**G20 DSSI Implementation:** This allowed eligible countries to suspend debt service payments to creditors for 6 months. This initiative was made to provide immediate relief to countries that

	were struggling with the economic impact of the pandemic.
November 2020	**Common Framework for Debt Treatments:** This was an initiative to help provide a coordinated approach for restructuring debts of countries in distress.
2021	**IMF SDR Allocation:** Special drawing rights (650 billion dollars) to provide liquidity to countries in need. This initiative is meant to help with payment pressure and rising debt

Relevant UN Treaties and Events

United Nations General Assembly Resolution 68/204 (2013)

This resolution focuses on the need for sustainable development financing. This resolution also acknowledges the challenges faced by LEDCs in managing debt. Additionally the resolution calls for international cooperation in aiding countries in debt crises.

Addis Ababa Action Agenda (2015)

This action agenda is essentially a plan meant to handle financing sustainable development. This plan also includes specific measures on how to aid LEDCs in managing their debt. This agenda covers both public and private financing.

UN Financing for Development Conference (2021)

Meant to tackle the financing issues after the Covid- 19 pandemic. Once again emphasized the need for debt relief as well as sustainable financing for LEDCs. This conference called for countries to support LEDC's that were economically vulnerable.

International Debt Architecture Reform Discussions (2022)

The purpose of these discussions was to reform the global debt architecture and to focus on truly addressing the debt issues faced by LEDCs. In these discussions transparency regarding lending and borrowing was emphasized.

UN General Assembly Resolution on the Right to Development (2022)

The right to development for all countries, including LEDC's. This resolution calls for international cooperation to eliminate all the obstacles faced by countries regarding development. This resolution emphasizes a supportive international environment.

Previous Attempts to Solve the Issue

1. Heavily Indebted Poor Countries (HIPC) Initiative 1996 where the IMF would pay off debts of poor countries with lower more 'sustainable' interest rates
2. Emergency Financial support during pandemics and epidemics such as COVID-19 where the UN put a pause on the most significantly affected countries
3. Debt relief efforts for countries and nations that manage to achieve sustainable development goals or make significant progress towards achieving them
4. Debt for nature relief practices where the UN would exchange some of a countries debt with the assurance that they would invest in sustainable development

Possible Solutions

1. Holding educational events with prime ministers and country leaders to educate them on the pros and cons of accumulating debt as well as how to sustainably manage debt. These Educational events can significantly enhance the understanding of debt management among world leaders, leading to more informed economic decisions, in addition to that they will also facilitate the sharing of the best practices and experiences that appear to be successful, eventually leading to leaders implementing more effective policies. However, there may be resistance from leaders who are reluctant to alter their existing policies or strategies. Deeper issues may also arise from countries relying on the downfall of LEDCs which might in turn involve spreading ineffictive strategies making the workshops more harmful than good. Finally, the time of these leaders is extremely pertinent and of high demand so organizing it might be hard to fit all countries' schedules

2. Debt relief is where the UN would pay off certain countries in order to maintain world order and stability and stop potential collapses of entire countries, also, coordinated international efforts to pool resources for debt relief can enhance global stability and security. On the other hand, Implementing debt relief requires substantial financial resources and complex coordination among multiple stakeholders, which can be challenging. There is a risk of creating a moral hazard if

countries receiving relief do not undertake necessary reforms or improvements such as not sticking to the legal agreements.

3. Conditional debt repayments are where countries have to agree on certain realistic objectives that the loan should accomplish. If these objectives are not met then the debt can be paused or reduced. Flexibility in loan terms based on performance allows for adjustments if countries face unforeseen difficulties, helping to better align debt obligations with real-world challenges as well as helping countries truly escape their debt not just allowing it to pile up, moreover, it goes hand in hand with the above solution making a great potential UN reform. Disputes may arise over whether the agreed-upon objectives have been met, leading to potential conflicts and additional administrative burdens, thus adding a layer of complexity on both (all) involved parties.

4. Creating emergency clauses and exemptions that allow countries to repay their debt later or waive completely depending on their current state. Examples include if the country is suffering from a civil crisis, invasion, amidst a cold war, etc… However there is a risk of abuse or misuse of emergency clauses, which can lead to prolonged non-repayment or delays

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