VANCOUVER YOUTH MODEL UNITED NATIONS 2020

ECONOMIC AND FINANCIAL COMMITTEE

BACKGROUNDER A

VANCOUVER YOUTH MODEL UNITED NATIONS 2020

The Economic and Financial Affairs Committee
Director: Rafeeq Kassam-Jiwani
Chair: Keira Gadalla
Assistant Director: Ben Chang
Assistant Chair: Jessica Zhang

Dear Delegates,

My name is Rafeeq Kassam-Jiwani and it is my pleasure to be directing the Economic and Financial Affairs Committee at VYMUN 2020. I hope to facilitate a committee where delegates can enhance their skills of critical thinking and debate. This year, we will focus on two topics: Economic Recovery of Post-Conflict States and the Impacts of COVID-19 on the Global Economy.

Economic Recovery of Post-Conflict States is an important and urgent issue that is relevant to all countries. Reconstructing the economies of post-conflict states is key to an economically stable and healthy global community. ECOFIN aims to create a comprehensive plan to aid nations in becoming economically self-reliant and independent as soon as possible. This committee will discuss not only reconstruction but also economic development and empowerment. If post-conflict nations simply receive foreign aid, they will be unprepared to face the challenges should their economy collapse again. Although foreign aid is key for immediate economic resurrection, ECOFIN needs to give nations a way to rebuild while establishing permanent institutions, so that countries can be better prepared for a future economic crisis.

Our second topic, Impacts of COVID-19 on the Global Economy, brings the committee into uncharted territories. ECOFIN at VYMUN 2020 will be the first committee to discuss and create solutions for the economic instability created by COVID-19. Delegates will need to understand how the economy functions and behaves during a pandemic, which requires the knowledge of past successes and failures. Once the world has combated the disease itself, the global economy, too, will be in desperate need of recovery.

If you have any questions or concerns, please don't hesitate to contact me at *ecofin@vymun.com.* I look forward to seeing you all in October.

Most sincerely,

Rafeeq Kassam Jiwani
Director of ECOFIN | VYMUN 2020

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Economic Recovery of Post-Conflict States

Questions to Consider

1. Has your country ever been in a foreign aid transaction? If so, what was its role? Was it a successful example of foreign aid administration?
2. What is your country's position on foreign aid and its distribution? Do your citizens support giving foreign aid to nations in need?
3. Should ECOFIN work with external bodies (such as the International Monetary Fund or World Bank) to help make decisions for developing countries, or should ECOFIN work by itself with these nations?
4. What solution could ECOFIN adopt to help all post-conflict states, not just a select few?

Overview

The economic reconstruction of post-conflict states is vital for a functioning global economy. Due to globalization and increasing wealth gaps, many affluent nations feel compelled to aid those in need. Traditionally, foreign aid has consisted of relief personnel and supplies. However, as humanity progresses, the definition of foreign aid is not confined to those resources. Today, foreign aid comes in many varieties, one of which is financial aid.

During conflicts, the international spotlight and relief effort priorities shift to the lives being lost, territory being fought over, the human rights being abused and ignored. The economy takes a backseat during this period—and rightfully so. However, when nations emerge from the dust, broken and torn apart, the economy is often in shambles. Rebuilding the economic structure of post-conflict states is essential for getting the government, citizens, and nation as a whole back on track. Naturally. these states will be dependent on foreign economic aid, but the goal of ECOFIN is to create a well-thought-out plan to help nations become economically self-reliant and independent as soon as possible.

As the second general assembly in the UN, ECOFIN has a responsibility to help its members in economic crises as it is committed to achieving economic prosperity for all its members, including developing countries. Once countries such as Venezuela and Yemen are economically stable, the global economy will be more buoyant. The global economy will be uplifted: poverty rates will decline, health standards will rise, and global trade will increase. It is critical for ECOFIN to help post-conflict economies as ECOFIN specifically focuses on poverty eradication and global interdependence.

Timeline

1921: The newly formed League of Nations carries out the first international post-war economic reconstruction effort in Austria[1].

[1] https://encyclopedia.1914-1918-online.net/article/post-war_economies_austria-hungary

1939-1945: World War II takes place and is the deadliest conflict in human history. However, in some cases, war has positive economic effects. In Canada, for instance, unemployment drops from 11.4% to 1.4% due to the creation of jobs to match the rising demand for war resources[2].

1944: The World Bank is created. It assists with loans to developing nations and is headquartered in Washington DC.[3]

1947: The Marshall Plan is instituted. This is the first large scale economic aid program. The United States spends more than $13 billion to assist the reconstruction of Europe.[4]

1967: The Aga Khan Development Network is founded. It is a network of private, non-denominational development agencies founded by His Highness the Aga Khan. The AKDN assists with microfinance in the poorest parts of Asia and Africa, which is economic aid at the individual level.[5]

1995: The International Monetary Fund (IMF) creates the Economic Post Conflict Assistance (EPCA) program. An extension to their emergency assistance framework, the EPCA improves a high-risk nation's ability to implement economic reparation measures.[6]

1997: The World Bank creates the Post-Conflict Trust Fund, which assists nations after times of war and conflict.

2007: Hyperinflation begins in Zimbabwe under Robert Mugabe. It is deemed the worst economic crisis in Africa at the time. The government starts printing 100 trillion Zimbabwe dollar notes.[7]

2008: The United Nations approves the Post-Conflict Employment Creation, Income Generation and Reintegration policy, which serves in aiding the reconstruction of fundamental parts of the economy after war, specifically income generation.

2015: The World Bank sets two goals for 2030: ending extreme poverty by "decreasing the number of people living on less than $1.90 a day to no more than 3%," and promoting shared prosperity by "fostering the income growth of the bottom 40% for every country."[8]

Historical Analysis

The establishment of the League of Nations in 1920 by American President Woodrow Wilson was groundbreaking in protecting human rights and reconstructing post-conflict states in areas including the economy. The League pioneered and championed the idea of global unity, and paved the way for the United Nations, which serves a very similar purpose today. At the time of the League of Nations' creation, Austria faced severe economic stress due to its participation and active

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[2] https://ingeniumcanada.org/channel/articles/the-canadian-economy-and-the-second-world-war
[3] https://www.worldbank.org/en/about/history
[4] https://www.history.com/topics/world-war-ii/marshall-plan-1
[5] https://www.akdn.org/our-agencies/aga-khan-agency-microfinance
[6] https://link.springer.com/article/10.1007/s11558-008-9039-0
[7] https://www.economicshelp.org/blog/390/inflation/hyper-inflation-in-zimbabwe/
[8] https://www.worldbank.org/en/about/what-we-do

involvement in World War I. The League's assistance in Austria was a pivotal act in the evolution of international foreign economic aid, paving the way for a steady evolution." They provided loans for Austrian businesses, created an oversight committee to ensure standards were being met, and reformed the public financial system.[9] The League of Nations successfully assisted Austria in rebuilding its economy to be stronger than it had ever been before, while simultaneously inventing the definition of foreign economic support.

After World War II, the Marshall Plan, which is a more accurate representation of what post-conflict economic reconstruction looks like today, was established and implemented by the United States. The Plan, solely executed by the United States, provided more than $15 million in foreign aid on a per capita basis to Western Europe. The US presented aid in varying amounts, with American allies receiving significantly greater amounts of aid, shaping the economic map of Europe as it is today. The Marshall Plan saw an increase of 15-25% in GDP in the nations it assisted[10].

Currently, the largest financial crisis is the Venezuelan financial crisis, created and worsened by political tensions. The bolivar (Venezuela's currency) has been rendered worthless, with citizens needing baskets of cash to buy mundane items. A new currency was introduced to combat hyperinflation but did next to nothing in solving the overall problem. It is impossible to aid a nation if its government only accepts it from certain allies.

Venezuela is a prime example of the need for financial aid to post-conflict states. The crumbling Venezuelan economy is now considered the greatest economic collapse in history. Its economic impact was larger than the fall of the Soviet Union, Cuba's 1990s disaster, and even the collapse of the Zimbabwean economy under Robert Mugabe. The nation as a whole is devastated, and until the economy is revived in some way by international aid groups, progress will be little to none. Kenneth Rogoff, former chief economist at the International Monetary Fund (IMF) said, "It's really hard to think of a human tragedy of this scale outside of war." To find economic devastation to this scale, economists had to date back to wars such as the Lebanese Civil War of the 1970s. Unlike Lebanon, Venezuela was not shattered by armed conflict. Rather, the nation was crippled by political strife. Once the most affluent country in Latin-America, President Nicolas Maduro and his predecessor Hugo Chavez drove the economy into a tailspin fueled by inflation, corruption, and misguided policies. More recently, the Trump administration imposed sanctions to attempt to further cripple the country.

As the economy took a nosedive, gangs took control of towns, shut down public services, and raised prices for basic essentials. Most citizens could only afford to purchase a few kilograms of flour a month. In markets, butchers dealing with frequent blackouts desperately tried to sell decomposing meat by nighttime. Former workers scoured through garbage to look for leftover food and recyclable plastic. In Maracaibo, a city on the border of Venezuela and Columbia with a population of two million people, almost all butchers stopped selling meat cuts; instead, they sold fat shavings and cow hooves, which were the only animal protein most customers could buy. The crisis was exacerbated by American sanctions, which tried to force President Maduro to concede power to the opposition leader, Juan Guaido. The Trump administration also sanctioned Venezuela's state oil company. Seeing as oil is Venezuela's main commodity, this sanction has

[9] https://www.history.com/topics/world-war-ii/marshall-plan-1
[10] Ibid.

made the economic crisis much worse.[11] Maduro blames the United States for Venezuela's economic hardship, saying that "We are fighting a savage battle against international sanctions that have made Venezuela lose at least $20 billion in 2018… They [the United States] are pursuing our bank accounts, our purchases abroad of any products. It's more than a blockade, it's persecution."[12]

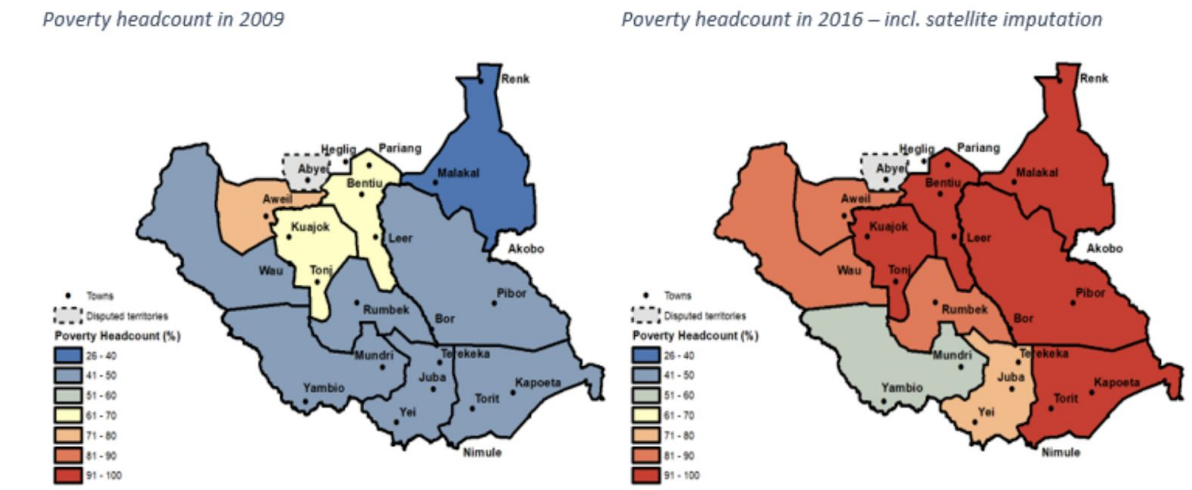
Past Action

The United Nations is experienced and adept in handling the economic recovery of post-conflict nations, which typically requires diplomacy and international cooperation from its members. Currently, the IMF is involved in the reconstruction of the economy of South Sudan. South Sudan does not have economic diversity and relies almost entirely on crude oil. The IMF has spent time working with the Sudanese government searching for ways to diversify the economy to create an economic safety net, should the oil industry fail. The IMF aims to "help the country restore macroeconomic stability and the basis for sustainable growth."

In 2011, South Sudan gained independence and became its own sovereign state. Although rich in oil, the nation has faced serious economic challenges from the beginning of its independence. With 51% of the population living below the poverty line, civil war erupted in the country, causing massive macroeconomic repercussions. Poverty levels rose to 82% by 2016, and by December of 2017, more than a third of South Sudan's overall population, or nearly 4.5 million people, were displaced from their homes.[13] Falling oil prices and the lack of a diverse economy combined with armed conflict led to one of the worst African economic crises ever. 12 million citizens live in very rural areas, meaning that economic activity is largely limited to the agriculture sector. For many of those living in rural poverty, civil war devastated their livelihood.

Another crippling factor was severe inflation. The Sudanese pound depreciated quickly, making imports such as food much more expensive. As the price of oil dropped, the government printed more money, leading to more and more inflation.[14]

[11] Ibid.
[12] Ibid.
[13] https://blogs.worldbank.org/africacan/how-conflict-and-economic-crises-exacerbate-poverty
[14] https://microdata.worldbank.org/index.php/catalog/2914



In the visual above, it is clear that many regions in South Sudan that had between 26% - 40% poverty in 2009 shifted into the red zone with 91% - 100% poverty in 2016. This figure is a firsthand example of the economic instability and hardship experienced by citizens during armed conflict.

More recently, in 2008, the UN approved the Post-Conflict Employment Creation, Income Generation and Reintegration policy.[15] The three sections of this policy are targeted towards the increase of employment capacity in developing nations. The first section is aimed at the immediate actions that can and should be taken to provide relief for unemployed citizens. It outlines the feasibility and logistics of creating temporary employment and grants for self-employed citizens. The second section includes alleviating stress on the community through community-driven recovery programs and economic recovery measures. The last section is centred on the idea of developing the private sector and creating more policies directed to economic stability.

In 2008, the UNDP published the report "Post-Conflict Economic Recovery - Enabling Local Ingenuity." This report aims to help countries bounce back immediately after a violent conflict by focusing on the conditions for self-sustaining and inclusive growth. This report covers a wide range of areas of this topic, including macroeconomic policies, the role of the governing state, and indigenous drivers of the economy's journey to recovery. It also emphasizes that economic recovery is a key part in avoiding a resurgence of violence and conflict. An important point discussed within the report is to consider how the variation between countries, especially in terms of the type and length of the conflict, affects a country's economic recovery.

Current Situation

Inflation

During conflict and economic turmoil, one of the challenges faced is inflation and/or hyperinflation. Inflation is the rate at which the price of goods and services increases, which is common in most nations as time progresses. Hyperinflation is where inflation occurs at a much more rapid pace, and prices in an economy spiral out of control. During hyperinflation, daily goods such as milk can only be bought with stacks of cash. In 2007 in Zimbabwe, citizens were bringing wheelbarrows of money

[15] https://www.ilo.org/employment/Whatwedo/Publications/WCMS_117576/lang--en/index.htm

to buy bread, and the government was issuing 100 trillion Zimbabwe dollar notes. In 2009, the government of Zimbabwe stopped producing bills completely and planned to switch over to the United States Dollar by 2015.

Post-Conflict Circumstances

A conflict's duration is also a vital consideration in any economic reconstruction discussion and an aspect that many individuals, governments, and organizations often fail to comprehend. Often, tension still exists once a conflict is "officially" over. Ethnic tensions, crime, and a mistrust of the government are just a few of the many consequences of years of conflict. This aftermath hinders investment and slows down economic growth. Businesses report lower and lower profits, which leads to little return on investment.

Donor Policies

Nations providing economic support often include what are known as donor policies—conditions that must be met to ensure that the aid is being used for its intended purpose. Many post-conflict nations struggle with internal corruption, and donor policies exist to ensure that true development happens and that funds are not feeding any new or existing corruption. However, these policies (since they are created by donor nations) restrict the autonomy of countries receiving aid. For example, Norway donates 1% of its annual income to developing nations with few conditions, aiming to promote the values of trust and effectiveness.[16] Norway believes that nations should be free to use received funds as they please, as this will create economic harmony faster; nations know what they need. On the contrary, China often restricts its donated goods to be used in the development of roads and buildings.[17]

Administration of Foreign Aid

When aid gets delivered, it is crucial to find a reliable government official who takes responsibility for its administration. This is oftentimes hard to find in politically unstable states. Many government officials in post-conflict states are incapable of performing basic duties due to political and economic corruption. Once a conflict is over, there are tensions that need to be deescalated and a transition from conflict to peace that needs to be overseen. During this time, corruption will only rise. Criminal organizations, militias and other sinister institutions often bribe fragile governments for their own gain. An investigation conducted by the World Bank's Sanction and Evaluation Office revealed that from the $40 billion in loans, almost $245 million were lost to deceit and corruption.[18] ECOFIN needs to find the best actor to execute the delivery of foreign aid and ensure it is used for intended goals.

War Economy and Ignored Industries

In times of war, most countries transition into a war economy, which is where nations readjust their economy to match the increased need for arms and defence measures. In war economies, any good or service which the government deems useless at the time will be restricted. The war economy spends tax money and government earned revenue on items that are at the top of the list of national needs. Production of vital resources will decrease only to the point of sustenance, and labour will support the war at hand. Thus, many industries are neglected and need resurrection

[16] https://donortracker.org/country/norway
[17] https://carnegieendowment.org/2019/05/21/logic-behind-china-s-foreign-aid-agency-pub-79154
[18] https://www.worldbank.org/en/projects-operations/procurement/debarred-firms

after conflict. Tourism and luxury goods are prime examples of these industries. As well, Post-conflict, the demand for the manufacturing of war-related goods and services significantly decreases due to lack of necessity. But the revitalization of ignored industries can be economically straining on some nations, as many war torn nations are ravaged with debt. It is paramount that ECOFIN consider ways to assist neglected industries while keeping economies afloat.

Possible Solutions

The Establishment of a Foreign Currency

Just as the United States did in Zimbabwe (and attempted in Venezuela), ECOFIN can use the euro as an interim currency in post-conflict nations suffering from hyperinflation. The use of the euro (a stable, reliable currency) will render the national currency officially worthless and be used while long term economic recovery is underway. The benefits of having a stable currency are innumerable: it encourages more international investment, transborder trade, stable market prices, and opportunities for local businesses and markets.[19] Stable currencies (foreign or domestic) also assist the government in keeping inflation rates low—something post-conflict states need to prioritize. However, while implementing a parent currency seems to be positive, ultimately removing it is tricky and there is no manual to guide countries through the process. Each nation needs to decide for themselves the process by which they will reintroduce their own currency. Risks of removing a parent currency (the adopted one) are mainly short-term and related to inflation. As post-conflict states have just come out of inflation, it is likely that the currency will be worth very little. In this scenario, the government needs to do more to boost the economy rather than print more money; otherwise,inflation rates will fly high once more. Once the parent currency is gone and the nation is staying economically afloat, it becomes much simpler to maintain.

The ECOFIN Charter

Many nations struggle with the process of economic recovery. The creation of an ECOFIN charter would act as a manual for nations to go about reconstructing their economies. The mandate of the committee is to help nations build skills of independence when rebuilding the economy, so that they have a deeper understanding and are better prepared for economic downturn. However, as each nation's situation is unique, some developing nations may oppose a "blanket policy"-type document which attempts to fix all problems with one solution. An ECOFIN document would be a complex solution as it would need to navigate the line between the sovereignty of nations, the uniqueness of each economic situation, and the broadness of policies and suggestions. Given this fact, a solution would need to be created that guides nations to rebuild economies (with assistance from developed countries) from ruin. These solutions would look like measures enforcing that foreign aid is administered properly, that corruption is not rampact, etc. Moreover, many nations which have experienced economic downturn have been through political turmoil, and corrupt regimes have either been overthrown or are still in power. Hostile governments likely will not be accepting of foreign aid and will have a strict stance on maintaining their sovereignty.

Economic Policy Reform

In post-conflict states, economic policy can be reformed to include fiscal goals for a nation. Reform goals can include the reallocation of resources and the repurposing of government revenue as part of the transition out of a war economy. Regulating a nation's inflation can increase its production

[19] https://ec.europa.eu/info/business-economy-euro/euro-area/benefits-euro_en

capacity. One of the largest and most pressing issues of foreign aid is the tendency for developing nations to develop severe dependence on it. This is counterproductive to ECOFIN's goal of economic sustainability and independence. Carefully designed economic policies (such as timelines for foreign aid reception) can ensure that nations merely use aid as a starting point to building their own economies.

Structural Adjustment Policies
Structural Adjustment loans are given by the IMF to post-conflict states to readjust their economic structures in the long term. SAPs introduce free market structures and programs in a post-conflict country, which includes liberalizing trade, privatizing industry, and lifting barriers to foreign currency. They often are conditional, meaning tangible social and infrastructural development must be seen by the IMF in order for the loans to continue. Some critics see SAPs as generic, blanket free trade policies that do not attack the root of economic problems in a post-conflict state. Poverty Reduction Strategy Papers are an alternative to SAPs; these offer the recipient country more participation and involvement in the economic policy-making process.

Microfinance
Microfinance is responsible for the alleviation of poverty of thousands across the globe. An excellent example of this is the AKDN, which executes microfinance mainly in central Asia. The practice of giving loans to small business owners has the potential to aid many in post-conflict, developing states. After economic tragedy, small business owners (which make up a significant amount of the population in these countries) are desperate for a way to get back on their feet. ECOFIN will need to discuss the establishment of microfinance and its regulation.

Bloc Positions

Affluent Countries (United States, United Kingdom, China, Japan, France, Germany)
These nations support solutions with the utmost transparency; they want to know what their money is being used for and how it is benefiting the economies of the nations they are donating to. While generosity varies from nation to nation, developed nations have generally been quite responsive when they are called upon to give aid. These nations also set donor policies and contingencies on their aid, and are charged with determining the leniency or strictness of their donor policies. Such policies cannot be too lenient for fear of corruption, misuse, and other monetary abuses. However, they cannot be too strict either, as that will lead to little progress in the nation because countries will not be able to use the aid for what they really need (ranging from building roads, infrastructure, education, etc.). There needs to be a firm flexibility when it comes to donor policies.

Developed nations also vary in their policies. The foreign aid principles of the United States and the United Kingdom for example stress different values and are focused on their respective allies. ECOFIN will need to navigate the administration of aid while respecting the different loan policies that nations have.

Post-Conflict States (Venezuela, South Sudan, Zimbabwe)
While these nations are going to be depending on foreign aid and donor policies, they must not abandon their own foreign policy. Developing countries need to navigate the line of maintaining their values while compromising in order to receive aid. Moreover, these nations need to be wary of

the possibility of conflict in the future and need to ensure their actions will not cause more harm. These governments are often the victims of the corruption that impedes progress in their nations and are responsible for the misuse of aid. Developing countries urgently need to find ways of stopping these harms before donor nations pull out in fear that their money will be misused and their aid will be abused.

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