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TIBET TUNA TOPÇU
BOARD MEMBER

KORCAN KARAŞAHIN
BOARD MEMBER

NURTEN DOĞA ÇALIK
ACADEMIC ASSISTANT

Letter from the Secretariat

Dear Delegates,

It is with great honor and enthusiasm that I welcome you to ITUMUN 2025, where innovation, diplomacy, and collaboration come together to shape a brighter future. As Secretary-General, it is my privilege to witness the incredible passion and dedication each of you brings to this conference.

For this year's ITUMUN, we challenge you to think beyond borders and redefine the possibilities of multilateral cooperation. As a university rooted in engineering and technical excellence, we have embraced our unique identity by curating committees and agendas that emphasize industrial development, technological advancement, and critical technical issues. Whether debating economic policies, grappling with emerging technologies, or navigating historical turning points, you will be tasked with crafting solutions that not only address the challenges at hand but also inspire progress.

Model United Nations is more than just an academic exercise—it is a platform for you to develop critical thinking, refine your communication skills, and foster a spirit of teamwork. This conference is your opportunity to step into the shoes of world leaders, embracing the responsibility and influence that comes with these roles.

On behalf of the entire ITUMUN team, I wish you the best of luck in your preparations and during the conference itself. We are here to support you every step of the way, ensuring that your ITUMUN experience is both impactful and unforgettable. I look forward to seeing the energy and ideas you bring, and the lasting connections you will forge throughout this journey.

Warm regards,

Roya Alhariri
Secretary-General
ITUMUN 2025

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1. Letter of the Committee Board

Esteemed Delegates,

It is our distinct privilege to welcome you to the ITUMUN’25 and also to our committee, ECOFIN! Our agenda addresses the issues that are critical to the future stability and resilience of global economies. Your research and debate skills, insights and most importantly your hard work will be invaluable in shaping the discussions.

As digital currencies continue to grow in influence, the challenge of money laundering through cryptocurrencies has become a pressing concern. Our discussions will center on the potential of emerging technologies such as blockchain analytics, artificial intelligence, and machine learning to track and combat illicit financial activities in the cryptocurrency space.

Many developing countries are facing literally mounting debt, exacerbated by the ongoing global economic challenges. We will discuss options such as debt restructuring, innovative financing mechanisms, and international cooperation to support sustainable development goals, while also considering the potential impact of rising global interest rates.

Both of these issues have far-reaching implications for the global financial system, and we aim to have a robust and solution-oriented conversation to guide future policy decisions. We will also explore collaborative efforts among international organizations, financial institutions, and governments to address these challenges.

We encourage all delegates to review the relevant materials ahead of the conference and come prepared to engage in productive debates. Your contributions will be crucial in formulating actionable strategies that will help shape the global economic landscape for years to come. Feel free to contact us if you have any questions about the committee or agenda items via topcutibettuna@gmail.com, korcanmusak@icloud.com.

Sincerely,

Korcan M. Karaşahin & Tibet Tuna Topçu
Chairboard members of the ECOFIN

2. Introduction to the Committee

The Economic and Financial Affairs Council, ECOFIN, is the cornerstone of global financial governance. ECOFIN addresses high-priority economic problems reaching beyond the domestic borders. This institution stands in the leading formats of international policy-making authorities with a determination to provide substantial economic stability and sustainable growth based on enhanced financial resilience. This committee acts as a platform in which member states can work with each other regarding the development of comprehensive solutions to challenging economic problems through the coordination of economic policy so that shared goals of equity, sustainability, and progress might be met. The ECOFIN plays an important role in formulating financial policies for millions of people around the globe. Therefore, the Committee attempts to build fiscal discipline and further confidence within financial systems, taking care of protecting the integrity of the international financial system. Following its general targets, ECOFIN concerns consistent issues of systemic risk and enabling investments in sustainable development, establishing relevant mechanisms for dealing with illicit financial activity.

The agenda of this session therefore reflects the serious commitment of this committee to finding solutions to some of the current most critical challenges in finance. This rapid growth has brought with it new opportunities for innovative enterprise and financial inclusion. It has also exposed significant vulnerabilities, through which money laundering and other illicit activities are enabled to prosper. ECOFIN will debate regulatory frameworks and cooperative strategies designed to cut this crime without losing the substantial benefits of the underlying cryptocurrency technologies.

The increasing debt burdens for developing countries stand in the way of economic stability and capacity for achieving sustainable growth. ECOFIN thus strives to review the basic causes that increase the debt burden, along with constructing policies that can achieve a proper trade-off between short-term relief and long-term resilience. These include discussions on restructuring mechanisms for debt, international cooperation, and attracting investment into key sectors that lead development.

As the delegates are gathering to discuss the items on the agenda, the ECOFIN Committee would like to underline that it remains committed to drafting solutions that can be implemented and that are not only needed for these very challenges but also for laying the proper foundations for an equitable and strong world economy.

3. Introduction to Agenda Item A

In the first agenda item, delegates will be expected to discuss "how to utilize emerging technologies to combat money laundering in the age of digital currencies and cryptocurrency-based crime".

First thing that has to be comprehended is money laundering. It is an action conducted with the purpose of hiding the illegal resources of assets which were gained by criminal activities. Those who commit money laundering aim to legitimize their illegal resources. In history a variety of famous people or big companies were accused of money laundering and found guilty by the courts.

One of the most important things delegates will have to do is analysing the methods and techniques used while laundering money. There are a few methods of money laundering and in order to solve this huge issue, methods should be understood carefully. Those methods can be listed as smurfing, currency smuggling, fake bills, creating shell companies, using exchange offices, back to back loans, offshore banking and structuring. Each of these methods will be explained in detail to the delegates in the further clauses.

As we are in the era of technology, new technologies emerge day by day. Our expectation from the delegates is to come up with brand new solutions that include applying the emerging technologies with the purpose of preventing money laundering. Artificial intelligence and machine learning should be the two main technologies being discussed in the sessions. Furthermore, blockchain analysis can also be mentioned with the aim of detecting money laundering activities. One thing delegates should always keep in their mind is when using complicated technologies data security and law on protection of personal data have to be taken into account.

Last thing we demand from delegates is to determine the role of cryptocurrency in money laundering by explaining how it can be used and what key features it has.

As a summary, delegates will be talking about how money laundering is being conducted and how technology and cryptocurrency can be used to detect and prevent this huge crime.

4. Key Terms

Money Laundering

Money laundering is concealing or disguising the origins of illegally obtained proceeds so that they appear to have originated from legitimate sources. It is frequently a component of other serious crimes such as drug trafficking, robbery or extortion.

Smurfing

Money laundering method that involves breaking large sums of money into smaller, less suspicious amounts and depositing them into multiple accounts or transactions.

Currency Smuggling

Illegally transporting large sums of cash across borders to avoid detection and legal scrutiny.

Fake Bills

The use of counterfeit invoices or documents to create the appearance of legitimate financial transactions, concealing the illicit origin of funds.

Off-Shore Banking

Using banks in foreign jurisdictions, often with strict privacy laws, to hide funds from authorities and obscure their origin.

Shell Companies

Fake businesses set up to hide illegal funds by disguising them as legitimate business revenue. These entities often exist only on paper and have no real operations.

Back to Back Loans

Money laundering tactic where a loan is taken in one country using illicit funds as collateral, and the money is then withdrawn in another country, disguising the origin.

Structuring

The process of splitting large amounts of money into smaller, less suspicious transactions to evade reporting requirements.

Artificial Intelligence

The simulation of human intelligence by machines to perform tasks like detecting patterns, anomalies, and trends, which can be used to identify suspicious financial activities.

Machine Learning

A subset of Artificial Intelligence (AI) that enables systems to learn from data and improve their accuracy over time without explicit programming. It can be used for predictive analytics in detecting money-laundering activities.

Blockchain Analysis

The use of tools and techniques to examine blockchain transactions and trace the movement of cryptocurrency, identifying suspicious patterns that may indicate money laundering.

Data Security

The practice of protecting digital information from unauthorized access, corruption, or theft. Ensuring data security is crucial when using technology to combat money laundering.

Law on Protection of Personal Data

Legal frameworks that govern how personal data is collected, stored, and used, ensuring individual privacy is respected. Compliance is critical when deploying technology for anti-money laundering efforts.

Cryptocurrency

A digital or virtual currency that uses cryptography for secure transactions. While it offers benefits like decentralization and anonymity, these features also make it attractive for money laundering.

5. Comprehending Money Laundering

5.1. Definition and Background of Money Laundering

Money laundering is a crime which involves disguising financial assets so they can be used for illegal activities without getting detected. Through the money laundering process, criminals transform the money obtained from criminal activity into funds with an apparent legal source. That way, they can show that their money has a legitimate source and there is nothing suspicious about it. According to UNODC, an estimated $2 trillion is being laundered every year.

First time the world witnessed money laundering activities was in the 1920's. In those years, alcohol was made illegal in the US which enabled a profitable black market for it. Organized crime boosted as the demand for alcohol kept rising. The term “money laundering” originated from infamous mob boss Al Capone. In order to hide the origin of the money obtained from alcohol sales, Capone set up laundromats across Chicago. Until the 1980’s, money laundering was not even considered a crime. Serious issue was tax evasion at that time which is why Capone was sent to jail for. Over the years drug trade became the biggest source of money laundering. Drug dealers were able to keep their assets and have access to their profits after they left jail. War on drugs had a profound effect on money laundering. After 1986, countries made laws specifically about money laundering and it became a federal crime for the first time in history. First time money laundering was mentioned in the international area was the

Vienna Convention implemented by the United Nations. Even though the Vienna Convention mostly dealt with drug trafficking, money laundering in regards to the drug trade was specifically stated in the convention and it was signed by 171 countries. Shortly after the Vienna Convention, the Financial Action Task Force (FATF) was established in 1989 at the G7 summit. Purpose of FATF was to analyze money laundering trends and find ways to combat it. The task force made 40 recommendations about money laundering and today 30 different countries follow those recommendations. Terrorist attacks also had a huge effect on money laundering as well. Banks strengthened their policies on foreign bank accounts.

Today, money laundering is still considered a major issue worldwide and governments are trying to prevent it through international organizations.

Al Capone who originated the term " money laundering"

5.2 Methods Used in Money Laundering

Money laundering involves 3 stages. Criminals commit the crimes by following those three stages.

1- PLACEMENT:

Those who commit money laundering firstly need to introduce the illegitimate money to the financial system. "Placement" stage is the stage in which they apply their goal. They use a variety of methods in this section. These methods can be listed as below:

Cash Smuggling: In this method, criminals physically transport the cash across borders with less strict financial regulations.

Bank Deposits: The main thing while committing money laundering is not triggering any suspicion. Depositing small amounts of illegitimate money to banks is one way to avoid suspicion.

Purchasing Expensive Assets: Criminals have to integrate their money into the economy without getting caught. One way to achieve this is buying expensive things. Buying luxury items is the most common method used in this stage and it helps criminals to legally integrate their money into the economy.

2- LAYERING:

Second thing that has to be done after introducing the money is hiding its origin. This is the stage where criminals try to hide their origin by creating complex layers of transactions. Here you can find ways of doing that:

Wire Transfers: This method involves international fund transactions to countries who do not have as much regulatory oversight compared to other ones.

Offshore Accounts: This method uses banks in foreign jurisdictions, often with strict privacy laws, to hide funds from authorities and obscure their origin. The reason that countries with strict privacy laws are selected is it prevents authorities from checking bank accounts due to protection of privacy.

Shell Companies: Shell companies can be defined as fake businesses set up to hide illegal funds by disguising them as legitimate business revenue. These entities often exist only on paper and have no real operations. Criminals usually use the shell companies overseas for complex transactions.

Investments: One thing criminals can do with illegitimate money is buy and sell stocks or bonds to create complexity.

3- INTEGRATION:

After laying the money with complex layers, illegitimate money has to be reintroduced. Final stage of money laundering is where this action happens.

Real Estate: Most criminals buy and sell houses to legitimize their illegal profits.

Loans and Mortgages: Criminals can create activities that seem lawful by paying loans or securing mortgages.

Fake Bills: This method includes creating fake bills with the purpose of hiding the origin of funds.

6. Emerging Technologies in Combating Financial Crimes

6.1 Overview of Emerging Technologies

Emerging technologies are those whose advancement, usefulness are still in the early stages of development. While most of these technologies are new, several older technologies are finding new usages. Radical originality, rapid expansion, coherence, significant influence and uncertainty are characteristics of emerging technologies. To put it another way, an emerging technology is a radically novel and relatively fast growing technology characterised by a certain degree of coherence. A wide range of technologies are considered emerging technologies including information technology, robotics, biotechnology, nanotechnology, machine learning and artificial intelligence (AI). In this agenda item, we will mostly focus on artificial intelligence and machine learning. Delegates are expected to come up with solutions regarding combating financial crimes by using AI and machine learning.

6.2 Artificial Intelligence and Machine Learning

The sub intelligence displayed by software or machines is known as artificial intelligence. It is the area of computer science that creates software and machines with intelligence similar to that of animals. The discipline is defined by AI researchers and textbooks as “the study and design of intelligent agents”. John McCarthy, the creator of the term, defines AI as “the study of making intelligent machines”. Reasoning, knowledge, planning, learning, vision, processing and the capacity to move and manipulate objects are among the primary purposes of AI. Deep learning, statistical techniques, computational intelligence are widely used strategies today.

Machine learning (ML) is a subfield of artificial intelligence and it aims to give computers and other machines the ability to mimic human learning, carry out activities on their own and get better at them over time with more data. Machine learning algorithm has 3 main parts. First part is called the “Decision Process” where the machine produces an estimate based on some input data. Second part is called the “Error Function”. Machine evaluates the prediction of the model by comparing it with current models. Last part is “Model Optimization Process” where the machine tries to optimize the model.

The gap in anti-money laundering (AML) requirements can be filled by AI. New tools that can enhance the methods employed for this aim are continuously being designed and developed by banks and fintech companies. By using AI technologies, money laundering can be identified in a number of ways with the aim of: analyzing enormous volumes of data, identifying trends and raising red flags for odd account activity and transactions.

6.3 Applying Blockchain Analytics to Detect Money Laundering

Blockchain technology is an innovative database technique that makes it possible for transparent information sharing within a company network. Data is kept in a blockchain database in blocks that are connected in a chain.

By facilitating proactive monitoring of transaction flows, entity oversight, regulatory permission management and suspicious activity review, blockchain analytics are an essential tool for regulators monitoring the cryptocurrency market. Strong blockchain analytics solutions must be implemented in order to satisfy regulatory goals and oversee adherence to rules and regulations established by national authorities and regulators. Blockchain analytics uses sophisticated algorithms and data analysis tools to provide real-time monitoring. As new blocks are added, these programs continuously scan the blockchain, looking for patterns and transactional data.

Blockchain analytics facilitate due diligence by offering a transparent transaction ledger. Businesses can use forensic analysis technologies to track the source and movement of money. These technologies make it possible to look at transaction histories, find funding sources and confirm counterparties' validity. That way, any suspicious patterns within transaction data can be identified. Using blockchain analytics is a very powerful way to detect and combat money laundering and delegates of ECOFIN are highly expected to mention blockchain analytics in their draft resolutions.

7. Cryptocurrency and its Role in Money Laundering

7.1 Definition of Cryptocurrency

Cryptocurrency, sometimes known as just crypto, is any type of virtual or digital currency that employs encryption to protect transactions. Cryptocurrencies use a decentralized mechanism to record transactions and issue new units rather than a central issuing or regulatory body. Cryptocurrency payments only exist as digital entries to an online database detailing particular transactions rather than actual cash which is carried around and exchanged in the real world. Transactions involving bitcoin transfers are documented in a public ledger. Crypto wallets are used to store cryptocurrency.

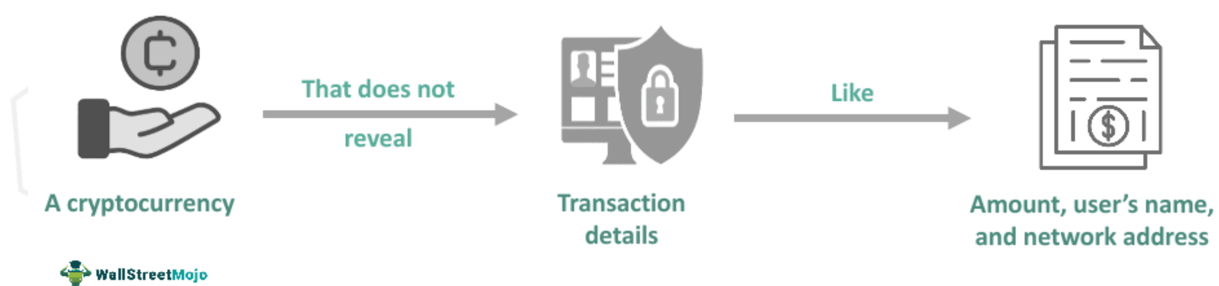
7.2 How can Cryptocurrencies be Used in Money Laundering

Money laundering that involves cryptocurrencies usually follows the same "placement-layering-integration" paradigm with a few notable exceptions:

1- Since cryptocurrencies are anonymous when they are created, the money laundering process frequently skips the placement step.
2- Making an account is free and takes only a few seconds. Each account can only be used twice: once to receive money and once to move it to another location.
3- A computer script can be used to perform a massive money laundering plan with thousands of transfers at minimal costs.
4- Because exchange rates are rising so quickly-some cryptocurrencies have grown 10.000%- it is incredibly simple to use cryptocurrency to justify sudden gain.

Various cryptocurrency-related technologies have the potential to be abused for money laundering purposes. The main ones are privacy coins and mixers.

Privacy Coins: Compared to normal cryptocurrencies, privacy coins are even less traceable since they provide a higher degree of anonymous blockchain transactions. A higher degree of anonymity can be attained by keeping information about user addresses private from outside parties including facts about the balance and the coins' origin. This is in contrast to normal cryptocurrencies which allow anyone to view an address's balance and transactions between addresses.



Source: https://www.wallstreetmojo.com/privacy-coin/

Mixers: A number of technologies blend or mix potentially identifiable bitcoin funds in order to obscure their origin and render them untraceable. First, a single address receives cryptocurrency coins from several sources. The money is divided into multiple parts and transferred to various addresses after being mixed or blended in that one location. This process could be repeated multiple times before money gets to their destination. As a result, it is nearly impossible to trace the funds back to their initial source.

Delegates of ECOFIN must implement appropriate regulation and oversight of cryptocurrency markets in order to mitigate the associated risks.

8. Previous Attempts to Solve the Issue and Analysis

1- Financial Action Task Force (FATF) was founded in 1989 with the goal of creating and advancing global guidelines to prevent the funding of terrorism and money laundering.
2- UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988): One of the earliest international agreements to deal with money laundering was this convention which is also known as the Vienna Convention.
3- UN Convention Against Transnational Organized Crime (2000): This convention aimed to make money laundering illegal and promote international collaboration.
4- Bank Secretary Act (BSA) (1970,USA): The first American law requiring financial institutions to report suspicious activity in order to stop money laundering.
5- EU Anti-Money Laundering (AML) regulations: To improve transparency, control financial institutions and stop financial system abuse, the EU has enacted 6 AML regulations.

9. Possible Solutions

1- Large amounts of financial data may be analyzed by AI and ML to spot odd trends and indicate questionable activity.
2- Blockchain technology can be used to detect money laundering activities thanks to its transparent and decentralized algorithm.
3- Big data can be used by financial organizations to find hidden networks and correlate transactions that appear to be unrelated across jurisdictions.
4- To improve customer authentication procedures, banks could use biometric verification with online banking systems.
5- By automating the submission of Suspicious Activity Reports (SARs) to Financial Intelligence Units (FIUs), RegTech systems can increase productivity and decrease human error.

10. Introduction to Agenda Item B

In this agenda item, delegates will be expected to discuss "How to address and find permanent solutions for rising global debt levels in developing countries to ensure economic resilience."

The rising levels of global debt in developing countries pose a significant challenge to sustainable economic growth and stability. With many nations grappling with the aftermath of global economic shocks, including the COVID-19 pandemic, geopolitical tensions, and fluctuating commodity prices, the weight of mounting debt has strained public finances, disrupted development programs, and heightened vulnerabilities to external shocks. The situation demands urgent and collaborative efforts to prevent economic stagnation, social inequality, and further financial crises.

Main issue that the delegates should comprehend is the short-term solutions for cash-needs of the countries. Taking huge amounts of loans usually saves the day for countries. But since it is a short-term solution, suffering from these debts grows rapidly.

Delegates are suggested to search for reasons of avoiding permanent solutions for global debt. After the committee addresses this question, the research for mentioned solutions can begin.

It is to be noted that debt is something that needs to happen for every country. Committee should not make a goal of clearing the debt. Effective usage of the taken loan will help the developing countries' growth. In other words, *when it's needed, always take the loan you can afford.*

11. Key Terms

Global Debt Levels
The total amount of money owed by governments, corporations, and individuals worldwide, including external and domestic debt.

Developing Countries

Nations with lower levels of industrialization, income, and human development, often facing higher debt burdens and economic vulnerabilities.

Economic Resilience
The ability of an economy to recover quickly from external shocks, such as financial crises, natural disasters, or pandemics, while maintaining stability.

Debt Sustainability
A country's ability to meet its debt obligations without requiring debt relief or risking financial instability over the long term.

Fiscal Policy
Government strategies involving taxation and spending to manage the economy, reduce deficits, and control debt levels.

Structural Reforms
Economic and institutional changes implemented to improve productivity, competitiveness, and long-term economic performance.

Debt Servicing
The payment of interest and principal on outstanding debt, which can strain a country's fiscal resources if excessively high.

Multilateral Development Banks (MDBs)
International financial institutions, like the World Bank or African Development Bank, that provide financial and technical assistance to developing countries.

International Financial Institutions (IFIs)
Organizations, such as the International Monetary Fund (IMF) and World Bank, that support global economic stability and development through financing and policy advice.

Debt Relief Programs
Initiatives aimed at reducing or forgiving a country's debt to alleviate financial pressures and support development goals, e.g., the Heavily Indebted Poor Countries (HIPC) Initiative.

Debt Transparency
The practice of publicly disclosing debt data to ensure accountability, reduce corruption, and improve creditor and investor confidence.

Sovereign Debt Management
Strategies employed by governments to efficiently manage their borrowing, repayment, and overall debt portfolio.

Debt Restructuring
The process of renegotiating the terms of a country's debt, such as extending repayment periods or lowering interest rates, to make it more manageable.

Sustainable Development Goals (SDGs)
A set of 17 global goals established by the United Nations to address issues like poverty, inequality, and environmental protection by 2030, often linked to financing challenges in developing countries.

Public-Private Partnerships (PPPs)
Collaborations between governments and private sector entities to finance and operate infrastructure or development projects, reducing the fiscal burden on governments.

Economic Shocks
Unforeseen events, such as commodity price fluctuations or natural disasters, that disrupt economic stability and exacerbate debt vulnerabilities.

Debt-to-GDP Ratio
The ratio of a country's total debt to its Gross Domestic Product (GDP), a key indicator of debt sustainability and economic health.

External Debt
Debt owed by a country to foreign lenders, which is often denominated in foreign currencies, making it sensitive to exchange rate fluctuations.

Debt Vulnerabilities
Risks associated with a country's debt, such as high interest rates, reliance on short-term borrowing, or a large share of external debt.

Financing Gaps
The shortfall between available resources and the funding needed for critical development or infrastructure projects.

Capacity Building
Programs and initiatives designed to strengthen institutions, governance, and human capital to improve debt management and economic policies.

Macroeconomic Stability
A stable economic environment characterized by low inflation, sustainable growth, and balanced budgets, essential for effective debt management.

Innovative Financing Mechanisms
New approaches to raising funds, such as green bonds, debt-for-climate swaps, or blended finance, to support development while minimizing debt burdens.

Creditor Coordination
Efforts by lenders, including public and private creditors, to work together in restructuring or resolving a country's debt to avoid conflicting demands.

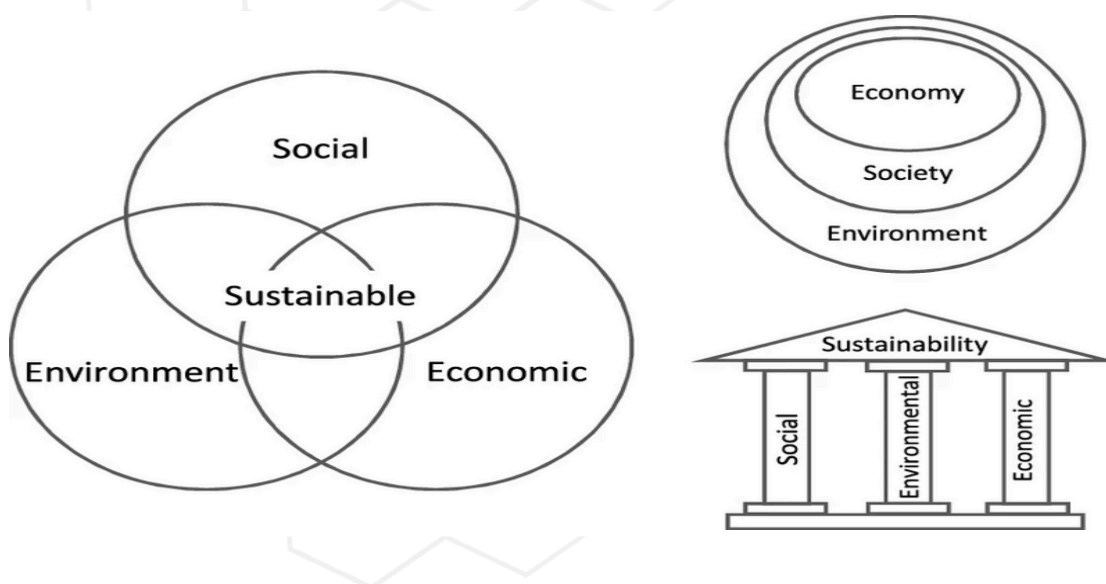
12. Developing Countries and Lacking of Sustainable Economy

Creating a sustainable economy is a significant challenge worldwide, particularly for developing countries. These nations need to balance growing their economies, ensuring fairness among their people, and protecting the environment. These goals are essential for long-term success, but achieving them is not easy. Developing countries often face hurdles such as limited financial resources and natural assets, which hinder their ability to invest in necessary projects. Many struggle with outdated infrastructure that can't meet current demands or support green initiatives.

Nevertheless, a more sustainable future is within reach. Developing countries have unique advantages, such as plentiful renewable energy resources like *solar, wind, and hydropower*. This gives them the opportunity to build cleaner energy systems and move away from *fossil fuels*. Moreover, their youthful populations bring fresh ideas and a willingness to embrace new technologies, which are critical for sustainable growth.

International cooperation is crucial in this endeavor. Developing countries require ***funding, technology, and expertise*** from wealthier nations to overcome resource constraints and speed up progress. Collaborations among governments, businesses, and civil society can drive innovation, share effective strategies, and ensure that local sustainability efforts align with global objectives.

Although the challenges are substantial, the potential benefits are even greater. A sustainable economy not only brings environmental gains but also offers a more *equitable, healthier, and prosperous* world for everyone. Developing countries are at a critical juncture. With determination, innovative thinking, and international support, they can overcome obstacles and lead the way to a future that benefits both people and the planet.



12.1 Main Reasons

Despite recognition by many economists, the economy remains frustratingly locked in the tragedy of the commons. Economic growth comes with unaccounted environmental costs and with it, rising risks of catastrophe. The economy remains unable to internalize real Earth costs.

It is no secret that most developing nations largely depend on the export of only a few primary goods. Those primary goods are even *price-sensitive* and additionally *depend heavily on price* and demand variations throughout the world. The governments of the developing nations are also said to deal with informal economies–modes of production where many businesses are not officially registered; a tax system that generates scant revenue for the government due to corruption with a weak corruption drive in the first place.

Tackling these issues hurts the government funding to essential yet limited public services and support for development projects, like huge and serious investment in infrastructure–assembly roads, bridges, would suffice to attract economic activities and engage the world market. Still, short progress in answering such matters impedes development.

In the realm of worldly economy only, such weak governments, clad in corruption, generally center the executives out of alignment with potential investors and many out-of-the-long-run planning toward mutual goals. Climate change has also had its impact, while farm output has been threatened both by the extreme weather alongside the increasing disintegration of this economy.

12.2 Post-Pandemic Era

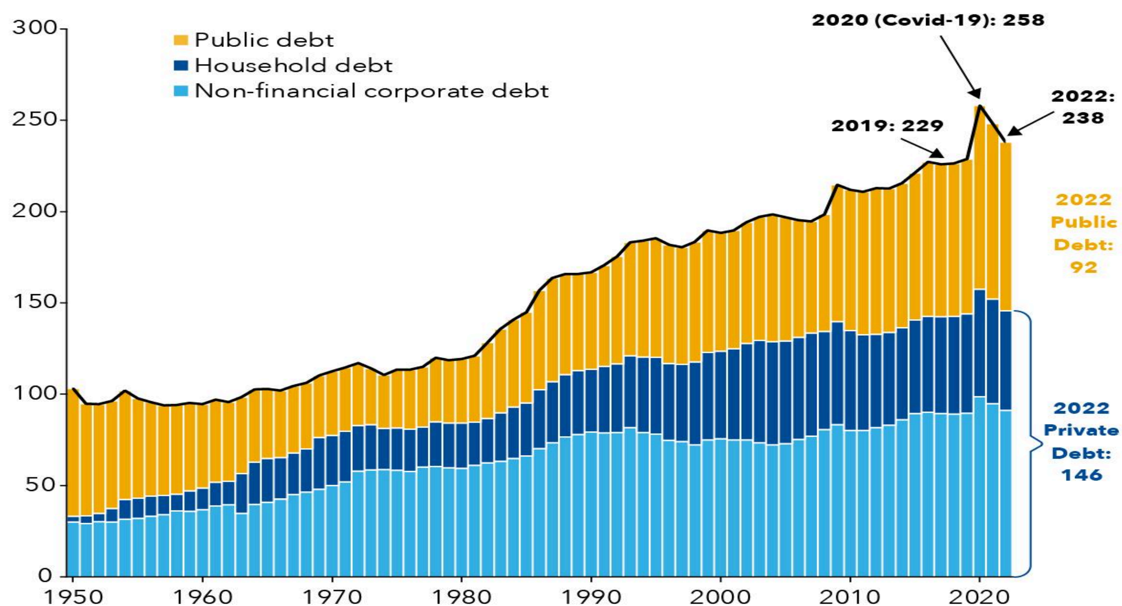
The Covid-19 pandemic has exacerbated existing problems and put tremendous pressure on developing countries. Governments had to cough up huge sums to deal with the health crisis and support the less fortunate ones. While this was necessary, it has far reaching consequences because *deficit spending* which has led to debt escalation has stifled long term movement to implement big infrastructure development projects to reform the economy.

Global supply chain disruptions caused by the pandemic have wrecked export driven economies. Many of these countries are finding it hard to recover as their access to inputs is limited and demand for their processed goods and services is cut. Not only did the supply chain worsen trade deficits but it has also been the backbone that holds up a mirror to the severe exposure of economies that are heavily dependent on imports from external markets.

Foreign direct investment (FDI) is an accidental friend for capital to flow into the coffers of developing countries and probably will shut its lid when it declines under the force of the

coronavirus pandemic. These fallouts brought infrastructure development to a grinding halt, no sustainable job creation and only massive damage to economic growth. Most countries missed out on already delayed projects that were badly needed to catch up with their economies and uplift the lives of their people.

Health systems in developing countries were stretched to the breaking point. Resources were spread too thin as the government was forced to see only in the immediate crisis and often at the cost of other developments. They budgeted for health post-facto but in situations with very little infrastructure, productivity and economic participation was very low. Unaccessed healthcare leaves some forced to work hard.



13. Rising Amount of Global Debt

13.1 Overview of the Growing IMF Debts

The International Monetary Fund (IMF) is vital for providing financial support to developing countries, especially during crises. It has long offered emergency funding, helped stabilize economies, and

supported recovery efforts. Yet, dependence on the IMF brings significant challenges, particularly after recent global disruptions.
The COVID-19 pandemic has heightened countries' reliance on the IMF. Faced with lockdowns, reduced trade, and decreased revenues, many developing nations turned to the IMF for aid. The fund's lending became heavily focused on pandemic-related emergency financing and recovery programs, reflecting the crisis's severity. For example, in Sub-Saharan Africa, almost half of the countries are now at high risk of debt distress. This reliance on external assistance highlights vulnerabilities and raises concerns about long-term resilience.
Debt repayment is a major challenge. Rising global interest rates and currency devaluations make it harder for countries to meet their financial obligations. Those with significant external debt face additional risks from exchange rate fluctuations. When local currencies weaken against the dollar or other major currencies, the cost of repaying foreign-denominated loans can skyrocket, straining budgets and limiting investments in essential areas like social services or infrastructure.
The impact goes beyond finance; it affects people's lives directly. Money spent on debt repayment is money not spent on improving schools, hospitals, or providing clean water and sanitation. For citizens, high debt levels can mean fewer opportunities, poorer health, and diminished quality of life. Governments are tasked with balancing immediate needs with long-term commitments, often under the watchful eye of international lenders and investors.

Highlights (Information from IMF 2024 Debt Monitor)
• Global debt amounted to USD 250 trillion in 2023. As a share of GDP, it declined around one percentage
point to 237 percent of GDP. The decline resulted from a drop in private debt that more than offset the
rise in public debt.
• Global private debt corresponded to more than USD 150 trillion in 2023. As a share of GDP, it fell by 2.8
percentage points to 143 percent of GDP, returning to its 2019 level. Global household and non-
financial corporate debts declined to 54 and 90 percent of GDP, respectively.
• Private debt declined across both advanced economies and low-income developing countries and
remained steady in emerging market economies (excluding China).
• Private debt fell sharply in the United States by 6 percentage points of GDP, while it soared in China by
6 ½ percentage points of GDP in 2023.
• Global public debt rose to USD 98 trillion in the same year. As a share of GDP, it has resumed a rising
trend, inching up by 2 percentage points to 94 percent of GDP. On average, the public debt-to-GDP ratio

increased in emerging markets and developing economies, while it fell in advanced economies (excluding
the US).

Recent Developments:
Global debt (public plus private debt) amounted to almost USD 250 trillion in 2023.As a share of GDP, its value remained high at237 percent of GDP, although slightly below its level in 2022. That ratio is also 8 percentage points higher than the pre-pandemic level when total global debt corresponded to 229 percent of GDP. Yet, over the last three years, the decline amounted to 20 percentage points of GDP, correcting about 2/3 of the massive increase in global debt during the pandemic in 2020. Private debt, which includes household and non-financial corporate debt stocks, drove the small overall reduction in total global debt as a share of GDP. It dropped by 2.8 percentage points of GDP to 143 percent of GDP in 2023, even though in dollar terms it remains elevated at more than USD 150
trillion). The fall in global private debt ratio to GDP over the last three years offsets the 14 percentage points surge in 2020, bringing it below the pre-pandemic level in 2019 for the first time. The world's public debt inched up by 2 percentage points to 94 percent of GDP in 2023, or USD 98 trillion, returning to its pre-pandemic rising trend.

13.2 Reasons for Getting Loans

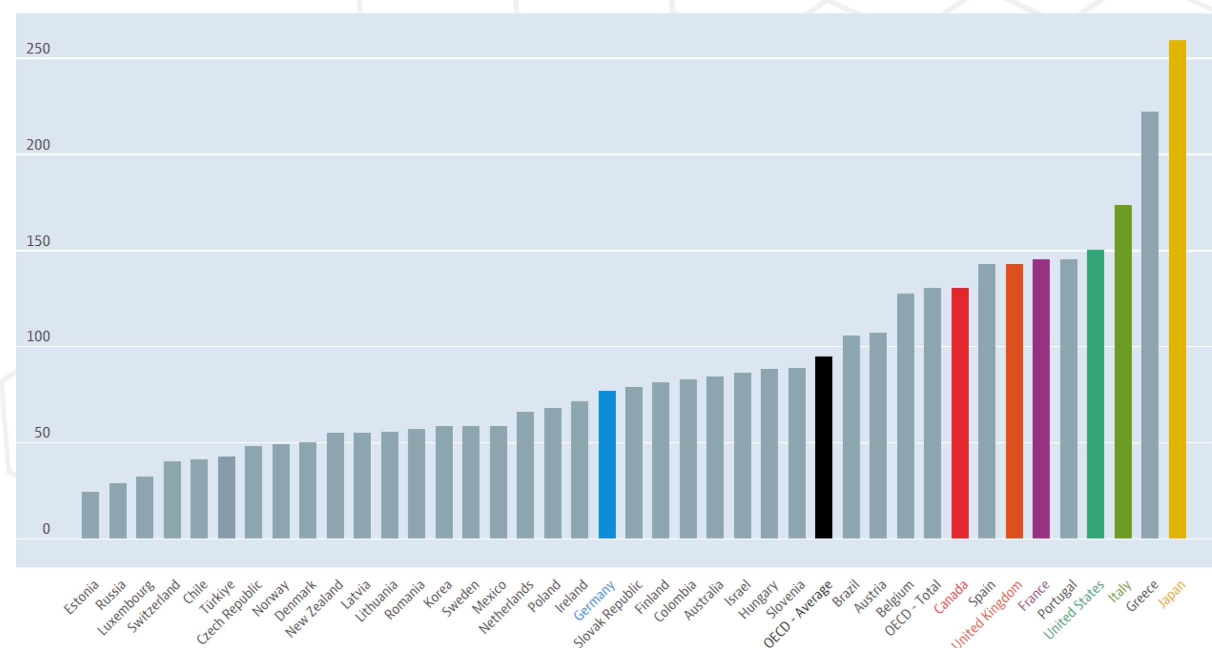
How does government debt work:

The numbers are staggering, but government borrowing is different from the debts we run up as individuals. That's because countries can raise taxes and issue their own currency, giving them ways to pay back loans. Borrowing allows governments to spend more on public services and projects than they raise in taxes. They often borrow to bridge that gap between their income and spending because tax rises are politically difficult, leaving citizens with less money and threatening economic growth, as the BBC reports.
Countries borrow from each other or from global organizations like the World Bank and the International Monetary Fund (IMF).
Especially the developing countries frequently depend on loans to tackle their economic and social challenges. These loans are not merely about increasing debt; they are essential for *survival, growth, and progress.* The reasons for borrowing reveal the complex and fragile situations these nations face in their pursuit of stability and development.

A primary reason for seeking loans is to close budget gaps. When domestic revenues fall short—due to economic difficulties, reduced exports, or lower tax income—governments must make difficult decisions. Vital public services like healthcare, education, and infrastructure cannot be neglected, making borrowing the only feasible option. Without these loans, many countries would struggle to meet basic needs, risking instability and social unrest.

Another significant reason for borrowing is to finance crucial infrastructure projects. For many developing nations, long-term growth relies on building modern roads, expanding power grids, and enhancing internet access. These projects require substantial initial investments that often exceed domestic financial capabilities. Borrowing enables the funding of these initiatives, boosting economic productivity and improving the quality of life for millions. However, it is crucial to ensure these projects are sustainable and do not lead to excessive debt.

Loans also act as a safety net during crises. Whether facing a *pandemic, natural disaster, or sudden drop in commodity prices*, developing countries often lack sufficient reserves to manage such shocks. Emergency loans provide the necessary resources to stabilize economies, offer humanitarian aid, and rebuild after disasters. However, these loans usually come with stringent conditions imposed by lenders such as the International Monetary Fund (IMF) or the World Bank. These conditions can restrict policy options, making it challenging for governments to address immediate needs or invest in long-term solutions.



General government debt as a percentage of GDP.

“Over the next 12 months, as many as a dozen developing economies could prove unable to service their debt,” says Marcello Estevão, Global Director, Macroeconomics, Trade and Investment at the World Bank, “the largest spate of debt crises in developing countries in a generation.”

Even in wealthy countries, the current levels of government debt are potentially unfair on future generations whose taxes will be used to pay back money borrowed to pay for today’s public spending. That will be more manageable if economies grow, but there is a danger some governments will find paying the interest on their debts cuts into the money they have available to invest in projects which could have helped with development.

High government debt isn't the only concern. The amount of money owed by private businesses and individuals is also surging in some countries, pushing global debt to new heights. That has prompted the IMF to warn that governments need to act together to tackle spiralling borrowing and safeguard security and prosperity across the world.

14. Example Countries in Debt Management

1. Estonia

Known for its careful financial approach, Estonia maintains low public debt through balanced budgets and minimal borrowing. Its low debt-to-GDP ratio results from conservative fiscal management, efficient tax collection, and a commitment to long-term stability. The government prioritizes digital innovation, enhancing economic growth without heavy borrowing.

2. Chile

Chile is a standout in Latin America for its proficient debt management. It follows a fiscal rule that targets a structural surplus, adjusting for fluctuations in copper prices and economic cycles. This strategy allows Chile to save in prosperous times and utilize reserves during downturns, thus minimizing excessive borrowing. This approach keeps Chile's debt-to-GDP ratio lower compared to regional peers.

3. Singapore

Singapore is a model of disciplined debt management, issuing government debt to bolster its bond market and provide investment opportunities rather than to cover budget deficits. It invests significantly in infrastructure and social programs while maintaining balanced budgets. Singapore's robust economy and efficient tax system support a high credit rating and effective debt management.

4. New Zealand

New Zealand is recognized for its fiscal responsibility and transparent debt management. It employs a framework centered on low public debt and sustainable growth. The Fiscal Responsibility Act mandates maintaining prudent debt levels and ensuring long-term fiscal health. This policy has significantly reduced New Zealand's debt while still investing in infrastructure and public services.

5. Norway

Norway's debt strategy is closely linked to its oil revenues. The Government Pension Fund Global invests surplus oil revenues to benefit future generations, ensuring financial stability

and reducing borrowing needs. Norway's transparent fiscal policies and careful resource management make it a model for sustainable debt management.

6. South Korea

South Korea adeptly manages debt while achieving rapid industrialization and growth. Its disciplined fiscal policies and focus on exports help keep public debt low. South Korea invests in technology, education, and infrastructure to enhance productivity and lessen reliance on external financing.

7. Switzerland

Switzerland employs a "debt brake" rule in its constitution to prevent excessive borrowing, requiring balanced budgets over economic cycles. This has helped maintain low debt levels while investing in public infrastructure and services. Switzerland's fiscal prudence and strong institutions ensure economic stability and sustainability."

15. Possible Solutions

1. Strengthening Local Economies

One of the most important strategies for strengthening local economies is diversifying industries. Many developing countries are heavily reliant on the export of raw materials, but this dependency leaves them vulnerable to fluctuations in global commodity prices. To mitigate this risk, it's essential to invest in sectors like manufacturing, technology, and renewable energy. By expanding into these areas, countries can create more balanced economies, providing jobs, driving innovation, and enhancing their competitive edge on the global stage. A diversified economy is one that is far more resilient to global economic shifts, allowing countries to weather financial storms with greater ease.

1.1 Enhancing Tax Collection

Another key aspect of economic strengthening is enhancing tax collection. For many nations, the tax system can be a major source of untapped revenue. Improving tax systems by broadening the tax base and cracking down on corruption can significantly boost domestic revenue. The introduction of digital systems can help streamline tax collection, making it more efficient and less prone to evasion. These improvements not only increase government revenue but also create a more equitable economic environment, where all citizens contribute fairly to national development. Transparent and well-managed tax systems are vital for funding public services, building infrastructure, and investing in education and healthcare.

1.2 Building Stability

Building stability is another critical pillar of strengthening local economies. A strong infrastructure system—comprising roads, energy grids, and communication networks—forms

the foundation for economic development and job creation. However, infrastructure investment must be coupled with robust social safety nets. This means providing protections for the most vulnerable, particularly during times of economic uncertainty or natural disasters. Developing nations must focus on climate adaptation strategies and disaster risk reduction to ensure their economies remain resilient in the face of global warming and its impacts. Climate change is a growing threat, and addressing this challenge proactively will help to shield economies from future shocks.

2. International Support and Debt Solutions

<u>2.1 Innovative Debt Relief</u>

On the international stage, innovative debt solutions can provide vital support to countries struggling under the weight of high debt burdens. Debt-for-climate swaps, where debt repayments are redirected towards funding environmental projects, represent a promising avenue for both debt relief and environmental sustainability. Similarly, debt-for-development swaps, which allow countries to redirect their debt payments to social and developmental goals, can help to align financial obligations with broader global goals. These mechanisms can provide much-needed breathing room for governments in distress while supporting the achievement of key development targets, such as the Sustainable Development Goals (Shown in the photograph).

<u>2.2 Reforming IMF Lending Practices</u>

Reforming the practices of institutions like the IMF is also crucial for developing countries. Currently, the conditions attached to IMF lending often include stringent repayment terms and high interest rates that exacerbate financial strain. Advocating for more flexible repayment conditions, particularly for smaller or more vulnerable economies, could ease some of this burden. Reducing the interest rates charged on loans would help to lower the cost of borrowing, making it easier for countries to service debt and invest in their future.

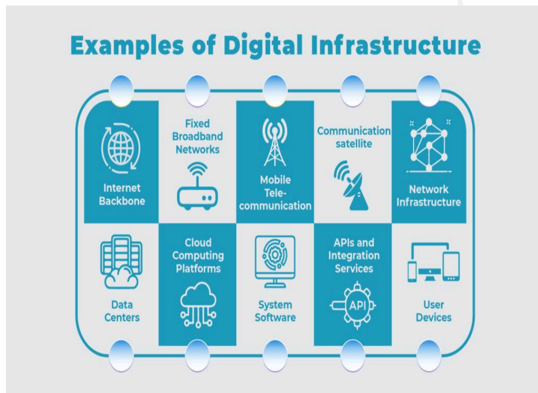
<u>2.3 Strengthening Global Cooperation</u>

Global cooperation is essential for tackling the debt crisis in a fair and effective manner. To ensure equitable solutions, there needs to be stronger collaboration among creditor nations, international agencies, and private lenders. Transparent and open discussions should be prioritized in order to create fair debt restructuring processes. These efforts should aim to help countries regain financial stability without compromising their long-term development

goals. A global approach to debt relief will help ensure that the financial pressures faced by developing countries do not become insurmountable barriers to progress.

3. Leveraging Technology and Innovation

i. Advancing Digital Infrastructure



Leveraging technology and innovation is another way to help countries modernize and manage their economies more effectively. Digital infrastructure plays a key role in driving economic efficiency, supporting innovation, and improving public services. By expanding digital networks, governments can create opportunities for new business ventures, job creation, and economic inclusion. The use of digital tools also facilitates the delivery of social services, such as healthcare and education, to more remote or underserved areas, improving the quality of life for all citizens.

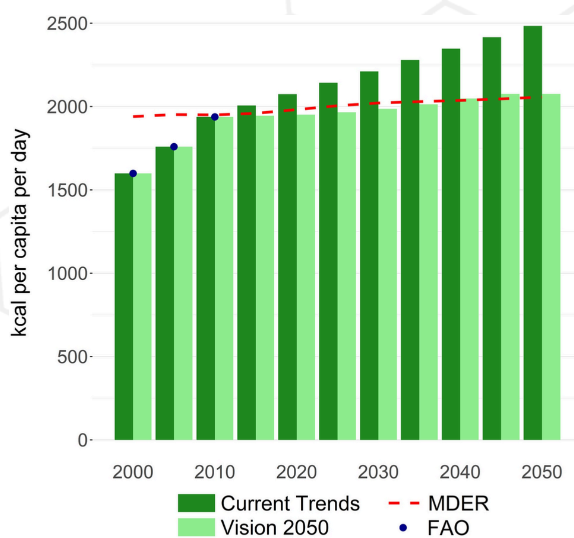
ii. Using Blockchain for Transparency
One promising technological tool for increasing transparency in debt management is blockchain technology. Blockchain allows for the secure and transparent recording of financial transactions, reducing the likelihood of corruption and increasing accountability. Governments and international agencies can use blockchain to track and manage debt repayments more efficiently, ensuring that funds are used as intended and that lenders and borrowers alike are held to the highest standards of transparency.

iii. Promoting Green Finance
Promoting green finance is another critical component of sustainable development. As the world faces the dual challenges of climate change and economic inequality, encouraging investment in environmentally sustainable projects is more important than ever. Green bonds and other financial tools offer opportunities for investors to support eco-friendly initiatives, such as renewable energy, clean transportation, and sustainable agriculture. Public-private partnerships play a crucial role in bringing together the resources necessary to fund these green projects. By fostering a thriving green finance sector, nations can not only contribute to global environmental goals but also create new economic opportunities for their citizens.

Green Finance Cycle

16. Case Studies and Best Practices

1.Rwanda's Economic Reforms and Vision 2050



Rwanda's journey from the devastating 1994 genocide to a rapidly developing nation is a testament to its commitment to governance and infrastructure development. Central to this transformation is the Vision 2050 strategy, which outlines the country's ambition to achieve middle-income status by 2035 and high-income status by 2050. This vision emphasizes inclusive development, aiming to elevate the living standards of all Rwandans through sustainable economic growth and social progress.

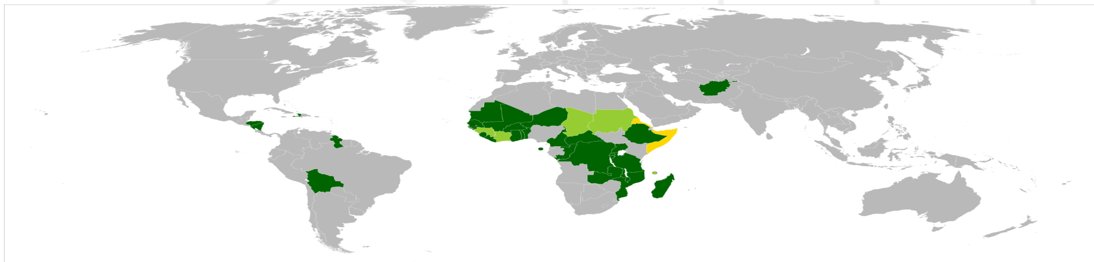
A cornerstone of Rwanda's economic reforms is the focus on infrastructure development. The government has invested heavily in sectors such as transportation, energy, and information technology, recognizing that robust infrastructure is essential for economic transformation. These investments have not only improved connectivity and access to services but have also attracted foreign investment, further stimulating economic growth.

In addition to infrastructure, Rwanda has prioritized good governance and the rule of law. The establishment of transparent institutions and the fight against corruption have fostered a conducive environment for business and development. This commitment to governance has enhanced Rwanda's reputation on the international stage, leading to increased aid and investment.However, challenges remain. The country faces the need to diversify its economy

beyond agriculture, address skills mismatches in the labor market, and ensure that growth benefits all segments of society.

2. The Heavily Indebted Poor Countries (HIPC) Initiative

The HIPC Initiative, launched by the International Monetary Fund (IMF) and the World Bank in 1996, aims to provide debt relief to the world's poorest countries, enabling them to reallocate resources toward development goals. The initiative offers comprehensive debt relief to eligible countries that implement sound economic policies and reforms.



HIPC Countries

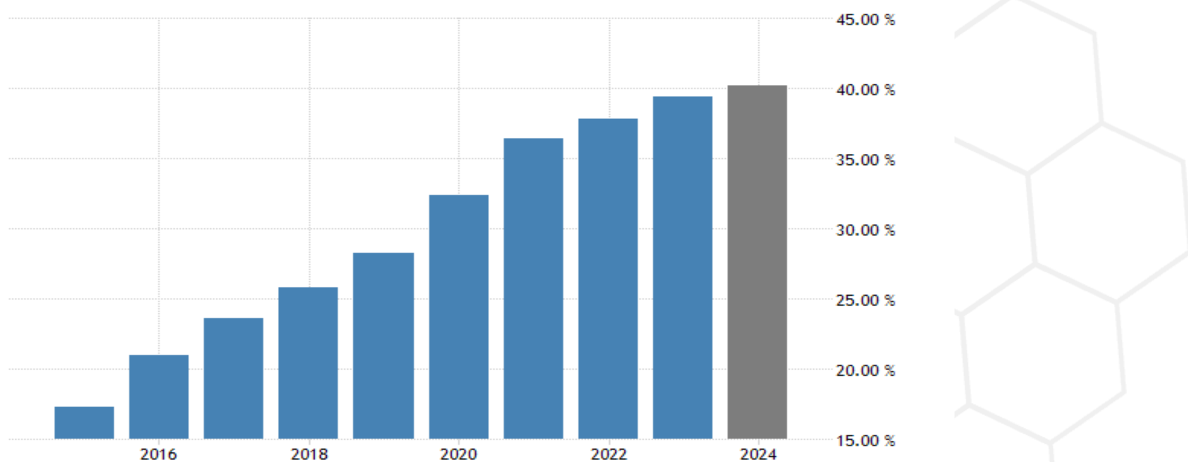
A notable success story of the HIPC Initiative is *Mozambique*. In the early 2000s, Mozambique was burdened with unsustainable debt levels that hindered its development prospects. Through the HIPC Initiative, Mozambique received significant debt relief, which allowed the government to redirect funds toward critical sectors such as education, healthcare, and infrastructure. This shift has contributed to improved social indicators and economic growth.
The success of the HIPC Initiative underscores the importance of comprehensive debt management strategies. By reducing the debt burden, countries can free up resources for development priorities, leading to improved living standards and economic resilience. However, the initiative also highlights the need for sound economic policies and governance to ensure that the benefits of debt relief are fully realized.

3. Chile’s Stabilization Fund

For the second time mentioning Chile in this guide, Chile's experience with its Sovereign Wealth Fund, known as the Economic and Social Stabilization Fund (ESSF), offers valuable insights into managing economic volatility. Established in 2007, the ESSF was designed to save surplus revenues from copper exports during boom periods, providing a buffer against the volatility of commodity prices. The ESSF operates on a counter-cyclical basis, accumulating funds during periods of high copper prices and drawing from them during downturns to stabilize the economy. This approach has allowed Chile to smooth fiscal expenditures, maintain investment in social programs, and avoid pro-cyclical fiscal policies that could exacerbate economic fluctuations.

An evaluation of Chile's sovereign wealth funds and pension funds indicates that integrating environmental, social, and governance (ESG) factors into investment decisions can enhance both financial returns and societal benefits. This aligns with Chile's broader commitment to sustainable development and responsible fiscal management.

Chile's model demonstrates the effectiveness of sovereign wealth funds in managing resource wealth and mitigating the adverse effects of commodity price volatility. By saving during periods of high revenues and spending during low-revenue periods, Chile has achieved greater fiscal stability and has been able to invest in *long-term development projects.*



Chile Government debt to GDP in years

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