International Monetary Fund (IMF)

Novice Committee

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Topic 1: Sovereign Debt Crises in Developing Nations

Introduction

With global crises such as the COVID-19 pandemic, as well as climate change-related natural disasters, the financial situation for many low-income and developing countries has worsened drastically. Many face severe sovereign debt crises, struggling to secure debt relief while helping their economies recover and develop. Global interest rates are rising, and many emerging markets and developing economies (EMDEs) are in need of substantial refinancing, with concerns over the long-term sustainability of their debts. If nothing is done, serious economic turmoil could ensue in many EMDEs, exacerbating the hardship and struggle that many citizens in developing countries already face. Some possible solutions, such as debt restructuring, forgiveness programs, and Special Drawing Rights (SDRs), are available to explore. Delegates must consider these debt relief solutions, while also ensuring that EMDEs exercise accountability and impose economic reforms to prevent them from falling back into debt. To create a sustainable debt management system that prevents future crises, delegates may also examine partnerships between the IMF, World Bank, and private creditors to create a sustainable debt management system that prevents future crises.

Definitions/Acronyms

Austerity: Economic policies implemented by a government to control debt, usually involving tax increases or spending cuts

EMDE: Emerging markets and/or developing economy

Debt Refinancing: Replacing an existing debt with a new one (usually with better terms)

Debt Restructuring: Renegotiating the terms of an existing debt to make payments more manageable

Defaulting: Failing to make a payment or to meet the terms of a loan agreement

GDP: Gross Domestic Product, the total value of all goods and services produced in a country during a specific period of time

Haircut: A reduction in the value of a debt, usually occurring when the debtor is struggling to repay

SDRs: Special Drawing Rights, units of foreign exchange reserve assets that can be exchanged for money from IMF member countries when needed. Monetary symbol written as XDR (similar to $ representing the dollar)

Sovereign Debt: The debt that a country's government has borrowed and now owes other nations, banks, or private parties

History

The first recorded incidence of sovereign debt occurred when Edward III of England took out expensive loans from banking families in Florence in order to help finance the Hundred Years' War. Ever since, governments have been borrowing money from various sources in order to finance their own wants and needs. This usually occurs when countries want to spend more than what they are able to, or when governments would rather borrow money than increase taxation. It is especially common during recessions, where governments will borrow money to pay for their existing spending commitments, such as hospitals and schools. There are benefits to doing this, as cutting spending while the economy is weak could worsen the situation. Governments might also increase spending or reduce taxes further to try and make the economy grow. All of this is made possible by sovereign debt.

Fixing a worsening economy, however, is not the only use for sovereign debt. Some governments, especially those in charge of EMDEs, see sovereign debt as a way of investing in their future, choosing to borrow large sums of money with long-term repayment plans in hopes of spurring growth. This enables them to invest in necessary sectors of the economy such as education, healthcare, power, and transportation. These debts are incurred with the assumption that the borrowing country's economy will grow enough to repay the money in the future; however, this is not always the case. Unexpected shocks, such as natural disasters or deep recessions, might cause struggles with debt repayment. Loans that were too large or too risky can also be difficult to repay.

For people and companies, a bankruptcy court is usually available to compel the debtor (who received the loan) and the creditor (who gave the loan) to resolve the issue. This is not the case with sovereign debt. Instead, governments must negotiate with their creditors. Creditors usually try to recover as much of their money as possible, even if the debtor cannot pay what is owed in full. Meanwhile, governments try to get their economies back on track while trying not to spend too much.

Usually, restructuring a sovereign debt is costly for both parties, although it is less expensive if restructuring occurs before a government has defaulted on a loan payment. After a government has defaulted, restructuring can be very difficult.

Historical Defaults on Sovereign Debt

Some examples of the worst sovereign debt defaults include Russia (1998), Argentina (2001), and Greece (2012).

In 1998, weak tax enforcement, a costly war in Chechnya, and the surrounding Asian financial crisis caused investors to lose faith in Russia's ability to pay its sovereign and domestic debts, putting pressure on the Russian stock, bond, and currency markets. This resulted in the Russian government defaulting on its sovereign debts to domestic creditors and putting a 90-day suspension on payments to foreign creditors. The Russian ruble lost two-thirds of its value in three weeks, causing wages to fall and resulting in strikes and protests. Russia's default on its sovereign debts had large spillovers in international markets, but a large IMF loan, as well as sovereign debt restructuring, helped Russia to get back on track.

Another example came in 2001 when Argentina, experiencing a deep recession and large levels of sovereign debt, saw its many efforts to restore its economic competitiveness fail miserably, causing the country to experience its worst economic crisis ever. This led to a sovereign debt default of roughly $85 billion, as well as increased unemployment and poverty levels. The Argentine economy was eventually able to grow back, perhaps due to the money not lost because of the default. Many other factors, such as an international rise in soybean prices, a very high inflation rate, and an improvement in the external financial environment, have also been cited as helpful to the restoration of the Argentine economy. In 2005, The government restructured 72% of its debt and negotiated a 65% haircut in its sovereign debts' net present value. In 2010, the rest of the debt was restructured. Once Argentina's economy had recovered, however, it imposed tough terms on the property rights of its creditors than the global market had expected.

Despite previously being one of the fastest-growing countries in Europe, Greece experienced the largest ever default on sovereign debt, valued at $264.2 billion dollars, in March 2012. Nine months later, it defaulted again, this time valued at $41.4 billion dollars, making it the fourth largest default ever. Eleven years after adopting the common euro currency, Greece's economy was in shambles due to fiscal profligacy (wasteful spending). Debt levels were extremely high, with the debt-to-GDP ratio peaking at 180% in 2011. Greece's creditors, including the European Union and the IMF, provided a series of bailouts, but also imposed austerity measures to help the government pay back its debts. These austerity measures included a cut to spending on pensions, jobs, health, and defense, the privatization of Greek gas companies DEPA and DESFA to separate them from the government, increased taxation, and changes to labour laws. The last official round of the financial bailout support was in 2018, but Greece has until 2060 to pay off its debts.

Ever since the Greek financial crisis, global defaults on sovereign debt have not reached as large of a scale. These defaults, however, are occurring more frequently in developing countries, with severe consequences. Some of these countries include Venezuela (2017, worth

$31.1 billion), Lebanon (2020, worth 31.3 billion), and Ecuador (2020, worth $17 billion). In 2023, Sri Lanka, Cameroon, Mozambique, Ethiopia, El Salvador, and Argentia all defaulted on sovereign debts.

Past UN Actions

As seen above, there are many ways to solve a sovereign debt crisis. These solutions often involve some sort of debt restructuring, loans or bailouts, and economic reforms or imposed austerity measures. Another solution, created by the IMF in 1969, is to give countries Special Drawing Rights (SDRs, currency abbreviation is XDR). Special Drawing Rights are foreign exchange reserve assets, maintained by the IMF, that can be exchanged for money from IMF member countries when needed. They can only be held by countries, not by private companies, and they help to strengthen a country's financial reserves. The value of an SDR is not tied to a singular currency; rather, it is based on the value of five different currencies. Those currencies include the US dollar, the euro, the Chinese yuan, the Japanese yen, and the British pound sterling.

Every five years, the IMF reviews the SDR to determine the percentage composition of each currency. For example, in 2022, the US dollar was determined to make up 43.38% of an SDR, the euro made up 29.31%, the Chinese yuan made up 12.28%, the Japanese Yen made up 7.59%, and the British pound sterling made up 7.44%. Between IMF reviews, the weightings of each currency remain fixed, but how much each currency is worth fluctuates with global exchange rates. Thus, the value of the Special Drawing Right changes daily. As of March 11, 2025, 1 SDR (written as XDR 1) is worth about $1.92 CAD.

Creating a new allocation of SDRs requires 85% of the votes in the SDR Department of the IMF. Each country's voting power is determined by a member's IMF quota, which reflects its relative position in the world economy. Members get one vote per SDR 100,000 of quota, as well as basic votes, which are the same for all members. Quotas are also used to determine the maximum loan a member country can normally receive from the IMF.

Usually, every allocation of SDRs is split among member countries of the IMF equally. This strengthens the reserves of those that are not in debt while helping countries that need the money. In special cases, however, SDRs can be individually given to struggling countries.

Recent allocations of SDRs include the 2009 allocation of XDR 21.4 billion during the global financial crisis, the allocation of XDR 20.8 billion in 2011 for low-income member countries, and the allocation of XDR $650 billion for COVID-19, representing roughly two thirds of XDRs currently in circulation. XDR 456.5 billion was split among member countries, and the rest was given to Liberia and South Sudan in an amount equal to approximately 9-10% of their GDP.

An IMF member country can sell SDRs to another country in exchange for one of the five basket currencies, with the IMF acting as an intermediary in the exchange. Countries do not have to pay interest on their SDRs. They do, however, have to pay interest to any countries that they have sold SDRs to, with an interest rate of 0.05% as of 2020.

Current Situation

There is an extensive list of countries that are heavily dependent on sovereign debt as a subset of their GDP. The measurement of how dependent a country is can be determined by examining a country's debt as a percentage of their GDP. The worst countries in terms of debt as a percentage of their GDP as of 2025 include Japan (248.7%), Sudan (237.1%), Singapore (175.8%), Greece (152.9%), Italy (138.7%), the Maldives (133.6%), Bahrain (129.8%), the United States of America (124.1%), Laos (118.3%), France (115.3%), Bhutan (109.2%), Cape Verde (107.2%), Belgium (107.1%), Ukraine (106.6%), and the United Kingdom (103.8%). Overall, developed countries generally have higher total sovereign debt levels than developing countries, but the growth rate of debt in developing countries has been faster.

EMDEs often face higher borrowing costs than developing countries, making it difficult for governments to pay creditors and finance investments. Developing regions often borrow at rates that are 2 to 4 times higher than the United States and 6 to 12 times higher than Germany. In 2023, 54 developing countries spent more than 10% of their revenues paying off interest on previous debts alone. 2.1 billion people live in countries that spend more on paying off interest than education, and 3.3 billion people live in countries that spend more on paying off interest than healthcare spending.

Providing aid to these developing countries might be costly. Wealthier countries might find no urgency to spend their money on helping EMDEs. Creditors might be in favour of sovereign debt, as the interest provides a substantial source of income. In addition, there is no guarantee that any aid will have lasting impacts, especially without proper measures to ensure economic security. If nothing is done, however, developing countries will continue to struggle. The gap between developed and developing countries will increase, with many EMDEs incurring greater sovereign debts. If nothing is done, the financial situations of developing countries will worsen, and the world will plunge deeper into financial darkness.

Driving Questions

1. What solution(s) would be optimal for helping developing countries with their sovereign debt? To what extent/scale should they be implemented? How can the IMF create a sustainable debt management system that prevents future crises?
2. Should developing countries have an obligation to support developed countries with their sovereign debt? Should aid be mandatory, or by choice?
3. How can the IMF achieve debt relief while also promoting accountability in recipient countries? Should monetary aid come with mandatory economic reforms? How much control should creditors/the IMF have over the economic laws of borrowing countries?

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Topic 2: Financial Inclusion in Underserved Regions

Introduction

At least seven of the seventeen United Nations' Sustainable Development Goals are affected or contributed to by financial inclusion: No Poverty, Zero Hunger, Quality Education, Gender Equality, Decent Work and Economic Growth, and Reduced Inequalities. Access to finance empowers underserved people to manage their money better, and in doing so, improve their lives. Even so, financial inclusion remains a critical issue in many developing nations. Basic banking services are often denied to those in underserved regions or demographics, such as women and those in rural areas. This lack of banking services often has negative impacts on the community's growth, especially with a lack of access to credit. It also exacerbates gender divides, with women sometimes being prevented from accessing financial resources. To help, possible areas to explore include supporting the development of digital financial technologies, including mobile banking and digital wallets, fostering financial literacy programs, and reducing barriers to accessing credit and savings mechanisms, including making credit more affordable. Promoting financial inclusion in underserved regions would help to promote equality between social classes, improve quality of life for those in rural areas, and strengthen the UN's fight to achieve the Sustainable Development Goals. Delegates must explore potential solutions to achieve greater financial inclusion, for the financial betterment of the world.

Definitions/Acronyms

Financial Inclusion: Ensuring that everyone, particularly low-income and disadvantaged groups, have access to and are able to use affordable, safe, and convenient financial services such as banking, credit, and insurance

Financial Exclusion: The lack of access to financial services, the opposite of financial inclusion

GDP: Gross Domestic Product, the total value of all goods and services produced in a country during a specific period of time

SME: Small and/or Medium-sized Enterprise, sometimes written as Micro, Small, and/or Medium-sized Enterprise (MSME)

Unbanked: Without access to the services of a bank/similar financial organization

History

In the far past, people would barter for goods, exchanging one resource or service for another. This proved to be a problem when people started travelling between cities in search of new markets. Coins were created as a way to represent trade, but they needed to be kept in a safe place. In Greece, Rome, Egypt, and Babylon, coins were kept in and loaned from the city temple, making the temple the first instance of a bank. Banks grew and evolved over time, with laws made around their freedoms and restrictions. By the 18th century, many banks had grown separate from religion and were given freedom to operate independently. Other banks were controlled by governments to manage the finances of entire countries.

Today, most people in developed countries have access to a bank, with many having numerous options of different banks to choose from. Many people even access banks on mobile devices, with online banking becoming widespread in the mid-1990s. In developed countries, banks are a commodity; however, in some areas, especially developing countries, this is not the case. People living in these areas often do not have banking access, forcing them to rely on physical cash for their day-to-day needs. This can lead to unfair financing, predatory lending, and the inability to invest or save money effectively.

A lack of access to credit can hinder micro, small and medium-sized enterprises (SMEs) from achieving success, which may hinder economic growth. Companies with access to credit can afford to create more jobs, pay workers, purchase advertisements, and expand. In addition, financial access is crucial for companies as it provides them with access to insurance, allowing the SMEs to take bigger risks. All of these factors contribute to boosting a country's economy and helping with economic growth.

A lack of financial inclusion has been seen to cause gender barriers to grow. When women are not equipped with the adequate financial tools and resources to start their own businesses, invest in their futures, and manage household finances, gender gaps are not able to be bridged. Implementing financial inclusion has been shown to help promote broader economic equality, and subsequently narrow gaps in social equality. The gender gap is slowly closing, narrowing from a 9% to a 6% difference between 2017 and 2021, largely due to the adoption of mobile banking services in Sub-Saharan Africa.

Finally, financial inclusion helps people save money and build financial resilience against crises such as recessions and natural disasters. As of 2021, around 1.4 billion adults globally do not have financial accounts (down from 2.5 billion in 2011), and over 80% of those adults live in places that are at risk of economic and environmental shocks caused by climate change. Access to financial services can help people and businesses invest in climate-resilient infrastructure, and access to insurance can help cover damages.

Past UN Actions

At the Third International Conference on Financing for Development in Addis Ababa, Ethiopia in July 2015, the Addis Ababa Action Agenda (AAAA, also known as the Addis Agenda, not to be confused with the Addis Ababa Agreement) was produced. It acknowledged the implication of regulating access to financial services and focused on enhancing access to and usage of financial services for both individuals and SMEs. It was a non-binding agreement that all 193 UN Member States signed. Specifically, it included commitments to working towards equal access towards formal financial services, encouraging commercial services to serve everyone without gender-based discrimination, promoting affordable and stable access to credit for SMEs, promoting finance for SMEs through the creation of credit lines with international and national development banks, providing financial training and financial literacy for all, and encouraging the widespread use of technological banking tools. The AAAA was adopted on July 15, 2015, and endorsed by the UN General Assembly in resolution 69/313 on July 27, 2015.

Current Situation

Common trends among unbanked people (those without bank accounts) include being lower income, less educated, lacking the proper identification and documentation required to open a bank account, and living in a rural area, far from any banks. In many nations, unbanked people are often part of religious or ethnic minorities and are more often female than male.

The countries with the largest unbanked populations include Morocco, Vietnam, Egypt, the Philippines, and Mexico. Around 50% of the population in the Middle East and Africa is unbanked/financially excluded. Roughly 38% of South and Central America's population, 33% of Eastern Europe and the former Soviet republic, and 24% of the Asia Pacific region lack access to financial institutions.

Ernst & Young Global, a consulting firm based in England, has estimated that broader access to banking, savings, and lending products could boost the GDP of a developing country, like India, by up to 14%. Meanwhile, in developing countries such as Kenya, GDP could be boosted by up to 30%.

One positive push towards financial inclusion came in the form of the COVID-19 pandemic, causing many people to move towards mobile and online banking services. Improving digital and technological infrastructure could help strengthen this newfound wave of online banking users, especially in regard to availability and security.

The Bangko Sentral ng Pilipinas, the central bank of the Philippines, became the first national bank to establish an office dedicated to financial inclusion in 2007. In 2020, it released the results of a survey focused on the reasons behind financial exclusion, with more than 50 million people out of the Philippines' population of 72 million being unbanked. It found that almost half of the unbanked people said that they did not put money in a bank because they did not have money in the first place. Therefore, lifting people out of poverty is a crucial step to financial inclusion.

Through developing digital financial technologies, supporting economic and individual financial growth, fostering financial literacy programs, and reducing barriers to accessing affordable credit and savings mechanisms, there are many ways to implement financial inclusion; however, improving the financial situation in developing countries may not be high on the agenda for more developed countries, who might not have reason to provide aid and may choose to worry about other problems instead. In addition, implementing financial inclusion may require developed countries to meddle with developing countries' financial systems, implementing and enforcing rules that may be unwelcome, especially when traditional gender roles come into play.

Financial inclusion may be difficult to implement, but it is a crucial factor to consider when moving forward into a modern, financially-sound future.

Driving Questions

1. How does financial inclusion aid in spurring economic growth? Which parts of financial inclusion are the most beneficial to countries' economies?
2. What strategies should the IMF implement to encourage financial inclusion in underserved regions? Which strategy would be the most optimal? Should different countries receive different financial inclusion solutions, or should a widespread plan be developed and implemented for all unbanked populations?
3. How much control should developed countries have when implementing financial inclusion in developing regions? Should developed countries be allowed to change a country's monetary laws? Should other countries meddle with a country's financial inclusion policies at all?

4. How can the IMF support the development of digital financial technologies, such as mobile banking and digital wallets, in unbanked populations?
5. How can the IMF support small and medium-sized enterprises in unbanked regions? Should the IMF focus on specific regions, or support SMEs globally through international laws?

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