

General Assembly Second Committee: Economic and Financial Committee

Welcome

Dear Delegates,

Welcome to BUSUN 2009! My name is Laura Fried and I will be your chair for the sixty-third session of the Economics and Financial Committee. I look forward to seeing you all at this year's conference and hearing your perspectives on some of today's most pressing global financial issues.

Before we get down to business, I would like to introduce myself. I am currently a sophomore at Brown and a double concentrator in International Relations and Public Policy. I became active in Model UN when I came to Brown as a freshman. Model UN has been extremely rewarding because it has given me the opportunity to learn about global issues outside the classroom setting by attending conferences and meeting other students from around the world. Last year I helped coordinate BUSUN 2008 and served as Director of the Disarmament and International Security Council. I am also involved with Brown Students for Israel, the Brown Democrats, and the Brown Journal of World Affairs.

The purpose of this guide is to help you prepare for the conference by providing a starting point for your research. Specifically, this overview will indicate the direction that I intend to take in regards to each topic and some of the relevant questions you should be considering. While researching, keep in mind the defining characteristics of the country you are representing and determine how those attributes would influence your country's position on the issues.

During the conference you will also have the chance to familiarize yourself with Brown, its campus, its students, and its academic programs. If you have any questions regarding the conference, your research, or Brown, feel free to contact me. I will do my best to address any inquiries or uncertainties that you may have.

Once again, I am excited to work with all of you and am looking forward to a great conference! I hope you find this year's topics as engaging and interesting as I do!

Best Regards,

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Committee History

The Economic and Financial Committee (ECOFIN) is the Second Committee among the six standing, or permanent, committees of the UN General Assembly. ECOFIN primarily addresses issues of macroeconomic concern like international trade policy and maintenance of the global financial system. However, the Second Committee also deals with broader questions of economic growth, the eradication of poverty, sustainable development, human settlements, migration, and the consequences of globalization. ECOFIN makes considerable efforts to address the challenges faced by countries experiencing extreme economic difficulties, namely Least Developed Countries (LDCs) and Landlocked Developing Countries (LLDCs). Much of ECOFIN's work is performed in pursuit of furthering the UN Millennium Development Goals (MDGs): a set of benchmarks that strive to reduce poverty and promote economic growth, by 2015. This year, ECOFIN's tasks are substantially more challenging as the global economic crisis destabilizes the international financial order. Therefore, this year's topics must be debated within the context of this instable economic milieu: resources are stretched, unemployment is high, and access to credit is limited. However, these harsh realities make ECOFIN's work more relevant than ever. This year's topics focus on debt, credit, and finance. The overarching thematic question for this year's conference is: how can the developing and the developed countries work together to overcome current global macroeconomic challenges? Although ECOFIN can neither pass bills directly nor put policy into action, it is charged with the responsibility of reviewing, debating, and voting on issues, which are subsequently brought to the attention of the General Assembly.

Topic 1: External Debt Crisis

Background

External debt refers to the money that developing and least developed countries owe to first world countries or multilateral creditors like the International Monetary Fund (IMF) and the World Bank. Oftentimes, this debt occurs in quantities beyond the debtor government's ability to repay. Beginning in the 1960s and 70s in the post-colonial period, creditors issued these massive loans to poor, formerly colonized nations for large infrastructure projects like roads, highways, and dams, as well as general economic development. However, this irresponsible lending resulted in major defaults in the early 1980s, creating an international debt crisis. The debt crisis was problematic for two reasons. First, it resulted in lenders

who lost all of their money in defaulted loans and interest, which made creditors apprehensive about investing in the developing world. Second, it created situations in which many recently independent countries were once again placed in an imbalanced power relationship with the developed world, since they were economically chained to creditor nations and Western-dominated multilateral institutions. In attempt to pay back loans, debtor nations heavily cut back on social services and drastically reduced subsidies for essential goods. In 1996, after heavy pressure from international advocacy groups, the IMF and the World Bank architected the Heavily Indebted Poor Countries (HIPC) Initiative. The program partially forgave the debts of highly impoverished nations, suffering from debt overhang after debtor nations met a number of predetermined criteria. In 2006, the HIPC initiative was supplemented by the Multilateral Debt Reduction Initiative (MDRI), which provided further debt relief. Whether or not creditors should continue to forgive external debt is an ongoing debate that takes on a new sense of immediacy in today's harsh economic conditions.

Current Situation

Many HIPCs continue to have large sums of insurmountable debt because they are either not receiving ample relief or they are not meeting the proper conditions to even begin receiving relief. In the 2008 Report on the Implementation of the HIPC and MDRI Initiatives, the IMF elucidates three remaining challenges. First, a number of HIPCs have not yet met the criteria to receive debt relief. Second, these initiatives have not ensured the participation of all creditors, especially first world governments and private creditors. Third, the resources necessary to fully finance debt relief are not currently available. Advocates of the HIPC and MDRI initiatives believe that debt relief measures should be further extended so that developing countries' governments can devote their resources to providing social services instead of servicing debts. Critics of debt relief believe it fosters "moral hazard" at the international level. World Bank advisor and outspoken critic, William Easterly explains that

Debt relief is a bad deal for the world's poor. Debt relief encourages borrowers to take on an excessive amount of new loans expecting that they too will be forgiven... Commercial banks obviously don't want to get caught with forgiven loans, and even the most charitable official lenders don't want to sign their own death warrants by getting stuck with forgiven debt.

In other words, debt relief rewards countries that have been irresponsible with loans and encourages them to take out more without worrying about paying back creditors.

Easterly and others note that debt relief takes money away from countries that use aid effectively and gives it to others that have wasted loan money in the past. Critics argue that poor countries receiving debt relief are written off as financial pariahs and subsequently have a harder time raising finances from foreign investment.

Bloc Positions

This issue is most clearly divided between creditor nations and debtor nations. In this current economic environment, creditors, or first world countries and private investors, are much more inclined to not support more debt relief measures. Since access to credit is already limited, these lenders are not in a position to dole out debt relief. When creditors forgive debt, they do not have the interest or the debt repayments on hand to put towards new loans or the creation of credit. Debtor nations, especially HIPCs and also mid-range countries who are not in the highly indebted category, but still suffering from debt burdens, would most likely favor more comprehensive debt relief. Given inflationary pressures and high unemployment, developing countries would want debt relief now more than ever so that limited state funds can be directed towards financing social needs instead of repaying debts. Advocacy groups and non-governmental organizations (NGOs) are also likely to support increased debt relief based on humanitarian grounds.

Questions To Consider

1. Should the international community support further debt relief measures for HIPCs?
2. Are creditors in a position today, given the credit crunch, to continue forgiving debts?
3. How will creditors deal with the sunk costs of forgiven debts?

Helpful Resources

- ECOFIN 2008 PDF Report on Debt Crisis
 - <http://daccess-ods.un.org/TMP/3646684.html>
- Official Documents on the External Debt Crisis
 - http://www.un.org/esa/ffd/documents/ga_debt.htm
- Organization for Economic Cooperation and Development Report on External Debt
 - www.oecd.org/dataoecd/56/32/41804246.pdf

Topic 2: Role of Microcredit in the Eradication of Poverty

Background

Microcredit refers to the process of giving small loans to those in poverty in order to encourage entrepreneurship and to support small privately owned businesses. Microcredit is typically elicited from microfinance banks that cater to the special needs of the most indigent. Specifically, microfinance bank loans are not predicated on a client's credit history, possession of permanent residence, or stable employment status like normal bank loans. The term microfinance describes a broader set of financial services engineered specifically for the needs of the poor and the illiterate. Unlike microcredit, which refers exclusively to small loans, microfinance provides poor people access to savings, mortgages, insurance, and international remittances. The first formal Microfinance Institution (MFI) was the Grameen Bank of Bangladesh, founded in 1983 by Mohammed Yunus. More than twenty years later, this innovative idea had acquired so much acclaim and prominence that the UN declared 2005 to be the International Year of Microcredit. The goal of the initiative was to find ways that the UN could promote microfinance on a global scale and replicate the success of the Grameen Bank so that microfinance could reach more people. Mark Malloch Brown, Administrator of the United Nations Development Program (UNDP) articulated his firm belief in the power of microfinance when he states that:

The world has set an ambitious course to meet the Millennium Development Goal of cutting in half, by 2015, the proportion of people living on less than one dollar a day. Microfinance is a powerful tool to help us get there.

Current Situation

Although there are not many statistics available that document the breadth of MFIs, the most authoritative figures cite that in 2004, over 3,000 existed worldwide. Supporting the creation of even more microfinance banks around the world could make a tangible difference on the economic well being of the world's poor, especially since 50-80% of people in the developing countries and 2.1 billion people worldwide still do not have bank accounts or access to any financial services. In particular, economists argue that giving poor people access to savings accounts would have enormous restorative effects on the economies of the developing world. Savings, unlike credit, offers a debt-free way to make a safety net for life's unexpected challenges, accrue assets, and provide opportunities for

later generations. Sadly, only 20% of the world's population has a savings account. However, the task of how the UN, other multilateral institutions, NGOs, and national governments can expand microfinance globally is still an unsolved challenge and many questions remain unanswered. A much-needed measure is to conduct a transnational research and data-collecting mission on the state of microfinance. Many critics and skeptics argue the microfinance has been inaccurately characterized as the solution to poverty, based largely on misleading anecdotal evidence. They assert that more rigorous study and research must be conducted on the link between microfinance and larger economic development before institutions like the UN dedicate time and resources into the expansion of the enterprise.

Bloc Positions

There is general agreement across regional and economic spectra that microfinance is a good idea. From the perspective of wealthy developed countries, microfinance is great because it allows first world investors to help the poor by tapping into the creative entrepreneurial spirit of all people so that the poor have the tools to help themselves. Moreover, microcredit organizations like Kiva are appealing in the first world because they generate profits for investors. Developed countries would likely favor MFIs that have strict conditions and restrictions on loans in order to ensure that MFI clients are not irresponsibly taking out money that they can not repay. On the other hand, poor countries like the idea of microfinance, but they are skeptical of any large international economic projects that could violate their national sovereignty. Typically, developing countries like to have control over their own economies and have historically been unhappy about multilateral institutions imposing economic reforms. For example, the World Bank and the IMF's Structural Readjustment Programs (SAPs) of the 1990s garnered intense animosity from the governments of developing countries. In particular, countries that have socialist, state-run economies that do not embrace free enterprise and capitalism would likely disprove of microcredit for microenterprises. These nations would assert that expanding the private sector is not the answer to global poverty.

Questions To Consider

1. How can ECOFIN and other similar institutions ensure that MFIs practice fair, open, and transparent lending and borrowing practices?
2. Should MFIs only give out loans to borrowers who promise to invest in their own businesses

(microenterprises), or should MFIs distribute loans for all purposes like paying school fees, paying a mortgage, or buying medical supplies?

3. How should MFIs balance the conflicting goals of reaching poorer, more remote people and maintaining the institution's sustainability (i.e. having enough clients pay back loans in order to maintain a pool of available credit)
4. How can ECOFIN architect a model for expanding microfinance when the needs and money lending practices of each country and region vary so widely?

Helpful Resources

- UN Capital Development Fund Microfinance Page
 - <http://www.unCDF.org/english/microfinance/>
- UN Press Release on the 2005 Year of Microcredit
 - <http://www.un.org/News/Press/docs/2004/dev2492.doc.htm>
- UN Website on Year of Microcredit
 - <http://www.un.org/events/microcredit/>
- ECOFIN Documents, See Item 53(a) Entitled A/63/159 on Microcredit
 - http://www.un.org/ga/second/63/documents/lis_t.shtml
- Hype and Hope: The Worrisome State of the Microcredit Movement
 - <http://www.legalcity.net/Index.cfm?fuseaction=MAGAZINE.article&ArticleID=8803808>

Topic 3: Financing Economic Development Projects

Background

In 2002, the international community met in Monterrey, Mexico for the International Conference on Financing for Development. The purpose of the summit was to bring world leaders from both developing and developed countries together to discuss subjects like increasing foreign aid, meeting Millennium Challenge Development Goals, and integrating poor countries into the global economy through trade. The conference produced an agreement called the Monterrey Consensus, which set out six ways to increase funding for international development. One of the central grievances expressed at the conference by leaders from the developing world was that industrialized nations had failed to fulfill their promise of devoting 0.7% of their GNP to foreign aid, a standard that has been in existence for nearly thirty-five years. At the conference, the Nigerian President, Olusegun Obasanjo remarked that

Today we register a deplorable 0.25% of GNP from the industrialized world earmarked for development purposes,

with a rather inequitable distribution among countries and region. This shockingly low performance makes the realization of the Millennium Goals impossible.

Many members of the international community hold views consistent with those of the former Nigerian President and would like to see increased foreign aid; however, this issue is much more complicated today than it was seven years ago.

Current Situation

Before a backdrop of global economic meltdown, the International Conference on Financing for Development met again in 2008 – this time in Doha, Qatar – to reevaluate the commitments made under the Monterrey Consensus. With the economic north preoccupied with rescuing its own financial markets, the economic south took an extremely hard hit as the economic downturn in the world's financial capitals sent shockwaves of volatility to every corner of the earth. Representatives at the 2008 conference argued that this current crisis must not result in a foreign aid deficit crisis and that well-directed assistance continues to be a sound investment for industrialized nations. The conference was meant to invent creative and innovative ways to ensure economic vitality and development in the economic south, despite the challenges and economic pressures that donor countries are currently experiencing. Conference participants suggested that equipping the economic south to be competitive trading partners in the global economy, engaging in South-South, as well as North-South trade, is one way to bring economic prosperity to poor countries without putting unrealistic demands on the industrialized nations. The conference also faced questions like how to improve transparency in developing countries in order to ensure that aid grants are allocated appropriately and not squandered away through state-level corruption.

Bloc Positions

Clearly this issue is divided between countries of the economic north and countries of the economic south. Countries in Latin America, Africa, parts of Asia and the Middle East, which constitute the economic south, are much more inclined to argue that foreign aid must continue to flow despite current economic hardships. These nations would claim that foreign aid is a worthy investment today that would lead to less spending by the developed world in the future. The economic south would also support protective trade reforms and aid measures that would enable their economies to compete in the global market place. The other ideological bloc, the economic north, consisting of the United States and Europe, would be more

inclined to tend to their own economic crises rather than devote increased resources to the development enterprise. Some leaders from developed countries have grown increasingly skeptical of foreign aid, given the unfortunate reality that a large part of development funds are not appropriated in an effective manner. Therefore, the economic north would advocate for continued aid, only on the condition that the economic south take measures to increase transparency and ensure that development funds are allocated to their rightful purposes.

Questions To Consider

1. Given today's economic circumstances, is continued foreign aid viable and/or sustainable?
2. Does the global north have an imperative to foster economic growth in the global south?
3. How can the international community adapt its current foreign aid practices to facilitate economic development without overburdening donor countries?

Helpful Resources

- General Assembly Summary of Progress on Implementation of Monterrey Consensus
 - <http://daccess-ods.un.org/TMP/8329437.html>
- General Website for the Doha Conference on Financing for Development
 - <http://www.un.org/esa/ffd/>
- PDF version of the original Monterrey Consensus
 - www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf
- Global Policy Forum Page on Financing for Development
 - <http://www.globalpolicy.org/social-and-economic-policy/financing-for-development-1-45.html>