ECOFIN

Committee Background Guide
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About this committee

The Economic and Financial Committee (ECOFIN) is the second of the six main Committees of the General Assembly. As its name suggests, it deals with topics related to the global economy and financial systems - including issues relating to economic growth and development such as macroeconomic policy questions (including international trade, international financial system, and external debt sustainability), financing for development, sustainable development, human settlements, poverty eradication, globalisation and interdependence, operational activities for development, and information and communication technologies for development.

Unlike other Committees, ECOFIN is the highest authority on economic issues in the multilateral diplomatic organisms of the UN. Other Committees usually have overlapping jurisdiction over certain issues with the Security Council, and therefore can only ask it to consider an issue. Even then, they depend on the current presidency of the UNSC to include it on the agenda. The limitations of the ECOFIN come from the non-binding nature of its resolutions.

Issue Information

In many of the poorest countries, the provision of decent, accessible public services – delivered by a qualified and properly paid workforce – is threatened by huge debt burdens and damaging policies demanded by creditors. Every day 4,000 children die from diarrhoea, a disease of dirty water, and 1,400 women die in pregnancy or childbirth. In developing countries, public services can mean the difference between life and death.

The debt crisis has its origins in the 1970s and 1980s, when rich governments and companies lent huge sums to developing countries, often knowingly to corrupt regimes and to serve their own political or commercial ends.

Whilst there have been major steps forward in cancelling debt, in response to campaigner pressure, the rich world has still not taken full responsibility for these ‘illegitimate’ debts and the ensuing debt crisis. On the contrary, as debt burdens grew over the last 30 years, creditors told impoverished countries to cut their public spending in order to ‘balance the books’ and keep up with debt payments.

Today, debt drains poor countries of resources that could otherwise be spent on vital public services.

Where debt has been cancelled, countries have invested in public services, extending healthcare, education, water, sanitation and electricity to millions more people:

The poorest countries - those with an average daily income of $2.40 per person - spend over $100 million per day servicing debts, while public services in those countries are disastrously under-funded.

- Kenya spent more on servicing debt than on healthcare in 2006 - 2007.
- In 2004, Burundi spent more than twice as much on paying debts as on health and education combined.

Yet the need for increased investment in public services is urgent - over a billion have no access to clean water; 11 million children die each year from infectious diseases; 500,000 mothers die each year from pregnancy and birth-related problems; 40 million are living with HIV or AIDS; and 80 million children are not going to school at all (and of those who are, millions more suffer from a severe shortage of teachers and facilities).

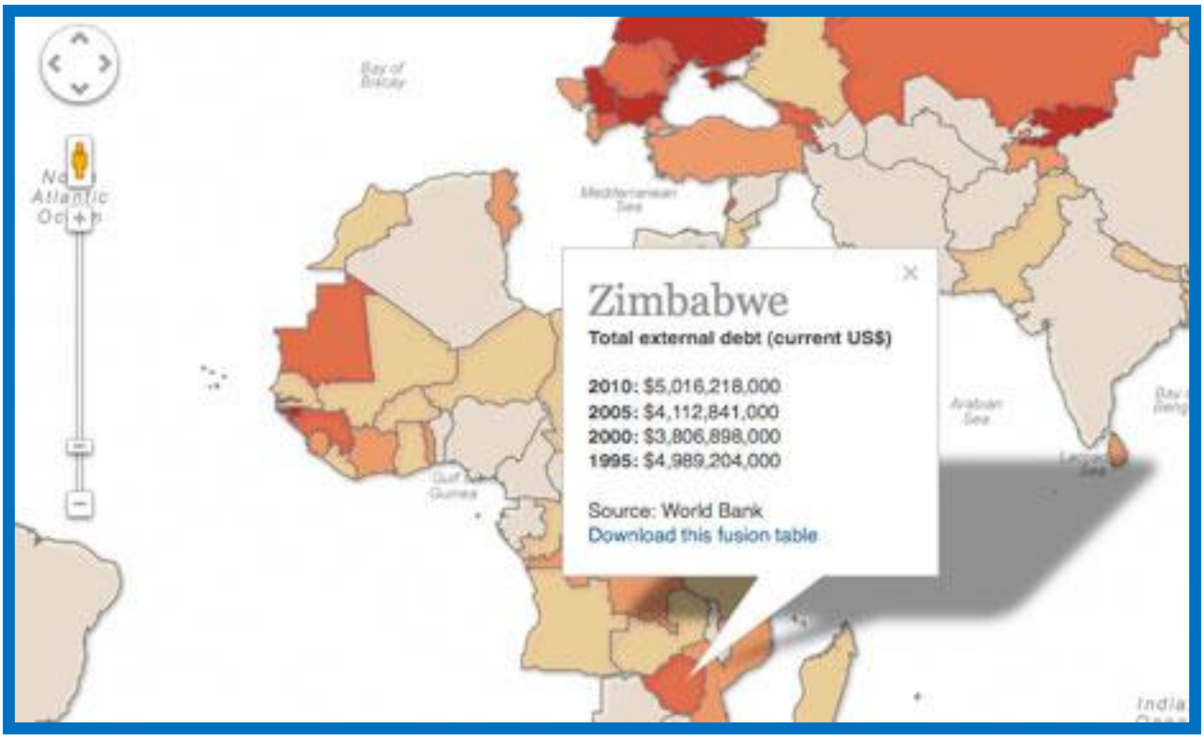
Furthermore, the problem is compounded by the conditions creditor countries too often place on debt relief or on new loans.

- One of these conditions is privatisation: many countries have been required to privatise state enterprises, such as water or power, often with disastrous results.

- Other conditions have included cuts or freezes in pay for public sector workers, often leaving them effectively living below the poverty line, and driving them to find work in other sectors or even in other countries.

http://www.jubileedebtcampaign.org.uk/Debt3720and3720Public3720Services+3704.twl

More than a decade after the cancellation of billions of dollars of debt, developing countries owe $4tn … and counting



Debt and the developing world – click to explore the graphic

Years after debt campaigners succeeded in persuading the International Monetary Fund (IMF), World Bank and G8 to abolish debts worth billions of dollars owed by developing countries, figures show total external debts are once again on the increase.

Data in the World Bank's global development finance 2012 report shows total external debt stocks owed by developing countries increased by $437bn over 12 months to stand at $4tn at the end of 2010, the latest period for which data is available.

The global financial crisis has focused attention on the debts of the rich west. The US had gross external debts (those borrowed from foreign lenders including commercial banks, governments, individuals or international financial institutions) of $14.3tn (95% of GDP) in 2010, while those in the European Union had swelled to $13.7tn (85% of GDP) and the UK owed $9tn (400% of GDP). But in the case of richer countries, these gross debt figures are balanced by debts owed to them by other countries.

Debt is still a huge issue for developing countries, which have been hit hard by the financial crisis. Exports have crashed, nationals working overseas have less money to send home, and multinational companies scale back costs and investment. The $4tn of external debts owed by developing countries costs them more than $1.5bn a day in repayments – and $34m of that comes from the very poorest countries.

A major part of the debt owed by 32 countries (mostly sub-Saharan Africa), was eliminated by the heavily indebted poor countries (HIPC) initiative of the World Bank + IMF, reinforced by the G8's 2005 multilateral debt relief initiative (MDRI).

But many poor countries in Asia and Latin America (for example, Jamaica and El Salvador) did not have debts written off because their income per capita was too high to meet the IMF and World Bank criteria. Others, such as Bangladesh, did not qualify for cancellation because their debts were seen as sustainable.

Other problems came with the strings attached by the World Bank and IMF as a condition of debt cancellations. As economist Jeffrey Sachs said, it's "belt-tightening for people who cannot afford belts". But even in countries that did qualify for debt write-offs, there is evidence that external debts, which fell significantly after 1995, are on the rise again.

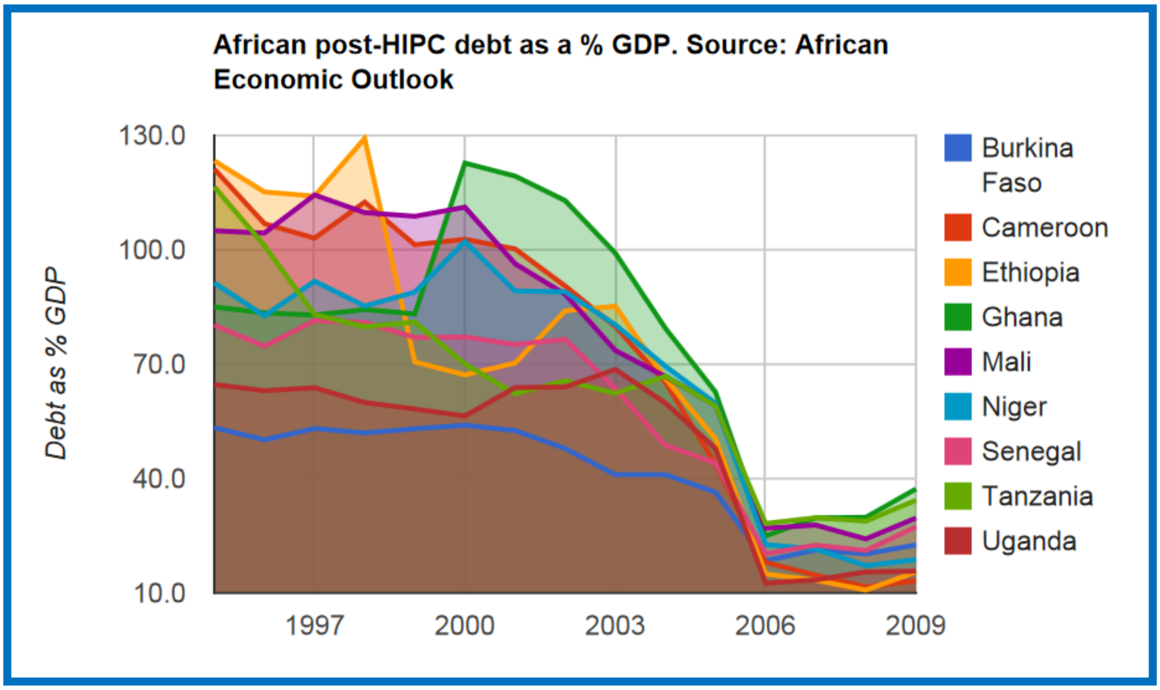
Ethiopia's public sector debt is almost back at pre-MDRI levels, with China becoming Ethiopia's third biggest lender (11% of new loans) behind the World Bank (34.3%) and IMF (11.5%), according to the AEO report.

Ghana was also highlighted in the report. It used the space created by debt reductions to borrow more money on the international markets, at interest rates 10 times higher than institutions such as those imposed by the World Bank and African Development Bank.

Meanwhile, the IMF highlights 12 countries it says are at high risk of not being able to pay their debts: Afghanistan, Burkina Faso, Burundi, the Democratic Republic of the Congo, Djibouti, Gambia, Grenada, Haiti, Kiribati, Laos, Maldives, São Tomé and Príncipe, Tajikistan, Tonga and Yemen.

All data from the World Bank's Global Development Finance 2012 report

The latest African Economic Outlook report – published by the African Development Bank, the Organisation for Economic Co-operation and Development, and the UN – says it is still "very difficult to assess whether African countries which have benefited from debt relief are falling into debt again".



Past international Action

The World Trade Organization (WTO) was created during the Breton Woods Conference in July 1944. It aims to liberalise trade through negotiations, especially those agreed upon in the Uruguay Round, which came into effect in 1995. One of these negotiations, called the Agreement on Agriculture, aims to reduce domestic support and export subsidies, and also increase market access by reducing tariffs.

The Doha Development Agenda (DDA) was the next round of negotiations after the Uruguay Round. It was officially launched in 2001. It aims to continue to facilitate the trade of agricultural and manufactured goods, services, and intellectual property, and to make trade rules fairer to developing nations as well. Unfortunately, negotiations stopped in 2008 because the major developed and developing countries could not agree on agricultural import rules.

To increase trade among nations of the South, the United Nations General Assembly established the Special Unit for South-South Cooperation (SU/SSC) in 1978. South-South Cooperation (SSC) is the collaboration of countries of the South in sharing technical or economic knowledge and skills to promote development. SSC aims to reduce dependence on northern countries' financial aids and to strengthen economic ties between southern countries. SSC is important because it not only eliminates the undesirable conditions that are associated with northern aids, but it also advances the economy of developing nations in Africa, South Asia, and South America. SSC is considered an ongoing success as it has strengthened the economy of southern nations and transformed India and China, former aid recipients, into donors to other Southern nations.

Although some Southern countries have experienced success in trade, these countries are still trading only a small amount of the total international trade value. Hence, more coordinated efforts need to be given to support and increase international trade, especially among the poorer nations in the South. The Doha Development Agenda needs to be revived as it is a great platform to create negotiations that are more inclusive and fairer to developing nations. Also, South-South cooperation needs to be increased to provide a more sustainable alternative to foreign aids from northern countries. This will strengthen the economies of southern nations, resulting in them having a stronger voice in negotiating trading terms, and international trade would then be more equal to all countries involved.

The United Nations, along with the World Bank, IMF, world leaders and NGOs have taken strides to aid the relief of debt amongst developing nations. In Africa, nations are being given debt relief for post-war rebuilding. With the efforts of the international community, IMF and World Bank, nations such as Liberia were relieved of debt reaching upwards of seven times the country's national income. As a part of past and current efforts to relieve debt the creation of the Heavily Indebted Poor Countries (HIPC) initiative was implemented by the World Bank and IMF. Nations who qualify for the HIPC initiative are eligible for debt cancellation and assistance in paying off outstanding debts.

In 2005, during the G8 summit in London, England, the members of the summit chose to cancel 40 billion USD debt owed by the 18 Highly Indebted Poor Countries to the World Bank, IMF and the African Development Fund. This program is also known as the Multilateral Debt Reduction Initiative (MDRI). These initiatives continue to be implemented worldwide.

Debt relief works

When debts are cancelled, the impact on public services has been very positive. Repeated studies have shown significant increases in public sector spending after debt relief; one independent study showed a 40% increase in education spending, and a 70% increase in health spending, over just four years. Local monitoring and strong union and civil society demands for investment in public services has seen investment and results.

Future problems

Poor countries can expect to see their debt repayments to the rest of the world increase by an average of a third by 2014, as they battle with the consequences of the financial crisis in the west, according to a new report by the Jubilee Debt Campaign.

European governments have failed to secure the future of the single currency – or erect a powerful enough firewall to prevent the consequences of a potential euro meltdown spreading.

Just as in the first wave of the global credit crunch, poor countries are likely to suffer falling income from exports as demand from recession-hit European countries declines; from capital flooding out of the country as banks and other multinational firms repatriate funds to shore up their finances back home; and from declining revenue from migrants living in Europe who send cash back to their families.

In its report The State of Debt, Jubilee uses predictions from the IMF and World Bank to show that among 61 poor countries it analysed, total debt repayments are expected to rise by a third on average over the next two years as a result of the slower growth and shaky financial system in the rest of the world.

Questions for Research:
Developed and Developing Nations:

1. How much debt is my country in?
2. Has my country provided loans to other countries?
3. Should the MEDCs have any responsibilities in aiding countries that inherited their debt?
4. How has my country supported debt relief actions in the past?
5. Does my country currently have the resources to aid nations in need?
6. What should be done in order for countries to pay off their debt so that money can be used towards needed social programs in different countries?
7. Should some countries with debt situations considered more severe be addressed before others, or is there an all-encompassing solution that can be considered?
8. What implementations should the United Nations consider in order for countries to keep their debt within maintainable limits?
9. Which international agreements is your country a signatory to?
10. Will you meet the MDG targets by 2015?

Developing Nations:

1. How much debt is my country in?
2. What loans / aid have my country received (and is receiving) and how has it been used?
3. What restrictions were placed on loans / aid and how did that affect my country?
4. Are aid and loans reported on?
5. Are there transparent and accountable systems?
6. How are aid / loans affecting development and my relationship with other nations, especially trading partners?
7. Is my country’s debt sustainable?
8. Which international agreements is your country a signatory to?
9. Will you meet the MDG targets by 2015?

Research Links

Great guides from the Jubilee Debt Campaign:
Debt and Islam
Debt and Education
Debt and Climate Change
Debt and Public Services
Debt and Health
Debt and Extractives
Debt and Women
The basics about debt

Debt
http://www.imf.org/external/
http://www.guardian.co.uk/global-development/poverty-matters/2012/may/15/developing-world-of-debt
www.worldbank.org/
http://www.unctad.org/en/docs/osgdp20083_en.pdf

Expanded debt relief – a solution?
http://www.jubileeusa.org/fileadmin/user_upload/Resources/Policy_Archive/0108briefnoteedcancel.pdf

UN report: Significant progress in debt relief for poorest countries but trade and aid still major barriers to achieving anti-poverty goals
http://www.un.org/millenniumgoals/2008highlevel/pdf/MDG%20Gap%20release%20FINAL.pdf

UNU-WIDER: External Debt and Growth in Developing Countries
http://www.wider.unu.edu/publications/working-papers/discussionpapers/2001/en_GB/dp2001-95/

World Bank on Global Development Finance, External Debt of Developing Countries 2010
http://siteresources.worldbank.org/NEWS/Resources/gdf2010.pdf

Sovereign Debt for Sustained Development
http://www.un.org/esa/ffd/msc/externaldebt/index.htm

External Debt of Developing Countries: Crisis of Growth"
http://www.jstor.org/pss/4397373

Call for UN Debt Relief
http://unclef.com/apps/news/story.asp?NewsID=36222&Cr=debt+relief&Cr1

Heavily Indebted Poor Countries Initiative
http://www.imf.org/external/np/hipc/index.asp
http://www.imf.org/external/np/exr/facts/hipc.htm
http://data.worldbank.org/sites/default/files/gdf_2012.pdf

Poverty and international debt a UN report
http://www2.ohchr.org/english/issues/poverty/docs/sforum/spresentations/Lumina.pdf